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ISSN 1838-0190

November 2018

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SUMMARY

This paper reports on trends in NSW State finances between 2002-03 and 2018-19.

Budget result

The budget result represents the difference between expenses and revenues from transactions. The budget result does not take capital expenditure into account.

- The 2018-19 Budget forecasts a **surplus** of $1.4 billion, which would be the sixth consecutive surplus. There have been four deficits since 2002-03, the largest being $1.7 billion in 2012-13. **[Section 2.1]**
- The **actual budget result** for 2017-18 was $1.5 billion better than was estimated at the time of the 2017-18 Budget. This was due to revenue being $787 million higher than expected, combined with expenses being $695 million lower than expected. [**2.2]**
- The **actual budget results** were better than the **forecast budget results** in all years except for 2004-05 and 2008-09. The positive variations ranged from $10 million in 2007-08 to $3.2 billion in 2014-15, and exceeded $1 billion in eight years. **[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). 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.

- The budget estimate for 2018-19 is a **net lending deficit** of $10.3 billion**:** this is the largest deficit observed over the time period from 2002-03. There were net lending deficits in all years from 2004-05 to 2014-15, with five of these exceeding $3 billion. **[2.3]**

Revenue

- In 2018-19, **total revenue** is projected to be $81.1 billion, which represents 0.5% growth from 2017-18. Revenue growth has slowed since 2015-16. **[3.1]**
- In 2018-19, **own-source revenue** is projected to comprise 61% of total revenue, with Federal Government grants making up the remaining 39%. Own-source revenue now makes a slightly higher contribution to total revenue than in 2002-03 (58%). **[3.2]**
- **State taxes** are by far the largest source of the government's own-source revenue. In 2018-19, tax revenue is projected to be $31.1 billion, which would be 63% of own-source revenue (down from 68% in 2002-03). **[3.3]**
- In 2018-19, **Federal Government grants** are projected to be $31.7 billion, which represents a 1.1% increase from 2017-18. This is the lowest growth rate since 2012-13. **[3.4]**

- In 2018-19, there were $18.5 billion of **general purpose grants** (58%) and $13.3 billion of **specific purpose grants** (42%). General purpose grants now make up a smaller portion of total grants than in 2002-03 (65%). **[3.4]**

- **Specific purpose grants** include **National Specific Purpose Payments (NSPPs)** and **National Partnership Payments (NPPs)**. Health has always been the largest category of **NSPPs**, and has increased its share from 52% in 2002-03 to 66% in 2018-19. In most years, transport has received the largest share of **NPPs**, and this is the case in 2018-19 with an allocation of 63% (up from 29% in 2002-03). **[3.4]**

Expenses

Recurrent expenses are those incurred in delivering services such as education, health, and public transport. Recurrent expenses are different from capital expenditure, which is incurred in the acquisition of assets: e.g. land.

- In 2018-19, **total expenses** are projected to be $79.7 billion, a 4.1% increase on 2017-18. This is lower than the 5.6% long-term average revenue growth rate, 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 since 2002-03 they have accounted for around half of total expenses: in 2018-19 they cost an estimated $37.9 billion or 46% (down from 48% in 2002-03). **[4.2]**

- In 2018-19, **health** has again been allocated the highest share of total expenses: $22.8 billion, or 29% of total expenses (up from 27% in 2002-03). **Education** has again been allocated the second highest share of expenses: $18.1 billion or 23% (down from 26% in 2002-03). **[4.3]**

- In 2018-19, two policy areas received a lower expense allocation than in 2017-18: **social security and welfare** (-2.0%); and **other expenses** (-17%) which includes general public services and economic affairs. **[4.3]**

Capital expenditure

Capital expenditure relates to the acquisition or enhancement of property, plant and equipment and intangibles (including computer software and easements).

- In 2018-19, **capital expenditure** is projected to be $17.3 billion, which represents a 43% increase on 2017-18. This represents the highest annual increase in capital expenditure since 2002-03. **[5.1]**

- **Transport and communications** has had the largest share of the capital program over the time period. In 2018-19, it has been allocated $9.8 billion, or 57% of the total capital budget (up from 42% in 2002-03). In 2018-19, **health** was allocated the second largest share of the capital program: $2.2 billion or 13% (down from 17% in 2002-03). **[5.2]**

Assets and liabilities

- **Net worth** is the difference between assets and liabilities and is a measure of wealth. In 2018-19, net worth is projected to be $270 billion. This represents a 6.3% increase on 2017-18. **[6.1]**

- **Net debt** is financial liabilities less financial assets. Net debt is forecast to be $2.6 billion in 2018-19. This represents 0.4% of Gross State Product (GSP), down from 1.3% of GSP in 2002-03. **[6.2]**
- **Net financial liabilities** are total liabilities (financial liabilities plus unfunded superannuation and other liabilities) less financial assets. Net financial liabilities are forecast to be $71 billion in 2018-19, or 11.3% of GSP (up from 9.1% of GSP in 2002-03). **[6.2]**
- **Superannuation provisions** is the largest category of liabilities, comprising an estimated $45.6 billion or 38% in 2018-19 (up from 29% in 2006-07). One of two fiscal targets in the *Fiscal Responsibility Act 2012* is to eliminate superannuation liabilities by 2030. The NSW Government has a long-term funding program to meet this target. **[6.3]**

Credit rating metrics

The NSW Government's creditworthiness has for many years been rated by two rating agencies: Moody's; and Standard and Poor's (S&P). NSW has consistently held a AAA rating, the highest available rating. The AAA rating helps to limit the NSW Government's cost of borrowing. The rating agencies conduct annual reviews, considering a range of factors including the economy, financial management, and debt profile. The *NSW Financial Audit 2011* noted that each agency places special emphasis on certain key metrics.

- **Moody's:** The *NSW Financial Audit 2011* noted that Moody's has said informally that its key debt metric should not be allowed to exceed the 60-70 percent range. This debt metric has increased since 2015-16 and is projected to be 71% in 2018-19. In September 2018, Moody's confirmed the State's AAA rating. **[7.1]**
- **S&P:** It appears that S&P has also set maximum levels for its two key metrics: namely 120% for its debt metric and 5% for its interest metric. In 2018-19, the debt metric is projected to be 73% and the interest metric is projected to be 3.2%. In September 2018, S&P confirmed the State's AAA rating, and upgraded the outlook from negative to stable. **[7.2]**

1. INTRODUCTION

1.1 Outline

This paper reports on trends in NSW State finances between 2002-03 and 2018-19. For most of the key indicators, the paper also shows trends by Parliament for the current (56th) Parliament and previous three (53rd to 55th) Parliaments.

1.2 Key sources

This paper draws on the following sources:

- The *NSW Budget Papers*;
- *NSW Reports on State Finances*; and
- The *NSW Financial Audit 2011*.

1.3 Fiscal objective and targets

The *Fiscal Responsibility Act 2012* has the object of maintaining the State's AAA credit rating (section 7). The Act has two fiscal targets for achieving this object (section 6):

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

Nominal, not constant/real figures

All figures in this paper are nominal figures, which have not been adjusted to take account of inflation.

Actual figures and estimates

- **2002-03 to 2016-17:** Figures for each year are actual figures;
- **2017-18:** Figures are actual figures except in the case of Federal Government grants by policy area, and credit rating metrics, where the figures are revised estimates; and
- **2018-19:** Figures presented are budget estimates.

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.[1] In 2013-14, superannuation expense estimates were $1.5 billion higher than

[1] See NSW Budget Papers 2014-15, *Budget Statement*, p1-6

they would have been under the old version of the standard.

For most fiscal indicators, the 2018-19 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.[2] This paper uses consistent time series figures where they are available. For one of the indicators (i.e. expenses by type), the pre-2013-14 figures may not be entirely comparable with the later figures.

Another accounting change resulted from the creation of a Transport Asset Holding Agency (TAHE) in the 2015-16 Budget. This impacted on a number of 2015-16 fiscal indicators such as 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).[3] In this paper, the figures from 2015-16 to 2018-19 do not account for the impact of TAHE. This is because the 2018-19 Budget Papers do not show the impact of TAHE in these years.

Budget sectors

The NSW public sector is comprised of three sub-sectors:

1. *General government sector* – agencies that provide public services (such as health, education and police), or perform a regulatory function. General government agencies are funded in the main by taxation (directly or indirectly).

2. *Public non-financial corporations sector* – Government controlled agencies where user charges represent a significant proportion of revenue and the agencies operate within a broadly commercial orientation.

3. *Public financial corporations sector* – Agencies that have one or more of the following functions: that of a central bank; the acceptance of demand, time or savings deposits; or the authority to incur liabilities and acquire financial assets in the market on their own account.[4]

For simplicity, this paper presents budget figures for the general government sector only. The budget papers focus on this sector but also present figures for the other sectors.

[2] See NSW Budget Papers 2018-19, *Budget Statement*, Appendix D.
[3] See NSW Budget Papers 2015-16, *Budget Statement*, p1-2
[4] See NSW Budget Papers 2018-19, *Budget Statement*, p F-1, *Glossary.* For a list of all government entities by their classification into the three sub-sectors, see Appendix A3, pA3-2 to A3-4.

2. BUDGET RESULT AND NET LENDING RESULT

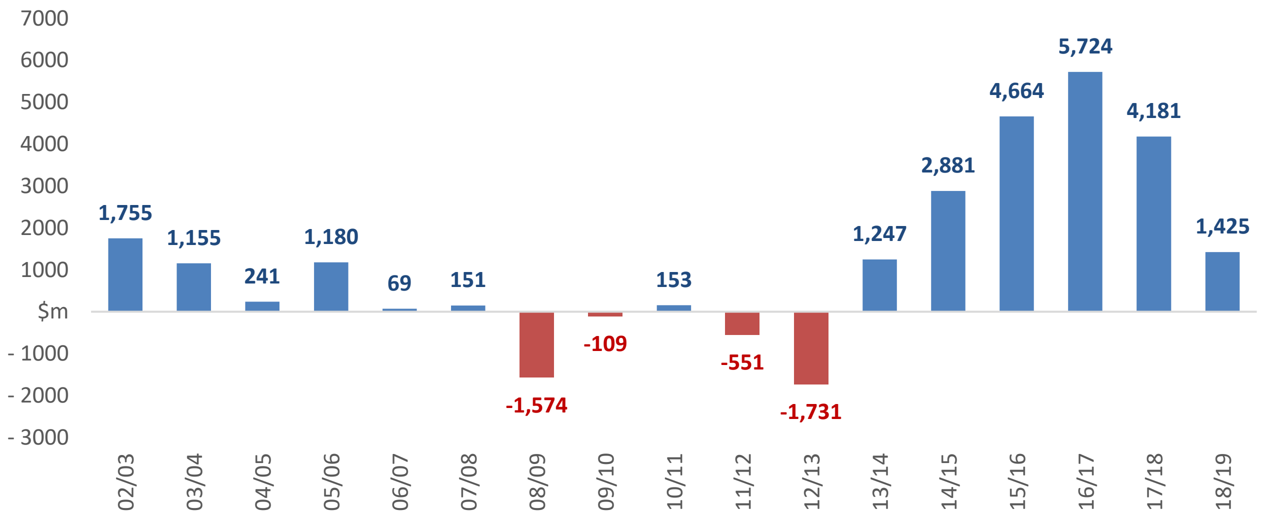
2.1 Budget result

The budget result, or net operating balance, represents the difference between expenses and revenues from transactions. The budget result does not take capital expenditure into account (see net lending result in chapter 2.3).

The 2018-19 Budget forecasts a surplus of $1.4 billion, which would be the sixth consecutive surplus. There have been four deficits since 2002-03, the largest being $1.7 billion in 2012-13. If adjustments had not been made to the pre 2013-14 figures (see chapter 1.4) there would only have been one deficit, occurring in 2008-09.

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. For example, without Federal stimulus 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: for example, a $690 million grant was brought forward from 2012-13 to 2011-12, reducing the deficit in 2011-12.

Figure 2.1 Budget result



2.2 Forecasts and outcomes

The **actual budget result** for 2017-18 was $1.5 billion better than was estimated at the time of the 2017-18 Budget. This was due to revenue being $787 million higher than expected, combined with expenses being $695 million lower 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) occurred during the Global Financial Crisis. As shown in figure 2.2, the positive variations ranged from $10 million in 2007-08 to $3.2 billion in 2014-15, and exceeded $1 billion in eight years.

In most cases, these positive variations resulted from higher-than-expected revenues. However, in five of the previous seven years, the better-than-expected results were at least partly due to actual expenses being lower than forecasted expenses.

