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Trends in NSW State finances: 2002-03 to 2017-18

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SUMMARY

This paper reports on trends in NSW State finances between 2002-03 and 2017-18 (inclusive). For most of the key indicators, the paper also shows trends by Parliament for the current (56th) Parliament and previous three Parliaments.

Note that the NSW public sector (the total State sector) is made up of three sub-sectors: the general government sector, the public non-financial corporations sector, and the public financial corporations sector. Note also that the figures for the years 2002-03 to 2015-16 are actual figures for the relevant year. The figures for 2016-17 are revised budget estimates (based on actual results for the 10 month period ending 30 April 2017, and updated year-end projections). The figures for 2017-18 are budget estimates.

Budget result

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

- The revised estimate for 2016-17 is a surplus of $4.5 billion, which would be the second largest surplus over the whole time period (after the $4.7 billion surplus in 2015-16). The 2017-18 budget forecasts a smaller surplus of $2.7 billion. There have been four deficits over the whole time period, the largest being $1.7 billion in 2012-13. **[2.1]**

- The revised estimate for 2016-17 is $759 million better than was expected when the 2016-17 budget was released. In all years except 2004-05 and 2008-09, the actual results were better than the forecast results. The positive variations have ranged from $10 million to $3.2 billion; in seven years, they exceeded $1 billion. **[2.2]**

Net lending result

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

- The revised estimate for 2016-17 is a net lending surplus of $1.8 billion, which would be the largest surplus over the whole time period; and the budget estimate for 2017-18 is a net lending deficit of $6.4 billion, which would be the largest deficit over the whole time period. There were net lending deficits in all years from 2004-05 to 2014-15, and five of these exceeded $3 billion. **[2.3]**

Revenue

Key findings include:

- In 2017-18, total revenue is projected to be $79.9 billion, which would represent 3.2% growth from the revised estimate for 2016-17. This is lower than the 5.4% average annual revenue growth over the whole time period. **[3.1]**

- In 2017-18, own-source revenue is estimated at $48.7 billion (61% of total revenue), and Federal Government grants are estimated at $31.1 billion (39%). The split between own-source revenue and Federal Government grants has remained relatively stable over the whole time period: 55% to 60% (own-source);

40% to 45% (Federal grants). The main exception was in 2009-10 (53%:47%), which is largely explained by the Federal Government's stimulus payments. **[3.1]**

- State taxes are by far the largest source of the government's own-source revenue: in 2017-18, tax revenue is projected to be $31.6 billion, which would be 65% of own source revenue (68% in 2002-03). Stamp duty is currently the largest source of *State tax revenue*: in 2017-18 it is projected to be $11.5 billion, or 36% of total State tax revenue (37% in 2002-03). **[3.2]**

- In 2017-18, Federal Government grants are projected to be $31.1 billion; including $17.6 billion of general purpose grants (56.5%), which are comprised of GST payments; and $13.5 billion of specific purpose grants (43.5%). Growth in total grants is estimated to be 1.3% between 2016-17 and 2017-18, which is lower than the 4.9% average annual growth over the whole time period. General purpose grants have generally comprised 60% to 65% of total grants. The lower proportion in 2017-18 appears to be due, in part, to specific purpose grants for asset recycling, which are estimated to be worth $848 million. **[3.3]**

- Specific purpose grants include National Specific Purpose Payments (NSPPs) and National Partnership Payments (NPPs). Health has always been the largest category of NSPPs and increased its share from 52% in 2002-03 to a projected 62% in 2017-18 ($6.0 billion). In most years since NPPs were introduced (2008-09), transport has comprised the largest share of NPPs, and this is particularly the case in 2017-18 with an estimated 82% ($2.9 billion). **[3.3]**

Expenses

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

- In 2017-18, total expenses are projected to be $77.2 billion, which would represent 5.0% growth from the revised estimate for 2016-17. This is lower than the average annual expenses growth over the whole time period (5.6%). It is also lower than the long-term average revenue growth (5.6%), which is one of two fiscal targets in the *Fiscal Responsibility Act 2012*. **[4.1]**

- Employee–related expenses are by far the largest type of expenses: in each year over the time period they have accounted for around half of total expenses (an estimated $36.0 billion or 47% in 2017-18). **[4.2]**

- In 2017-18, health has again been allocated the highest share of total expenses ($20.6 billion or 26.6% of total expenses). This is slightly lower than the proportion allocated to health in 2002-03 (26.9%). Education has again been allocated the second highest share of expenses ($15.7 billion or 20.3%). This is significantly lower than the proportion of the budget allocated to education in 2002-03 (25.9%). **[4.3]**

Capital expenditure

Capital expenditure relates to "the acquisition or enhancement of property, plant and equipment (including land and buildings, plant and equipment and infrastructure systems) and intangibles (including computer software and easements)". Key findings include:

- In 2017-18, general government capital expenditure is projected to be $14.5 billion (33% increase on the revised estimate for 2016-17); and total State capital expenditure is projected to be $22.3 billion (18% increase on the revised estimate for 2016-17). The increase in general government capital expenditure would be the third highest increase over the whole time period; and the increase in total State capital expenditure would be the fourth highest. **[5.1]**

- In the general government sector, the transport and communications policy area has had the largest share of the capital program over the whole time period. In 2017-18, it has been allocated $8.8 billion or 61% of the total capital budget (up from 42% in 2002-03). In 2017-18, public order and safety was allocated the second largest share of the capital program: $2.0 billion or 13.8% (up from 7.6% in 2016-17). In recent years, health had the second largest share; in 2017-18 it has the third largest ($1.5 billion or 10.7%). **[5.2]**

Assets and liabilities

Key findings include:

- Net worth is the difference between assets and liabilities and is a measure of wealth. The net worth of the general government sector and the total State sector is always the same. In 2017-18, net worth is projected to be $238 billion. This would represent a 5.8% increase on the revised estimate for 2016-17. This is higher than the 4.6% average annual growth over the whole time period. **[6.1]**
- *Net debt* is financial liabilities less financial assets. In the general government sector, in 2017-18 net debt is forecast to be -$0.5 billion, or 0.1% of Gross State Product (GSP), which is the second lowest level recorded over the whole time period (the lowest being in 2016-17). In the total State sector, in 2017-18 net debt is forecast to be $36.9 billion, or 6.2% of GSP, compared to 5.5% of GSP in 2002-03. **[6.2]**
- *Net financial liabilities* are total liabilities (financial liabilities plus unfunded superannuation and other liabilities) less financial assets. In the general government sector, in 2017-18 net financial liabilities are forecast to be $67.9 billion, or 11.4% of GSP, compared to 9.1% in 2002-03. In the total State sector, in 2017-18 net financial liabilities are projected to be $100 billion, or 16.8% of GSP, compared to 15.2% in 2002-03. **[6.2]**
- Superannuation provisions is the largest category of liabilities: an estimated $49.5 billion or 41.4% in 2017-18. Superannuation provisions relate to defined benefit superannuation schemes that were previously available to government employees. One of two fiscal targets in the *Fiscal Responsibility Act 2012* is to eliminate unfunded superannuation liabilities by 2030.

Credit rating metrics

The State's credit-worthiness has for many years been rated by two agencies: Moody's; and Standard and Poor's (S&P). NSW has consistently held the AAA rating (the highest). Both ratings agencies use key metrics as part of their assessments. Key findings include:

- In 2017-18, the Moody's debt metric is projected to be 68.7%, which is at the top of the informal trigger band range (60% to 70%). In December 2016, Moody's confirmed the AAA rating with a stable outlook. **[7.1]**
- In 2017-18, the S&P debt metric and interest metric are projected to be 69.5% and 2.9% respectively; both well below the trigger levels (120% and 5% respectively). In July 2016, S&P confirmed the AAA rating but downgraded the outlook from stable to negative, reflecting its negative outlook for the Commonwealth. **[7.2]**

1. INTRODUCTION

1.1 Outline

This paper reports on trends in NSW State finances between 2002-03 and 2017-18 (inclusive). For most of the key indicators, the paper also shows trends by Parliament for the current (56th) Parliament and previous three (55th, 54th and 53rd) Parliaments. Rather than presenting a comprehensive analysis of the trends over this time period, this paper only provides brief commentary. The *NSW Financial Audit 2011* (Ch 2-4) contains a full analysis of the trends up to 2010-11. For later trends, see the *NSW Budget Papers*.

1.2 Key sources

This paper draws on the following sources:

- The *NSW Budget Papers*;
- *NSW Reports on State Finances;*
- The *NSW Financial Audit 2011*;
- Figures provided by NSW Treasury on expenses by policy area.

1.3 Fiscal objective and targets

The *Fiscal Responsibility Act 2012* has the object of maintaining the State's AAA credit rating. The Act has two fiscal targets for achieving this object:

> (a) The annual growth in general government expenses of the State is less than the long-term average general government revenue growth of the State.
>
> (b) The elimination of the State's unfunded superannuation liability by 2030.

1.4 Notes about figures

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

1.4.2 Actual figures and estimates: The figures for the years 2002-03 to 2015-16 are actual figures for the relevant year. The figures for 2016-17 are revised budget estimates (based on actual results for the 10 month period ending 30 April 2017, and updated year-end projections provided by agencies). The figures for 2017-18 are budget estimates.

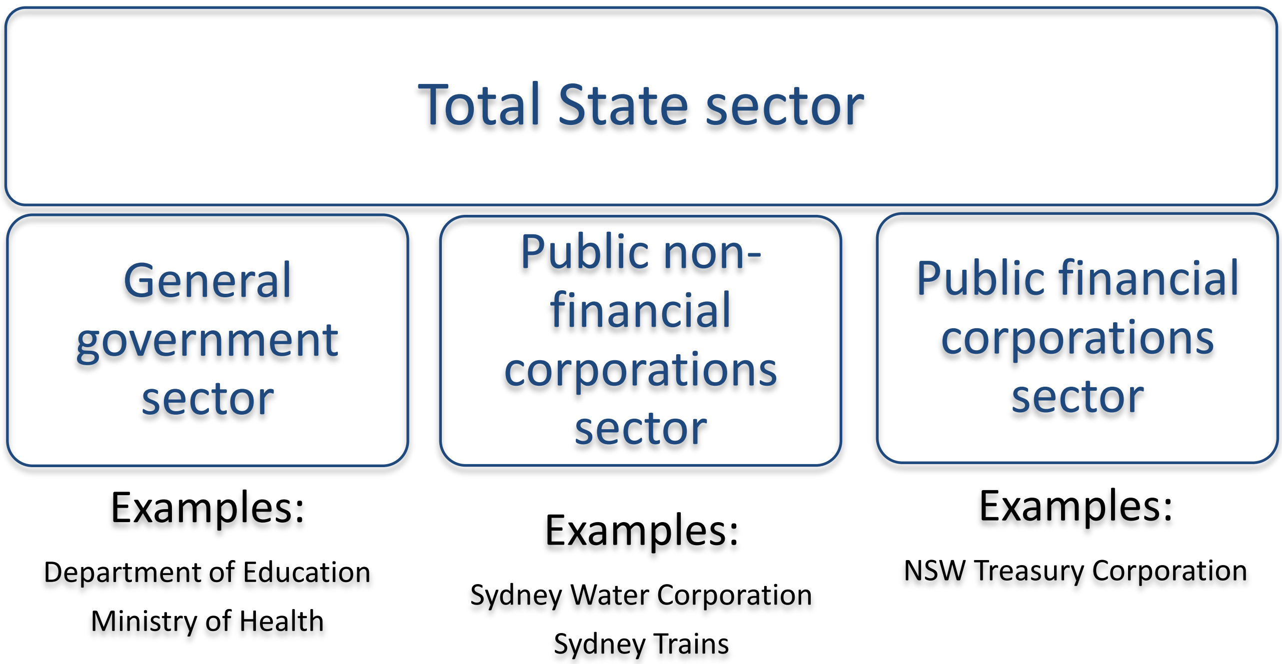
1.4.3 Accounting changes: Since 2013-14, the budget has been prepared on the basis of an amended accounting standard (AASB 119 *Employee Benefits*) which affects the measurement of superannuation expenses (see NSW Budget Papers 2014-15, *Budget Statement,* p1-6). In 2013-14, superannuation expense estimates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

For some fiscal indicators, the 2017-18 budget papers provide a time series with adjustments made to the pre 2013-14 figures to make them consistent with the post 2013-14 figures (see NSW Budget Papers 2017-18, *Budget Statement,* Appendix C). This paper uses consistent time series figures where they are available. For some indicators (i.e. expenses by type and by policy area), the pre-2013-14 figures may not be entirely comparable with the later figures.

