E. PERFORMANCE AND REPORTING UNDER THE FISCAL RESPONSIBILITY ACT

The *Fiscal Responsibility Act 2012* (FRA) requires the Government to report on performance against the FRA's object, targets and principles as part of the budget papers.

The FRA sets the policy objective of maintaining the State's triple-A credit rating. To this end, it commits the Government to meet two fiscal targets and follow three principles of sound financial management (see Table E.1).

Table E.1: Fiscal Responsibility Act – object, targets and principles

Object	Fiscal targets	Fiscal principles
Maintain the triple-A credit rating	Expense growth kept below long-term average revenue growth	Responsible and sustainable spending, taxation and infrastructure investment • aligning general government revenue and expense growth • stable and predictable taxation policies • investment in infrastructure that has the highest benefit for the community
		Effective financial and asset policies: • performance management and reporting • asset maintenance and enhancement • funding decisions • risk management practices
	Eliminate unfunded superannuation liabilities by 2030	Achieving intergenerational equity • policy to have regard for its effects on future generations • the current generation to fund the cost of its services

Performance

Performance against the object

New South Wales has maintained the State's triple-A credit rating, meeting the object of the FRA.

The triple-A rating was reaffirmed by S&P (Standard & Poor's – S&P Global Ratings) in September 2017 and by Moody's (Moody's Investors Service) in October 2017.

As a sub-sovereign, the ratings for states and territories are capped by the rating on the sovereign. Accordingly, following S&P's decision to place Australia on negative outlook in July 2016, S&P have kept New South Wales, Victoria and the Australian Capital Territory on negative outlook. Should the Australian Government be downgraded, the New South Wales Government will continue to manage the State's fiscal position in line with a triple-A credit rating.

New South Wales is one of only five states or provinces outside the United States holding a triple-A credit rating from both Moody's and S&P (refer Table E.2).

Table E.2: New South Wales is one of five states rated triple-A by Moody's and S&P

Moody's	Standard & Poor's
New South Wales	New South Wales
Victoria	Victoria
Baden-Wuerttemberg (DE)	Australian Capital Territory
Bavaria (DE)	British Columbia (CA)
Brandenburg (DE)	Baden-Wuerttemberg (DE)
Saskatchewan (CA)	Bavaria (DE)
British Columbia (CA)	Saxony (DE)
	Aargau (CH)
	Vaud (CH)
	Zurich (CH)

Note: shows states and provinces
Abbreviations: CA (Canada), CH (Switzerland) and DE (Germany)

Chart E1: New South Wales has the highest ratings possible in Australia

Performance against FRA targets and principles

The *Fiscal Responsibility Act 2012* sets out two fiscal targets and three principles of sound financial management to help support the object of the Act, as described in Table E.1.

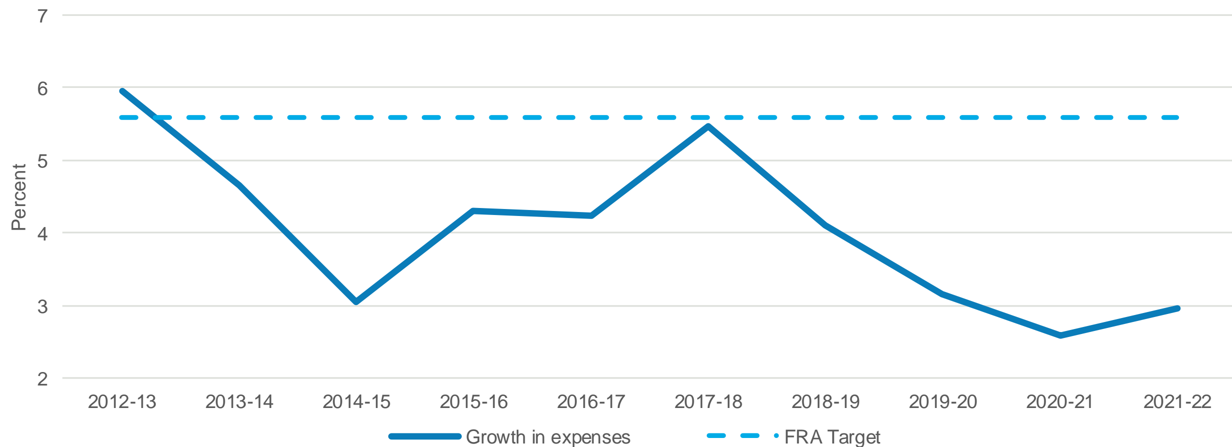
Target 1 – Expense growth to not exceed long-run revenue growth

The specific limit on annual expense growth (set by *Fiscal Responsibility Regulation 2013*) is 5.6 per cent.

This limit has been enforced through tight control over new expense proposals, a legislated wage policy limiting employee cost growth to 2.5 per cent, and annual savings targets.

Tight spending controls have succeeded in holding expense growth below the target limit across the first five years of the FRA and will continue to do so over the four years of this Budget (as shown in Chart E2).

Chart E2: Expense growth and target



Target 2 – Eliminating unfunded super liabilities by 2030

The Government is required to fully fund all the State's superannuation liabilities by 2030. To achieve this, the funding plan needs to respond to fluctuations in the discount rate used to determine the liability, and the market performance of the offsetting financial assets. The Government, assisted by actuarial advisors, closely monitors the funding program to ensure the progressive elimination of this liability before the 2030 deadline. The next triennial review commences later in 2018.