Figure 2.2 Variations in budget results: actual results less forecast results

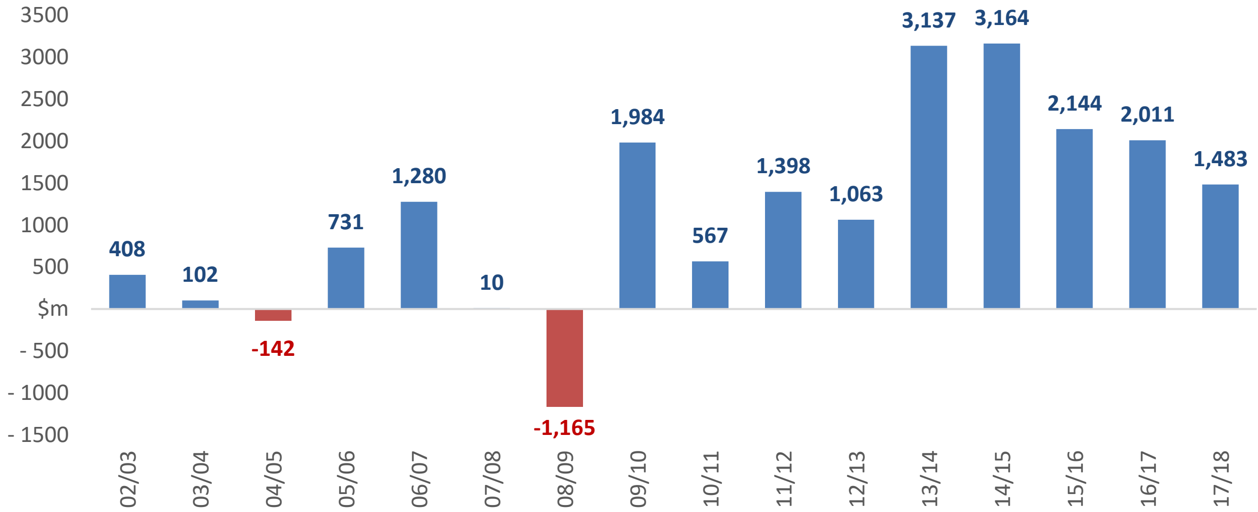
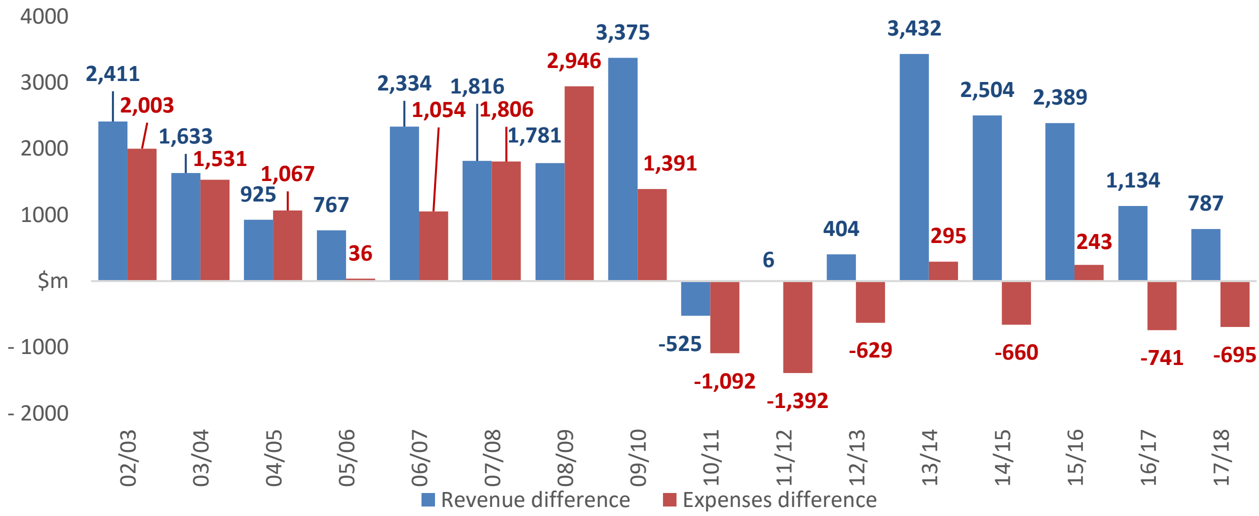


Figure 2.3 Variations in revenues and expenses: actuals less forecasts



2.3 Net lending result

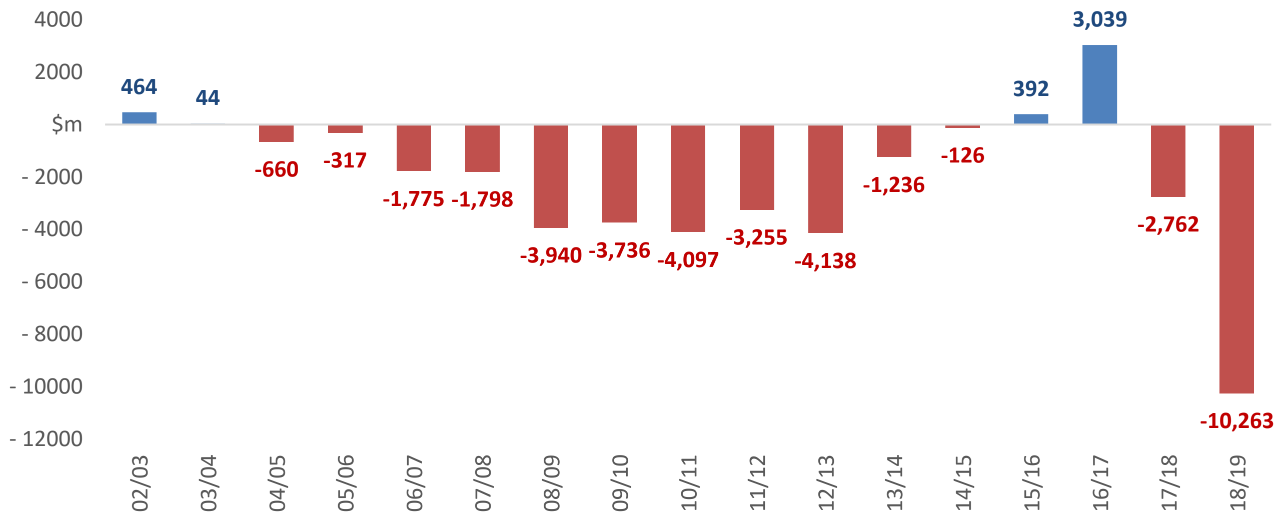
The *NSW Financial Audit 2011* noted that there had been too much focus on the budget result and not enough on the net lending result. It explained that the net lending result:

> … 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.[5]

The budget estimate for 2018-19 is a net lending deficit of $10.3 billion: the largest deficit over the time period from 2002-03. There were net lending deficits in all years from 2004-05 to 2014-15, with five of these exceeding $3 billion. Even if adjustments had not been made to the pre 2013-14 figures (see chapter 1.4), there would have still been net lending deficits in all of these years, with five exceeding $2 billion.

Figure 2.4 Net lending result



[5] *NSW Financial Audit 2011*, p2-2.

3. REVENUE

3.1 Total revenue

In 2018-19, total revenue is projected to be $81.1 billion, which represents 0.5% growth from 2017-18. Revenue growth has slowed since 2015-16.

Figure 3.1 Total revenue

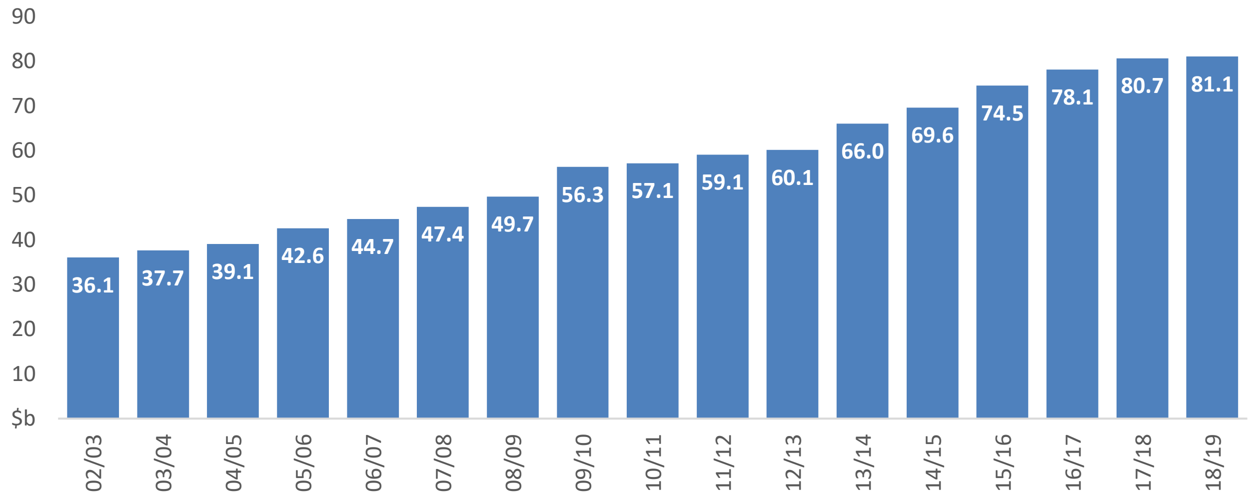
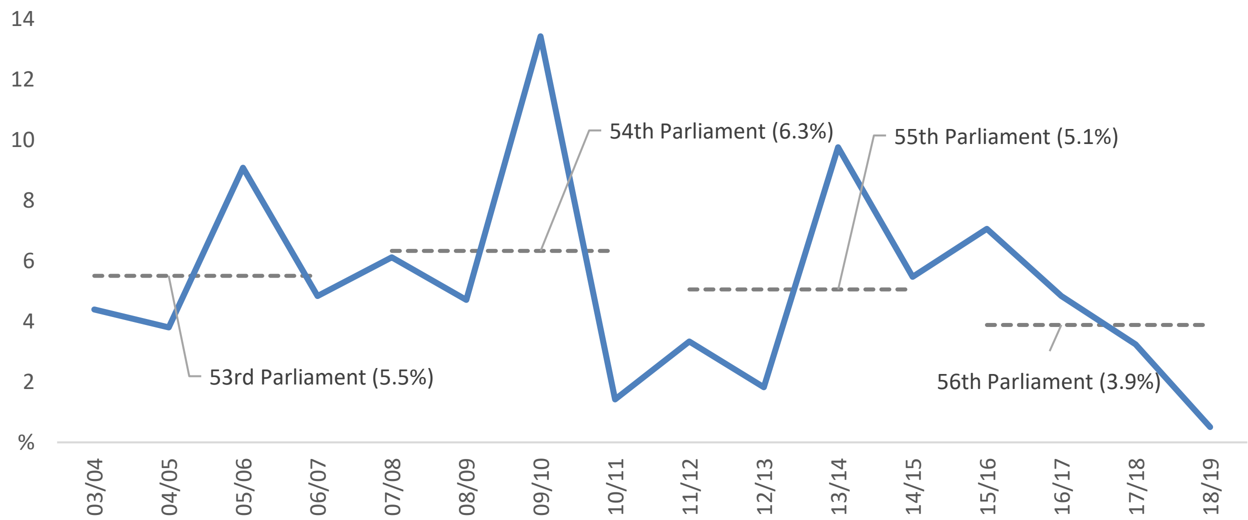


Figure 3.2 Annual growth in total revenue



3.2 Total revenue by source

In 2018-19, own-source revenue is projected to comprise 61% of total revenue, with Federal Government grants making up the remaining 39%. Own-source revenue now makes a slightly higher contribution to total revenue than in 2002-03 (58%).

