Budget Statement

2022-23

Budget Paper No. 1

Circulated by The Hon. Matt Kean MP, Treasurer

STATEMENT OF THE SECRETARY

The 2022-23 Budget Papers incorporate the requirements of the *Government Sector Finance Act 2018* and the *Fiscal Responsibility Act 2012*.

The Estimated Financial Statements have been prepared to reflect estimates of Government policy decisions and take account of other economic and financial data available to Treasury up to 6 June 2022, including information provided in the 2022-23 Commonwealth Budget released on 29 March 2022.

The Estimated Financial Statements contain projections for the Budget year (2022-23) and the three following years (2023-24 to 2025-26). The forward looking nature of these projections means it is necessary to apply professional judgement in their preparation.

Treasury has exercised its best professional judgement in preparing the Estimated Financial Statements. These Statements have been prepared in accordance with the Statement of Significant Accounting Policies.

Paul Grimes PSM
Secretary, NSW Treasury
21 June 2022

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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 2021-22 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 2020-21 reflect the audited financial statements for the GGS as presented in the *Total State Sector Accounts 2020-21.*

The Estimated Financial Statements of the general government sector (2022-23 to 2025-26) 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).

Notes

The budget year refers to 2022-23, while the forward estimates period refers to 2023-24, 2024-25 and 2025-26. 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 Supporting families, building a brighter future

Over the past year, the NSW Government has stood with the people of New South Wales as the State has confronted some of the biggest challenges in our history, and together, we've come out stronger on the other side.

The 2022-23 Budget continues to invest in our people, not just to overcome great challenges, but to deliver transformational reforms that will build a brighter future for families and businesses across New South Wales for generations to come.

High vaccination rates, over $11 billion paid in targeted NSW and Commonwealth Government support over the Delta and Omicron outbreaks, monetary stimulus from the Reserve Bank of Australia (RBA) and the resilience of our people helped the NSW economy to bounce back strongly from the COVID-19 pandemic. Growth in the domestic economy (known as State Final Demand) is expected to be 2¾ per cent in 2021-22. The fall in employment during the Delta outbreak has since been recovered. At 4 per cent in May, the NSW unemployment rate has fallen to a historically low level.

But while the State's economy has rebounded strongly from the Delta and Omicron waves of COVID-19, the pandemic continues to create challenges. In particular, the 2022 flu season and cases of COVID-19 continue to put pressure on the State's hospital system. There are economic disruptions from public health responses to COVID-19 outbreaks in China. Global supply chain pressures and changes to consumption patterns arising from the pandemic are driving global inflation higher. These inflationary pressures have been exacerbated by Russia's invasion of Ukraine, which has disrupted global energy and commodity markets.

In addition to these global challenges, in early 2022, many parts of the State endured some of the worst floods and storms on record. Just as the NSW Government stood by the people of New South Wales during the Alpha, Delta and Omicron waves, over coming years the NSW Government will continue to make substantial investments in frontline services, flood affected communities and supporting household budgets as the State navigates these challenges.

In addition to the $3.5 billion committed with the Commonwealth to support flood-affected communities, the 2022-23 Budget provides more than $7.2 billion to boost household budgets and address the cost-of-living pressures arising from global inflationary pressures. This includes the continuation of fee relief for childcare, a Back to School subsidy, a new Energy Bill Buster Program, and the introduction of a new broad-based Toll Rebate Scheme, while Sydney's toll scheme is comprehensively reviewed. The Government will also lift the public sector wages cap from 2.5 per cent to 3 per cent, to support the family budgets of nurses, teachers and other members of the public service.

To ensure our health system is resilient to future shocks and has the capacity to address the continuing public health challenges of COVID-19, the NSW Government is investing $4.5 billion to bring on over 10,000 new healthcare workers to deliver world-class health services. In recognition of the substantial contribution of the State's health staff during the pandemic, the NSW Government is making a $3,000 bonus payment to NSW Health workers including nurses, paramedics and doctors.

However, while this Budget addresses the challenges of the moment, it also invests to build a brighter future for the long-term. With a record $112.7 billion infrastructure investment, this Budget maintains the Government's commitment to building the infrastructure that underpins the functioning of our economy and society. This includes unprecedented investments in trains, roads, hospitals and schools.

Rebuilding the State's finances and maintaining sustainable levels of debt over the next decade is central to the Government's strong fiscal management and responsibility to future generations. Despite the recent challenges, this Budget maintains our commitments in both the 2021-22 Budget and Half-Yearly Review to return to surplus by 2024-25. In 2021-22, $7.7 billion of debt will be retired through the NSW Generations Fund, following the successful WestConnex transaction, with $11 billion of debt to be retired in total.

The tough times have shown that the State's greatest asset is its people. This Budget is focused on implementing reforms to enable the people of New South Wales to realise their full potential. This Budget makes once-in-a-generation investments in five pillars of transformational economic reform that will boost our productive capacity and pay fiscal dividends for decades to come:

1. **Women's opportunities** – New South Wales has some of the most educated women in the world. Yet the rate of women participating in the workforce lags behind men by 9 percentage points and women are also more likely to work in part-time or casual roles. The number one reason for this is a lack of access to affordable childcare. This Budget invests up to $5 billion over a decade to make childcare affordable and accessible for all NSW parents. It invests $80.0 million to make services such as IVF more affordable and $40.3 million to improve the availability of menopause health services. It invests $108.9 million in women's safety and reducing street harassment (including $9.7 million for SafeWork NSW's 'Respect at Work' taskforce) and $30.6 million to support women in business and women entrepreneurs (including $3.7 million to track and report women-led businesses in government procurement). These investments will help unlock the immense economic capacity of more than half the population.
2. **Giving children and young people the best start to life** – Everyone should start life with a great education that gives them the knowledge and capabilities to not just follow their dreams, but to dream bigger. A child's first five years of life can put them on the path for lifelong success. This Budget invests $3.8 billion over four years to improve early childhood education and development. As part of this investment, Government will establish a high-quality universal pre-kindergarten program for all children in the year before school by 2030.
3. **A quality home for everyone** – Access to secure and affordable housing is not only the foundation of personal financial security but also the prosperity of our society. This Budget provides $2.8 billion to help more families find a place to call home. This includes expanding the supply of homes across New South Wales, helping first homebuyers own a home, clearing the waitlist for key worker housing in regional New South Wales, and investing in the long-term sustainability of our social and First Nations housing.
4. **The future economy** – Faced with the biggest health challenge in a century, the world developed vaccines in record time which are keeping us safe today, proving yet again the power of the human mind, science and technology. This Budget provides up to $1.0 billion to invest in science and technology, build the latest research infrastructure and establish innovation precincts across New South Wales. It also invests $130.0 million in the future economic strength and resilience of our regions by supporting the expansion of our critical minerals industry, in addition to the almost $1.0 billion in capital expenditure committed for the roll out of Special Activation Precincts. These investments will help our brightest minds create the new technologies, industries and jobs that will underwrite the future economy of our State.

5. **Protecting our planet and growing a clean economy** – We owe it to future generations to leave this planet better than we found it. With some of the world's best renewable resources, we also have the opportunity to be a leader in the global transformation to a clean economy. This Budget includes the nation's biggest investment in renewable energy with the $1.2 billion Transmission Acceleration Fund, as well as a further $1.5 billion over four years to reduce emissions, boost biodiversity and increase our resilience to climate change. From green hydrogen workers to the low carbon, nature positive produce from our sustainable farms, these investments will help create the clean economy jobs of the future, especially in regional New South Wales.

These investments will not only improve the lives of the NSW people, they will also support economic prosperity. By driving economic growth, these investments will grow the State's income streams and help deliver returns to the State's budget over the decades to come.

This Budget is also about improving the lives of people and communities, growing prosperity and creating opportunity for everyone in New South Wales. This includes: a record $715.8 million to empower First Nations communities and support progress towards Closing the Gap; $2.4 billion over ten years to increase the regional health workforce, including attracting doctors and nurses to regional hospitals, to ensure that no matter where a person lives in the State they can access quality healthcare; $1.6 billion investment in creating stronger opportunities for our regions, including expansion of the Regional Growth Fund; and the $5 billion WestInvest program which is already being rolled out.

Together the initiatives set out in this Budget continue to address the challenges of these times, while supporting a brighter future for New South Wales.

1.2 Economic outlook

The NSW economy continues to rebound from the effects of the Delta outbreak of 2021, supported by the NSW Government's $11 billion delivered to protect businesses and jobs, with up to $3.5 billion contributed by the Commonwealth. High vaccination rates and the community's transition to living with COVID-19 mean that the economic impact of Omicron is lower than previous outbreaks.

Heavy rainfall and floods in the first quarter of 2022 caused extensive damage and disruption, particularly in the far north of the State. While this was devastating for affected communities, it was not enough to derail the strength of the broader economic recovery underway in New South Wales. The Government continues to deliver support for the recovery and rebuilding of these communities.

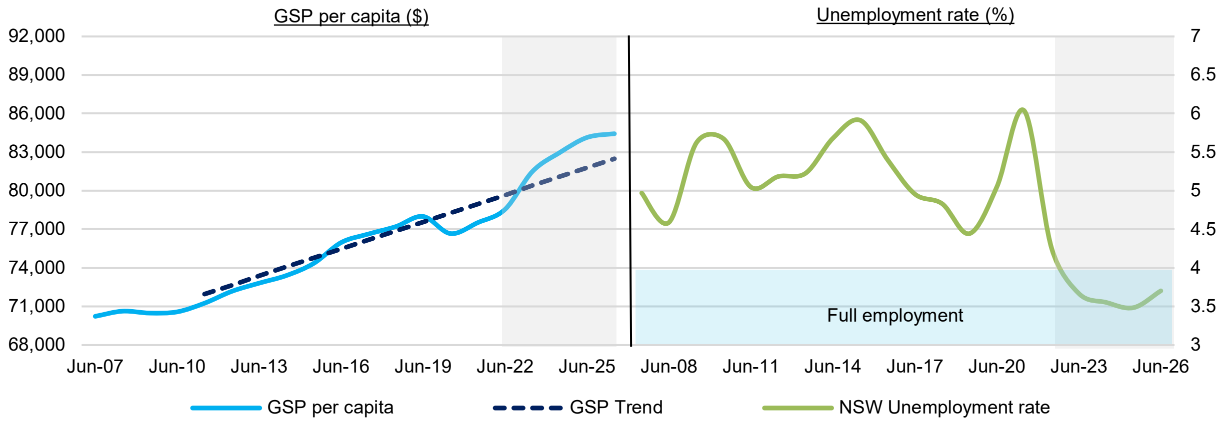
Since the start of the pandemic in 2020, the NSW and Commonwealth Governments have successfully delivered targeted and timely support to households and businesses. This includes key initiatives such as JobKeeper, JobSaver, the 2021 COVID-19 Business Grant and a range of response and recovery programs, such as the 2022 Small Business Support Program, Dine & Discover, Stay NSW, Parents NSW vouchers and the Small Business Fees and Charges Rebate.

Alongside ongoing monetary stimulus from the RBA, this government support has underpinned a rapid rebound in NSW economic activity. Not only has the economy recovered from the 245,000 fall in employment due to the Delta outbreak, but employment is comfortably higher than June 2021.

Growth in the domestic economy, as measured by State Final Demand, is expected to be 2¾ per cent in 2021-22. This is the same as was expected at the time of the 2021-22 Half-Yearly Review, despite the impacts of the Omicron outbreak and floods.

The State's unemployment rate has trended to historically low levels, with 4 per cent recorded in May. The unemployment rate is expected to remain near historic lows and at or below the level consistent with full employment (around 4 per cent) for the forecast period.

Chart 1.1: NSW unemployment rate is at a historically low level with employment comfortably higher than June 2021



Source: ABS and NSW Treasury

The NSW economy is expected to grow at an above-trend pace on average across the forecast horizon to 2025-26, supported by strong near-term momentum in the labour market and the resilient state of aggregate balance sheets.

A strong labour market is expected to drive higher wages. For the public sector, this is supported by the new wages policy which increases remuneration by 3.0 per cent in 2022-23 and 2023-24, with an additional 0.5 per cent on offer in 2023-24 where productivity improvements can be delivered to absorb the cost of the increase.

Strong growth in the demand for goods at a time of strained global supply and tight labour markets has driven up inflation across the developed world. Higher energy and dwelling construction prices have also contributed to increased inflation. Annual headline inflation in Sydney was 4.4 per cent through the year to the March quarter 2022, its highest rate since 2008. This was lower than the national figure of 5.1 per cent and also lower than that experienced in similar major international economies. The rate of inflation is expected to ease eventually but will remain higher than pre-pandemic levels across the forecast period.

Central banks, including the RBA, are responding by commencing the process of removing stimulus. While further rate rises are expected over the forecast period, current monetary policy continues to be supportive of growth, with interest rates remaining very low (0.85 per cent in June).

Risks remain elevated, as outlined in detail in Chapter 2, and extend beyond the impacts of COVID-19 and potential new variants. This includes risks to the global economy and supply chains arising from Russia’s invasion of Ukraine, China’s zero-COVID policy and climate change.

The Government has limited control over these global factors but can invest in preparation and response. Over the long term, reforms to boost productivity and participation are critical to achieving sustained economic growth.

1.3 Fiscal outlook

Table 1.1: Key Budget aggregates for the general government sector

	2020-21 Actual	2021-22 Revised	2022-23 Budget	2023-24	2024-25 Forward Estimates	2025-26
Budget Result ($m)	(7,072)	(16,562)	(11,260)	(2,796)	601	1,431
Per cent of GSP	(1.1)	(2.4)	(1.5)	(0.4)	0.1	0.2
Capital expenditure ($m)	18,818	19,734	22,666	22,646	21,968	21,114
Per cent of GSP	2.9	2.9	3.0	2.9	2.7	2.5
Net debt ($m)	37,076	53,538	78,169	93,749	105,519	114,814
Per cent of GSP	5.8	7.8	10.4	11.9	13.0	13.7
Net worth ($m)	234,587	271,812	267,203	273,230	279,067	280,316
Per cent of GSP	36.5	39.6	35.5	34.7	34.4	33.5

The State's strong balance sheet has underpinned measures to stimulate the economy and support the community over the past couple of years. These measures have protected jobs and businesses through the pandemic.

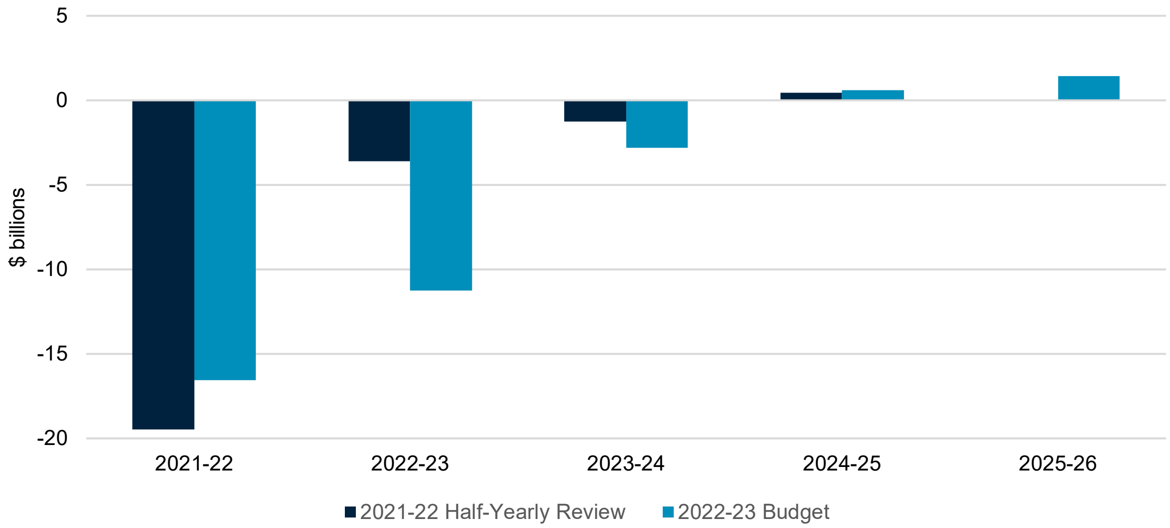
A budget deficit of $11.3 billion is projected for 2022-23 reflecting the large investment in the health system to improve capacity and resilience, continuing support for COVID-19 and flood response and the comprehensive suite of measures to boost household budgets. The Budget also prioritises significant investments in reforms to boost productivity and participation. These expenditures are partially offset by a $4.1 billion improvement in government revenues for 2022-23.

Government expenditure will decrease as stimulus programs are phased out and the economy continues to rebound. The rebounding economy is also underpinning an upgrade of State revenues, largely driven by record low unemployment, New South Wales' increased share of GST, higher consumer spending and elevated resource prices.

The State is on track for a return to surplus by 2024-25. This will help build capacity to respond to future shocks and invest in future infrastructure and economic reform. Reforms in areas such as early childhood education and care as well as women's opportunities will generate economic and fiscal returns to the State over the medium to long term.

The 2022-23 Budget continues the Government's commitment to invest in infrastructure as a key driver of long-term growth, with a record $112.7 billion four-year infrastructure program.

Chart 1.2: NSW Budget Result: 2021-22 Half-Yearly Review compared to the 2022-23 Budget



Some significant economic and fiscal pressures and risks remain. For example, higher than anticipated inflation and upward pressure on interest rates would flow through to expenses, and increase the State's cost of borrowing. The international economic outlook currently faces heightened risks with the NSW economy and the State's budget exposed to unanticipated fluctuations in international economic activity and global inflationary pressures.

The Government is committed to maintaining sustainable debt levels over the medium term and the 2022-23 Budget projects a stabilisation of net debt at around 14 per cent of GSP by June 2026. Net debt is projected to decline towards the end of the decade, helping to ensure balance sheet resilience.

Achieving sustainable levels of net debt is further supported by the Government's fiscal repair program, which continues to strengthen the State's balance sheet, with initiatives undertaken by the Government outlined in Box 1.1.

Box 1.1: Fiscal sustainability for future generations

The Government is committed to maintaining sustainable debt levels over the medium term. The 2022-23 Budget projects a stabilisation of net debt at around 14 per cent of GSP by June 2026 with net debt gradually declining towards the end of the decade.

This is consistent with the Government's commitment to a sustainable and diversified infrastructure pipeline that supports a strong and resilient infrastructure sector. An improving operating position will aid debt repair and bring net debt levels down in the second half of the decade, supporting balance sheet resilience.

The 2022-23 Budget projects net debt as percentage of GSP at lower levels over the forward estimates, at 13.0 per cent of GSP in June 2025. This is lower than the previous projection in the 2021-22 Budget where net debt was projected to be 13.7 per cent of GSP in the same time period. The Government has taken action to stabilise net debt and maintain it at sustainable levels, including:

- **WestConnex transaction** – Since the sale of WestConnex the Government has retired $7.7 billion in debt using the NSW Generations Fund, and is expected to retire another $3.3 billion in 2022-23 for a total of $11 billion in debt retirement.
- **Green and Sustainability bonds** – the NSW Government is one of the largest semi-government issuers with $7.0 billion in bonds issued to date to help diversify the State's investor base and facilitate capital flows towards ESG objectives.

The 2022-23 Budget also includes $2.0 billion in budget improvement measures to support fiscal sustainability and a return to surplus, comprising:

- $1.4 billion in revenue measures, including amendments to the point of consumption and betting tax settings, increases to the foreign investor surcharge land tax rate, a reduction in the discount available for the early payment of land tax and additional compliance investments within Revenue NSW. See Chapter 4 – Revenue for further detail.
- $645.8 million in savings measures largely due to the introduction of a further efficiency dividend from 2023-24 to 2025-26 and lower wages growth for senior executives. See Chapter 5 – Expenditure for a more detailed explanation.

1.4 Building a brighter future for NSW families

Following unprecedented challenges since 2020, the Government is committed to supporting NSW families. This Budget invests in key initiatives that take pressure off household budgets and support our frontline staff to deliver better services closer to home for communities across New South Wales.

The Budget also aims to build a brighter future for children and young people by setting them up for success and creating better opportunities to be part of the workforce. This requires investing in reforms to drive long-term productive capacity and support sustainable economic growth by creating new industries, new technologies and new jobs.

Boosting household budgets

This Budget provides a range of new cost of living measures that leave more money for families at the end of the week.

Box 1.2: Supporting families to boost household budgets

The NSW Government is committed to easing the cost of living for all households across the State. In 2022-23, more than $7.2 billion in new and existing rebates, concessions, and cost of living measures are available to households to help with everyday expenses.

In this Budget, the Government is investing in a range of new and expanded measures to boost household budgets, including:

- **Toll relief** – $520 million over two years, to deliver a new broad-based Toll Rebate Scheme where, every quarter, eligible individuals and small business customers will receive a 40 per cent cash rebate for every dollar spent on tolls once they have reached a minimum of $375, saving NSW drivers up to $750 a year, while Sydney's toll scheme is comprehensively reviewed
- **Back to School program** – $193.0 million to provide $150 to every NSW school child towards the cost of school supplies in 2023, including school uniforms and shoes, bags, textbooks, lesson resources and other stationery
- **Affordable and reliable energy** – $128 million over eight years (including $50 million of new funding) for the new Energy Bill Buster Program, to help eligible households reduce their gas and electricity bills by providing technology solutions, including solar panels or high efficiency appliances
- **Women's opportunities and early childhood education** – $1.3 billion for the Brighter Beginnings Affordable Preschool initiative to provide fee relief for families with children across both the community and mobile preschool sector and long day-care sector

- **Supporting regional communities** – $98.0 million for a two-year pilot towards a $250 prepaid Regional Apprentice and Uni Travel Card for university students and apprentices in regional New South Wales each year to ease the cost of travel.

Existing NSW Government measures to support household budgets, while contributing to broader economic and social outcomes, include:

- Active Kids providing savings through two $100 vouchers each year to June 2023 to increase participation of school-enrolled children in sport and physical activity, with over 4.2 million vouchers redeemed, valued at $413.3 million, since program inception
- Creative Kids providing savings through a $100 voucher each year to June 2023 to make it affordable for school-aged kids to get involved in creative and cultural activities, with over 1.6 million vouchers redeemed, valued at $156.7 million, since the program started in 2019
- First Lap vouchers providing a $100 voucher each year to June 2023 to make swimming and water safety education more accessible for NSW families, with over 130,000 vouchers redeemed, valued at $13.1 million, since the program launch
- over 1 million Regional Seniors Travel Cards of $250 value have been issued to seniors living in regional, rural and remote areas of New South Wales to ease the cost of travel, improve transport access to services, participate in the community and stay connected to family and friends
- over $300 million paid in 2020-21 through the Energy Social Program, which provides six energy rebates and one crisis support scheme to assist low-income households, with an average saving of around $320 per customer.

These rebates and vouchers are available through the online NSW Savings Finder tool, which has been accessed by more than 3.75 million people, with an average saving of $760 per person.

Strengthening frontline services

This Budget will deliver better services sooner and closer to home for communities across New South Wales.

Providing more schools and learning opportunities

This Budget will set children and young people up for success through continued investment in early education, local schools and vocational education, including TAFE. This investment includes:

- $5.8 billion over 10 years as an investment to make pre-kindergarten available for all children in the year before school by 2030
- $1.6 billion in new capital expenditure to deliver 23 new and upgraded schools and additional minor works to modernise existing facilities and provide additional teaching spaces
- $1.3 billion to help families meet the cost of preschool in community and mobile preschools and long day care settings through the Affordable Preschool program
- $1.2 billion over three years to provide better learning environments by boosting school infrastructure maintenance
- $108.5 million to support the continued rollout of new Institutes of Applied Technology at Meadowbank and Kingswood, bringing industry, vocational education and training, and higher education providers together to deliver modern training that prepares students for the work of the future
- $82.7 million to support a further 70,000 placements in apprenticeships, traineeships and high priority training over the next two years.

Delivering world-class healthcare

This Budget commits record investment in the NSW health workforce to ease pressure on existing health workers and support the delivery of quality health care. This commitment consists of $4.5 billion to recruit 10,148 full-time equivalent staff to hospitals, NSW Ambulance and health services across the State.

This investment includes an additional $743 million in funding over five years for palliative care and specialist health services, to ensure NSW residents at the end of their life have access to new treatments and world-leading pain management. The increased funding will support the employment of an extra 600 nurses, allied health professionals, doctors and support staff.

Box 1.3: Boosting paramedic numbers to provide better services across the State

This Budget invests almost $1.8 billion to enable NSW Ambulance to recruit 2,128 staff and open 30 new ambulance stations. The first eight stations will be at Warilla, Kincumber, Lisarow, Gateshead, Swansea, Cherrybrook, Raby and Narellan in the coming year with 22 more stations over the following three years.

This investment includes $94.5 million to establish an Ambulance Virtual Clinical Coordination Centre (VCCC) co-located and integrated within the State Operations Centre. The VCCC will assist NSW Ambulance Control Centre staff to manage an increased volume of triple zero calls to effectively prioritise emergency cases.

The additional funding supports NSW Ambulance to meet the current and projected demand for critical care across New South Wales to ensure equity of access, timeliness and quality of service.

In recognition of the efforts of health workers throughout the pandemic, the Government will provide a one-off payment of $3,000 to NSW Health employees. This is in addition to the new public sector wages policy which increases remuneration by 3.0 per cent in 2022-23 and 2023-24, with an additional 0.5 per cent on offer in 2023-24 where productivity improvements can be delivered to absorb the cost of the increase.

Supporting a quality home for everyone

The Government will invest $2.8 billion in measures to support greater opportunities to access and own a quality home and help the most vulnerable, including:

- $780.4 million for a two-year trial of a shared equity scheme for up to 6,000 eligible single parents, older singles and first home buyers who are teachers, nurses or police
- $728.6 million to introduce an option for first home buyers purchasing a home for up to $1.5 million to pay an annual property tax instead of upfront stamp duty
- $300.0 million for a third round of the Accelerated Infrastructure Fund, including $120.0 million for regional areas, to co-fund critical housing enabling infrastructure
- $300.0 million for maintenance and upgrades to more than 15,800 social housing properties, extending the life of social homes and ensuring tenants have safe accommodation
- $174.0 million for 271 new homes for key workers in regional and remote New South Wales
- $149.8 million for 200 new and 260 upgraded homes for First Nations people, as well as 4,400 climate resilience and energy saving upgrades, helping to reduce overcrowding and improve the quality of life for tenants
- $89.0 million to reduce planning assessment timeframes and bring forward housing supply

- $73.5 million to undertake strategic planning and rezoning in State-led precincts to increase capacity for new housing and employment opportunities
- $67.2 million to continue and expand the Strong Family, Strong Communities program, to provide wrap-around services and support to at-risk First Nations families and the Aboriginal Community Housing sector
- $37.0 million to partner with Community Housing Providers to deliver 120 new social housing dwellings to support the transition of existing Together Home clients in leased accommodation to permanent accommodation
- $33.8 million for the Regional Housing Development Program to overcome data gaps, coordination and planning barriers to secure a pipeline of housing supply in regional NSW
- $32.0 million to deliver planning and infrastructure upgrades to First Nations communities through the Roads to Home program, supporting access to essential services.

Investing in our communities

The Government is committed to investing in the future of our communities across New South Wales by delivering world class infrastructure and services.

A sustainable infrastructure pipeline

The Government is committed to delivering its $112.7 billion four-year infrastructure program to enhance the future of our communities through transformative transport infrastructure.

Transport plays a key role in making New South Wales a better place to live, work and visit by connecting people and communities and making journeys safer, easier and more reliable.

Integrated transport networks, including road, train, metro, bus, ferry, light rail, cycling and walking, also play a critical role in driving economic growth and wellbeing. Key projects include:

- $12.4 billion for the Sydney Metro West which will deliver a new underground driverless Metro line connecting Greater Parramatta with the Sydney CBD in around 20 minutes, including new metro stations at Westmead, Parramatta, Sydney Olympic Park, North Strathfield, Burwood North, Five Dock, The Bays, Pyrmont and Hunter Street in the Sydney CBD
- $8.4 billion for the Sydney Metro – Western Sydney Airport which will deliver six new Metro stations to service the future Airport and the Western Sydney Aerotropolis, interchanging with the T1 Western Line at St Marys
- $5.1 billion for the Sydney Metro City and Southwest which will deliver an extension of Sydney Metro Northwest from Chatswood, under Sydney Harbour, through new CBD stations and southwest to Bankstown
- $4.1 billion for the Western Harbour Tunnel to deliver the first stage of tunnelling works for a new crossing of the Sydney Harbour, and continued planning for Beaches Link
- $3.2 billion for the Great Western Highway Upgrade to reduce congestion and deliver safer, more efficient and reliable journeys through the Blue Mountains and better connect communities in the Central West
- $2.3 billion for the M6 Extension Stage 1 which, when completed, will remove more than 2,000 trucks a day from surface roads, enable motorists to bypass up to 23 sets of traffic lights on the Princes Highway and enhance pedestrian and cyclist safety through shared pathways
- $1.9 billion for Jervis Bay to the Victorian border to continue the transformation of the Princes Highway from south of Nowra to the Victorian border, including the delivery of the Milton-Ulladulla Bypass to improve safety, journey times and freight efficiency
- $1.7 billion for the Warringah Freeway upgrades to surface roads, bridges and interchanges along about four kilometres of the freeway corridor.

Recovery and resilience

At the pandemic's outset, the Government had the fiscal capacity and strong economic foundations to invest in our people and our economy through the worst of the pandemic.

The economy will continue to be supported by targeted recovery measures into 2022-23. Key investments include:

- an additional $961.4 million for the ongoing health costs of the continued management of COVID-19 including fever clinics, long COVID-19 clinics, and infection prevention
- $155.0 million for the Before and After School Care program, providing a $500 voucher towards the cost of before-and after-school care for every child in New South Wales
- $130.0 million for the Mental Health and Wellbeing package
- $66.2 million for the Alfresco Restart Package and the $50.0 million CBDs Revitalisation Program to bring the streets of New South Wales back to life with outdoor dining, live music and entertainment.

Across New South Wales, 61 LGAs were Disaster Declared as a result of the February and March 2022 storms and floods. In response to these events, the NSW and Commonwealth Governments have jointly committed $3.5 billion (2021-22 to 2024-25) to support impacted communities, including:

- $350.0 million for immediate clean up assistance for properties and other public, community and environmental assets, and waste disposal
- $350.0 million for the procurement and management of temporary and medium-term housing in approved sites, to support people unable to secure stable, ongoing accommodation because of the floods
- $312.5 million to deliver State and Local government transport infrastructure resilience improvements to reinforce and upgrade infrastructure and assets
- Housing and accommodation support, including:
  - $285.2 million for rental assistance support, temporary housing measures, and a housing flood recovery service
  - $168.0 million for social and police housing support
  - $112.5 million for Back Home grants to help restore housing to a habitable condition.

Empowering First Nations communities

New South Wales is home to Australia's largest Aboriginal and Torres Strait Islander population. As signatory to the National Agreement on Closing the Gap, the Government is committed to strengthening shared decision-making and genuine partnerships with Aboriginal and Torres Strait Islander communities and organisations.

Box 1.4: Partnering with First Nations communities to Close the Gap

This Budget provides a suite of initiatives to improve social, economic and cultural outcomes for First Nations people. This investment will empower Aboriginal Community-Controlled Organisations (ACCOs) to deliver culturally appropriate services in their communities. This is in recognition of the critical role ACCOs play in service delivery and providing employment opportunities for First Nations people.

To support progress towards Closing the Gap, the Government has partnered with the NSW Coalition of Aboriginal Peak Organisations to co-develop 28 new initiatives totalling $188.6 million. These initiatives empower ACCOs to deliver services in partnership with the Government including:

- $47.0 million to support strong data and governance to drive the Government's partnership approach with First Nations communities
- $33.2 million to support First Nations children and young people to thrive through community-driven programs
- $29.6 million to promote health and wellbeing in First Nations communities including access to culturally appropriate mental health and cancer treatment services
- $26.2 million for developing appropriate standards for First Nations housing and land management
- $19.7 million to tackle recidivism in the justice system

This Budget also includes an additional $527.1 million for other programs that will deliver positive outcomes in First Nations communities, including:

- $43.9 million for the Aboriginal Languages Trust to support First Nations languages revitalisation
- $34.2 million to continue and expand Aboriginal Child and Family Centres and an additional $64.5 million to build six new sites to provide culturally safe services that support First Nations children and families to thrive
- $15.3 million for Stolen Generation Keeping Places that allows for culturally appropriate preservation of sites, research and stories of survivors.

Building strong regions and creating more opportunities

Regional New South Wales is home to diverse communities and places, offering lifestyle and business opportunities found nowhere else. Many people have recognised the appeal of living in regional New South Wales, reflected in increased levels of migration from metropolitan centres.

The Government is continuing to support regional communities through high quality services, improving infrastructure, and investing in critical industries. This includes:

- $2.4 billion over 10 years to boost the regional workforce including strategies to address the future pipeline of healthcare workers by increasing health training positions locally in rural areas, supporting professional development of rural workforce, and providing recruitment and retention incentives to support sustainable workforce supply
- $1.3 billion to expand the Regional Growth Fund, continuing successful programs that have invested in over 2,700 projects since 2017, including the Stronger Country Communities Fund, Resources for Regions, and the Regional Job Creation Fund
- $149.5 million to enhance the existing Isolated Patients Travel and Accommodation Assistance Scheme to improve access to timely specialist and preventive care, while reducing out-of-pocket expenses for patients

- $145.0 million over three years for the Regional Investment Activation Program to strengthen supply chains, attract private sector investment and address skills gaps in key sectors to drive high value, specialist industries and job creation
- $130.0 million over five years to maximise the potential of the critical minerals industry by driving investment and job creation for a viable, valuable and sustainable sector.

Ensuring Western Sydney remains a great place to live, work and raise a family

The Government is committed to creating opportunities and improving quality of life for people living in Western Sydney for decades to come. This Budget invests in vital infrastructure to build a better future for Western Sydney communities, including:

- $246.1 million in 2022-23 (as part of an $840 million total Government contribution) for the new Powerhouse Museum at Parramatta and expansion of the Museum Discovery Centre in Castle Hill
- $185.4 million in 2022-23 (as part of a $619.0 million project) for Stage 2 of The Children's Hospital at Westmead Redevelopment
- $126.8 million in 2022-23 (as part of a $740.0 million project) for the Liverpool Health and Academic Precinct.

The $5.0 billion WestInvest program will also fund transformational projects that will support liveability and community amenity in Western Sydney. The program is split between two funding streams. $2.0 billion is reserved for high-priority community projects:

- $400.0 million is directly allocated to 15 Western Sydney Local Government Areas to fund shovel-ready local projects
- $1.6 billion is allocated through a competitive grants process that is open to applications from community groups, non-government organisations and local councils.

A further $3.0 billion will be made available to NSW Government agencies to deliver transformational projects that will benefit local communities.

As part of WestInvest, this Budget commits $478.2 million to modernise nine schools in Western Sydney, including Rouse Hill High School and Parramatta East Public School. This program of works will deliver a broad range of capital investment to renew existing school assets and provide additional teaching spaces.

Growing the economy for a brighter future

The best approach to global uncertainty is to invest in reforms to drive long-term productive capacity and support sustainable economic growth.

Supporting women's opportunities

The Government will invest in significant early childhood education and care reforms to help increase women's workforce participation and to improve developmental outcomes for children. These reforms are based on the findings of the Women's Economic Opportunities Review, which was commissioned by the Government in February 2022. This landmark investment will drive economic growth through higher participation, while achieving better outcomes for children. Key initiatives include:

- $775 million over the next four years for the creation of the Affordable and Accessible Childcare and Economic Participation Fund (the Fund) to increase the supply of affordable childcare, followed by an investment of up to $650 million per year after that, indexed to CPI

- expansion of the Affordable Preschool program, which will provide families with $2,000 per child per year for preschool in long day care settings and up to $4,000 per child per year in community and mobile preschools. Together with the Fund, this will enable more women to participate in the workforce or increase how much they work, and ensure children in New South Wales have the best start in life
- $80.0 million to support affordable fertility treatments across New South Wales, including extending the fertility testing rebate (of up to $2,000 per family) and increasing the number of fertility treatment places in public clinics
- $12.0 million to establish the Carla Zampatti Fund ($10 million for the Fund and $2 million for establishment and operation), which will invest in female-led start-ups to help more women entrepreneurs start and run successful businesses
- $9.5 million for dedicated support for female business owners through Service for Business and Business connect programs.

The future economy

The Government is investing in technology that will create new opportunities for businesses and drive long-term productive capacity. This Budget will support the future economy and jobs of tomorrow through targeted investments in research and development (R&D) and research commercialisation, including:

- $1.0 billion towards the delivery of four new research and development precincts, including:
  - $261.9 million over 10 years in capital expenditure towards the establishment of the Advanced Manufacturing Research Facility, a new state-of-the-art facility that will be established within the Bradfield City Centre
  - $150.0 million over five years in capital expenditure towards the construction of the Sydney Biomedical Accelerator Complex – a co-funded partnership project between NSW Health, Sydney Local Health District and the University of Sydney – at the Tech Central precinct in Camperdown. The Accelerator will be a state-of-the-art biomedical research complex offering a unique global concentration of biomedical research talent, enabling researchers and industry collaborators to work together on solving critical health challenges
  - $119.1 million over 10 years in Ribonucleic Acid (RNA) therapeutics manufacturing, research and development for initiatives to translate RNA therapeutics research into clinical and commercial outcomes and ensure best use of the pilot manufacturing facility
  - $49.6 million in capital expenditure over four years towards the construction of the Viral Vector Manufacturing Facility at the Westmead Health and Innovation District.
- $703.4 million for the establishment of the Future Economy Fund. This fund will target the end-to-end stages of business growth including R&D, commercialisation, industry growth, investment attraction and maturity
- $300.0 million over 10 years to help build the State’s clean manufacturing base, using new, clean technologies including green hydrogen, cement, ammonia, and steel production.

Protecting the planet and growing a clean economy

New clean energy initiatives will expand and accelerate the development of clean energy production, transmission and storage in New South Wales. This Budget includes investments to address the physical risks of climate change as well as take advantage of clean technologies and emerging green markets.

The Government’s commitment to protecting our environment will support sustainable economic growth for the long-term and leave a better planet for future generations.

Key clean energy initiatives include:

- $1.2 billion net (maximum, after recycling proceeds) to accelerate the delivery of the new transmission projects required for Renewable Energy Zones across regional New South Wales (total gross investment, which is intended to be fully recouped, is $3.1 billion over the next 10 years)
- $250.0 million over five years to support the emerging renewable manufacturing industry, securing local supply chains and encouraging innovation, to ensure New South Wales captures the jobs and investment from the renewable energy transition
- $74.0 million for Zero Emission Buses to develop a Final Business Case and commence enabling works to transition to a low-emission bus fleet to allow quiet and environmentally friendly travel services for Sydney commuters
- $84.0 million over 10 years for the delivery of the Energy Infrastructure Roadmap, accelerating the development of the Renewable Energy Zones across regional New South Wales
- $47.6 million over five years to investigate new opportunities for pumped hydro energy and deliver an extra 1.4GW of storage to the grid.
- $38.3 million to support the rollout of Electric Vehicle Charging Infrastructure to deliver infrastructure to service the growing fleet of electric vehicles, including by accelerating the rollout of ultra-fast charging stations, kerbside charging, and ensuring buildings are ready to install charging infrastructure.

This Budget also invests:

- $423.6 million for the National Parks and Wildlife Service to meet growth in demand for nature-based tourism and continue to deliver improved conservation outcomes
- $206.2 million over 10 years for the Sustainable Farming Program to reward farmers through incentive payments linked to an opt-in accreditation program, who invest in best-practice regenerative farming to improve biodiversity, reduce carbon emissions and improve farm productivity
- $106.7 million to establish a new Biodiversity Credit Supply Fund designed to increase the supply of biodiversity credits to re-sell to public and private proponents. The operation of the Fund will benefit the environment and landholders, while supporting the delivery of infrastructure projects and economic activity
- $93.7 million over eight years for a Climate Change Adaptation Strategy to develop risk assessments, action plans and other capabilities needed to address the physical risks arising from climate change
- $19.8 million for Water Strategy Initiatives to address floodplain management, First Nations access and a groundwater framework.

2. THE ECONOMY

- The NSW economy has rebounded strongly from the Delta lockdown last year, despite the Omicron outbreak and floods in late 2021 and early 2022.
- Successful vaccination of the population has enabled households and businesses to transition to living with COVID-19 in the community, supporting the economic recovery and job creation. Consequently, the labour market has tightened, with the monthly unemployment rate dropping to a historically low level.
- Global forces are impacting the NSW economic outlook including the ongoing impacts of COVID-19 and Russia's invasion of Ukraine. Strong growth in the demand for goods at a time of strained global supply and tight labour markets has driven inflation across the developed world to multi-decade highs. Central banks, including the Reserve Bank of Australia, are responding by commencing the process of raising interest rates and removing stimulus.
- The NSW economy is expected to grow at an above trend pace, on average, across the forecast horizon. This is supported by strong near-term momentum in the labour market and the resilient state of aggregate balance sheets. Monetary policy meanwhile remains supportive of growth in the near term, even with the prospect of interest rate increases over the forecast horizon. This in turn should support continued strength in employment, with the unemployment rate remaining low across the forecast horizon.
- Wages growth is expected to be stronger over the forecast period. While inflation is expected to ease from its current rapid pace, a tight labour market and a range of global forces will see inflation remain higher than prior to the pandemic.
- Notwithstanding the positive central forecast, the outlook remains subject to an unusually high degree of uncertainty and risks, primarily to the downside. These include COVID-19, uncertainty around the pace and extent of monetary policy tightening, both within Australia and abroad, the invasion of Ukraine, and concerns over the sustainability of China's growth trajectory.

Table 2.1: NSW economic performance and outlook[(a)]

	2020-21 Outcome	2021-22 Forecasts	2022-23 Forecasts	2023-24 Forecasts	2024-25 Forecasts	2025-26 Forecasts
Real State Final Demand	3.0	2¾	5½ (5)	1¾ (1)	2¼ (2½)	2
Real Gross State Product	1.4	1½ (2½)	4¼ (3¼)	2¾ (1½)	2½ (2¼)	1½
Employment	0.4	1 (½)	3 (2¼)	1	1¼	1
Unemployment rate [(b)]	5.2	3¾ (5¼)	3¾ (4½)	3½ (4½)	3½ (4¼)	3¾
Sydney Consumer Price Index	1.5	4 (2½)	5½ (2¼)	3 (2½)	3 (2½)	2¾
Wage Price Index	1.5	2¼	3½ (2¼)	3¼ (2½)	3¼ (2¾)	3¼
Nominal Gross State Product	3.0	6¾ (8)	9¾ (4¼)	4½ (2¼)	3 (3¾)	3¼
Population [(c)]	0.3	0.1 (0.4)	0.6 (0.7)	1.0 (1.1)	1.1 (1.2)	1.1

(a) Per cent change, annual average unless otherwise stated. Previous forecast (2021-22 Half-Yearly Review) 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.
Note: Commodity prices are assumed to follow Consensus forecasts as at May 2022. The RBA is assumed to increase interest rates over the course of 2022 and 2023 broadly in line with the assumptions used in the RBA Statement on Monetary Policy (May 2022). The Australian dollar trade-weighted index is assumed to average 63.6 across the forecast period. Policy proposals during the Commonwealth election are not incorporated into the forecasts. An allowance is made in the forecasts for the impact on the economy of continued COVID-19 cases in the community. The magnitude of the allowance averages around 0.1 per cent of GSP per annum across the budget and forward years.

Source: ABS and NSW Treasury

2.1 NSW economy is showing strong momentum

A fast recovery since the Delta lockdown

The domestic economy has recovered strongly since the Delta lockdown, broadly in line with expectations at the time of the 2021-22 Half-Yearly Review.

The rapid rebound in economic activity is largely attributed to the unprecedented fiscal support to households and businesses from the Commonwealth and NSW Governments such as JobSaver, the COVID-19 Business Grant, and the COVID-19 Micro-business Grant, combined with ongoing monetary stimulus from the Reserve Bank of Australia (RBA).

By early 2022, the NSW economy had more than fully recovered all of the 245,000 in lost employment seen during the Delta lockdown, with employment comfortably above the level prior to the lockdown.

The Omicron outbreak briefly threatened the recovery in early 2022. The main economic impact of Omicron was seen in a sharp fall in hours worked in January as employees needed to take time off work due to illness and isolation requirements for close contacts. In contrast, other economic indicators such as employment and retail turnover held up relatively well.

As rules around the isolation of close contacts eased, the impact of Omicron on the economy has also diminished. Despite the elevated level of Omicron cases, the overall impact on the economy was smaller than seen for previous variants. This owed to a range of factors including the successful vaccination of the population, support and stimulus measures, and the adaptability of households and businesses as they transitioned towards living with COVID-19 in the community.

Severe storms and floods also caused extensive disruption and damage in impacted areas of New South Wales in early 2022. While this was devastating for many local communities especially in the State's Northern Rivers, it was not enough to derail the strength of the broader economic recovery underway in New South Wales.

Growth in State Final Demand (SFD) in 2021-22 is expected to be 2¾ per cent, in line with expectations at the time of the 2021-22 Half-Yearly Review. While expectations for the domestic economy in 2021-22 have remained unchanged, an increase in imports in the March quarter 2022 has resulted in expected growth in Gross State Product (GSP) in 2021-22 being revised down to 1½ per cent. This compares to expectations at the time of the 2021-22 Half-Yearly Review of 2½ per cent.

A robust economic outlook

Following the strong economic recovery since the Delta lockdown, the NSW economy is expected to maintain its strong momentum.

The economy continues to be supported in the near term by fiscal and monetary policy. On the fiscal side, there are a range of programs introduced during the pandemic that are providing ongoing benefit to the economy. Further support will also come over the course of the forecast period from Commonwealth income tax cuts as well as cost of living measures to support households in the face of high inflation.

The current stance of monetary policy also remains highly supportive of growth. Despite increasing in the past two months, the level of the RBA cash rate target, at 0.85 per cent in June, remains very low by historical standards. A sustained rise in interest rates is assumed to occur over the forecast horizon, though this is not expected to derail growth.

Monetary and fiscal support during the pandemic also helped households and businesses to build up aggregate savings. With the economy reopening, these savings are now available to support spending and investment.

This support, combined with the strong near-term momentum in the labour market, should ensure that domestic demand remains robust. In turn, this should drive continued strength of the labour market as well as solid wages growth over the forecast horizon. Section 2.3 provides further analysis of the NSW labour market outlook.

The recent sharp rise in inflation is a negative factor for the economic outlook. While inflation is expected to ease from its current rapid pace, it is expected to remain relatively elevated compared to before the pandemic. This largely reflects global factors including higher commodity prices and strains in global supply chains.

While the central outlook for the economy is positive, risks remain heightened. See section 2.5 for further analysis on upside and downside risks.

2.2 Global forces are shaping the outlook for the NSW economy

The NSW economy is being subjected to the same forces driving the global economic landscape. In response to COVID-19, many central banks around the world provided significant monetary stimulus. Interest rates were cut to their effective lower bound, near zero per cent. A number of central banks implemented unconventional policy measures to provide further stimulus, some of which had been implemented previously in response to the Global Financial Crisis (GFC). Governments across the developed world simultaneously provided stimulus to help protect their economies from the expected adverse impacts on demand and employment.

These policies succeeded in avoiding more significant negative economic impacts. At the same time, the peak of the pandemic globally proved to be shorter lived than many feared. This has resulted in sharp growth in goods demand and a rapid recovery in economic activity as a whole.

Labour markets, meanwhile, have experienced a much faster recovery than expected, with unemployment rates in most cases now at or even below their pre-COVID-19 levels (see Chart 2.1).

At the same time, COVID-19 exposed the fragility of global supply chains to shocks, particularly their reliance on China as a source of global production and just in time inventory management systems. The disruption to production caused by public health measures, especially during the initial outbreak in China, had a profound ripple effect across global supply chains (for further details see Box 2.1).

The combination of these forces has driven inflation across most of the developed world to multi-decade highs (see Chart 2.2). For example, US headline inflation reached a 40 year high of 8.5 per cent in March 2022. While rising headline inflation, in part, reflects a sharp rise in energy prices, core inflation also has surged across a broad range of countries. A common factor has been a surge in goods price inflation, but services inflation also has picked up. Central banks are responding by raising interest rates, with bond yields moving up sharply in expectation this will continue. Notwithstanding this, for now monetary and fiscal settings remain highly stimulatory across the developed world.

Meanwhile the global economy continues to be buffeted by several shocks to supply, notably Russia's invasion of Ukraine (which has a large impact on the supply of several key commodities including gas, oil, coal and wheat), and China's continued pursuit of a zero-COVID-19 policy. There is considerable uncertainty as to when these shocks will be resolved.

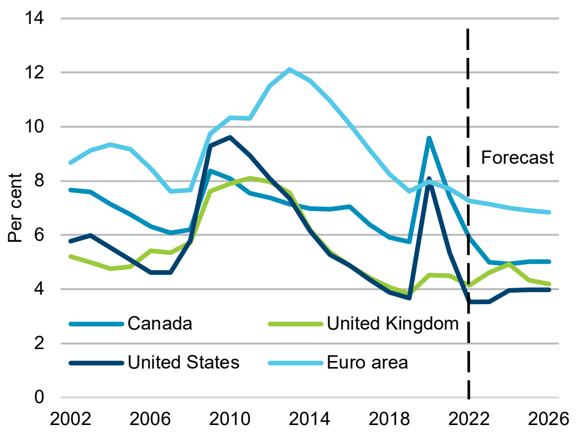
The International Monetary Fund (IMF) cut its outlook for global growth in 2022 to 3.6 per cent from 4.9 per cent in October 2021, reflecting increased sanctions aimed at Russia and new lockdowns in China increasing global supply chain bottlenecks. Faltering global trade growth has implications for the State's key commodity and service exports.

Recent data suggests that international students and tourists have been gradually returning since Australia's international border reopened but numbers remained below pre-COVID-19 levels in March 2022. Meanwhile, departures of Australians travelling abroad have also picked up.

Supported by international arrivals, exports are forecast to grow over the forecast period. Imports are also expected to increase, reflecting the strength of the domestic economy as well as a rise in outbound tourism. Outbound tourism is expected to overtake inbound tourism over the forecast period, reverting to a trend seen prior to the onset of the pandemic.

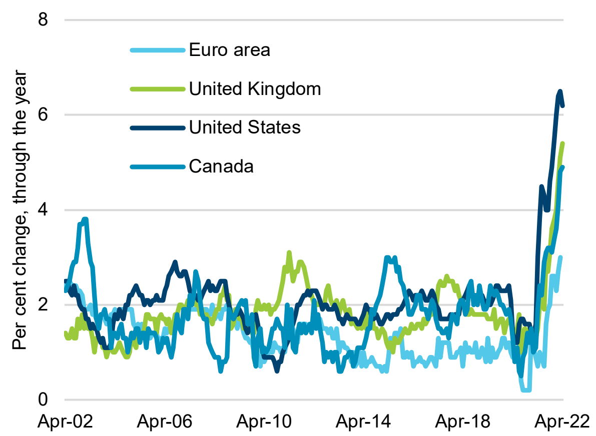
Net overseas migration fell to historic lows due to the closure of Australia's international border which led to a sharp slowdown in population growth. A gradual recovery in net overseas migration is assumed to support stronger population growth over the forecast period, but growth is expected to remain below pre-pandemic levels.

Chart 2.1: Unemployment rate for select countries



Source: IMF

Chart 2.2: Annual core inflation excluding food & energy for select countries



Source: OECD

2.3 The NSW economic outlook

A strong labour market with the monthly unemployment rate historically low

The near-term outlook for the economy is being dominated by the current strong momentum in the labour market.

Most of the impact of Omicron and storms and floods was reflected in falls in hours worked as people were forced to isolate due to illness or close contact rules, or unable to work due to the extreme weather. Total hours worked registered a record decline in January 2022 following the initial Omicron outbreak. Hours worked has rebounded strongly in subsequent months to above its pre-Delta peak (see Chart 2.3).

The level of employment has also risen to be comfortably above the level seen before the Delta outbreak and well above the level that existed before the onset of COVID-19 in early 2020. This has seen the unemployment rate drop to a historically low level in May (see Chart 2.4). Broader measures of spare capacity reinforce the relative lack of spare capacity in the labour market, with the underutilisation rate falling to around its lowest level since 1989.