Another accounting change results from the creation, as part of the 2015-16 budget, of a Transport Asset Holding Agency (TAHE). This impacted on a number of 2015-16 fiscal indicators: e.g. revenues ($1.9 billion higher in 2015-16), expenses ($58 million lower in 2015-16) and capital expenditure ($1.9 billion lower in 2015-16) (see NSW Budget Papers 2015-16, *Budget Statement*, p1-2). In this paper, the 2015-16, 2016-17 and 2017-18 figures do not account for the impact of TAHE. This is because the 2017-18 budget papers do not show the impact of TAHE in these years.

1.4.4 Budget sectors: The following diagram shows the structure of the NSW public sector, which is made up of three sub-sectors: the general government sector; the public non-financial corporations sector; and the public financial corporations sector. For a list of all government entities by their classification into the three sub-sectors, see NSW Budget Papers 2017-18, *Budget Statement*, Appendix A3, pA3-2 to A3-4.

Figure 1.3: Structure of the NSW public sector



The *budget result* and *net lending result* relate to the general government sector; the figures in Chapters 2 to 4 of this paper (budget result, net lending result, revenue and expenses) are therefore presented for the general government sector only. The indicators outlined in Chapters 5 and 6 (capital expenditure and assets and liabilities) are presented for the general government sector and the total State sector.

2. BUDGET RESULT AND NET LENDING RESULT

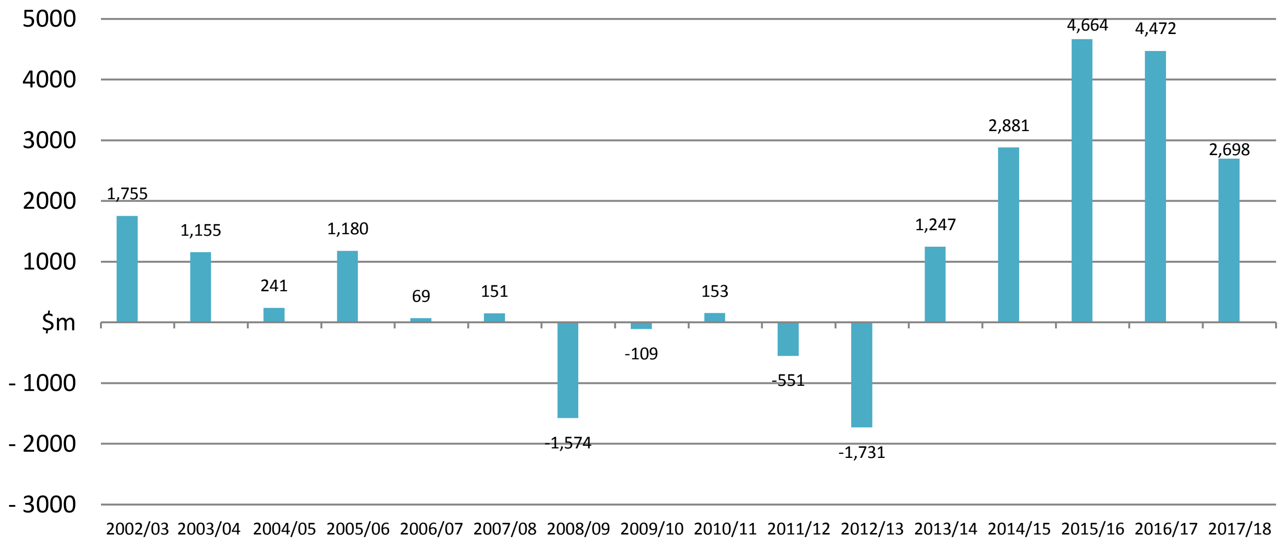
2.1 Budget result

The budget result (or net operating balance) represents the difference between expenses and revenues from transactions for the general government sector. The budget result does not take capital expenditure into account (see Net Lending Result in section 2.3 below).

The revised estimate for 2016-17 is a surplus of $4.5 billion, which would be the second largest surplus over the time period (after the $4.7 billion surplus in 2015-16). The 2017-18 budget forecasts a smaller surplus of $2.7 billion. There have been four deficits over the time period, the largest being $1.7 billion in 2012-13. If adjustments had not been made to the pre 2013-14 figures (see section 1.4.3), there would only have been one deficit (2008-09: $897 million).

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

Figure 2.1 Budget result



Sources: NSW Budget Papers

2.2 Forecasts and outcomes

The revised estimate for 2016-17 is $759 million better than was expected when the 2016-17 budget was released. This is due to 2016-17 revenue being $1.0 billion higher than expected, offset by expenses being $245 million higher than expected.

The actual budget results were better than the forecast budget results in all years except for 2004-05 and 2008-09. The worse than expected result in 2008-09 ($1.2 billion lower than expected) was largely a result of the global financial crisis. The positive variations have ranged from $10 million to $3.2 billion (in 2014-15); in seven years, they exceeded

$1 billion. In most cases, these positive variations resulted from higher than expected revenues. However, the better than expected results in 2010-11 and 2011-12 were due to expenses being under budget; and the better than expected results in 2012-13 and 2014-15 were due to both higher than forecast revenues and lower than forecast expenses.

Figure 2.2.1 Variations in budget results: actual results less forecast results

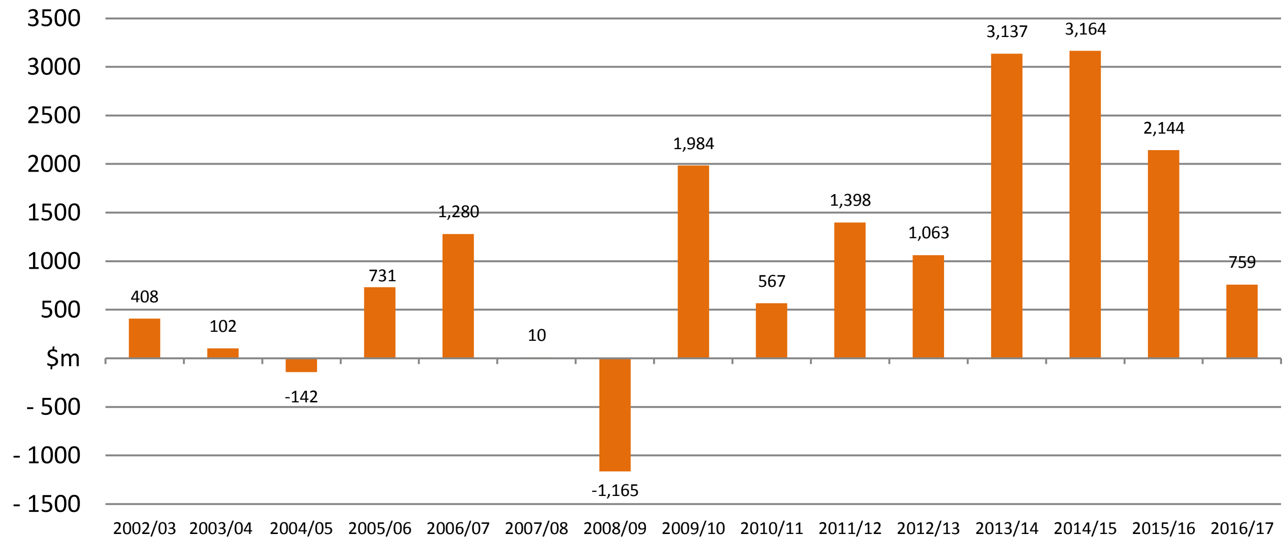
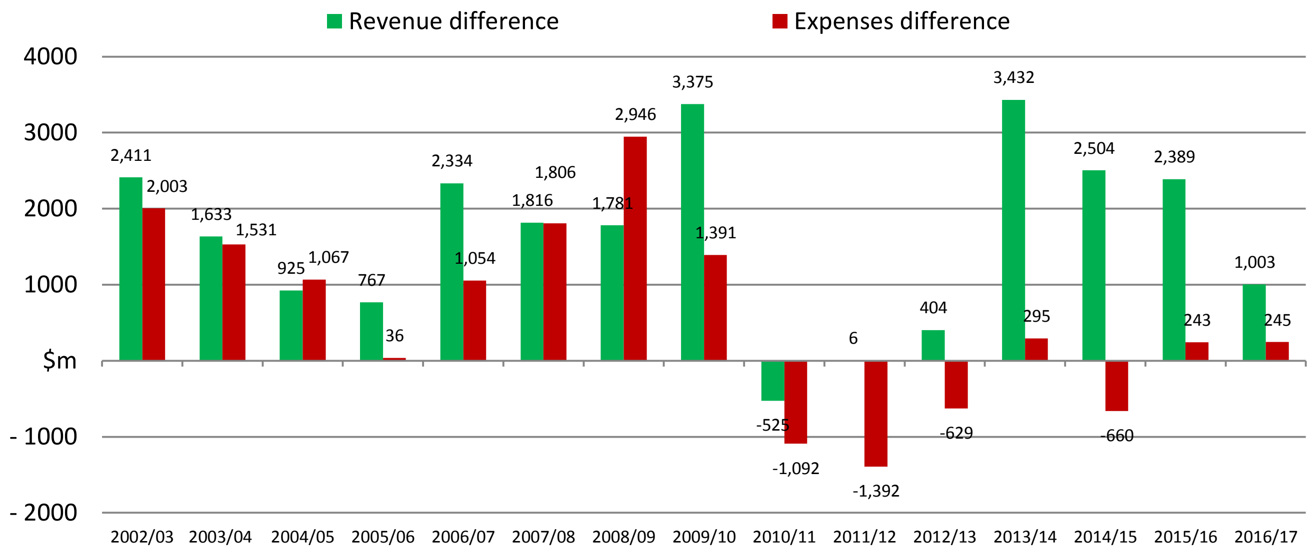


Figure 2.2.2 Variations in revenues and expenses: actual figures less forecast figures