Figure 3.3 Total revenue by source ($)

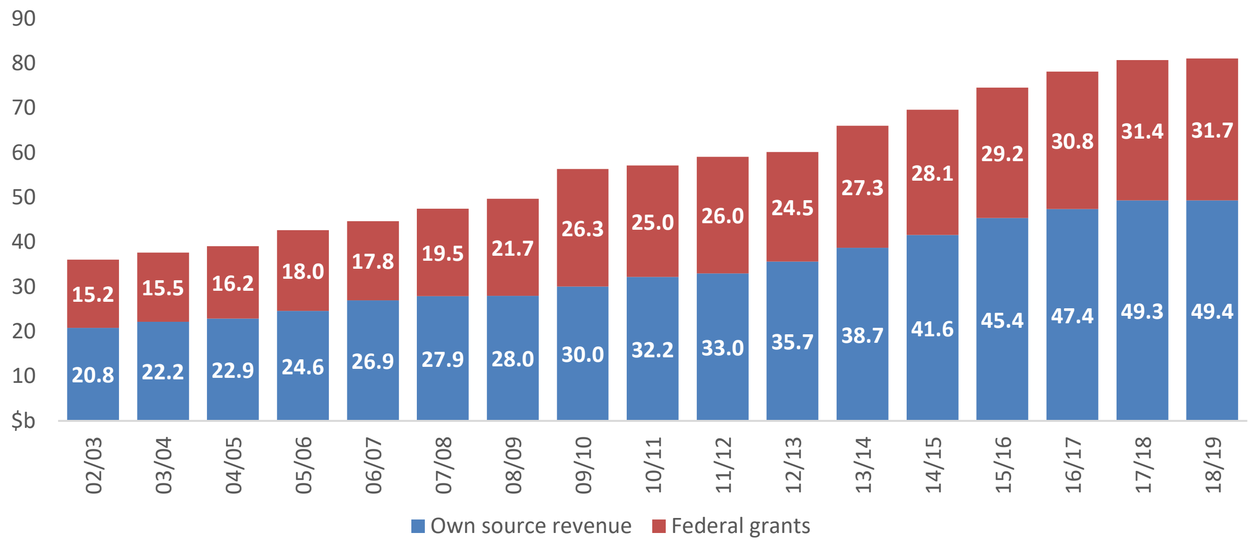
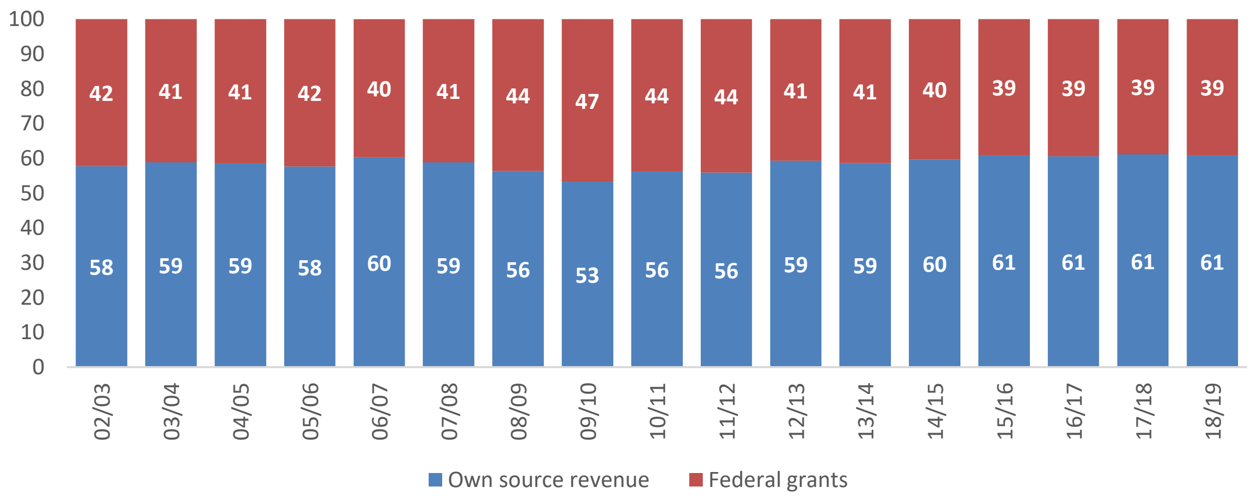


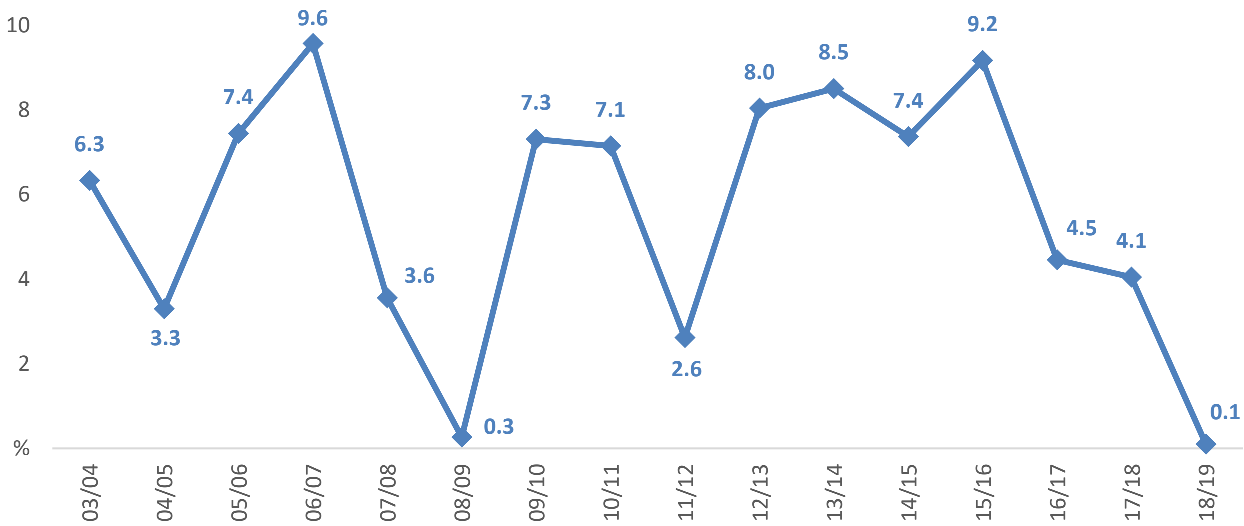
Figure 3.4 Total revenue by source (%)



3.3 Own-source revenue

In 2018-19, own-source revenue is projected to be $49.4 billion, which represents a 0.1% increase on 2017-18. Own-source revenue growth has slowed since 2015-16.

Figure 3.5 Annual growth in own-source revenue



State taxes are by far the largest source of the government's own-source revenue. In 2018-19, tax revenue is projected to be $31.1 billion, or 63% of total own-source revenue (down from 68% in 2002-03).

The second largest category of own-source revenue is the **sale of goods and services**. Examples of this include revenue from rent of State-owned property, and tolls from government-operated roads. In 2018-19 revenue from the sale of goods and services is projected to be $9.5 billion, or 19% of own source revenue (up from 13% in 2002-03).

The third largest category of own-source revenue is **dividends and income tax equivalents**, which is projected to be $3.1 billion in 2018-19. This is equivalent to 6.4% of own-source revenue (up from 6.1% in 2002-03).

Mining royalties experienced the fastest growth rate over the period, increasing by 14% annually. However, mining royalties only represent a small component of own-source revenue: $1.9 billion, or 3.9% (up from 1.1% in 2002-03).

Figure 3.6 Own-source revenue by type ($b)

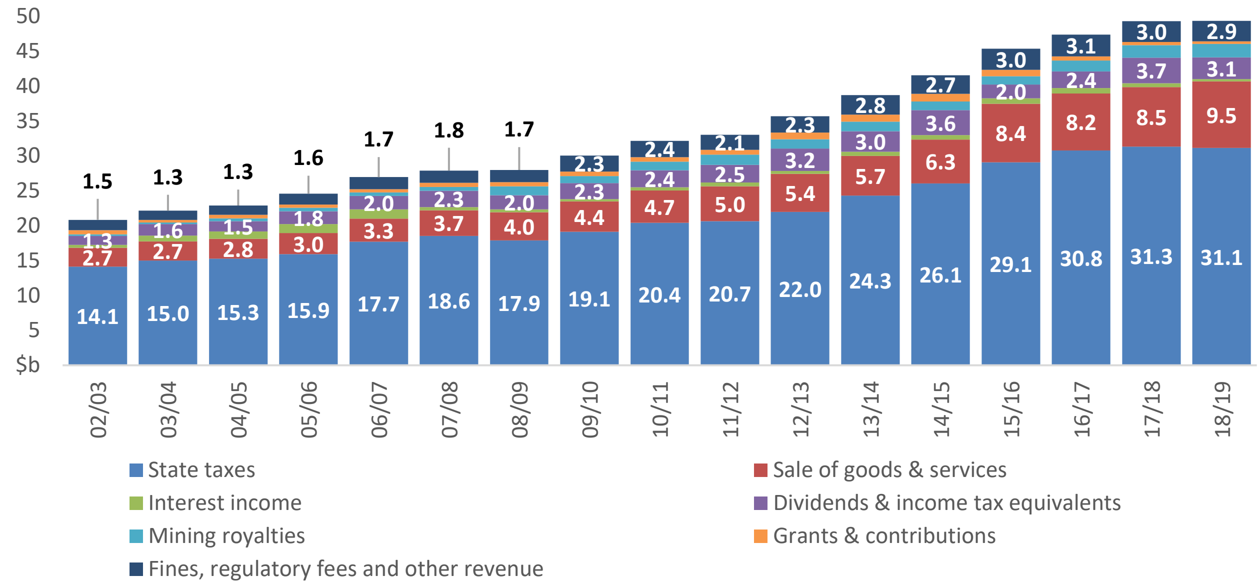
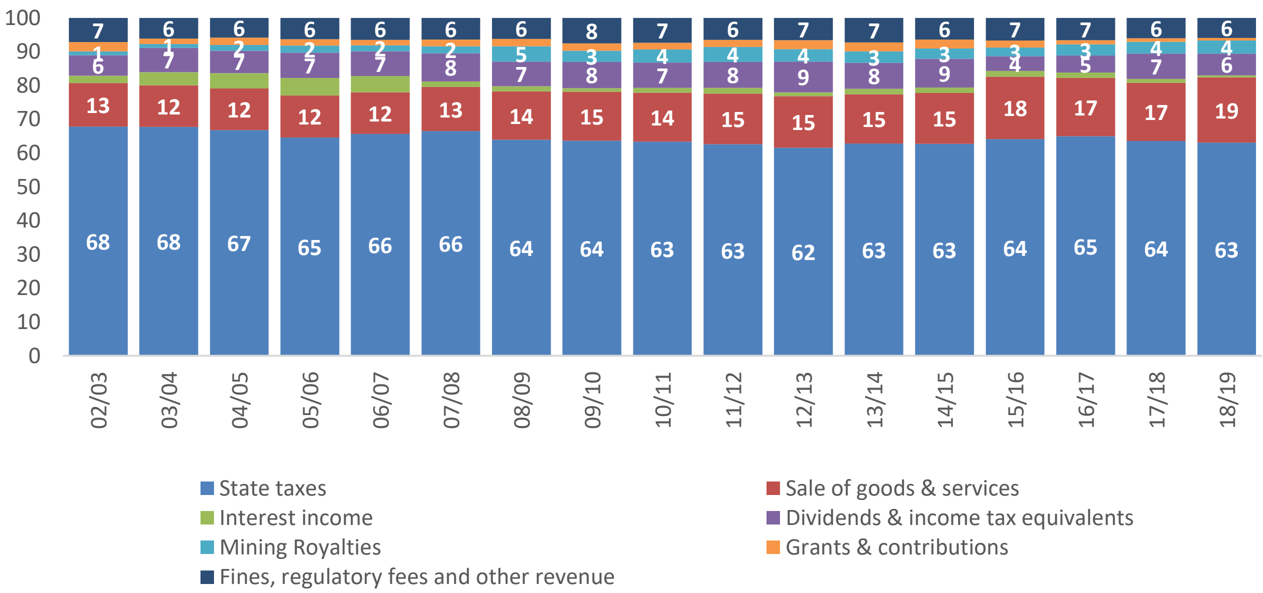


Figure 3.7 Own-source revenue by type (%)



The largest component of **State tax revenue** is **stamp duty**. In 2018-19 it is projected to be $9.5 billion, or 31% of State tax revenue (37% in 2002-03).

The second largest source of tax revenue is **payroll tax**, which is projected to be $9.2 billion in 2018-19. This is equivalent to 29% 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 2018-19 it is projected to be $4.3 billion, or 14% of total State tax revenue (8% in 2002-03). Land tax revenue grew at the fastest rate over the time period (an average annual growth rate of 8.7%).