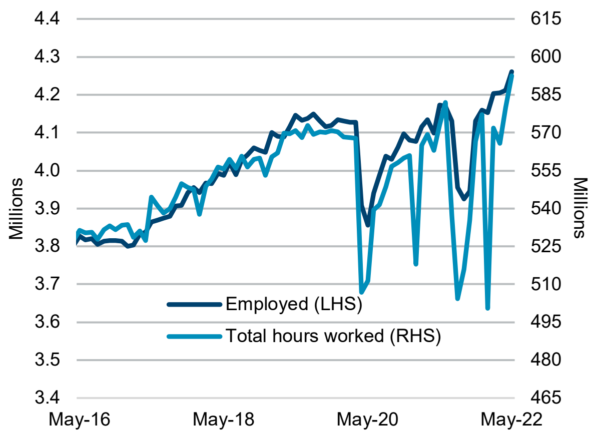
Having dropped during the Delta lockdown, the participation rate is now above pre-COVID-19 levels. Within this, the female participation rate remains well above pre-pandemic levels, while the participation of older age cohorts also remains strong. Participation is also high among younger cohorts. These cohorts, which are traditionally less represented in the labour force, has helped to satisfy high labour demand in the absence of migrant workers.

These higher participation levels likely reflect a combination of both temporary and structural factors accelerated by COVID-19. For example, remote work arrangements have made it easier for pregnant women, workers with caring responsibilities and older workers to remain engaged in the labour force.

Leading indicators suggest there will continue to be strong demand for labour, reflecting high levels of economic activity and robust labour demand. In particular, job vacancies are elevated, with almost a quarter of NSW businesses reporting vacancies, around twice as high as pre-COVID-19 levels.

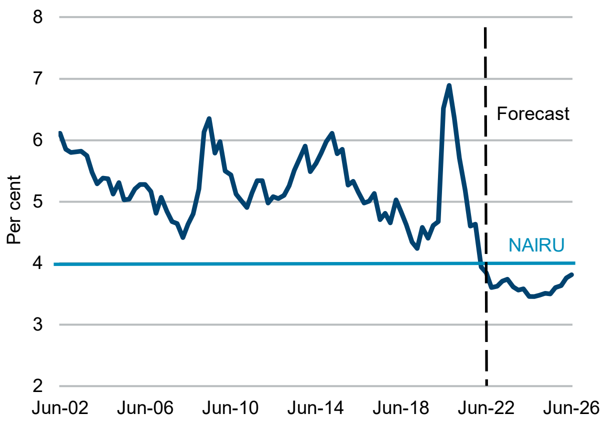
The high level of vacancies is expected to lead to growth in both hours worked and employment, however there is considerable evidence to suggest that employers are struggling to fill vacancies. This has been exacerbated by the lack of overseas migration in the last two years. High labour demand is thus expected to sustain an increase in average hours worked as employers increase existing employee hours to compensate for labour shortages. The unemployment rate is expected to remain near historic lows, at or below the level consistent with full employment (around 4 per cent) until the end of the forecast horizon in June 2026. This is despite a high participation rate supported by strong economic activity and stimulatory policy settings.

Chart 2.3: NSW employment and hours worked



Source: ABS

Chart 2.4: NSW unemployment rate



Source: ABS and NSW Treasury

Labour market strength will support higher wages growth

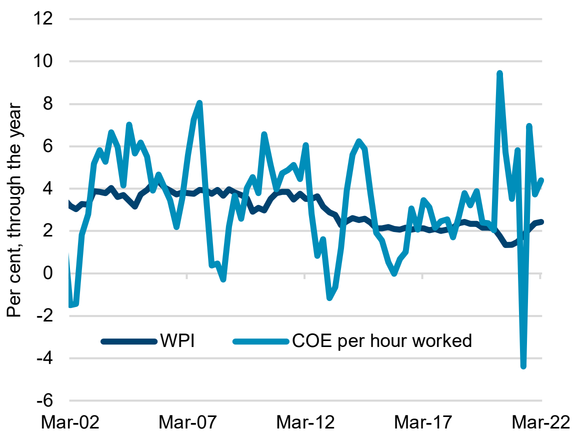
The combination of strong labour demand, the lack of migration over the past two years and increased expectations for future inflation is expected to provide the impetus for higher wages growth. This is, in part, reflected in the NSW Government's new public sector wages policy, which will provide higher wages growth for the State's employees. The new policy provides a 3 per cent increase per annum in 2022-23 and 2023-24, with a potential further 0.5 per cent increase available in 2023-24 for employees that make a substantial contribution to productivity enhancing reforms.

Wages growth as measured by the NSW Wage Price Index (WPI), a measure of wages that adjusts for compositional shifts in employment, rose to 2.4 per cent through the year to the March quarter 2022, the highest rate since late 2018.

Broader wage measures point to even faster growth with employers recently providing larger one-off payments and bonuses to both attract and retain staff. For example, growth of NSW Compensation of Employees (COE) per hour worked, a broader measure of remuneration that includes bonuses, overtime and allowances as well as promotions and compositional shifts in employment, rose to 4.4 per cent through the year to the March quarter of 2022.

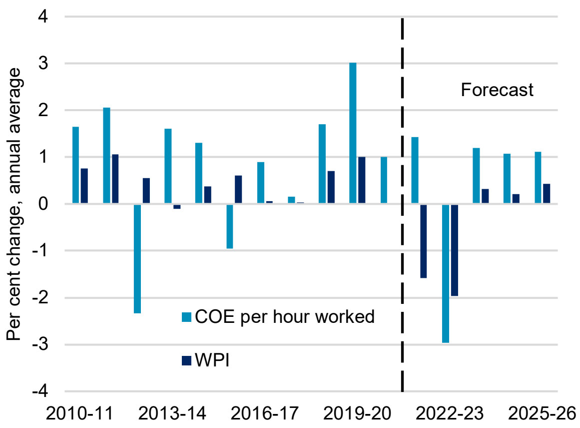
The stronger growth in these broader wage measures is expected to continue as long as the labour market remains tight. Timely information such as the National Australia Bank (NAB) business survey and the RBA's business liaison suggest that labour costs are rising more rapidly, with firms anticipating wages growth to increase more quickly in the coming period.

Chart 2.5: Growth in NSW nominal wages



Source: ABS and NSW Treasury

Chart 2.6: Growth in NSW real wages[(a)]



Source: ABS and NSW Treasury

(a) Real wages derived as nominal wages deflated by Sydney CPI

Inflation sharply higher but expected to moderate

Driven largely by global factors, consumer prices have increased rapidly over the past year. Annual headline inflation in Sydney was 4.4 per cent through the year to the March quarter 2022, its highest rate since 2008. This was lower than the national figure of 5.1 per cent and also lower than the level of inflation experienced in similar major international economies.

Stressed global supply chains have impacted energy and dwelling construction prices and contributed to the increase in headline inflation. A discussion of global supply chain pressures that have been driving inflation higher is provided in Box 2.1.

Underlying inflation, which excludes items that have particularly large price changes during a given period, point to broader inflationary pressures in the economy. National underlying inflation rose by 3.5 per cent in the March 2022 quarter. This is above the RBA's target band of 2-3 per cent and is the highest rate since December 2009. The Consumer Price Index (CPI) is regarded as an acceptable measure of changes in the cost of living. Detail on cost of living pressures is provided in Box 2.2.

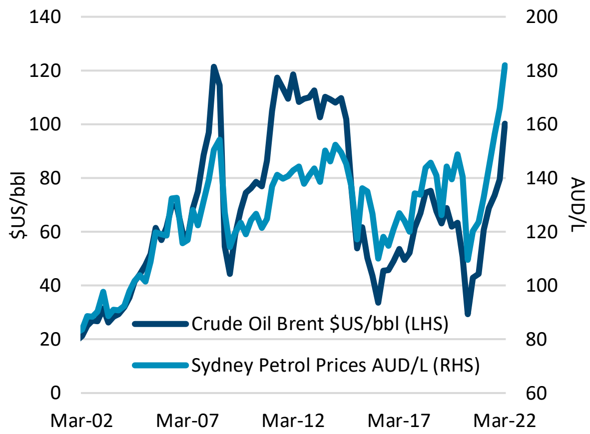
Inflation forecasts have been significantly revised upwards in the near term reflecting ongoing supply chain issues, price pressures in the housing construction sector, elevated energy prices due to Russia's invasion of Ukraine (see Chart 2.7), severe weather impacts on food prices, and higher wages growth.

Despite this, inflation is still expected to peak at a lower rate than has been observed in various other countries. The headline Sydney CPI is expected to increase by 4 per cent in 2021-22 and 5½ per cent in 2022-23, before moderating in 2023-24.

These annual average inflation forecasts mask a more significant near term 'inflation pulse'. Through the year growth in headline inflation is expected to peak in late 2022 before easing back to the top of the RBA's 2-3 per cent inflation target by end 2023. This reflects an anticipated gradual easing of inflationary pressures as global supply chain issues are resolved and the effects of monetary policy normalisation from the RBA, and other global central banks, flow through to the economy. Nevertheless, a strong labour market and the resulting wage growth is expected to limit the decline in inflation, which is expected to ease to 3 per cent in 2023-24.

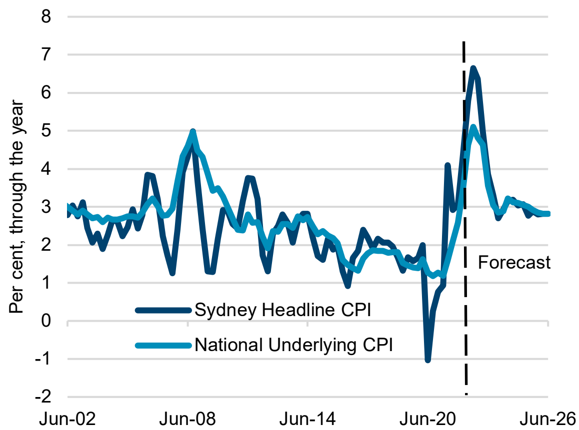
The recent increase in inflation means that real wages will be negative in the near term. As inflation moderates and wages growth picks up, real wages are expected to become positive from 2023-24, with growth being driven by productivity gains (see Chart 2.6).

Chart 2.7: Oil prices and average fuel prices



Source: Bloomberg

Chart 2.8: Sydney headline inflation



Source: ABS and NSW Treasury. Note: RBA series for national underlying CPI prior to Jun 2003. National underlying CPI is the weighted average of the 8 capital cities.

In response to higher inflation, the RBA has lifted the cash rate in successive months to 0.85 per cent in June 2022, which has seen variable mortgage rates lift from historical lows. Further increases to the cash rate are expected. In line with the expected rise in the cash rate and the rise in global bond yields, 3-year fixed rate mortgages have already increased significantly. From a low of 2.0 per cent in mid-2021, lending rates on new fixed rate mortgages with a fixed term of up to 3 years rose to 3.1 per cent in April 2022, while the equivalent indicator lending rates for banks' 3-year fixed rate mortgages have moved to around 4.7 per cent in May 2022.

Box 2.1: Global supply chains are a driver of higher global inflation

Geographically concentrated production and the use of ‘just-in-time’ inventory management systems have left global supply chains susceptible to shocks.

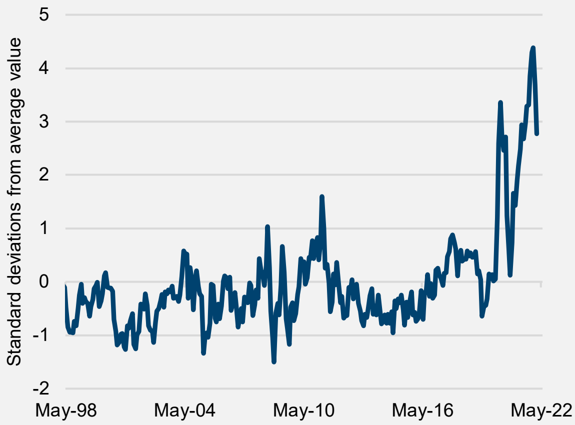
Economic stimulus in response to COVID-19 raised disposable incomes in 2020. At the same time, restrictions constrained spending in the services sector. This drove increased demand for goods at a time when production was constrained.

Shortages in critical goods, such as fertiliser and semiconductor chips which cannot be substituted have impacted downstream industries and led to higher inflation. Semiconductor shortages have adversely impacted global light vehicle production and this is expected to continue in 2022. In 2021, the average price of Australian fertiliser imports rose by 128 per cent.

The Global Supply Chain Pressure Index shows that global supply chains have faced intense pressure since the onset of COVID-19 (Chart 2.9).

Russia’s invasion of Ukraine, China’s ‘zero tolerance’ COVID-19 policy and existing backlogs in maritime and inland distribution networks will continue to fuel disruptions in the near term.

Chart 2.9: Global Supply Chain Pressure Index



Source: Federal Reserve Bank of New York

Supply chain disruptions are expected to ease from late 2022 as restrictions are eased, and central bank interest rate increases slow goods demand. Investments in diversifying supply chains and increasing distribution capacity will also assist a return to more normal supply conditions that will put downward pressure on inflation in the longer term.

Box 2.2: Higher inflation has increased the cost of living for NSW households

Surveys reveal that the cost of living is the most significant driver of consumer stress and concern.

Cost of living pressures are acutely felt by households that spend a higher proportion of their incomes on non-discretionary goods and services like food, housing, transport, and utilities. Non-discretionary inflation increased by 5.5 per cent over the past year, more than double the rate of discretionary inflation.

In Sydney, prices for fruit and vegetables, new dwellings, and automotive fuel have all increased sharply over the past year compared to the previous decade (see Chart 2.10).

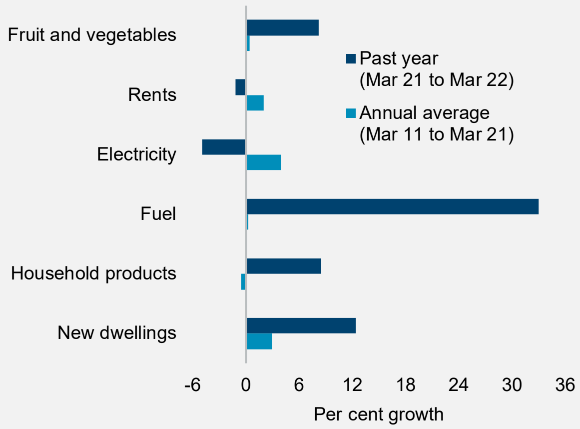
Tight labour markets and global pressures will continue to be a significant driver of near-term inflation.

NSW's electricity market is heavily dependent on coal and gas generation. Higher global prices for these commodities and unplanned generator outages have contributed to a more than doubling of the state's wholesale electricity prices over the last year. This will eventually feed into consumer prices.

Meanwhile, rental prices, which remained contained through the pandemic, are expected to lift given the decline in vacancy rates. Newly advertised rental prices in Sydney have increased by 9.4 per cent over the past year.

The NSW Government has delivered a number of measures to ease the cost-of-living burden on households in the near term. See Box 1.2 in Chapter 1 Budget Overview for further details. Meanwhile, the Electricity Infrastructure Roadmap will deliver on the Government's vision for cheaper, cleaner and more reliable energy over the longer term.

Chart 2.10: Key price categories, Sydney



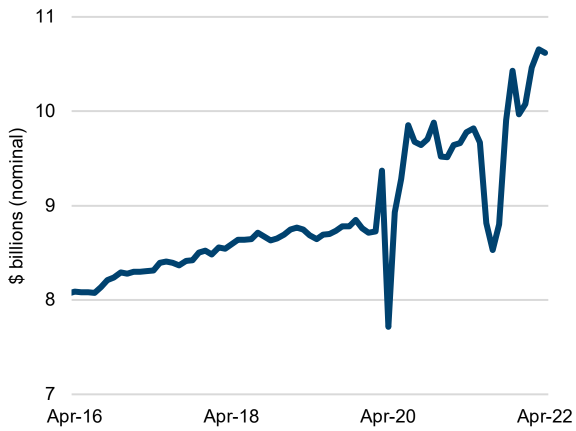
Source: ABS and NSW Treasury

Household consumption supported by growth in household income

The substantial pandemic support by governments combined with recent strength in the labour market have supported real disposable labour income, which rose across the pandemic despite the significant decline in economic activity. This enabled retail spending and broader household consumption to rebound more strongly than expected from last year's Delta outbreak, while also assisting to offset the short-term negative impacts of the Omicron outbreak and floods in early 2022.

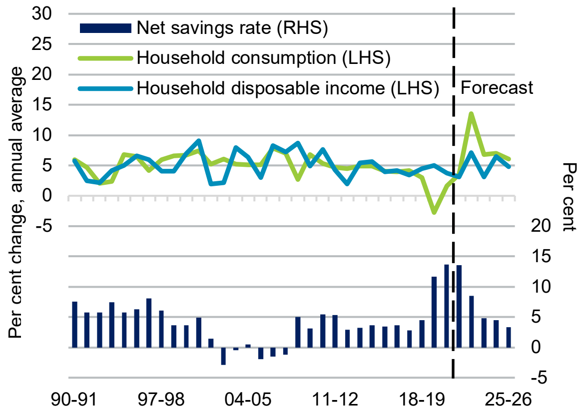
Looking ahead, while sentiment has been impacted by the rising cost of living and interest rates, ongoing strength in employment and rising wages remain important drivers of a positive outlook for household consumption. In addition, households, on average, have built up a large amount of savings during the pandemic. Despite declining from the record levels seen during the pandemic, the household savings rate remains elevated. The savings rate is expected to decline to more historically normal levels over the forecast period (see Chart 2.12). This will allow growth in household consumption to outpace the growth in household income for a period, offsetting the negative impact on consumption from elevated inflation, rising interest rates and a fall in house prices.

Chart 2.11: NSW retail trade



Source: ABS

Chart 2.12: Growth in NSW nominal household consumption and disposable income



Source: ABS and NSW Treasury

Strong momentum in housing, but sensitive to higher interest rates

After strong growth over the pandemic, the Sydney housing market has started to slow, with house prices falling in early 2022 for the first time since early in the pandemic. A number of factors are cooling the market.

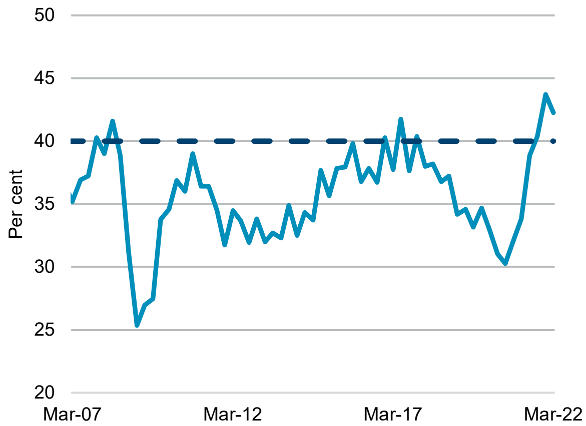
The RBA has lifted the cash rate in successive months which has seen variable mortgage rates lift from historical lows. Fixed mortgage rates have also increased significantly. Further increases to mortgage rates are expected to lower housing prices further.

The Australian Prudential Regulation Authority (APRA) also tightened macroprudential standards in November 2021, by raising the interest rate buffer that banks use to assess the borrowing capacity of new borrowers to 3.0 percentage points. Previously, banks assessing a loan for a new borrower needed to consider a future increase in the interest rate of 2.5 percentage points. The increase of the interest rate buffer has reduced the potential approvable loan amount for a given borrower.

Additionally, the large run up in house prices over the pandemic has pushed more households to the limits of affordability, slowing the market (see Chart 2.13). A key indicator used by APRA to gauge credit exposure is the percentage of loans that exceed six-times a household's income. This has increased from 16 to 23 per cent of new loans since the outset of the pandemic.

Strength in the housing market over the past two years along with low interest rates and the Commonwealth's HomeBuilder grants have generated a significant pipeline of residential construction work. A significant quantity of work remains to be done, as supply chain issues and shortages of materials and labour have caused delays in completing housing projects. Once this work is complete, residential construction is expected to ease, in line with the fall already seen in new project approvals (see Chart 2.14). Renovations are also expected to ease, as households turn their attention outside the home, to recreation and travel now that restrictions have eased both here and around the globe.

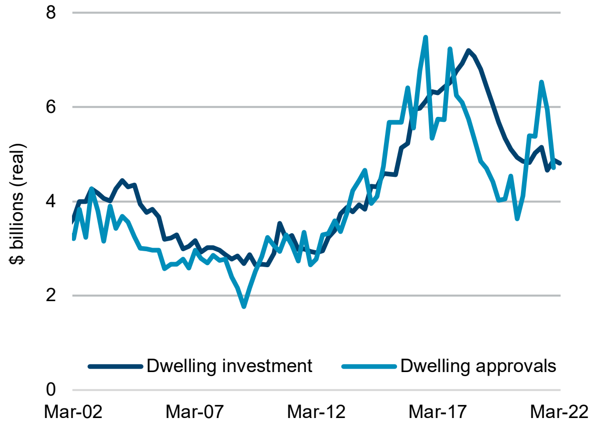
Chart 2.13: Share of income spent on mortgage repayments(a)



Source: Corelogic, RBA, ABS and NSW Treasury

(a) Mortgage repayments on a recently purchased Sydney house of median value. Assumes an after tax income of a dual income household, on average incomes, with a 20 per cent deposit and a 30 year loan.

Chart 2.14: NSW dwelling approvals and dwelling investment



Source: ABS and NSW Treasury

(a) Excludes approvals and investment related to alterations and additions.

Business investment, meanwhile, has been supported by government investment incentives, record infrastructure spending by state governments, low interest rates and the strength of the share market.

Business investment is expected to grow solidly over the forecast horizon supported by a strong economy and Commonwealth tax incentives. The ABS capital expenditure survey indicates that businesses remain positive about investment growth in the face of labour shortages, cost pressures and supply disruptions.

Public demand normalising after temporary COVID-19 increases

Governments across Australia delivered unprecedented fiscal support to moderate the adverse economic and health outcomes associated with the pandemic. Much of this support (including income and business support as well as voucher programs) has been in the form of transfer payments and so is not captured within the strict definition of public demand but has been instrumental in supporting private spending through the worst of the pandemic.

Over the past two years, annual public demand growth in New South Wales increased by 5.5 per cent – almost double its historical average. Conversely, private sector demand was weighed down by COVID-19 outbreaks and associated restrictions, only returning to pre-pandemic levels at the end of 2021.

Public demand is expected to be strong in the short term, driven by a combination of strong government expenditure and the roll out of the State's record $112.7 billion infrastructure program. As New South Wales emerges from the pandemic, temporary fiscal support will taper.

2.4 The State's economic reform agenda

Sustained growth driven by participation and productivity

While the near-term outlook for the NSW economy is strong, the potential for sustained growth over the longer term is less certain. Further out, growth prospects will rely on three fundamental building blocks, known as the '3Ps':

- population growth
- participation in the labour force, and
- productivity.

Of these, participation and productivity are the critical factors in driving improvements in living standards. Prior to the pandemic, population growth made a significant contribution to economic growth. However, population growth slowed sharply during the pandemic due to the closure of Australia's international border. Furthermore, key levers affecting population such as immigration are a responsibility of the Commonwealth Government. This has highlighted the importance of the NSW Government focusing on participation and productivity to enhance living standards and build an economy that is resilient to shocks.

Participation has risen to high levels in recent years due to increased female participation and there is the potential for further increases. Over the longer term, the *2021-22 Intergenerational Report* (IGR) found that the ageing of the population will place downward pressure on workforce participation. The IGR also demonstrated the potential lift in per capita economic growth from increasing economic participation.

Productivity growth is the fundamental source of real wage growth and improved living standards. However, prior to the pandemic, productivity growth across Australia including New South Wales had shown clear signs of slowing. If productivity growth continues to lag, the economy will struggle to deliver real wage growth, improvements in living standards and sustainable revenue to fund essential public services.

The Government is investing in sustainable economic growth through productivity reforms, supporting increased workforce participation and transitioning towards clean energy.

Investing in reforms to support a sustainable and resilient economy

The 2022-23 Budget includes a number of initiatives to lift participation and productivity including:

- *Women's opportunities* – significant reforms will support more women to enter and stay in the workforce and take on more full-time roles, including by improving access to childhood education and care. This will increase participation, including number of hours worked, increase productivity and lift women's wages.
- *Early childhood education* – investment in lifelong learning supports all individuals to reach their potential regardless of personal circumstances. This Budget funds an ambitious package of reforms to support better education and wellbeing outcomes for children in the years before school. By boosting the workforce participation of parents and investing in early learning, the reforms will have immediate and ongoing economic and fiscal benefits.
- *Future economy* – the Budget invests in the future economy and the jobs of tomorrow to unlock the creative potential of our State. This includes an increased investment in research and development, building the latest research infrastructure and establishing innovation precincts across New South Wales. This will support reducing reliance on global supply chains which have been challenged in recent years.

- *Transitioning to a low carbon economy* – by accelerating the transformation to renewable generation, low emission vehicles, and supporting new low carbon industries including green products and services while reducing reliance on oil which is impacted by global forces.
- *Infrastructure program* – significant investment over the past decade has supported the growth of the CBD and Eastern Economic Corridor between Macquarie Park and Sydney Airport. This commitment is ongoing with substantial investments in the Western Parkland City and Central Harbour City that will deliver benefits for Sydney by enabling more efficient and reliable road and rail networks, meeting the needs of a growing population including more locally based, high paid employment opportunities.

In addition, the pandemic has shown the importance of building the resilience of the economy to shocks. This has been further emphasised over the past three years by a wide range of climate events such the summer bushfires of 2019-20, flooding events of 2021 and 2022 and the mouse plague of 2021.

This Budget also supports initiatives that build the resilience of the economy. These include:

- *Investments in health frontline services* – the Budget includes a further investment to continue the health pandemic response. This is supported by a broader enhancement to fund additional health workers. This expenditure will ensure the health system has the capacity it needs to manage the ongoing impacts of the pandemic to support an open and resilient economy going forward.
- *Climate risks* – adapting for tomorrow by reducing the risks to assets and the provision of services from the range of climate events including those experienced in the past three years such as bush fires, floods, storms and mice plagues.

For further information on the Government's investments in this Budget please see Chapter 5 Expenditure.

2.5 Key risks to the outlook

COVID-19 related risks remain, while other global risks are mounting

The economic forecasts anticipate an endemic phase for COVID-19 with limited negative health and economic outcomes. An outbreak of a more virulent COVID-19 variant, that is resistant to current vaccines, remains a significant downside risk to the economic outlook.

The reintroduction of significant mobility restrictions on the population is unlikely but cannot be ruled out. A more likely outcome would be widespread symptomatic infections, which combined with the reintroduction of more stringent isolation requirements, would significantly constrain the supply of labour and weaken business and consumer confidence.

Aside from COVID-19, global factors remain a major source of uncertainty. Russia’s invasion of Ukraine has exacerbated the global supply chain pressures that emerged in the wake of COVID-19. It has also driven a sharp increase in a range of key commodity prices, particularly energy (oil, gas and coal) as well as wheat. A prolonged conflict would put pressure on key inputs to production and further intensify price pressures on consumers.

The resulting spike in inflation has already prompted a response from most major central banks, which have started to raise interest rates. The strain on households and businesses runs the risk of derailing the global economic recovery, especially if global central banks tighten monetary policy both at a faster pace, and by more than expected, to combat inflation.

Meanwhile, China continues to pursue a zero COVID-19 strategy, which at times involves severe lockdowns of major regions. These lockdowns are unpredictable and not only impact Chinese growth, but exacerbate supply chain pressures given the critical role of China in the global production chain. Further, China's beleaguered property sector could still trigger a sharper slowdown in the Chinese economy that would impact commodity prices as well as the State's exports.

Global geopolitical tensions remain elevated as well. Further trade restrictions on a broader range of Australia's exported goods and services (including education and tourism) are a significant risk.

Domestic risks include the potential for labour shortages to drive higher than expected wage and price inflation, prompting a faster removal of monetary support. The expected trajectory of monetary policy tightening by the RBA is reasonably swift, although significantly less aggressive than what is expected by financial markets. Higher borrowing costs could slow the economy and lead to higher unemployment. Appendix F Economic Scenario Analysis considers a scenario of more aggressive monetary policy tightening.

The outlook also has some prominent upside risks. If the pandemic continues to recede, that could help to unlock the potential additional consumption from the extra savings accumulated by households during the pandemic. Historical experience shows that the savings rate could easily fall further than currently anticipated, sustaining additional household spending on goods and services.

Finally, given the uncertainty around global supply chain pressures and COVID-19, there is the possibility that constraints on supply are resolved more quickly than currently expected. That would see a lift in economic activity, while helping to ease inflation and allowing central banks to slow the current pace of withdrawal of monetary support. Appendix F Economic Scenario Analysis considers a scenario in which oil prices fall more quickly than expected.

3. FISCAL STRATEGY AND OUTLOOK

- In the 2022-23 Budget, the Government is investing in the State's long-term economic and fiscal sustainability with a suite of productivity reforms and support for the NSW community. This Budget supports families with measures to boost household budgets and delivers reform in areas such as early childhood education and care which will support women's opportunities.
- Since the 2021-22 Half Yearly Review, the expected fiscal outcome for 2021-22 has improved substantially, largely reflecting an upgraded revenue outlook driven by stronger than previously anticipated employment and wages growth, higher consumer spending and elevated resource prices.
- The Budget projects a return to surplus in 2024-25 consistent with the 2021-22 Budget and 2021-22 Half-Yearly Review. This is supported by a stronger than expected economy driving higher revenues (including GST, land tax and mining royalties) compared to the 2021-22 Half-Yearly Review.
- Some significant economic and fiscal risks and pressures remain. Higher inflation and upward pressure on interest rates is flowing through to expenses, including the State's borrowing costs. The international economic outlook currently faces heightened risks, with the NSW economy, and the State's budget, exposed to unanticipated fluctuations in international economic activity and global inflationary pressures.
- In this Budget, the Government is investing significantly in the health system to improve workforce capacity and resilience. This will help support health staff, boost service delivery, and continue the response to COVID-19. The Government is also providing $2.2 billion to boost household budgets, including subsidies for parents to use towards the cost of school supplies, reducing energy bills, providing toll relief, easing the cost of travel for regional university students and apprentices, and fee relief for the preschool and long day-care sectors.
- The Government will provide $13.7 billion to implement major reforms that aim to improve women's opportunities through reforms to early childhood education and care, as well as investments in education, skills and technologies for the future economy, quality affordable and accessible housing and a clean economy.
- These reforms reflect a transition from managing the immediate impacts of the COVID-19 pandemic and the flood response towards supporting the foundations of long-term sustainable growth and increased economic opportunity.
- The Government's record infrastructure program will continue to build a stronger economy that supports job creation and provide economic benefits over the medium-term. In the 2022-23 Budget, the Government continues to prioritise longer-term economic growth through its $112.7 billion infrastructure program, which in 2022-23 alone includes spending equivalent to almost 4 per cent of GSP. This compares to a pre-COVID annual average of around 3 per cent (2006-07 to 2018-19).
- Net debt is projected to stabilise around 14 per cent of GSP by June 2026 with net debt projected to decline in the second half of the decade.

3.1 A fiscal strategy that supports long-term growth

The Government's fiscal priorities for the 2022-23 Budget are to:

- continue to support and invest in the productive capacity of the State, to support and accelerate long-term economic growth for New South Wales
- rebuild a fiscal buffer with a return over the forward estimates to a sustainable operating and debt position, supported by fiscal repair measures (see Box 3.2).

The State's economy has recovered substantially since the Delta and Omicron outbreaks, supported by the Government's targeted and temporary support and recovery measures. The Government was able to leverage its strong fiscal position coming into the pandemic. More than $53 billion in economic, health and social support measures have been made available to support the economy and protect jobs. In addition to responding to the pandemic, this Budget includes $3.5 billion towards the February and March 2022 flood response. The Commonwealth Government has contributed to both the COVID-19 and flood response.

Despite these significant investments, the Government is projecting a return to surplus in 2024-25, broadly in line with expectations at the 2021-22 Budget and 2021-22 Half-Yearly Review. The return to surplus is supported by increased revenues as the economy reaches full capacity with unemployment at record low levels. The return to surplus will help restore capacity for the State to respond to future shocks, support infrastructure investments and allow the State to continue investing in our productive capacity.

The 2022-23 Budget provides $13.7 billion for productivity enhancing reforms, which will provide long term dividends for both economic growth as well as the State's revenue (see Box 3.3 for more details). Measures include providing more affordable access to early childhood education, quality housing, and investments in the renewable energy network including the Transmission Acceleration Facility to accelerate the delivery of the Electricity Infrastructure Roadmap and Renewable Energy Zones. This Budget provides a further $2.2 billion over four years to boost household budgets, including a subsidy for parents to use towards the cost of school supplies, reducing energy bills, providing toll relief, easing the cost of travel for regional university students and apprentices, and continuing fee relief for the preschool and long day-care sectors across the State.

The 2022-23 Budget directs resources to areas that create and support private sector employment, while investing in overall productive capacity to build a better economy, including the continuation of the Government's record $112.7 billion four-year infrastructure program.

This Government is committed to maintaining net debt at sustainable levels with net debt projected to stabilise around 14 per cent of GSP by June 2026, and then decline in the second half of the decade.

The *Fiscal Responsibility Act 2012* (FRA) provides the framework for the management of NSW Government fiscal policy, including targets, and the performance against these is reported in Appendix E.

Box 3.1: COVID-19 and natural disasters continue to weigh on the fiscal outlook

COVID-19 has had a significant impact on the NSW Government's fiscal position, with the Government having committed over $53 billion towards its COVID-19 response and stimulus measures to support the economic recovery, including Commonwealth contributions.

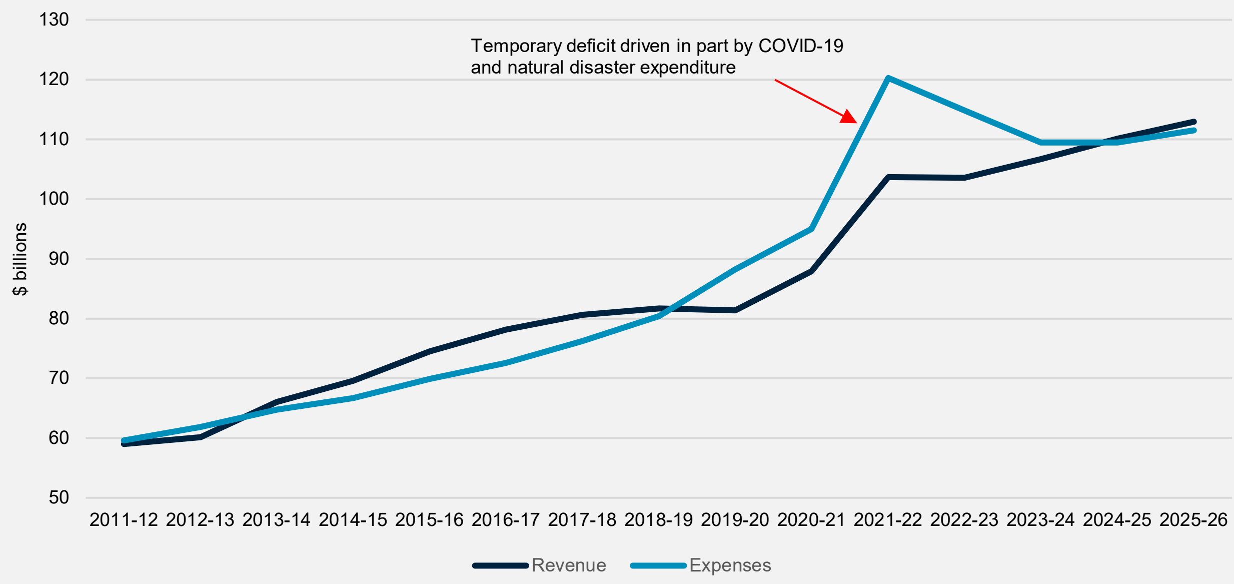
As the economic impacts of the pandemic subside and temporary stimulus measures are phased out, the 2022-23 Budget projects a return to surplus from 2024-25 onwards. The return to surplus follows a period of temporary operating deficit reflecting the Government's targeted and time-limited response to COVID-19.

Relative to the 2021-22 Half-Year Review, the deficit in 2022-23 has increased by $7.6 billion to a deficit of $11.3 billion with the key drivers including:

- $5.3 billion towards health and transport systems and flood response, including investments in the health system to respond to pressures from the continuing effects of COVID-19 and improving workforce capacity and resilience; substantial assistances required to help communities recover from devastating and record breaking floods, particularly in the Northern Rivers region of NSW; and increased transport related expenditure to address substantial reductions in anticipated farebox reductions in the wake of changed public transport demand patterns following COVID-19
- $2.0 billion investment in productivity enhancing reforms outlined in Box 3.3
- $1.2 billion towards cost-of-living measures including toll relief and reducing energy bills and investment into improving the quality of life in regional and remote communities
- $2.3 billion as a result of reprofiling COVID-19 and other expenditure from 2021-22 to 2022-23 and revisions to the NSW Public Sector Wages Policy.

This spending has been partially offset by $4.1 billion improvement in government revenue primarily driven by a strong economy with low unemployment and high mineral prices.

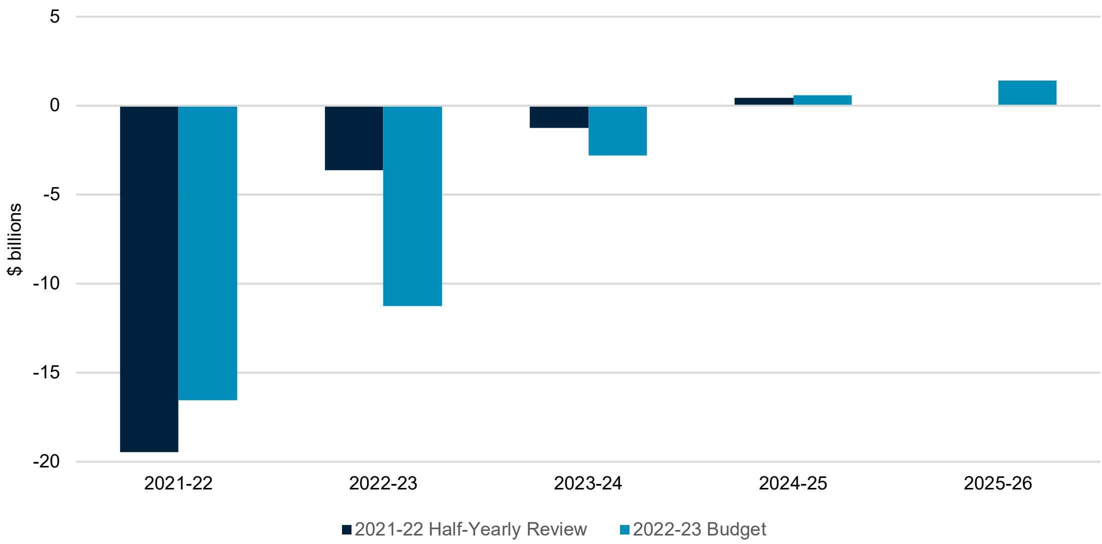
Chart 3.1: Revenue and expenses from 2011-12 to 2025-26



3.2 A return to a surplus by 2024-25

In 2021-22, the projected budget result deficit is $16.6 billion, an improvement of $2.9 billion since the 2021-22 Half-Yearly Review, which projected a deficit of $19.5 billion. The improved result reflects upwards revisions to revenues of $2.5 billion as well as lower than expected expenses of $0.4 billion.

Chart 3.2: NSW budget result comparison from 2021-22 Half-Yearly Review to 2022-23 Budget



Despite the fiscal impacts of Omicron and floods, the 2022-23 Budget maintains a trajectory to surplus by 2024-25, broadly in line with the 2021-22 Budget projections. Record low unemployment and strong consumer and business spending has led to a strong upgrade in the economic outlook (see Chapter 2 – The Economy). This strengthened economic outlook has driven an upwards revision to forecast revenue providing scope for the Government's investments in infrastructure and reform.

Table 3.1: General government sector budget result aggregates

	2020-21 Actual	2021-22 Revised	2022-23 Budget	2023-24	2024-25 Forward Estimates	2025-26
Revenue ($m)	87,965	103,706	103,617	106,701	110,101	112,944
Revenue growth (per cent p.a.)		17.9	(0.1)	3.0	3.2	2.6
Expenses ($m)	95,038	120,268	114,878	109,497	109,500	111,513
Expense growth (per cent p.a.)		26.5	(4.5)	(4.7)	0.0	1.8
Budget Result ($m)	(7,072)	(16,562)	(11,260)	(2,796)	601	1,431
GSP ($m)	643,100	686,000	753,200	786,400	810,900	837,200
Per cent of GSP	(1.1)	(2.4)	(1.5)	(0.4)	0.1	0.2

Higher revenue driven by a faster than expected economic recovery

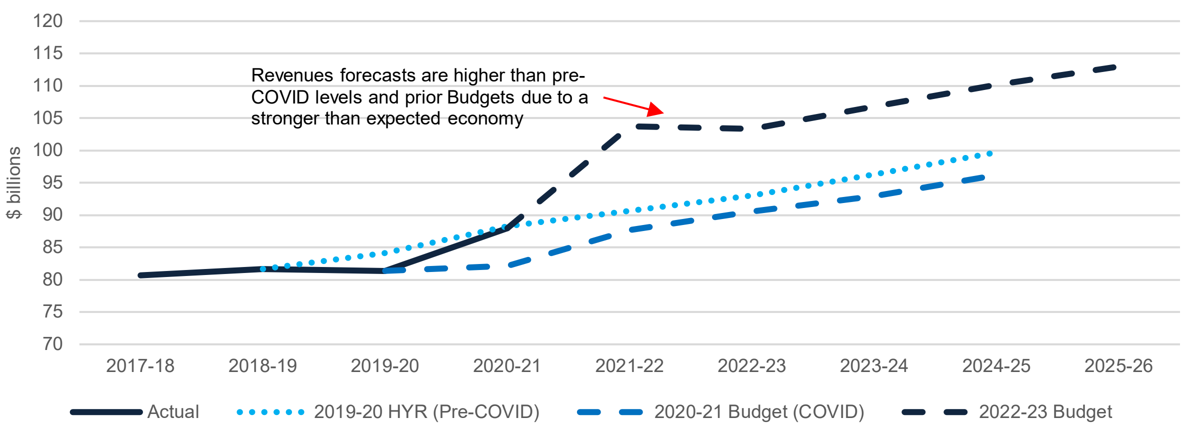
Since the 2021-22 Half-Year Review, the forecast average revenue growth rate has increased from 1.0 per cent per year to 2.2 per cent across the four years to 2025-26 (See Chapter 4 – Revenue for detailed analysis).

The stronger than previously anticipated economic recovery has resulted in a significant upwards revision to general government sector revenues. Over the four years to 2025-26, revenue is forecast to increase by $25.7 billion, mainly driven by:

- higher GST revenues of $11.5 billion reflecting higher forecast consumer spending and improved GST relativities for NSW
- higher commodity prices resulting in higher forecast mineral royalties revenue of $3.8 billion
- higher payroll tax revenue of $2.3 billion due to higher than previously anticipated levels of employment as the economy recovers
- higher land tax revenue of $2.2 billion driven by stronger than expected land prices, reduction in the discount available for early payment of land tax and increase to the foreign investor surcharge land tax
- funding from the Commonwealth for infrastructure investment and flood response.

Chart 3.3 shows that forecast revenue levels are now projected to exceed pre-pandemic estimates in 2021-22 and beyond.

Chart 3.3: General government revenue - current projection compared to pre-pandemic expectations

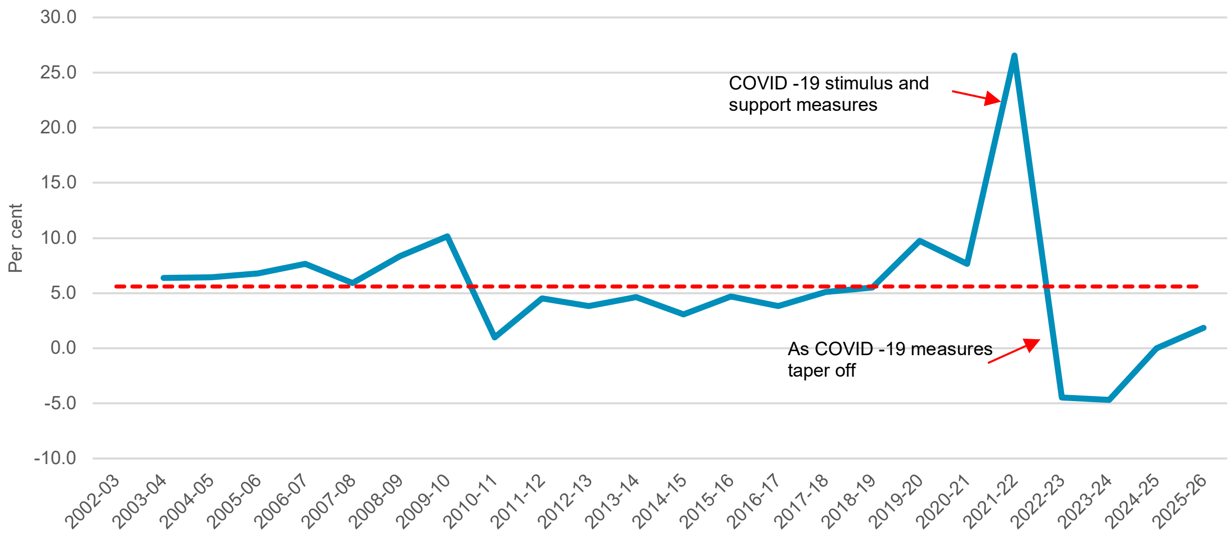


Expenses to moderate as Government invests in longer term policy reforms

There was strong growth in expenses in 2020-21 and 2021-22, as the Government implemented substantial health and stimulus measures in response to the pandemic. The 2021-22 expense growth is projected to be 26.5 per cent as the Government supported public health and the economy during the Delta and Omicron outbreak. The 2022-23 Budget projects a moderation in expense growth in 2022-23 with a decrease of 4.5 per cent as a result of the phasing out of some temporary COVID-19 support measures.

Expense growth is projected to taper off to an average decrease of 1.9 per cent across the forward estimates, bringing annual expense growth back below the long-term average revenue growth rate in line with the FRA. Lower expense growth is projected over the forward estimates as COVID support measures are phased out and the Government introduces new measures to control expenditure (see Box 3.2 for details). This is partially offset by Government investing in reform, which will support economic growth over the medium to long term (see Box 3.3 for more details).

Chart 3.4: Annual general government expense growth



The fiscal outlook is subject to risks arising from unprecedented global events, including the ongoing pandemic and the Russian invasion of Ukraine (for more detail, see Appendix B – Fiscal Risks).

Box 3.2: Fiscal repair and budget improvement measures help support the return to surplus and stabilising net debt

Fiscal sustainability remains a key priority for the NSW Government, following the unprecedented economic response to COVID-19 and natural disasters. The 2022-23 Budget includes $2.0 billion in budget improvement measures over four years to 2025-26 (see Table 3.2) including:

- $1.4 billion in revenue measures, including amendments to the point of consumption and betting tax settings, increases to the foreign investor surcharge land tax rate, a reduction in the discount available for the early payment of land tax and additional compliance investments within Revenue NSW. See Chapter 4 – Revenue for further detail
- $645.8 million in savings measures through the introduction of a further efficiency dividend commencing in 2023-24, better management of workplace injuries and risks and lower wages growth for senior executives. See Chapter 5 - Expenditure for further detail.

In addition to the above, the Government is continuing to deliver on previously announced measures and reforms to strengthen fiscal discipline across the sector. This includes the continued delivery of procurement reforms, ongoing targeted reviews, as well as the implementation of the Government response to the Review of Grants Administration (see Chapter 5 – Expenditure).

These measures contribute to strengthening the State's fiscal position and creating fiscal capacity to respond to future economic shocks and delivery of strategic priorities including the $13.7 billion investment in this Budget towards a suite of policy reforms that will provide long-term benefits to the State economy and strengthen the State's fiscal position (see Box 3.3).

Table 3.2: Budget improvement measures

	2022-23	2023-24	2024-25	2025-26	Four years to 2025-26
	$m	$m	$m	$m	$m
Subtotal: Revenue Measures	**269**	**329**	**391**	**384**	**1,372**
Additional compliance investment for land tax and transfer duty	83	103	160	163	**508**
Amendments to the point of consumption and betting tax settings	78	102	118	127	**424**
Increase to the foreign investor surcharge land tax	74	88	75	57	**294**
Reduction in the discount for early payment of land tax	34	37	38	37	**146**
Subtotal: Savings and Efficiency Measures	**32**	**127**	**213**	**274**	**646**
Efficiency dividend	...	95	180	240	**515**
Better management of workplace injuries and risks	26	27	28	28	**109**
Lower wages growth for senior executives	5	5	6	6	**22**
Total Budget Result Impact	**300**	**457**	**604**	**658**	**2,018**

Adjustments since the 2021-22 Half-Yearly Review

Table 3.2 provides a reconciliation of the budget operating balance estimates at the 2022-23 Budget relative to estimates at the 2021-22 Budget and at the 2021-22 Half-Yearly Review. Since the 2021-22 Half-Yearly Review, revisions to the estimated budget operating balance in 2021-22 and over the forward estimates period to 2024-25 include:

- a reduction in the estimated deficit of $2.9 billion in 2021-22, primarily driven by an improvement in revenue and underspends across Clusters, partly offset by increased flood recovery expenditure
- an increase in the anticipated budget deficit in 2022-23 of $7.6 billion, primarily driven by increased expenditure on health system to improve capacity and resilience, continuing COVID-19 and flood recovery expenditure, a comprehensive suite of cost of living measures and significant investments in reforms to boost productivity and participation (see Box 3.3), partly offset by a substantial upwards revision to estimated State revenues
- an overall deterioration of $6.1 billion across the four years to 2024-25 with a return to surplus in 2024-25, in line with previous projections.

Table 3.3: Reconciliation of 2021-22 Budget to 2022-23 Budget[(a)]

	2020-21 Actual	2021-22 Revised	2022-23 Budget	2023-24 Forward Estimates	2024-25
	$m	$m	$m	$m	$m
Budget result: 2021-22 Budget	(7,072)	(8,604)	(1,755)	(306)	466
Revenues	-	7,344	2,770	1,590	2,511
Expenses	-	18,197	4,627	2,551	2,528
Total budget result impact	-	(10,854)	(1,857)	(961)	(17)
Budget result: 2021-22 Half-Yearly Review	**(7,072)**	**(19,458)**	**(3,612)**	**(1,267)**	**449**
Revenues	-	2,516	4.055	6,631	7,262
Expenses	-	(379)	11,704	8,161	7,110
Total budget result impact	-	2,895	(7,648)	(1,529)	152
Budget result: 2022-23 Budget	**(7,072)**	**(16,562)**	**(11,260)**	**(2,796)**	**601**

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

Box 3.3: Productivity reforms will support a better fiscal position in the future

In the 2022-23 Budget, the Government has committed to invest **$13.7 billion** over the forward estimates on reforms that will provide long-term benefits to the State's economy and strengthen the State's fiscal position.

The Government is investing in the following priorities in the 2022-23 Budget including:

- **Women's opportunities** – investment of **$1.2 billion** to increase women's workforce participation by addressing some of the biggest barriers that have limited women's opportunities for many decades, from affordable childcare and assisting women to secure steady employment through to supporting female entrepreneurs and small business owners
- **Giving children and young people the best start to life** – investment of **$3.8 billion** to support better education and wellbeing outcomes for children, including funding for more affordable and accessible preschool and developmental checks for all children. Funding will also attract and retain quality early childhood educators, addressing existing shortages. These reforms will have immediate and ongoing economic benefits including higher women's workforce participation which will in return result in fiscal benefits over the medium term
- **Housing** – investment of **$2.8 billion** to support greater opportunities to access and own a quality home and help the most vulnerable. This will support housing supply and improve housing affordability by funding critical enabling infrastructure and streamlining planning assessment and rezoning. It will also reduce the barriers to home ownership for first home buyers, single parents and older singles. The Government will also improve the resilience of the State's social housing system through upgrades to existing social homes and delivery of new social housing
- **The future economy** – developing the future economy by investing **$2.6 billion** in programs that support research and development in NSW, and the commercialisation ecosystem. Technology is creating opportunities for the NSW economy and increasing the need for a skilled and adaptable workforce
- **Protecting our planet and growing a clean economy** – investments of **$3.3 billion** to improve the sustainability of the economy by addressing the physical risks of climate change; investments in Renewable Energy Zones through the Transmission Acceleration Facility; taking advantage of clean technologies and preparing the state to take advantage of emerging green markets; diversifying Regional NSW's economy by investing in nature-based tourism through activating National Parks; and protecting biodiversity.