Sources: NSW Budget Papers; NSW Report on State Finances

2.3 Net lending result

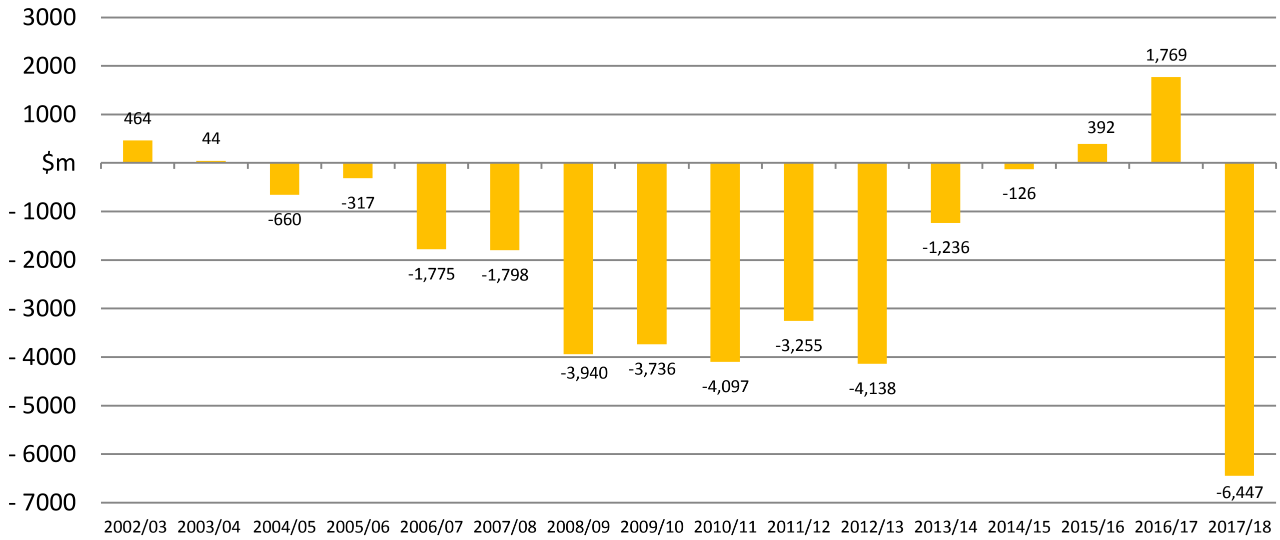
The *NSW Financial Audit 2011* noted that there had been too much focus on the budget result and not enough on the net lending result. It explained that the net lending result:

> …reports on the net impact of the general government sector's recurrent and capital activities, and their impact on the balance sheet (net financial liabilities). The net lending result is the sum of the net operating result before depreciation, and net capital expenditure (i.e. expenditure after asset sales).
>
> A net lending deficit (i.e. net borrowings) means that funds generated from operations (the

budget result before depreciation) plus asset sales are insufficient to fully fund the capital expenditure program, and the difference must be funded by borrowings. (p2-2)

The revised estimate for 2016-17 is a net lending surplus of $1.8 billion, which is the largest surplus over the whole time period; and the budget estimate for 2017-18 is a net lending deficit of $6.4 billion, which would be the largest deficit over the whole time period. There were net lending deficits in all years from 2004-05 to 2014-15, and five of these exceeded $3 billion. If adjustments had not been made to the pre 2013-14 figures (see section 1.4.3), there still would have been net lending deficits in all of these years, with five exceeding $2 billion.

Figure 2.3 Net lending result



Sources: NSW Budget Papers

3. REVENUE

3.1 Total revenue

This chapter looks at revenue in the general government sector. In 2017-18, total revenue is projected to be $79.9 billion, which would represent 3.2% growth from the revised estimate for 2016-17. This is lower than the 5.4% average annual revenue growth over the whole time period. In 2017-18, own-source revenue is estimated at $48.7 billion (61% of total revenue), and Federal Government grants are estimated at $31.1 billion (39%). The split between own-source revenue and Federal Government grants has remained relatively stable over the time period: 55% to 60% (own-source); 40% to 45% (Federal grants). The main exception was in 2009-10 (53%:47%), which is largely explained by the Federal Government's economic stimulus payments.

Figure 3.1.1 Total revenue by source and annual growth

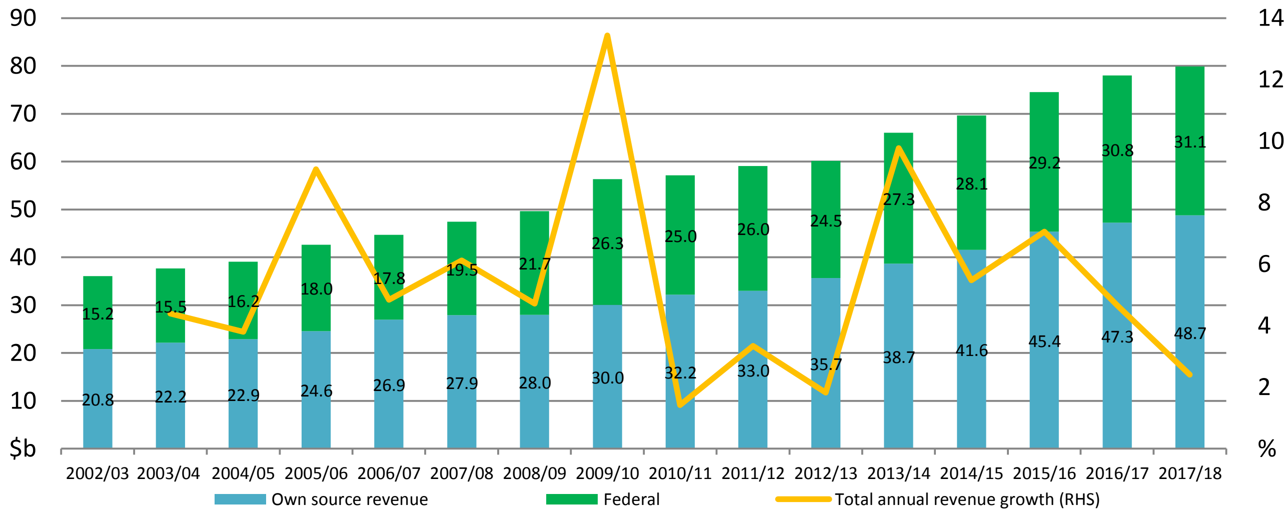
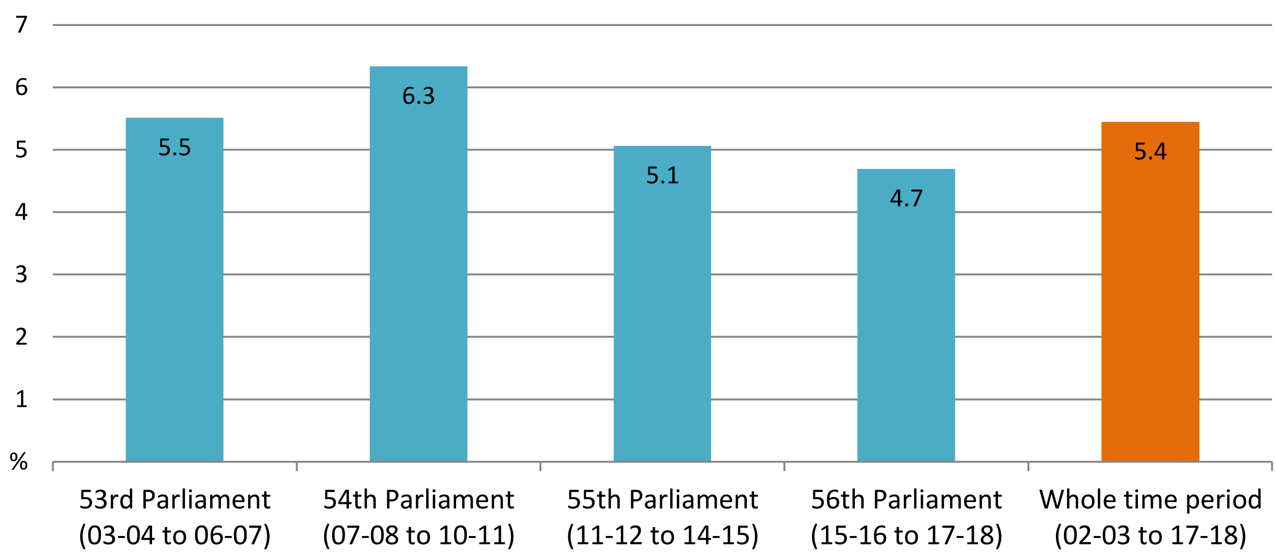


Figure 3.1.2 Average annual revenue growth by Parliament



Sources: NSW Financial Audit 2011; NSW Budget Papers

3.2 Own-source revenue

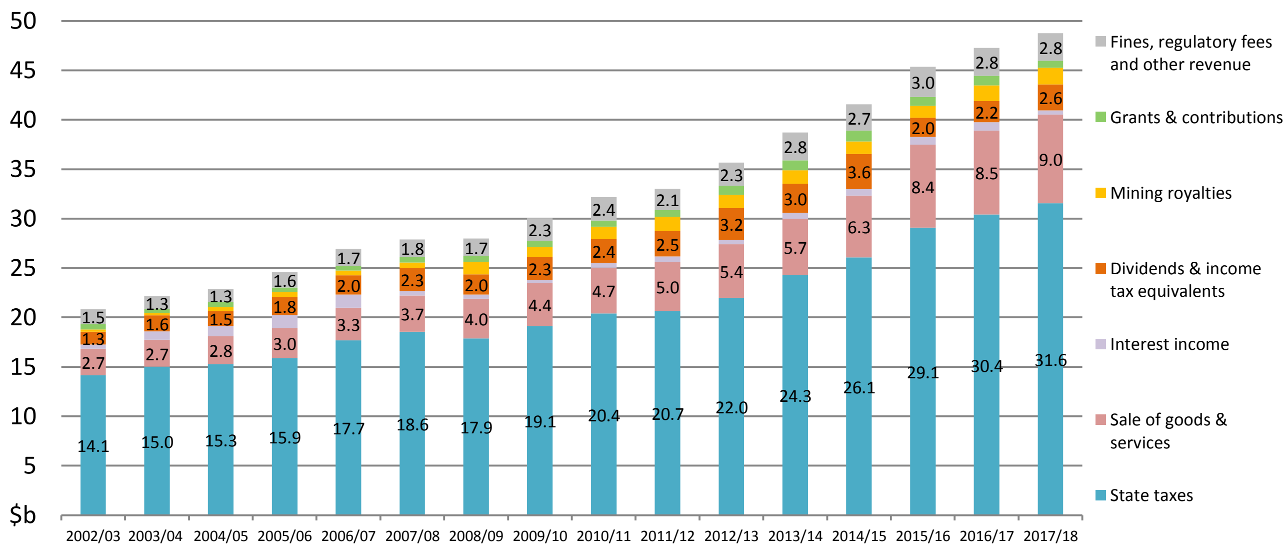
Own-source revenue is projected to be $48.7 billion in 2017-18, which would be a 3.2% increase on the revised estimate for 2016-17. This is lower than the 5.8% average annual growth in own-source revenue over the whole time period.

State taxes are by far the largest source of the government's own-source revenue: in 2017-18, tax revenue is projected to be $31.6 billion, which would be 65% of own-source revenue (68% in 2002-03). The second largest category of own-source revenue is the sale of goods and services: e.g. revenue from rent of State-owned property, and tolls from government-operated roads. In 2017-18 it is projected to be $9.0 billion, which would be 18% of own source revenue (up from 13% in 2002-03).

The third largest category of own-source revenue is fines, regulatory fees and other revenue: in 2017-18 it is projected to be $2.8 billion, which would be 5.7% of own-source revenue (7.2% in 2002-03). Prior to 2015-16, the third largest category of own-source revenue was dividends and income tax equivalents. In 2017-18, dividends and income tax equivalents are projected to be $2.6 billion (5.4% of own-source revenue); down from the high of $3.6 billion in 2014-15 (8.6% of own-source revenue).

Mining royalties grew at the fastest rate over the period but still only represent a small component of own-source revenue: $1.7 billion, or 3.4%, in 2017-18 (1.1% in 2002-03).