Figure 3.8 State tax revenue by type ($b)

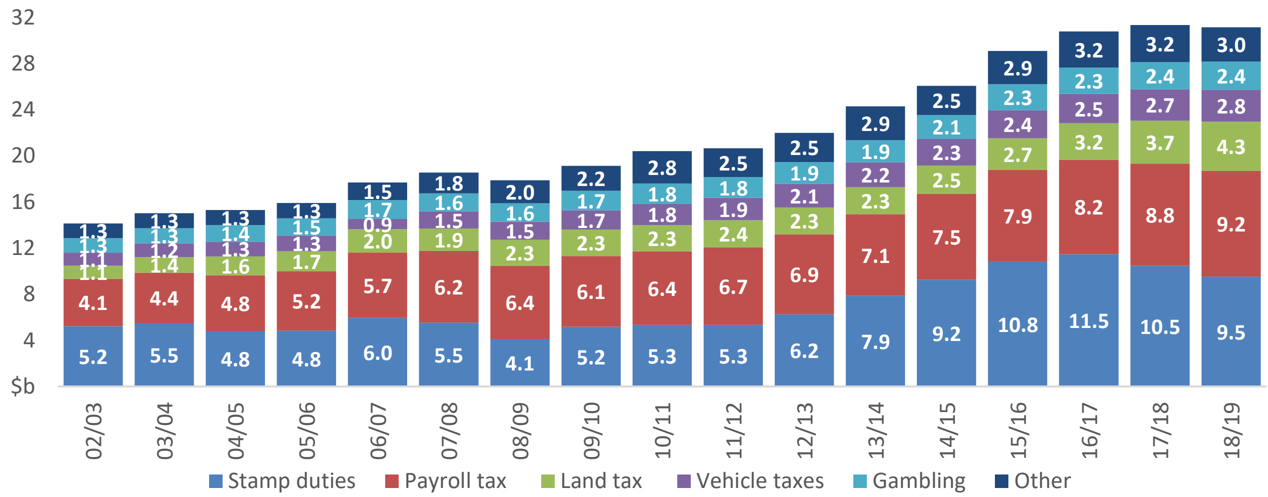
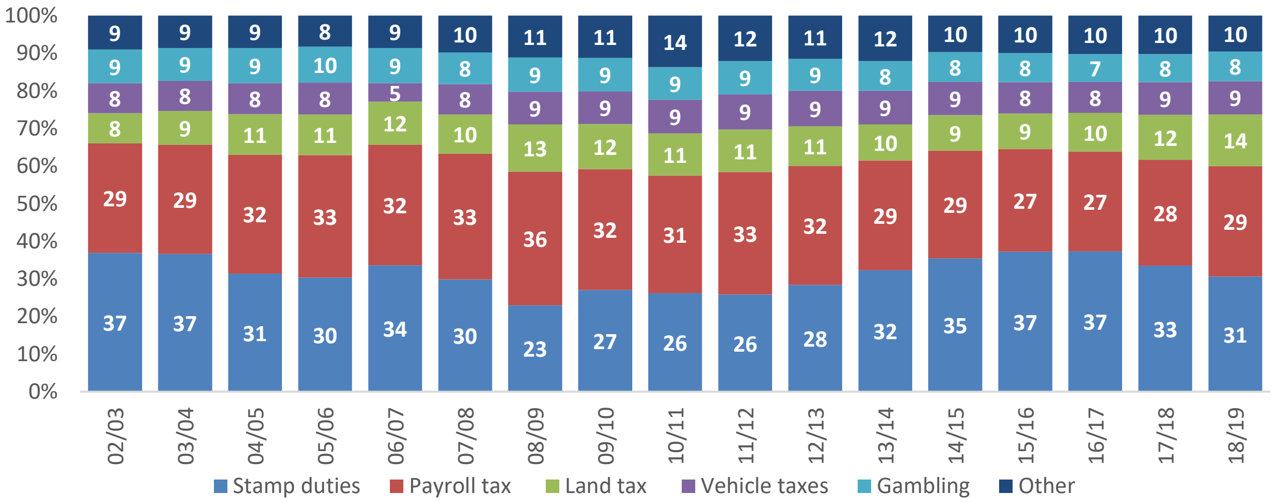


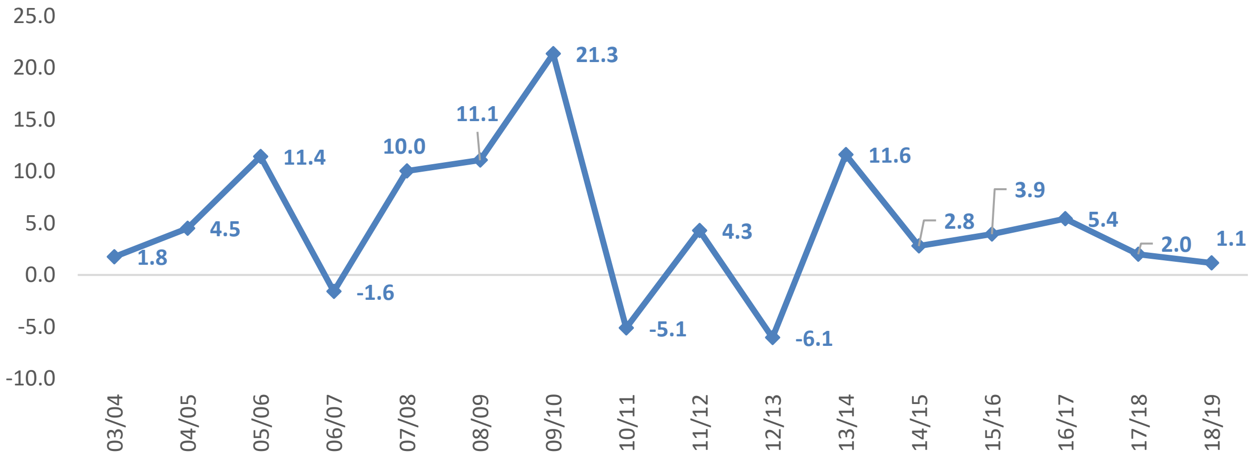
Figure 3.9 State tax revenue by type (%)



3.4 Federal Government grants

In 2018-19, Federal Government grants are projected to be $31.7 billion, which represents a 1.1% increase from 2017-18. As can be seen in figure 3.10, this is the lowest growth rate since 2012-13.

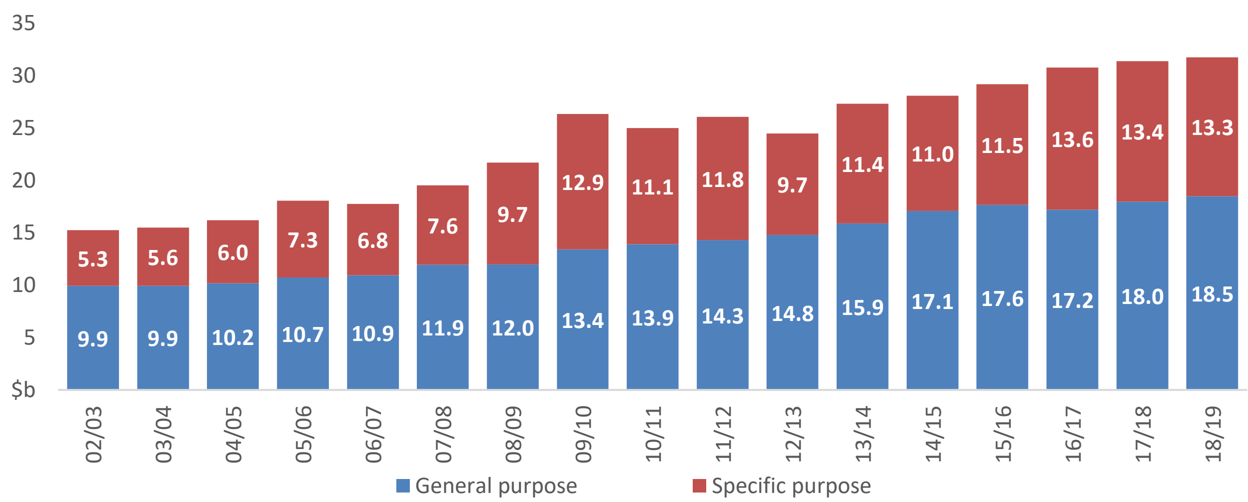
Figure 3.10 Annual growth in Federal Government grants



There are two broad categories of Federal Government grants: (1) General purpose grants, which are now comprised entirely of Goods and Services Tax (GST) distributions, but previously included National Competition Policy payments; and (2) Specific purpose grants, which require funds to be spent in particular areas.

In 2018-19, there were $18.5 billion of general purpose grants (58%) and $13.3 billion of specific purpose grants (42%). General purpose grants now make up a smaller portion of total grants than in 2002-03 (65%).

Figure 3.11 Federal Government grants by type ($b)



Since 2008-09, there have been two 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 or achieve service delivery improvements.[6]

In 2018-19, **NSPPs** are projected to be $9.9 billion, which represents 1.1% growth over the 2017-18 revised estimate. In 2018-19, NSPPs will account for 76% of all specific purpose grants, compared to 68% in 2008-09.

Health has always been the largest category of NSPPs, and has increased its share from 52% in 2002-03 to 66% in 2018-19. **Education** has generally received the second largest share of funding; rising from 14% in 2002-03 to 25% in 2018-19.

Figure 3.12 NSPPs by policy area ($b)

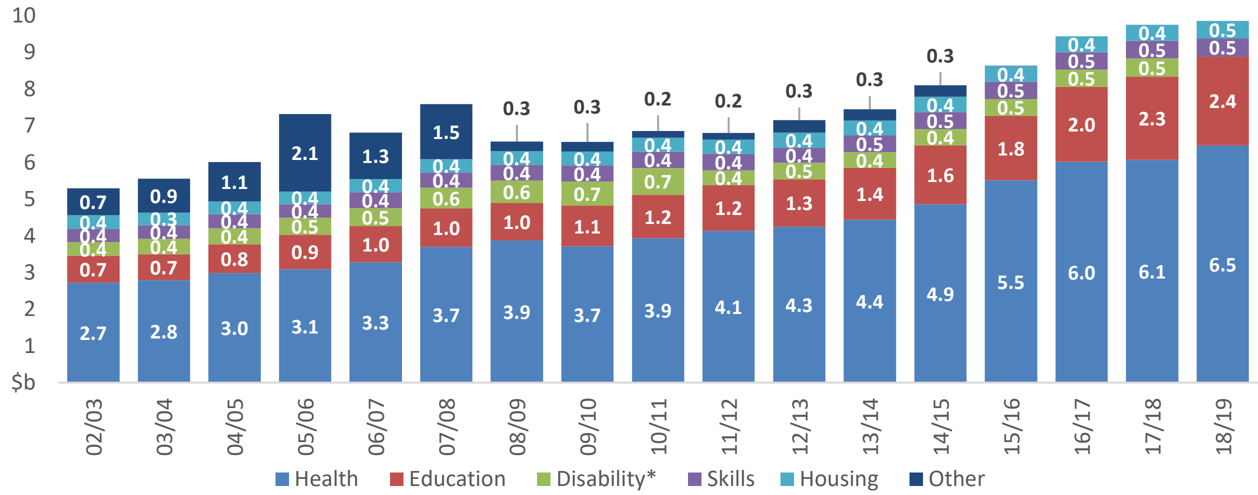
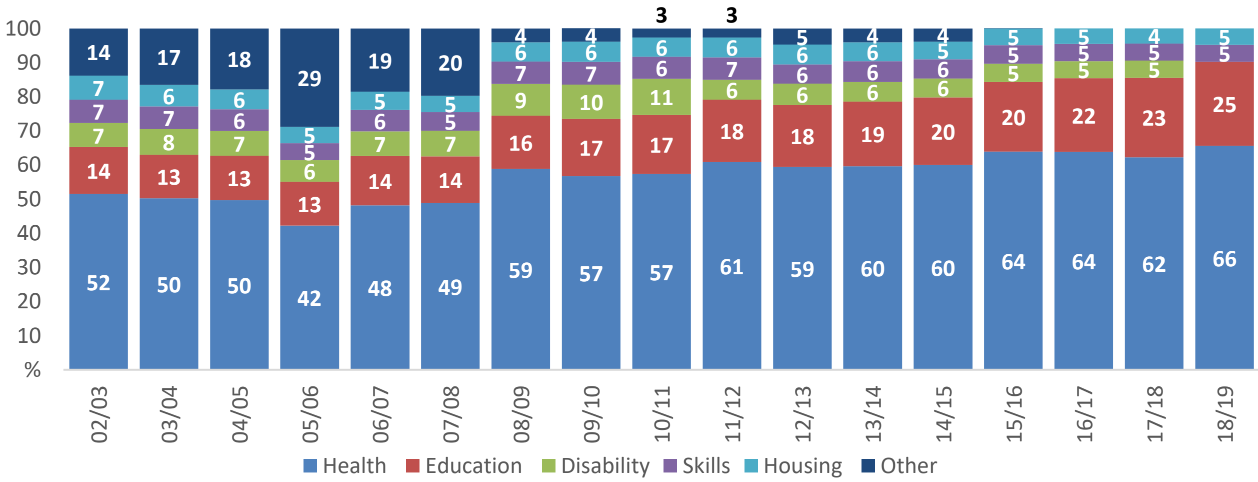


Figure 3.13 NSPPs by policy area (%)



Note: Until 2011-12, disability payments included payments for Home and Community Care. From 2011-12,

[6] NSW Budget Papers 2018-19, *Budget Statement*, p 5-17.

these were made as a NPP (in the "other" category). In 2018-19, NSW will no longer receive grants under the National Disability Agreement because of the transition to the National Disability Insurance Scheme (NDIS).