The Government's investment in the State's productive capacity through these reforms is forecast to create tens of thousands of jobs. These reforms will generate long-term economic and fiscal returns for the state.

3.3 Supporting people and the economy with the State's balance sheet

Transforming the State through infrastructure

This Budget includes $88.4 billion over four years in a diversified pipeline of infrastructure investment for the general government sector, including:

- $76.7 billion on delivering transport and infrastructure cluster projects, including Sydney Metro West, Sydney Metro Western Sydney Airport, Western Harbour Tunnel Upgrade, Coffs Harbour Bypass, Pacific Motorway (M1) to Raymond Terrace, and Circular Quay Precinct Renewal (Planning)

- $11.9 billion on delivering health infrastructure to plan and deliver new and upgraded hospital builds including Bankstown Hospital, NSW Ambulance Infrastructure Program and Grafton Base Hospital Redevelopment
- $9.2 billion on schools and skills infrastructure to provide modern learning environments to allow students across the State to thrive and reach their potential.

When the planned investment by State-Owned Corporations are taken into account[1], total capital expenditure is projected to reach a record $112.7 billion over the four years to 2025-26. The NSW Government has the largest state capital program in the nation, investing in four years nearly as much as the Commonwealth does in a decade.

Road, rail and other transport infrastructure account for 68 per cent of this investment. A detailed analysis of this infrastructure program is available in Budget Paper No. 3 *Infrastructure Statement*.

Infrastructure Australia in its 2021 *Infrastructure Market Capacity* report outlined significant market capacity constraints in delivering infrastructure, exacerbated further by global supply constraints. The Government has committed to delivering infrastructure with a sustainable and diversified infrastructure pipeline that supports a strong and resilient infrastructure sector.

The Government's strong financial management supports the funding of the State's infrastructure program, including asset recycling.

The State successfully sold its residual stake in WestConnex for $11.1 billion in October 2021 with proceeds deposited into the NSW Generations Fund (NGF), as required by legislation. The NGF, which is a dedicated debt retirement fund, will be retiring $11 billion of debt in 2021-22 and 2022-23 thereby resulting in lower debt levels and borrowing requirements than would otherwise prevail.

Following the completion of a scoping study, and careful consideration of the costs and overall risks of such a transaction, the NSW Government has determined that it will not proceed with a transaction to monetise its lotteries duty revenues stream.

Maintaining sustainable levels of debt over the next decade

Even though the Government is committed to delivering a record infrastructure program of $112.7 billion, and investing $13.7 billion in policy reforms (see Box 3.3), net debt is forecast to stabilise at lower levels than previously projected.

Net debt is projected to be 7.8 per cent of GSP ($53.5 billion) at June 2022. Net debt is forecast to stabilise at around 14 per cent of GSP ($114.8 billion) by June 2026 before trending back down across the planning years. An improving operating position and a growing economy will help bring the ratio of net debt to GSP down over the second half of the decade, helping to ensure sustainable levels of debt and balance sheet resilience over the medium term.

[1] When combined, the general government sector and public non-financial corporations sector is known as the non-financial public sector. See *How to Read the Budget Papers* for more information.

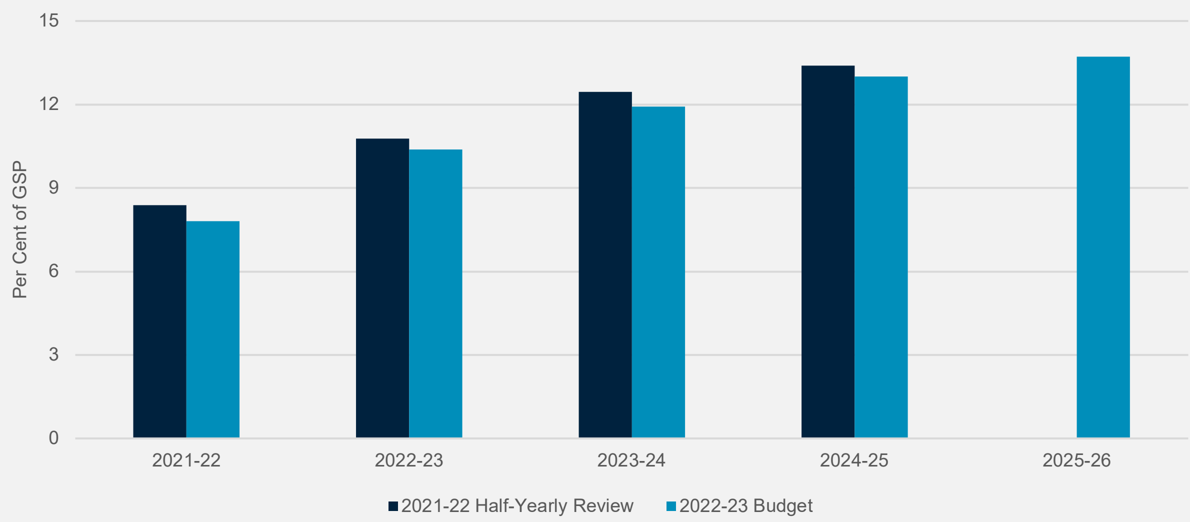
Box 3.4: Maintaining sustainable levels of debt whilst investing in a record infrastructure program

The Government is committed to maintaining sustainable debt levels over the medium term. The 2022-23 Budget projects a stabilisation of net debt to GSP at around 14 per cent by June 2026, with net debt gradually declining towards the end of the decade. This is achieved while maintaining the Government's commitment to a sustainable and diversified infrastructure pipeline that supports a strong and resilient infrastructure sector.

This stabilisation in net debt reaffirms the State's strong financial position whilst delivering record infrastructure investment and policy reform.

Chart 3.5 illustrates that the 2022-23 Budget projection for net debt to GSP over the forward estimates will be at lower levels than previously projected in the 2021-22 Budget. The 2022-23 Budget projects that net debt to GSP will be 13.0 per cent in June 2025, compared to 13.7 per cent projected in the 2021-22 Budget.

Chart 3.5: Net debt to GSP – 2021-22 Half-Yearly Review and 2022-23 Budget



4. REVENUE

- Estimated state revenue for 2021-22 has been revised upwards by $2.5 billion (2.5 per cent) and by an additional $25.7 billion (6.3 per cent) over the four years to 2025-26 since the 2021-22 Half-Yearly Review. The key drivers of the upwards revisions to estimated revenue, in order of magnitude, are: New South Wales' increased share of GST and upwards revisions to national consumption expenditure; higher commodity prices; growth in inflation and wages; greater strength in the property market in the first months of 2022; and stronger underlying economic conditions.
  - **GST**: New South Wales will receive a higher share of the national GST than expected at the 2021-22 Half-Yearly Review. Updated relativities for 2022-23 assessed by the Commonwealth Grants Commission will see NSW receiving overall GST payments slightly (1.4 per cent) above its population share in 2022-23.
  - **Inflation, wages and commodity prices**: Higher price and wages inflation has resulted in upwards revisions to forecast state revenues, especially via the GST pool and through payroll tax. Coal prices are at record high levels, driving significant upwards revisions to estimated coal royalties relative to estimates at the 2021-22 Half-Yearly Review.
  - **Property market**: The latter half of 2021-22 has seen higher transfer duty receipts than previously expected, due primarily to stronger than forecast property price growth. However, interest rate rises are expected to slow property price growth in the future.
- The Government will reform betting taxes to achieve competitively neutral tax rates across online and offline betting products, support a sustainable racing industry and enhance the funding of programs to address harms associated with online gambling activity.
- The Government will also introduce the option for eligible first home buyers to choose between transfer duty or an annual property tax when purchasing their home. This option would lower the upfront burden of paying transfer duty.
- Additional measures which the Government will implement include increasing the foreign investor land tax surcharge and offering grant payments and payroll tax exemptions to encourage businesses of future industries to establish or expand in New South Wales.

4.1 Revenue

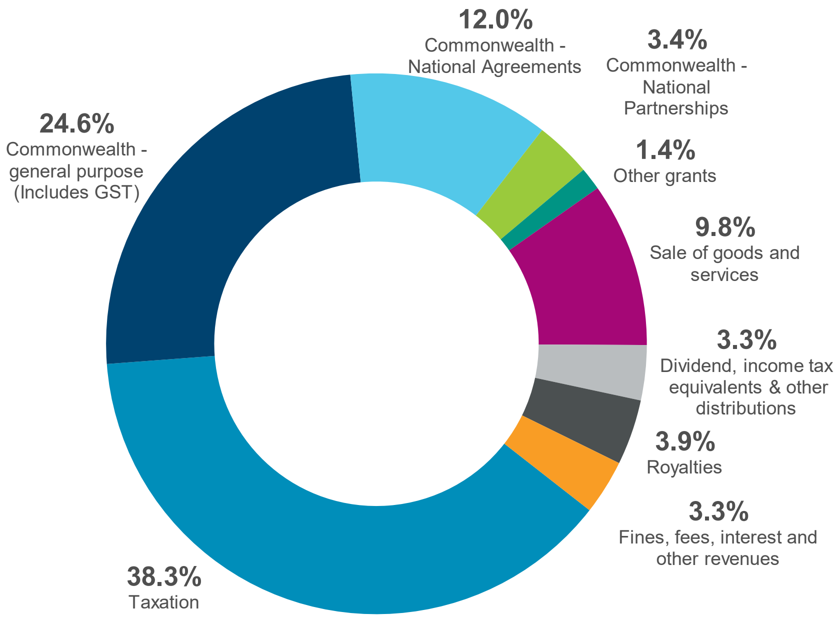
The updated 2021-22 revenue position

General government sector revenue is projected to increase by 17.9 per cent in 2021-22 to be $103.7 billion. This is $2.5 billion (2.5 per cent) higher than forecast at the 2021-22 Half-Yearly Review.[1] The main components of the upwards revision since the 2021-22 Half-Yearly Review are an increase of $1.2 billion in transfer duty, an increase of $810.1 million in estimated royalties and a $436.8 million increase in estimated payroll tax revenue.

Revenue for the 2022-23 Budget year

General government sector revenue is estimated to total $103.6 billion in 2022-23. As Chart 4.1 illustrates, the main sources are taxation revenue (38.3 per cent) and Commonwealth and other grants (41.4 per cent). The 2022-23 outlook for state revenue is $4.1 billion (4.1 per cent) higher than previously forecast at the 2021-22 Half-Yearly Review.

Chart 4.1: Composition of total revenue, 2022-23



Revenue across the four-year horizon to 2025-26

The State's revenue is expected to grow at a compound annual rate of 2.2 per cent over the four years to 2025-26 (Table 4.1). This is a stronger growth rate than previously projected (1.0 per cent). This is largely driven by taxation revenue, which is forecast to grow by 2.8 per cent per annum on average over the four years to 2025-26, and grant revenue (including GST), which is forecast to grow by an average 2.0 per cent over this period.

[1] All references to revenue within this chapter refer to General Government sector revenues. Unless stated otherwise, revisions are cited with reference to forecasts in the 2021-22 Half-Yearly Review.

Table 4.1: General government sector – summary of revenue and its components

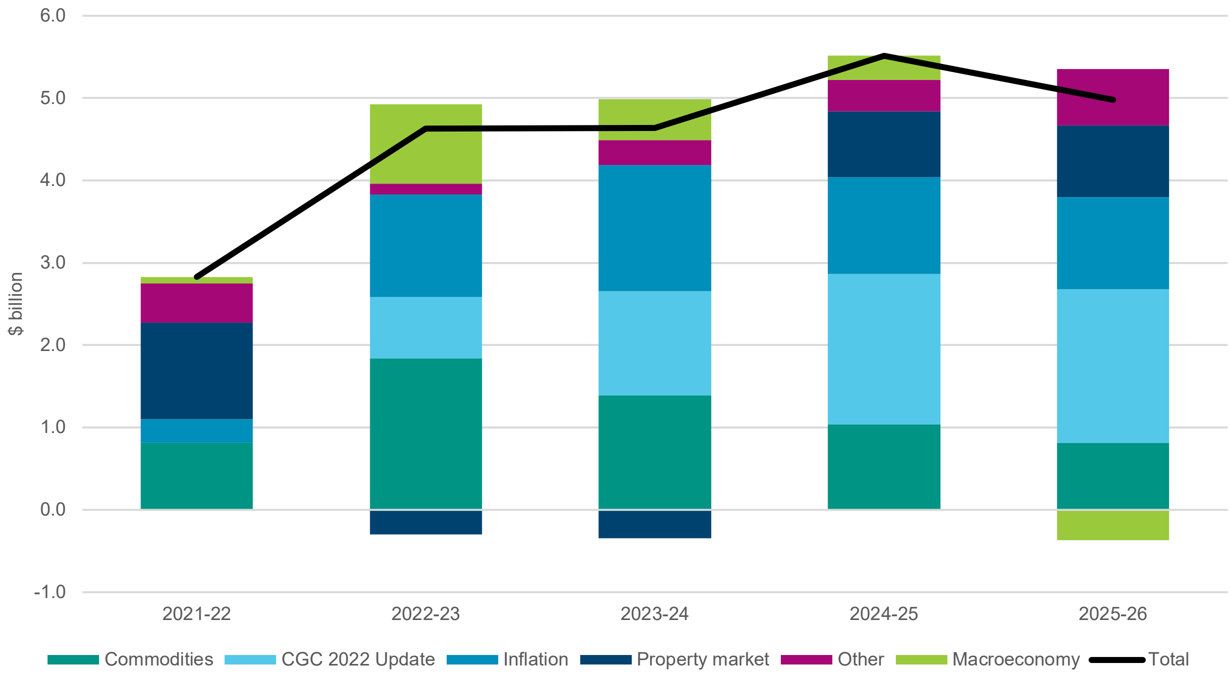
	2020-21 Actual $m	2021-22 Revised $m	2022-23 Budget $m	2023-24 Forward Estimates $m	2024-25 Forward Estimates $m	2025-26 Forward Estimates $m	% Average growth p.a. 2021-22 to 2025-26
Revenue from transactions							
Taxation	34,407	39,240	39,637	39,683	41,732	43,753	2.8
Grant revenue (including GST)	35,646	44,924	42,928	46,024	47,891	48,625	2.0
Sale of goods and services	9,949	9,733	10,191	10,122	9,107	9,084	(1.7)
Interest income	307	268	372	409	436	480	15.7
Dividends and income tax equivalents from other sectors	1,077	542	726	1,036	1,340	1,699	33.1
Other dividends and distributions	2,570	2,323	2,684	3,636	4,179	4,288	16.6
Royalties	1,418	3,636	4,050	2,797	2,257	1,973	(14.2)
Fines, regulatory fees and other revenues	2,591	3,040	3,029	2,993	3,160	3,041	0.0
Total revenue	**87,965**	**103,706**	**103,617**	**106,701**	**110,101**	**112,944**	**2.2**
Annual change	*8.1%*	*17.9%*	*-0.1%*	*3.0%*	*3.2%*	*2.6%*	

Over the four years to 2025-26, revenue is forecast to be $25.7 billion (6.3 per cent) higher than previously forecast (Table 4.2). Key components of the upwards revision include GST revenue (up $11.5 billion), mineral royalties (up $3.8 billion), payroll tax (up $2.3 billion), and land tax (up $2.2 billion). This is partly offset by a downgrade of $1.3 billion in transfer duty, due to the First Home Buyer Property Tax Option (see Box 4.4) and the impact of rising interest rates.

The drivers of the upwards revisions to revenue over the four years to 2025-26 are broad-based (see Chart 4.2).

- Commodity prices – Russia's invasion of Ukraine has led to a sharp rise in commodity prices, which has increased coal royalties.
- GST relativity – The Commonwealth Grants Commission (CGC) 2022 Update recommended relativity for New South Wales in 2022-23 was higher than previously anticipated. This was mainly due to the amount of spending on urban transport investment nationally exceeding expectations and the CGC's assessment of relative wage costs in New South Wales being higher than projected. As a result, estimates for NSW's GST relativity have been revised upwards over the four years to 2025-26.
- Inflation – Higher than previously forecast prices and wages growth has contributed to upwards revisions to GST revenue (through higher nominal consumption and dwelling investment growth) and payroll tax revenue.
- Property market – Strength in the property market in the early months of 2022 has increased forecast transfer duty in 2021-22, with land tax expected to be higher over the forward estimates due to higher land prices. This is partly offset by the anticipated impacts of rising mortgage interest rates.
- Stronger economy – Despite the impacts from the Omicron variant, underlying momentum in the New South Wales and national economy has been stronger than expected, leading to an increase in GST and payroll tax revenue.

Chart 4.2: Upwards revisions to state taxation, GST and mining royalties revenue

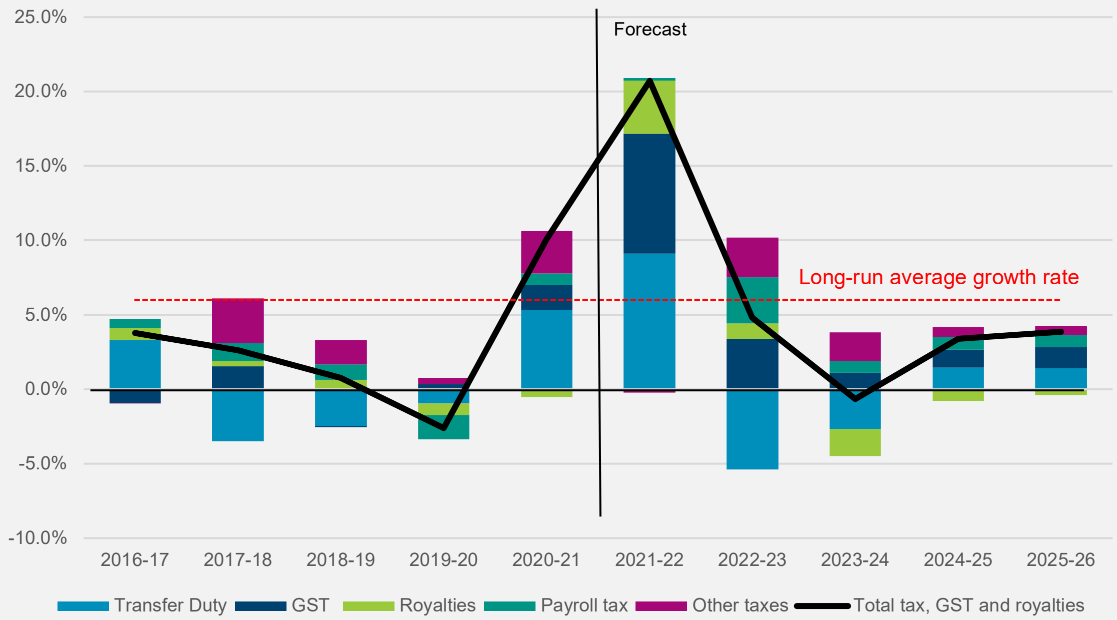


Box 4.1: Revenue growth volatile in the short term, set to fall in the long term

Stable revenue sources and sustainable revenue growth help states meet expenditure needs and achieve fiscal balance, both in the short term and the long term.

Since the onset of the pandemic, New South Wales' tax revenue growth rates have seen unprecedented levels of volatility. While the long-run average growth rate over the 20 years to 2018-19 for state taxes sits at 6.0 per cent, tax revenue grew by 10.1 per cent in 2020-21 from the lower base set in the pandemic's first year (2019-20). Total revenue growth is estimated to be 20.7 per cent in 2021-22, before dropping below the long-run average over the four years to 2025-26.

Chart 4.3: Contribution to revenue growth from state taxation, GST and mining royalties



Box 4.2: Long-term revenue outlook

Over the long run, as outlined in the *2021-22 NSW Intergenerational Report* (IGR), NSW revenues are expected to grow at a slower pace than they have historically. If this outcome is realised, there would be an increasing long-term 'fiscal gap', where revenue growth fails to keep pace with the growth in expenses. The IGR estimated this gap at 2.6 per cent of Gross State Product by 2060-61.

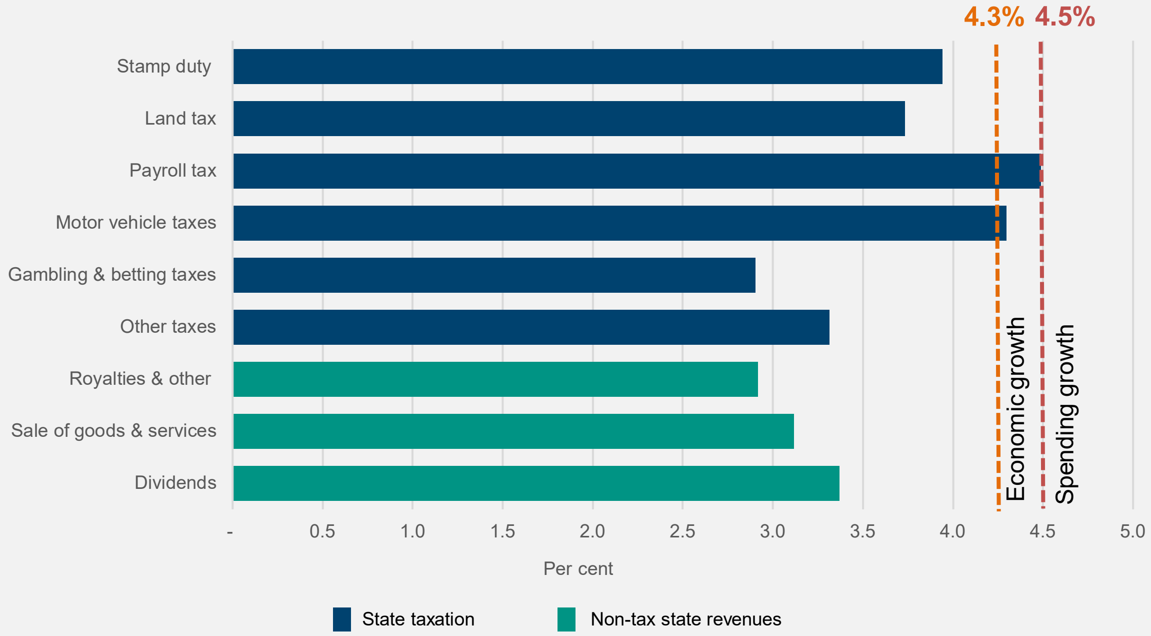
Over the longer term, revenue growth, and tax revenue growth in particular, is expected to ease due to:

- an ageing population, which will reduce the labour force in relative terms and increase the dependency ratio
- an easing in house price growth from the high rates achieved over the past two decades
- declining royalties revenue, in line with declining global demand for coal as the global economy transitions to net zero.

Under projected conditions, New South Wales and other states will face a growing shortfall in revenues and will come to rely more on fiscal transfers from the Commonwealth.

The IGR showed that the most effective way of addressing the fiscal gap is by lifting revenue growth through reforms which grow the economy. The IGR showed that supporting women's economic opportunities would have the most significant impact on the fiscal gap, where women's workforce participation increases to be equal to that of men. This is a key driver of the package of reforms outlined in this Budget. The Report also showed that a slow and disorderly transition to renewable energy would increase the size of the fiscal gap, underlying the importance of the NSW Government's *Electricity Infrastructure Roadmap* for both the economic and fiscal outlook.

Chart 4.4: Average annual growth in state revenues 2018-19 to 2060-61



Source: Projections from the 2021-22 NSW Intergenerational Report

Table 4.2: Revenue reconciliation

	2021-22 Revised $m	2022-23 Budget $m	2023-24 Forward Estimates $m	2024-25 Forward Estimates $m	2025-26 Forward Estimates $m	Four years to 2025-26 $m
Revenue - 2021-22 Budget	**93,846**	**96,792**	**98,479**	**100,328**	**n.a.**	**n.a.**
Policy measures	3,905	(11)	(37)	(66)	n.a.	n.a.
Parameter and other variations	3,439	2,781	1,627	2,577	n.a.	n.a.
Revenue - 2021-22 HYR	**101,190**	**99,562**	**100,069**	**102,839**	**105,189**	**407,659**
Policy changes since 2021-22 HYR						
Revenue measures	...	259	395	437	423	**1,514**
Revenue related to expense and capital measures	1,292	(25)	838	1,349	146	**2,308**
Total policy measures	**1,292**	**234**	**1,233**	**1,786**	**569**	**3,821**
Parameter changes since 2021-22 HYR						
Taxation						
Payroll tax	437	519	611	649	539	**2,318**
Transfer duty	1,234	(512)	(624)	385	276	**-475**
Land tax	(61)	213	388	352	235	**1,187**
Motor vehicle stamp duty	68	36	47	61	90	**234**
Other taxes	100	182	164	184	233	**764**
Grant revenue						
GST	253	2,158	2,956	3,234	3,195	**11,542**
National Agreement payments	(385)	(87)	(120)	(139)	5	**-341**
Federation Funding Agreement payments	(73)	(856)	205	(11)	818	**157**
Other grant revenue	(65)	275	125	123	116	**638**
Sale of goods and services	(842)	127	543	682	619	**1,971**
Interest income	41	134	151	151	175	**611**
Dividends and income tax equivalents	(106)	(159)	3	(274)	466	**36**
Other dividends and distributions	(124)	(54)	83	(504)	87	**-389**
Royalties	810	1,840	1,010	584	353	**3,787**
Fines, regulatory fees and other revenues	(64)	5	(143)	(0)	(20)	**-159**
Total parameter changes and other variations	**1,224**	**3,822**	**5,398**	**5,476**	**7,187**	**21,883**
Total changes since 2021-22 HYR	**2,516**	**4,055**	**6,631**	**7,262**	**7,756**	**25,704**
Revenue - 2022-23 Budget	**103,706**	**103,617**	**106,701**	**110,101**	**112,944**	**433,363**

4.2 Revenue measures since 2021-22 Half-Yearly Review

Decisions made since the 2021-22 Half-Yearly Review (including those subject to Commonwealth agreements) are forecast to increase revenue by $233.5 million in 2022-23 and by $3.8 billion over the four years to 2025-26.

Revenue measures, which largely comprise measures introduced by the Government aimed at fiscal repair, are forecast to provide a net increase in revenue of $1.5 billion over the four years to 2025-26. These fiscal repair measures include adjusting Point of Consumption and Betting tax rates to 15 per cent, reducing the land tax early payment discount to 0.5 per cent, increasing the foreign investor surcharge land tax to 4 per cent and investing in additional compliance at Revenue NSW.

The Government has also made expenditure and capital decisions that have an indirect impact on revenue. These measures are forecast to have a net positive impact of $2.3 billion over the four years to 2025-26 and include revenue from Federation Funding Agreements such as the Disaster Recovery Funding Arrangements.

Key revenue decisions since the 2021-22 Half-Yearly Review are set out below.

Increase to the point of consumption (PoC) tax and changes to other betting taxes

From 1 July 2022, the PoC tax rate will increase to 15 per cent and the effective betting tax rates (including totalizator and fixed odds bets) charged under the *Betting Tax Act 2001* will be adjusted to 15 per cent. These measures will generate an additional $740.0 million of revenue over the four years to 2025-26.

The basis of PoC industry funding under the *Betting Tax Act 2001* will change from 2 per cent of net wagering revenue to 33 per cent of PoC tax revenue collected by the Government. Additionally, $5 million will be allocated per year (increasing with inflation from 2023-24) to the Responsible Gambling Fund. Combined, these measures will increase expenses by $285.8 million over the four years to 2025-26.

The Government will support Tabcorp in the transition to the new taxation arrangements. This will increase expenses by $30 million over two years to 2023-24. For more information see Box 4.3.

Introduce the First Home Buyer Property Tax Option

First home buyers purchasing a property up to $1.5 million will be provided with an option to pay an annual property tax instead of transfer duty upfront. Over the four years to 2025-26, this measure is estimated to reduce revenue by $663.6 million. This consists of lower transfer duty revenue of $751.8 million and raising $88.2 million of property tax revenue. For more information see Box 4.4.

Reduction in the discount available for early payment of land tax

Land tax is payable annually (on a calendar year basis) either up front in full or over instalments. A discount of 1.5 per cent is available to taxpayers who pay their land tax in full within 30 days after their assessment has been issued. The land tax early payment discount will be lowered to 0.5 per cent from 1 January 2023. This will generate additional revenue of $34.0 million in 2022-23, with a total budget impact of $146.0 million over the four years to 2025-26.

Increase to the foreign investor surcharge land tax

The foreign investor land tax surcharge of 2.0 per cent will increase to 4.0 per cent per annum from the 2023 land tax year, generating additional revenue of $294.0 million over the four years to 2025-26.

Payroll tax exemptions under a subprogram of the Future Economy Fund

A subprogram of the Future Economy Fund will offer grant payments and payroll tax exemptions to encourage businesses of future industries to establish or expand in New South Wales. Payroll tax exemptions under the subprogram are estimated to reduce revenue by $51.0 million over the five years to 2026-27.

Additional compliance investment for land tax and transfer duty

Building on previous investments in system upgrades and improved data management at Revenue NSW, additional compliance investments of $60.0 million will increase land tax revenue by $368.0 million and transfer duty revenue by $200.0 million over the four years to 2025-26.

Removal of tolling relief rebate for motor vehicle registrations

The NSW Government has introduced a new broad-based Toll Rebate Scheme which will ultimately replace the existing Registration Relief Scheme and provide a more generous toll relief to a greater portion of NSW motorists (for more information on the new Toll Rebate Scheme see Chapter 1 Budget Overview).

The increase in New South Wales' revenue position from phasing out the Registration Relief Scheme ($390.7 million over the four years to 2025-26) will be more than offset by the cost of the new Toll Rebate Scheme ($520.0 million over the two years to 2024-25).

NSW driver license for overseas visitors

Temporary overseas visitors with a valid driver license in their country of origin can currently drive comparable vehicles in New South Wales. Traffic infringements incurred by these drivers cannot be recorded against their driving record. From November 2022, drivers using an overseas driver license will need to pass a NSW driver license test to continue driving after three months. This measure is expected to generate $71.0 million over the two years to 2023-24.

Table 4.3: New revenue measures

	2022-23 $m	2023-24 $m	2024-25 $m	2025-26 $m	Four years to 2025-26 $m
Increase to the point of consumption tax	156.0	177.0	195.0	212.0	**740.0**
Introduce the First Home Buyer Property Tax Option	(158.2)	(164.1)	(160.3)	(181.1)	**(663.6)**
Reduction in the discount available for early payment of land tax	34.0	37.0	38.0	37.0	**146.0**
Increase to the foreign investor surcharge land tax	74.0	88.0	75.0	57.0	**294.0**
Payroll tax exemptions under a subprogram of the Future Economy Fund	(0.7)	(5.3)	(10.6)	(15.8)	**(32.4)**
Additional compliance investment for land tax and transfer duty	100.0	125.0	170.0	173.0	**568.0**
Removal of tolling relief rebate for motor vehicle registrations	...	120.0	129.9	140.8	**390.7**
Removal of the exemption allowing temporary visa holders to use overseas licences	53.5	17.5	...	...	**71.0**
Total - Revenue measures	**258.7**	**395.1**	**437.0**	**422.9**	**1,513.7**

The remaining sections of this Chapter provide a breakdown of the State's forecast revenue over the next four years, ordered by the following three categories of state revenue:

- State taxation (38.0 per cent of total State revenue over the four years to 2025-26)
- grant revenue (42.8 per cent of total State revenue over the four years to 2025-26) – these are payments made to New South Wales, primarily from the Commonwealth Government
- non-taxation revenue (19.2 per cent of total State revenue over the four years to 2025-26) – this is revenue the State raises through other means, for example mineral royalties.

Box 4.3: Tax reform and support to online gambling harm minimisation

This Budget announces reforms to betting taxes to achieve competitively neutral tax rates across online and offline betting products, support a sustainable racing industry and enhance the funding of harm minimisation programs associated with online gambling activity. The reform is estimated to raise revenues by $740.0 million over the four years to 2025-26. These changes will align the tax rates for point of consumption (PoC) tax and betting taxes (including the totalizator and fixed odds under the *Betting Tax Act 2001*) at 15 per cent, alter the basis of racing industry support to 33 per cent of PoC tax collections and provide ongoing funding to the Responsible Gambling Fund to extend harm minimisation and counselling services.

On 1 January 2019, the NSW Government introduced the PoC tax — a 10 per cent tax on all wagers placed by NSW residents, regardless of the licence registration location of the wagering operator. This tax closed a loophole in wagering laws where most online bets were not taxed.

The Review of the PoC Tax concluded that the tax has achieved its intent by increasing the integrity of the wagering tax base. The tax has effectively closed a loophole in wagering tax laws by capturing tax on online bets placed in New South Wales. It also ensures that operators pay taxes on gambling activity where the associated harms occur.

Equalising effective PoC and betting tax rates at 15 per cent will provide competitively neutral tax rates between betting products and operators

Online gambling has experienced rapid growth in both Australia and New South Wales and has continued to grow strongly since the introduction of the PoC tax, particularly during the COVID-19 pandemic. Since 2019, the proportion of wagers being placed online grew from 43.6 per cent of the market to 73.7 per cent in 2021. PoC annual player loss has increased 123.3 per cent from 2019 to 2021.

Aligning the PoC tax and the betting tax (including effective fixed odds betting tax and totalizator betting tax) at 15 per cent will provide competitively neutral tax rates between betting products, regardless of the gambling operators or whether the betting activity is online or in person.

Allocating ongoing funding to the Responsible Gambling Fund will reduce gambling harm associated with online betting

With the introduction of the PoC tax, the NSW Government committed to provide $5 million per annum from the PoC tax revenues to the Responsible Gambling Fund. This funding was committed for a period of five years to support programs and activities that seek to prevent and minimise the harm arising from online betting.

Online gambling has experienced rapid growth in New South Wales and a higher proportion of those who gamble online are reported to be problem gamblers than those who bet offline. Ongoing funding to the Responsible Gambling Fund of $5 million per year (increasing with inflation) will support the continued provision of support programs to reduce associated harm experienced by NSW residents.

Racing industry funding as a share of revenue collected from the PoC tax maintains the proportion of funding over time

When the PoC tax was introduced, the NSW Government agreed to provide additional support to the racing industry to ensure that they were not negatively impacted by the introduction of the tax. This funding was set at 2 per cent of taxable NSW net wagering revenue from all Australian licensed wagering operators (including TAB).

In 2020-21, 2 per cent of net wagering revenue was the equivalent of 33 per cent of PoC tax revenues collected by New South Wales.

Changing the racing industry funding from being 2 per cent of net wagering revenue to 33 per cent of collected PoC tax revenue maintains the proportion of funding to the racing industry over time.

Supporting the transition and reviewing the wagering tax regime, regulation and industry funding in the coming years

To assist the transition to the new taxation arrangements, the Government will provide no worse off payments to Tabcorp. The payments to Tabcorp will assist over an 18-month period and will be up to $22 million in 2022-23 and $8 million in 2023-24.

Box 4.4: Introducing the First Home Buyer Property Tax option

This Budget announces the introduction of an option for eligible first home buyers to either pay the existing transfer duty or an annual property tax when purchasing their home. First home buyers purchasing a property up to $1.5 million will be able to opt in to the property tax. This option would lower the up-front burden of paying transfer duty and enable these home buyers to enter their first home sooner. The revenue reduction from this measure is estimated to be $663.6 million over the four years to 2025-26.

Over the past two years, the Government has consulted extensively on the Property Tax Proposal which received broad community support and resonated well with first home buyers. Key elements from the 2021 Property Tax Proposal have been incorporated into this measure – including 'choice', the property tax rates, indexation of tax rates and deferral in cases of hardship.

Features of the First Home Buyer Property Tax Option

Key features of the first home buyer property tax option are that:

- Eligible first home buyers purchasing a property for up to $1.5 million will be given the option to pay an annual property tax instead of transfer duty up front.
- The property tax will be based on the property's unimproved land value.
- Annual owner-occupier property tax rates will be set at $400 plus 0.3 per cent of the property's unimproved land value in 2022-23. These rates apply as long as the first home buyer remains an owner-occupier.
- First home buyers will be allowed to change the status of property from owner-occupied to residential investment property. Annual residential investor property tax rates will be set at $1,500 plus 1.1 per cent of the property's unimproved value in 2022-23.
- Affordability of the property tax will be preserved over time. Property tax rates, both owner-occupier and investor rates, will be indexed by Gross State Product per capita to ensure that average property tax payments grow in line with average incomes, rather than in line with land values.
- Properties will not be locked into the property tax for subsequent purchases. Transfer duty will apply to a subsequent purchase, unless the purchaser is a first home buyer who opts into the property tax. Non-first home buyers will remain liable to transfer duty and will not be given the choice to opt into the property tax.
- A deferral scheme will be in place to recognise that taxpayers' financial situations can change over time and ensure that no one facing hardship will be required to sell their home to meet property tax liabilities.

The First Home Buyer Assistance Scheme remains in place. This scheme provides duty exemptions to first home buyers purchasing properties up to $650,000 and concessional rates of duty for first home buyers purchasing properties between $650,000 and $800,000. All eligible first home buyers purchasing properties up to $1.5 million will now have access to the property tax option, in addition to the scheme. Around 97 per cent of first home buyers in New South Wales are expected to be eligible for benefits under the new property tax option or the First Home Buyer Assistance Scheme.

Timeline for implementation

From 16 January 2023, eligible first home buyers will be able to opt in and not pay transfer duty. For contracts exchanged in the period between the enactment of legislation and 15 January 2023, eligible first home buyers will be able to apply to opt in and receive a refund of transfer duty paid from 16 January 2023. The property tax will apply from the date of completion, also known as settlement.

4.3 Taxation revenue

Taxation revenue is expected to be $39.6 billion in 2022-23 (see Table 4.4), which is $693.2 million (1.8 per cent) higher than forecast at the 2021-22 Half-Yearly Review. Over the four years to 2025-26, taxation revenue has been revised upwards by $5.8 billion (3.6 per cent).

Payroll tax is expected to overtake transfer duty as the largest source of taxation revenue from 2022-23 due to the weakness in the residential property market. Payroll tax is expected to account for 27.9 per cent of taxation revenue in 2022-23, while transfer duty is expected to account for 27.3 per cent.

Table 4.4: General government sector – summary of taxation revenue

	2020-21 Actual $m	2021-22 Revised $m	2022-23 Budget $m	2023-24 Forward Estimates $m	2024-25 Forward Estimates $m	2025-26 Forward Estimates $m	% Average growth p.a. 2021-22 to 2025-26
Stamp duties							
Transfer duty	9,608	14,624	10,825	8,969	9,925	10,917	(7.0)
Insurance	1,167	1,299	1,375	1,453	1,535	1,622	5.7
Motor vehicles	969	934	938	935	939	980	1.2
Other	- 2	0	0	0	0	0	41.9
	11,742	**16,857**	**13,138**	**11,357**	**12,399**	**13,520**	**(5.4)**
Payroll tax	8,926	8,958	11,054	11,595	12,194	12,795	9.3
Taxes on land							
Land tax	4,875	4,850	5,657	6,146	6,350	6,228	6.4
Property tax	…	…	9	18	26	36	N/A
	4,875	**4,850**	**5,666**	**6,164**	**6,377**	**6,264**	**6.6**
Taxes on motor vehicle ownership and operation							
Weight tax	2,349	2,455	2,560	2,790	2,915	3,037	5.5
Vehicle transfer fees	58	52	55	59	62	66	6.5
Other motor vehicle taxes	44	37	39	41	42	44	4.4
	2,451	**2,544**	**2,654**	**2,889**	**3,019**	**3,147**	**5.5**
Gambling and betting taxes							
Racing	215	259	452	506	555	599	23.3
Club gaming devices	842	647	879	909	937	966	10.5
Hotel gaming devices	1,021	861	1,147	1,264	1,356	1,454	14.0
Lotteries and lotto	501	575	535	520	535	554	(0.9)
Casino	132	125	231	280	301	312	25.6
Other gambling & betting	16	12	19	20	22	23	18.7
	2,727	**2,479**	**3,262**	**3,499**	**3,706**	**3,907**	**12.0**
Other taxes and levies							
Health insurance levy	221	230	238	257	269	283	5.4
Parking space levy	103	103	107	118	122	126	5.1
Emergency services levy contributions	1,086	915	1,173	1,355	1,132	1,137	5.6
Emergency services council contributions	147	186	215	180	180	179	(0.9)
Waste and environment levy	762	761	783	832	832	832	2.2
Government guarantee fee	293	310	327	355	396	438	9.0
Private transport operators levy	54	33	56	56	56	56	14.6
Pollution control licences	26	26	27	18	18	18	(8.9)
Other taxes	994	987	938	1,009	1,032	1,051	1.6
	3,686	**3,551**	**3,863**	**4,179**	**4,037**	**4,119**	**3.8**
Total taxation revenue	**34,407**	**39,240**	**39,637**	**39,683**	**41,732**	**43,753**	**2.8**
Annual change		*14.0%*	*1.0%*	*0.1%*	*5.2%*	*4.8%*	

Payroll tax

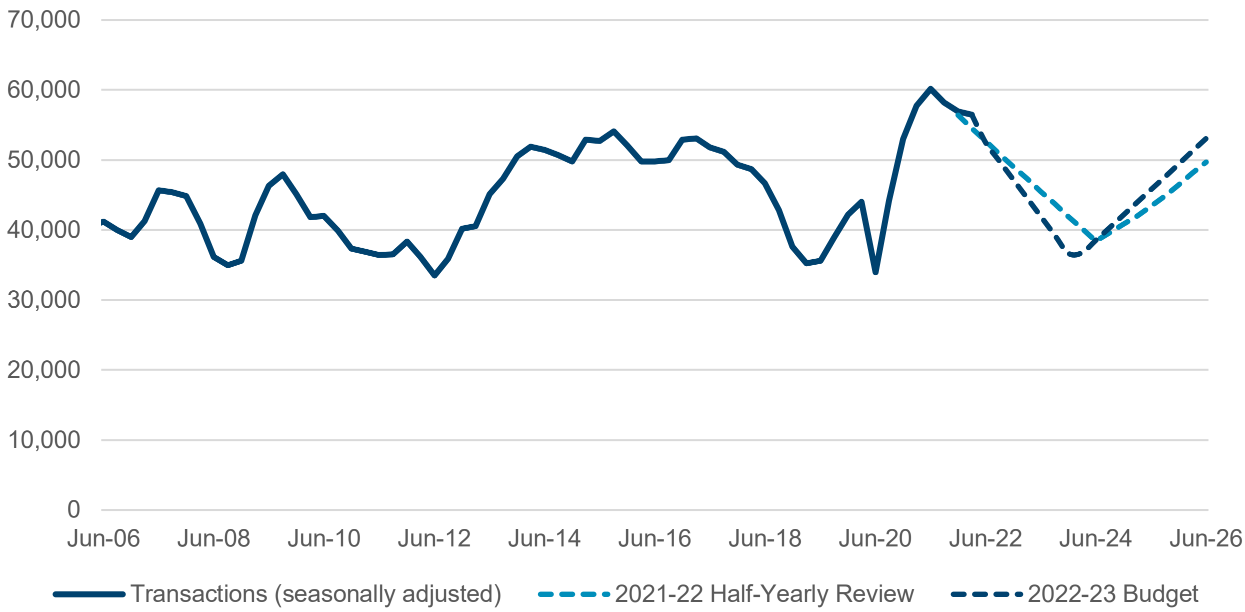
A strong rebound in employee compensation and employment levels since the 2021-22 Half-Yearly Review has led to higher expectations for payroll across the forward estimates. Accordingly, this Budget forecasts a significant upward revision in payroll tax revenue. Revenue has been revised up by $436.8 million (5.1 per cent) for 2021-22 and by $518.1 million (4.9 per cent) in 2022-23. In total, over the four years to 2025-26, this revenue source has been revised up by $2.3 billion (5.0 per cent).

Transfer duty

Transfer duty collections are a function of transaction volumes and sales prices. Transfer duty revenues have been revised up by $1.2 billion (9.2 per cent) in 2021-22, reflecting stronger than expected growth in both transaction volumes and prices since the 2021-22 Half-Yearly Review. Transfer duty revenues have been revised down by $1.3 billion (3.0 per cent) over the four years to 2025-26. This includes a downgrade of $751.8 million over the four years to 2025-26 for the First Home Buyer Property Tax Option.

The outlook for residential property markets has weakened. Residential mortgage interest rates have risen sharply over the past six months and are now expected to be significantly higher in comparison to 2021-22 Half-Yearly Review forecasts. This is likely to further dampen transactional activity in 2022-23 and 2023-24. Historical experience suggests property owners will only defer the decision to transact for a short period and so transaction volumes are expected to recover in 2024-25 and beyond (see Chart 4.5). Residential property prices are expected to ease from 2022-23 through to 2025-26.

Chart 4.5: Residential property transactions (seasonally adjusted; quarterly)



Transfer duty revenue on commercial property transactions has been revised up by $506.2 million in 2021-22, largely due to an increase in large transaction volumes. Revenue from commercial property transactions has been revised down by $507.7 million over the four years to 2025-26 due to the impact of higher interest rates.

Land tax

Land tax revenue is expected to be $5.7 billion in 2022-23, $439.0 million (8.4 per cent) above previous expectations. Land tax is forecast to grow by 6.4 per cent on average over the four years to 2025-26, $2.2 billion (10.1 per cent) higher than expected at the 2021-22 Half-Yearly Review. This uplift is due to expectations for higher average land values than previously forecast as well as the new policy decisions described in section 4.2, such as the increase to the foreign investor surcharge land tax.

Gambling and betting taxes

Gambling tax revenue is expected to be $2.5 billion in 2021-22, an upward revision of $51.3 million (2.1 per cent). Over the four years to 2025-26, forecast gambling receipts have been revised up by $1.1 billion (8.1 per cent).

The main driver of the upgrade is the decision by the NSW Government to increase the point of consumption (PoC) tax rate and make subsequent changes to other betting taxes. These changes are forecast to increase revenue by $740.0 million over this period (see section 4.2). Without this policy change, wagering revenue would have been revised downwards by $204.9 million, due to softer-than-expected activity following the easing of COVID-19 related restrictions.

Tax revenue from club and hotel gaming machine activity has been revised up by $423.1 million over the four years to 2025-26, driven by a recovery in gaming activity in early 2022 and expectations for household disposable income.

Taxes on motor vehicle ownership and operation

Motor vehicle taxes are expected to be $2.7 billion in 2022-23, $4.2 million (0.2 per cent) higher than at the 2021-22 Half-Yearly Review. Forecast motor vehicle taxes have increased by $373.9 million (3.3 per cent) over the four years to 2025-26, driven by two factors. Firstly, as noted in section 4.2, revenue will increase due to the phasing out of the Registration Relief Scheme (though this will be more than offset by the cost of the new Toll Rebate Scheme). Secondly, inflation forecasts are higher.

Other stamp duties

This category incorporates insurance duty and motor vehicle registration duty. Revenue is forecast to reach $2.3 billion in 2022-23 and has been revised upwards by $451.2 million (4.8 per cent) over the four years to 2025-26.

Motor vehicle registration duty has been revised upwards by $234.0 million (6.6 per cent) over the four years to 2025-26 due to stronger than expected vehicle prices.

Insurance duty revenue has been revised upwards by $217.2 million (3.8 per cent) over the four years to 2025-26 due to higher than expected collections in recent months and the expectation that insurance premiums are likely to increase.

Other taxes and levies

Other taxes and levies are expected to provide $3.9 billion in 2022-23, growing at an average annual rate of 4.0 per cent in the four years to 2025-26.

Revenue from the Emergency Services Levy (ESL), including insurer and council contributions, is forecast to be $1.4 billion in 2022-23 and $5.5 billion over the four years to 2025-26. This is $519.7 million (10.3 per cent) higher over the four years to 2025-26 compared to the 2021-22 Half-Yearly Review. This upgrade reflects increased expenditure on emergency services, largely associated with new and continued measures to implement recommendations from the 2020 NSW Bushfire Inquiry and measures in response to the 2021 and 2022 flooding events.

Revenue from the Health Insurance Levy is also forecast to be $80.5 million higher over the four years to 2025-26 than expected at the 2021-22 Half-Yearly Review, reflecting a sustained increase in health insurance membership since mid-2020 as well as higher inflation expectations.

4.4 Grant revenue

Most of the State's grant revenue is from the Commonwealth, primarily consisting of:

- general purpose grants (including GST)
- specific purpose payments, in the form of National Agreements and Federation Funding Agreements (formerly National Partnerships and Project Agreements).

Grant revenue is expected to decrease by $2.0 billion in 2022-23 to $42.9 billion before reaching $48.6 billion in 2025-26.

Table 4.5: Grant revenue

	2020-21 Actual $m	2021-22 Revised $m	2022-23 Budget $m	2023-24 Forward Estimates $m	2024-25 Forward Estimates $m	2025-26 Forward Estimates $m	% Average growth p.a. 2021-22 to 2025-26
Commonwealth - general purpose	18,897	23,299	25,538	26,304	27,134	28,148	4.8
GST revenue (including "no worse off" payments)	18,892	23,297	25,505	26,296	27,134	28,148	4.8
Other general purpose grants	5	2	33	8	-	-	(100.0)
Commonwealth - National Agreements	11,999	13,209	12,476	12,969	13,622	14,317	2.0
Commonwealth - Federation Funding Agreements	3,618	7,108	3,502	5,354	5,802	4,784	(9.4)
Other Commonwealth payments	451	524	586	611	703	733	8.8
Total Commonwealth grants	**34,965**	**44,141**	**42,102**	**45,238**	**47,261**	**47,982**	2.1
Annual change in Commonwealth grants	*3.8%*	*26.2%*	*-4.6%*	*7.4%*	*4.5%*	*1.5%*	
Other grants	681	783	826	786	630	643	(4.8)
Total grant revenue	**35,646**	**44,924**	**42,928**	**46,024**	**47,891**	**48,625**	**2.0**

General purpose grants

New South Wales will receive $23.3 billion in GST revenue in 2021-22, which is $253.0 million (1.1 per cent) higher than forecast at the 2021-22 Half-Yearly Review. The increase reflects an upgrade in the Commonwealth's forecasts for the national GST pool at the 2022-23 Budget, reflecting stronger than expected nominal consumption.

Over the four years to 2025-26, GST revenue is forecast to grow by an average of 4.8 per cent per year, resulting in an additional $11.5 billion (12.1 per cent) over the same period than expected at the 2021-22 Half-Yearly Review. This reflects substantial increases in both the size of the national GST pool and New South Wales' GST share. The national GST pool is expected to be $12.1 billion higher over the four years to 2025-26 compared to the forecast at the 2021-22 Half-Yearly Review, largely driven by expectations for higher prices, which will boost nominal consumption and dwelling investment. Improvements in the labour market will also support GST collections by allowing consumers to absorb higher prices and continue to increase consumption volumes.

NSW's relativity is also expected to be considerably higher over the forecast period. The Commonwealth Grants Commission's most recent recommendation for the State's relativity in 2022-23 was higher than expected at the 2021-22 Half-Yearly Review. This has resulted in upwards revisions in projections for the NSW GST relativity over the four years to 2025-26. Higher than expected iron ore prices in 2021-22 will also support NSW's relativity from 2023-24.

Table 4.6: GST (including "no worse off") revenues to New South Wales – reconciliation statement(a)

	2021-22 Revised	2022-23 Budget	2023-24 Forward Estimates	2024-25 Forward Estimates	2025-26 Forward Estimates	Four years to 2025-26
	$m	$m	$m	$m		$m
2021-22 Budget	**21,784**	**22,274**	**22,263**	**22,432**	**23,000**	**89,969**
Change due to:						
Change in population	50	49	49	50	53	201
Change in pool	1,210	592	587	665	1,092	2,935
Change in relativities	…	518	459	618	430	2,025
'No worse off' payments	3	(85)	(18)	135	378	410
2021-22 Half-Yearly Review	**23,044**	**23,347**	**23,340**	**23,900**	**24,953**	**95,540**
Change due to:						
Change in population	36	30	35	45	55	165
Change in pool	217	1,401	1,222	667	139	3,430
Change in relativities	…	537	1,259	1,949	2,421	6,167
'No worse off' payments	(1)	190	440	573	579	1,782
2022-23 Budget	**23,297**	**25,505**	**26,296**	**27,134**	**28,148**	**107,083**
Change since 2021-22 Half-Yearly Review	**253**	**2,158**	**2,956**	**3,234**	**3,195**	**11,543**

(a) The Commonwealth Government will provide separate untied grants in the form of "no worse off" payments from 2021-22 to 2026-27 so that states and territories are not adversely affected by changes to horizontal fiscal equalisation. 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 4.5: Horizontal Fiscal Equalisation and natural disasters

The GST is distributed between the states and territories (states) in line with the principle of horizontal fiscal equalisation (HFE). The primary purpose of HFE is to account for factors that are outside states' control and ensure they each have the capacity to deliver services of a comparable standard while levying a similar tax burden. Historically, HFE has also served as a type of risk pooling or insurance mechanism that has helped states to meet the cost of responding to different types of natural disasters, such as bushfires and floods. This means the burden of responding to the 2019-20 Black Summer bushfires was shared across states.