Figure 3.2.1 Own-source revenue by type



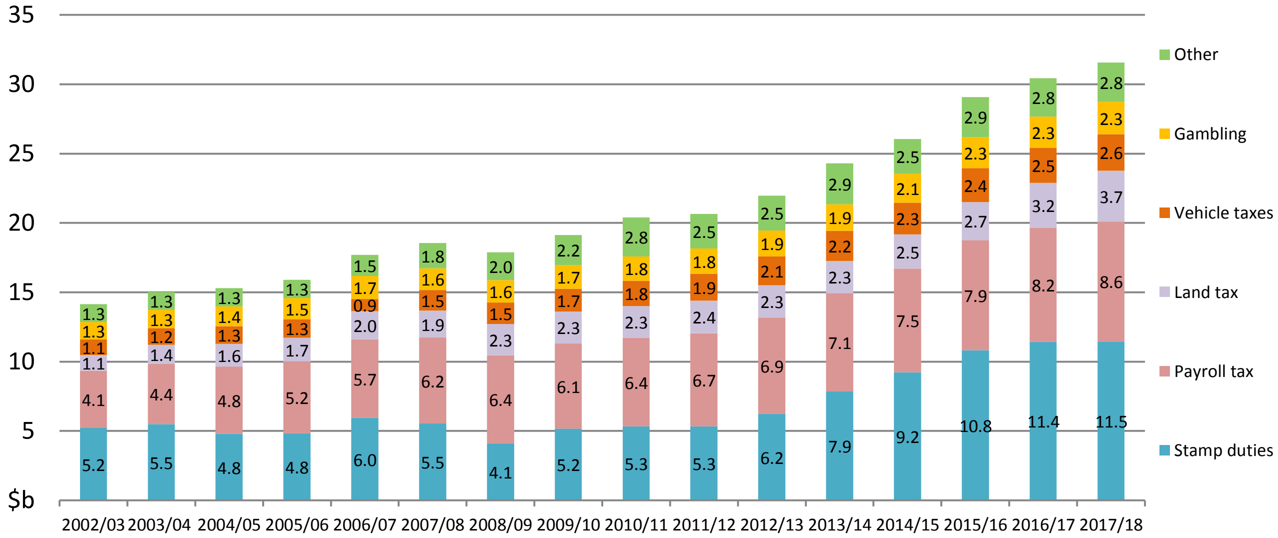
Sources: NSW Financial Audit 2011; NSW Budget Papers

Stamp duty is currently the largest source of *State tax revenue*: in 2017-18 it is projected to be $11.5 billion, or 36% of total State tax revenue (37% in 2002-03).

The second largest source of tax revenue is payroll tax: in 2017-18 it is projected to be $8.6 billion, or 27% of total State tax revenue (29% in 2002-03). Between 2007-08 and 2012-13, payroll tax contributed a higher share of State tax revenue than stamp duties.

The third largest source of State tax revenue is land tax: in 2017-18 it is projected to be $3.7 billion, or 12% of total State tax revenue (8% in 2002-03).

Figure 3.2.2 State tax revenue by type



Sources: NSW Financial Audit 2011; NSW Report on State Finances; NSW Budget Papers

3.3 Federal Government grants

There are two broad categories of Federal Government grants:

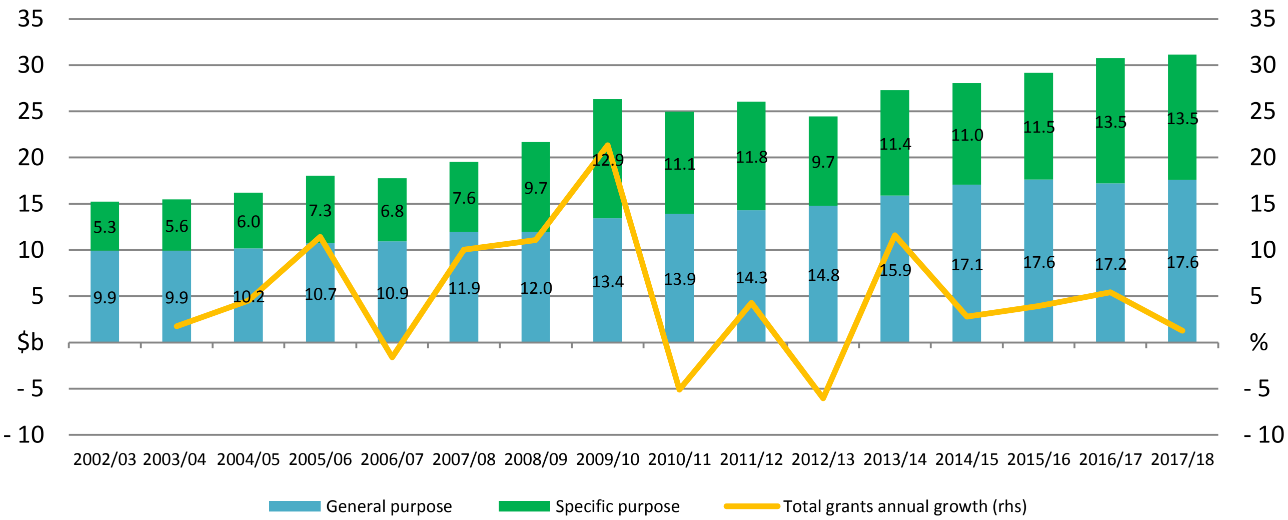
(1) General purpose grants, which are now comprised almost entirely (over 99%) of GST payments, but previously also included National Competition Policy payments; and

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

In 2017-18, Federal Government grants are projected to be $31.1 billion; including $17.6 billion of general purpose grants (56.5%) and $13.5 billion of specific purpose grants (43.5%). Growth in total grants is estimated to be 1.3% between 2016-17 and 2017-18, which is lower than the 4.9% average annual growth over the whole time period.

General purpose grants have generally comprised 60% to 65% of total grants. The lower proportion in 2017-18 appears to be due, in part, to the Federal Government's specific purpose grants for asset recycling, which are estimated to be worth $848 million. General purpose grants also comprised a lower proportion of grants in the period from 2008-09 to 2011-12 (50% to 55%), largely due to the Federal Government's economic stimulus package, which formed part of specific purpose grants.

Figure 3.3.1 Federal Government grants by type



Sources: NSW Financial Audit 2011; NSW Report on State Finances; NSW Budget Papers

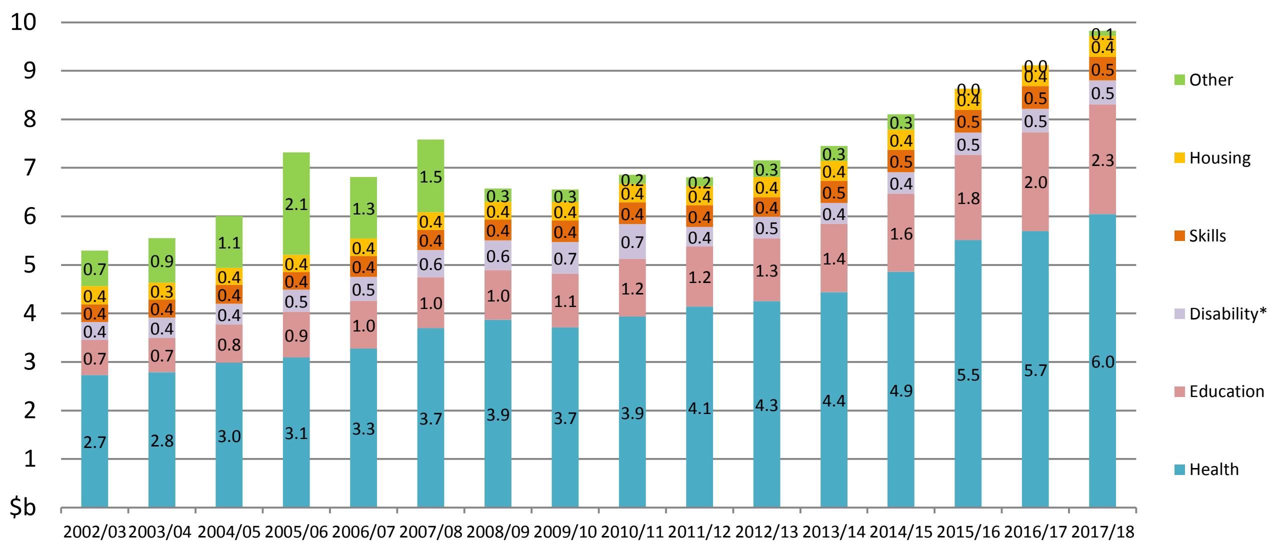
Since 2008-09, there have been two broad categories of *specific purpose grants*:

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

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

In 2017-18, NSPPs are projected to be $9.8 billion, or 74% of all specific purpose grants. Health has always been the largest category of NSPPs and increased its share from 52% in 2002-03 to a projected 62% in 2017-18 ($6.0 billion). Education has generally received the next largest share, and this share rose from 14% in 2002-03 to a projected 23% in 2017-18 ($2.3 billion). Note that the areas of health, education and housing also receive National Partnership Payments (see further below).

Figure 3.3.2 NSPPs by policy area

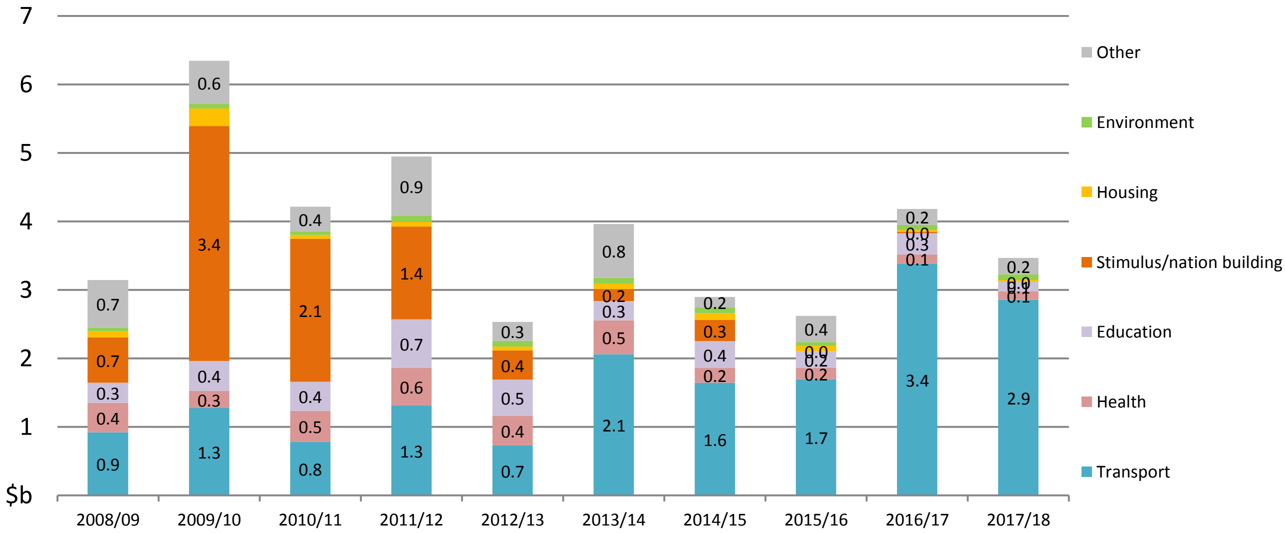


Sources: NSW Financial Audit 2011; NSW Budget Papers.