NPPs are projected to be $3 billion in 2018-19, which represents an estimated 7% decrease on the 2017-18 revised estimate. In most years, **transport** has received the largest share of NPPs, and this is the case in 2018-19 with an allocation of 63% (up from 29% in 2002-03).

Figure 3.14 NPPs by policy area ($b)

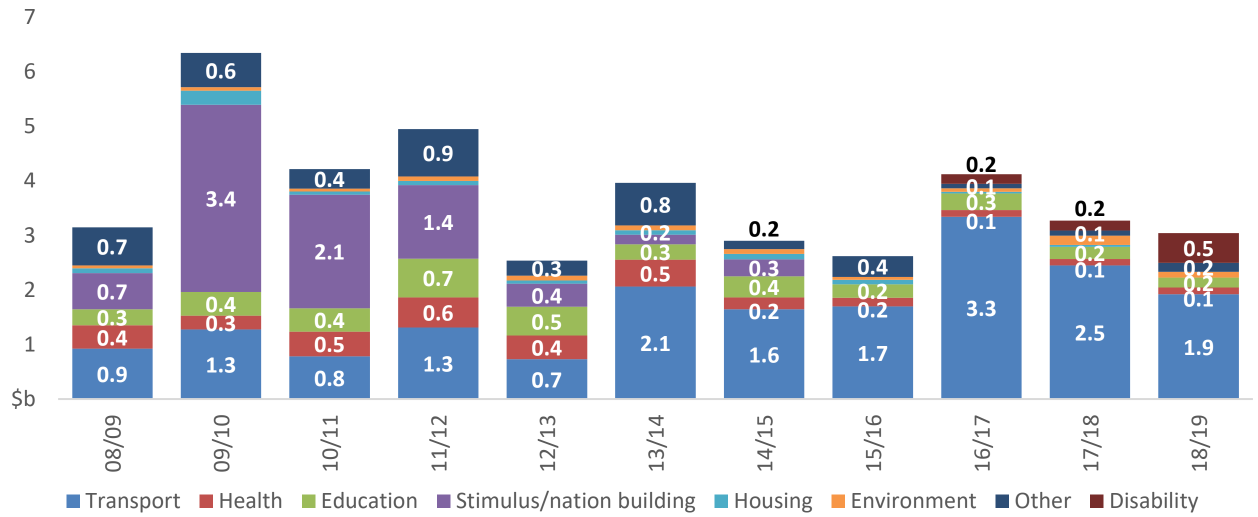
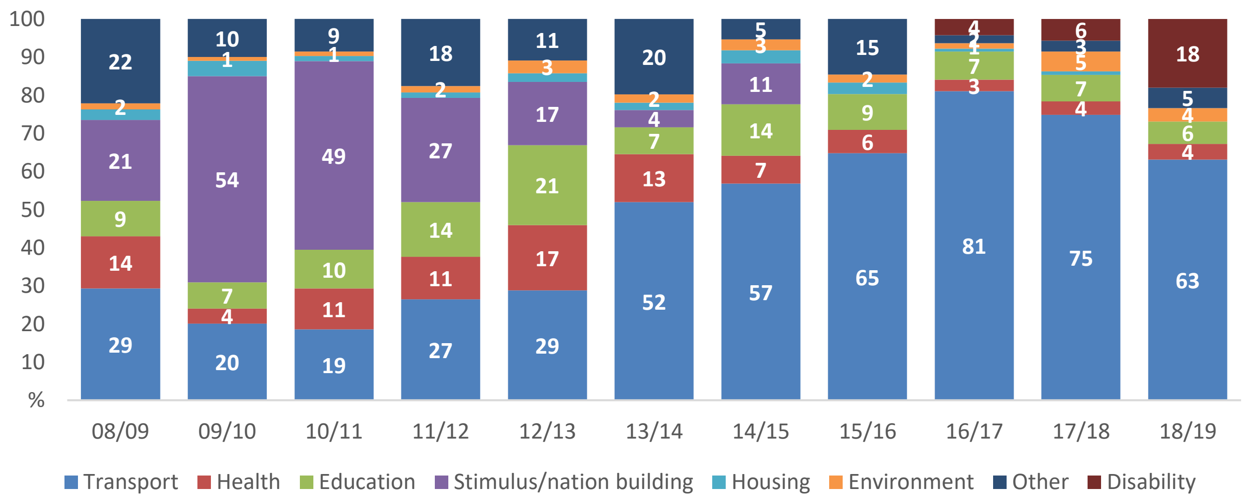


Figure 3.15 NPPs by policy area (%)



Note: Disability was included as a separate category in the 2018-19 Budget Papers. Previously some disability payments were included in the "other" category. From 2018-19, disability comprises payments made to NSW as part of the National Partnership on Disability Care Australia Fund Payments, which contributes to the implementation of the NDIS.

4. EXPENSES

Recurrent expenses are those incurred in delivering services such as education, health, and public transport. Recurrent expenses are different from capital expenditure, which is incurred in the acquisition of assets: e.g. land (see chapter 5).

4.1 Total expenses

In 2018-19, total expenses are projected to be $79.7 billion, a 4.1% increase on 2017-18. This is lower than the 5.6% long-term average revenue growth rate, which is one of two fiscal targets in the *Fiscal Responsibility Act 2012* (see chapter 1.3).

Figure 4.1 Total expenses

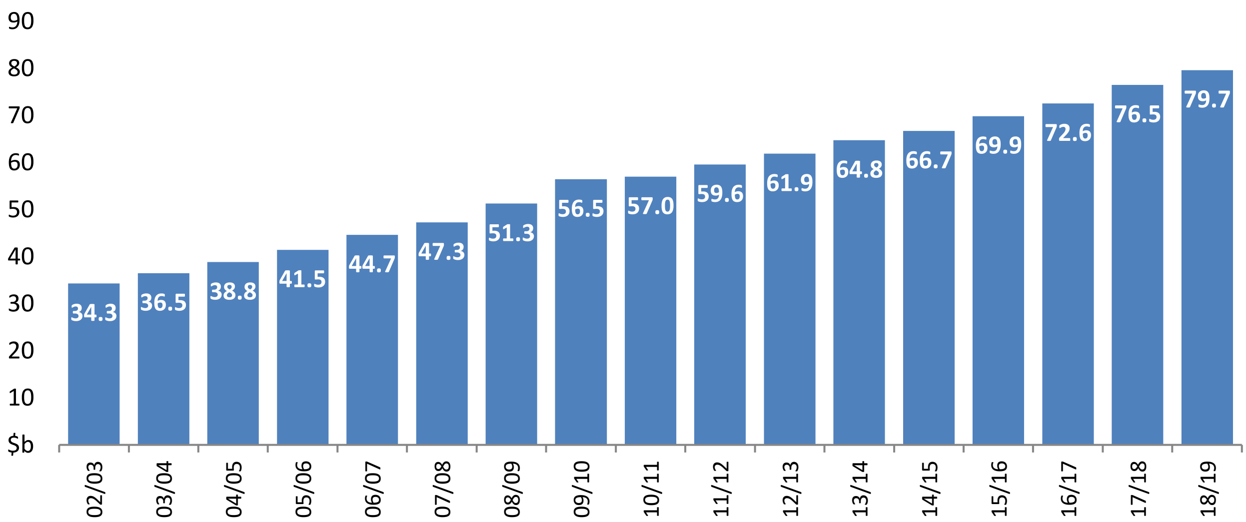
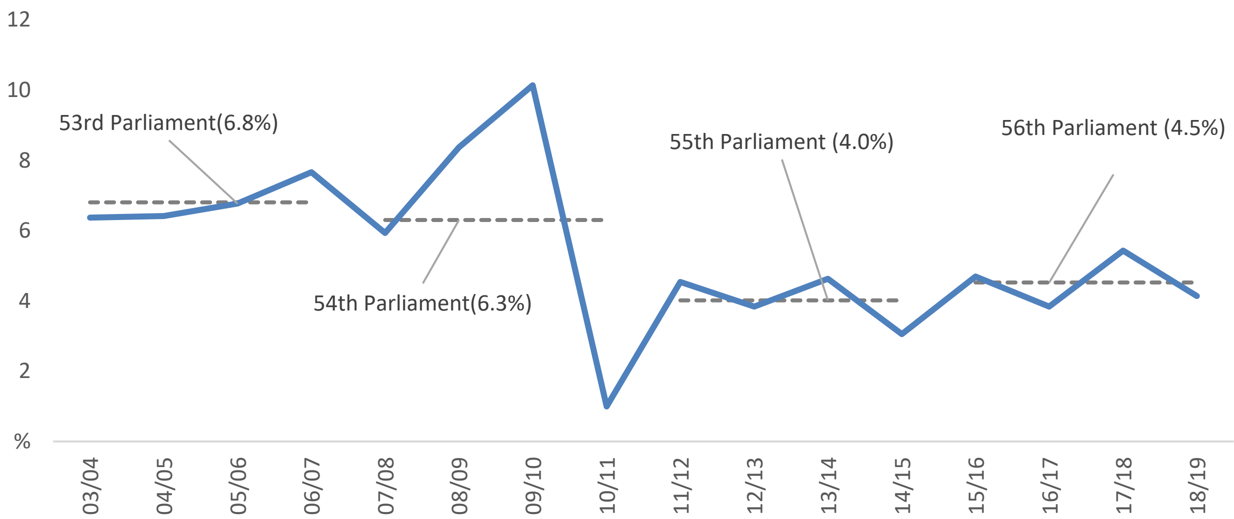


Figure 4.2 Annual growth in total expenses



4.2 Expenses by type

Employee-related expenses are the largest expense category. In each year since 2002-03 they have accounted for around half of total expenses: in 2018-19 they accounted for an estimated $37.9 billion of expenditure or 46% (down from 48% in 2002-03).

The second largest category is **other operating expenses**, costing an estimated $21.1 billion or 26% in 2018-19 (up from 25% in 2002-03). 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."[7]

Figure 4.3 Expenses by type ($b)