The Commonwealth Government's changes to HFE in 2018 mean that states no longer share the cost of natural disasters in the same way. The Commonwealth has legislated a relativity floor that guarantees Western Australia receives 70 per cent of its population share of GST. The relativity floor commences in 2022-23 and rises to 75 per cent from 2024-25.

The relativity floor effectively exempts Western Australia from contributing to the cost of natural disaster recovery under the principle of HFE. The floor is also expected to deliver a windfall of $2.7 billion to Western Australia in 2022-23, bolstering a budget bottom line that is already benefiting from record iron ore royalties.

The Commonwealth Government's changes mean that Western Australia is treated differently from all other states, including New South Wales. This signals to all Australians that the Commonwealth considers Western Australian residents to be entitled to greater access to better quality services while bearing a lower tax burden compared to anyone else. New South Wales is temporarily protected from the consequences of the Commonwealth Government's 2018 changes through a no worse off guarantee. However, this guarantee expires at the end of 2026-27 and, in the meantime, adds tens of billions to already high Commonwealth debt levels.

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
- National Agreement for Skills and Workforce Development.

Revenue from National Agreements is forecast to total $12.5 billion in 2022-23, a decrease of $733.1 million (-5.6 per cent) on 2021-22 levels. This reduction is mainly due to lower forecast National Health Reform Agreement (NHRA) payments under the COVID-19 Response National Partnership in 2022-23 compared to 2021-22. National Agreement revenues are expected to grow at an average annual rate of 2.0 per cent over the four years to 2025-26. Table 4.7 summarises National Agreement payments by key service delivery area. Since the 2021-22 Half-Yearly Review, revenue from National Agreements increased by $576.5 million (4.6 per cent) in 2021-22 primarily due to a $572.7 million increase in expected COVID-19 Response National Partnership payments. The projected additional revenue supports critical elements of the pandemic response, including vaccine distribution.

National Agreement projected revenue is expected to decrease by $199.7 million over the four years to 2025-26 relative to the 2021-22 Half-Yearly Review, mainly due to $394.2 million in reduced payments under the National School Reform Agreement (NSRA), though partially offset by $141.2 million in increased COVID-19 Response National Partnership payments. The reduction in payments under the NSRA is largely due to downward revisions to the Commonwealth's forecasts of government school enrolments in New South Wales.

Table 4.7: National Agreement payments to New South Wales

	2020-21 Actual $m	2021-22 Revised $m	2022-23 Budget $m	2023-24 Forward Estimates $m	2024-25 Forward Estimates $m	2025-26 Forward Estimates $m	% Average growth p.a. 2021-22 to 2025-26
Health	8,206	9,203	8,348	8,698	9,219	9,770	1.5
Education	2,810	3,010	3,118	3,258	3,375	3,505	3.9
Skills and workforce development	494	501	508	514	522	529	1.4
Affordable housing	489	495	502	499	506	513	0.9
Total National Agreements	**11,999**	**13,209**	**12,476**	**12,969**	**13,622**	**14,317**	**2.0**

Federation Funding Agreements

The Commonwealth provides payments to support specified projects, ongoing service delivery or service delivery improvements. For example, the Preschool Reform Agreement provides a framework for collaboration between the Commonwealth and states to improve preschool participation and outcomes. It includes Commonwealth funding over four years as well as performance milestones and reporting requirements. This category also includes schedules under the five new sector-based Federation Funding Agreements.

NSW Government revenue from Federation Funding Agreements is expected to be $3.5 billion in 2022-23, a decrease of $1.1 billion (-24.4 per cent) compared to the 2021-22 Half-Yearly Review. This reduction is mainly due to:

- $715.2 million downward revision due to the deferral of planned capital expenditure beyond the forward estimates
- $646.3 million downward revision to natural disaster funding revenues in 2022-23 which is now forecast to be received over the three years to 2025-26
- $218.4 million in additional revenue under water infrastructure funding agreements.

Revenue from Federation Funding Agreements is expected to decrease at an average annual rate of 9.4 per cent over the four years to 2025-26. This reflects the expiry of COVID-19 related agreements and declining levels of natural disasters payments from the Commonwealth over the forward estimates (see Table 4.8). Since the 2021-22 Half-Yearly Review, revenue from Federation Funding Agreements is expected to increase by $137.3 million (2.0 per cent) in 2021-22. This is mainly due to additional projected revenue of $95.6 million for the JobTrainer Fund and $78.8 million under the Accelerated Funding New South Wales Supply and Constraints projects agreement.

Over the four years to 2025-26, revenues are projected to increase by $2.2 billion since the 2021-22 Half-Yearly Review. This is primarily driven by:

- $1.9 billion in forecast Commonwealth contributions over the four years from 2022-23 under the Natural Disaster Relief Arrangements
- $276.3 million in increased funding under the Implementing Water Reform Murray Darling Basin and National Water Infrastructure Development Fund Agreements
- $128.7 million in increased transport infrastructure payments from the Commonwealth under the National Partnership on Land Transport Infrastructure Projects.

Table 4.8: Federation Funding Agreement payments to New South Wales

	2020-21 Actual $m	2021-22 Revised $m	2022-23 Budget $m	2023-24 Forward estimates $m	2024-25 Forward estimates $m	2025-26 Forward estimates $m	% Average growth p.a. 2021-22 to 2025-26
Transport	2,159	1,836	2,166	3,366	4,397	4,126	22.4
Education and skills	311	381	208	146	140	100	(28.4)
Disability	618	630	350	362	...	...	(100.0)
Health	99	80	115	80	151	6	(46.8)
Housing	128	231	58	...	...	...	
Environment	59	206	171	64	28	7	(57.3)
Other	243	3,745	433	1,336	1,087	544	(38.3)
Total Federation Funding Agreement payments	**3,618**	**7,108**	**3,502**	**5,354**	**5,802**	**4,784**	**(9.4)**

Other Commonwealth payments

Other Commonwealth payments are expected to provide $586.2 million in 2022-23, an increase of $61.9 million (11.8 per cent) on 2021-22 levels. Since the 2021-22 Half-Yearly Review, revenue in 2021-22 has fallen by $223.6 million (-29.9 per cent), mainly due to $174.2 million in reduced Commonwealth payments to the Department of Regional NSW and an $82.8 million reduction in payments to the NSW Ministry of Health. Revenue from other Commonwealth grants is expected to increase by 8.8 per cent per annum on average over the four years to 2025-26.

Other grants

Other grants are expected to provide $782.9 million in 2021-22 and decline by 4.8 per cent per annum on average over the four years to 2025-26.

4.5 Non-tax revenues

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

Sale of goods and services

Sales of goods and services revenue is expected to be $9.7 billion in 2021-22, $841.5 million (8.0 per cent) lower than forecast at the 2021-22 Half-Yearly Review. Over the four years to 2025-26, revenue is forecast to decrease by 1.7 per cent on average, a much smaller decline than the 4.1 per cent decline forecast at the 2021-22 Half-Yearly Review.

The most significant drivers of the downwards revision in this revenue category for 2021-22 are as follows:

- Transport for NSW downwards revision of $309.9 million, which is mainly due to two drivers: reduction in personnel service revenue as a result of the $140 million wind down of the State Transit Authority (section 9.1 of Budget Paper 4); and a decrease in fees for service revenue, due to a change in capital delivery expenditure profiles across financial years.
- Ministry of Health downwards revision of $154.1 million, due to reduced activity from the pauses in elective surgery associated with the Omicron outbreak.
- Local Land Services downwards revision of $54.3 million, mainly due to reclassification of sales of goods and services revenue as a grant from other government agencies.

Over the four years to 2025-26, revenue in this category has been revised upwards by $2.1 billion (5.8 per cent), compared to the 2021-22 Half-Yearly Review. The most significant drivers of the upwards revision for this period are as follows:

- Transport for NSW upwards revision of $960.7 million due to a capital project recovery carry forward of $310 million from 2021-22 to the forward estimates, and $600 million in cost recovery associated with corporate functions transferred from Sydney Trains and the Transport Asset Holding Entity (TAHE).
- Department of Planning & Environment upwards revision of $419.8 million due to several drivers, including: transfer of revenue budget from Property NSW for service level agreements; reclassification between revenue categories; and increase in personnel service revenue from Land and Housing Corporation.
- Department of Regional NSW upwards revision of $246.2 million, primarily due to a machinery of government change, which saw the administrative transfer of the Soil Conservation Service from Local Land Services.
- NSW Self Insurance Corporation upwards revision of $165.5 million, due to revisions in expected insurance premiums, reinsurance and other recoveries.
- Infrastructure NSW upwards revision of $81.0 million, primarily stemming from a change in accounting treatment for estate levy revenues (previously booked under 'Other revenue') on advice of the Audit Office of New South Wales.
- Department of Education upwards revision of $78.2 million, owing to higher expected nominal revenues (for instance from school fees and international student fees) due to higher inflation forecasts.

These upgrades are partially offset by downwards revisions in:

- Local Land Services downwards revision of $160.9 million, primarily due to a machinery of government change, which saw the administrative transfer of the Soil Conservation Service to the Department of Regional NSW.
- Department of Customer Service downwards revision of $159.4 million, primarily due to the loss of liquor licensing fees, associated with the transfer out of the Liquor and Gaming Authority to the Department of Enterprise, Investment and Trade.
- Property NSW downwards revision of $90.5 million, due to transfer of the revenue budget for service level agreements to the Department of Planning & Environment.

Table 4.9: Sales of goods and services revenue

	2020-21 Actual $m	2021-22 Revised $m	2022-23 Budget $m	2023-24 Forward Estimates $m	2024-25 Forward Estimates $m	2025-26 Forward Estimates $m	% Average growth p.a. 2021-22 to 2025-26
Rents and leases	304	240	257	261	313	341	9.2
Fee for service	3,062	3,050	3,180	2,848	1,689	1,337	(18.6)
Entry fees	53	30	55	68	78	80	27.5
Patient fees and hospital charges	1,216	1,196	1,150	1,162	1,206	1,251	1.1
Department of Veterans' Affairs	143	122	138	156	147	138	3.1
Court fees	125	119	152	156	161	165	8.7
Road tolls	134	133	164	173	177	227	14.3
Other sales of goods and services	4,912	4,844	5,096	5,299	5,336	5,545	3.4
Sale of goods and services	**9,949**	**9,733**	**10,191**	**10,122**	**9,107**	**9,084**	**(1.7)**

Interest income

Interest income includes returns on managed bond investments, including investments made by TCorp, and interest earned on bank deposits and funding facilities. Interest revenue is expected to be $371.6 million in 2022-23, $133.8 million (56.3 per cent) higher than previously expected. Forecast interest revenue is expected to be $611.2 million (56.3 per cent) higher over the four years to 2025-26. This largely reflects higher interest rate expectations.

Dividends and income tax equivalents

State Owned Corporations and public financial corporations pay dividends that provide a commercially appropriate return on government investment.

Dividends and income tax equivalents are estimated to be $542.2 million in 2021-22, $106.2 million (16.4 per cent) lower than estimated at the 2021-22 Half-Yearly Review. This is mainly due to the reduction of dividends from Sydney Water, which is required to help maintain Sydney Water's investment grade credit metrics, in light of the water system augmentation. This was identified as a requirement in the Greater Sydney Water Strategy.

Revenue in this category is estimated to be $463.6 million (8.8 per cent) lower over the four years to 2025-26 relative to the 2021-22 Half-Yearly Review. Over this period, the two most significant drivers of reduction in expected revenue are:

- $211.8 million lower returns from Sydney Water, mainly due to the Sydney Water dividend issue discussed above
- $468.5 million lower returns from Landcom, as a result of the reclassification of Landcom's dividends as 'Other economic flows', rather than as 'Revenue from transactions'.

Downward revisions are partially offset by TAHE's $587.9 million revenue increase over the period (see Chapter 7 Commercial Performance in the Broader Public Sector).

Other dividends and distributions

Other dividends and distributions are received from entities other than State-owned corporations, as well as from the State's equity investment in associates such as Ausgrid and Endeavour Energy. These revenues are expected to be $2.7 billion in total in 2022-23, $54.1 million (2.0 per cent) lower than forecast at the 2021-22 Half-Yearly Review. Over the four years to 2025-26, other dividends and distributions have been downgraded by $388.7 million (down 2.6 per cent).

The downward revision reflects lower expected investment returns, which have been revised down following the impacts of tightening monetary policy globally on financial markets and fund returns since the start of 2022. These impacts have been exacerbated by Russia's invasion of Ukraine. Over the forward estimates, fund distributions are anticipated to rise in line with an expected recovery in financial markets more broadly.

Fines, regulatory fees and other revenue (excluding royalties)

Total revenue from fines, regulatory fees, and other revenue is forecast to be $3.0 billion in 2021-22 and is forecast to remain the same over the four years to 2025-26.

Fines revenue forecast for 2021-22 has been revised downwards by $29.8 million due to the impact of COVID-19 lockdowns on vehicle travel and impacts associated with severe flooding in large parts of New South Wales. The Government's policy change to reintroduce mobile speed camera warning signage and the revised implementation schedule for key Road Safety programs have also contributed to the downward revision in the current year. These are also the main drivers of the $209.0 million reduction in forecast revenue over the four years to 2025-26 compared to the 2021-22 Half-Yearly Review.

Regulatory fees have been revised downwards by $111.6 million over the four years to 2025-26. This is due to reduced fine volumes, driven by the reintroduction of mobile speed camera warning signage, and increased customer uptake of Fairer Fines payment options, which allows for customers to enter into payment plans and in some cases seek a fine reduction. Other revenues have been upgraded by $283.5 million over the four years to 2025-26, largely due to increased revenue for the right of user access for the NorthConnex and new M8 motorways.

Table 4.10: Fines, regulatory fees and other revenues

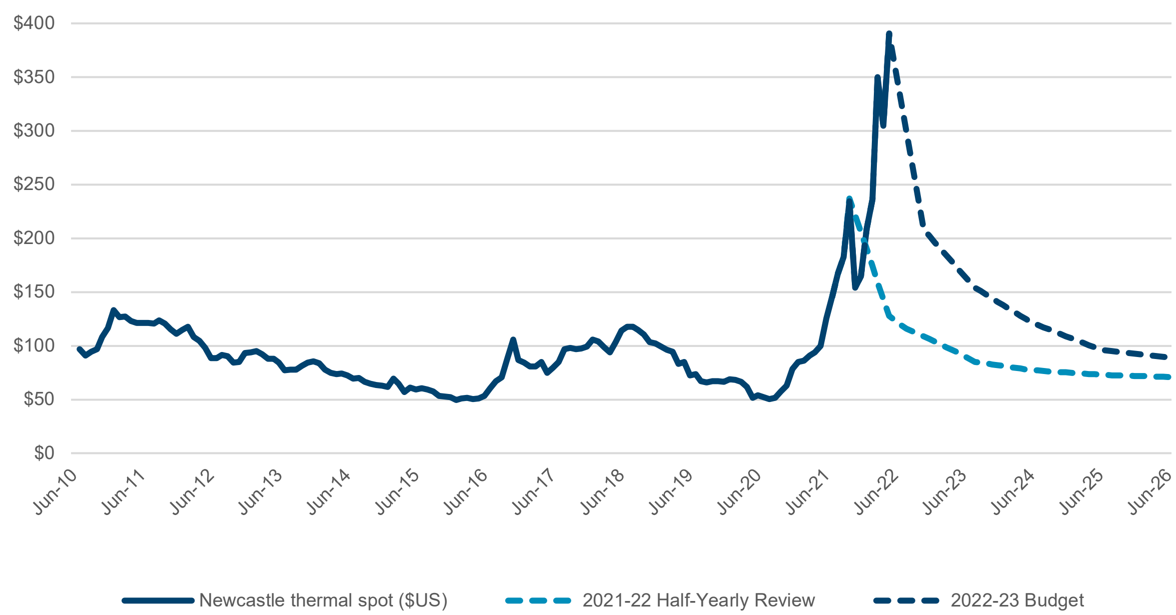
	2020-21 Actual $m	2021-22 Revised $m	2022-23 Budget $m	2023-24 Forward Estimates $m	2024-25 Forward Estimates $m	2025-26 Forward Estimates $m	% Average growth p.a. 2021-22 to 2025-26
Fines	675	775	820	819	837	852	2.4
Regulatory fees	93	144	142	144	131	144	0.0
Other revenues	1,823	2,120	2,067	2,030	2,192	2,045	(0.9)
Total fines, regulatory fees and other revenues	**2,591**	**3,040**	**3,029**	**2,993**	**3,160**	**3,041**	**0.0**

Royalties

Mining royalties are forecast to be $810.1 million higher in 2021-22 and $3.8 billion (or 51.9 per cent) higher over the four years to 2025-26, relative to expectations at the 2021-22 Half-Yearly Review.

Thermal coal prices began rising very quickly in late 2021 and into 2022. Global coal supplies were temporarily curtailed by self-imposed restrictions on Indonesian exports (the largest thermal coal producer) and severe weather events across some of Australia's major thermal coal producing regions. Russia's invasion of Ukraine has created significant and long-lasting energy supply shortages and uncertainty for global commodity markets. Chart 4.6 shows that thermal coal prices peaked at more than four times their long-run average in May 2022. Thermal coal prices are now expected to be materially higher over the four years to 2025-26, relative to 2021-22 Half-Yearly Review forecasts.

Chart 4.6: Newcastle thermal coal spot price ($US per tonne)



5. EXPENDITURE

- Over the past three years, the NSW Government has delivered unprecedented levels of emergency support to businesses and households. Government expenses are now projected to have peaked at $120.3 billion in 2021-22.
- General government sector expenses are projected to be $114.9 billion in 2021-22. While lower than the previous year, it is an upwards revision on the $103.2 billion projected at the 2021-22 Half-Yearly Review.
- Measures in the Budget include:
  - Boosting household budgets, with $1.3 billion for the Brighter Beginnings Affordable Preschool Initiative to provide fee relief for families
  - Investing in our public sector, with an increase in remuneration to public sector employees in each of the next two years, as well as a $3,000 payment to NSW Health Employees
  - Strengthening frontline services, with $4.5 billion invested in the NSW Health workforce to ease pressure on existing health workers and support the delivery of quality healthcare
  - Helping families get through tough times, with over $2 billion in additional COVID-19 response measures (such as procuring rapid antigen tests and business support)
  - Flood response and rebuilding, with a $3.5 billion in joint commitments between the NSW and Commonwealth Governments
  - Supporting women's opportunities, including the establishment of the Affordable and Accessible Childcare and Economic Participation Fund (up to $5 billion over 10 years) and supporting families with the high cost of fertility treatment ($62 million)
  - Introducing a high-quality universal pre-Kindergarten year for all children in New South Wales in the year before school by 2030 ($5.8 billion over 10 years)
  - A quality home for everyone, including $780.4 million for a two-year trial of a shared equity scheme for up to 6,000 eligible single parents, older singles and first home buyers who are teachers, nurses and police
  - Empowering First Nations communities, with an additional $715.8 million invested in First Nations policies, programs, and to help meet NSW's targets under the National 'Closing the Gap' agreement
  - Protecting our planet and growing a clean economy with $1.2 billion net (maximum, after recycling proceeds) to accelerate the delivery of the new transmission projects required for Renewable Energy Zones across regional New South Wales.
- The Budget includes a record infrastructure program of $112.7 billion over the four years to 2025-26. This includes an investment of $12.4 billion in the new Sydney Metro West, $1.4 billion to upgrade facilities in preparation for universal pre-kindergarten, $1.3 billion for Bankstown Hospital and $3.2 billion to upgrade the Great Western Highway.
- This Budget also sets out new savings measures. These include the introduction of efficiency dividends from 2023-24 onwards, changes to the funding of public sector agencies worker's compensation contributions and lower wages growth for senior executives.

5.1 Building a brighter future with ongoing response and recovery

Since the 2021-22 Half-Yearly Review, the Government has supported the community through two significant crises – the Omicron outbreak and floods. Despite the significant support, expenses for 2021-22 are broadly in line with previous expectations at $120.3 billion.

Expenses are projected to be $114.9 billion in 2022-23. This is an upward revision on expectations at the Half-Yearly Review ($103.2 billion). The revision takes into account new policy measures to support families and deliver transformational reforms, as well as the impact of spending that was previously anticipated to occur in 2021-22 slipping to 2022-23.

Table 5.1 sets out the expense profile over a longer period (2021-22 to 2025-26). The projection is that expenses have peaked in 2021-22, with a step down in 2022-23 and again in 2023-24. Major drivers of the profile are:

- the phasing out of time-limited business and household support programs introduced in response to COVID-19 outbreaks
- the time-limited nature of much of the flood assistance, given the Government designed measures to assist communities as quickly as possible following the 2022 floods
- savings measures agreed since the Half-Yearly Review, which are detailed below.

Table 5.1: Expense reconciliation since the 2021-22 Half-Yearly Review

	2021-22 Revised	2022-23 Budget	2023-24	2024-25 Forward Estimates	2025-26
	$m	$m	$m	$m	$m
Expenses – 2021-22 Budget	**102,450**	**98,547**	**98,785**	**99,862**	**n.a.**
Policy measures	14,867	3,654	2,027	2,135	n.a.
Parameter and technical adjustments	3,330	973	524	393	n.a.
Expenses – 2021-22 Half-Yearly Review	**120,647**	**103,174**	**101,336**	**102,390**	**n.a.**
Policy measures	6,199	9,970	5,463	3,156	2,836
Parameter and other budget variations	(6,578)	1,766	2,825	4,167	n.a.
Reforms, savings and offsets	0	(32)	(127)	(213)	(274)
Expenses – 2022-23 Budget	**120,268**	**114,878**	**109,497**	**109,500**	**111,513**

Notes

(a) Total estimated expenses include an annual allowance for the established tendency for parameter and technical adjustments to increase expenses over time. These can be the result of changes in demand or cost of statutory services, or accounting adjustments. In the 2022-23 Budget, the allowance is set at a level equivalent to 0.3 per cent of expenses each year, increasing total estimated expenses across the Budget and forward years. This allowance is for estimates purposes only. It is not a provision for future new policy spending.

(b) Total estimated expenses include an allowance for the established tendency of expenditure to slip and be carried forward to future years. The allowance is based on observed trends, which have been exacerbated by recent disruption from COVID-19 and floods. In the 2022-23 Budget, the allowance is set at the equivalent of 4.7 per cent in 2022-23. In setting the allowance it is assumed that 90 per cent of under expenditures are carried forward into future years and that the extent of slippage declines by 0.2 percentage points each year.

(c) The final impact of health worker payments will be updated in the 2022-23 Half-Yearly Review, to reflect the measure being funded in 2022-23 but expensed in 2021-22, following accounting treatment refined after 6 June 2022.

(d) Further information on new measures is provided in the Measures Statement in Appendix A5.

Significant new expense measures since the 2021-22 Half-Yearly Review include:

- helping communities devastated by flood and storms ($3.5 billion), with a broad package of measures to support households, businesses, communities and councils
- responding to the outbreak of the Omicron variant of COVID-19, with measures including the procurement of rapid antigen tests ($1 billion) and support for impacted businesses ($1.1 billion)
- investing in the ambulance service, with 2,128 new staff and 30 new ambulance stations across Sydney and regional New South Wales ($1.76 billion)

- providing increased pay for public sector employees including nurses, teachers and paramedics. The Government is lifting the wages policy cap to 3.0 per cent for 2022-23 and 2023-24, with an additional 0.5 percentage points available in 2023-24 should appropriate productivity improvements be implemented ($1.4 billion). In addition, a one-off payment of $3,000 will be provided to NSW Health employees in recognition of their work on the frontline of the COVID-19 pandemic ($435 million)
- significant investment in early childhood education reforms ($1.3 billion) to help families meet the costs of preschool education. This includes contributing up to $4,000 per child towards service fees, ensuring children get the best start in life while at the same time boosting workforce participation
- a combination of measures totalling $1.1 billion over four years to encourage greater economic opportunities for women. This level of investment is unparalleled in any state and will lift overall productivity in New South Wales. Specific measures include:
  - $775 million for the creation of the Affordable and Accessible Childcare and Economic Participation Fund
  - $62.0 million to support affordable fertility treatments across New South Wales, including extending the fertility testing rebate (up to $2,000 per family) and increasing the number of fertility treatment places in public clinics
  - $20.2 million to contribute to a whole-of-government Women in Construction strategy to achieve a goal of women making up 15 per cent of employees in the construction industry by 2030
  - $8.0 million for dedicated support for women business owners through Service for Business and Business connect programs
- $703.4 million for a Future Economy Fund to drive growth in emerging high-value industries such as digital technology, medtech and the clean economy
- expanding the Regional Growth Fund by a further $1.3 billion
- providing toll relief to commuters ($520.0 million over two years), where every quarter, eligible non-business and small business customers will receive a 40 per cent cash rebate for every dollar spent on tolls once they have reached a minimum of $375, saving NSW drivers up to $750 a year
- $780.4 million two-year trial of a shared equity scheme for up to 6,000 eligible single parents, older singles and first home buyers who are teachers, nurses and police.
- $300.0 million over 10 years to provide grants for new business activities to competitively produce low emissions materials, green chemicals, hydrogen, power fuels, clean fuels and agricultural materials
- the transfer of Sydney Football Stadium from Infrastructure NSW to Venues NSW to operate the redeveloped stadium
- investing in measures that support First Nations communities and further expand the NSW Government's commitments under the National Closing the Gap Agreement ($715.8 million).

Box 5.1: The Government previously set aside $7 billion for productivity reform and as a COVID-19 contingency

The 2021-22 Half-Yearly Review set aside $7 billion to 2024-25[1] for productivity reform and as a COVID-19 contingency. This provision has been fully released to enable the following expense and capital expenditure measures[2]:

- COVID-19 business support package in response to the Omicron outbreak ($1.1 billion)
- supporting NSW Health to continue management of COVID-19 into the 2022-23 year ($770.8 million).
- the creation of the Crisis Reserve to address remaining liabilities and residual operational pressures within NSW government agencies resulting from COVID-19 ($300 million)
- the establishment of the Affordable and Accessible Child Care and Economic Participation Fund ($1.7 billion)
- supporting the introduction of universal pre-kindergarten for all children in New South Wales by 2030 ($1.8 billion)
- supporting energy initiatives which will accelerate the implementation of the Electricity Infrastructure Roadmap and the transition to a low carbon economy ($1.4 billion) including funding for the Transmission Acceleration Facility ($909.5 million)[3]
- supporting the rollout of Electric Vehicle Charging Infrastructure to facilitate a faster uptake of electric vehicles ($38.3 million)
- rewarding farmers who opt in to a Sustainable Farming accreditation program to improve carbon and biodiversity outcomes on their land, while maintaining or enhancing productive land use ($18.1 million[4])
- establishing a new Biodiversity Credits Supply Fund designed to increase the supply of biodiversity credits by purchasing credits to re-sell to public and private proponents ($21.0 million[5])
- the construction of six Rural Fire Service Fire Control Centres/Emergency Services Operations Centres ($8.2 million).

1 $7.3 billion to 2026-27.
2 In releasing the provision to individual projects, the annual profile of the $7.3 billion has been updated since the Half-Yearly Review. For example, the COVID-19 business support package had impacts in 2021-22. The expense and capital expenditure aggregates in the Budget are updated for this reprofiling.
3 For further information on this 10 year project see page 10-4 in Budget Paper 2.
4 This is the recurrent expense component for this measure only.
5 This is the recurrent expense component for this measure only.

Box 5.2: Delivering the COVID-19 response and recovery package to the Omicron variant

Over $200 million in additional support has been delivered since the 2021-22 Half-Yearly Review in response to the Omicron outbreak. Support to date has included:

- over 25,500 businesses received weekly payments of between $500 and $5,000 per week to help survive the immediate impacts of the Omicron wave. This was made available via the 2022 Small Business Support Program, with over $97.0 million in support paid to businesses
- approximately $500,000 was reimbursed to employing small businesses to offset the cost of Rapid Antigen Tests, to support the safety of their employees. This was part of the Small Business Fees and Charges program, a program that has now delivered over $151.0 million in rebates against government fees and charges to small businesses since 1 April 2021
- 960 music and performing arts workers were supported, with over $2 million in crisis relief payments
- $500,000 paid to performing arts venues, producers and promoters to assist the relaunch of performing arts sector in New South Wales to 19 May 2022. Since September 2021, over $125 million has been paid to over 10,000 performing arts venues, producers and promoters to help survive COVID-19 impacts
- over $5 million was paid to some 720 commercial landlords between 31 March and 13 May 2022, via an extension to the Commercial Landlord Hardship Fund. Since November 2021, the program has provided over $20 million in support
- $3.9 million has been paid in emergency relief grants, and over 55 case workers employed, to support over 27,000 temporary visa holders, refugees and vulnerable community members
- for those requiring emergency food and relief, OzHarvest, Foodbank and the Rapid Relief Team delivered an equivalent of 10.6 million meals between January and April 2022.

In addition, the Government issued approximately 50 million Rapid Antigen Tests (RATs) to support children to return to preschool, primary and secondary schools across the state.

This support brings the Government's total commitment to over $53 billion since March 2020 – across health, economic and social response measures (including Commonwealth contributions).

Box 5.3: Delivering support for flood affected communities

Floods in February and March 2022 had a devastating impact on communities, with 61 local government areas experiencing extensive damage to residential properties, public infrastructure, agriculture, businesses and the environment. Many of the affected local government areas were previously affected by floods in 2021, with the Northern Rivers region significantly impacted.

Over 169,000 people were required to evacuate due to flooding throughout February and March 2022. More than 10,000 buildings have been damaged, and 4,000 buildings found to be uninhabitable.

The NSW and Commonwealth Governments have jointly committed $3.5 billion in total assistance (2021-22 to 2024-25) to support communities, businesses and councils recover from these natural disasters. As part of this, the NSW Government has committed $2 billion in total (2021-22 to 2024-25) to the flood recovery. Key components include:

- $350 million for immediate clean up assistance for properties and other public, community and environmental assets, and waste disposal
- $350 million for the procurement and management of temporary and medium-term housing to support people unable to secure stable and ongoing accommodation
- $312.5 million to deliver State and Local government transport infrastructure resilience improvements and upgrades in the Northern Rivers
- $285.2 million for the Housing Support Package, covering rental assistance support, emergency and immediate housing measures as well as a housing flood recovery service
- $168 million to deliver new social and police housing, as well as repair and replace existing homes damaged during the floods
- $150 million for the Primary Industry Support Package, aimed at protecting supply chains, and boosting recovery and rebuilding efforts
- $150 million for the Northern Rivers Business Support Package, with $100 million earmarked to support small and medium businesses in the region
- $145 million for replacement of water and sewerage critical infrastructure in Northern NSW Local Government Areas[6]
- $142 million for the Property Assessment and Demolition Program to undertake an assessment of properties and demolish those found to be uninhabitable
- $112.5 million for Back Home Grants to help those most impacted restore their homes to a safe and habitable condition
- Primary Producer Grants of up to $75,000 to help salvage damaged crops, produce and stock, rebuild fences, and replace machinery
- Storm and Flood Disaster Recovery Small Business Grants of up to $50,000 for small business and not-for-profit organisations.

[6] The replacement of water and sewerage infrastructure is a fully State funded program.

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 of the Government's control. They include changes in demand, the timing of project delivery (for example, construction delays due to weather events), input costings, variations in Commonwealth Government grants, technical accounting and actuarial adjustments and the allocation of centrally held expenditure into agency budgets. They also include the adjustment of agency budgets to account for updated inflation forecasts.

The estimates in Table 5.1 also take into account central adjustments. These include adjustments to reflect historical underspends and carry forwards in agencies, as well as an allowance to recognise the likelihood of future parameter and technical adjustments for existing programs across Government.

The major variations since the 2021-22 Half-Yearly Review include:

- $972 million in higher depreciation expenses for motorway service concession assets, due to an increased valuation of the assets (valuation undertaken in compliance with Accounting Standard AASB 1059)
- an additional $509 million for schools to continue to meet the State's commitments under the National School Reform Agreement ("Gonski 2.0")
- an additional $437 million to recognise increased insurance premiums related to the Police Death and Disability scheme[7]
- an additional $322.9 million to address increased demand of claims for Victim Support Services
- other adjustments to depreciation expenses, to reflect the Government's investment in new infrastructure.

Fiscal management and sustainable expense growth

The Government has managed expense growth in line with the target of the *Fiscal Responsibility Act 2012*, with the exception of COVID affected years (2019-20 to 2021-22) when targeted response and support measures were required.

In 2022-23 the Government is projecting a reduction in total expenses. This primarily reflects the phasing out of temporary support measures as the economy recovers. Expenses are projected to fall further again in 2023-24. As a result, over the Budget and forward estimates, expense growth is expected to average -0.7 per cent per annum. This is within the target set out in the *Fiscal Responsibility Act 2012*.

This Budget incorporates additional savings measures, totalling $645.8 million over the four years to 2025-26. These include:

- $515 million savings stemming from the introduction of an efficiency dividend of 1 per cent in 2023-24, rising to 2 per cent in 2024-25 and 3 per cent in 2025-26 onwards. Savings are targeted to be delivered through non-frontline activities, grants management and administration, and ongoing digital transformation
- $108.7 million savings achieved through changes to the funding of public sector agencies' workers compensation contributions to incentivise better management of workplace injuries and risks by agencies
- $22.1 million in savings associated with the Government's decision to limit senior executive service remuneration increases to 2.0 per cent in 2022-23.

7 This expense was held in a central provision at the 2021-22 Half-Yearly Review and was recognised in the aggregates at the time.

In addition to the above measures, the Government is continuing to deliver on previously announced measures and reforms to strengthen fiscal management across the sector and ensure spending is efficient, effective and aligned to the delivery of highest priority outcomes. This includes the delivery of

- ongoing procurement savings and reforms
- targeted reviews
- the Government response to the Review of Grants Administration, to ensure any public money invested in grants programs is spent fairly, effectively and transparently.

The NSW Government's approach to Outcome Budgeting aims to drive a performance and delivery culture across agencies. Budget Paper No. 2 *Outcomes Statement* provides information on investment levels and performance across 39 State Outcomes.

5.2 Trends and outlook – expenses

Table 5.2: General government sector expenses

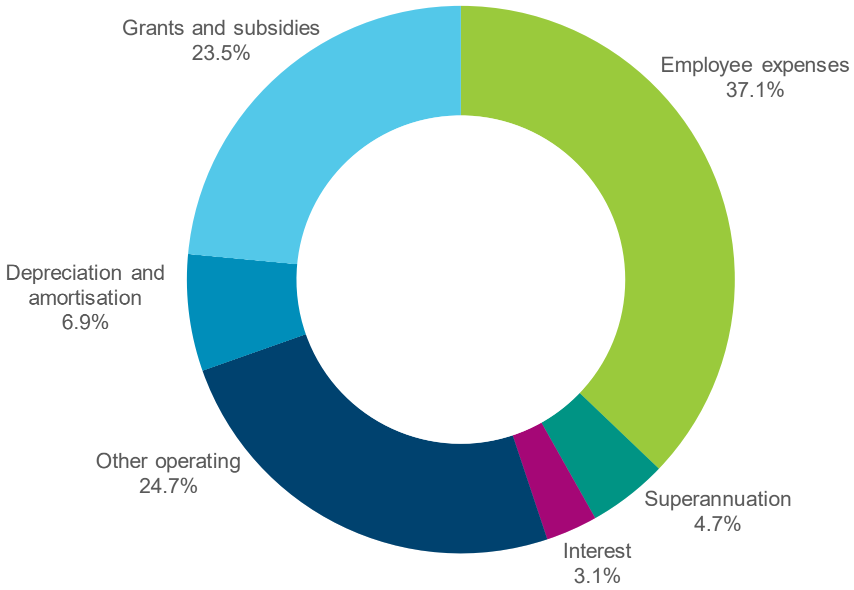
	2021-22	2022-23	2023-24	2024-25	2025-26	% Average growth p.a. 2021-22 to 2025-26
	Revised	Budget	Forward Estimates			
	$m	$m	$m	$m	$m	
Employee	40,430	42,640	42,866	44,033	45,264	*2.9*
Superannuation	4,464	5,396	5,520	5,633	5,751	*6.5*
Depreciation & Amortisation	7,481	7,907	8,228	8,546	9,047	*4.9*
Interest	2,500	3,566	4,602	5,252	5,973	*24.3*
Other Operating Expense	30,410	28,380	26,060	24,643	25,272	*(4.5)*
Grants, Subsidies, and Other Transfers	34,983	26,988	22,221	21,392	20,205	*(12.8)*
Total Expenses	**120,268**	**114,878**	**109,497**	**109,500**	**111,513**	*(1.9)*
Annual change	*26.5%*	*-4.5%*	*-4.7%*	*0.0%*	*1.8%*	

This section provides an expense line analysis of the Government's operating statement. It should be read in conjunction with Table 5.2 and Chart 5.1.

In summary, the major trends are:

- interest expenses and depreciation and amortisation expenses growing from 2022-23, due to significant infrastructure investments and investments in COVID-19 over recent years, as well as higher bond rates
- this increase being more than offset by a reduction in grants expenses and other operating expenses, as temporary stimulus and support measures are phased out
- employee expenses and superannuation trending upwards in reflection of the Government's increase to the wages cap for 2023-24 and 2024-25 (3 per cent) and increases in staffing levels for frontline services.

Chart 5.1: Composition of $114.9 billion in government expenses (2022-23)

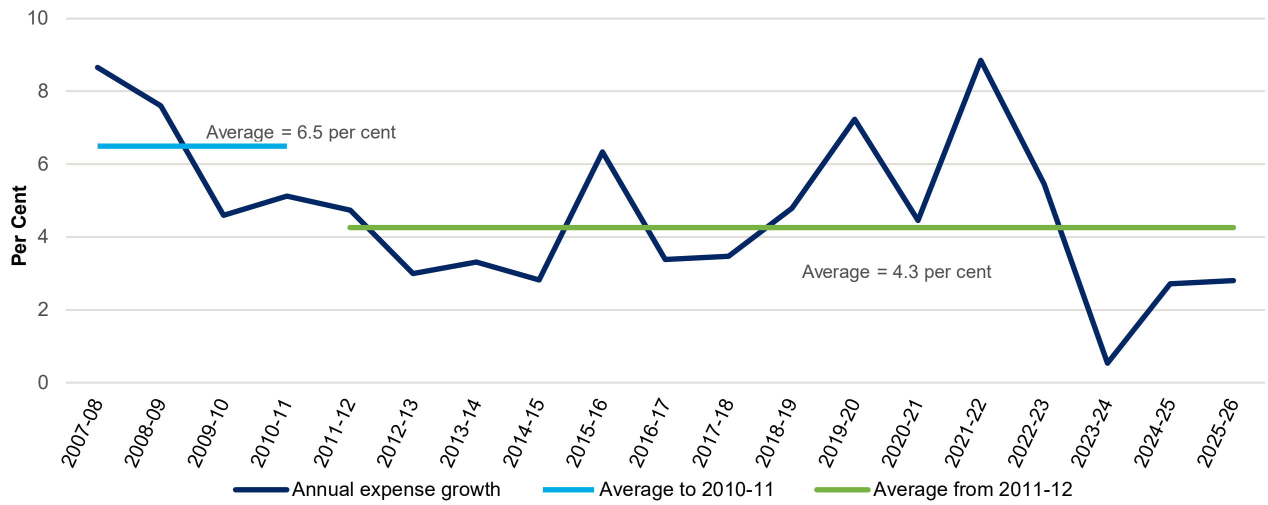


Employee expenses

Total employee expenses, excluding superannuation, are projected to be $42.6 billion in 2022-23. Employee expenses are the largest component of expenses, reflecting the NSW Government's role in delivering essential services. This projection includes the impact of the Government's decision to provide for higher wages.

Employee expenses are forecast to grow by an average of 2.9 per cent from 2021-22 to 2025-26. As shown in Chart 5.2, annual employee expense growth is more contained than in past years with average growth falling from 6.5 per cent (2007-08 to 2010-11) to 4.3 per cent (2011-12 to 2025-26).

Chart 5.2: Employee expense growth from 2007-08 to 2025-26



Superannuation expenses

Superannuation expenses are projected to be $5.4 billion in 2022-23, or 4.7 per cent of total expenses. These costs are associated with defined benefit and defined contribution plans. This expense line also incorporates the legislated increase to the superannuation guarantee, which rises from 10.0 per cent to 10.5 per cent from 1 July 2022. It then increases incrementally each year up to 12.0 per cent on 1 July 2025.

Superannuation expenses are forecast to increase by nearly 29 per cent from 2021-22 to 2025-26, an average growth of 6.5 per cent per annum. The majority of this increase occurs in 2022-23, driven by a material rise in 10-year Commonwealth Government bond rates in recent months. The primary driver of the remainder of the increase over the period is the combination of gradually increasing wages expense and the rise in the level of the superannuation guarantee.

Other operating expenses

Other operating expenses mainly represent the day-to-day running costs incurred in the delivery of government services and programs. It is the second largest category of expenses – projected to be $28.4 billion in 2022-23 (24.7 per cent of total expenses).

Other operating expenses are projected to be 6.7 per cent lower in 2022-23 than 2021-22. This is primarily due to the reductions in contractor, cleaning and health related expenses associated with the COVID-19 response and stimulus measures. Other operating expenses will continue to decline across the forward estimates as temporary COVID-19 response and recovery measures are phased out.

Grants, subsidies and other transfer expenses

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

Grants and subsidies are projected to be $27.0 billion in 2022-23, or 23.5 per cent of total expenses. This is $8.0 billion lower than the previous year. This significant decrease is largely attributable to the winding back of grant payments attached to temporary and targeted stimulus.

Of the $5 billion set aside for WestInvest at the 2021-22 Half-Yearly Review, a portion (approximately $2 billion) was accounted for as future grants in recognition that projects will be delivered by non-NSW Government partners. This remains in the projections for the Budget and forward estimates. Funding is not allocated to individual agencies until projects are evaluated and approved.

Depreciation and amortisation

Depreciation and amortisation expenses are forecast to be $7.9 billion in 2022-23, comprising 6.9 per cent of total expenses. These expenses are forecast to grow by 5.7 per cent in 2022-23 and by an average of 4.9 per cent annually from 2021-22 to 2025-26.

Depreciation and amortisation expenses are correlated to the level of infrastructure investment and the growth in the existing asset base. As the NSW Government continues to make record infrastructure investments in schools, hospitals and transport projects, higher depreciation expenses are projected.

Interest

Interest expenses are projected to be $3.6 billion in 2022-23 (3.1 per cent of total expenses). They are projected to increase to $6.0 billion in 2025-26, driven by a rise in bond yields and increasing borrowings throughout the forward estimates to fund the State's record infrastructure program.

There has been an upward revision in interest expenses across the Budget and forward estimates compared to expectations in the 2021-22 Half-Yearly Review. This is driven mainly by rising bond yields, compared to the much lower levels at the time of the 2021-22 Budget.

Even with the increases in borrowing costs, the Government's interest expense as a percentage of revenue is estimated to be an average of 3.7 per cent over the four years to 2024-25, which is slightly above the 3.4 per cent projected at the 2021-22 Half-Yearly Review (see Box 6.3 in Chapter 6 for detailed analysis).

5.3 Capital expenditure

General Government Sector

This section provides analysis of capital expenditure in the general government sector. It excludes the investment program of Government corporations (such as Sydney Water). After accounting for likely slippage, general government capital expenditure is projected to be $22.7 billion for 2022-23, an increase of 14.9 per cent from 2021-22.

Table 5.3 outlines the profile over the four years to 2025-26 as well as changes since the previous Budget.

Table 5.3: Capital expenditure reconciliation

	2021-22 Revised	2022-23 Budget	2023-24	2024-25 Forward Estimates	2025-26
	$m	$m	$m	$m	$m
Capital – 2021-22 Budget	**23,229**	**22,972**	**20,570**	**18,857**	**n.a.**
Capital measures	86	2,084	1,097	893	n.a.
Parameter and other variations	(351)	(1,407)	(606)	(14)	n.a.
Capital – 2021-22 Half-Yearly Review	**22,964**	**23,649**	**21,061**	**19,736**	**n.a.**
Capital measures	(251)	1,814	3,346	3,337	3,121
Parameter and other variations	(2,979)	(2,797)	(1,761)	(1,105)	n.a.
Capital – 2022-23 Budget	**19,734**	**22,666**	**22,646**	**21,968**	**21,114**

Notes

(a) Total estimated capital expenditure includes an allowance for the established tendency for capital expenditure to slip each year. The extent of slippage has been increasing in recent years due to market capacity constraints and supply chain disruptions. In setting the allowance, observed past slippage and broad assessments of market capacity are considered. In the 2022-23 Budget, this allowance for capital slippage is set at $8.0 billion in 2022-23 reducing to $50 million in 2025-26.

Significant investments since the 2021-22 Half-Yearly Review include:

- $1.4 billion over the four years to 2025-26 as part of a total $3.6 billion capital expenditure investment for the implementation of the Universal Pre-Kindergarten initiative
- $565.3 million over the four years to 2025-26 for the NSW Ambulance Infrastructure Program
- $261.9 million for the Advanced Manufacturing Research Facility in Bradfield City Centre.

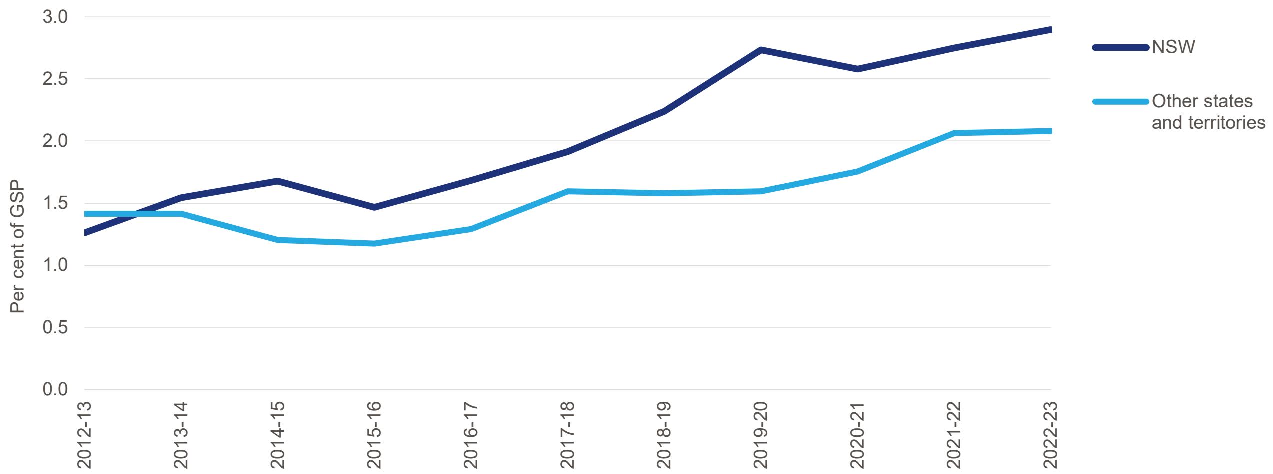
Detailed analysis of the Government's capital program is available in Budget Paper No. 3 *Infrastructure Statement*.

Delivering a record infrastructure investment will require active risk management. Risks include uncertainty around the ongoing impacts of COVID-19, international supply chain disruptions, material cost management and responding to any future natural disasters. Delivery agencies are working closely with industry to mitigate these risks as much as possible so residents can reap the benefits of this record capital program.

The parameter and other variation estimates in Table 5.3 take into account central adjustments for capital underspends and carry forwards, informed by historical data.

As a share of Gross State Product (GSP), general government capital expenditure has increased over the last 10 years from 1.3 per cent in 2012-13 to 2.9 per cent in 2022-23. It is also higher than other states and territories (see Chart 5.3).

Chart 5.3: General government sector capital spending relative to GSP[(a)]



(a) General government sector – purchases of non-financial assets per the cash flow statement, as a 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 2012-13 to 2020-21. State Budget papers and NSW Treasury calculations for 2021-22 and 2022-23.

Public Non-Financial Corporations Sector

Public non-financial corporations also invest in infrastructure assets, leading to improved service levels for residents. When this infrastructure program is combined with that of the general government sector, the Government's total capital expenditure investment is forecast to be a record $112.7 billion over the four years to 2025-26. Significant investments include:

- $8.3 billion in capital expenditure over four years by Sydney Water. This includes investment in water and wastewater infrastructure driven by the Greater Sydney Water Strategy to service growing population and cities, maintain existing infrastructure, provide new and resilient sources of water, and improve environmental and drinking water standards
- $2.2 billion in capital expenditure over the next four years for More Trains, More Services.

Box 5.4: Continued delivery of capital projects on the back of record investment

The 2022-23 Budget includes a record $112.7 billion infrastructure investment over four years across the General Government and Public Non-Financial Corporations Sector. The investment will build a better future and support economic growth. The record program includes:

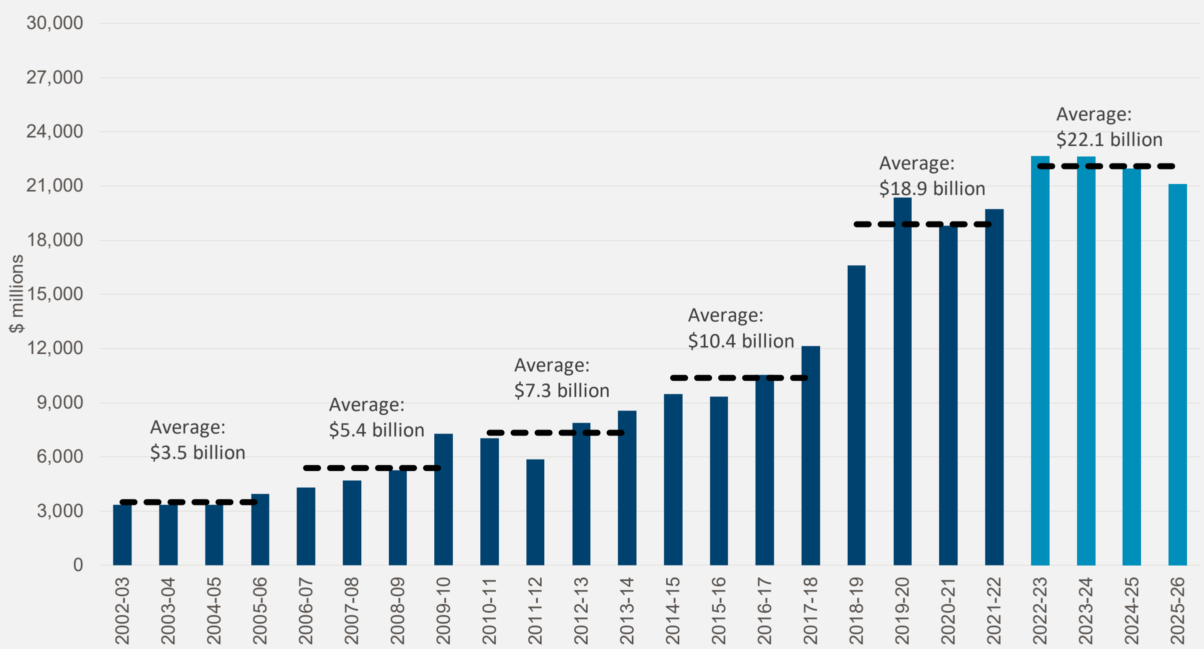
- $12.4 billion over four years for Sydney Metro West
- $3.2 billion over four years for the Great Western Highway Upgrade
- $1.3 billion for Bankstown Hospital (estimated total cost)
- $9.2 billion over four years in new and upgraded schools and TAFE infrastructure all across the State.