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

National Partnership Payments are projected to be $3.5 billion in 2017-18, or 26% of all specific purpose grants. In most years since NPPs were introduced (2008-09), transport has comprised the largest share, and this is particularly the case in 2017-18 with an estimated 82% ($2.9 billion). This includes $848 million in asset recycling grants associated with the sale of State assets. The much larger NPPs in 2009-10 were due to the stimulus and nation building payments made during the global financial crisis.

Figure 3.3.3 NPPs by policy area



Sources: NSW Financial Audit 2011; NSW Budget Papers

4. EXPENSES

4.1 Total expenses

This chapter looks at recurrent expenses in the general government sector. Recurrent expenses are those incurred in the provision of goods and services. This is different from capital expenditure, which is incurred in the acquisition of assets (see Chapter 5).

In 2017-18, total expenses are projected to be $77.2 billion, which would represent 5.0% growth from the revised estimate for 2016-17. This is lower than the average annual expenses growth over the whole time period (5.6%). It is also lower than the long-term average revenue growth (5.6%), which is one of the two fiscal targets in the *Fiscal Responsibility Act 2012*.

Figure 4.1.1 Total expenses

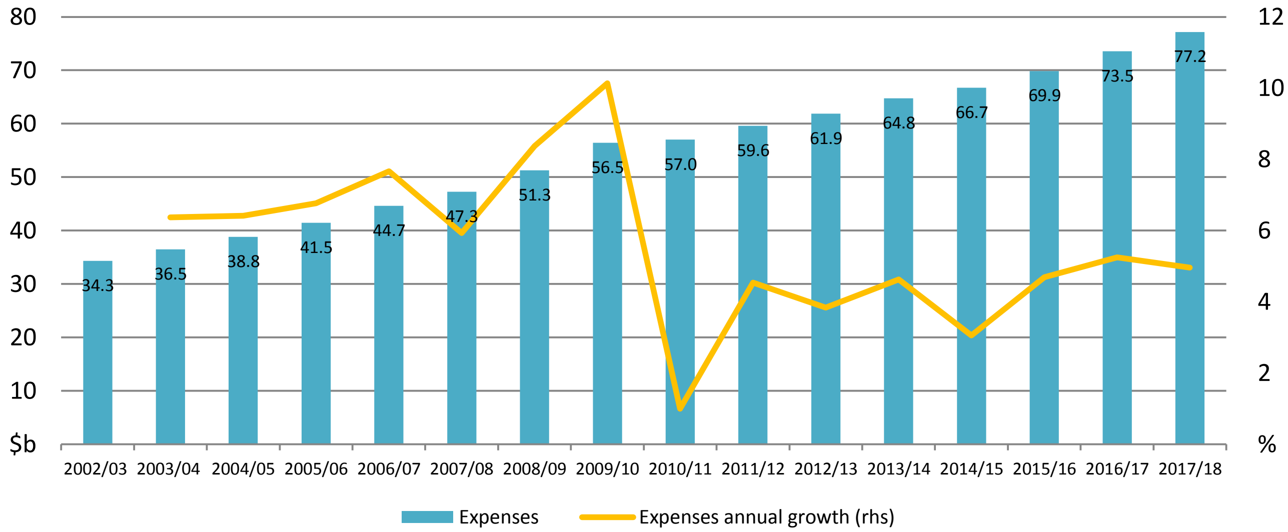
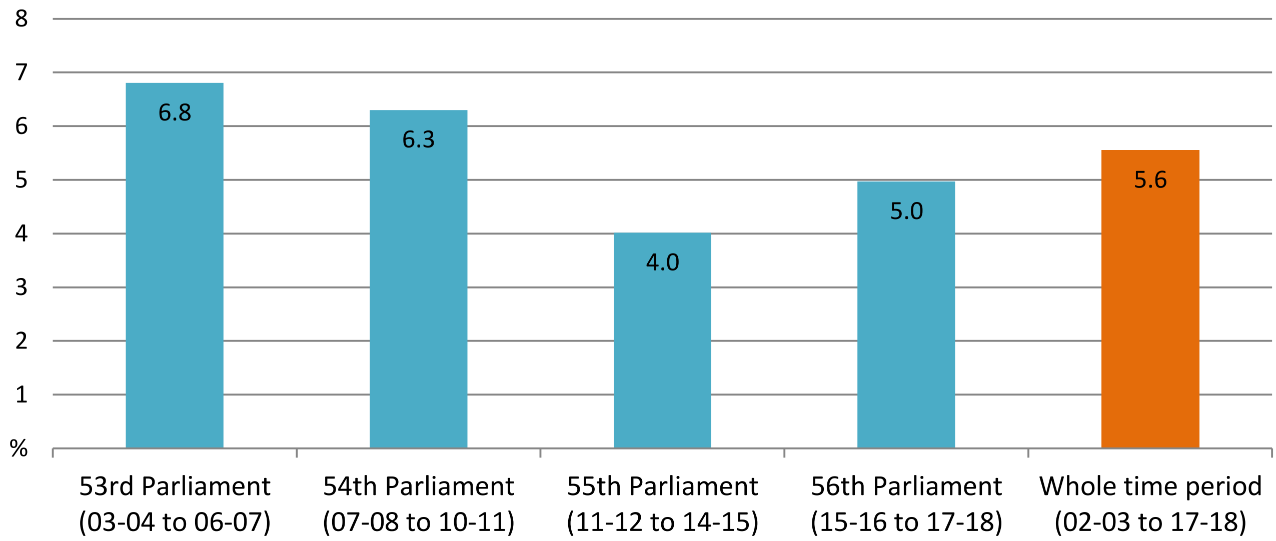


Figure 4.1.2 Average annual expenses growth by Parliament



Sources: NSW Budget Papers

4.2 Expenses by type

The composition of expenses remained relatively stable over the time period.

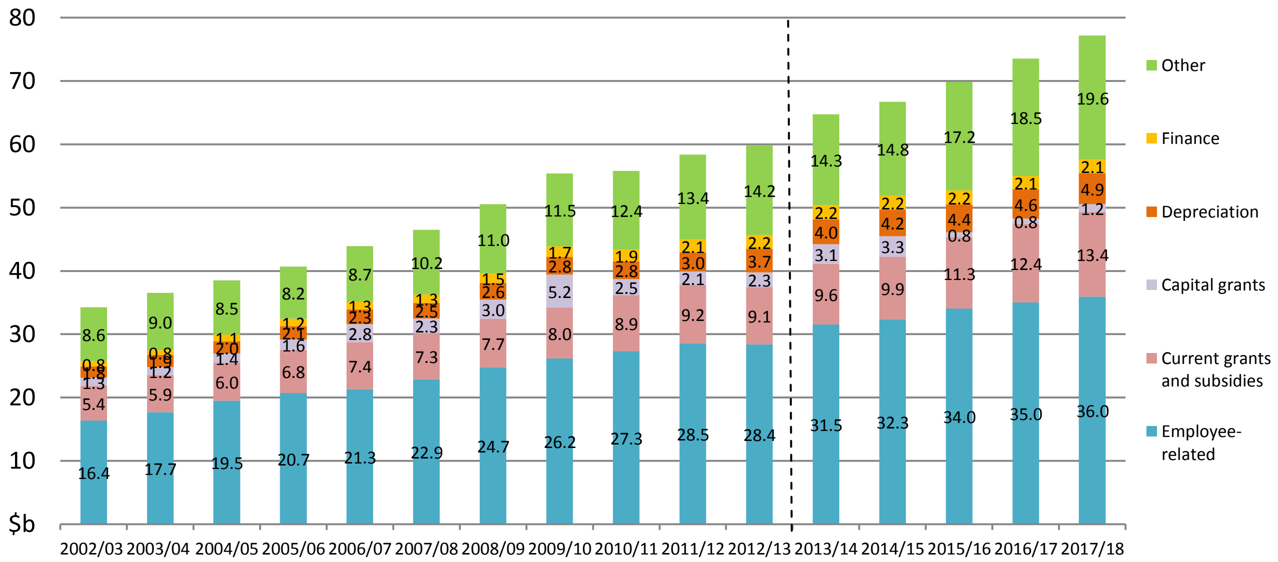
Employee–related expenses are by far the largest type of expenses: in each year over the time period they have accounted for around half of total expenses (an estimated $36.0 billion or 47% in 2017-18).

The second largest category is “other” operating expenses (an estimated $19.6 billion or 25% in 2017-18). This category includes expenses such as “repairs and maintenance, medications and other supplies in hospitals, books in schools, fuel for police motor vehicles, consultancies, contractors, electricity and communications” (NSW Budget Papers 2014-2015, *Budget Statement*, p5-14).

The third largest category is “current grants and subsidies” (an estimated $13.4 billion or 17% in 2017-18), which are “for non-government schools, community organisations and local governments, as well as operating subsidies for transport”.

Finance (i.e. interest) increased its share of total expenses from 2.3% in 2002-03 to 3.7% in 2012-13 but has since decreased its share, accounting for an estimated 2.7% of total expenses in 2017-18 ($2.1 billion).

Figure 4.2.1 Expenses by type



Sources: NSW Budget Papers

Note: The pre 2013-14 figures for employee-related expenses are not entirely comparable with the post 2013-14 figures for this category (See section 1.4.3. above as to accounting changes for superannuation expenses from 2013-14 onwards)

4.3 Expenses by policy area

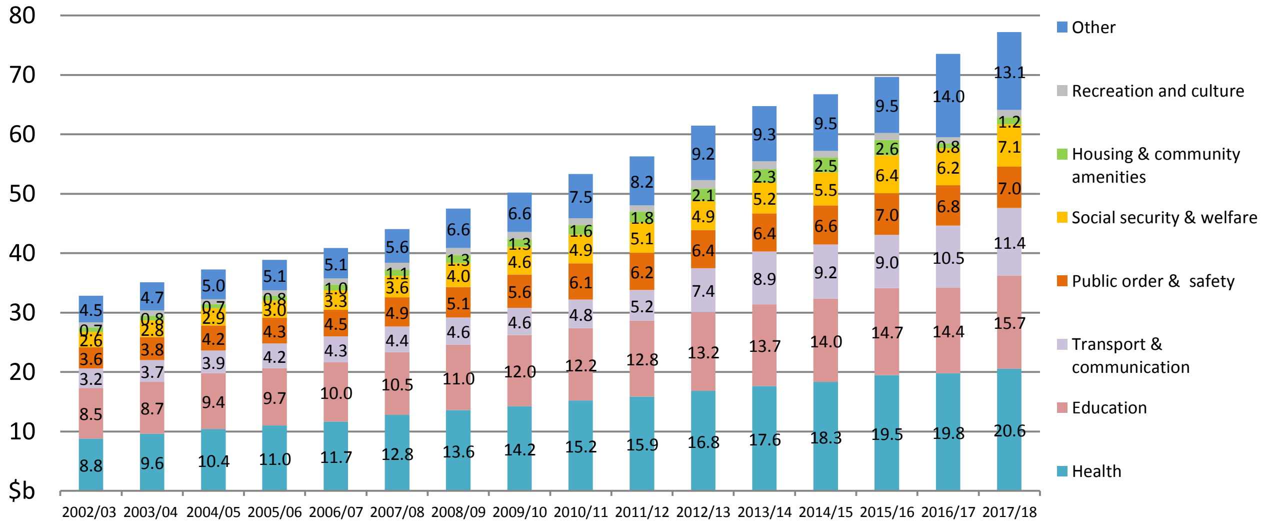
In 2017-18, health has again been allocated the highest share of total expenses ($20.6 billion or 26.6% of total expenses). This is slightly lower than the proportion allocated to health in 2002-03 (26.9%).

Education has again been allocated the second highest share of expenses ($15.7 billion or 20.3%). This is significantly lower than the proportion of the budget allocated to education in 2002-03 (25.9%).