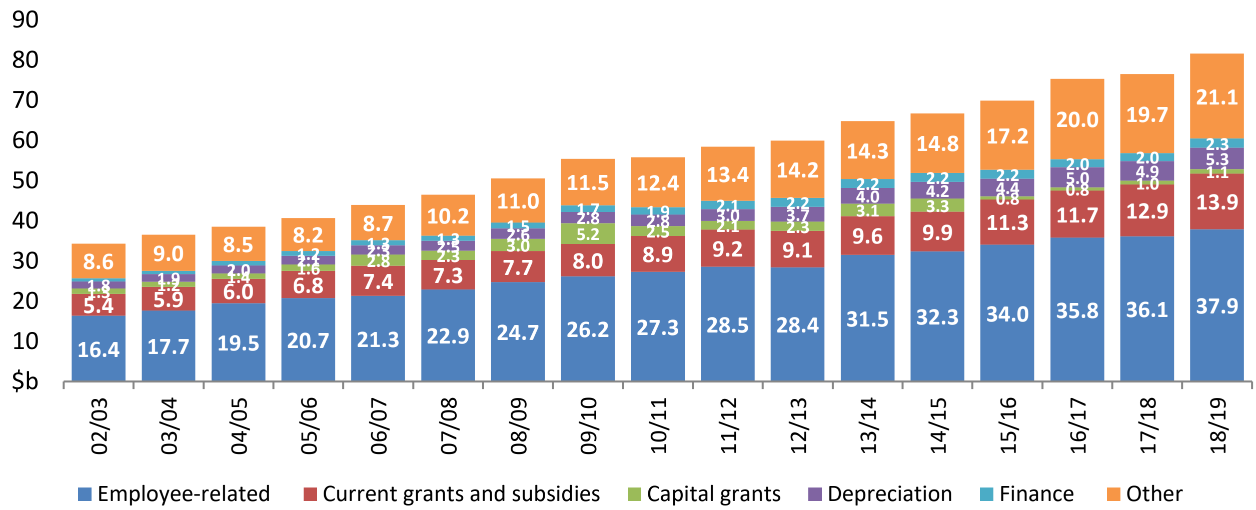
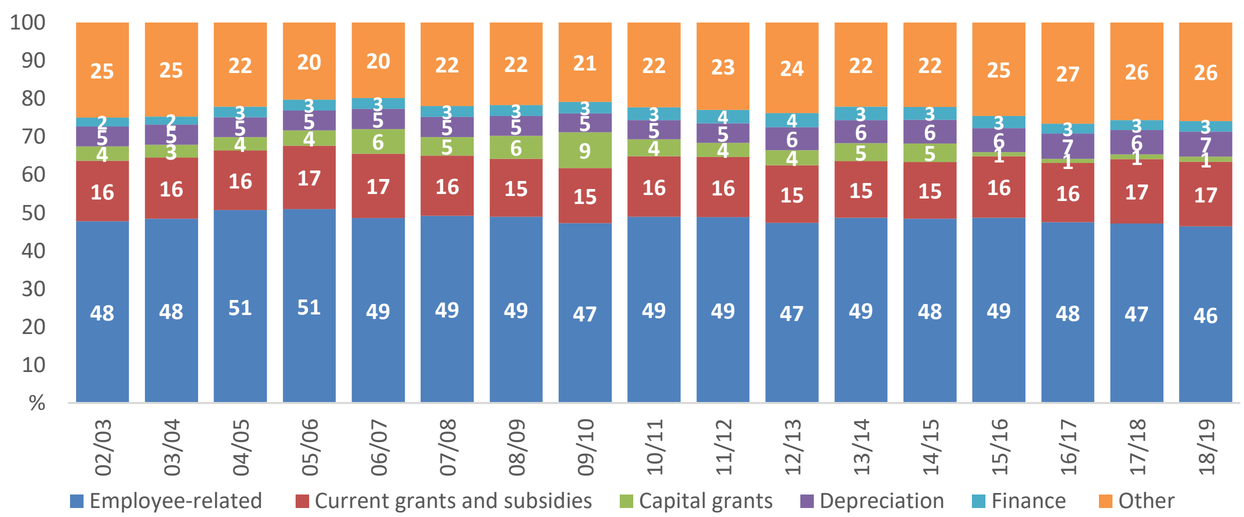


Figure 4.4 Expenses by type (%)



Note: Due to accounting changes in 2013-14, the pre-2013-14 figures may not be entirely comparable with

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[7] NSW Budget Papers 2014-2015, *Budget Statement*, p5-14.

the later figures (See Chapter 1.4).

4.3 Expenses by policy area

In 2018-19, **health** has again been allocated the highest share of total expenses: $22.8 billion, or 29% of total expenses (up from 27% in 2002-03). **Education** has again been allocated the second highest share of expenses: $18.1 billion or 23% (down from 26% in 2002-03). Together, health and education are projected to comprise 51% of the budget in 2018-19 (down from 53% in 2002-03). The next largest policy area is **transport and communications**, which for 2018-19 has been allocated $10.7 billion or 14% of total expenses (up from 10% in 2002-03). In 2018-19, two policy areas received a lower expense allocation than in 2017-18: **social security and welfare** (-2.0%); and **other expenses** (-17%), which includes general public services and economic affairs.

Figure 4.5 Expenses by policy area ($b)

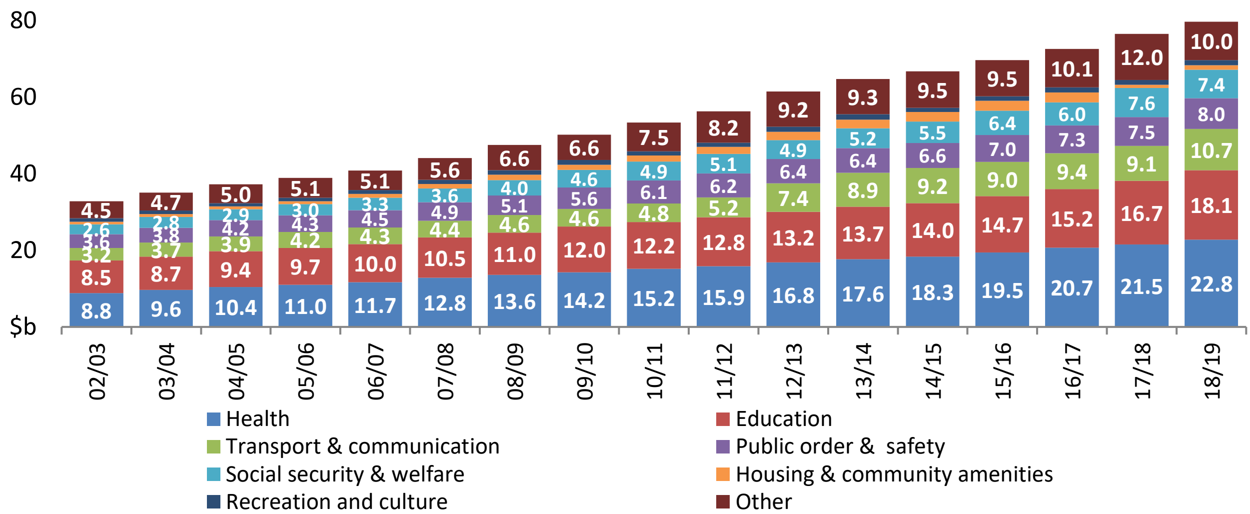
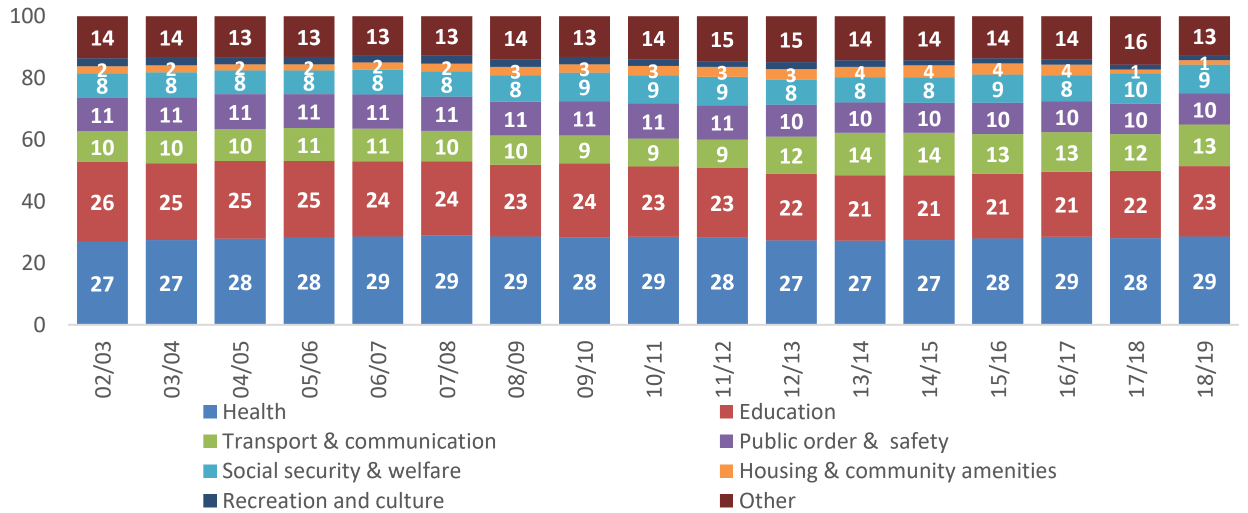


Figure 4.6 Expenses by policy area (%)



5. CAPITAL EXPENDITURE

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)."[8]

5.1 Total capital expenditure

In 2018-19, capital expenditure is projected to be $17.3 billion, which represents a 43% increase on 2017-18. As figure 5.2 shows, this represents the highest annual increase in capital expenditure since 2002-03.

Figure 5.1 Total capital expenditure

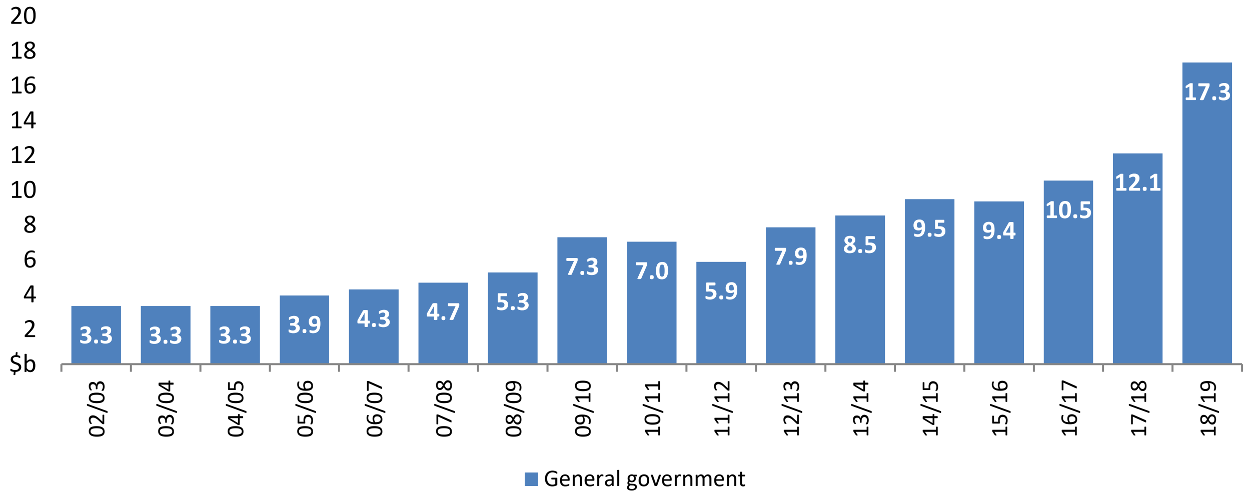
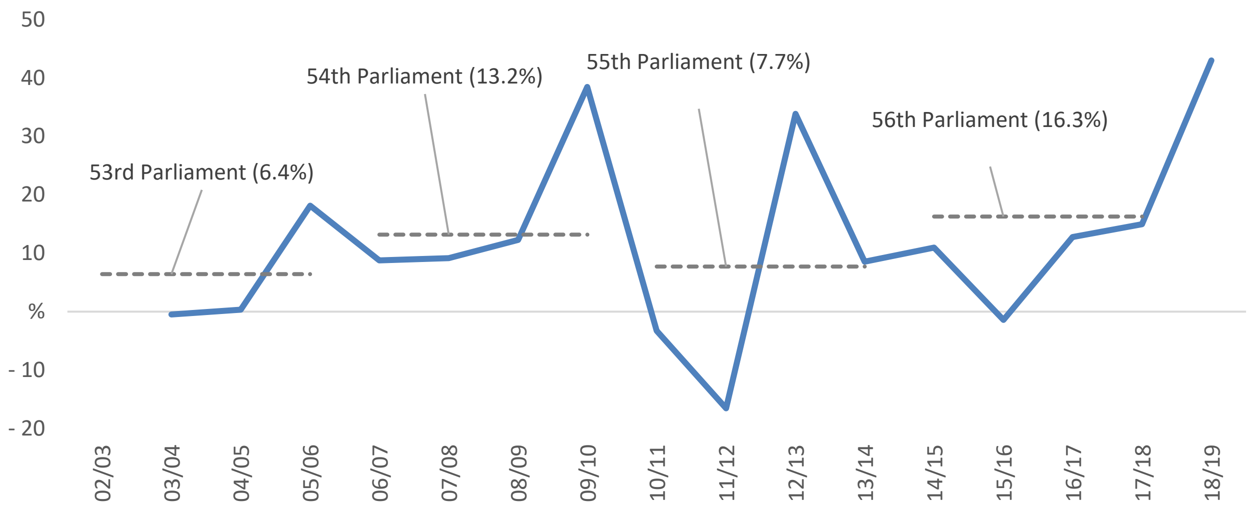


Figure 5.2 Annual growth in capital expenditure



[8] NSW Budget Papers 2018-19, *Budget Statement*, p F-1, Glossary.