These projects add to infrastructure delivered, or soon to be delivered, including:

- the $630 million Albion Park Rail Bypass, which extended the M1 Princes Motorway between Yallah and Oak Flats to bypass Albion Park
- the $470 million new Maitland Hospital which will deliver a range of new and expanded health services to meet the growing healthcare needs of communities in Maitland and the Lower Hunter
- the new Meadowbank Employment and Education Precinct, a connected education community catering for 1,000 primary school students, 1,500 secondary school students and a further 120 intensive English Centre students.

The package of infrastructure projects in this Budget continues a sustained effort over more than a decade. Chart 5.4 below highlights how the profile of the Government's capital spend has increased over the last 20 years.

Chart 5.4: General government sector capital expenditure since 2002-03



6. MANAGING THE STATE'S ASSETS AND LIABILITIES

- New South Wales is continuing to use its balance sheet to support the long-term productive capacity of the economy, with a $112.7 billion infrastructure program funded by a mix of borrowings, operating cash surpluses and financial assets (e.g. Restart NSW).
- Despite the fiscal impact of COVID-19 and floods, new borrowings for 2021-22 are projected to be $3.0 billion lower than at the 2021-22 Half-Yearly Review, supported in part by the accelerated pace of debt retirement from the NSW Generations Fund (including WestConnex sale proceeds).
- Net debt is projected to stabilise from June 2026 onwards at around 14 per cent of GSP before gradually declining towards the end of the decade. This is consistent with the Government's commitment to a sustainable and diversified infrastructure pipeline that supports a strong and resilient construction sector.
- Net worth is projected to be $271.8 billion by June 2022 which represents a $28.6 billion improvement from the June 2022 projection at the 2021-22 Half-Yearly Review. This is supported in part by the State's growing asset base.
- The NSW Government is leading by example in applying environmental, social and governance (ESG) considerations to the balance sheet (e.g., Green and Sustainability Bonds, Social Impact Investment), with a review underway to help ensure the Government can remain at the forefront of ESG investing.
- To help diversify the State's investor base and facilitate capital flows towards ESG objectives, the NSW Government has become one of the largest semi-government issuers of Green and Sustainability Bonds in Australia, with $7.0 billion issued to date.
- The NSW Office of Social Impact Investment is prioritising the first two investment rounds from the $30 million Social Impact Outcomes Fund to supporting women facing disadvantage and Indigenous youth.

6.1 A sustainable approach to balance sheet management

The Government is aligning the State's financial activities (e.g., investing, issuing bonds, procuring, and stewarding resources) with more sustainable outcomes through a variety of initiatives, including:

- bringing a longer-term focus on ESG risks and opportunities, which will support the Government's commitment to reduce emissions to 50 per cent below 2005 levels by 2030 and net zero emissions by 2050
- investing in energy and low carbon initiatives such as the Transmission Acceleration Facility ($1.2 billion net maximum impact after recycling proceeds) to accelerate the delivery of the new transmission projects required for Renewable Energy Zones across regional New South Wales (total gross investment, which is intended to be fully recouped, is $3.1 billion over the next 10 years)
- committing to build the 700-Megawatt Waratah Super Battery (the largest network standby battery in the Southern Hemisphere) to allow Sydney, Newcastle, and Wollongong consumers to access more energy from existing electricity generation following the early closure of Eraring Power Station in 2025

- integrating ESG principles into TCorp's investment decision-making and active ownership of companies, with an ESG Review underway (see Box 6.1)
- meeting investor demand in Green and Sustainability bonds, by adding over $4.6 billion to the NSW Sustainability Bond Programme's asset pool in 2021-22 (see Box 6.4).

Box 6.1: Managing the State's Investment Funds in line with Environmental, Social and Governance (ESG) principles

The Government recognises the importance of ESG factors in pursuit of longer-term sustainable financial returns alongside delivering a healthier economy, society and environment. Currently, NSW Treasury Corporation manages around $105 billion of State funds in accordance with its Investment Stewardship Policy.

ESG Review

Responsible investment advisor Pru Bennett is currently leading a review into the incorporation of ESG factors into the investment processes of TCorp. The ESG Review will consider the existing stewardship policy and practices of TCorp and recommend potential areas of improvement to ensure the State remains at the forefront of ESG investing. The ESG Review is expected to be completed later in 2022.

Divestment of Russian Holdings

In March 2022, the Treasurer directed TCorp not to purchase further Russian investments and to divest its existing ones to show support for Ukraine. TCorp has since divested all direct holdings of Russian debt. Some portfolios continue to hold Russian equities as the Russian Central Bank has constrained foreign investors' ability to sell these by imposing market access restrictions and capital controls. Markets continue to be monitored for opportunities to complete the divestment process.

ESG Impact on the State's Credit Rating

In April 2022, Moody's issued New South Wales with a neutral to low ESG Credit Impact Score, reflecting the neutral to low impact ESG factors have on the State's credit rating. Moody's rated the State's exposure to social and governance risks as positive. However, these were offset by a moderately negative exposure to environmental risks arising from climate-change related natural disasters and the carbon transition.

Sustainable Finance Framework

The soon to be released New South Wales Sustainable Finance Framework will ensure the NSW Government's financial activities are aligned with its environmental and social priorities. It will also help to establish the conditions and tools to support embedding these considerations across the finance sector and economy more broadly. Implementation of the Framework will assist NSW to more effectively manage ESG related risks and capture economic opportunities over the short and long term.

6.2 Key balance sheet changes since the 2021-22 Half-Yearly Review

Key balance sheet movements since the 2021-22 Half-Yearly Review (see Table 6.1) include:

- a projected $5.7 billion decrease in outstanding borrowings to $105.6 billion at June 2022, primarily driven by the Government's debt retirement program and a $3.0 billion decrease in new borrowing requirements in 2021-22. This decrease is driven by an improved revenue outlook and a reprofiling of agency expenditure to future years. This is partially offset by the additional spending on economic support measures for floods and the Omicron outbreak
- a projected $28.6 billion increase in net worth to $271.8 billion at June 2022 since the 2021-22 Half-Yearly Review. This increase is primarily driven by an increase in equity investments in other public sector entities and a reduction in the valuation of the Government's defined benefit superannuation liability.

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

	June 2021 Actual	June 2022 Revised	June 2023 Budget	June 2024	June 2025 Forward Estimates	June 2026
Total Assets ($m)	454,096	495,052	514,439	540,643	560,341	579,575
Financial Assets ($m)	168,211	186,630	189,143	198,548	205,155	212,443
Non-Financial Assets ($m)	285,884	308,421	325,296	342,095	355,186	367,132
Total Liabilities ($m)	219,509	223,239	247,236	267,413	281,274	299,260
Net Worth ($m)	234,587	271,812	267,203	273,230	279,067	280,316
Net Worth as a per cent of GSP[(a)]	36.5	39.6	35.5	34.7	34.4	33.5
Net Debt ($m)	37,076	53,538	78,169	93,749	105,519	114,814
Net Debt as a per cent of GSP	5.8	7.8	10.4	11.9	13.0	13.7

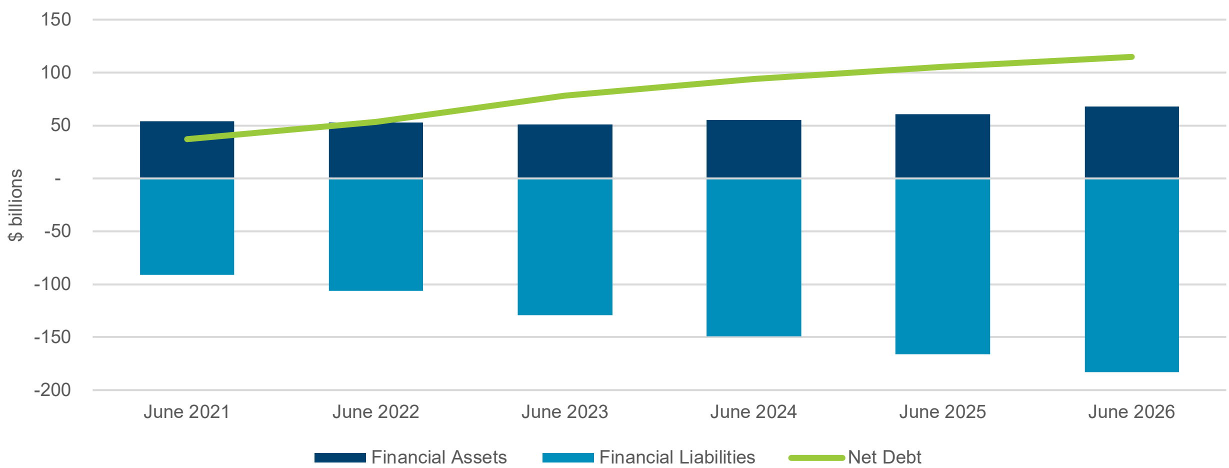
(a) Gross State Product (GSP) for NSW from June 2022 to June 2026 is forecast by NSW Treasury.

6.3 Maintaining sustainable levels of net debt

The Government is committed to maintaining sustainable debt levels over the medium term. This Budget is projecting net debt to be $105.5 billion at June 2025 (13 per cent of GSP), which remains in line with projections at the 2021-22 Half-Yearly Review. This reflects an improved revenue outlook offset by an increase in investment in the long-term productive capacity of the economy (see Box 3.3) funded by borrowings.

Net debt is projected to stabilise from June 2026 onwards at around 14 per cent before gradually declining towards the end of the decade. This is consistent with the Government's commitment to a sustainable and diversified infrastructure pipeline that supports a strong and resilient infrastructure sector.

Chart 6.1: General government sector net debt



Financial assets included in net debt

Financial assets included in the calculation of net debt are projected to be $52.9 billion at June 2022, which is $1.2 billion lower than projected at the 2021-22 Half-Yearly Review. This is primarily driven by a lower cash balance to support the accelerated pace of debt retirement (see Box 6.2). These assets also include the State's investment funds and other assets.

Fund performance to April 2022 was weaker than the prior 12 months, as financial markets have been affected by rising inflation and uncertainty about monetary policy actions to manage it. Nonetheless, longer-term performance remains broadly in line with expectations.

Financial assets at fair value are projected to grow to $63.4 billion by June 2026, supported by growth in the State's investment funds over the budget and forward estimates. Key Government investment funds are shown in Table 6.2.

Table 6.2: NSW investment funds returns to April 2022

Fund	Inception Date	Fund Balance (as of April 2022) $ billion	Investment Objective %	FYTD Returns (as of April 2022) %	Returns Since Inception %
NSW Generations Fund (NGF)	Nov-18	15.2[(a)]	CPI + 4.5	(0.2)	7.0
NSW Infrastructure Future Fund (NIFF)	Dec-16	9.0	CPI + 2.0	(2.9)	4.2
Social and Affordable Housing Fund (SAHF)	Aug-17	1.6	CPI + 4.0	(1.8)	6.7
Treasury Managed Fund (TMF)	Mar-99	12.7	CPI + 3.5	(0.8)	6.8

(a) This does not include cash set aside for debt retirement.

The Snowy Hydro Legacy Fund (SHLF) was established only in December 2021, seeded by a portion of the Snowy Hydro sale proceeds. As such, there has been insufficient time to establish a robust track record for its returns. As of April 2022, the SHLF's balance was $1.6 billion, with commitments identified for regional projects.

Other financial assets included in the calculation of net debt include cash and cash equivalents. Since the 2021-22 Half-Yearly Review, cash and cash equivalents are projected to decrease by $2.0 billion to $3.1 billion at June 2022. This is driven by the Government accelerating the pace of debt retirement using the NGF in 2021-22 (see Box 6.2).

Financial liabilities included in net debt

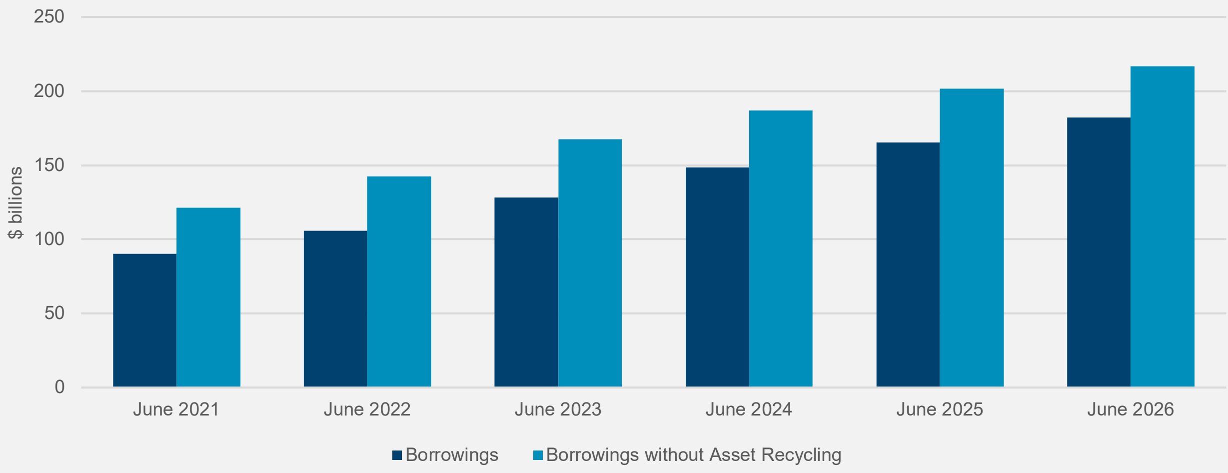
Financial liabilities included in the calculation of net debt are projected to be $106.5 billion at June 2022. These liabilities include borrowings (including leases), advances received, and deposits held.

Projected borrowings at amortised cost for 2021-22 have decreased by $5.7 billion since the 2021-22 Half-Yearly Review. This reduction is primarily driven by the Government's debt retirement program (see Box 6.2) and a $3.0 billion decrease in new borrowing requirements in 2021-22.

Box 6.2: Managing Debt Sustainably

Since January 2022, $7.7 billion of State debt has been retired using the NGF, including a $4.3 billion benchmark bond maturing in March 2022. This is possible because of the sale of WestConnex in 2021. Consequently, projected debt retirement has been brought forward since the 2021-22 Half-Yearly Review, with the remaining $3.3 billion to be retired in 2022-23. Along with previous asset recycling initatives, this has reduced the debt burden in future years (see Chart 6.2).

Chart 6.2: Asset recycling has reduced borrowings



For 2022-23, projected borrowing requirements have increased by $2.0 billion since the 2021-22 Half-Yearly Review. Higher borrowing requirements have been driven by additional support measures for the Government's COVID-19 response (see Box 5.2) and flood relief (see Box 5.3), and an increase in Government investment to support the long-term productive capacity of the economy (see Box 3.3).

To take pressure off the State's cash requirements in 2021-22, the Government suspended contributions to the NGF. That suspension has now been extended to 2022-23. Contributions to the NGF are projected to resume in 2023-24, when the cash operating position is projected to return to a surplus of $3.8 billion.

Financial liabilities included in the calculation of net debt are forecast to grow to $182.8 billion by June 2026. The projection for financial liabilities by June 2025 has increased since the 2021-22 Half-Yearly Review, primarily due to a $4.3 billion increase in borrowings.

Elevated borrowing levels create interest rate and refinancing risks (see Box 6.3). The NSW Government seeks to reduce these risks where possible through various measures including extending the average maturity of liabilities in the portfolio and diversifying the investor base. The bulk of the borrowings portfolio is fixed rate bonds.

Box 6.3: Interest rate affordability and refinancing risk

Since 2020, TCorp 10-year bond yields have risen from around 1.0 per cent (a record low reached in November 2020) to over 4.0 per cent in June 2022. This follows a similar trajectory to Australian Government 10-year bonds and is primarily due to investor expectations of a stronger economic recovery, record low unemployment, a sharp rise in inflation and continued global shocks. Consequently, interest expense projections have also risen (see Chart 6.3).

The NSW Government's interest expense as a percentage of revenue is estimated to be an average of 3.7 per cent over the four years from 2021-22 to 2024-25, which is above the 3.4 per cent projected at the 2021-22 Half-Yearly Review (see Chart 6.3). Even with the increase in yields, the cost of Government borrowings remains manageable and below 5 per cent of revenue on average over the forward estimates.

The Government's borrowing portfolio

Despite the sharp rise in Australian bond yields, the weighted average yield across the general government borrowing portfolio remains at around 2.1 per cent. Additionally, the weighted average life (the period for which that low weighted average yield is locked in) is approximately 7.6 years (see Chart 6.4). The Government has proactively locked in a lower average interest rate for a longer period, limiting the increase in interest expense even as bond yields rise.

Chart 6.3: Interest Expense to Revenue - Budget vs Half-Yearly Review

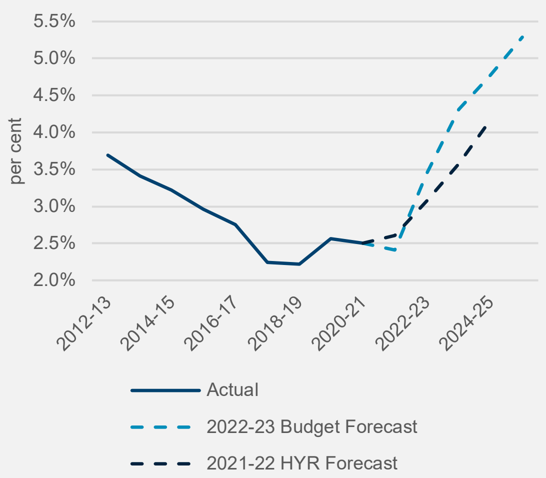
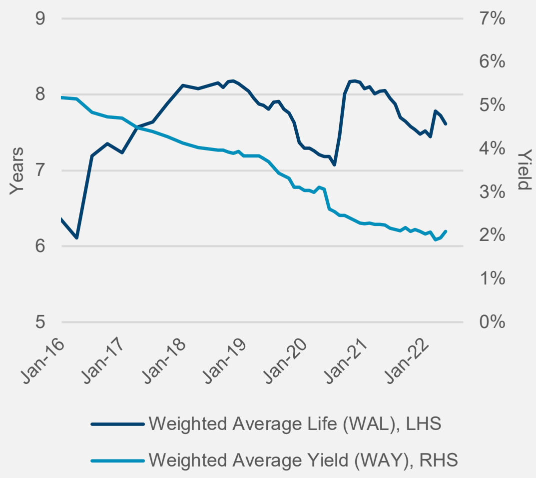


Chart 6.4: Average yields have fallen as the average weighted life of debt has increased

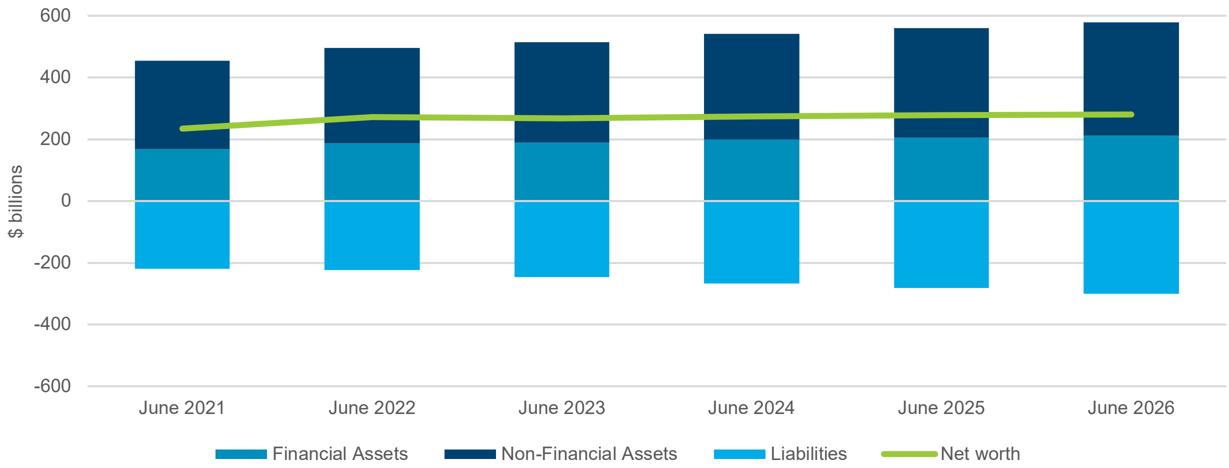


6.4 Net worth continues to grow

Relative to 2021-22 Half-Yearly Review, general government sector net worth is projected to increase by $28.6 billion to $271.8 billion by June 2022. This is primarily driven by an increase in investments in other public sector entities and a reduction in borrowing requirements.

From June 2023 to June 2026 net worth is forecast to increase by $13.1 billion to $280.3 billion (see Chart 6.5). This increase is driven primarily by a stronger cash operating position over the forward estimates, an increase in investments in other public sector entities and the growth of the State's investment funds.

Chart 6.5: General government sector net worth to increase over the next four years

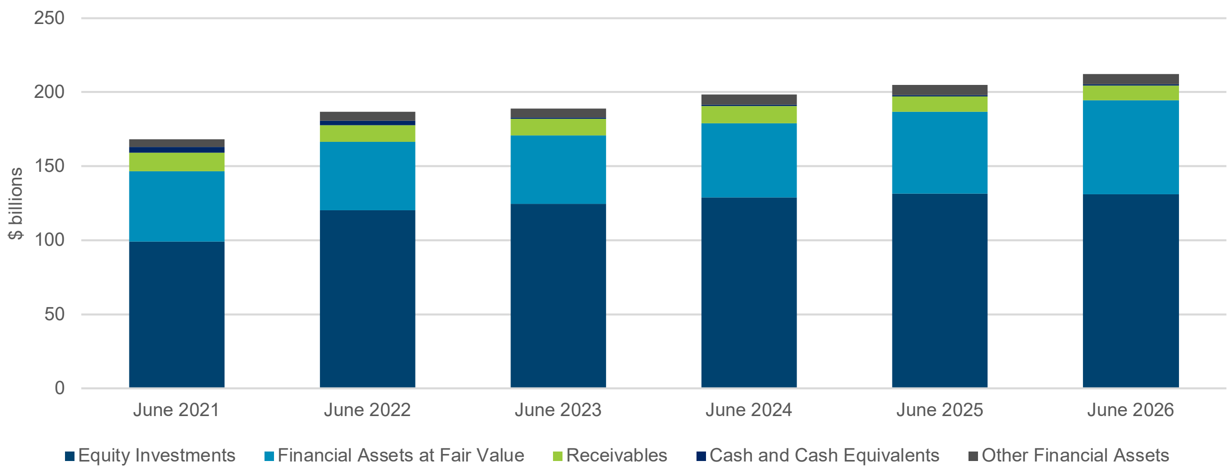


Financial assets included in net worth

The State's total financial assets are projected to rise to $186.6 billion at June 2022 (see Chart 6.6). Financial assets are forecast to reach $212.4 billion by June 2026 driven by the expected returns of and contributions into the State's investment funds.

The Government's projected total financial assets in June 2022 will increase by $10.0 billion compared to the 2021-22 Half-Yearly Review, primarily driven by a $10.4 billion valuation increase in equity investments in other public sector entities including NSW Land and Housing Corporation.

Chart 6.6: General government sector financial assets increasing over time

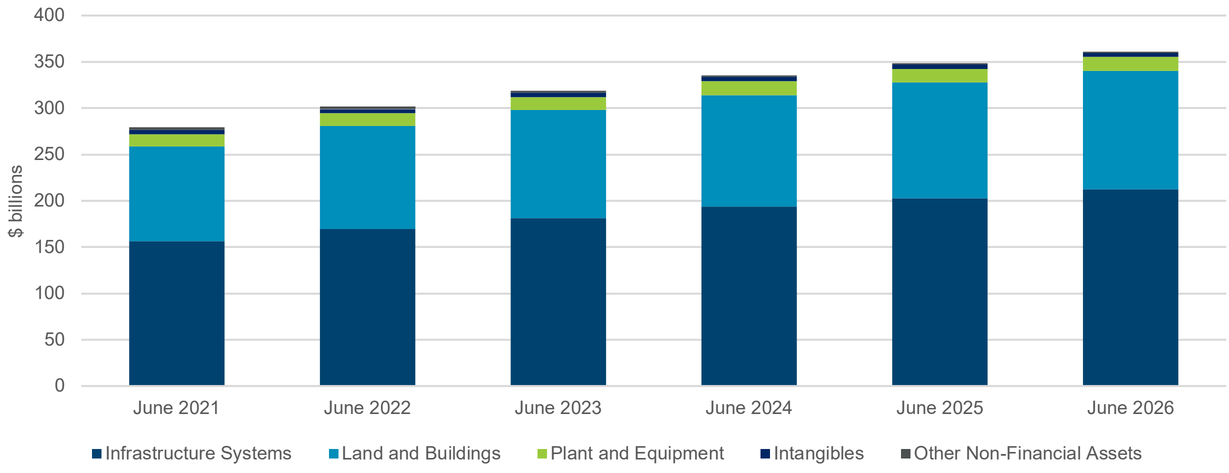


Non-financial assets included in net worth

The State's non-financial assets are projected to reach $308.4 billion by June 2022 (a $4.6 billion increase relative to the 2021-22 Half-Yearly Review) and $367.1 billion by June 2026 (see Chart 6.7). This expected increase to June 2026 is primarily due to:

- a projected increase in the State's productive infrastructure systems of $31.1 billion from June 2023 to June 2026 driven by investment in public transport infrastructure
- a projected increase in the value of land and buildings, projected of $11.7 billion from June 2023 to June 2026 driven by investment in transport, schools, and hospitals.

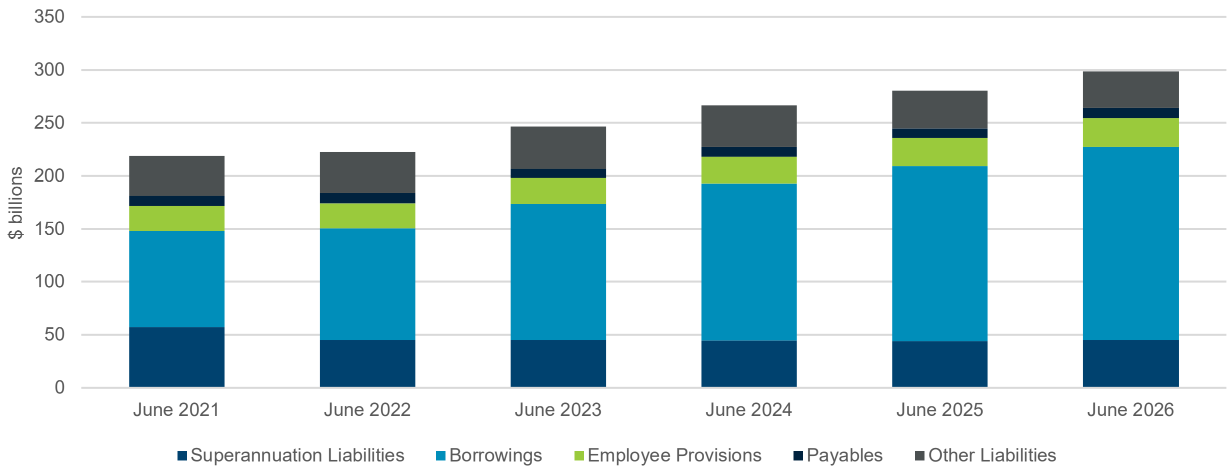
Chart 6.7: General government sector non-financial assets growing over time due to infrastructure investment



Liabilities included in net worth

Total liabilities are projected to be $223.2 billion at June 2022 and increase to $299.3 billion by June 2026 (see Chart 6.8). This is predominately driven by the State's increased borrowings to deliver the Government's record infrastructure program.

Chart 6.8: Liabilities to increase over the forward estimates



Borrowings represent the largest liability category on the general government sector balance sheet and are projected to increase over the forward estimates from $105.6 billion at June 2022 to $182.2 billion by June 2026. TCorp is the State's central borrowing authority and seeks to mitigate financing risk through diversification of funding sources and funding types. This includes the issuance of Green and Sustainability bonds through the NSW Sustainability Bond Programme (see Box 6.4), lengthening the maturity profile and issuing different types of fixed interest instruments to appeal to a broader set of investors.

The second largest category is the defined benefit superannuation liability, the valuation of which is sensitive to long-term Commonwealth Government bond rates. Forecasted movements in the Commonwealth Government bond rate over the forward estimates result in a June 2026 valuation that is similar to the June 2022 valuation. Superannuation liabilities are projected to gradually decline over the medium term as the Government makes progress towards full funding.

As noted in the 2020-21 Budget, the Government suspended contributions into its defined benefit schemes for two years. The Government also re-anchored its target for superannuation liabilities to be fully funded from 2030 to 2040, considering the pressure COVID-19 placed on the State's finances. Contributions into defined benefit schemes will resume in 2022-23.

As of 30 June 2021, PricewaterhouseCoopers confirmed that the Government is on track to meet its commitment towards its 2040 full funding target in the latest triennial review of the Pooled Fund (which represents the vast majority of the Government's defined benefit superannuation liabilities). Once the current period of heightened uncertainty is over, the Government will progress amendments to the *Fiscal Responsibility Act 2012* to reflect the 2040 full funding target.

Employee provisions, including long service leave, are projected to increase marginally over the forward estimates from $23.7 billion in June 2022 to $27.3 billion in June 2026.

Box 6.4: NSW Government and Impact Investing

Investors are increasingly recognising the broader environmental and social profiles of governments and the private sector. The NSW Government is a leader in this space, having the largest sustainability bond program in Australia and launching Australia's first two social impact bonds in 2013.

NSW Sustainability Bond Programme (SBP)

The SBP enables the NSW Government to diversify the State's investor base and facilitate capital flows towards ESG objectives, with $7.0 billion in Green and Sustainability bonds issued to date. Proceeds are earmarked to finance or refinance assets and projects with transparent and positive environmental and/or social outcomes.

In 2021-22, the Office of Social Impact Investment, TCorp and the Office of Energy and Climate Change added over $4.6 billion to the SBP asset pool. Diversification was also achieved by including more social assets and projects, such as the Critical Communications Enhancement Program and Social Housing Maintenance Stimulus Program.

Social Impact Investments Delivered to Market

Understanding the role of impact investing in driving better services, outcomes and value, New South Wales has delivered another seven investments since 2013 through the Office of Social Impact Investment in partnership with for-purpose and for-profit sectors (see Table 6.3).

A key social impact investment initiative includes Foyer Central, which provides 18 to 22 year old out-of-home care (OOHC) leavers with a stable, affordable home and tailored, strengths-based, 24/7 support to develop skills to lead independent and fulfilling lives. Opened in 2021, this is the first Foyer globally to be financed through a Social Impact Bond, attracting investment from private investors and funding from the Commonwealth.

These investments demonstrate that the principles of social impact investment have potential to help empower the people of New South Wales to live better lives. These principles include a focus on outcomes, innovation, prevention and partnerships. Learnings from these investments form the basis of the State's second Social Impact Investment Policy.

Table 6.3: Timeline of Key Social Impact Investment Initiatives

Year	Key Initiatives
2015	Inaugural Social Impact Investment Policy launched
2016	On TRACC (recidivism) social impact investment began
2017	Resolve (mental health) and Silver Chain (palliative care) social impact investments commenced
2018	Resilient Families (family preservation) the first social impact bond to mature in Australia, the program continued under a payment-by-results contract
2019	Sticking Together Project (youth employment) and Home and Healthy (homelessness) social impact investments began
2020	Newpin (family restoration) social impact bond matured, the program continued under a payment-by-results contract
2021	Youth Employment Social Impact Program and Foyer Central (OOHC leavers) social impact investments commenced
2022	Second Social Impact Investment Policy launched

New Social Impact Investment Initiatives

Enabled by the $30 million Social Impact Outcomes Fund, the Government is piloting innovative cross-sector solutions, including the recently announced market opportunity focusing on advancing women's economic wellbeing through social enterprises.

Recognising the need to invest in capability building, the Government will also allocate $1.3 million over two years from 2022-23 to establish a Social Enterprise Grant Program for women-focused social enterprises. The Grant Program will support social enterprises that are focused on delivering outcomes for women to receive tailored capability-building support to develop, grow or scale up their business.

7. COMMERCIAL PERFORMANCE IN THE BROADER PUBLIC SECTOR

- NSW public corporations are commercial businesses owned by the Government. They deliver goods and services to the community in a market-oriented manner and are governed by independent boards.
- The Government is committed to increasing the number of women in leadership positions across New South Wales and is leading the way with its government businesses by introducing gender diversity targets for the boards of State Owned Corporations (SOCs) and public financial corporations (PFCs). Statistics on SOC and PFC board gender diversity will be published annually on Treasury’s website.
- The Government has taken further steps to support SOCs to deliver sector outcomes through the introduction of the Statement of Expectations. The Statement of Expectations will help SOCs better align their strategic direction with the Government's priorities, while maintaining their independence of operation in a commercial manner. The Shareholding Ministers and the relevant Portfolio Minister have issued the first Statement of Expectations for Forestry Corporation of NSW, Port Authority of NSW, Transport Asset Holding Entity of NSW and each water business.
- SOCs are seeking to deliver sustainability outcomes and have commenced a range of actions to address carbon reductions.
- The total dividend and tax equivalent payments by public corporations to the general government sector are $627.1 million in 2021-22 and are forecast to be $761.1 million in 2022-23. Over the Budget year and forward estimates, the total dividend and tax equivalent payments are $925.3 million higher than the comparative forecast in the 2021-22 Budget.

7.1 Overview of the broader public sector

The broader public sector comprises three categories, with this chapter focusing on the latter two (see Figure 7.1):

- the **general government sector** which includes entities that deliver non-market goods and services and are primarily funded by the State budget
- the **public non-financial corporation** (PNFC) sector which covers entities that deliver market goods and services. This category includes SOCs which are wholly owned by the Government but governed by independent boards. They operate commercially and can generally recover their costs from customers
- the **public financial corporation** sector which provides financial services to the Government, people and businesses of New South Wales. It includes NSW Treasury Corporation and Insurance and Care NSW.

Appendix A4 of Budget Paper No.1 *Budget Statement* provides detailed descriptions of these categories and includes a full list of NSW public sector entities according to their classifications.

Figure 7.1: The public sector and its commercial operations

Box 7.1: Gender diversity targets for the boards of major government businesses

The Government is committed to increasing the number of women in leadership positions across New South Wales and is leading the way with its government businesses.

In April 2022, the Treasurer introduced gender diversity targets for the boards of SOCs and PFCs. The targets are:

- no less than 40 per cent of board director positions filled by women on each SOC and PFC board
- overall, 50 per cent of all SOC and PFC board director positions combined to be filled by women.

These targets will accelerate change and embed gender diversity within NSW government businesses.

Government businesses were already addressing gender equality on their boards before the introduction of these targets. As of April 2022, six out of the eight SOC boards have over 40 per cent of director positions filled by women, with the overall proportion of women directors for all SOCs and PFCs at 42 per cent.

Improving diversity in the boardroom broadens a board's perspective and improves its effectiveness and decision-making, which will benefit the business through enhanced consumer insight, strengthened financial performance, and improved corporate governance.

7.2 Reforms and initiatives of public non-financial corporations

Water

Sydney Water, Hunter Water and WaterNSW supply water to metropolitan and regional areas. Sydney Water and Hunter Water are also responsible for wastewater management.

Box 7.2: Responses to extreme rainfall

The Government is committed to ensuring resilience of the water system in response to climate change. NSW water businesses have achieved successful outcomes in recent years in managing the impacts of extreme weather events. The businesses continue to progress initiatives to improve resilience of the water system, including the Lower Hunter Water Security Plan to be delivered by Hunter Water.

During the floods of early 2022, WaterNSW and Sydney Water successfully managed the impacts on the water system and ensured water safety. The rain across Metropolitan Sydney generated two major spill events at Warragamba Dam and other Sydney Metropolitan dams. WaterNSW worked closely with the State Emergency Service and the Bureau of Meteorology to monitor weather and dam inflows. WaterNSW also worked with Sydney Water and NSW Health to manage the water quality of drinking water catchments.

Sydney Water successfully managed the record volume of rainfall flowing through its four key filtration plants. Sydney Water's Emergency Control Centre provided continuous monitoring to ensure the supply of clean and safe drinking water to its five million customers. During the two-week rain event in March 2022, Sydney Water's System Operating Centre which controls the water and wastewater network:

- handled over 1,700 responses compared to the monthly average of 800
- actioned over 20,000 network alarms, double the average amount under normal operations.

In April 2022, the Shareholding Ministers and the Portfolio Minister issued their first Statement of Expectations for each water business. The statement clarifies the Government's priorities in relation to the work of the business. Water businesses are expected to align their strategic direction with the Government's expectations, while operating in a commercial manner.

Over the next decade, Sydney Water plans to invest $23.9 billion to service growing population and cities, maintain existing infrastructure, provide new and resilient sources of water, and improve environmental and drinking water standards. This will all be done while keeping customer bills among the lowest in Australia. $4.6 billion of this investment will go towards addressing the challenges identified by the Greater Sydney Water Strategy, such as ensuring a resilient water supply, urban greening and cooling initiatives, and clean and healthy local waterways.

Sydney Water's capital investment program will create jobs and provide a significant contribution to the NSW economy. For example, the new Advanced Water Recycling Centre near the Western Sydney Airport will create 138 full-time jobs during the construction phase and generate 254 full-time indirect jobs in professional services, and scientific and technical sectors.

Hunter Water continues to invest in the Find and Fix Leaks program in partnership with community housing providers. Lower Hunter households have reduced their daily water consumption by 17 per cent over the last four years. Smart water choices in homes have translated into lower bills for Hunter Water customers, with the average annual household bill falling by $90, to $1,090 per year in 2021-22.

In April 2022, the Department of Planning and Environment released the Lower Hunter Water Security Plan. The plan is a whole-of-government approach to ensuring the Lower Hunter and Greater Newcastle region has a resilient and sustainable water future that contributes to regional health and prosperity. It outlines a series of initiatives, including:

- a water conservation target
- the delivery of a desalination plant at Belmont
- better interregional connections to the Upper Hunter.

The implementation of these initiatives has commenced.

Consistent with the Lower Hunter Water Security Plan, Hunter Water will be maintaining its focus on supporting its customers and community to reduce their potable water usage. This includes direct investment in innovative programs. For example, the washing machine replacement trial with the NSW Land and Housing Corporation provides an additional avenue for residents of social housing to replace older and high water-consuming washing machines with new and efficient ones.

WaterNSW continues to deliver its flagship IT transformation program. This program aims to achieve service and efficiency improvements, enhance transparency and mitigate risks. For example, WaterNSW has developed an online water information hub, the Water Insights portal. The portal uses the latest technology to deliver water management information to the customers and other key stakeholders. The information includes river flows, dam storage levels, water availability and weather outlooks.

Energy

Essential Energy operates and maintains one of Australia’s largest electricity networks, covering 95 per cent of New South Wales. As a regional electricity distributor, Essential Energy plays a critical role in securing safe, reliable and affordable energy delivery to more than 1,500 communities across regional, rural and remote New South Wales.

With significant change amid the electricity distribution industry, Essential Energy is responding by strengthening its core business through more efficient processes, enhanced employee capabilities and improved customer interactions. Essential Energy is embracing the energy transition through exploring new network technologies. These include microgrids, stand-alone power systems and other distributed energy resources, and other innovations that lower costs and improve power supply reliability.

Transport

Transport Asset Holding Entity of NSW (TAHE) owns an extensive asset portfolio of property, stations, rollingstock and rail infrastructure across the Sydney metropolitan area, the country regional network and other limited locations in New South Wales. TAHE is also the strategic asset manager of these assets.

TAHE is now in its second year of operation, after RailCorp was renamed TAHE and converted into a statutory State Owned Corporation on 1 July 2020.

TAHE is governed by a majority independent board which includes the Secretary of Transport for NSW who is a statutory appointee.

A series of commercial arrangements between TAHE and Transport for NSW, Sydney Trains and NSW Trains took effect from 1 July 2021. These arrangements set out the terms and charges by which the operators access and use TAHE's assets. The fees for the access and use of the assets currently represent the principal revenue streams of TAHE. The agreements also cover the development and delivery of heavy-rail assets for TAHE.

TAHE's annual capital expenditure is projected to exceed $2.8 billion for 2021-22. The major elements of the capital plan include:

- More Trains, More Services
- Mariyung (InterCity) Fleet Program
- Regional Rail Fleet Program
- Transport Access Program
- Commuter Car Parking.

Through these investments, TAHE will continue to provide safe and reliable rail assets while driving economic growth through precinct investment and innovative solutions which will enhance communities into the future.

TAHE is also looking to develop underutilised assets within its extensive property portfolio. Successful execution of commercial activities will lay the foundations for increased commercial returns over the long term.

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. These include the statutory Harbour Master's function, the provision of pilotage and navigation services, and port safety functions as prescribed in the Port Safety Operating Licence.

Port Authority continues to demonstrate financial sustainability despite an expected three-year recovery of cruise activities to pre-pandemic levels. Key initiatives for the year ahead include:

- continuing work to promote and facilitate cruise tourism in established regional New South Wales cruise ports such as Eden, Newcastle, Batemans Bay and Trial Bay
- deploying two new purpose-built multi-purpose vessels based in Sydney Harbour and Port Botany, constructed in Port Macquarie by an NSW-based shipbuilding company
- collaborating with the Department of Planning and Environment and Transport for NSW to realise the Government's vision for the Bays West precinct.

Property

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

The Government is committed to ensuring an adequate supply of new dwellings that are affordable, diverse and sustainable. To achieve this, Landcom will invest $2.1 billion in the development and delivery of new housing sites over the four years to 2025-26, including delivering 15,600 dwelling sites to the market over the same period.

Landcom is currently working on an 872-hectare site at North Wilton with the aim of delivering 5,600 dwellings. This project has a mix of diverse and affordable housing with the target of a 6 Star Green Star rating which will achieve a carbon neutral outcome.

In the regions, Landcom is partnering with Crown Lands to develop land for 2,100 dwelling sites at Tuncurry. The site will contain both diverse and affordable housing as well as meeting Landcom's sustainability objectives by preserving 300 hectares of land for environmental conservation.

Forestry

Forestry Corporation of NSW (Forestry Corporation) manages over 2 million hectares of State forests, including the State's largest renewable timber production and plantation estate. It also delivers a range of other public services including recreation, tourism, conservation and firefighting.

Natural disasters including fires and floods in recent years have significantly impacted forest roads and bridges, timber assets and operations. Forestry Corporation is making significant ongoing investments in rebuilding infrastructure and regrowing plantations, with support from the Government.

Short-term timber supplies in the regions most impacted by fires have been bolstered by the redistribution of timber from the Walcha management area to domestic processors in Tumut and Tumbarumba.

Legislative changes passed in 2021-22 have also allowed new investigations into opportunities to produce renewable energy alongside renewable timber in softwood plantations. Market sounding has commenced to identify suitable locations and technologies.

Box 7.3: Delivering sustainability outcomes

SOC customers and the communities in which they operate have increasingly high expectations about the sustainability of business operations.

SOCs such as Landcom, Forestry Corporation, and Hunter Water, have developed sustainability strategies which outline their objectives and targets for environmental, social, and governance outcomes.

SOCs have commenced a range of actions to address carbon reduction. For example:

- Sydney Water has started using its own operations-based renewable energy sources, which accounted for 16 per cent of its electricity use in 2020-21
- Essential Energy is supporting the energy sector's transition to distributed and renewable sources of electricity generation and partnering with external stakeholders in relation to Renewable Energy Zones
- Port Authority has committed to the installation of shore power infrastructure within the Bays Port Precinct, to reduce emissions and noise pollution from berthed ships.

7.3 Capital Expenditure

In 2021-22, capital expenditure within the PNFC sector is projected to be $5.6 billion, which is $1.5 billion lower than the projection in the 2021-22 Budget. This is largely driven by decreased expenditure from TAHE and Sydney Water due to project timings and updated delivery profiles.

Capital expenditure within the PNFC sector over the Budget year and forward estimates is projected to be $24.3 billion. The projection is $1.4 billion higher than the comparative estimate in the 2021-22 Budget. Key movements between budgets include:

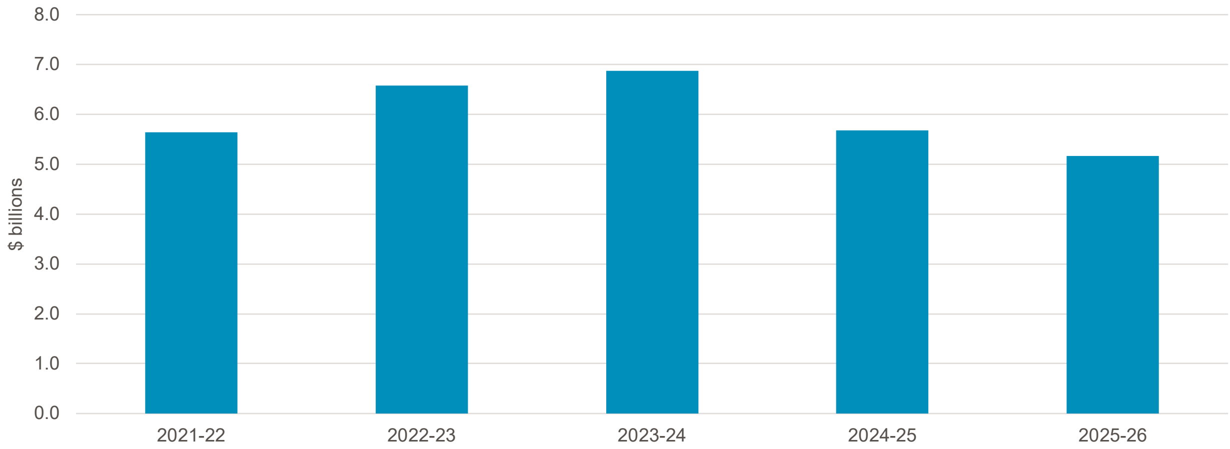
- $1.2 billion increased expenditure from Sydney Water due to reprofiling of expenditure and increased investment in water and wastewater infrastructure driven by the Greater Sydney Water Strategy to service growing population and cities, maintain existing infrastructure, provide new and resilient sources of water, and improve environmental and drinking water standards
- $1.1 billion increased expenditure from New South Wales Land and Housing Corporation in relation to additional investment for social homes and increased maintenance for the State-owned social housing portfolio

- $471.7 million increased expenditure by Venues New South Wales in relation to rebuilding and maintaining existing stadium infrastructure
- $359.1 million increase from Hunter Water Corporation largely due to investment in projects under the Lower Hunter Water Security Plan to improve the resilience of the water system to population growth and climate variability
- $2.1 billion decreased expenditure from TAHE due to the completion of the majority of expenditure on the More Trains, More Services program, Regional Rail Fleet Program, and the Transport Access Program by the end of 2024-25.

Chart 7.1 shows capital expenditure in the PNFC sector from 2021-22 to 2025-26.

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 PNFC sector



7.4 Major public financial corporations

NSW Treasury Corporation (TCorp)

TCorp is the State's funds management agency and central financing authority. It also helps to manage financial risks for the State by providing foreign exchange, commodity and interest rate hedging services.

TCorp's total funds under management was approximately $107.1 billion as at 31 March 2022, making it one of Australia's largest fund managers. In its funds management role, TCorp has generated total absolute investment returns of approximately $38.0 billion between 1 July 2015 and 31 March 2022.

TCorp raised $19.0 billion face value in debt funding and retired $7.3 billion during 2021-22 (up to 31 March 2022). This includes raising $1.6 billion in green or sustainability bonds, taking the sustainability bond programme to $6.8 billion, which makes TCorp one of the largest Government issuers of green bonds in Australia.

Insurance and Care NSW (icare)

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 329,000 employers, including over 100 Government agencies. In addition, icare provides critical support for more than 1,500 Lifetime Care and 340 Workers Care participants, and more than 5,700 people with a dust disease and their dependents. icare also ensures 20,000 homeowners can complete their homes or renovations when their builder cannot and protects more than $291.7 billion in Government-owned assets.

icare has embarked on a significant multi-year change and improvement program. The program has already delivered positive outcomes, including:

- establishing a new vision, purpose and values
- bringing in a new organisation structure and executive team
- embedding new robust risk and procurement practices
- introducing new capital management policies
- introducing professional standards for claims managers.

The transformation of the claims model for management of private sector workers compensation claims has also commenced. The new model builds in consultation with participants, business groups and key stakeholders.

Collectively, these actions have addressed some of the key recommendations in external reviews of icare last year. To date, icare has commenced implementing 96 per cent of the 107 recommendations.

icare's remediation program to address the accuracy of workers compensation benefit payments has continued throughout 2021-22. icare has reviewed over 29,000 files and found 1,500 quantifiable underpayments for workers totalling $9.9 million. Payments to another 53,000 workers of $38.8 million is also underway.

7.5 Returns to the Government from PNFC and PFC sectors

The entities in the PNFC and PFC sectors pay dividends to the Government as a return on its equity investments in these businesses. PNFCs and PFCs also pay the Government tax equivalent payments and debt neutrality charges (government guarantee fees) to ensure they do not enjoy a competitive advantage over private sector businesses.

Total dividend and tax equivalent payments from the PNFC and PFC sectors are forecast at $627.1 million for 2021-22, and $5.3 billion over the Budget year and forward estimates. The government guarantee fees are forecast to be $310.3 million in 2021-22, and $1.5 billion over the next four years.

Total dividend and tax equivalent payments to the Government from PNFC and PFC sector are $925.3 million higher over the Budget year and forward estimates than the comparative forecast in the 2021-22 Budget. Key movements include:

- increase of $1.1 billion dividends and tax equivalent payments from TAHE, driven by increased revenue and asset values resulting from renegotiated access and licence fees with rail operators based on the Government's updated shareholder guidance to TAHE in December 2021. The updated guidance shifted the expected rate of return on equity from the 10 Year Commonwealth bond yield to the expected long-term inflation rate of 2.5 per cent (consistent with the middle of the Reserve Bank of Australia's target band)
- reduction of $219.5 million in TCorp's dividends, primarily due to the decision not to proceed with a previously planned capital restructure for which additional dividends were projected at the time of the 2021-22 Budget
- reduction of $455.4 million in Sydney Water's dividends, which is required to maintain Sydney Water's investment grade credit metrics in light of the water system augmentation identified as being required in the Greater Sydney Water Strategy. This is partially offset by a $241.5 million increase in tax equivalent payments
- increase in dividends and tax equivalent payments from Landcom of $133.2 million, due to increasing delivery of dwelling sites over the forward estimates.

Table 7.1: Total dividends and tax equivalent payments from the PNFC and PFC sectors

	2021-22 Projection	2022-23 Budget	2023-24	2024-25 Forward Estimates	2025-26
	$m	$m	$m	$m	$m
Public non-financial corporations					
Essential Energy	10	16	63	81	78
Forestry Corporation of NSW	1	16	22	34	29
Hunter Water Corporation	48	54	55	34	40
Landcom[(a)]	8	21	24	51	56
Port Authority of NSW	29	36	47	56	48
Sydney Water Corporation	295	259	352	435	652
Transport Asset Holding Entity of NSW	…	125	264	429	568
Water NSW	18	47	50	50	48
Public financial corporations					
NSW Treasury Corporation	133	152	159	169	179
Total Dividends and Tax Equivalent Payments in Revenue from Transactions section	**542**	**726**	**1,036**	**1,339**	**1,698**
Public non-financial corporations					
Landcom	14	35	40	347	91
Transport Asset Holding Entity of NSW	71	…	…	…	…
Total Dividends in Other Economic Flows section[(b)]	**85**	**35**	**40**	**347**	**91**
TOTAL DIVIDENDS AND TAX EQUIVALENT PAYMENTS	**627**	**761**	**1,075**	**1,685**	**1,788**

(a) Landcom's returns classified under the 'Revenue from Transactions' section in the General Government Operating Statement relate to tax equivalent payments.

(b) Dividends paid by TAHE in 2021-22 and by Landcom across the five years to 2025-26 are classified as income within the 'Other Economic Flows' section of the General Government Operating Statement, rather than the 'Revenue from Transactions' section.

A1. STATEMENT OF FINANCES

This appendix presents the financial aggregates for the 2022-23 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 2020-21 to 2025-26 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 2022-23 to 2025-26.

A1.1 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 an 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.

A1.2 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 2020-21 convergence differences, refer to *Note 36: Key Fiscal Aggregates and Reconciliations to Government Finance Statistics* in the *2020-21 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.

A1.3 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 and Balance Sheet

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.