Total state unfunded super liabilities have been reduced from $71.2 billion at June 2016 to an estimated $51.6 billion at June 2018. They are projected to decline to $37.8 billion at June 2022 – and zero at June 2030 (see Chapter 7 of this *Budget Statement* for a detailed analysis).

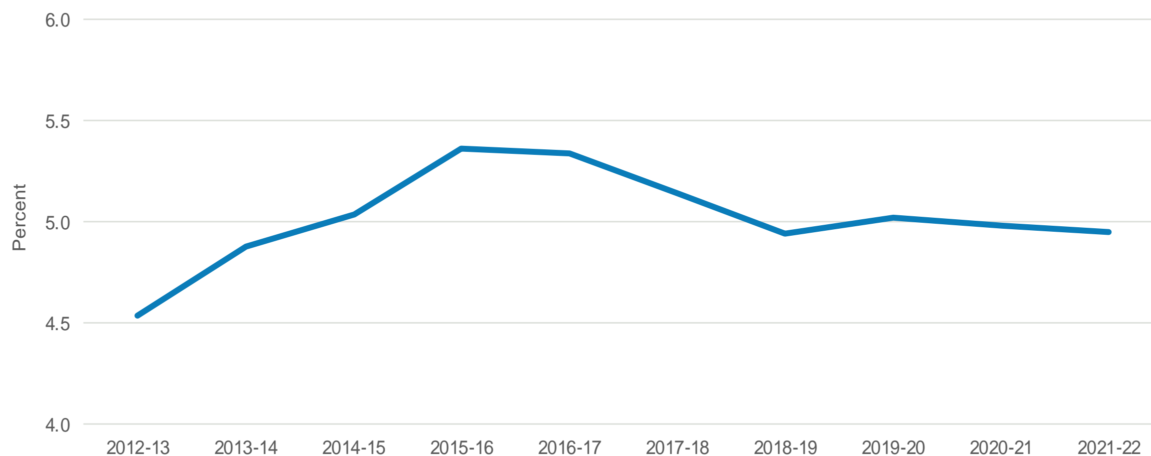
Principle 1 – Responsible and sustainable spending, taxation and infrastructure investment

This calls for a strong and sustainable fiscal position, shown by an operating position appropriate for current conditions, and debt that can be sustainably managed while providing recurrent services and infrastructure investment.

Responsible and sustainable spending will be reflected in the alignment of revenue and expense growth. This is supported by FRA Target 1 that requires keeping expense growth below the long-term revenue growth rate of 5.6 per cent.

State taxation has remained stable and low, with the ratio of tax receipts to GSP declining from 5.4 per cent in 2015-16 to a projected 4.9 per cent in 2018-19, and remaining around that ratio across the forward years of this Budget (as shown in Chart E3).

Chart E3: Taxation revenue, ratio to GSP



The Government has maintained a record program of public infrastructure investment. Total investment by the non-financial public sector (NFPS) as a share of GSP increased to 3.2 per cent in 2016-17 and is projected to rise to 3.9 per cent in 2018-19, with a moderation in the forward years of the budget.

The sustainability of this investment has been maintained by financing it through current budget surpluses and proceeds from the asset recycling program to the extent possible, which have moderated the need for additional debt.

Principle 2 – Effective financial and asset management policies

The policies targeted under this principle include performance management and reporting, asset maintenance and enhancement, funding decisions and risk management practices.

The State's balance sheet management, funding decisions and risk management continued to be strengthened by the Government's Assets and Liabilities Committee (ALCO).

This included important work to improve cash management and the management of the State's asset and liability portfolios (see Chapter 7 of this *Budget Statement*).

Financial management improvement took further steps forward in 2017-18 with:

- the passage of the *Government Sector Finance Act 2018* which modernises financial structures, principles, guidelines and controls across the entire public sector
- establishment of the NSW Generations Fund (refer Chapter 7)
- strengthened reporting and management of contingent assets and liabilities.

Principle 3 – Progress in achieving intergenerational equity

The FRA commits the Government to ensure that policy decisions are made having regard to their financial effects on future generations; and the current generation funds the cost of its services.

Each budget reports the impact of its measures on the long-term fiscal gap, which is a summary indicator of the budget's financial effect on future generations.[1] The *2016 Intergenerational Report* highlighted the impact on ageing on the demand for government services and infrastructure. If current trends continue, a widening fiscal gap will emerge between state government revenues and service and infrastructure requirements. At the time of the 2016-17 Budget, the gap was projected to be 3.4 per cent of GSP by 2055-56.

There is no change to the fiscal gap as a result of measures in this Budget. Revenue measures, such as raising the payroll tax threshold and the introduction of the point of consumption tax, are offset by expense measures, primarily efficiency dividends. Changes in the profile of capital expenditure have no material impact on the fiscal gap to 2055-56. Projects funded from asset recycling are excluded, as these represent a reallocation of capital rather than additional spending.

The impact of budget measures on the long-term fiscal gap was estimated to be 0.1 per cent in 2015-16, nil in 2016-17, 0.1 per cent in 2017-18 and no change for 2018-19. This shows that prudent budget management continues to be effective in limiting the financial burden shifted to future taxpayers.

[1] The fiscal gap is the difference between the base period primary balance as a share of gross state product (GSP) and the primary balance as a share of GSP at the end of the projection period, on a no policy change basis. The primary balance is the gap between spending and revenue excluding interest transactions but including net capital expenditure. A positive gap implies that fiscal pressures will be building over the projection period.