5.2 Capital expenditure by policy area

Transport and communications has had the largest share of the capital program over the time period. In 2018-19, it has been allocated $9.8 billion, or 57% of the total capital budget (up from 42% in 2002-03). In 2018-19, **health** was allocated the second largest share of the capital program: $2.2 billion or 13% (down from 17% in 2002-03). **Education** has the third largest share in 2018-19: $1.8 billion or 10% (down from 14% in 2002-03).

Figure 5.3 Capital expenditure by policy area ($b)

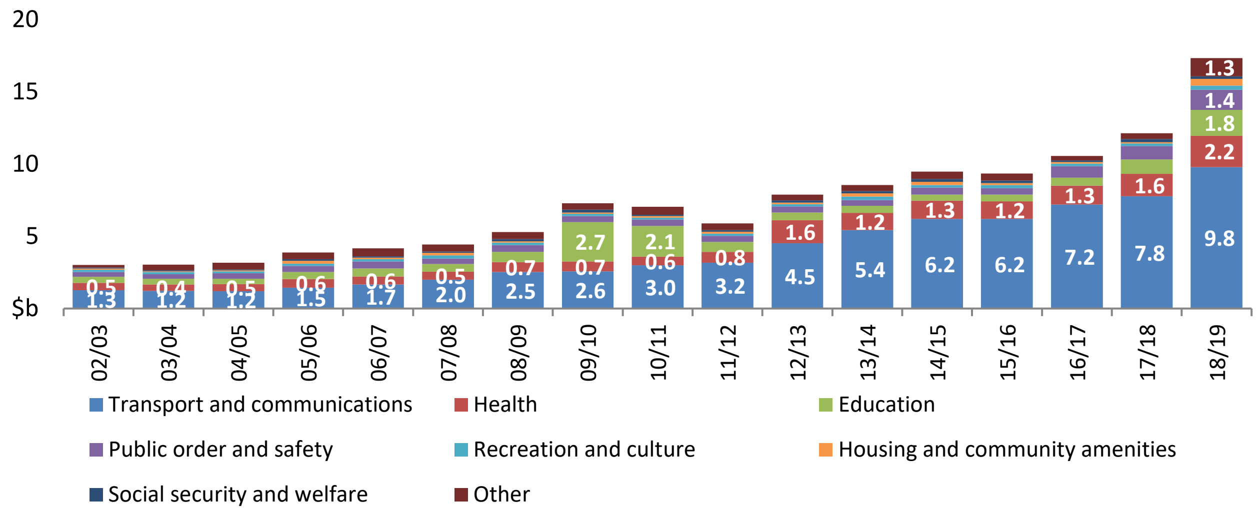
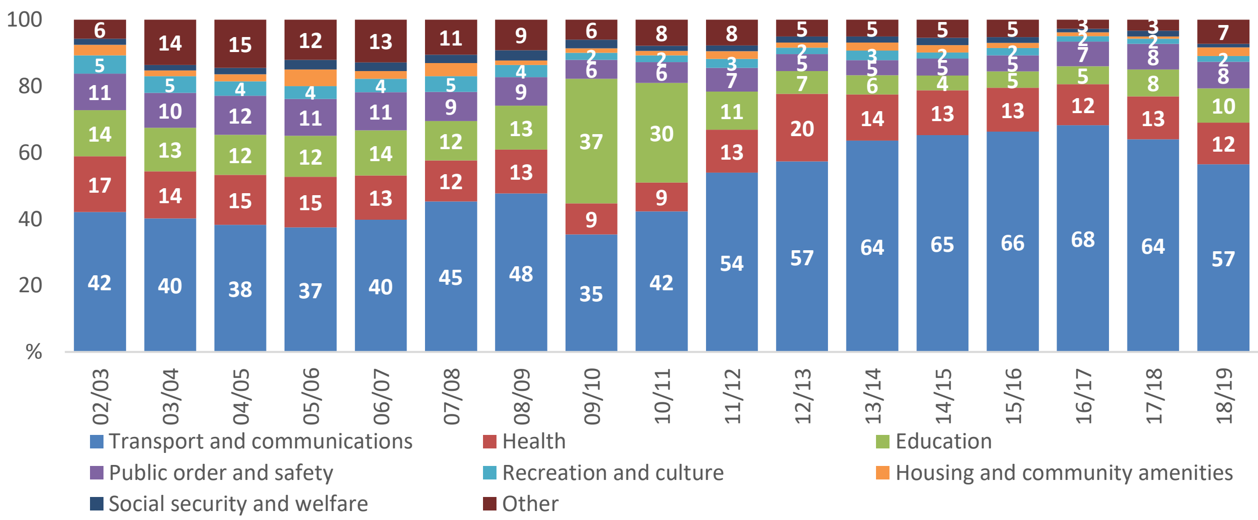


Figure 5.4 Capital expenditure by policy area (%)



Note: The figures for the years prior to 2008-09 do not include assets acquired under finance leases (in 2018-19, a total of $1.9 billion of assets will be acquired under finance leases; these all fall within 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. In 2018-19, net worth is projected to be $270 billion. This represents a 6.3% increase on 2017-18.

Figure 6.1 Net worth

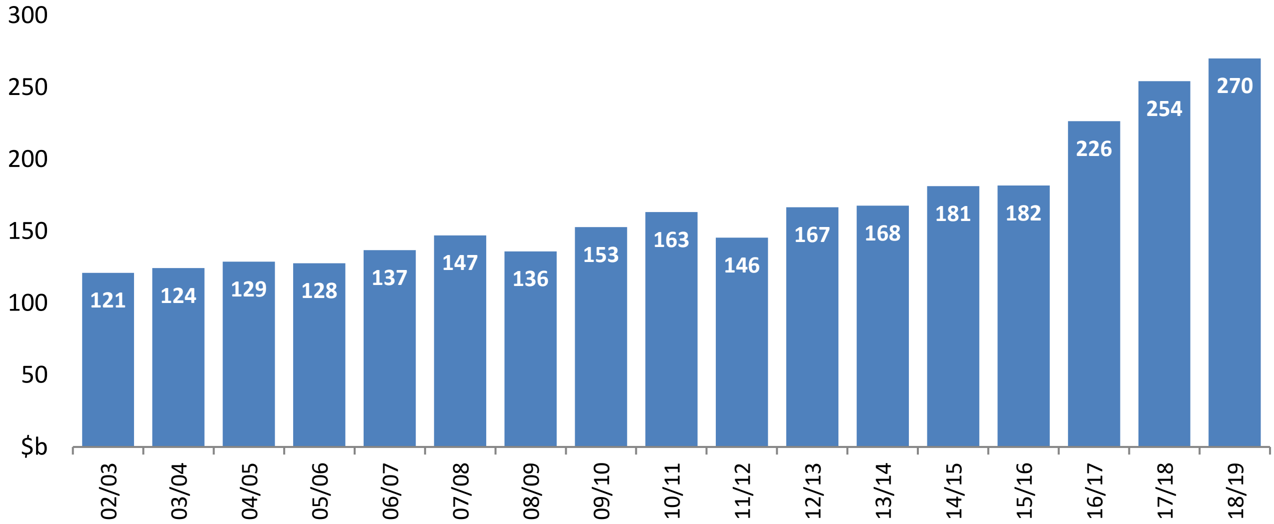
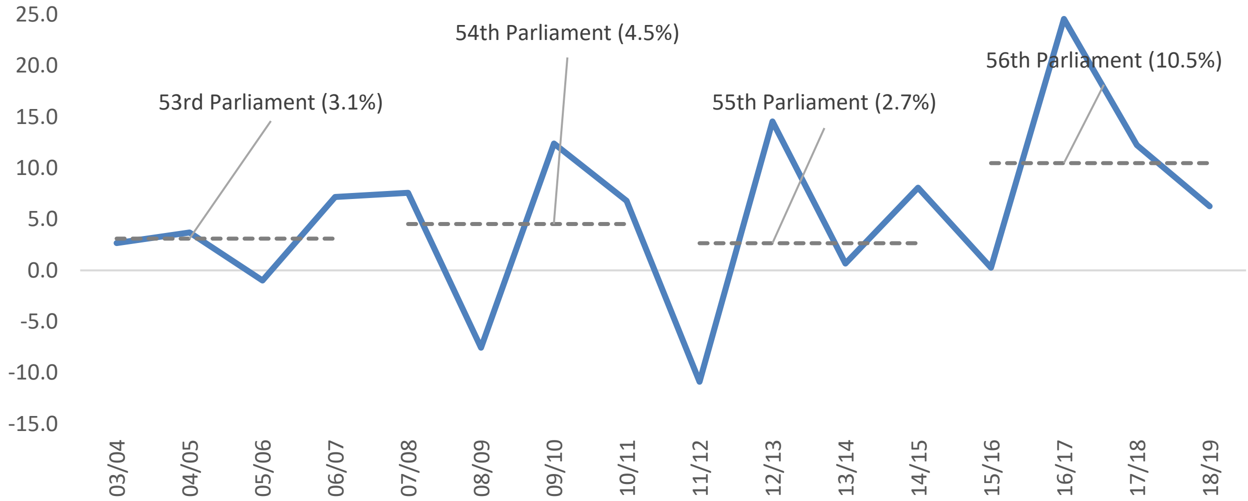


Figure 6.2 Annual growth in net worth



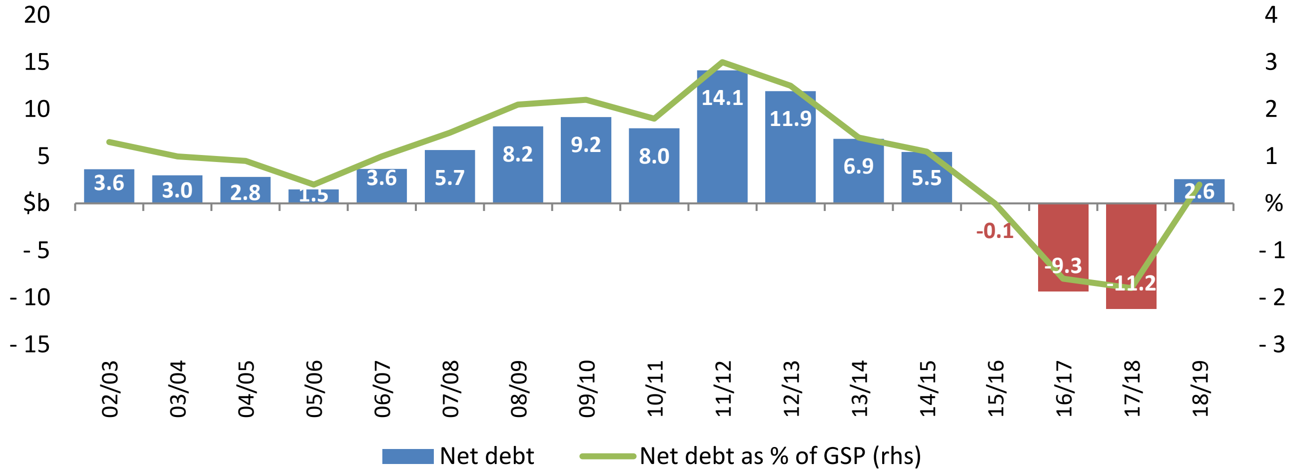
6.2 Net debt and net financial liabilities

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). Net debt is forecast to be $2.6 billion in 2018-19. This represents 0.4% of Gross State Product (GSP), down from 1.3% of GSP in 2002-03. The 2015-16 *Budget Statement* noted (p5-32) that fluctuations in net debt since 2011:

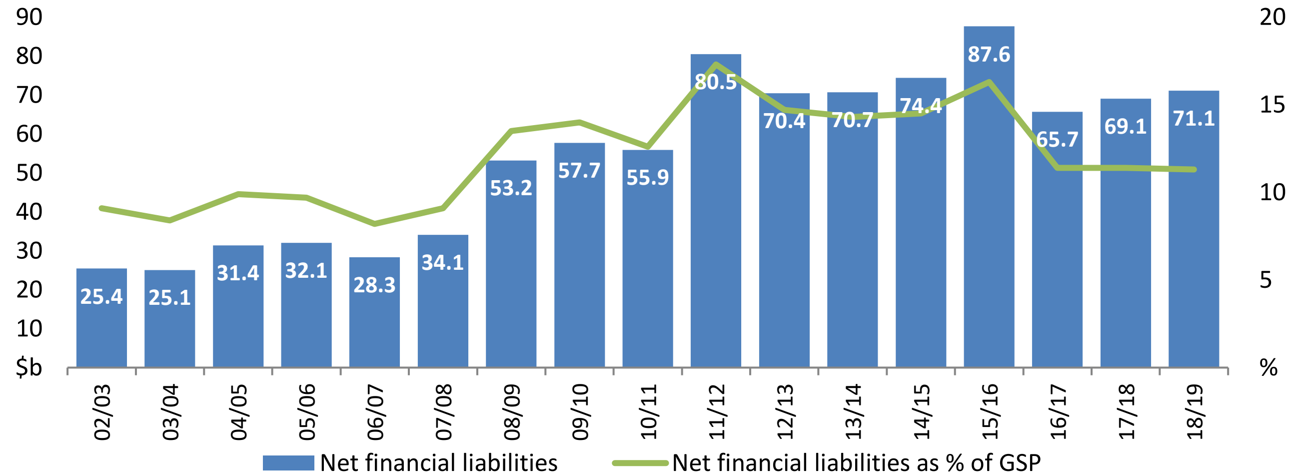
> … can be primarily explained through changes in cash levels as a result of sales and leases of the State's assets including for asset recycling initiatives. When proceeds from the sale or lease of assets are received, cash increases and net debt falls. When these funds are recycled into productive uses, cash and net debt return to previous levels.[9]

Figure 6.3 Net debt



Net financial liabilities are total liabilities (financial liabilities plus unfunded superannuation and other employee provisions, insurance obligations and other liabilities) less financial assets. Net financial liabilities are forecast to be $71 billion in 2018-19, or 11.3% of GSP (up from 9.1% of GSP in 2002-03).