A1.4 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

	2020-21 Actual $m	2021-22 Revised $m	2022-23 Budget $m	2023-24 Forward Estimates $m	2024-25 $m	2025-26 $m
Revenue from Transactions						
Taxation	34,407	39,240	39,637	39,683	41,732	43,753
Grants and Subsidies						
- Commonwealth General Purpose	18,897	23,299	25,538	26,304	27,134	28,148
- Commonwealth Specific Purpose Payments	11,999	13,209	12,476	12,969	13,622	14,317
- Commonwealth National Partnership Payments	3,618	7,108	3,502	5,354	5,802	4,784
- Other Commonwealth Payments	451	524	586	611	703	733
- Other Grants and Subsidies	681	783	826	786	630	643
Sale of Goods and Services	9,949	9,733	10,191	10,122	9,107	9,084
Interest	307	268	372	409	436	480
Dividend and Income Tax Equivalents from Other Sectors	1,077	542	726	1,036	1,340	1,699
Other Dividends and Distributions	2,570	2,323	2,684	3,636	4,179	4,288
Fines, Regulatory Fees and Other	4,009	6,676	7,079	5,791	5,417	5,014
Total Revenue from Transactions	**87,965**	**103,706**	**103,617**	**106,701**	**110,101**	**112,944**
Expenses from Transactions						
Employee	37,142	40,430	42,640	42,866	44,033	45,264
Superannuation						
- Superannuation Interest Cost	589	860	1,473	1,436	1,412	1,387
- Other Superannuation	3,426	3,604	3,923	4,084	4,221	4,364
Depreciation and Amortisation	6,930	7,481	7,907	8,228	8,546	9,047
Interest	2,199	2,500	3,566	4,602	5,252	5,973
Other Operating Expense	24,560	30,410	28,368	26,060	24,643	25,272
Grants, Subsidies and Other Transfers	20,192	34,983	27,000	22,221	21,392	20,205
Total Expenses from Transactions	**95,038**	**120,268**	**114,878**	**109,497**	**109,500**	**111,513**
BUDGET RESULT - SURPLUS/(DEFICIT) [Net Operating Balance]	**(7,072)**	**(16,562)**	**(11,260)**	**(2,796)**	**601**	**1,431**

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

	2020-21 Actual	2021-22 Revised	2022-23 Budget	2023-24	2024-25 Forward Estimates	2025-26
	$m	$m	$m	$m	$m	$m
Other Economic Flows - Included in the Operating Result						
Gain/(Loss) from Other Liabilities	495	2,272	(74)	(1)	(1)	(247)
Other Net Gains/(Losses)	2,085	2,706	102	760	121	222
Share of Earnings/Losses from Equity Investments (excluding Dividends)	(82)	170	209	(197)	(35)	(160)
Dividends from Asset Sale Proceeds	...	85	35	40	347	91
Allowance for Impairment of Receivables	(7)	(90)	(16)	(17)	(17)	(18)
Deferred Income Tax from Other Sectors	158	13	3	7	37	53
Other	...	...	...	...	...	...
Other Economic Flows - included in Operating Result	**2,649**	**5,156**	**260**	**592**	**452**	**(58)**
Operating Result	**(4,423)**	**(11,407)**	**(11,001)**	**(2,204)**	**1,053**	**1,373**
Other Economic Flows - Other Comprehensive Income						
Items that will not be Reclassified to Operating Result	**(53)**	**48,632**	**6,392**	**8,231**	**4,783**	**(124)**
Revaluations	3,948	11,149	4,190	4,414	1,370	1,391
Share of Associate's Other Comprehensive Income/(Loss) that will not be Reclassified Subsequently to Operating Result	1,611	133	...	...	...	...
Actuarial Gain/(Loss) from Superannuation	11,088	13,863	165	987	954	(1,371)
Net Gain/(Loss) on Financial Assets at Fair Value through Other Comprehensive Income	(17,039)	23,838	1,972	2,756	2,378	(228)
Deferred Tax Direct to Equity	112	58	46	54	62	65
Other	227	(409)	19	20	20	19
Items that may be Reclassified Subsequently to Operating Result	**399**	**...**	**...**	**...**	**...**	**...**
Net Gain/(Loss) on Financial Instruments at Fair Value	0	...	...	...	...	...
Share of Associate's Other Comprehensive Income/(Loss) that may be Reclassified Subsequently to Operating Result	399	...	...	...	...	...
Other Economic Flows - Other Comprehensive Income	**346**	**48,632**	**6,392**	**8,231**	**4,783**	**(124)**
Comprehensive Result - Total Change in Net Worth	**(4,077)**	**37,225**	**(4,609)**	**6,027**	**5,836**	**1,249**
Key Fiscal Aggregates						
Comprehensive Result - Total Change in Net Worth	**(4,077)**	**37,225**	**(4,609)**	**6,027**	**5,836**	**1,249**
Less: Net Other Economic Flows	(2,995)	(53,788)	(6,652)	(8,823)	(5,235)	182
Equals: Budget Result - Net Operating Balance	**(7,072)**	**(16,562)**	**(11,260)**	**(2,796)**	**601**	**1,431**
Less: Net Acquisition of Non-Financials Assets						
Purchases of Non-Financials Assets[(a)]	17,775	18,275	21,862	21,722	21,184	20,615
Sales of Non-Financial Assets	(238)	(563)	(586)	(1,903)	(1,512)	(328)
Less: Depreciation	(6,930)	(7,481)	(7,907)	(8,228)	(8,546)	(9,047)
Plus: Change in Inventories	626	(860)	(800)	(6)	(18)	(66)
Plus: Other Movements in Non-Financials Assets						
- Assets Acquired Using Leases[(a)]	762	1,204	635	786	783	496
- Assets Acquired Using Service Concession Arrangements[(a)] (Financial Liability Model)	281	254	169	139	2	3
- Assets Acquired Using Service Concession Arrangements (Grant of Right to the Operator Model)	2,902	1,719	1,829	1,832	3	3
- Other	(833)	(1,356)	(724)	(711)	(982)	(905)
Equals: Total Net Acquisition of Non-Financial Assets	**14,345**	**11,193**	**14,479**	**13,631**	**10,913**	**10,771**
Equals: Net Lending/(Borrowing) [Fiscal Balance]	**(21,418)**	**(27,755)**	**(25,740)**	**(16,427)**	**(10,312)**	**(9,340)**
OTHER FISCAL AGGREGATES						
Capital Expenditure[(a)]	18,818	19,734	22,666	22,646	21,968	21,114

(a) 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 2021 Actual	June 2022 Revised	June 2023 Budget	June 2024	June 2025 Forward Estimates	June 2026
	$m	$m	$m	$m	$m	$m
Assets						
Financial Assets						
Cash and Cash Equivalents	3,781	3,088	704	912	815	758
Receivables	12,567	11,056	11,373	11,644	10,236	10,265
Investments, Loans and Placements						
Financial Assets at Fair Value	47,662	46,264	46,165	50,289	55,541	63,363
Other Financial Assets	1,436	1,836	1,727	1,802	1,852	1,610
Advances Paid	1,298	1,741	2,160	2,330	2,379	2,298
Tax Equivalents Receivable	35	64	129	198	309	368
Deferred Tax Equivalents	2,291	2,369	2,419	2,479	2,579	2,705
Equity						
Investments in Other Public Sector Entities	85,778	112,330	116,374	120,998	123,586	123,375
Investments in Associates	13,358	7,877	8,086	7,889	7,854	7,695
Other	5	6	6	6	6	6
Total Financial Assets	**168,211**	**186,630**	**189,143**	**198,548**	**205,155**	**212,443**
Non-Financial Assets						
Contract Assets	97	21	21	22	22	23
Inventories	1,378	1,207	407	397	432	422
Forestry Stock and Other Biological Assets	18	23	23	23	23	23
Assets Classified as Held for Sale	123	95	95	95	95	95
Property, Plant and Equipment						
Land and Buildings	102,282	111,347	116,209	120,240	125,169	127,955
Plant and Equipment	13,112	13,592	14,405	14,760	14,777	14,540
Infrastructure Systems	156,665	169,709	181,513	194,002	202,483	212,595
Right of Use Assets	6,513	6,991	6,771	6,728	6,632	6,261
Intangibles	4,575	4,449	4,900	4,876	4,642	4,350
Other	1,122	987	953	953	909	868
Total Non-Financial Assets	**285,884**	**308,421**	**325,296**	**342,095**	**355,186**	**367,132**
Total Assets	**454,096**	**495,052**	**514,439**	**540,643**	**560,341**	**579,575**
Liabilities						
Deposits Held	282	282	282	282	282	282
Payables	10,052	9,097	8,847	8,936	9,065	9,250
Contract Liabilities	934	763	759	751	752	754
Borrowings and Derivatives at Fair Value	212	11	11	11	11	11
Borrowings at Amortised Cost	90,133	105,621	128,131	148,338	165,411	182,191
Advances Received	625	554	501	452	401	360
Employee Provisions	23,386	23,676	24,715	25,554	26,330	27,317
Superannuation Provision[(a)]	57,591	45,002	45,234	44,520	43,744	45,186
Tax Equivalents Payable	35	2	3	0	0	0
Deferred Tax Equivalent Provision	50	50	50	50	50	58
Other Provisions	14,180	14,191	13,786	13,569	13,561	13,674
Other	22,028	23,991	24,917	24,949	21,667	20,178
Total Liabilities	**219,509**	**223,239**	**247,236**	**267,413**	**281,274**	**299,260**
NET ASSETS	**234,587**	**271,812**	**267,203**	**273,230**	**279,067**	**280,316**
NET WORTH						
Accumulated Funds	75,365	77,094	66,265	65,035	67,028	67,015
Reserves	159,222	194,718	200,938	208,195	212,038	213,300
TOTAL NET WORTH	**234,587**	**271,812**	**267,203**	**273,230**	**279,067**	**280,316**
OTHER FISCAL AGGREGATES						
Net Debt[(b)]	**37,076**	**53,538**	**78,169**	**93,749**	**105,519**	**114,814**
Net Financial Liabilities[(c)]	**137,076**	**148,939**	**174,467**	**189,863**	**199,705**	**210,191**
Net Financial Worth[(d)]	**(51,297)**	**(36,609)**	**(58,093)**	**(68,865)**	**(76,119)**	**(86,816)**

(a) The superannuation provision is reported net of prepaid superannuation contribution assets.
(b) Net debt comprises the sum of deposits held, borrowings and advances received, minus the sum of cash and cash equivalents, investments, loans and placements and advances paid.
(c) Net financial liabilities equals total liabilities less financial assets excluding equity investments in other public sector entities.
(d) Net financial worth equals total financial assets minus total financial liabilities.

Table A1.3: General government sector cash flow statement

	2020-21 Actual $m	2021-22 Revised $m	2022-23 Budget $m	2023-24 Forward Estimates $m	2024-25 $m	2025-26 $m
Cash Receipts from Operating Activities						
Taxation	34,344	40,023	39,706	39,714	41,723	43,752
Sales of Goods and Services	10,268	10,197	10,576	10,270	9,306	9,305
Grant and Subsidies Received	35,421	45,941	43,772	45,856	47,050	47,763
Interest	217	204	295	339	371	408
Dividends and Income Tax Equivalents from Other Sectors	1,582	483	558	691	677	1,554
Other	9,948	9,051	8,699	7,194	6,814	6,348
Total Cash Receipts from Operating Activities	**91,780**	**105,899**	**103,605**	**104,064**	**105,940**	**109,129**
Cash Payments from Operating Activities						
Employee Related	(35,904)	(38,687)	(41,707)	(42,131)	(43,392)	(44,671)
Superannuation	(3,191)	(3,321)	(5,002)	(5,257)	(5,467)	(5,691)
Payments for Goods and Services	(23,817)	(28,831)	(27,348)	(25,436)	(23,839)	(24,616)
Grants and Subsidies	(19,035)	(33,116)	(25,921)	(21,184)	(20,068)	(18,960)
Interest	(2,201)	(2,558)	(3,051)	(3,563)	(3,934)	(4,292)
Other	(6,717)	(4,950)	(3,276)	(2,660)	(2,621)	(2,601)
Total Cash Payments from Operating Activities	**(90,864)**	**(111,462)**	**(106,304)**	**(100,230)**	**(99,321)**	**(100,832)**
Net Cash Flows from Operating Activities	**916**	**(5,563)**	**(2,699)**	**3,834**	**6,620**	**8,297**
Cash Flows from Investments in Non-Financial Assets						
Proceeds from Sale of Non-Financial Assets	305	563	586	2,751	1,591	328
Purchases of Non-Financial Assets	(16,395)	(18,849)	(21,843)	(20,217)	(20,855)	(20,458)
Net Cash Flows from Investments in Non-Financial Assets	**(16,090)**	**(18,286)**	**(21,257)**	**(17,466)**	**(19,264)**	**(20,130)**
Cash Flows from Investments in Financial Assets for Policy Purposes						
Receipts	787	10,757	338	184	540	292
Payments	(3,315)	(2,716)	(2,663)	(2,696)	(1,271)	(65)
Net Cash Flows from Investments in Financial Assets for Policy Purposes	**(2,528)**	**8,042**	**(2,325)**	**(2,512)**	**(731)**	**227**
Cash Flows from Investments in Financial Assets for Liquidity Purposes						
Proceeds from Sale of Investments	2,956	3,644	3,795	4,708	3,430	1,638
Purchase of Investments	(4,416)	(2,426)	(857)	(5,417)	(5,282)	(5,163)
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	**(1,460)**	**1,217**	**2,938**	**(709)**	**(1,852)**	**(3,524)**
Net Cash Flows from Investing Activities	**(20,078)**	**(9,027)**	**(20,644)**	**(20,686)**	**(21,847)**	**(23,427)**
Cash Flows from Financing Activities						
Advances (Net)	(101)	(98)	(98)	(91)	(81)	(63)
Proceeds from Borrowings	18,853	24,661	25,835	20,206	16,394	16,991
Repayment of Borrowings	(1,945)	(10,727)	(4,824)	(3,107)	(1,244)	(1,920)
Deposits Received (Net)	(10)	(0)	...	...	...	...
Other (Net)	8	58	45	53	61	65
Net Cash Flows from Financing Activities	**16,805**	**13,894**	**20,959**	**17,060**	**15,131**	**15,073**
Net Increase/(Decrease) in Cash Held	**(2,357)**	**(697)**	**(2,384)**	**208**	**(97)**	**(57)**
Derivation of Cash Result						
Net Cash Flows From Operating Activities	916	(5,563)	(2,699)	3,834	6,620	8,297
Net Cash Flows from Investments in Non-Financial Assets	(16,090)	(18,286)	(21,257)	(17,466)	(19,264)	(20,130)
Cash Surplus/(Deficit)	**(15,174)**	**(23,849)**	**(23,957)**	**(13,631)**	**(12,645)**	**(11,833)**

Table A1.4: General government sector taxes

	2020-21 Actual $m	2021-22 Revised $m	2022-23 Budget $m
Taxes on Employers' Payroll and Labour Force	**9,133**	**9,146**	**11,274**
Taxes on Property			
Land Taxes	4,875	4,850	5,657
Other	119	155	183
Total Taxes on Property	**4,994**	**5,006**	**5,840**
Taxes on the Provision of Goods and Services			
Excises and Levies	...	...	...
Taxes on Gambling	2,727	2,479	3,262
Taxes on Insurance	3,346	3,328	3,595
Stamp Duties on Financial and Capital Transactions	9,899	14,935	11,152
Total Taxes on the Provision of Goods and Services	**15,972**	**20,742**	**18,009**
Taxes on Use of Goods and Performance of Activities			
Motor Vehicle Taxes	3,422	3,481	3,596
Franchise Taxes	...	...	0
Other	886	865	919
Total Taxes on Use of Goods and Performance of Activities	**4,307**	**4,346**	**4,515**
Total Taxation Revenue	**34,407**	**39,240**	**39,637**

Table A1.5: General government sector grant revenue and expense[(a)]

	2020-21 Actual $m	2021-22 Revised $m	2022-23 Budget $m
Current Grants and Subsidies			
Current Grants from the Commonwealth[(a)]			
General Purpose Grants	18,897	23,299	25,538
Specific Purpose Payments	11,999	13,209	12,476
National Partnership Payments	1,377	5,427	1,227
Other Commonwealth Payments	451	524	586
Total	**32,725**	**42,460**	**39,827**
Other Grants and Subsidies	636	582	202
Total Current Grants and Subsidies Revenue	**33,361**	**43,042**	**40,029**
Capital Grants and Subsidies			
Capital Grants from the Commonwealth[(a)]			
General Purpose Payments	...	...	...
Specific Purpose Payments	...	...	...
National Partnership Payments	2,240	1,681	2,274
Other Commonwealth Payments	0	0	0
Total	**2,240**	**1,681**	**2,275**
Other Grants and Subsidies	45	200	623
Total Capital Grants and Subsidies Revenue	**2,285**	**1,881**	**2,898**
Total Grants and Subsidies Revenue	**35,646**	**44,924**	**42,928**
Current Grants, Subsidies and Transfer Payments Expense to:			
State/Territory Government	12	10	2
Local Government[(a)]	2,009	2,674	2,292
Private and Not-for-Profit Sector[(a)]	8,954	22,243	14,201
Other Sectors of Government	7,573	7,904	8,103
Total Current Grants, Subsidies and Transfer Payments Expense	**18,548**	**32,831**	**24,598**
Capital Grants, Subsidies and Transfer Payments to:			
State/Territory Government	0	0	0
Local Government[(a)]	913	399	800
Private and Not-for-Profit Sector[(a)]	507	713	1,053
Other Sectors of Government	224	1,040	537
Total Capital Grants, Subsidies and Transfer Payments Expense	**1,644**	**2,152**	**2,390**
Total Grants and Subsidies Expense	**20,192**	**34,983**	**26,988**
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	5,106	5,197	6,181
Total Receipts	**5,106**	**5,197**	**6,181**
Current Transfer Payments to:			
Local Government	792	218	1,699
Private and Not-For-Profit Sector	4,314	4,979	4,482
Capital Transfer Payments to:			
Local Government	...	...	...
Private and Not-For-Profit Sector	...	...	...
Total Payments	**5,106**	**5,197**	**6,181**

(a) Grant revenue and expense above exclude the 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.

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

	2020-21 Actual $m	2021-22 Revised $m	2022-23 Budget $m
Dividend and Income Tax Revenue from the PNFC Sector	948	409	575
Dividend and Income Tax Revenue from the PFC Sector	129	133	152
Other Dividend Income	2,570	2,323	2,684
Total Dividend and Income Tax Equivalent Income	**3,647**	**2,865**	**3,410**

Table A1.7: General government sector expenses by function[(a)]

	2020-21 Actual $m	2021-22 Revised $m	2022-23 Budget $m
General Public Services	8,048	23,049	11,274
Defence	...	...	...
Public Order and Safety	9,290	9,278	10,154
Economic Affairs	5,135	7,685	7,926
Environmental Protection	1,669	1,355	1,983
Housing and Community Amenities	1,914	2,414	3,015
Health	25,756	28,466	30,296
Recreation, Culture and Religion	1,339	2,332	2,116
Education	18,590	19,828	21,510
Social Protection	8,436	9,152	9,602
Transport	14,860	16,707	17,004
Total Expenses	**95,038**	**120,268**	**114,878**

(a) 2022-23 Budget includes $80 million to the Treasurer for 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 an appropriation to the Treasurer of $20 million to integrity agencies and a special appropriation to the Treasurer of $300 million for expenditure related to the Government’s response to public health emergencies and other crises that is not otherwise covered by an appropriation under the *Appropriation Act 2022* and the *Appropriation (Parliament) Act 2022* for the Budget Year.

Table A1.8: General government sector purchases of non-financial assets by function

	2020-21 Actual $m	2021-22 Revised $m	2022-23 Budget $m
General public services[(a)]	522	458	1,368
Defence	...	...	...
Public order and safety	965	567	812
Economic affairs	328	620	1,132
Environmental protection	17	24	31
Housing and community amenities	225	624	510
Health	2,613	2,000	2,293
Recreation, culture and religion	304	399	231
Education	2,193	2,285	2,253
Social protection	171	194	212
Transport	11,479	12,562	13,824
Total Purchases of Non-Financial Assets	**18,818**	**19,734**	**22,666**

(a) 2022-23 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 corporation sector operating statement

	2020-21 Actual	2021-22 Revised	2022-23 Budget	2023-24 Forward Estimates	2024-25	2025-26
	$m	$m	$m	$m	$m	$m
Revenue from Transactions						
Grants and Subsidies						
- Other Commonwealth Payments	6	7	4	3	3	3
- Other Grants and Subsidies	4,561	4,837	5,033	4,000	4,228	4,328
Sale of Goods and Services	7,006	6,891	7,788	8,506	8,876	9,204
Interest	30	26	28	30	32	33
Other Dividends and Distributions	43	43	...	...	...	...
Fines, Regulatory Fees and Other	647	1,432	526	545	612	691
Total Revenue from Transactions	**12,294**	**13,236**	**13,380**	**13,084**	**13,751**	**14,259**
Expenses from Transactions						
Employee	2,429	2,405	2,479	2,507	2,527	2,590
Personnel Services Expense	482	319	148	149	151	155
Superannuation						
- Superannuation Interest Cost	25	33	47	45	44	42
- Other Superannuation	200	218	228	244	251	255
Depreciation and Amortisation	3,402	2,619	2,807	2,926	3,057	3,170
Interest	897	910	1,096	1,144	1,206	1,281
Income Tax Expense	193	208	280	372	489	570
Other Operating Expense	5,498	5,612	5,884	5,434	5,544	5,590
Grants, Subsidies and Other Transfers	113	85	82	72	64	65
Total Expenses from Transactions	**13,238**	**12,410**	**13,050**	**12,893**	**13,335**	**13,718**
Transactions from Discontinuing Operations	...	...	...	...	...	...
NET OPERATING BALANCE - SURPLUS/(DEFICIT) AFTER TAX	**(944)**	**826**	**330**	**191**	**416**	**540**

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

	2020-21 Actual $m	2021-22 Revised $m	2022-23 Budget $m	2023-24 $m	2024-25 Forward Estimates $m	2025-26 $m
Other Economic Flows - Included in the Operating Result						
Gain/(Loss) from Other Liabilities	9	(6)	...	...	...	...
Other Net Gains/(Losses)	(175)	(131)	(95)	(82)	13	18
Allowance for Impairment of Receivables	(6)	(7)	(4)	(4)	(4)	(4)
Deferred Income Tax	(12)	(13)	(3)	(7)	(37)	(53)
Other Economic Flows - included in Operating Result	**(184)**	**(157)**	**(101)**	**(93)**	**(28)**	**(40)**
Operating Result	**(1,128)**	**669**	**228**	**98**	**388**	**501**
Other Economic Flows - Other Comprehensive Income						
Items that will not be Reclassified to Operating Result	**(17,902)**	**11,289**	**2,078**	**2,451**	**2,262**	**2,500**
Revaluations	(18,306)	10,464	2,103	2,445	2,272	2,646
Share of Associate's Other Comprehensive Income/(Loss) that will not be Reclassified Subsequently to Operating Result	...	...	...	...	...	...
Actuarial Gain/(Loss) from Superannuation	619	833	20	60	52	(80)
Share of Associate's Other Comprehensive Income/(Loss) that may be Reclassified Subsequently to Operating Result	...	...	...	...	...	...
Deferred Tax Direct to Equity	(112)	(58)	(46)	(54)	(62)	(65)
Other	(103)	49	0	0	0	...
Items that may be Reclassified Subsequently to Operating Result	**8**	**...**	**0**	**0**	**0**	**...**
Net Gain/(Loss) on Financial Instruments at Fair Value	8	(0)	...	...	...	...
Other	(0)	...	...	...	...	...
Other Economic Flows - Other Comprehensive Income	**(17,894)**	**11,289**	**2,078**	**2,451**	**2,262**	**2,500**
Comprehensive Result - Before Transactions with Owners in their capacity as Owners	**(19,022)**	**11,958**	**2,306**	**2,550**	**2,650**	**3,001**
Dividends Distributed	(756)	(286)	(330)	(545)	(1,027)	(1,040)
Net Equity Injections	3,332	2,716	2,072	1,869	210	17
Total Change in Net Worth	**(16,446)**	**14,388**	**4,048**	**3,873**	**1,833**	**1,978**
Key Fiscal Aggregates						
Comprehensive Result - Before Transactions with Owners in their capacity as Owners	**(19,022)**	**11,958**	**2,306**	**2,550**	**2,650**	**3,001**
Less: Net Other Economic Flows	18,078	(11,132)	(1,976)	(2,359)	(2,234)	(2,461)
Equals: Budget Result - Net Operating Balance	**(944)**	**826**	**330**	**191**	**416**	**540**
Less: Net Acquisition of Non-Financials Assets						
Purchases of Non-Financials Assets[(a)]	5,204	5,566	6,486	6,824	5,586	5,104
Sales of Non-Financial Assets	(263)	(617)	(649)	(677)	(599)	(565)
Less: Depreciation	(3,402)	(2,619)	(2,807)	(2,926)	(3,057)	(3,170)
Plus: Change in Inventories	116	79	36	332	(32)	(30)
Plus: Other Movements in Non-Financials Assets						
- Assets Acquired Using Leases[(a)]	42	73	89	54	87	64
- Assets Acquired Using Service Concession Arrangements[(a)] (Financial Liability Model)	18	...	...	...	...	...
- Assets Acquired Using Service Concession Arrangements (Grant of Right to the Operator Model)	...	...	...	...	...	...
- Other	346	1,149	331	348	348	356
Equals: Total Net Acquisition of Non-Financial Assets	**2,062**	**3,631**	**3,488**	**3,955**	**2,333**	**1,759**
Equals: Net Lending/(Borrowing) [Fiscal Balance]	**(3,006)**	**(2,805)**	**(3,158)**	**(3,764)**	**(1,917)**	**(1,219)**
OTHER FISCAL AGGREGATES						
Capital Expenditure[(a)]	5,264	5,639	6,576	6,878	5,673	5,167
Dividends Accrued[(b)]	343	286	330	545	1,027	1,040

(a) 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.
(b) 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 corporation sector balance sheet

	June 2021 Actual	June 2022 Revised	June 2023 Budget	June 2024	June 2025 Forward Estimates	June 2026
	$m	$m	$m	$m	$m	$m
Assets						
Financial Assets						
Cash and Cash Equivalents	2,142	2,600	2,720	2,917	3,636	4,015
Receivables	1,327	1,173	1,260	1,288	1,241	1,288
Investments, Loans and Placements						
Financial Assets at Fair Value	371	371	371	371	371	371
Other Financial Assets	480	539	597	569	555	578
Advances Paid	18	22	29	14	14	0
Tax Equivalents Receivable	35	2	3	...	...	...
Deferred Tax Equivalents	50	50	50	50	50	58
Equity						
Other	156	156	156	156	156	156
Total Financial Assets	**4,579**	**4,913**	**5,186**	**5,365**	**6,023**	**6,466**
Non-Financial Assets						
Contract Assets	...	...	...	...	...	...
Inventories	712	762	798	1,130	1,099	1,069
Forestry Stock and Other Biological Assets	754	624	624	624	624	624
Assets Classified as Held for Sale	37	54	56	56	57	57
Investment Properties	623	610	604	604	604	604
Property, Plant and Equipment						
Land and Buildings	70,190	81,540	83,228	85,251	85,855	87,558
Plant and Equipment	3,611	4,414	4,289	4,117	3,911	3,695
Infrastructure Systems	44,462	46,106	50,010	54,229	57,698	60,930
Right of Use Assets	2,796	2,604	4,137	3,932	3,755	3,546
Intangibles	860	989	1,084	1,190	1,284	1,381
Other	537	568	517	402	404	307
Total Non-Financial Assets	**124,582**	**138,271**	**145,347**	**151,536**	**155,291**	**159,773**
Total Assets	**129,161**	**143,184**	**150,532**	**156,901**	**161,314**	**166,238**
Liabilities						
Deposits Held	27	48	39	38	25	25
Payables	2,528	2,182	2,074	2,187	2,275	2,365
Contract Liabilities	139	83	67	67	67	68
Liabilities Directly Associated with Assets Held for Sale	...	...	...	...	...	...
Borrowings and Derivatives at Fair Value	2	2	2	2	2	2
Borrowings at Amortised Cost	28,976	30,113	33,342	35,421	37,307	39,879
Advances Received	448	312	297	282	267	250
Employee Provisions	1,293	1,290	1,302	1,319	1,336	1,354
Superannuation Provision[(a)]	2,261	1,420	1,410	1,350	1,292	1,363
Tax Equivalents Payable	27	24	84	150	262	316
Deferred Tax Equivalent Provision	2,291	2,369	2,419	2,479	2,579	2,705
Other Provisions	946	662	607	799	1,278	1,280
Other	238	307	470	514	499	528
Total Liabilities	**39,178**	**38,813**	**42,113**	**44,609**	**47,189**	**50,135**
NET ASSETS	**89,983**	**104,371**	**108,419**	**112,292**	**114,125**	**116,103**
NET WORTH						
Accumulated Funds	48,396	52,535	54,699	56,415	56,272	55,885
Reserves	41,587	51,836	53,720	55,877	57,853	60,218
TOTAL NET WORTH	**89,983**	**104,371**	**108,419**	**112,292**	**114,125**	**116,103**
OTHER FISCAL AGGREGATES						
Net Debt[(b)]	**26,443**	**26,942**	**29,962**	**31,872**	**33,025**	**35,191**
Net Financial Liabilities[(c)]	**34,598**	**33,900**	**36,928**	**39,243**	**41,166**	**43,670**
Net Financial Worth[(d)]	**(34,598)**	**(33,900)**	**(36,928)**	**(39,243)**	**(41,166)**	**(43,670)**

(a) The superannuation provision is reported net of prepaid superannuation contribution assets.
(b) Net debt comprises the sum of deposits held, borrowings and advances received, minus the sum of cash and cash equivalents, investments, loans and placements and advances paid.
(c) Net financial liabilities equal total liabilities less financial assets excluding equity investments in other public sector entities.
(d) Net financial worth equals total financial assets minus total financial liabilities.

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

	2020-21 Actual $m	2021-22 Revised $m	2022-23 Budget $m	2023-24 Forward Estimates $m	2024-25 Forward Estimates $m	2025-26 Forward Estimates $m
Cash Receipts from Operating Activities						
Sales of Goods and Services	6,934	7,171	8,034	8,884	9,561	9,904
Grant and Subsidies	4,573	4,884	5,062	3,975	4,177	4,324
Interest	23	19	20	21	22	23
Other	1,261	1,104	689	762	912	896
Total Cash Receipts from Operating Activities	**12,791**	**13,178**	**13,805**	**13,641**	**14,673**	**15,147**
Cash Payments from Operating Activities						
Employee Related	(2,481)	(2,563)	(2,621)	(2,652)	(2,673)	(2,736)
Personnel Services	(620)	(453)	(317)	(323)	(330)	(340)
Superannuation	(221)	(257)	(264)	(289)	(300)	(305)
Payments for Goods and Services	(5,335)	(5,556)	(6,069)	(5,869)	(5,766)	(5,850)
Grants and Subsidies	(108)	(75)	(82)	(72)	(64)	(65)
Interest	(853)	(878)	(1,052)	(1,078)	(1,102)	(1,174)
Income Tax Equivalents Paid	...	...	...	...	...	...
Distributions Paid	(9)	(124)	(174)	(249)	(316)	(442)
Other	(828)	(783)	(599)	(553)	(604)	(487)
Total Cash Payments from Operating Activities	**(10,455)**	**(10,689)**	**(11,177)**	**(11,086)**	**(11,155)**	**(11,401)**
Net Cash Flows from Operating Activities	**2,336**	**2,489**	**2,628**	**2,555**	**3,518**	**3,746**
Cash Flows from Investments in Non-Financial Assets						
Proceeds from Sale of Non-Financial Assets	263	581	649	677	599	565
Purchases of Non-Financial Assets	(4,840)	(5,229)	(6,162)	(6,612)	(5,532)	(5,088)
Net Cash Flows from Investments in Non-Financial Assets	**(4,577)**	**(4,649)**	**(5,513)**	**(5,935)**	**(4,933)**	**(4,523)**
Cash Flows from Investments in Financial Assets for Policy Purposes						
Receipts	0	0	0	15	0	10
Payments	(17)	(23)	(6)	(0)	0	0
Net Cash Flows from Investments in Financial Assets for Policy Purposes	**(17)**	**(23)**	**(6)**	**14**	**...**	**10**
Cash Flows from Investments in Financial Assets for Liquidity Purposes						
Proceeds from Sale of Investments	1	0	221	176	138	56
Purchase of Investments	(71)	(52)	(51)	(7)	(8)	(14)
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	**(70)**	**(51)**	**170**	**169**	**130**	**42**
Net Cash Flows from Investing Activities	**(4,665)**	**(4,723)**	**(5,350)**	**(5,751)**	**(4,802)**	**(4,471)**
Cash Flows from Financing Activities						
Advances (Net)	3,129	2,343	2,232	2,034	1,113	(15)
Proceeds from Borrowings	2,026	1,179	1,381	2,078	2,191	2,867
Repayment of Borrowings	(844)	(452)	(430)	(335)	(681)	(647)
Dividends Paid	(1,459)	(343)	(286)	(330)	(545)	(1,027)
Deposits Received (Net)	7	20	(8)	(1)	(13)	...
Other (Net)	(215)	(56)	(46)	(54)	(62)	(73)
Net Cash Flows from Financing Activities	**2,643**	**2,692**	**2,842**	**3,392**	**2,003**	**1,105**
Net Increase/(Decrease) in Cash Held	**315**	**458**	**120**	**196**	**719**	**380**
Derivation of Cash Result						
Net Cash Flows from Operating Activities	2,336	2,489	2,628	2,555	3,518	3,746
Net Cash Flows from Investments in Non-Financial Assets	(4,577)	(4,649)	(5,513)	(5,935)	(4,933)	(4,523)
Dividends Paid	(1,459)	(343)	(286)	(330)	(545)	(1,027)
Cash Surplus/(Deficit)	**(3,700)**	**(2,502)**	**(3,172)**	**(3,709)**	**(1,959)**	**(1,804)**

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

	2020-21 Actual $m	2021-22 Revised $m	2022-23 Budget $m	2023-24 Forward Estimates $m	2024-25 $m	2025-26 $m
Revenue from Transactions						
Taxation	33,949	38,732	39,089	39,099	41,105	43,083
Grants and Subsidies						
- Commonwealth General Purpose	18,897	23,299	25,538	26,304	27,134	28,148
- Commonwealth Specific Purpose Payments	11,999	13,209	12,476	12,969	13,622	14,317
- Commonwealth National Partnership Payments	3,618	7,108	3,502	5,354	5,802	4,784
- Other Commonwealth Payments	458	531	591	614	706	737
- Other Grants and Subsidies	622	736	736	713	549	571
Sale of Goods and Services	13,135	12,887	14,504	15,498	16,001	16,675
Interest	290	251	305	327	350	391
Dividend and Income Tax Equivalents from Other Sectors	129	133	152	160	170	181
Other Dividends and Distributions	2,613	2,366	2,684	3,636	4,179	4,288
Fines, Regulatory Fees and Other	4,471	7,124	7,561	6,291	5,981	5,674
Total Revenue from Transactions	**90,181**	**106,376**	**107,138**	**110,965**	**115,598**	**118,848**
Expenses from Transactions						
Employee	39,561	42,824	45,108	45,362	46,549	47,843
Superannuation						
- Superannuation Interest Cost	613	893	1,520	1,481	1,456	1,429
- Other Superannuation	3,625	3,821	4,151	4,328	4,472	4,619
Depreciation and Amortisation	10,308	10,077	10,694	11,135	11,584	12,199
Interest	3,050	3,366	4,566	5,635	6,341	7,132
Other Operating Expense	26,121	32,016	30,391	27,939	27,740	28,743
Grants, Subsidies and Other Transfers	15,627	29,291	21,744	18,107	17,113	15,815
Total Expenses from Transactions	**98,905**	**122,288**	**118,175**	**113,986**	**115,254**	**117,778**
Transactions from Discontinuing Operations	...	...	...	...	...	...
NET OPERATING BALANCE - SURPLUS/(DEFICIT)	**(8,724)**	**(15,912)**	**(11,038)**	**(3,021)**	**344**	**1,069**

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

	2020-21 Actual	2021-22 Revised	2022-23 Budget	2023-24 Forward Estimates	2024-25	2025-26
	$m	$m	$m	$m	$m	$m
Other Economic Flows - Included in the Operating Result						
Gain/(Loss) from Other Liabilities	504	2,266	(74)	(1)	(1)	(247)
Other Net Gains/(Losses)	1,909	2,581	8	678	134	239
Share of Earnings/Losses from Equity Investments (excluding Dividends)	(82)	170	209	(197)	(35)	(160)
Dividends from Asset Sale Proceeds	...	0	...	...	...	...
Allowance for Impairment of Receivables	(13)	(97)	(20)	(21)	(21)	(22)
Deferred Income Tax from Other Sectors	(0)	(0)	(0)	(0)	(0)	(0)
Dividends from Asset Sales and Surplus Funds	...	...	...	...	...	...
Discontinuing Operations - Other Economic Flows	...	...	...	...	...	...
Other Economic Flows - included in Operating Result	**2,318**	**4,921**	**123**	**460**	**77**	**(189)**
Operating Result	**(6,406)**	**(10,991)**	**(10,915)**	**(2,561)**	**421**	**881**
Other Economic Flows - Other Comprehensive Income						
Items that will not be Reclassified to Operating Result	**1,924**	**48,221**	**6,306**	**8,588**	**5,415**	**368**
Revaluations	(14,358)	21,613	6,293	6,860	3,642	4,037
Share of Earnings from Associates from Revaluations	1,611	133	...	...	...	...
Actuarial Gain/(Loss) from Superannuation	11,706	14,696	185	1,046	1,006	(1,452)
Net Gain/(Loss) on Financial Assets at Fair Value through Other Comprehensive Income	2,664	12,126	(195)	658	744	(2,240)
Deferred Tax Direct to Equity	...	0	(0)	0	0	(0)
Other	301	(348)	23	24	24	23
Items that may be Reclassified Subsequently to Operating Result	**407**	**(0)**	**...**	**...**	**...**	**...**
Net Gain/(Loss) on Available for Sale Financial Assets	...	...	...	...	...	...
Net Gain/(Loss) on Financial Instruments at Fair Value	8	(0)	...	...	...	...
Share of Associate's Other Comprehensive Income/(Loss) that may be Reclassified Subsequently to Operating Result	399	...	...	...	...	...
Other						
Other Economic Flows - Other Comprehensive Income	**2,331**	**48,221**	**6,306**	**8,588**	**5,415**	**368**
Total Change in Net Worth	**(4,075)**	**37,229**	**(4,609)**	**6,027**	**5,836**	**1,249**
Key Fiscal Aggregates						
Total Change in Net Worth	**(4,075)**	**37,229**	**(4,609)**	**6,027**	**5,836**	**1,249**
Less: Net Other Economic Flows	(4,649)	(53,141)	(6,429)	(9,048)	(5,492)	(180)
Equals: Budget Result - Net Operating Balance	**(8,724)**	**(15,912)**	**(11,038)**	**(3,021)**	**344**	**1,069**
Less: Net Acquisition of Non-Financials Assets						
Purchases of Non-Financials Assets[(b)]	23,384	23,842	28,348	28,546	26,770	25,719
Sales of Non-Financial Assets	(502)	(1,179)	(1,235)	(2,580)	(2,111)	(893)
Less: Depreciation	(10,308)	(10,077)	(10,694)	(11,135)	(11,584)	(12,199)
Plus: Change in Inventories	336	(781)	(763)	325	(50)	(95)
Plus: Other Movements in Non-Financials Assets						
- Assets Acquired Using Leases[(b)]	779	1,282	724	840	870	560
- Assets Acquired Using Service Concession Arrangements[(b)] (Financial Liability Model)	300	254	169	139	2	3
- Assets Acquired Using Service Concession Arrangements (Grant of Right to the Operator Model)	2,902	1,719	1,829	1,832	3	3
- Other	(493)	(210)	(399)	(365)	(637)	(551)
Equals: Total Net Acquisition of Non-Financial Assets	**16,398**	**14,849**	**17,980**	**17,602**	**13,263**	**12,547**
Equals: Net Lending/(Borrowing) [Fiscal Balance][(a)]	**(25,122)**	**(30,761)**	**(29,018)**	**(20,623)**	**(12,918)**	**(11,477)**
OTHER FISCAL AGGREGATES						
Capital Expenditure[(b)]	24,462	25,378	29,242	29,525	27,642	26,282

(a) 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.
(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 A1.13: Non-financial public sector balance sheet

	June 2021 Actual	June 2022 Revised	June 2023 Budget	June 2024	June 2025 Forward Estimates	June 2026
	$m	$m	$m	$m	$m	$m
Assets						
Financial Assets						
Cash and Cash Equivalents	5,923	5,661	3,428	3,832	4,454	4,777
Receivables	12,092	11,121	11,542	11,610	9,623	9,649
Investments, Loans and Placements						
Financial Assets at Fair Value	48,032	46,635	46,537	50,660	55,912	63,734
Other Financial Assets	1,842	2,372	2,319	2,364	2,397	2,176
Advances Paid	868	805	935	999	1,047	986
Tax Equivalents Receivable	8	40	46	48	47	52
Deferred Tax Equivalents	(0)	0	(0)	(0)	(0)	(0)
Equity						
Investments in Other Public Sector Entities	(4,084)	8,040	7,845	8,503	9,247	7,007
Investments in Associates	13,358	7,877	8,086	7,889	7,854	7,695
Other	161	162	162	162	162	162
Total Financial Assets	**78,199**	**82,712**	**80,898**	**86,067**	**90,743**	**96,238**
Non-Financial Assets						
Contract Assets	97	21	21	22	22	23
Inventories	1,547	1,969	1,205	1,527	1,531	1,492
Forestry Stock and Other Biological Assets	771	647	647	647	647	647
Assets Classified as Held for Sale	160	150	151	152	152	153
Investment Properties	623	610	604	604	604	604
Property, Plant and Equipment						
Land and Buildings	172,472	192,887	199,437	205,491	211,024	215,513
Plant and Equipment	16,723	18,006	18,694	18,878	18,688	18,235
Infrastructure Systems	201,670	215,815	231,522	248,230	260,181	273,525
Right of Use Assets	9,115	9,405	10,736	10,507	10,255	9,694
Intangibles	5,434	5,438	5,984	6,066	5,926	5,732
Other	1,655	1,550	1,465	1,350	1,307	1,169
Total Non-Financial Assets	**410,267**	**446,496**	**470,466**	**493,473**	**510,338**	**526,785**
Total Assets	**488,467**	**529,208**	**551,364**	**579,541**	**601,080**	**623,023**
Liabilities						
Deposits Held	310	330	321	320	307	307
Payables	11,411	10,464	10,162	10,343	10,508	10,741
Contract Liabilities	1,051	840	819	812	812	815
Borrowings and Derivatives at Fair Value	214	13	13	13	13	13
Borrowings at Amortised Cost	119,006	135,042	160,470	182,650	201,593	220,961
Advances Received	625	554	501	452	401	360
Employee Provisions	24,660	24,955	26,007	26,863	27,655	28,660
Superannuation Provision[(a)]	59,852	46,423	46,644	45,871	45,036	46,549
Deferred Tax Equivalent Provision	0	0	(0)	(0)	(0)	(0)
Other Provisions	14,498	14,534	14,058	13,818	13,806	13,908
Other	22,250	24,241	25,165	25,169	21,882	20,393
Total Liabilities	**253,878**	**257,396**	**284,161**	**306,311**	**322,014**	**342,707**
NET ASSETS	**234,587**	**271,812**	**267,203**	**273,230**	**279,067**	**280,316**
NET WORTH						
Accumulated Funds	116,752	119,943	109,397	108,108	109,759	109,393
Reserves	117,836	151,869	157,806	165,123	169,308	170,923
TOTAL NET WORTH	**234,587**	**271,812**	**267,203**	**273,230**	**279,067**	**280,316**
OTHER FISCAL AGGREGATES						
Net Debt[(b)]	**63,490**	**80,466**	**108,088**	**125,579**	**138,505**	**149,968**
Net Financial Liabilities[(c)]	**171,594**	**182,724**	**211,108**	**228,746**	**240,518**	**253,477**
Net Financial Worth[(d)]	**(175,678)**	**(174,684)**	**(203,263)**	**(220,243)**	**(231,271)**	**(246,470)**

(a) The superannuation provision is reported net of prepaid superannuation contribution assets.
(b) Net debt comprises the sum of deposits held, borrowings and advances received, minus the sum of cash and cash equivalents, investments, loans and placements and advances paid.
(c) Net financial liabilities equal total liabilities less financial assets excluding equity investments in other public sector entities.
(d) Net financial worth equals total financial assets minus total liabilities.

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

	2020-21 Actual	2021-22 Revised	2022-23 Budget	2023-24	2024-25 Forward Estimates	2025-26
	$m	$m	$m	$m	$m	$m
Cash Receipts from Operating Activities						
Taxation	33,865	39,519	39,172	39,155	41,152	43,127
Sales of Goods and Services	13,553	13,478	14,916	15,934	16,854	17,588
Grant and Subsidies	35,372	45,898	43,681	45,783	46,969	47,691
Interest	209	194	235	264	291	324
Dividends and Income Tax Equivalents	114	102	133	152	159	169
Other	11,247	9,982	9,366	7,926	7,694	7,229
Total Cash Receipts from Operating Activities	**94,361**	**109,174**	**107,503**	**109,214**	**113,119**	**116,127**
Cash Payments from Operating Activities						
Employee Related	(38,245)	(41,106)	(44,163)	(44,609)	(45,890)	(47,233)
Superannuation	(3,412)	(3,579)	(5,266)	(5,546)	(5,767)	(5,996)
Payments for Goods and Services	(25,511)	(30,429)	(29,849)	(28,114)	(27,531)	(28,745)
Grants and Subsidies	(14,491)	(28,244)	(20,677)	(17,070)	(15,789)	(14,570)
Interest	(3,023)	(3,407)	(4,023)	(4,545)	(4,934)	(5,359)
Distributions Paid	0	0	(0)	(0)	(0)	(0)
Other	(7,649)	(5,621)	(3,879)	(3,229)	(3,268)	(3,124)
Total Cash Payments from Operating Activities	**(92,331)**	**(112,386)**	**(107,857)**	**(103,115)**	**(103,179)**	**(105,028)**
Net Cash Flows from Operating Activities	**2,030**	**(3,213)**	**(354)**	**6,100**	**9,939**	**11,100**
Cash Flows from Investments in Non-Financial Assets						
Proceeds from Sale of Non-Financial Assets	569	1,143	1,235	3,428	2,190	893
Purchases of Non-Financial Assets	(21,588)	(24,227)	(27,943)	(26,829)	(26,387)	(25,547)
Net Cash Flows from Investments in Non-Financial Assets	**(21,019)**	**(23,083)**	**(26,709)**	**(23,400)**	**(24,197)**	**(24,654)**
Cash Flows from Investments in Financial Assets for Policy Purposes						
Receipts	756	10,522	268	89	95	112
Payments	(172)	(245)	(406)	(632)	(127)	(48)
Net Cash Flows from Investments in Financial Assets for Policy Purposes	**584**	**10,277**	**(138)**	**(543)**	**(32)**	**65**
Cash Flows from Investments in Financial Assets for Liquidity Purposes						
Proceeds from Sale of Investments	2,951	3,637	4,016	4,884	3,569	1,694
Purchase of Investments	(4,489)	(2,478)	(908)	(5,424)	(5,291)	(5,176)
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	**(1,538)**	**1,159**	**3,108**	**(540)**	**(1,722)**	**(3,483)**
Net Cash Flows from Investing Activities	**(21,974)**	**(11,648)**	**(23,739)**	**(24,483)**	**(25,951)**	**(28,072)**
Cash Flows from Financing Activities						
Advances (Net)	(101)	(98)	(94)	(52)	(14)	5
Proceeds from Borrowings	20,879	25,841	27,216	22,284	18,585	19,841
Repayment of Borrowings	(2,779)	(11,167)	(5,253)	(3,442)	(1,924)	(2,551)
Dividends Paid	...	...	...	...	...	...
Deposits Received (Net)	(4)	20	(8)	(1)	(13)	...
Other (Net)	(95)	(0)	(1)	(0)	(0)	(0)
Net Cash Flows from Financing Activities	**17,901**	**14,595**	**21,860**	**18,788**	**16,634**	**17,295**
Net Increase/(Decrease) in Cash Held	**(2,042)**	**(265)**	**(2,233)**	**405**	**622**	**323**
Derivation of Cash Result						
Net Cash Flows from Operating Activities	2,030	(3,213)	(354)	6,100	9,939	11,100
Net Cash Flows from Investments in Non-Financial Assets	(21,019)	(23,083)	(26,709)	(23,400)	(24,197)	(24,654)
Dividends Paid	...	...	...	...	...	...
Cash Surplus/(Deficit)	**(19,100)**	**(26,296)**	**(27,063)**	**(17,301)**	**(14,258)**	**(13,554)**

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 Result.

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 intra-government transfer.

Judgement is required in delineating the ‘concessional’ and ‘structural’ features of a particular tax or service delivery scheme. The approach adopted is to treat the general application of a tiered tax schedule or charging regime as a structural element of the benchmark, rather than a concession to those paying less than the highest marginal rate of tax. For example, 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 2022-23, total measured tax expenditures and concessions provided by the NSW Government are expected to amount to $9.6 billion, equivalent to 9.3 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 million or greater) for each of the main tax revenue sources. The estimates are for the financial years 2020-21 to 2022-23, except for land tax, which uses calendar years 2021 to 2023. The total value of major quantifiable tax expenditures is an estimated $7.5 billion or 18.8 per cent of tax revenue in 2022-23.

Table A2.1: Major tax expenditures by type

	2020-21		2021-22		2022-23	
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	1,033	10.8	924	6.3	789	7.3
General and Life Insurance Duty	1,143	97.9	1,242	95.6	1,324	96.3
Payroll Tax	1,753	19.6	2,148	24.0	2,122	19.2
Land Tax	1,165	23.9	1,255	25.9	1,397	24.7
Taxes on Motor Vehicles	650	19.0	701	20.2	767	21.4
Gambling and Betting Taxes	794	29.1	888	35.8	970	29.7
Parking Space Levy	81	78.9	82	79.7	85	79.7
Total	**6,619**	**19.2**	**7,240**	**18.5**	**7,454**	**18.8**

Changes to the estimates

The estimates in Table A2.1 include policy changes since the 2021-22 Budget.

In the 2021-22 Half-Yearly Review, the NSW Government announced it will waive 50 per cent of 2021-22 payroll tax for businesses impacted by the COVID-19 Delta outbreak. The waiver is available to businesses with grouped Australian wages of $10 million or less that experienced a decline in turnover of 30 per cent or more as a result of the COVID-19 public health orders during the Delta outbreak. This policy change affects the tax expenditure estimates for payroll tax.

Land tax is payable annually (on a calendar year basis) either in full or over instalments. A discount of 1.5 per cent is available to taxpayers who pay their land tax in full within 30 days after their assessment has been issued. The land tax early payment discount will be lowered to 0.5 per cent from 1 January 2023.

Payroll tax relief is being offered to employers of aged care workers who pass on payments received under the Commonwealth's Aged Care Workforce Bonus Payment program to their workforce. Eligible aged care employees can receive payments totalling up to $800 under the program. These payments would otherwise have been liable for payroll tax under the *Payroll Tax Act 2007*.

Eligible jobs created under a subprogram of the Future Economy Fund may be exempt from payroll tax. The subprogram is estimated to provide $51 million in payroll tax exemptions over five years from 2022-23.

Transport Asset Holding Entity of NSW (TAHE) was granted a state tax exemption until 30 June 2023 by way of regulation for land owned by or leased to TAHE and used primarily for railway purposes. A review of land, the relevant legislation and exemptions will need to be conducted before TAHE can estimate the land tax payable.

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 $2.2 billion in 2022-23.

Table A2.2: Concessions by function

Function	2020-21 $m	2021-22 $m	2022-23 $m
Public Order and Safety	12	17	17
Education	620	671	741
Health	300	445	305
Transport	442	399	524
Housing and Community	564	525	550
Economic Affairs	15	14	10
Recreation, Culture and Religion	5	7	8
Environmental Protection	13	14	16
Total	**1,971**	**2,092**	**2,171**

The following sections provide a breakdown by taxation and policy function line. Tax expenditure measures and concessions that have an impact over $1 million are itemised in a table. Those with an impact less than $1 million are then summarised.

A2.2 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 $3.1 million.

Surcharge purchaser duty applies to purchases of residential land by foreign persons at a rate of 8 per cent.