Together, health and education are projected to comprise 46.9% of the budget in 2017-18 (compared to 52.8% in 2002-03).

The next largest policy area is transport and communications ($11.4 billion or 14.7% in 2017-18); and it has been allocated a much larger share of the budget in recent years (up from 9.2% in 2010-11).

Figure 4.3.1 Expenses by policy area



Sources: NSW Treasury, NSW Report on State Finances, NSW Budget Papers

Note: The pre 2013-14 figures may not be entirely comparable with the post 2013-14 figures (see section 1.4.3. above as to accounting changes for superannuation expenses from 2013-14 onwards)

5. CAPITAL EXPENDITURE

5.1 Total capital expenditure

The indicators in this chapter and chapter 6 are presented for the general government sector and the total State sector (which is made up of the general government sector, the public non-financial corporations sector, and the public financial corporations sector).

Capital expenditure is expenditure "relating to the acquisition or enhancement of property, plant and equipment (including land and buildings, plant and equipment and infrastructure systems) and intangibles (including computer software and easements)" (see NSW Budget Papers 2014-15, *Budget Statement*, p G1, Glossary).

In 2017-18, general government capital expenditure is projected to be $14.5 billion (33% increase on the revised estimate for 2016-17); and total State capital expenditure is projected to be $22.3 billion (18% increase on the revised estimate for 2016-17). The projected increase in general government capital expenditure in 2017-18 would be the third highest increase over the whole time period (including the 2009-10 increase which was mainly due to the Federal Government's economic stimulus payments); and the increase in total State capital expenditure in 2017-18 would be the fourth highest.

Figure 5.1.1 Total capital expenditure

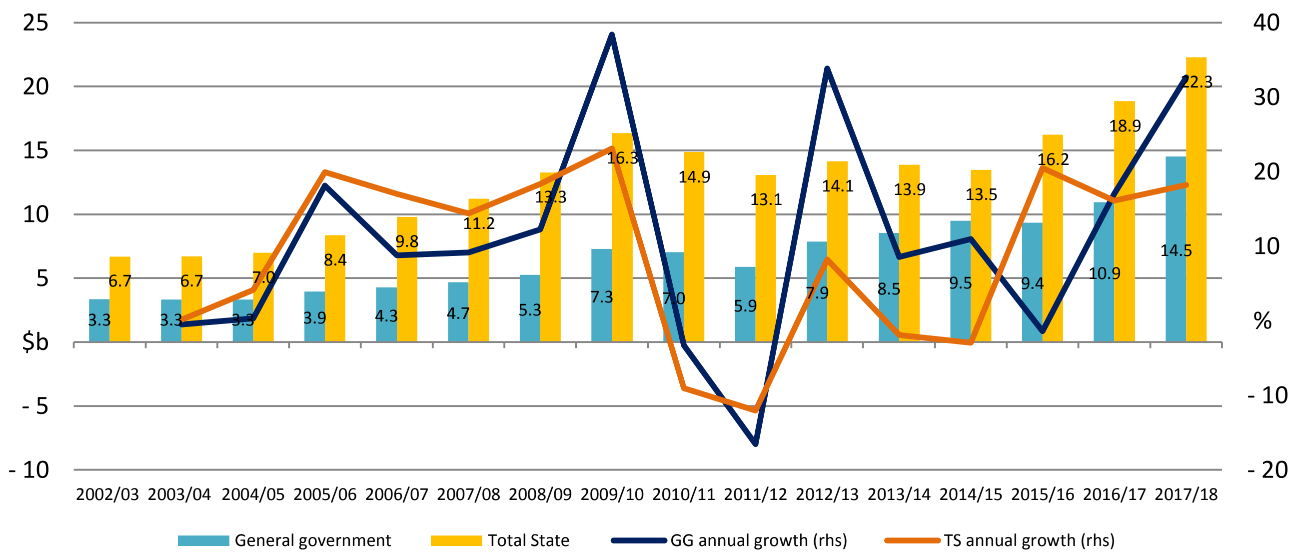
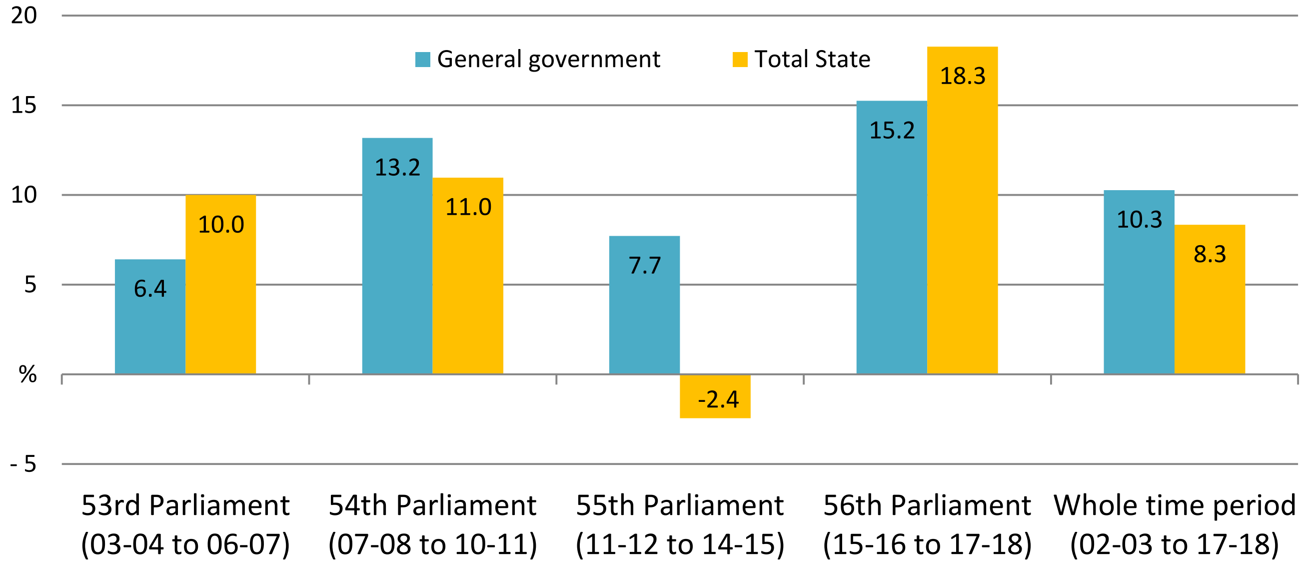


Figure 5.1.2 Average annual capital expenditure growth by Parliament



Sources: NSW Budget Papers

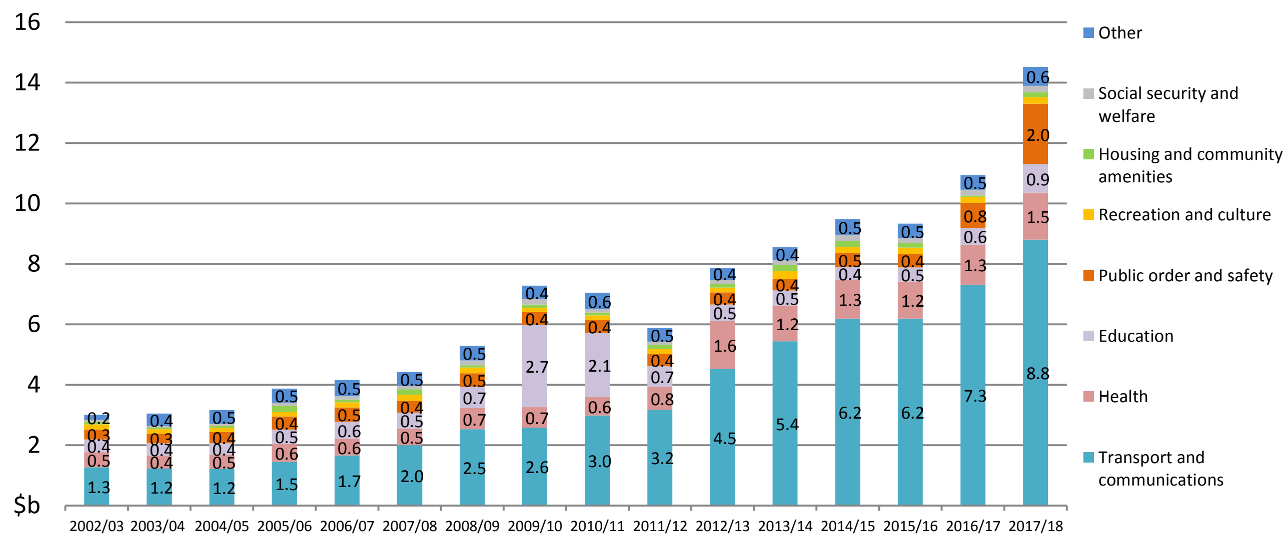
5.2 Capital expenditure by policy area

Figures for capital expenditure by policy area are only available for the general government sector and not the total State sector.

The transport and communications policy area has had the largest share of the capital program over the time period. In 2017-18, it has been allocated $8.8 billion or 61% of the total capital budget (up from 42% in 2002-03).

In 2017-18, public order and safety was allocated the second largest share of the capital program: $2.0 billion or 13.8% (up from 7.6% in 2016-17). This reflects the Government's prison bed capacity program, announced in the 2016-17 Budget. In recent years, health had the second largest share; in 2017-18 it has the third largest ($1.5 billion or 10.7%).

Figure 5.2.1 General government capital expenditure by policy area



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

Note: The figures for the years prior to 2008-09 do not include assets acquired under finance leases (in 2017-18, a total of $190 million of assets will be acquired under finance leases – all in the transport and communications policy area).

6. ASSETS AND LIABILITIES

6.1 Net worth

Net worth is the difference between assets and liabilities and is a measure of wealth.

The net worth of the general government sector and the total State sector is the same, as the general government sector records an equity investment in the net assets of the public non-financial corporations and public financial corporations sectors (see *NSW Report on State Finances 2014-15*, p5-7).

In 2017-18, net worth is projected to be $238 billion. This would represent a 5.8% increase on the revised estimate for 2016-17. This increase is higher than the 4.6% average annual growth over the whole time period.