Figure 6.4 Net financial liabilities



[9] NSW Budget Papers 2015-16, *Budget Statement*, p 5-32.

6.3 Liabilities by type

In the general government sector, total liabilities are projected to be $120 billion in 2018-19, a 7.6% decrease from 2017-18. **Superannuation provisions** are the largest category of liabilities, comprising an estimated $45.6 billion or 38% in 2018-19 (up from 29% in 2006-07). Superannuation liabilities relate to defined benefit schemes that were previously available to government employees. One of two fiscal targets in the *Fiscal Responsibility Act 2012* is to eliminate superannuation liabilities by 2030. The 2018-19 budget papers state that the Government remains committed to meeting this target:

> To achieve this, the Government's long-term funding program involves contributing $1.6 billion in the 2018-19 financial year towards funding the liabilities, with this amount to increase at a rate of five per cent per annum until 2030.[10]

Figure 6.5 Liabilities by type ($b)

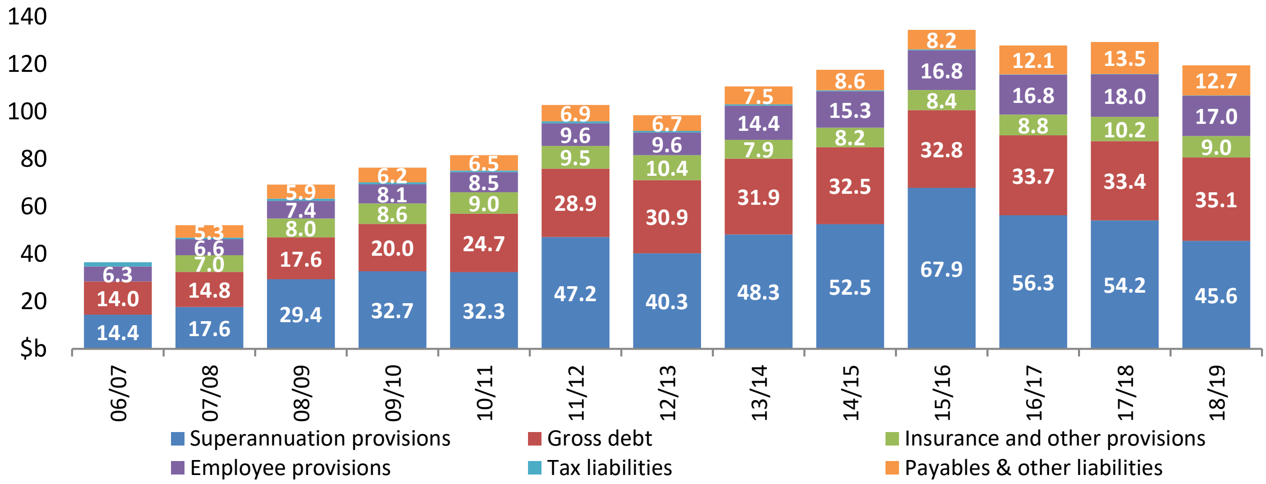
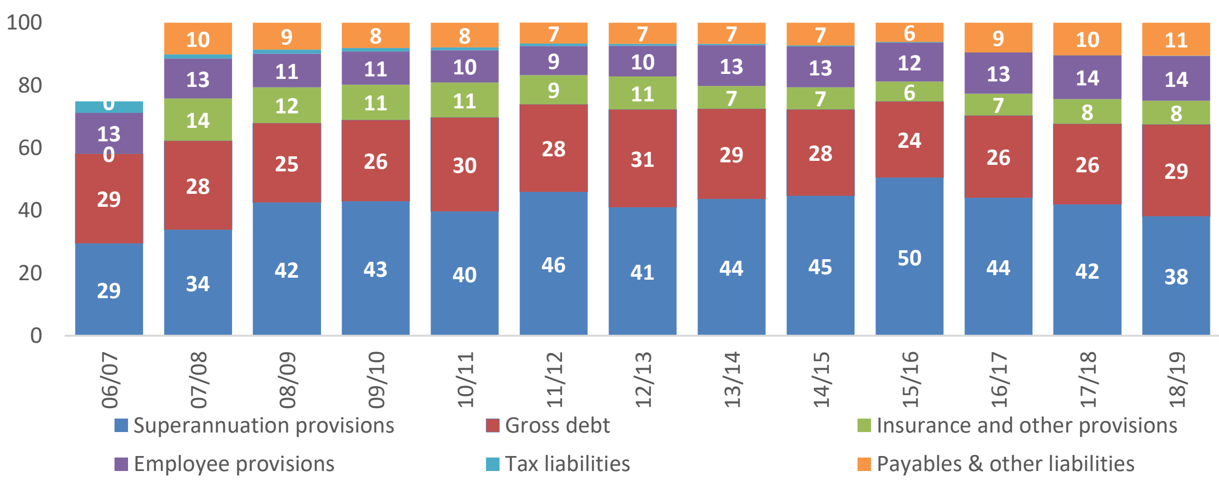


Figure 6.6 Liabilities by type (%)



Note: Comparable figures were not available for all the years between 2002/03 and 2005/06. Note also that

[10] NSW Budget Papers 2018-19, *Budget Statement*, p 7-9.

not all of the same categories were reported for 2006-07 as for subsequent years.

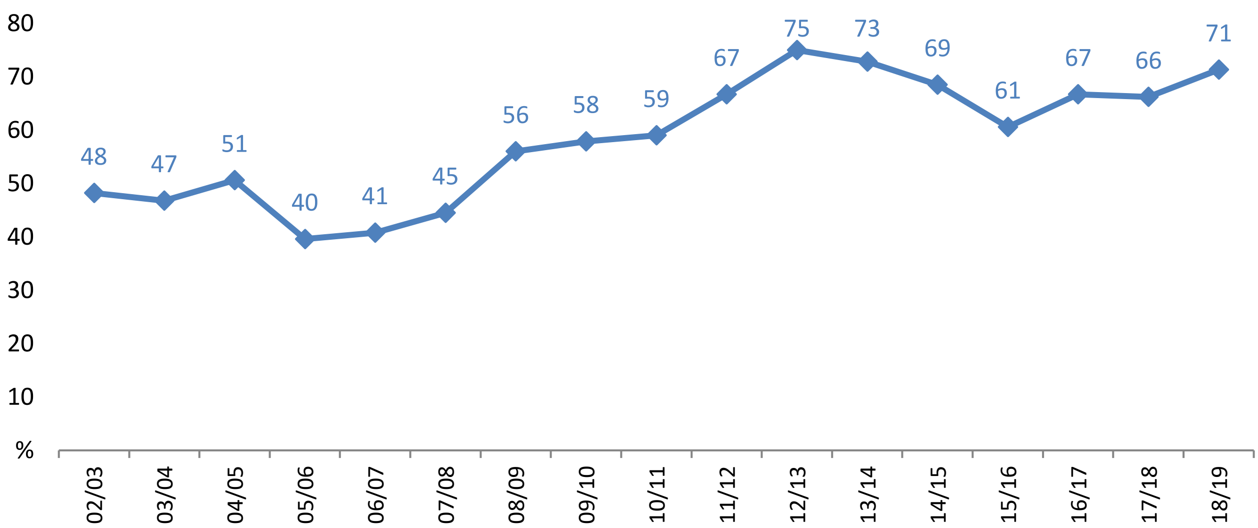
7. CREDIT RATING METRICS

The NSW Government's creditworthiness has for many years been rated by two rating agencies: Moody's; and Standard and Poor's. NSW has consistently held a AAA rating, the highest available rating. The AAA rating helps to limit the NSW Government's cost of borrowing. The credit rating history and process is discussed in the *NSW Financial Audit 2011*.[11] The 2011 Audit noted that the rating agencies conduct annual reviews, considering a range of factors including the economy, financial management, and debt profile. Each agency places special emphasis on certain key 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* noted that Moody's "has said informally that the NSW ratio should not be allowed to exceed 60-70 percent".[12] This metric has increased since 2015-16 and is projected to be 71% in 2018-19. In September 2018, Moody's confirmed the State's AAA rating.[13]

Figure 7.1 Moody's credit metric



7.2 Standard and Poor's

Standard and Poor's (S&P) has two key metrics:

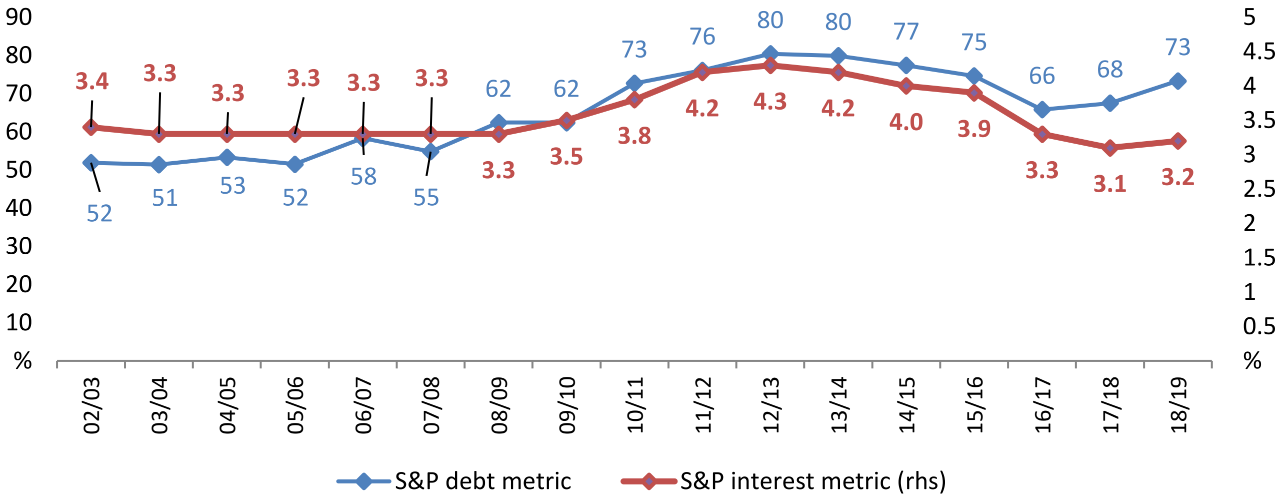
- **Debt metric:** Gross debt in the non-financial public sector/operating receipts in the non-financial public sector; and

[11] *NSW Financial Audit 2011*, p 1-33ff.
[12] *NSW Financial Audit 2011*, p 1-38.
[13] Perrottet D, *NSW economy given seal of approval with triple-A rating*, Media Release, 27 September 2018.

- **Interest metric**: Gross interest paid in the non-financial public sector/operating receipts in the non-financial public sector.

It appears that S&P has set maximum levels for these metrics, namely 120% for the debt metric and 5% for the interest metric.[14] In 2018-19, the **debt metric** is projected to be 73% and the **interest metric** is projected to be 3.2%. In September 2018, S&P confirmed the State's AAA rating, and updated the outlook from negative to stable.[15]

Figure 7.2 S&P credit metrics



[14] Standard and Poor's, *NSW credit opinion*, Media release,15 October 2014.
[15] Perrottet D, *NSW economy given seal of approval with triple-A rating*, Media Release, 27 September 2018.