First home buyers are eligible for duty exemptions for purchases up to $650,000, and concessional duty for a new or existing home valued up to $800,000. Additionally, the Government continues to offer a $10,000 First Home Owner Grant for first home buyers purchasing a new home worth up to $600,000, and for first home buyers purchasing vacant land and building a new home worth up to $750,000 in total.

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

	2020-21 $m	2021-22 $m	2022-23 $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*.	30	53	46
Government			
Councils and county councils The transfer of property to a council or county council is exempt under the *Local Government Act 1993*.	12	15	13
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. From 1 August 2021, the previous arrangements were reinstated, 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.	750	555	450
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.	43	53	50
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)*.	116	159	149
Purchases by tenants of Housing NSW and Aboriginal Housing Office An exemption is provided for purchases of a principal place of residence.	1	1	1
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.	53	82	67
Interest in a primary producer Acquisition of an interest in a primary producer that is not ‘land rich’.	28	6	13

Transfer duty – other major tax expenditures (> $1 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 million)

The following are exempt from transfer duty:

- approved equity release schemes for aged home owners
- certain purchases of manufactured relocatable homes (caravans)
- certain transfers of property granted in other legislation
- 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
- 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*.

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 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.

[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.

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

	2020-21 $m	2021-22 $m	2022-23 $m
Business			
Exemption for workers compensation premiums	292	329	363
Marine and cargo insurance An exemption is provided for marine insurance covering hulls of commercial ships and cargo carried by land, sea or air.	10	11	12
Small business exemptions An insurance duty exemption is provided to small businesses for commercial vehicles, professional indemnity, and product and public liability.	72	80	84
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).	340	379	401
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*.	190	192	192

General insurance duty – minor tax expenditures (< $1 million)

The following are exempt from insurance duty:

- 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

	2020-21 $m	2021-22 $m	2022-23 $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	222	240
Annuities			
An exemption is granted to annuities.	28	29	32

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, or part thereof, of the vehicle's value over $45,000 for vehicles valued at $45,000 or more.

Table A2.6: Motor vehicle stamp duty – major tax expenditures

	2020-21 $m	2021-22 $m	2022-23 $m
Business			
New demonstrator motor vehicle An exemption is granted to licensed motor dealers and wholesalers under the *Motor Dealers Act 1974.*	85	63	62
Individuals/families			
Caravans and camper trailers An exemption is provided for transfers of registration of caravans and camper trailers.	37	50	50
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.	10	11	11
Electric and hydrogen vehicles An exemption is available for electric vehicles and hydrogen fuel cell vehicles under $78,000 (GST-inclusive) from 1 September 2021.	...	10	28
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.	9	7	7
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.	1	1	1

Motor vehicle stamp duty – minor tax expenditures (< $1 million)

The following are exempt from motor vehicle stamp duty:

- 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 250 kg 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

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 temporarily 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

	2020-21 $m	2021-22 $m	2022-23 $m
Business			
Payroll tax waiver for small to medium sized businesses Payroll tax customers whose total grouped Australian wages for the 2021-22 financial year are $10 million or less and had a 30 per cent decline in turnover as a result of the COVID-19 public health orders during the Delta outbreak, had their annual tax liability for 2021-22 reduced by 50 per cent.	…	410	…
Jobs Plus Payroll tax relief is available to eligible businesses for up to four years for every new job created where a business has created at least 30 net new jobs in metropolitan NSW or 20 net new jobs in non-metropolitan NSW.	…	4	18
JobKeeper payments An exemption is granted for any additional wages paid to employees to meet the minimum fortnightly wage requirement under the JobKeeper Scheme.	82	…	…
Apprentices A full exemption/rebate is provided for wages paid to approved apprentices under the *Apprenticeship and Traineeship Act 2001* and those employed by approved non-profit group training organisations.	62	65	71
Trainees A full exemption/rebate is provided for wages paid to approved new trainees under the *Apprenticeship and Traineeship Act 2001* and those employed by approved non-profit group training organisations.	38	40	43
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.	26	27	33
Redundancy payments An exemption is provided for the Commonwealth tax-free part of a genuine redundancy or approved early retirement scheme payment.	9	10	12
Aged care employers Exemptions are provided to eligible aged care employers for bonus wages paid to eligible employees from the Commonwealth's aged care payment schemes.	2	1	…
Future Economy Fund Eligible jobs created under a subprogram of the Future Economy Fund may be exempt from payroll tax.	…	…	1

Table A2.7: Payroll tax – major tax expenditures (cont.)

	2020-21 $m	2021-22 $m	2022-23 $m
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.	262	274	334
Not-for-profit private hospitals An exemption is granted to non-profit private hospitals for wages paid to persons engaged exclusively in work of a kind ordinarily performed by a hospital.	18	19	23
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.	720	750	914
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*.	243	253	309
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.	252	254	314
Religious institutions An exemption is granted for wages paid to persons engaged exclusively in work of a kind ordinarily performed by religious bodies.	39	41	50

Payroll tax – minor tax expenditures (< $1 million)

The following are exempt from payroll tax:

- 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 nondiplomatic 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 $822,000 and $5,026,000 for the 2022 land tax year, and $67,364 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, increasing to 4 per cent from 2023. The benchmark tax base for surcharge land tax excludes certain commercial residential property.

Table A2.8: Land tax – major tax expenditures

	2021 $m	2022 $m	2023 $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.	16	17	19
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	6
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*.	18	19	22
Childcare centres and schools An exemption is granted for land used as a residential childcare centre licensed under the *Children and Young Persons (Care and Protection) Act 1998* or a school registered under the *Education Act 1990*.	8	8	9

Table A2.8: Land tax – major tax expenditures (cont.)

	2021 $m	2022 $m	2023 $m
Government/public amenities			
Cemeteries and crematoriums An exemption is provided for land owned by or in trust for use as a cemetery or crematorium.	27	29	33
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.	35	37	43
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 in 2021 and 2022. The discount will reduce to 0.5 per cent from 2023.	41	46	17
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.	197	213	243
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	14	16
Low-cost rental accommodation An exemption is provided for low-cost rental accommodation within a 5km radius of 1 Martin Place, Sydney.	1	1	2
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.	25	27	30
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.	779	839	957

Land tax – other major tax expenditures (> $1 million)

The following are exempt from land tax:

- 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.

A concession in the form of a 50 per cent reduction in land value for land tax purposes is available to eligible Build to Rent properties.

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
- holders of subclass 410 (retirement) and 405 (investor retirement) visas.

Land tax – minor tax expenditures (< $1 million)

The following are exempt from land tax:

- 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.

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 2021, 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:

- $224 (0 – 975 kg) to $1,252 (4,325 - 4,500 kgs) for private use vehicles
- $359 (0 – 975 kg) to $2,334 (4,325 - 4,500 kgs) for business use vehicles.

From 1 January 2021, 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 – 254 kg) to $1,252 (4,325 - 4,500 kgs) for private use vehicles
- $109 (0 – 254 kg) to $2,087 (4,325 - 4,500 kgs) for business use vehicles.

From 1 July 2023, the NSW Government will introduce a new tolling relief scheme where, every quarter, eligible customers receive a 40 per cent rebate for every dollar spent on tolls once they have spent $375. This will replace the existing Motor Vehicle Registration Relief Scheme.

Table A2.9: Vehicle weight tax – major tax expenditures

	2020-21 $m	2021-22 $m	2022-23 $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.	36	39	41
Other Concessions provided under Part 4, section 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
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	6	7
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* (Cth).	1	1	1

Table A2.9: Vehicle weight tax – major tax expenditures (cont.)

	2020-21 $m	2021-22 $m	2022-23 $m
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.	333	354	377
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.	71	77	84
Private Vehicles			
Toll Relief Program – weight tax component Toll Relief provides free vehicle registration for drivers who have spent $1,352 or more on tolls in the previous financial year (an average of $26 a week). Drivers who've spent $811 or more during the previous financial year (an average of $16 a week), will be eligible for half-price registration. The toll spend must have been accumulated on NSW toll roads, with a NSW tolling account.	57	77	93

Vehicle weight tax – minor tax expenditures (< $1 million)

The following are exempt from vehicle weight tax:

- 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 rebate of $100 for vehicle registration is given to first and second year apprentices registered with the NSW Department of Education.

A2.9 Gambling and betting taxes

The benchmark for gaming machines in hotels and registered clubs is 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.

Since the NSW point of consumption tax was introduced on 1 January 2019, the totalizator licensee is entitled to offset their betting tax and tax parity liabilities against their point of consumption tax liability. This measure is not included as a tax expenditure as it is designed to avoid double taxation on bets made by NSW residents.

Table A2.10: Gambling and betting taxes – major tax expenditures

	2020-21 $m	2021-22 $m	2022-23 $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.	794	888	970

Gambling and betting taxes – minor tax expenditures (< $1 million)

A full tax rebate is provided to racing clubs operating non-TAB Ltd pools.

A2.10 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 2021-22, the benchmark levy was $2,540 per space in Category 1 areas and $900 per space in Category 2 areas.

Table A2.11: Parking space levy – major tax expenditures

	2020-21 $m	2021-22 $m	2022-23 $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.	70	71	74
Additional exempt parking spaces in Category 2 areas An exemption is granted for spaces for customers attached to retail outlets, hotels, motels, clubs, restaurants, medical centres, car hire and sales, repair and wash establishments and funeral parlours.	11	11	11

A2.11 Detailed estimates of concessions

Details of concessions by function are shown below for major concessions worth $1 million or more.

Table A2.12: Public order and safety – major concessions

	2020-21 $m	2021-22 $m	2022-23 $m
Pensioners/concession card holders/disadvantaged			
Court interpreting and translation services Multicultural NSW provides translation and interpreting services in NSW courts.	7	7	7
Court fee concessions Court and tribunal 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 Australia Day.	2	7	7

Public order and safety – minor concessions (< $1 million)

- The NSW Police Force does not charge for additional policing services for minor sporting events and agricultural shows in regional NSW.
- 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 meeting government policy criteria.

Table A2.13: Education – major concessions

	2020-21 $m	2021-22 $m	2022-23 $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.	512	514	587
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.	94	95	93

Table A2.13: Education – major concessions (cont.)

	2020-21 $m	2021-22 $m	2022-23 $m
Smart and Skilled – VET concessions and exemptions			
Skilling for Recovery – Full qualification fee free training places	7	16	14
Skilling for Recovery – Additional fee gap on existing full qualification training places	7	46	47

Table A2.14: Health – major concessions

	2020-21 $m	2021-22 $m	2022-23 $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.	220	225	228
Ambulance service for bushfire-affected communities Free ambulance transport provided to bushfire-affected communities.	15	...	...
Ambulance service for COVID affected patients From March 2020, free ambulance treatment and/or transport for suspected COVID or COVID Vaccination reactions.	1	24	5
Outpatient Pharmaceutical Scheme for S100 Concessional Public Patients Concessions provided to concessional patients up to the safety threshold.	2	2	3
Outpatient Pharmaceutical Scheme for S100 General Public Patients Concessions provided to general patients up to the safety threshold.	12	13	14
Outpatient Pharmaceuticals Scheme for concessional Patients. Pharmaceuticals provided to concessional patients at a discounted price or free of charge once the safety threshold is reached.	14	15	16
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.	17	17	17
Rapid Antigen Testing Concessional Access Program Free Rapid Antigen Tests (RAT) to eligible Commonwealth Concession card holders. Commenced on 24 January 2022 and ends on 31 July 2022. The program allows eligible concession card holders to access up to 20 RATs over this period (no more than 5 per month).	...	129	...
Life Support Rebate Assistance is provided for households that use electricity to run equipment to sustain life.	12	12	13
Medical Energy Rebate Assistance is provided for households that use air conditioning to assist with a medically diagnosed inability to manage body temperature.	3	3	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.	4	5	6

Table A2.15: Transport – major concessions

	2020-21 $m	2021-22 $m	2022-23 $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.	222	189	298
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.	86	88	96
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.	47	32	34
Pensioners/concession card holders/disadvantaged			
Selected social security recipients – registration fees 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.	62	64	67
Driver Knowledge Test The Driver Knowledge Test is free for some learner drivers – NSW State Emergency Service, NSW Rural Fire Service and NSW Volunteer Rescue Association, participants in the Driver Licensing Access Program and drivers undertaking the test with a Correction Centre or Juvenile Justice Centre.	14	11	11
Driving tests Pensioners are able to sit their driving test for free.	1	1	1
Private Vehicles			
Toll Relief Program – registration fees component Toll Relief provides free vehicle registration for drivers who have spent $1352 or more on tolls in the previous financial year (an average of $26 a week). Drivers who've spent $811 or more during the previous financial year (an average of $16 a week), will be eligible for half-price registration. The toll spend must have been accumulated on NSW toll roads.	10	14	17

Transport – minor concessions (< $1 million)

- Transport for NSW offers a concession on private mooring licences to holders of Pensioner Concession Cards and Repatriation Health Cards.
- A motor vehicle registration fee exemption is provided for Mobile Disability Conveyance.
- Motorcycle Operator Skill Test – Free Riding Skill Test for pensioners.
- Pensioners and other concession card holders get free Mobility Parking Scheme permits (if they also have a mobility disability).
- NSW Photo Cards are free for pensioners and seniors cardholders.

Table A2.16: Housing and Community – major concessions

	2020-21 $m	2021-22 $m	2022-23 $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	12	12
Exempt properties water rate concession Funding is provided to Sydney Water Corporation and Hunter Water Corporation for discounted charges to owners of properties used for non-profit provision of community services and amenities (principally councils, religious bodies and charities):			
• Sydney Water Corporation	13	18	18
• 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.	202	224	232
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 concessions 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.	116	114	117
• Hunter Water pensioners receive concessions on water, sewerage and stormwater service charges. Environmental levy charges are also waived.	15	16	16
Local council rates concession Local council rates are reduced for holders of Pensioner Concession Cards.	79	79	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.	45	19	23
Family Energy Rebate Energy bill rebates are available to families with dependent children who have received the Family Tax Benefit.	39	3	8
Gas Rebate A rebate is provided to eligible households to assist with gas bills.	29	30	31
Hardship and Low-Income Schemes Funding is provided to Sydney Water Corporation and Hunter Water Corporation to provide concessions to customers in financial hardship.	2	2	2
Seniors Energy Rebate Assistance for independent retirees who hold a valid Commonwealth Seniors Health Card to help with the cost of living.	10	6	10

Housing and Community – minor concessions (< $1 million)

- Essential Energy provides concessions on water and sewerage charges to eligible customers.
- WaterNSW grants concessions to customers facing affordability difficulties and provides access licence and work approval fee exemptions.
- The Department of Planning and Environment funds Sydney Water Corporation to provide subsidies for a septic pump-out service to unsewered urban properties in the Blue Mountains.
- The Lands Administration Ministerial Corporation provides rent concessions to various Crown land tenure holders in recognition of circumstances such as limited income and the level of community benefit provided by groups and organisations as well as when individuals or organisations experience difficulty making payments by the due date.
- The Planning Ministerial Corporation provides rent rebates and waivers as a result of COVID-19.

Table A2.17: Economic affairs – major concessions

	2020-21 $m	2021-22 $m	2022-23 $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. In 2022-23 Jobs for NSW Fund will fund subsidies for July-September only.	6	5	1

Economic affairs – minor concessions (< $1 million)

- Forestry Corporation of NSW provides discounts to charities seeking permits for non-profit events and provides discounts to pensioners for firewood.

Table A2.18: Recreation, culture and religion – major concessions

	2020-21 $m	2021-22 $m	2022-23 $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
Museum of Applied Arts and Sciences The Museum of Applied Arts and Sciences provides free general admission into the Ultimo Powerhouse	0	2	3
Discounted entry to zoological parks 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.	1	1	1

Recreation, culture and religion – minor concessions (< $1 million)

- The State Library of NSW offers concessional membership to pensioners, Seniors Card holders or full-time students.
- A 10 per cent discount is provided to Friends of the Library (members) at the State Library of NSW shop and cafe. If the Friend has been a member for 10 years this increases to a 20 per cent discount at the shop.
- A loan fee waiver applies to NSW public libraries who borrow collection material from the State Library of NSW, and discretionary discounts and waivers are provided for digital images.
- The Sydney Living Museum offers concessional admission charges to the unemployed, children, pensioners, healthcare card holders, Veteran's Affairs cardholders, seniors and 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.

Table A2.19: Environmental protection – major concessions

	2020-21 $m	2021-22 $m	2022-23 $m
Seniors/children/disadvantaged/special groups			
Entry fee to national parks			
Holders of Pensioner Concession Cards, seniors, volunteers and community groups receive free or discounted entry to national parks.	13	14	16

Environmental protection – minor concessions (< $1 million)

- NSW National Parks and Wildlife Service offer fee concessions for a range of activities.

A3. VARIATION DETAILS OF APPROPRIATIONS DURING 2021-22

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 2021-22 reporting period.

Table A3.1: Details of appropriations affected by transfer of functions between GSF agencies during 2021-22

	Sec. 4.9 GSF Act
	Amount $'000
Attorney General	
Net appropriation transfer to Department of Communities and Justice	382,115
Total - Attorney General	**382,115**
Deputy Premier	
Net appropriation transfer from Department of Regional NSW	(3,000)
Total - Deputy Premier	**(3,000)**
Minister for Customer Service and Digital Government	
Net appropriation transfer to Department of Customer Service	12,405
Total- Minister for Customer Service and Digital Government	**12,405**
Minister for Enterprise, Investment and Trade	
Net appropriation transfer to Department of Enterprise, Investment and Trade	1,084,009
Total - Minister for Enterprise, Investment and Trade	**1,084,009**
Minister for Infrastructure	
Net appropriation transfer to Department of Transport	81,528
Total - Minister for Infrastructure	**81,528**
Minister for Planning	
Net appropriation transfer from Department of Planning and Environment	(375,325)
Total - Minister for Planning	**(375,325)**
Premier	
Net appropriation transfer from Department of Premier and Cabinet	(1,422,242)
Total – Premier	**(1,422,242)**
Treasurer	
Net appropriation transfer to Treasury	240,510
Total – Treasurer	**240,510**
TOTAL - SECTION 4.9 GSF ACT	**...**

Table A3.2: Variation details of annual appropriations for Commonwealth Grants during 2021-22

	Sec. 4.11 GSF Act
	Amount $'000
Attorney General	
Department of Communities and Justice	
Commonwealth Funding Adjustment	25,503
Total Department of Communities and Justice	**25,503**
Total - Attorney General	**25,503**
Deputy Premier	
Department of Regional NSW	
Commonwealth Funding Adjustment	830
Total Department of Regional NSW	**830**
Total - Deputy Premier	**830**
Minister for Education and Early Learning	
Department of Education	
Commonwealth Funding Adjustment	128,486
Total Department of Education	**128,486**
Total Minister for Education and Early Learning	**128,486**
Minister for Health	
Ministry of Health	
Commonwealth Funding Adjustment	9,167
Total Ministry of Health	**9,167**
Total - Minister for Health	**9,167**
Minister for Infrastructure	
Department of Transport	
Commonwealth Funding Adjustment	2,519
Total Department of Transport	**2,519**
Total - Minister for Infrastructure	**2,519**
Minister for Planning	
Department of Planning and Environment	
Commonwealth Funding Adjustment	78,112
Total Department of Planning and Environment	**78,112**
Total - Minister for Planning	**78,112**
TOTAL - SECTION 4.11 GSF ACT	**244,617**

Table A3.3: Details of the amounts authorised to be paid out of Consolidated Fund for exigencies of Government during 2021-22

	Sec. 4.13 GSF Act
	Amount $'000
Attorney General	
Department of Communities and Justice	
COVID-19 Response	261,000
Storms and Floods Response	168,800
Total Department of Communities and Justice	429,800
Total - Attorney General	**429,800**
Deputy Premier	
Department of Regional NSW	
COVID-19 Response	67,245
Total Department of Regional NSW	**67,245**
Total - Deputy Premier	**67,245**
Minister for Customer Service and Digital Government	
Department of Customer Service	
COVID-19 Response	14,347,160
Storms and Floods Response	332,000
Total Department of Customer Service	**14,679,160**
Total - Minister for Customer Service and Digital Government	**14,679,160**
Minister for Education and Early Learning	
Department of Education	
COVID-19 Response	356,000
Total Department of Education	**356,000**
Total - Minister for Education and Early Learning	**356,000**
Minister for Health	
Ministry of Health	
COVID-19 Response	1,247,904
Total Ministry of Health	**1,247,904**
Total - Minister for Health	**1,247,904**
Minister for Planning	
Department of Planning and Environment	
COVID-19 Response	134,800
Storms and Floods Response	28,000
Total Department of Planning and Environment	**162,800**
Total - Minister for Planning	**162,800**
Premier	
Department of Premier and Cabinet	
COVID-19 Response	329,198
Total Department of Premier and Cabinet	**329,198**
New South Wales Electoral Commission	
COVID-19 Response	29,120
Total New South Wales Electoral Commission	**29,120**
Total - Premier	**358,318**
Treasurer	
Treasury	
COVID-19 Response	7,000
Total Treasury	**7,000**
Administered Items	
COVID-19 Response	487,200
Total Administered Items	**487,200**
Total - Treasurer	**494,200**
Total - SECTION 4.13 GSF ACT	**17,795,427**

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	•		
Crown Solicitor's Office	•		
Department of Communities and Justice	•		
Department of Customer Service	•		
Department of Education	•		
Department of Enterprise, Investment and Trade (*established on 21 December 2021)*	•		
Department of Planning and Environment *(renamed from Department of Planning, Industry and Environment on 21 December 2021)*	•		
Department of Premier and Cabinet	•		
Department of Regional NSW *(renamed from Regional NSW on 21 December 2021)*	•		
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 Cities Commission *(renamed from Greater Sydney Commission on 13 April 2022)*	•		
Health Care Complaints Commission	•		
Historic Houses Trust of New South Wales	•		
Home Purchase Assistance Fund	•		
Hunter and Central Coast Development Corporation	•		
Hunter Water Corporation		•	
Independent Commission Against Corruption	•		

Material Agencies	General government sector	Public non-financial corporations sector	Public financial corporations sector
Independent Liquor and Gaming Authority	•		
Independent Pricing and Regulatory Tribunal	•		
Information and Privacy Commission	•		
Infrastructure NSW	•		
Insurance and Care NSW			•
Investment NSW *(to be abolished and functions transferred to the Department of Enterprise, Investment and Trade from 1 July 2022)*	•		
Jobs for NSW Fund	•		
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		•	
Northern Rivers Reconstruction Corporation (*established on 13 May 2022)*	•		
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 Independent Review Officer	•		
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	•		
Port Botany Lessor Ministerial Holding Corporation	•		
Port Kembla Lessor Ministerial Holding Corporation	•		
Port of Newcastle Lessor Ministerial Holding Corporation	•		
Ports Assets Ministerial Holding Corporation	•		
Property NSW	•		
Public Service Commission	•		
Regional Growth NSW Development Corporation	•		
Rental Bond Board	•		
Resilience NSW	•		
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 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 Asset Holding Entity of New South Wales		•	
Transport for NSW	•		
Venues NSW		•	
Waste Assets Management Corporation		•	
Water Administration Ministerial Corporation	•		
Water NSW		•	
Western Parkland City Authority	•		
Western Sydney Parklands Trust	•		
Workers' Compensation (Dust Diseases) Authority	•		
Zoological Parks Board of New South Wales		•	

* The convention of presenting the Crown Finance Entity as an agency has ceased. Items recorded within Crown Finance Entity are now presented as Administered Items of NSW Treasury.

A5. MEASURES STATEMENT

This appendix lists the Government's new policy measures since the 2021-22 Half-Yearly Review. It categorises new measures by Cluster, with a table at the end for whole-of-government measures. A materiality threshold of $20 million is applied (over the five years to 2025-26). This appendix does not include non-discretionary adjustments for existing programs and projects, known as Parameter and Technical Adjustments.

Further detail on policy measures can be found in:

- Budget Paper No. 1 *Budget Statement* Chapter 1 Budget Overview, Chapter 4 Revenue, Chapter 5 Expenditure
- Budget Paper No. 2 *Outcomes Statement*
- Budget Paper No. 3 *Infrastructure Statement*.

Table A5.1 New policy measures since the 2021-22 Half-Yearly Review

	2021-22	2022-23 Budget	2023-24	2024-25 Forward Estimates	2025-26	Five-year Total
	$m	$m	$m	$m	$m	$m
Grand Total						
Expense	**6,198.5**	**9,969.6**	**5,463.2**	**3,155.7**	**2,835.6**	**27,622.6**
Revenue	**1,292.2**	**233.5**	**1,232.8**	**1,785.6**	**569.4**	**5,113.5**
Capital	**-251.3**	**1,814.0**	**3,346.2**	**3,337.0**	**3,121.3**	**11,367.3**

Notes
(a) the aggregates in this table take into account the net impact of both additional expenses and savings.

	2021-22	2022-23 Budget	2023-24	2024-25 Forward Estimates	2025-26	Five-year Total
	$m	$m	$m	$m	$m	$m
Customer Service Cluster, all new measures						
Expense	**1,480.4**	**839.7**	**510.5**	**228.1**	**242.7**	**3,301.4**
Revenue	**0.0**	**104.8**	**127.8**	**176.3**	**196.8**	**605.7**
Capital	**2.1**	**51.1**	**35.3**	**23.7**	**12.2**	**124.4**

Material Measures

- COVID-19 business support measures in response to the Omicron outbreak:
  - Increase in the Small Business Fees and Charges Rebate from $2,000 to $3,000
  - Extension of the Commercial Landlord Hardship Grant
  - COVID-19 2022 Small Business Support Program
- 2022 flood support measures:
  - Small businesses and not-for profit organisations grant program
  - Temporary housing support package
  - Small Business Flood Support
  - Back Home Grants to help cover the costs of restoring properties or replacing essential household items
  - Rate relief for residents in seven Northern Rivers Local Government Areas
- Complaints, Compliance and Enforcement Program – a digital platform to support complaints handling, compliance activities, and investigations and enforcement
- Funding to support the Licensing and Compliance Program team
- Mission Critical Emergency Services Messaging Program providing for a centralised paging network
- Back to School Subsidy – $150 for every school aged child to meet the cost of school supplies in 2023
- Delivery of a broad-based toll relief scheme, providing a rebate of up to $750 per year
- Revenue Collections System technology refresh
- Renewable Fuel Scheme – to create a financial incentive to increase the production of green hydrogen and other renewable fuels
- Funding to support the migration of government agency licensing schemes onto the new Licensing NSW platform
- Additional compliance investment for land tax and transfer duty
- Additional funding to Service NSW for increased demand and complexity of transactions
- Construct NSW regulatory framework – widening the focus of enhanced licensing and compliance to residential building classes beyond apartment buildings

For additional analysis, see Chapter 1 in Budget Paper No. 2 *Outcomes Statement*.

	2021-22	2022-23 Budget	2023-24	2024-25 Forward Estimates	2025-26	Five-year Total
	$m	$m	$m	$m	$m	$m
Education Cluster, all new measures						
Expense	**123.5**	**1,123.5**	**844.2**	**577.7**	**536.2**	**3,205.1**
Revenue	**0.0**	**0.5**	**1.5**	**3.7**	**7.6**	**13.3**
Capital	**2.4**	**500.7**	**195.4**	**486.0**	**5.5**	**1,190.1**

Material Measures:

- Before and After School Care voucher – $500 voucher for every primary school child, redeemed in 2022
- 2022 flood support measures:
  - North Coast Flood Recovery Education Support Program to help Northern NSW's education sector recover from the floods
- Brighter Beginnings – to ensure the best life outcomes for children:
  - Fee relief for families with children enrolled in a preschool program in Community and Mobile preschools and Long Day Care settings through the Affordable Preschool Program
  - Developmental checks for children in preschools to provide parents with vital health information to help ensure their child can get the best start in life
- New and upgraded schools across New South Wales
- Maintenance funding for public school infrastructure across New South Wales
- Early Childhood Education and Reform:
  - Funding for a trial and introduction of a universal pre-kindergarten year, to increase access and affordability for all children in early learning and care
  - Investment to attract and retain a quality workforce to address current shortfall and build capacity for future demand
  - Funding to build a system stewardship function within the Department of Education that will partner with, support and develop better information about the early learning sector in New South Wales
- TAFE Asset Renewal Program – to improve facilities, upgrade teaching equipment and create modern learning spaces across TAFE campuses in New South Wales
- Institute of Applied Technology pilots in digital and construction areas
- Supporting TAFE's training delivery in critical skill areas
- Fee Free Vocational Education and Training – for apprentices, trainees and young people
- Review of TAFE's training model and redesign of its training program development
- Aboriginal Programs Plan – to provide high quality wellbeing and support programs that aim to keep Aboriginal students engaged and achieving at school, including continued funding for the Clontarf Foundation
- Improving access to Before and After School Care programs
- TAFE NSW - Coffs Harbour – optimise educational outcomes for students by providing courses in new specialist buildings and modernised facilities
- TAFE NSW - Kingscliff Campus Expansion – to expand course offerings in critical industries such as healthcare and electrotechnology
- Careers NSW pilot expansion, providing a range of career guidance services to NSW citizens

For additional analysis, see Chapter 2 in Budget Paper No. 2 *Outcomes Statement*.

	2021-22	2022-23 Budget	2023-24	2024-25 Forward Estimates	2025-26	Five-year Total
	$m	$m	$m	$m	$m	$m
Enterprise, Investment and Trade Cluster, all new measures						
Expense	**92.5**	**551.5**	**552.0**	**329.6**	**195.2**	**1,720.8**
Revenue	**0.0**	**42.1**	**-4.8**	**-10.0**	**-4.5**	**22.7**
Capital	**1.3**	**60.0**	**50.3**	**90.0**	**151.3**	**352.9**

Material Measures:

- Grants for the Performing Arts Relaunch Package in response to the extended impacts of COVID-19 on the sector
- 2022 flood support measures:
  - Sport Infrastructure Repair and Rebuild Package Grants
- Future Economy Fund: NSW's first dedicated Fund to target the end-to-end stages of business growth; from research and development and commercialisation, through to industry growth right to investment attraction and maturity
- Penrith Stadium Redevelopment
- Establishment of the Advanced Manufacturing Research Facility within the Bradfield City Centre
- Rugby League Centres of Excellence at the Belmore Sports Ground, Kellyville Memorial Park and the University of Wollongong
- Funding to support and coordinate investment, enterprise and trade activities
- Men's Rugby Union World Cup 2027 hosting costs
- Establishment of an RNA (Ribonucleic acid) Pilot Manufacturing Facility and investment in research and development
- New Lake Macquarie Sport and Recreation Centre Project
- Funding to secure sporting events and content in New South Wales
- Capital maintenance of significant heritage facilities including the Sydney Opera House and the Art Gallery of NSW
- Depreciation adjustment for the new Powerhouse Museum at Parramatta (previously approved)
- New and upgraded female change room facilities and improved lighting at sporting facilities across New South Wales
- Extension of the Creative Kids Program until 30 June 2023
- National Art School Precinct Renewal to preserve the site's heritage value, provide functional spaces and increase community access
- Increased funding to Destination NSW to promote the State's tourism and major events sector
- Allocation to the Responsible Gambling Fund

For additional analysis, see Chapter 3 in Budget Paper No. 2 *Outcomes Statement*.

	2021-22	2022-23 Budget	2023-24	2024-25 Forward Estimates	2025-26	Five-year Total
	$m	$m	$m	$m	$m	$m
Health Cluster, all new measures						
Expense	**3,202.2**	**3,377.1**	**1,223.2**	**608.3**	**646.7**	**9,057.5**
Revenue	**1,082.0**	**149.7**	**5.7**	**6.7**	**10.1**	**1,254.2**
Capital	**30.0**	**224.4**	**265.6**	**289.7**	**198.8**	**1,008.6**

Material Measures:

- Funding for the ongoing management of COVID-19, including addressing deferred care and elective surgery
- 2022 flood support measures:
  - community mental health and wellbeing initiatives that deliver an end-to-end mental health recovery strategy, which assist flood-affected carers, individuals, families and volunteers
- Investment to assist NSW Ambulance in addressing the surge in demand for out of hospital critical care, including additional staff and 30 new ambulance stations
- Building and sustaining the rural health workforce
- Workforce resilience programs
- Underlying growth rate adjustment
- Funding for World Class End of Life Care – enhance end of life and palliative care for people across New South Wales
- Payment of $3,000 to NSW Health employees in recognition of their contribution throughout the COVID-19 pandemic
- Brighter Beginnings – to ensure the best life outcomes for children:
  - provide development checks in preschools
  - expand the Sustaining NSW Families program
  - deliver the Pregnancy Family Conferencing Program state-wide
  - provide a personal child digital health record
- Funding to support the operation of new hospitals
- National Mental Health and Suicide Prevention Agreement with the Commonwealth Government
- Isolated Patients Travel and Accommodation Assistance Scheme – increase in subsidy rates, expand eligibility, and promote program awareness
- Sydney Biomedical Accelerator Complex – comprising a state-of-the-art biomedical research complex spanning the Royal Prince Alfred Hospital and Sydney University campus
- Vector Manufacturing Facility within the Westmead Health Precinct with the ability to manufacture high-quality clinical grade viral vectors
- Ambulance Virtual Clinical Care Centre – integrated in-house Secondary Triage and Alternative Referral services, co-located and integrated within the State Operations Centre
- Extending the Affordable IVF Initiative until July 2026
- Additional investment to increase capacity and provide fit for purpose facilities in regional hospitals, including at Bathurst, Grafton, Cowra and Banksia
- Albury Hospital Redevelopment to enhance medical and surgical services
- Establishment of up to 16 new services, including four hubs for women experiencing severe symptoms of menopause and address the associated health risks
- Funding to Lifeline to meet increased demand
- Provision of highly specialised cell and gene therapies for patients with rare or late-stage diseases
- Digital access to care - to provide digitisation and management of referrals and outpatient appointment management
- Health Outcomes and Patient Experience integration with electronic medical records to support the uptake of patient reported measures across the NSW health system
- Funding for the NSW Ambulance radio communications network

For additional analysis, see Chapter 4 in Budget Paper No. 2 *Outcomes Statement*.

	2021-22	2022-23 Budget	2023-24	2024-25 Forward Estimates	2025-26	Five-year Total
	$m	$m	$m	$m	$m	$m
Planning and Environment Cluster, all new measures						
Expense	**215.0**	**883.8**	**510.9**	**210.0**	**132.0**	**1,951.7**
Revenue	**0.0**	**3.1**	**4.9**	**18.1**	**2.6**	**28.6**
Capital	**1.7**	**249.1**	**164.6**	**136.5**	**60.2**	**612.1**

Material Measures:

- 2022 flood support measures:
  - C**lean-up and removal of flood and storm related damage, debris and green waste**
  - Grants to flood-impacted local councils to assist with immediate social, economic and environmental needs
  - Replacing, repairing and upgrading damaged critical infrastructure in flood-impacted communities, including housing for First Nations people and infrastructure in national parks and on Crown land
- Housing package:
  - Additional funding for the Accelerated Infrastructure Fund and State-led rezoning
  - Upgrades to State-owned social housing properties to improve property condition and quality
  - New and upgraded homes owned by the Aboriginal Housing Office and Aboriginal Community Housing Providers
  - Investment in the NSW Planning System to reduce planning assessment times and bring forward housing supply
  - Continuing and expanding the Strong Family, Strong Communities program
  - Regional Housing Development Program**,** including the Urban Development Program
  - Expanding the Roads to Home program
- Funding for National Parks and Wildlife Service (NPWS) to meet the growth in demand for nature-based tourism, including:
  - Establishing and activating national parks in areas with low levels of reservation and protection of habitat for threatened species
  - Remediation of Me-Mel (Goat Island) to prepare the island to be transferred back to traditional owners
  - Dorrigo Escarpment Walk and the Arc Rainforest
- **Response to** 2021 NSW Bushfire Inquiry recommendations:
  - Additional permanent NPWS firefighter roles to deliver increased hazard reduction targets and roles to protect and manage Assets of Intergenerational Significance
  - **U**pgrades to the NPWS firefighting fleet and radio network
  - **Additional** bushfire hazard **protection work** on Crown land
- Safe and Secure Water Program, which supports regional towns dealing with town water supply, quality, and safety risks
- Enhancing the State's natural capital by rewarding farmers who opt-in to a Sustainable Farming accreditation program
- Establishing a new Biodiversity Credits Supply Fund
- Support to councils to help cover their contribution towards the State's fire and emergency services costs for 2022-23
- Maintenance works across the State's property portfolio and on Crown land
- Developing and implementing additional coastal management programs across high priority councils
- Implementing a biosecurity regime for ongoing protection of Lord Howe Island's ecosystem from invasive species
- Climate Science Program to develop climate change data and knowledge resources, helping to reduce government, business and community exposure to climate risk
- Replacement of pumping stations between Nyngan and Cobar

For additional analysis, see Chapter 5 in Budget Paper No. 2 *Outcomes Statement*.

	2021-22	2022-23 Budget	2023-24	2024-25 Forward Estimates	2025-26	Five-year Total
	$m	$m	$m	$m	$m	$m
Premier and Cabinet Cluster, all new measures						
Expense	**1.4**	**185.9**	**136.4**	**87.6**	**89.0**	**500.2**
Revenue	**0.0**	**0.0**	**0.2**	**0.2**	**0.2**	**0.6**
Capital	**0.1**	**16.3**	**16.5**	**5.5**	**1.2**	**39.6**

Material Measures:

- Support for the Aboriginal Languages Trust in its responsibilities, including delivery of the 2022-27 Strategic Plan to promote, reawaken, nurture and grow Aboriginal languages in New South Wales
- Continued delivery of core policy and advisory activities to support and advise government, and other core operating expenditures within the Department of Premier and Cabinet
- Delivering the NSW Women Strategy 2022-26 to improve gender equality, reduce gender pay-gap and encourage women to participate in the economy and community, including the extension of the Return to Work program
- Delivery of 'Community and Place' grants for activities, project and initiatives that support socio-economic outcomes for local and regional Aboriginal communities and directly contribute to Closing the Gap outcomes
- Additional funding to meet the required costs of providing for Ministerial driver and vehicle services and to support the maintenance of driver safety standards

Material Measures (Integrity Agencies):

- Support for the Ombudsman's Office to undertake new and existing legislative responsibilities, including preparing and implementing new activities related to public interest disclosures and NSW's Mandatory Disease Testing Scheme
- Support for the NSW Electoral Commission to uplift resourcing to continue undertaking and supporting its core legislative responsibilities
- Additional funding for the NSW Electoral Commission to effectively conduct and deliver the 2023 State General Election
- Additional funding for the Independent Commission Against Corruption to uplift resourcing and continue undertaking and supporting its legislative responsibilities (note this is less than the $20 million threshold applied to other policies in this Statement but included for completeness)

For additional analysis, see Chapter 6 in Budget Paper No. 2 *Outcomes Statement*.

	2021-22	2022-23	2023-24	2024-25	2025-26	Five-year
		Budget		Forward Estimates		Total
	$m	$m	$m	$m	$m	$m
Regional NSW Cluster, all new measures						
Expense	**235.7**	**1,753.0**	**1,049.0**	**500.7**	**162.6**	**3,701.1**
Revenue	**0.0**	**6.8**	**5.4**	**1.3**	**0.0**	**13.4**
Capital	**3.1**	**52.6**	**129.5**	**270.6**	**41.2**	**497.0**

Material Measures:

- 2022 flood support measures:
  - Establishing the Northern Rivers Reconstruction Corporation to lead reconstruction efforts with impacted communities
  - Providing temporary housing assistance and disaster recovery grants
  - Delivering the NSW Storms and Floods Economic Recovery Package
  - Supporting impacted Primary Industries
  - Undertaking flood clean-up
- Extending the Regional Growth Fund to create jobs, invest in community amenities, projects to stimulate business growth, tourism infrastructures, and regional events
- Implementing the Snowy Mountains Special Activation Precinct to establish a resilient year-round tourism destination in Australia's alpine capital
- Establishing the Regional Investment Activation Program to attract investment in regional areas and activate the potential of priority precincts and industries
- Establishing the Critical Minerals Activation Fund to drive investment and improve opportunities for the NSW mining sector through the implementation of the Critical Minerals and High-Tech Metals Strategy
- Delivering 271 homes to address the waitlist for key workers in regional and remote New South Wales
- Continuing funding for Local Land Services to support regional industries and communities
- Continuing funding to support core activities of the Department of Primary Industries
- Continuing to implement the ten-year Marine Estate Management Strategy to improve water quality, estuary health and other biodiversity and environmental metrics, while protecting business, recreational and cultural opportunities
- Delivering shark mitigation strategies and ocean beach safety
- Expanding programs to support regional youth, informed by regional priorities
- Strengthening the State's biosecurity threat response and readiness capability, including enhanced targeting of endemic species
- Extending funding for the Parkes Special Activation Precinct to realise the benefits of the eco-industrial park being established at the junction of Australia's two rail spines
- Supporting landowners to implement new Private Native Forestry Codes of Practice to encourage forest stewardship, diversify on-farm incomes, and improve productivity and environmental outcomes for farm forestry
- Improving liveability through measures supporting key worker attraction, navigating local services, and planning for long-term community resilience
- Delivering additional minor works and routine asset maintenance activities
- Establishing the Regional Media Grants program to provide financial support to regional media outlets

For additional analysis, see Chapter 7 in Budget Paper No. 2 *Outcomes Statement*.

	2021-22	2022-23	2023-24	2024-25	2025-26	Five-year
		Budget		Forward Estimates		Total
	$m	$m	$m	$m	$m	$m
Stronger Communities Cluster, all new measures						
Expense	**90.8**	**631.7**	**582.6**	**423.0**	**326.6**	**2,054.7**
Revenue	**17.7**	**35.3**	**509.4**	**903.2**	**365.3**	**1,830.9**
Capital	**1.9**	**44.3**	**52.6**	**43.8**	**36.8**	**179.4**

Material Measures:

- 2022 flood support measures:
  - Temporary housing assistance packages for vulnerable people
  - Procurement and management of temporary and medium-term housing to support people unable to secure stable and ongoing accommodation in the Northern Rivers impacted by flooding
  - Continue funding the Disaster Relief Account Supplementation in 2022-23
  - Funding for the State Emergency Service (SES) to perform effectively in the event of floods
  - Commonwealth contributions for the NSW Storms and Floods Clean Up Program, Disaster Recovery Grants and Flood Economic Recovery
  - Rural Land Holder Grants
- Bushfire response:
  - Construction of additional fire control centres to manage and co-ordinate local brigade responses in Clarence Valley (Grafton), Narrabri, Cooma, Moruya, Tumut, and Hawkesbury
  - Third Tranche of funding for hazard reduction, maintenance of strategic fire trails, and fleet upgrades and replacements
- Continuing the Permanency Support Program to support costs related to children in out-of-home care
- Expanding Pregnancy Family Conferencing (in partnership with NSW Health) and Aboriginal Child and Family Centres
- Integrated Connected Officer – enhance the current NSW Police vehicle and officer technology capabilities
- Technology Asset Replacement Program Phase 5 – refresh program for major information communication and technology infrastructure
- Continuing funding to Community Legal Centres which support legal services to vulnerable cohorts, such as the elderly and people with a disability
- Regional Police Station Program – new police stations at Port Macquarie and Byron Bay
- Together Home Program to extend leasing packages and associated support programs as well as partnering with the Community Housing Sector to deliver new dwellings for Together Home clients to avoid them returning to street homelessness
- Support victims of domestic and family violence through expansion and enhancement of Safer Pathway
- Investing in translation and interpreting services and delivering major festivals and events to enhance community engagement
- Reduction in Stay Safe Keep Operation funding for Rural Fire Service (RFS) given the approval of the NSW Telco Authority's Whole of Government paging proposal
- Increasing supervision for medium and high-risk offenders to reduce the risk of re-offending
- Funding for critical capital works at various fire stations

For additional analysis, see Chapter 8 in Budget Paper No. 2 *Outcomes Statement*.

	2021-22	2022-23 Budget	2023-24	2024-25 Forward Estimates	2025-26	Five-year Total
	$m	$m	$m	$m	$m	$m
Transport and Infrastructure Cluster, all new measures						
Expense	**61.9**	**1,713.1**	**310.0**	**77.5**	**196.5**	**2,358.9**
Revenue	**192.5**	**-239.5**	**279.5**	**701.0**	**-415.0**	**518.5**
Capital	**-225.5**	**1,967.2**	**2,177.6**	**1,527.3**	**1,030.2**	**6,476.7**

Material Measures:

- 2022 COVID support measures:
  - Support for public transport services which have been impacted by loss of revenues related to COVID-19
- 2022 flood support measures:
  - Delivering priority state and local government transport infrastructure resiliency improvements in Northern NSW
- Continuing development of the Sydney Metro City and Southwest
- In principle funding for replacing existing Opal system with a flexible single integrated information and ticketing system to support travel needs across all transport modes
- In principle funding to delivering a next generation intelligent signalling and train control system for the Sydney rail network
- Upgrades to Mulgoa Road, including widening roads and improving 1.3-kilometre section of roads
- Investing in the Mona Vale Road West Project, addressing traffic volume, road safety and congestion
- Funding to Sydney Trains and NSW Trains in 2022-23 for the More Trains, More Services program, and other operational costs
- NSW and Commonwealth Government funded proposal to grade separate several road and rail interfaces in New South Wales as a result of the Inland Rail project
- Towards Zero Safer Roads Program to deliver seamless journeys across all transport modes and enhance multi-mode mobility in Regional NSW
- Upgrading the M1 Pacific Motorway
- Restoring essential public asset infrastructure, as part of the Disaster Recovery Funding Arrangements with the Commonwealth
- Upgrading Wyong Town Centre
- Funding the Apprentice Travel Card and Heavy Vehicle Program to alleviate cost pressures for students and apprentices needing to travel
- Widening Epping Bridge to improve general traffic
- Investing in the Southern Connector Road Jindabyne to improve travel time
- Upgrading Picton Road to improve safety
- Funding the Wakehurst Parkway project
- Upgrades to King Georges Road between Beverly Hills and Hurstville to ease congestion, increase safety, improve travel times and mitigate future flooding issues
- Funding the Sydney CBD to Parramatta Foreshore Access Improvement Program to provide a walking and cycling link between the Sydney Opera House and Parramatta
- Developing a final business case for Stage 2 of Sydney Metro Western Sydney Airport Line between Aerotropolis and nearby strategic centres
- Upgrading the Tumbi Road intersection
- Upgrading the White Bay Power Station to ensure compliance with the Heritage legislation, and an open space and accessible area in preparation for the Metro
- Constructing ferry wharves at La Perouse and Kurnell
- Developing a final business case and commencing enabling works to transition to zero emissions buses
- New line road upgrade over Pyes Creek, including road widening
- Funding the Women and Girls Safer Cities Programs to enhance perceptions of safety and comfort levels for women and girls on public transport
- Hume Highway intersection upgrade
- Funding for a third flagpole at Sydney Harbour Bridge to permanently fly the Aboriginal flag
- Funding the Port Stephens Cutting Upgrade to improve connectivity in the regions
- Richmond Road Stage 1 upgrades
- Funding for the Sutherland to Cronulla Active Transport Link providing direct transport paths through walking or cycling
- Continuing to implement the Central Coast Strategy
- Fast tracking the Oxley Highway/Pacific Highway Interchange at Port Macquarie
- Upgrades to Prospect Highway by widening roads and improving major intersections
- Expanding the Greater Cities Commission to include Newcastle, Central Coast and Wollongong
- Circular Quay Precinct Renewal (planning)
- Parramatta Light Rail Stage 2 enabling works for the delivery of the Wentworth Point Bridge
- Tenterfield Heavy Vehicle Bypass
- Aligning transport fares with Consumer Price Index in 2022-23
- Regulatory change to support overseas drivers who become permanent residents to obtain NSW driver licences

For additional analysis, see Chapter 9 in Budget Paper No. 2 *Outcomes Statement*.

	2021-22	2022-23 Budget	2023-24	2024-25 Forward Estimates	2025-26	Five-year Total
	$m	$m	$m	$m	$m	$m
Treasury Cluster, all new measures						
Expense	**63.0**	**221.8**	**350.4**	**317.1**	**293.2**	**1,245.4**
Revenue	**0.0**	**9.4**	**13.2**	**113.0**	**16.6**	**152.2**
Capital	**0.0**	**213.4**	**583.1**	**454.3**	**404.6**	**1,655.3**

Material Measures:

- Recycled funding facility to allow the acceleration of NSW transmission projects to transition the existing grid for new renewable generation
- Housing Package:
  - Administration of the First Home Buyer Property Tax Option, providing first home buyers the choice of paying an annual property tax or upfront stamp duty on property purchases up to $1.5 million
  - Trialling a two-year shared equity scheme to assist up to 6,000 eligible participants who are single parents, older singles and key worker first home buyers to purchase their own home
- Support the transition to a sustainable and clean economy which includes:
  - Increasing locally manufactured content for the renewable energy sector, growing investment and creating jobs
  - Building the State's clean manufacturing base including the hydrogen industry and low emissions agricultural products
  - Supporting a stronger pipeline of pumped hydro storage projects to improve electricity reliability
  - Accelerating the roll out of the NSW Electricity Infrastructure Roadmap
- Supporting the Electric Vehicle Charging Infrastructure to deliver infrastructure to service the growing fleet of electric vehicles
- State Adaptation Strategy with benefits of over $300 million to develop risk assessments, action plans and other capabilities required to address the physical risks arising from climate change
- Delivering energy bill savings to low-income households improving social, economic and environmental outcomes
- Point of Consumption tax changes
- Additional contributions to the Commonwealth Pandemic Leave Disaster Payment Scheme in response to the Omicron variant

For additional analysis, see Chapter 10 in Budget Paper No. 2 *Outcomes Statement*.

	2021-22	2022-23 Budget	2023-24	2024-25 Forward Estimates	2025-26	Five-year Total
	$m	$m	$m	$m	$m	$m
The Legislature, all new measures						
Expense	**0.0**	**3.4**	**5.3**	**7.8**	**6.1**	**22.6**
Revenue	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Capital	**0.0**	**25.0**	**25.0**	**1.1**	**0.0**	**51.1**

Material Measures:

- Critical maintenance works to partially address the historical maintenance backlog at NSW Parliament House and further improve public engagement with Parliament
- Various minor capital works, including essential upkeep for Parliament House and electorate offices

For additional analysis, see Chapter 11 in Budget Paper No. 2 *Outcomes Statement*.

	2021-22	2022-23	2023-24	2024-25	2025-26	Five-year
		Budget		Forward Estimates		Total
	$m	$m	$m	$m	$m	$m
Whole of Government, all new measures						
Expense	**632.1**	**-1,314.9**	**-611.3**	**-211.8**	**8.9**	**-1,497.0**
Revenue	**0.0**	**121.4**	**290.2**	**-128.0**	**389.7**	**673.3**
Capital	**-68.3**	**-1,590.1**	**-349.3**	**8.5**	**1,179.3**	**-819.8**

Material Measures:

- Release of centrally held funding for:
  - Proposals funded through the Digital Restart Fund
  - Proposals funded from the $7 billion funding set aside for productivity reforms and COVID-19 contingency
  - Proposals funded from the COVID-19 Reserve established in the 2021-22 Budget
  - Proposals funded from the Restart NSW fund
  - Proposals funded from WestInvest
  - Rugby World Cup 2027 bid
  - Penrith Stadium redevelopment
- Funding which is being held centrally for agreed measures which are yet to be allocated to agencies and do not require appropriation in 2022-23:
  - Delivery and integration of the M7 to M12
  - Universal Pre-Kindergarten reforms
  - Affordable and Accessible Childcare and Economic Participation Fund
  - Further funding for detailed planning and early enabling works for the delivery of a new bridge crossing the Parramatta River between Wentworth Point and Melrose Park, as part of the Parramatta Light Rail Stage 2
  - Upgrades and improvements to the Wyong rail line (fast rail)
  - Transitioning to a low-emission bus fleet to allow quiet and environmentally friendly travel services for Sydney commuters
  - Dungowan Dam and Pipeline project
- Housing Package – First Home Buyers Property Tax Option, providing first home buyers the choice of paying an annual property tax or upfront stamp duty on property purchases up to $1.5 million
- Lifting the public sector wages policy cap from 2.5% to 3.0% for two years (2022-23 and 2023-24) and the opportunity for workers to claim an additional 0.5% in 2023-24 subject to productivity reforms
- Vesting of Sydney Football Stadium to Venues NSW
- A reduction in Sydney Water's dividend which is required to maintain its investment grade credit metrics in light of water system augmentation identified as being required in the Greater Sydney Water Strategy
- Implementation of efficiency savings on non-frontline expenses of eligible agencies
- Establishment of a Crisis Reserve to meet liabilities from the 2021-22 COVID response and address agency operational pressures as they arise as a result of COVID-19 and other crisis risks
- Phasing out of the existing tolling relief program to be replaced by the new broad based tolling relief program
- Reduction in the discount available for early payment of land tax
- Increase to the foreign investor surcharge land tax
- Point of Consumption tax changes
- Public sector executives' remuneration increases limited to 2.0 per cent in 2022-23
- Other movements reflecting whole-of-government measures that cannot be attributed to individual clusters

B. FISCAL RISKS AND BUDGET SENSITIVITIES

The prospective nature of the Budget means it is informed by forecasts and assumptions. Future events may unfold which could produce results different to forecasts – either positive or negative. This appendix analyses potential risks and events to the Budget. 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 one 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 an 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 2022-23 Budget. Further information on the State's contingent assets and liabilities is 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 actual results may change as unknown events unfold. The extent of the variation will depend on the weighting accorded to each macroeconomic variable when forecasting the tax head in question. Table B.1 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	Medium	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	Low	N/A	High	N/A	High	N/A	Medium
Population growth	High	Low	Medium	N/A	Low	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	Low	N/A	N/A	N/A

Notes:
(a) High, medium and low provide only a broad indication of the model weighting for illustration.
(b) 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.