Figure 6.1.1 Net worth

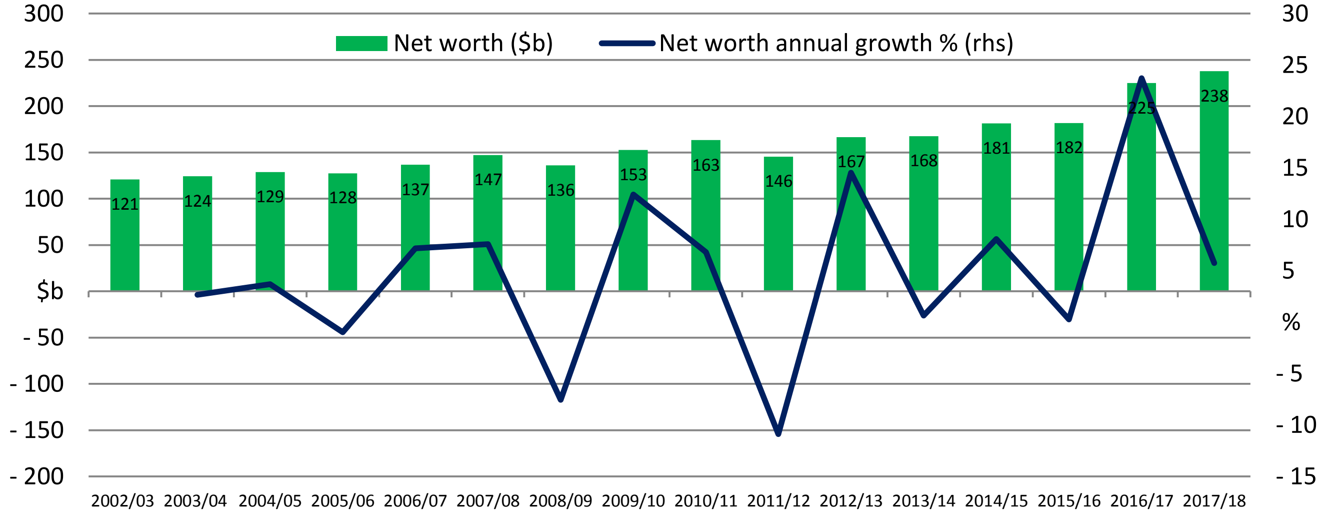
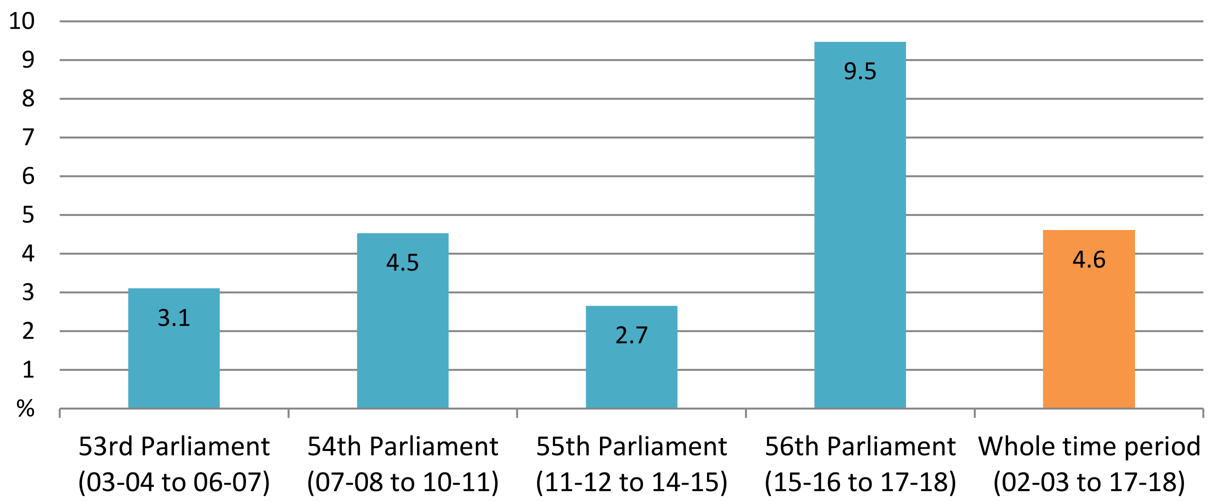


Figure 6.1.2 Average annual net worth growth by Parliament



Sources: NSW Budget Papers; NSW Report on State Finances

6.2 Net debt and net financial liabilities

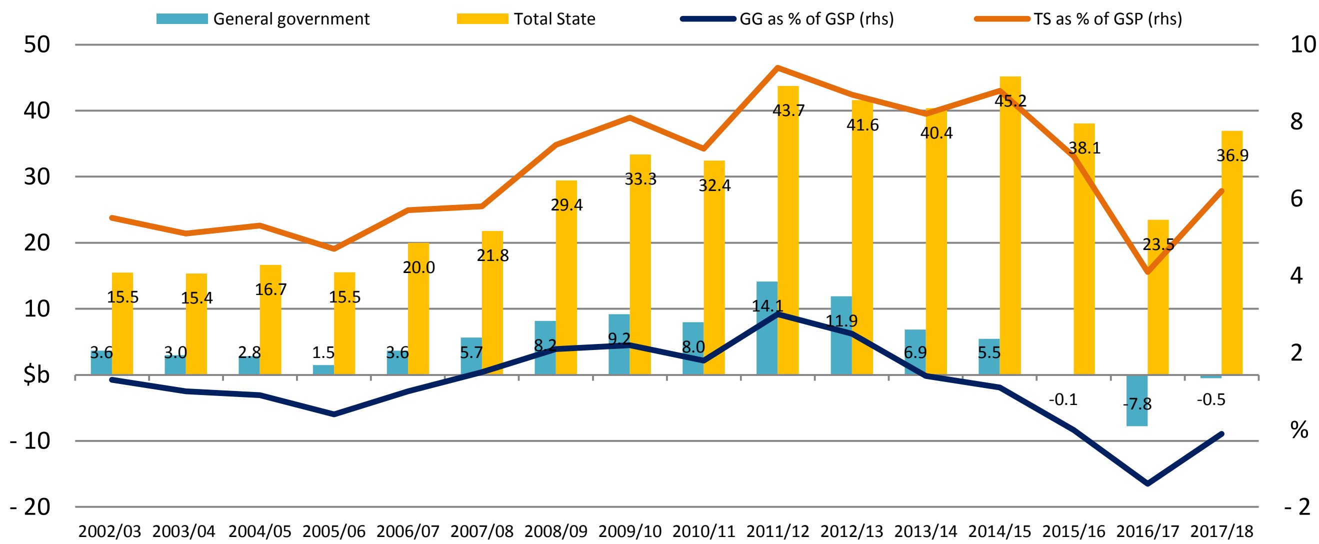
The budget papers report on net debt and net financial liabilities as indicators of the strength of the State's financial position.

Net debt is financial liabilities (deposits held, advances received, loans and other borrowings) less financial assets (e.g. cash and deposits, advances paid and investments, loans and placements).

In the general government sector, in 2017-18 net debt is forecast to be -$0.5 billion, or -0.1% of Gross State Product (GSP), which is the second lowest level recorded over the whole time period (the lowest being in 2016-17). In the total State sector, in 2017-18 net debt is forecast to be $36.9 billion, or 6.2% of GSP, compared to 5.5% of GSP in 2002-03. The 2015-16 *Budget Statement* noted (p5-32) that fluctuations in net debt since 2011:

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

Figure 6.2.1 Net debt

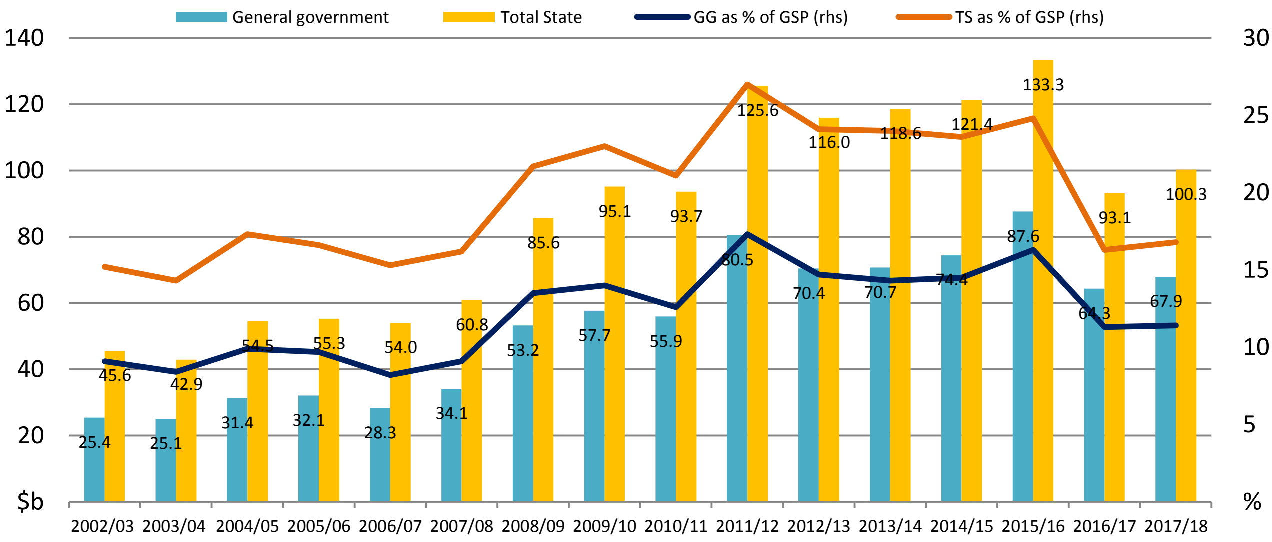


Sources: NSW Budget Papers

Net financial liabilities are total liabilities (financial liabilities plus unfunded superannuation and other employee provisions, insurance obligations and other liabilities) less financial assets.

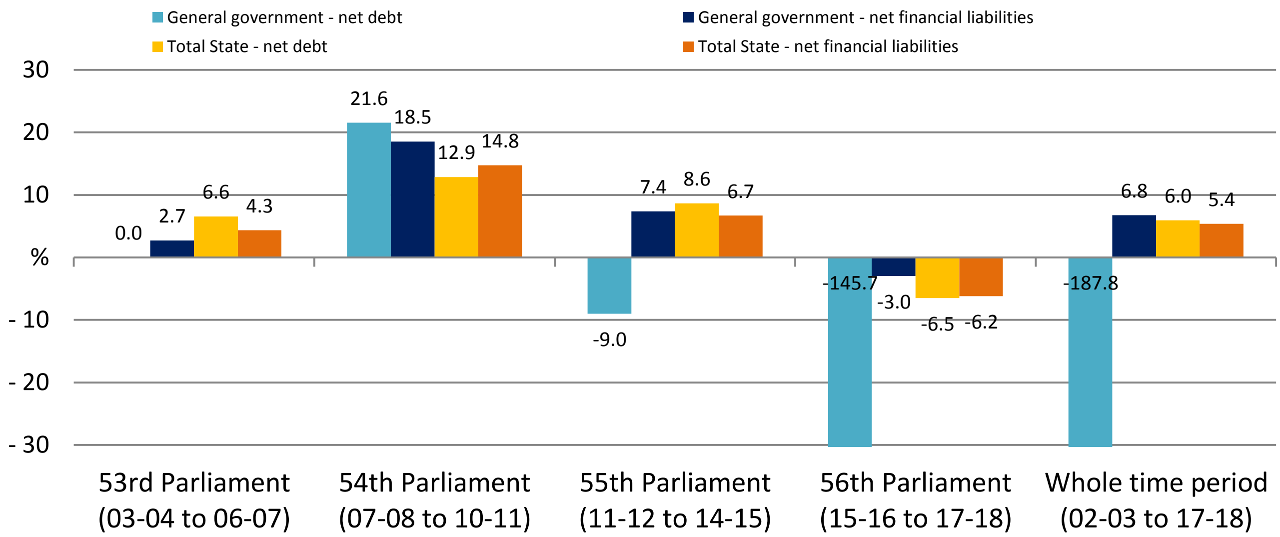
In the general government sector, in 2017-18 net financial liabilities are forecast to be $67.9 billion, or 11.4% of GSP, compared to 9.1% of GSP in 2002-03. In the total State sector, in 2017-18 net financial liabilities are projected to be $100 billion, or 16.8% of GSP, compared to 15.2% of GSP in 2002-03.

Figure 6.2.2 Net financial liabilities



Sources: NSW Budget Papers

Figure 6.2.3 Average annual growth in debt and liabilities by Parliament



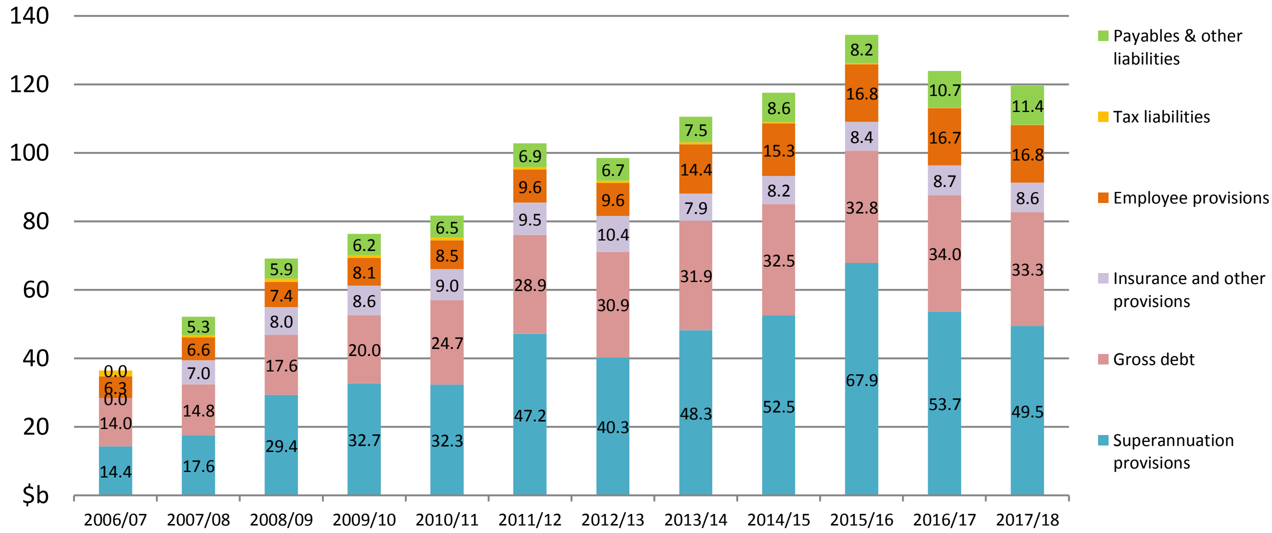
Sources: NSW Budget Papers

6.3 Liabilities by type

In the general government sector, total liabilities are projected to be $119.7 billion in 2017-18. Superannuation provisions is the largest category of liabilities: an estimated $49.5 billion or 41.4% in 2017-18 (up from 29.4% in 2006-07). Superannuation liabilities relate to defined benefit superannuation schemes that were previously available to government employees (see 2016-17 *Budget Statement*, p6-5). One of the two fiscal targets in the *Fiscal Responsibility Act 2012* is to eliminate unfunded superannuation liabilities by 2030. Note that the size of superannuation provisions can fluctuate according to the discount rate used to value them.

Gross debt, which includes borrowings and finance leases, is the second largest category of financial liabilities. In 2017-18, gross debt is projected to be $33.3 billion or 27.8% in 2017-18 (down slightly from 28.8% in 2006-07).

Figure 6.3.1 General government liabilities by type

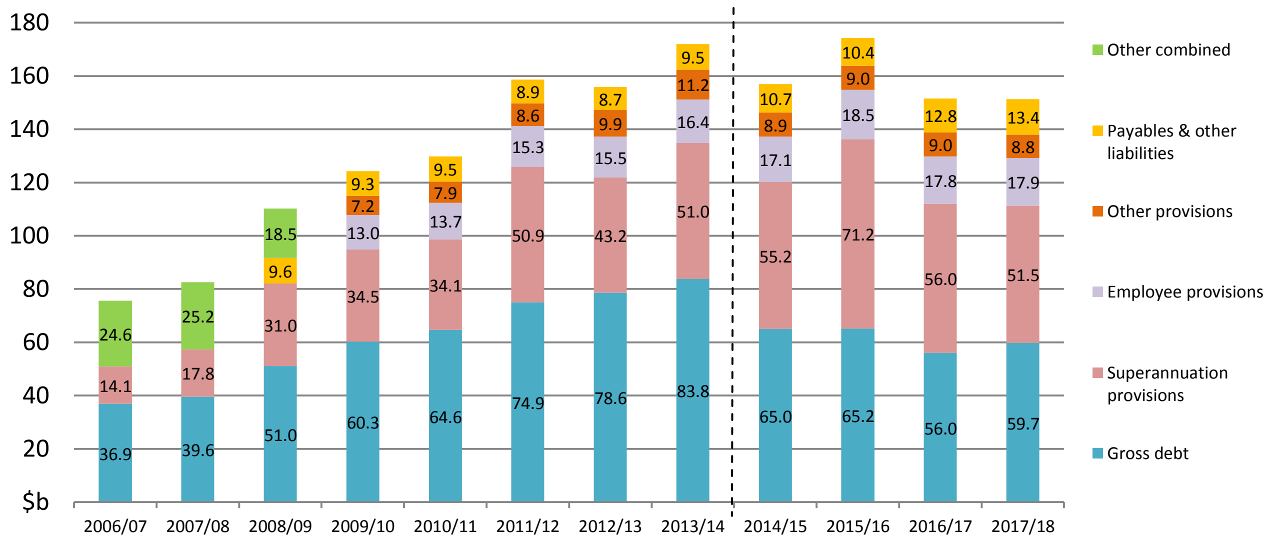


Sources: NSW Budget Papers**.**

Note: Comparable figures were not available for all the years between 2002/03 and 2005/06. Note also that not all of the same categories were reported for 2006-07 as for subsequent years.

In the total State sector, gross debt is the largest category of liabilities: $59.7 billion or 39.5% projected for 2017-18 (48.8% for the total State sector in 2006-07). The second largest category is superannuation provisions: $51.5 billion or 34.0% estimated for 2017-18 (18.6% for the total State sector in 2006-07).

Figure 6.3.2 Total State sector liabilities by type



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

Note: Comparable figures were not available for all the years between 2002/03 and 2005/06. Note also that not all of the same categories were reported for 2006-07 to 2008-09 as for subsequent years. Note also that figures on liabilities by type for the total State sector are only available up to 2013-14; the figures for 2014-15 to 2017-18 are liabilities for the non-financial public sector (i.e. total State sector excluding the public financial corporations sector).

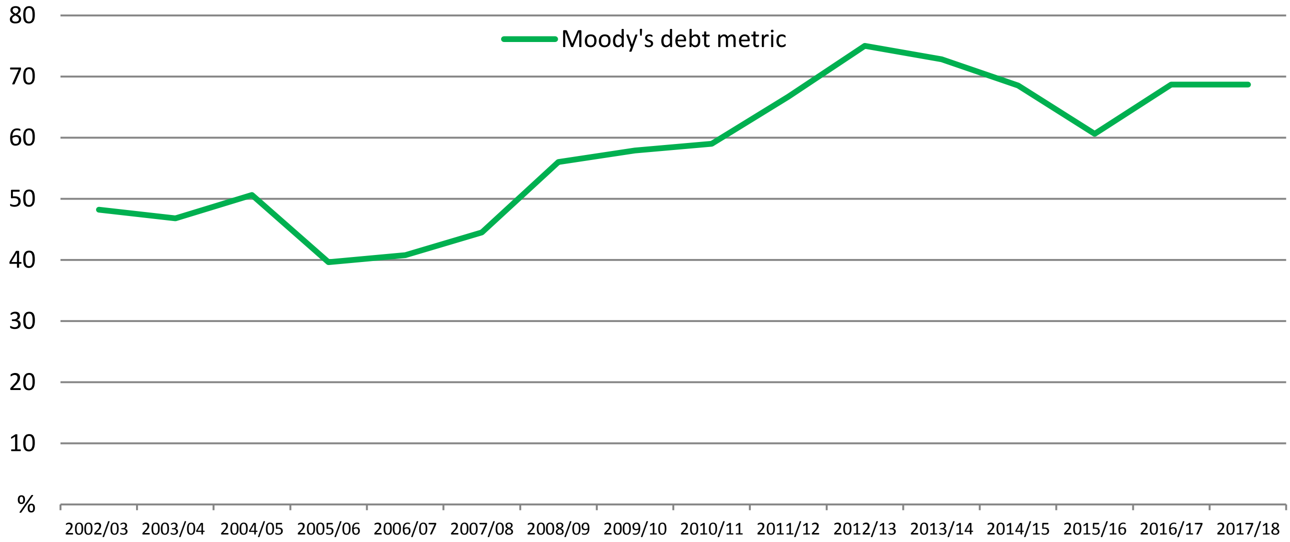
7. CREDIT RATING METRICS

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

7.1 Moody's

Moody's key metric is: total State gross non-commercial debt/general government sector revenue. The *NSW Financial Audit 2011* report noted that Moody's had not set formal trigger bands but it "has said informally that the NSW ratio should not be allowed to exceed 60-70 percent". In 2017-18, this metric is projected to be 68.7%, which is at the top of the informal trigger band range. In December 2016, Moody's confirmed the AAA rating (see Treasurer's press release).

Figure 6.4.1 Moody's credit metric



Sources: NSW Budget Papers

7.2 Standard and Poor's

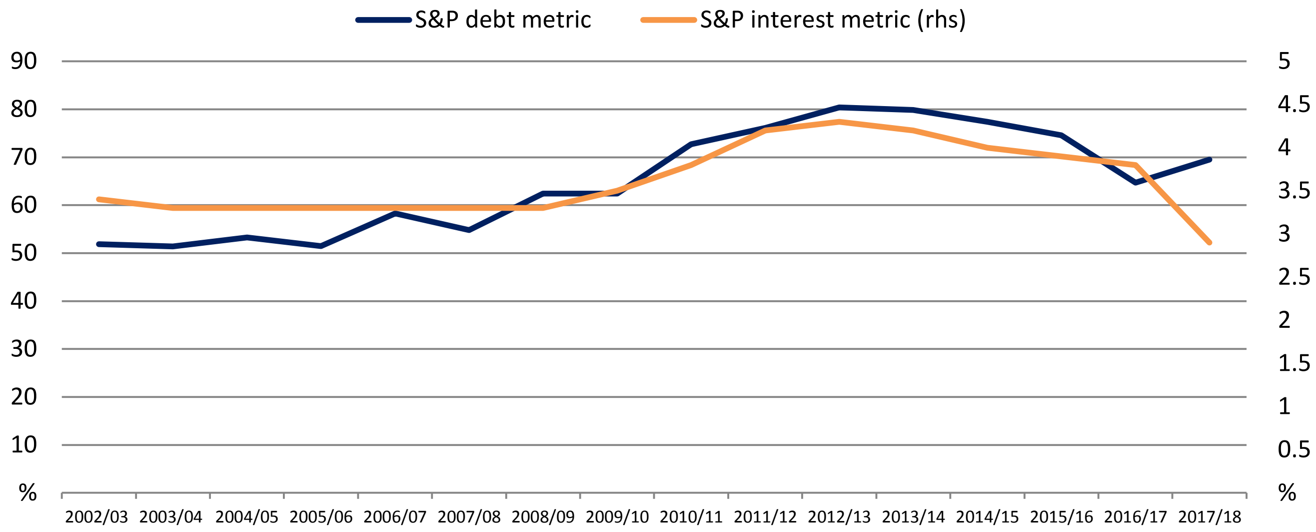
Standard and Poor's (S&Ps) key metrics are:

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

It appears that S&P has set trigger bands for these metrics, namely 120% for the debt metric and 5% for the interest metric. In 2017-18, the debt metric is projected to be 69.5% and the interest metric is projected to be 2.9%; both well below the trigger levels. In July 2016, S&P confirmed the AAA rating but downgraded the outlook from stable to negative; this reflected the negative outlook for the Commonwealth (see NSW Budget Papers 2017-

18, *Budget Statement*, p2-6).

Figure 6.4.2 S&P credit metrics



Sources: NSW Budget Papers