The main driver of payroll tax is total employee compensation, which in turn is a function of both wage and employment levels. At times, the pandemic had a significant impact on the labour market, with employment, hours worked and earnings all falling sharply during local outbreaks or when public health orders were introduced. These declines weighed on payroll tax receipts and were exacerbated by temporary government support measures for business. However, successful vaccination of the population, government stimulus measures, and the adaptability of households and businesses as they have transitioned towards living with COVID-19 in the community, has seen the economy become more resilient. The impact of the recent Omicron outbreak was relatively muted, and primarily seen through a fall in hours worked rather than employment. As of May 2022, reported employment was more than 90,000 above the level prior to the Delta lockdown and more than 130,000 above the pre-COVID level.

Payroll tax revenues are therefore forecast by applying growth rates, anticipated in Treasury's forecasts for NSW Average Compensation of Employees and NSW Employment, to underlying payroll tax levels. Table B.2 denotes the sensitivity of forecast payroll tax to a one percentage point increase in each of these variables respectively.

Table B.2: Revenue sensitivities – Payroll tax

Factors affecting payroll tax	2022-23 Budget	2023-24 Forward estimates	2024-25	2025-26	Sensitivity
	$m	$m	$m	$m	
Average compensation of employees	120.3	127.5	135.4	142.8	Single percentage point increase in factor
Employment	123.2	134.5	146.3	157.9	

As the economy recovers, an outbreak of a more virulent strand of COVID-19 is an ongoing risk. A variant that is resistant to vaccinations and has more severe adverse health outcomes than Omicron could have significant adverse consequences for the economy and labour market. Aside from COVID-19, other risks for the labour market include macroeconomic and geopolitical uncertainties, slower population growth and changes in households' propensity to consume as interest rates rise.

Transfer duty is forecast to contribute about 10.4 per cent of total general government revenue in 2022-23 and this is expected to fall to 9.7 per cent by 2025-26. The actual percentage will heavily rely on the performance of the housing market, including both the volume of residential property sales and the average transacted price. The relatively sharp increases in mortgage interest rates offered by banks and non-bank financial institutions since December 2021 are likely contributing to weaker property market activity. Transfer duty revenues are expected to decline as mortgage interest rates continue rising. Nonetheless, the residential property market has proven resilient in recent years. If the residential property market performs better than is currently expected, this would add to the State's budget result.

Table B.3 denotes the sensitivity of forecast transfer duty to a one percentage point increase in residential transacted prices and volumes respectively.

Table B.3: Revenue sensitivities – Transfer duty

Factors affecting transfer duty	2022-23 Budget	2023-24	2024-25 Forward estimates	2025-26	Sensitivity
	$m	$m	$m	$m	
Residential prices (average transacted price)	109.9	90.2	100.3	111.8	Single percentage point increase in factor
Residential transaction volumes	90.4	72.7	80.5	89.0	

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 typically 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 proportion 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.

Table B.4 illustrates the sensitivity of forecast GST distribution to New South Wales to a one percentage point increase in taxable consumption and dwelling investment (the main drivers of the GST pool size), and NSW population share.

Table B.4: Revenue sensitivities – GST

Factors affecting GST	2022-23 Budget	2023-24	2024-25 Forward estimates	2025-26	Sensitivity
	$m	$m	$m	$m	
Taxable consumption	134	139	143	145	Single percentage point increase in factor
Dwelling investment	45	46	47	48	
Population share	810	833	861	895	

The Commonwealth Grants Commission (CGC) uses a formula to determine each state's relativity (measure of relative fiscal capacity), which then drives how much GST each state receives. 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 Grants Commission's assessment of how much expenditure New South Wales needs, compared to other states, to deliver an average standard of service and associated infrastructure
- a change to National Agreement and National Partnership payments relative to other states.

The CGC assesses states' GST needs based on the average spending and revenue policies of all states. The averages vary over time due to underlying changes in state policies as well as updated or new data. As such, projections of NSW's relativities are subject to a high degree of uncertainty. The forecasts in this Budget take into account expected National Agreement and National Partnership Payments and anticipated infrastructure project delivery. 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' mining royalties can be volatile and are expected to contribute 3.9 per cent of general government revenues in 2022-23. A large share of royalties revenue is generated from thermal and coking coal exports, which means that the amount of royalties collected are sensitive to changes in:

- coal production volumes – an increase in coal volumes increases the quantity of coal that royalties are charged on, hence increasing royalties revenue
- coal prices – an increase in US dollar coal prices increases the value of coal sold to domestic and international customers, also increasing royalties revenue
- exchange rates – an appreciation of the Australian-US exchange rate reduces the Australian dollar value of coal exports because coal exports are typically transacted in US dollars.

Table B.5 denotes the sensitivity of forecast royalties revenue to a one percentage point increase in coal prices, coal production volumes and the Australian-US exchange rate.

Table B.5: Revenue sensitivities – Coal royalties

Factors affecting royalties revenue	2022-23 Budget	2023-24	2024-25 Forward estimates	2025-26	Sensitivity
	$m	$m	$m	$m	
Coal prices	39.1	26.8	21.4	18.5	Single percentage point increase in factor
Coal volumes	38.6	26.3	20.9	18.0	
Exchange rate ($A vs $US)	(39.6)	(27.2)	(22.0)	(19.2)	

General expense risks[1]

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, inflation, interest rate changes or natural disasters are largely exogenous risks.

The State's largest operating expense is 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 wages policy 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.

Health and education services represent a significant proportion of public sector expenditure in New South Wales. The State receives Commonwealth Government payments for these services. Any decrease in these payments or heightened demand for these services can worsen the budget result. Any further major outbreaks of COVID-19 would likely cause another short-term intensive public health response.

Pressures affecting public transport services, particularly train services, are a major risk to the forward estimates, particularly if much lower levels of patronage and farebox revenue in the wake of COVID 19 persist more permanently.

Agency budgets are prepared with consideration to the Government's forecast of inflation at the time of Budget. Once agency budgets are published for the 2022-23 year (Budget Papers No. 2, 4 and 5), the Government does not subsequently adjust them if inflation comes in higher than forecast. This is consistent with the principle that once Parliament passes the Appropriation Bill, that forms a legal upper limit on how much the Consolidated Fund can be drawn down in that financial year. There are very limited circumstances in which exigencies of Government can be approved by the Treasurer and Governor for urgent and unforeseen expenditures in 2022-23.

Should events unfold in the coming months which lead to a further upward revision of inflation at the next Budget, that would flow through to a higher projection for expenses in years after 2022-23. At the same time, should events unfold over the next twelve months and the Government believes it would be appropriate to revise down its inflation forecasts relative to what is in this Budget, that would lead to a reduction in projected expenses.

Table B.6: Expense sensitivities

Factors affecting expenses	2022-23 Budget	2023-24 Forward estimates	2024-25	2025-26	Sensitivity
	$m	$m	$m	$m	
Expenses					
Employee Expenses (excl super)	(426.4)	(428.7)	(440.3)	(452.6)	Single percentage point increase in factor
Government expenses subject to inflationary pressures[(a)]	(283.8)	(260.7)	(246.5)	(252.8)	
Government services demand growth					
Health and education expenses	(503.3)	(492.7)	(499.5)	(517.2)	

(a) Government expenses subject to inflationary pressures include a mix of accounts such as operating expenses and grants and subsidies.

1 The Budget includes allowances for Parameter and Technical Adjustment and anticipated timing changes. See Chapter 5 Expenditure for more information.

Other expenditure risks that could impact the budget result include:

- higher maintenance, depreciation and operating costs associated with the Government's record infrastructure program
- unforeseen legal expenses or costs associated with litigation
- unforeseen events (e.g. weather events) which lead to the deferral of project or program delivery
- 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

Following gains through most of calendar year 2021, investment returns have declined in the first four months of 2022. Financial markets have become more volatile as uncertainty about the global economic outlook, and thus impacts on asset values, has increased. The main source of uncertainty relates to the timing and pace of monetary policy changes as central banks globally act to ensure inflation remains under control. In turn, uncertainty around inflation is being driven by:

- how well and how quickly economies reopen and normalise following COVID-induced shutdowns or other restrictions
- COVID-19 resurgences continuing to impact global supply chains with flow on effects being higher commodity and the prices of other goods and services
- the ongoing Russia-Ukraine conflict, which is also impacting certain commodity prices, mainly energy and food

NSW Treasury works closely with TCorp to manage risk and navigate through the current volatile interest rate environment. NSW Treasury continues to develop financial risk management strategies that seek to optimise and protect the State's balance sheet.

Global inflationary pressures in the first half of 2022 have forced central banks to start tightening monetary policy sooner and more intensely than first expected. This has resulted in a sharp increase in bond yields as well as heightened volatility in capital markets, with defensive assets such as bonds being particularly impacted. These conditions may be expected to prevail for some time yet.

The Government's interest expense is partially a function of the interest rates it must pay on its new and refinanced borrowings. While the vast majority of the Government's existing debt portfolio is fixed-rate debt (and hence, not affected by movements in interest rates), it will be adversely affected by rising interest rates, as new borrowing and refinancing requirements will be priced at higher interest rates, as well as higher interest payments on its outstanding floating-rate debt. There has been a forecast increase in borrowing requirements since the 2021-22 Half-Yearly Review, with a corresponding increase in forecast interest expense.

Global financial markets are also sensitive to interest rate changes, with rising interest rates negatively impacting company valuations and stock prices as well as fixed income valuations. The Government's exposure to financial assets means its investment returns are sensitive to variations from forecasts. Investment returns may be above or below estimates which would impact revenue. Adopting the Attribution Managed Investment Trust regime for the majority of government investment funds can reduce investment revenue volatility impacts on the budget result by smoothing fund distributions over time. The large size of the State's investments means that a one percentage point movement in assumed investment return rates has a material impact on the Government's budget result. A one percentage point movement in interest rates would change interest expenses on borrowings and interest revenue on any invested cash, with offsetting impacts on the Budget Result.

Table B.7: Financial markets and interest rates sensitivities

Financial markets and interest rate sensitivities	2022-23 Budget	2023-24 Forward estimates	2024-25	2025-26	Sensitivity
	$m	$m	$m	$m	
Investment revenue[(a)]	245.0	291.7	367.2	454.8	Single percentage point increase in factor
Interest revenue[(b)]	7.0	9.1	8.1	7.6	
Interest expenses[(b)]	(168.7)	(452.3)	(672.3)	(896.3)	

(a) A single percentage point increase in the expected investment rate of return (NIFF, SAHF, NGF and SHLF only).
(b) A single percentage point increase in interest rates.

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)
- 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 risks and performance of funds are monitored closely, with risk appetites and asset allocation strategies reviewed annually to ensure they remain appropriate.

Liabilities for defined benefit 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.

The State also faces potential obligations that are non-quantifiable, but which can be broadly grouped into commercial transactions and other contingent liabilities. For example, the Government provided limited general warranties to purchasers and lessees under several energy transactions and retained responsibility for remediation costs associated with 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), the NSW Infrastructure Future Fund (NIFF), the Social and Affordable Housing Fund (SAHF), the Snowy Hydro Legacy Fund (SHLF), and the Treasury Managed Fund (TMF). Under the existing governance arrangements, NSW Treasury recommends the risk appetite and/or investment strategy to Treasury's Asset and Liability Committee (ALCO) for endorsement. ALCO then recommends the risk appetite and investment strategy to the Treasury Secretary (as the Treasurer's delegate), or the Treasurer, as required.

These funds have varying levels of exposure to growth assets (assets with higher levels of risk). The NIFF, for instance, has a relatively small allocation to equities (at around 15 per cent) and keeps around half 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 State debt. Fitch, Moody's and S&P Global[2] 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. NSW 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.

The outlook for financial markets remains highly uncertain. Market sensitivity to rising interest rates and the potential of market corrections in the future 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.

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 valuation of the liabilities for 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)]	2022-23 Budget	2023-24	2024-25 Forward estimates	2025-26	Sensitivity
	$m	$m	$m	$m	
Change in public sector wages and salaries	80	140	190	260	Single percentage point increase in factor
Change in Sydney CPI	660	1,310	1,920	2,740	
Change in investment return	(310)	(640)	(1,000)	(1,380)	
Change in discount rate	(7,700)				
Change in public sector wages and salaries	(80)	(140)	(180)	(250)	Single percentage point decrease in factor
Change in Sydney CPI	(660)	(1,300)	(1,890)	(2,710)	
Change in investment return	310	630	980	1,340	
Change in discount rate	8,800				

(a) A positive number in the table indicates an increase 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 in 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.

[2] S&P Global applies a haircut to balances in the NGF Debt Retirement Fund consistent with the haircuts applied in its liquidity methodology

B.3 Specific fiscal risks

The COVID-19 pandemic

NSW Treasury economic forecasts account for a shift to an endemic phase for COVID-19, characterised by moderate and regular outbreaks, but with limited negative health and economic outcomes. However, an outbreak of a more virulent COVID-19 variant, that is resistant to current vaccines, remains a significant fiscal risk for New South Wales, both in terms of lower revenue, as well as higher discretionary and non-discretionary spending on support measures, healthcare and other services.

The reintroduction of significant mobility restrictions on the population is unlikely but cannot be ruled out. Such restrictions have shown to have a significant, albeit temporary, negative impact on spending, employment (or hours worked) and business and consumer confidence.

A more likely outcome would be widespread symptomatic infections which, combined with the reintroduction of more stringent isolation requirements, could significantly constrain the supply of labour and weaken business and consumer confidence. The contractionary impact on the economy may not be as severe as a ‘lockdown’ but could potentially be longer lasting. This would put further pressure on already stressed global supply chains and increase the risk of a recession.

The COVID-19 pandemic has significantly impacted travel demand on the public transport network, leading to major revenue shortfalls in Opal revenue. Transport for NSW expects patronage to gradually recover towards pre-COVID-19 levels over the next five years. However, there are still major uncertainties around changing employee workplace flexibilities and a switch of preference to car travel, some of which may be permanent shifts.

Natural disasters

New South Wales was impacted by widespread storms and floods in February and March 2022. This followed the widespread storms and floods in February and March 2021 and November 2021, and the summer bushfires in 2019-20. Further natural disasters as a result of the changing climate will present a downside risk to the budget and potentially impact the recovery efforts underway for affected areas.

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.

Global risks

Global factors are a major source of uncertainty for the economic and financial outlook. Russia’s invasion of Ukraine has exacerbated inflationary pressures (particularly for energy and food prices) that were already evident as a result of global supply chain issues that emerged during the initial outbreaks of COVID-19. These factors have prompted a response from most major central banks, which have started to raise interest rates (in some cases quite aggressively). The potential strain on households and businesses runs the risk of derailing the global economic recovery, especially if global central banks tighten monetary policy more than needed. A forewarning of this is the negative growth outcome for the US economy in the March quarter.

Meanwhile, China continues to pursue a zero COVID strategy, which at times involves severe lockdowns of major regions. This not only impacts Chinese growth, but it is also exacerbating the impact on supply chains given the critical role of China in the global production chain.

A downturn in global economic activity would negatively impact on the domestic economy and commodity prices, posing a fiscal risk.

Geopolitical tensions remain elevated as well. In recent years, a range of formal and informal international trade limitations were implemented on Australian goods which included coal, beef and copper exports.

Interest rate risk

The RBA's monetary policy measures played an important role in supporting the NSW economy through the COVID-19 pandemic. Low interest rates and other monetary policy stimulus, including purchases of government bonds and term funding facilities for financial institutions, have lowered borrowing costs, provided liquidity to the financial sector, and supported house price growth and consumer spending.

However, unexpectedly strong inflation and evidence of a pick-up in wages has prompted the RBA to begin withdrawing some of that stimulus. The expected trajectory of monetary policy 'normalisation' adopted in the Budget is reasonably swift, but is less than the consensus in financial markets as at mid-June 2022.

A greater increase in interest rates than has been assumed could pose a risk to domestic activity which in turn might impact tax revenues. In addition, higher interest rates could pose a risk through increased interest payments on Government debt, to the extent that bond markets adjust to movements in monetary policy in Australia and other domestic and international factors.

Infrastructure related risks

Infrastructure projects – costs and delivery risks

The State's total infrastructure program expenditure is estimated at $112.7 billion over four years, after including an allowance for the observed tendency for capital expenditure to slip each year. Total capital expenditure could vary as individual projects proceed through their lifecycles, particularly if there are renewed COVID-19 restrictions or further disruptions as a result of natural disasters that lead to greater than anticipated aggregate capital expenditure slippage. Uncertainty regarding the ongoing impacts of COVID-19, international supply chain disruptions, geopolitical instability, availability and capacity of expert labour and capital equipment, and increasing complexity of projects (particularly, brownfield projects) can all impact on both the cost and delivery timeframe for infrastructure projects. The Government actively manages the cost and delivery timeframe of projects[3].

Physical Asset portfolio

The State's physical asset portfolio continues to grow as the NSW Government delivers its record investment in infrastructure. By the end of 2022-23, the portfolio is projected to be $450.3 billion in value. The NSW Government is placing additional focus on asset management, so that the portfolio remains adaptable to changing service needs, provides continuity of service in the event of shocks and stresses, and is maintained in a safe and sustainable way.

[3] The Budget includes an allowance for project slippage. See Chapter 5 Expenditure for more detail.

The Restart NSW Fund

The 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 the Restart NSW Fund 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

To support its underlying practice of strong financial management, the NSW Government monitors and reports on its contingent assets and liabilities. Unlike assets and liabilities that are recognised on the general government balance sheet, contingent assets and liabilities are uncertain and depend on a particular event occurring before being realised (see Box C.1 for technical definitions of contingent assets and liabilities). For a number of the general government's contingent liabilities, an equal but offsetting contingent asset may also exist.

If a contingent asset or liability becomes likely to materialise, then the asset or liability will 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 its risks and opportunities.

Box C.1: Accounting definition of contingent assets and liabilities

Accounting standard AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* defines:

A contingent asset as:

- a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. A contingent asset is only disclosed if an inflow of economic benefits is probable.

A contingent liability as:

- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- a present obligation that arises from past events but is not recognised because:
  - it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
  - the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets and liabilities are classified as either:

- quantifiable, where their financial value is known or can be reliably estimated, or
- non-quantifiable, where their financial value cannot be reliably determined.

This Appendix provides analysis on both categories.

C.1 Contingent assets

Table C.1 lists the general government sector's quantifiable contingent assets as at 30 April 2022.

Table C.1: General government quantifiable contingent assets

	General Government Sector	
	2021-22[c]	2022-23[d]
	$m	$m
Aboriginal Housing Office[a]	3	2
Industry, Skills and Regional Development	0	231
Other Agencies	16	0
	19[b]	**232**

(a) As part of the Housing Aboriginal Communities Program, there are 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. This was also the case in the 2021-22 Budget; however, this was not disclosed.
(b) The 2021-22 Budget included $5,063 million of the general government sector's performance bonds and other instruments of assurance. This has been removed in the table above for the 2021-22 Budget and the total restated. Unless an inflow of benefits is probable, the Government will no longer disclose them as contingent assets.
(c) As at reporting date of 30 April 2021.
(d) As at reporting date of 30 April 2022.

Table C.2 lists the general government sector'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 in right of the State of New South Wales holds a guarantee (a contingent asset), which fully offsets the corresponding contingent liability. The contingent asset will be recognised if the guarantee has been executed.
HIH Insurance	Potential proceeds relating to the liquidation of HIH Insurance.
Land Acquisition Reimbursements	The State will seek reimbursement of its acquisition costs through the SIC levy and development contributions. The funds will take several years to raise.
Insurance claims	The State has submitted various insurance claims. This includes claims related to COVID-19 pandemic, and damages to physical assets caused by bushfires and floods. The State is entitled to claims to undertake these works.
Litigation claims	The State is undertaking various legal actions. The type and amount of compensation will be dependent on the outcome of the legal processes.
Transaction related to Vales Point Power Station	Where land is returned to the State by the exercise of an option under the hand-back deed by the counterparty.
Unspent Grant Monies	The State may be entitled to receive refunds of unspent grant monies from grantees. These refunds may occur in circumstances such as withdrawals from grant programs by grantees or where grantees are unable to achieve milestones within acceptable timeframes.

C.2 Contingent liabilities

Table C.3 lists the general government's quantifiable contingent liabilities as at 30 April 2022.

Table C.3: General government quantifiable contingent liabilities

	General Government Sector	
	2021-22[f]	2022-23[g]
	$m	$m
Department of Communities and Justice[a] (Claims in respect of compensation and others)	933	1,177
Department of Customer Service[b]	13	9
Department of Planning and Environment[c]	100	100
Planning Ministerial Corporation[d] (Land acquisitions)	120	177
Transport for NSW[e] (Land acquisitions, contractual disputes)	828	1,582
Other Agencies	25	0
	2,019	**3,045**

(a) The Victims' Support Scheme (VSS) was created on 3 June 2013 through legislation known as the *Victims' Rights and Support Act 2013*.

(b) The Torrens Assurance Fund is a statutory compensation scheme designed to compensate people who, through no fault of their own, suffer loss or damage as a result of the operation of the *Real Property Act 1900 (RPA)* operated by the Department of Customer Service.

(c) The Department of Planning and Environment has provided support for the obligations of a third party where it may be called upon to settle a debt obligation in the future. This may occur if the borrower is not able to service its debt.

(d) These land acquisition 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.

(e) Transport for NSW has several contractual disputes with an estimated contingent liability of $1,418 million and an estimated $162 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.

(f) As at reporting date of 30 April 2021.

(g) As at reporting date of 30 April 2022.

The State faces a range of potential obligations that are non-quantifiable, which have been broadly grouped into the following categories:

- commercial transactions
- other contingent liabilities.

As set out in Table C.4, the general government sector 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 provided indemnities for the costs associated with remediating pre-existing contamination at several power station sites where required by an Environmental Authority. The annual *Report on State Finances* contains other non-quantifiable contingent liabilities that may not be disclosed 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 the land is returned to the State by the exercise of an option 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.
Sale of WestConnex	The State has potential liabilities under warranties and indemnities provided to the purchasers in relation to the performance of certain obligations.

The general government sector also has non-quantifiable contingent liabilities relating to various 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)*.
Stolen Generations Reparations Scheme	The Stolen Generations Reparations Scheme provides ex-gratia payments to living Stolen Generations survivors who were removed by, committed to, or otherwise came into the care of the New South Wales Aborigines Protection or Welfare Boards (under the *Aborigines Protection Act 1909 (NSW)*, up until the Act was repealed on 2 June 1969)
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 that soil and water sample tests have 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.
Claims and 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.
Natural Disasters	The State is assessing damages to physical assets caused by bushfires and floods. The full extent of this cannot be estimated at this point of time.
Unclaimed money – Consolidated Fund	The State treats the receipt of unclaimed money to the Consolidated Fund as income. However, claims can be legally lodged to recoup owed moneys for several years after the money is paid into the Fund.
Allianz Stadium disclosures	Allianz Stadium is being redeveloped by the State. 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 redevelopment. The financial impacts related to this cannot be estimated at this point of time.
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) for injured workers covered under the Treasury Managed Fund	A targeted review designed to identify and remediate, if necessary, instances of under payment of weekly compensation benefits to government workers as a result of issues with the calculation of PIAWE benefits is underway, with some recipients already having their payments made. It is currently not possible to put an estimate on the remaining claims.
Contracts with private sector parties	The State has guaranteed the obligations and performance of various statutory authorities with private sector contracts.
Guarantee on local government loans	The State provides TCorp with an indemnity for its loans to local governments.
Other government guarantees	The State has provided government guarantees to give financial support and facilitate certain services.

D. HISTORICAL FISCAL INDICATORS

This appendix reports the key fiscal indicators for the general government and non-financial public sectors from 1996-97. Datasets 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[e] (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	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[a]	29,941	4.8	(3.5)	81,395	13.0	(0.3)	88,892	14.2	10.5	(7,495)	(1.2)	20,358	3.3	(22,026)	(3.5)	624,600
2020-21[b]	34,407	5.4	14.9	87,965	13.7	8.1	95,038	14.8	6.9	(7,072)	(1.1)	18,818	2.9	(21,418)	(3.3)	643,100
2021-22[c]	39,240	5.7	14.0	103,706	15.1	17.9	120,268	17.5	26.5	(16,562)	(2.4)	19,734	2.9	(27,755)	(4.0)	686,000
2022-23[d]	39,637	5.3	1.0	103,617	13.8	(0.1)	114,878	15.3	(4.5)	(11,260)	(1.5)	22,666	3.0	(25,740)	(3.4)	753,200
2023-24[d]	39,683	5.0	0.1	106,701	13.6	3.0	109,497	13.9	(4.7)	(2,796)	(0.4)	22,646	2.9	(16,427)	(2.1)	786,400
2024-25[d]	41,732	5.1	5.2	110,101	13.6	3.2	109,500	13.5	0.0	601	0.1	21,968	2.7	(10,312)	(1.3)	810,900
2025-26[d]	43,753	5.2	4.8	112,944	13.5	2.6	111,513	13.3	1.8	1,431	0.2	21,114	2.5	(9,340)	(1.1)	837,200

(a) Restated.
(b) Actual.
(c) Revised.
(d) Forecast Estimate.
(e) Gross State Product.

Table D.2: General government sector balance sheet and financing indicators

	Borrowings[e]		Interest Expense		Net Debt[f]		Net Financial Liabilities[g]	
	$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	37,863	6.1	1,812	2.2	(10,401)	(1.7)	81,194	13.0
2019-20[a]	71,597	11.5	2,076	2.6	22,732	3.6	129,587	20.7
2020-21[b]	90,345	14.0	2,199	2.5	37,076	5.8	137,076	21.3
2021-22[c]	105,632	15.4	2,500	2.4	53,538	7.8	148,939	21.7
2022-23[d]	128,142	17.0	3,566	3.4	78,169	10.4	174,467	23.2
2023-24[d]	148,349	18.9	4,602	4.3	93,749	11.9	189,863	24.1
2024-25[d]	165,422	20.4	5,252	4.8	105,519	13.0	199,705	24.6
2025-26[d]	182,202	21.8	5,973	5.3	114,814	13.7	210,191	25.1

(a) Restated.
(b) Actual.
(c) Revised.
(d) Forecast Estimate.
(e) Includes borrowings and derivatives at fair value and borrowings at amortised cost.
(f) Net debt consists of the sum of deposits held, advances received, loans and other borrowings less the sum of cash and deposits, advances paid and investments, loans and placements.
(g) Net financial liabilities equal total liabilities less financial assets, excluding equity in other public sector entities.

Table D.3: Non-financial public sector operating statement aggregates

	Revenue	Expenses	Net Operating Balance		Capital Expenditure		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	84,969	86,059	(1,050)	(0.2)	21,825	3.5	(13,843)	(2.2)	625,400
2019-20[a]	84,631	94,684	(10,052)	(1.6)	24,817	4.0	(26,010)	(4.2)	624,600
2020-21[b]	90,181	98,905	(8,724)	(1.4)	24,462	3.8	(25,122)	(3.9)	643,100
2021-22[c]	106,376	122,288	(15,912)	(2.3)	25,378	3.7	(30,761)	(4.5)	686,000
2022-23[d]	107,138	118,175	(11,038)	(1.5)	29,242	3.9	(29,018)	(3.9)	753,200
2023-24[d]	110,965	113,986	(3,021)	(0.4)	29,525	3.8	(20,623)	(2.6)	786,400
2024-25[d]	115,598	115,254	344	0.0	27,642	3.4	(12,918)	(1.6)	810,900
2025-26[d]	118,848	117,778	1,069	0.1	26,282	3.1	(11,477)	(1.4)	837,200

(a) Restated.
(b) Actual.
(c) Revised.
(d) Forecast Estimate.
(e) Gross State Product.

Table D.4: Non-financial public sector balance sheet and financing indicators

	Borrowings[e]		Interest Expense		Net Debt[f]		Net Financial Liabilities[g]	
	$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	62,423	10.0	2,789	3.3	11,263	1.8	111,624	17.8
2019-20[a]	99,186	15.9	3,024	3.6	48,389	7.7	164,068	26.3
2020-21[b]	119,220	18.5	3,050	3.4	63,490	9.9	171,594	26.7
2021-22[c]	135,055	19.7	3,366	3.2	80,466	11.7	182,724	26.6
2022-23[d]	160,483	21.3	4,566	4.3	108,088	14.4	211,108	28.0
2023-24[d]	182,663	23.2	5,635	5.1	125,579	16.0	228,746	29.1
2024-25[d]	201,607	24.9	6,341	5.5	138,505	17.1	240,518	29.7
2025-26[d]	220,974	26.4	7,132	6.0	149,968	17.9	253,477	30.3

(a) Restated.
(b) Actual.
(c) Revised.
(d) Forecast Estimate.
(e) Includes borrowings and derivatives at fair value and borrowings at amortised cost.
(f) Net debt consists of the sum of deposits held, advances received, loans and other borrowings less the sum of cash and deposits, advances paid and investments, loans and placements.
(g) Net financial liabilities equal total liabilities less financial assets, excluding equity in other public sector entities. 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

Performance Reporting under the *Fiscal Responsibility Act 2012*

The *Fiscal Responsibility Act 2012* (FRA) requires the Government to report on its performance against the Act's object, targets and principles – see Tables E.1, E.2 and E.3 respectively.

The FRA sets a policy objective of maintaining the State's triple-A credit rating, supported by two fiscal targets and three principles of sound financial management. New South Wales holds two triple-A credit ratings (Moody's and Fitch), with the State holding a double-A plus with S&P Global.

As per section 8(c) of the FRA, the Government is required to outline the reasons for a departure from the FRA's object, targets or principles, and how the Government plans to achieve these targets by the end of the forward estimates (2025-26). Relevant actions are listed in Tables E.1 and E.2.

Table E.1: Fiscal Responsibility Act 2012 – Object, Update and Relevant Actions

Object of the FRA	Credit Ratings Agencies	Relevant NSW action within the forward estimates to achieve or maintain the Object of the FRA
Maintain the triple-A credit rating	In November 2021, Moody's and Fitch assigned New South Wales a triple-A credit rating with stable outlook. In September 2021, S&P Global reaffirmed the State's credit rating at double-A plus with stable outlook. S&P Global in June 2022, outlined that it was unlikely that New South Wales would regain the triple-A credit rating until the second half of the decade and with the State required to reduce debt levels.	In support of achieving the objective of the FRA, this Budget projects: • a return to surplus by 2024-25 • net debt stabilising at around 14 per cent of GSP by June 2026, with net debt gradually declining towards the end of the decade consistent with the Government's commitment to a sustainable and diversified infrastructure pipeline that supports a strong and resilient sector. The final assessment of the State's credit rating is determined by the independent credit rating agencies using their published methodology.

Table E.2: Fiscal Responsibility Act 2012 – Targets, Update and Relevant Actions

Fiscal targets	2021-22	2022-23	2023-24	2024-25	2025-26	Relevant action to achieve fiscal targets of the FRA by 2025-26
Annual expense growth kept below long-term average revenue growth (5.6 per cent) (*General government expense growth*)	26.5%	-4.5%	-4.7%	0.0%	1.8%	The Budget forecasts 2021-22 expense growth to exceed the long-term revenue growth rate due to expense measures to support households, businesses and the economy through the pandemic including the COVID-19 Disaster Payment and business grants. From 2022-23 onwards, the Government is forecasting annual expense growth to remain below the long-term revenue growth rate with temporary stimulus measures easing

Fiscal targets	2021-22	2022-23	2023-24	2024-25	2025-26	Relevant action to achieve fiscal targets of the FRA by 2025-26
						off and restraint on expense growth over the medium term through the fiscal repair program. For further information see Chapter 5 – Expenditure.
The elimination of the State's unfunded superannuation liability by 2030 *(Net unfunded superannuation liability)*	\$16.2b	\$16.2b	\$16.2b	\$16.0b	\$15.8b	Following the onset of COVID-19, New South Wales re-anchored its superannuation liability target to be fully funded by 2040 which freed up fiscal capacity to support the Government's response to COVID-19. The Government has previously announced that the targets in the FRA will be updated as a clearer picture of the broader outlook emerges. For further information see Chapter 6 – Managing the State's Assets and Liabilities.

Table E.3: Fiscal Responsibility Act 2012 – Principles

FRA principles of sound financial management	Report on performance on fiscal principles
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.	• From 2022-23 onwards, the annual expense growth rate is projected to remain below the long-term average revenue growth rate of 5.6 per cent, in line with the FRA target, due to the phasing out of COVID support measures, coupled with the Government's fiscal repair measures to control expenditure. • State taxation policies have been broadly stable and predictable with the ratio of tax receipts to Gross State Product (GSP) projected to be around 5.7 per cent in 2021-22 decreasing to 5.2 per cent by 2025-26. • The Government uses a comprehensive capital investment framework to inform and evaluate investment decisions. This framework integrates planning, project selection, funding and delivery, and is designed to ensure the Government invests in infrastructure projects that provide the greatest benefit at the most efficient cost for the taxpayer. • The Government's capital investment is also guided by the rigorous analysis and stakeholder consultation captured in key strategies and plans including the recently released *State Infrastructure Strategy 2022-42.*

FRA principles of sound financial management	Report on performance on fiscal principles
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.	• The Government has continued to actively manage the State's balance sheet, investment decisions and risk management supported by advice from the Treasury-chaired Asset and Liability Committee. • Reforms and policies implemented include: - debt management measures including the broadening of the State's investor base (through the issuance of new longer-dated bonds, floating rate notes, offshore notes and sustainability bonds) - seeking to retire around $11 billion of debt (with $7.7 billion already completed), using funds from the NSW Generations Fund. - implementation of the new Cost Control Framework by Infrastructure NSW will support delivery of the state's capital program with a consistent approach to cost control and risk and strengthened accountability for the outcomes of cost control. • Outcome Budgeting provides the Government with the ability to monitor the performance of its total budget. This ensures that Government spending can provide the highest benefit and delivery of outcomes for communities and businesses across NSW. • The development of the Economic Stewardship Framework expands on the State's Outcome Budgeting approach and will consider Environmental, Social and Governance (ESG) issues more explicitly.
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.	• The *2021-22 NSW Intergenerational Report* (IGR) provided an update on the State's long-term fiscal gap, which is the expected build-up of fiscal pressures over the long-term on the basis there would be no change in current government policy, no corrective measures taken, and economic and demographic trends persist. • The 2021-22 IGR projects that as a result of the long-term structural imbalance between growth in Government revenues and expenditure, the fiscal gap will reach 2.6 per cent of GSP by 2060-61. • The measures announced in this Budget are projected to lead to a 0.2 percentage point deterioration in the fiscal gap, to 2.9 per cent of GSP by 2060-61, compared to 2.6 per cent of GSP announced in the 2021 IGR and 2.7 per cent estimated in the 2021-22 Budget. • The 2021 IGR outlined that reforms which drive greater economic participation by women would have considerable impacts on both living standards and in reducing the fiscal gap. Lifting the rate of women's participation in paid work to be equal to men's over the next 20 years would increase employment growth and lead to an economy that is 8 per cent larger by 2060-61, the equivalent of $22,000 more income per household. The 2022-23 Budget invests in such economic reform with measures including enhancing women's opportunities, early childhood education and care reform and further investment in skills, which over the long term should support a decrease in the fiscal gap. The current fiscal gap calculation includes the expenditure impacts of reforms included in this Budget but does not include any of the benefits of the reforms announced, including the State led reforms and reforms announced by the Commonwealth Government. • The build-up in debt as a result of the fiscal gap is partially addressed by the growing NSW Generations Fund (NGF), which is forecast to grow to more than $94 billion by June 2032.

F. ECONOMIC SCENARIO ANALYSIS

The 2022-23 Budget presents economic forecasts, based on available data and assumptions at the time of preparation. These forecasts are subject to significant uncertainty, particularly in the current economic environment. The sources of uncertainty include unexpected shocks, structural shifts and behavioural changes.

This appendix explores the impact of variations in key economic parameters on other areas of the economy, the macroeconomic outlook and general government tax revenues. Scenario analysis provides insight into the complex interdependencies within our economy that a partial sensitivity analysis is unable to capture.

The scenarios selected cover plausible economic events impacting the state over the forecast horizon. The modelling establishes relationships between key international, Australian and New South Wales economic aggregates, but does not allow for any endogenous policy responses within a scenario.

The analysis should be interpreted with care, given the uncertainty associated with the timing and evolution of unexpected economic events. The scenarios are unlikely to fully represent the impact of future shocks. Any departures from the specified scenario would vary the impact on the economic and revenue outlook.

F.1 Impact of variations in key forecast assumptions

This scenario analysis complements the central economic outlook presented in Chapter 2 – The Economy by quantifying some of the key risks to the outlook. The economic and revenue impact of these scenarios was modelled using the Centre of Policy Studies (CoPS) Victoria University Regional Model Tax (VURMTAX)[1] and is presented as deviations from baseline forecasts.

Scenario 1: More aggressive monetary policy tightening

In response to the recent surge in inflation, the Reserve Bank of Australia (RBA) lifted the cash rate to 0.35 per cent in May 2022 (the first increase in over 11 years). In June 2022, the RBA increased interest rates by a higher than expected 50 basis points to 0.85 per cent. The market and most economists were surprised by the size of the move, which has raised the risk of an accelerated and more aggressive tightening cycle than envisaged in our baseline forecasts. The RBA's forecasts in May assumed that interest rates will continue to lift, reaching around 1¾ per cent by the end of 2022 and 2½ per cent by the end of 2023. NSW Treasury forecasts are broadly consistent with RBA assumptions.

However, markets have priced in a more aggressive interest rate profile. At the time of modelling this scenario, markets expected interest rates to lift to 2¾ per cent by the end of this year and 3½ per cent by the end of 2023.

[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.

In this scenario, central banks, including the RBA, modify their reaction function in a manner that reflects futures market pricing. There are several factors that could lead to this scenario eventuating:

- Central banks may feel the need to accelerate monetary policy tightening to ground stubbornly high inflationary expectations and break any nascent wage-price spirals from becoming entrenched. In this scenario, central banks work to bring inflation back down to its target quicker than is expected under our baseline forecasts.
- Central banks become increasingly concerned that the (current) high inflationary pulse will be sustained for a longer period and move to aggressively tighten monetary policy.

In either case, more restrictive monetary policy will constrain economic activity, asset prices and government revenues. In this scenario, both domestic and foreign interest rates (proxied by their required rates of return) will be shocked higher. The domestic neutral interest rate[2] in both the baseline and scenario is unchanged at 2¾ per cent.

Macroeconomic impact on the Budget and over the forward estimates

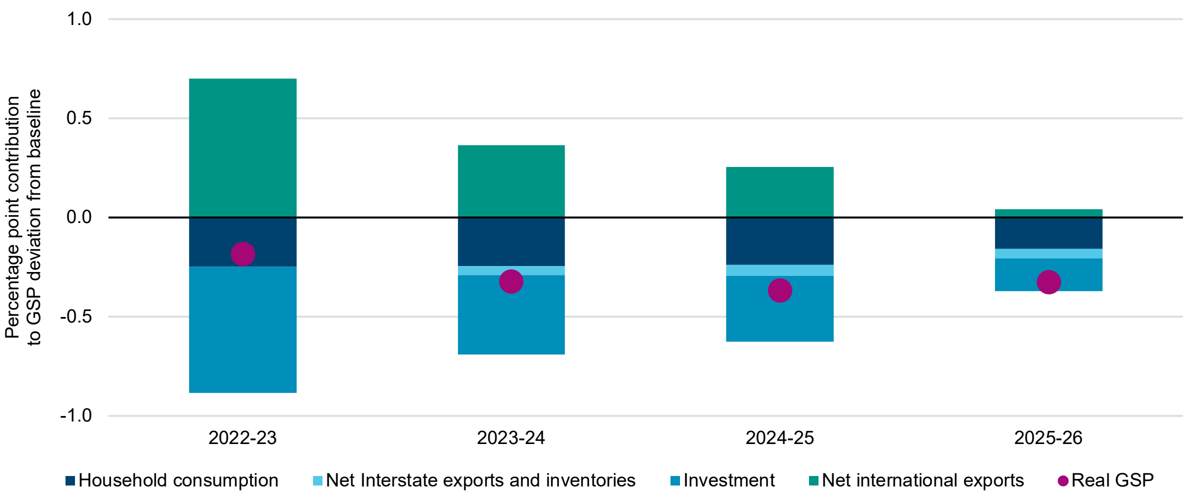
In this scenario, interest rates average one percentage point higher than baseline forecasts for a three-year period from September 2022. From 2026 onwards, the interest rate level under this scenario is consistent with baseline forecasts.

The higher interest rate profile will significantly constrain both household consumption and private investment, leaving State Final Demand (SFD) 0.9 per cent (or $6.0 billion) lower than baseline forecasts in 2022-23 (see Table F.1).

Dwelling investment is particularly sensitive to higher interest rates, falling 7.8 per cent in 2022-23 relative to baseline. Higher interest rates directly increase the cost of borrowing, making it more difficult to finance the building or purchase of new dwellings. This reduces the demand for dwelling construction. Lower demand for new dwellings will lead to lower dwelling prices and investment.

For households and businesses, higher interest rates increase the cost of loans and reduce borrowing capacity. Additionally, higher interest rates weigh on asset prices (such as housing and equities). A reduction in the wealth of households and businesses decreases consumption through the wealth effect. Overall, this means consumers will spend less and businesses will invest less, leading to a reduction in domestic economic activity and consequently lower employment. Falling aggregate incomes will further reduce demand growth and decrease inflationary pressures.

Chart F.1: The external sector helps moderate the impact of higher interest rates



Source: CoPS, Victoria University and NSW Treasury

2 The neutral interest rate is the cash rate at which monetary policy is neither expansionary nor contractionary.

A significant offsetting impact comes through the external sector. Weaker domestic investment leads to relative falls in employment, an increase in the unemployment rate, a decrease in capital utilisation and consequently weaker wage and price pressures. Lower domestic price levels improve international competitiveness and drive an increase in export volumes, supported by the deployment of underutilised capital and labour into export-focused industries. Import volumes, on the other hand, contract in line with weaker domestic economic activity. Given the offset from international trade, the impact on GSP is significantly muted, compared to SFD (see Table F.1).

However, even as the cash rate returns to baseline, the amount of productive capital in the economy (the capital stock) remains below baseline due to the short-term downturn in real investment. This lowers the demand for labour, leaving the unemployment rate 0.3 percentage points above baseline by 2025-26. Household consumption also remains below baseline reflecting spare capacity in the labour market, while investment activity remains depressed due to a weaker level of domestic demand.

Table F.1: The effect of more aggressive monetary policy tightening on major economic parameters[(a)]

Financial year estimate[(a)]	2022-23	2023-24	2024-25	2025-26
State final demand	(0.9)	(0.6)	(0.5)	(0.3)
Gross state product	(0.2)	(0.3)	(0.4)	(0.3)
Employment	(0.3)	(0.4)	(0.4)	(0.3)
Unemployment rate	0.3	0.4	0.4	0.3
Consumer price index	(0.5)	(0.5)	(0.6)	(0.7)
Nominal wages	(0.1)	(0.2)	(0.3)	(0.4)
Terms of trade	(0.4)	(0.2)	(0.1)	0.0

(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 on the Budget and over the forward estimates

Weaker domestic economic activity flows through to lower tax collections across most categories of government revenue, particularly in 2022-23 (see Table F.2). Transfer duty, both residential and non-residential, falls significantly as dwelling prices and transactions decline in-line with depressed dwelling investment activity. Weaker consumer spending and dwelling investment also leads to a decline in the state's GST revenue. Offsetting these lower revenues is a slight increase in royalties, in response to higher export volumes.

Table F.2: The effect of more aggressive monetary policy tightening on major revenue parameters[(a)]

Financial year estimate[(a)] ($, million)	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m
Payroll tax	(29)	(62)	(86)	(99)
Transfer duty	(2,447)	(1,120)	(825)	(178)
Land tax	(35)	(74)	(92)	(88)
Royalties	71	12	(2)	(21)
GST revenue	(237)	(276)	(315)	(281)
Other revenue	(24)	(45)	(60)	(65)
Total revenue	**(2,701)**	**(1,564)**	**(1,380)**	**(732)**

(a) Figures reported are the change in the level of each parameter relative to the baseline.

Source: CoPS, Victoria University and NSW Treasury

Scenario 2: Oil prices fall quicker than expected and remain at lower levels

Oil prices fell sharply in the first year of the pandemic, with Brent crude oil prices falling below US$20 per barrel in April 2020 before lifting to US$50 per barrel in December 2020. Recovering global demand helped lift prices to around US$80 per barrel by the end of 2021. In 2022, the threat of a Russian invasion of Ukraine, which subsequently commenced in February 2022, saw Brent crude oil prices spike above US$120 per barrel. Since then, oil prices have remained elevated, averaging over US$110 in May 2022.

Rising global oil prices over this period have driven a significant increase in domestic petrol prices. While Australia has limited direct exposure to Russian oil or petrol, global oil markets operate collectively and quickly reflect regional shocks in pricing. Surging oil prices contribute to higher inflationary pressures directly through higher fuel costs and indirectly through higher transportation and manufacturing costs. The IMF estimates that a 10 per cent increase in global oil prices leads to a 0.4 percentage point increase in headline inflation but notes that negative oil price shocks have a smaller effect.

The current consensus is for oil prices to gradually decline from their current levels and therefore ease pressure on headline and (indirectly) core inflation. However, there is significant uncertainty surrounding the resolution of the conflict in Ukraine, as well as possible supply responses, and therefore the length of time oil markets will remain disrupted.

Scenario 2 allows the shock to oil markets to dissipate quicker than baseline expectations. Oil prices, in this scenario, are assumed to:

- track the baseline forecast until the end of 2022
- then rapidly decline towards their pre-COVID average over the next 12 months
- then follow the same price dynamics as the baseline forecast but remain at a lower level.

With the exception of LNG prices, which are weakly correlated with crude oil prices, all other commodities follow global prices in the scenario. The overall impact of lower oil prices will be contingent on monetary and fiscal policy responses, both of which are held unchanged in this scenario.

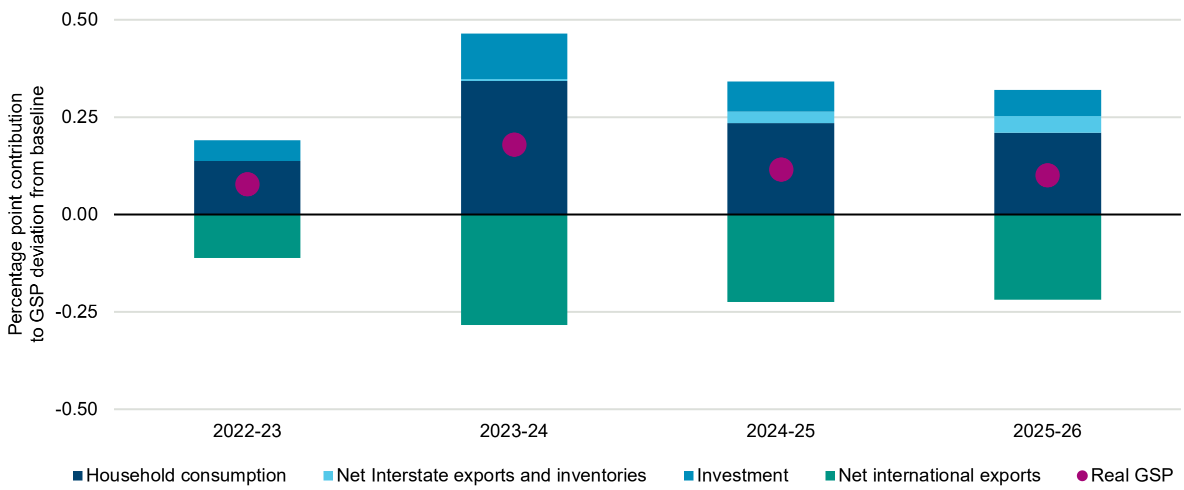
Macroeconomic impact on the Budget and over the forward estimates

A sharp decline in the global price of oil will shift real income from oil exporters to oil importers, like Australia. All else equal this will increase domestic economic activity, lower inflation, and lift employment (see Table F.3).

Lower oil prices will reduce energy and transport costs and bring down production costs across industries. The lower cost of goods will lower inflation (and consequently the cost of living) and support increased investment activity. Lowering the cost of living increases real incomes and drives higher household spending.

A lower oil price will leave NSW SFD 0.3 per cent above baseline after 4 years. The lift in domestic economic activity is driven by increased household spending (0.4 per cent above baseline) and increased private investment (0.3 per cent above baseline).

Chart F.2: The drag from the external sector is offset by domestic economic activity



Source: CoPS, Victoria University and NSW Treasury

Lower global oil prices will reduce production costs domestically and globally, leading to a fall in price levels. However, research shows that foreign prices are more sensitive to oil prices than domestic prices. A sharper decline in foreign prices leads to a global substitution away from Australian exports and towards foreign exports (which are relatively cheaper). This substitution effect more than offsets any increased export demand from our major trading partners.

The drag from the external sector moderates the improvement in economic activity (see Chart F.2), but GSP and employment are both 0.1 per cent higher after four years relative to baseline.

Falling oil prices, which help pull down inflation, could result in more accommodative monetary policy. In this scenario, the sharp fall in near-term price levels leaves underlying inflation near the bottom of the RBA's target range in 2023-24. Under a negative oil price shock, the RBA could ease its tightening cycle while still keeping underlying inflation within its target range of 2-3 per cent. A less aggressive tightening cycle would provide additional support to real economic activity and employment than is captured in this scenario.

Table F.3: The effect of an oil price decline on major economic parameters with unchanged monetary policy[(a)]

Financial year estimate[(a)]	2022-23	2023-24	2024-25	2025-26
State final demand	0.2	0.5	0.3	0.3
Gross state product	0.1	0.2	0.1	0.1
Employment	0.1	0.2	0.1	0.1
Unemployment rate	(0.1)	(0.2)	(0.1)	(0.0)
Consumer price index	(0.6)	(1.4)	(0.9)	(0.8)
Nominal wages	(0.5)	(1.2)	(0.6)	(0.6)
Terms of trade	0.9	2.2	1.6	1.5

(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 on the Budget and over the forward estimates

The weaker inflation outlook, as a result of lower oil prices, has a modest negative impact on all categories of government taxation (see Table F.4). Payroll tax collections fall, despite an increase in employment, due to a significant fall in nominal wages. Similarly, GST revenue falls, despite an increase in real consumption, due to a significant fall in consumer price levels.

Table F.4: The effect of an oil price decline on major revenue parameters with unchanged monetary policy [(a)]

Financial year estimate[(a)] ($, million)	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m
Payroll tax	(38)	(111)	(67)	(64)
Transfer duty	(28)	(64)	(37)	(39)
Land tax	(9)	(31)	(18)	(18)
Royalties	(8)	(14)	(7)	(6)
GST revenue	(124)	(319)	(198)	(181)
Other revenue	(13)	(39)	(26)	(27)
Total revenue	**(220)**	**(579)**	**(353)**	**(335)**

(a) Figures reported are the change in the level of each parameter relative to the baseline.

Source: CoPS, Victoria University and NSW Treasury