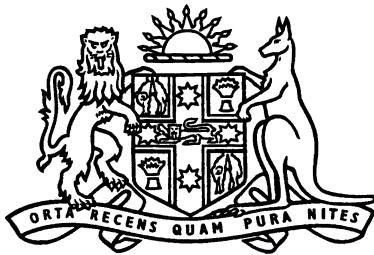


Budget Statement

2001-02



New South Wales

Budget Paper No. 2

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CHAPTER 1: OVERVIEW OF STRATEGIC DIRECTION AND ENVIRONMENT

- ◆ The 2001-02 NSW Budget reduces the State's overall tax burden, targets the continuing provision of essential services and maintains the State's strong financial position.
- ◆ The Budget provides for a Budget surplus of \$368 million in 2001-02, and projects further surpluses in each of the three years to 2004-05. Consistent with the Government's fiscal strategy, these surpluses will be used to reduce the General Government Sector's Net Financial Liabilities from an estimated \$22,481 million at 30 June 2001 to \$21,272 million by 30 June 2005. This follows the \$6,456 million reduction in Net Financial Liabilities achieved over the four years to 30 June 2001.
- ◆ Through continuing to strengthen the balance sheet in this way, the Government is ensuring that the people of New South Wales are able to afford high quality services in 2001-02 and beyond. Expenditure priorities combine ongoing and new measures focused on key service delivery areas, including education, public transport, health, law and order, the environment and natural resources.
- ◆ Building on the tax reduction initiatives commenced in the 1999-2000 Budget, the rate of payroll tax will be reduced further from 6.2 percent to 6.0 percent from 1 July 2002 at a full year cost of \$142 million.
- ◆ This Budget also introduces a package of tax measures that abolishes debits tax, suspends the electricity distributors levy, reduces lease duty and hiring arrangements duty, and abolishes duty on instruments relating to superannuation. The total full-year impact of new tax reduction measures in this Budget is \$421 million. This is offset by the recently announced introduction of the Insurance Protection Tax to raise \$69 million per year to help finance the Policyholders Protection Fund.
- ◆ Economic growth prospects in 2001-02 are expected to improve on 2000-01. The economic fundamentals in New South Wales remain strong. Economic growth is expected to average close to 3 percent per annum over the budget estimates period, and the State's employment is expected to continue to grow at an average rate of about 1 percent per annum.

1.1 REVIEW OF GOVERNMENT'S POLICY PRIORITIES

GOVERNMENT POLICY PRIORITIES

Expenditure patterns in the 2001-02 Budget reflect the Government's priority of adequately supporting both essential ongoing programs and important new initiatives, which are summarised in the remainder of this section. Chapter 4 provides further details on future priority measures in the 2001-02 Budget by policy area. Details of the programs to be undertaken by each General Government agency are contained in Budget Paper No 3 (*Budget Estimates*) and Budget Paper No 4 (*State Asset Acquisition Program*).

In line with the Government's overall economic and fiscal strategy, key policy priorities for the 2001-02 Budget are:

- ◆ ensuring that New South Wales remains the engine room of the Australian economy, including implementation of the *Beyond 2000* jobs strategy;
- ◆ recognising the requirements of rural and regional New South Wales by supporting these areas to fully realise their potential;
- ◆ building the foundations for strong, healthy and well-educated communities;
- ◆ achieving a sustainable natural environment through measures to address air and water quality, including initiatives to address the growing salinity problem;
- ◆ focusing on major transport initiatives which improve the safety and reliability of public transport services, including new rolling stock and infrastructure upgrading for rail; and upgrading of key segments of the road network to provide for fast-growing demand;
- ◆ creating a safer State through smarter policing, encouraging local solutions to crime, and continuing the battle against drug use;
- ◆ undertaking a program of major capital works to underpin the delivery of essential services including school education, health and public safety; and
- ◆ providing an industrial relations regime that appropriately balances the interests of employers and workers, recognising the need to support the competitiveness of NSW business while also making New South Wales an attractive State in which to live and work.

FINANCIAL PERFORMANCE

The NSW Budget is based on a strong commitment to responsible financial management. This commitment is essential to mitigate the shorter term fiscal risks to service delivery associated with fluctuations in economic conditions, and the risks from demographic and social pressures that are emerging over longer periods.

Keeping NSW finances strong helps to ensure that this and future Governments will be able to continue to address the growing demands for high quality public services. The key features of New South Wales' financial management strategy are legislated in the *General Government Debt Elimination Act 1995* and have been set out more expansively in previous years' Budget Papers.

New South Wales' strong economic performance has assisted the achievement of Budget cash surpluses in the last five years. These surpluses are striking in an historical context, only two surpluses having been achieved between 1961 and 1995 as shown in Chart 1.1 later in this chapter. These results were achieved at the same time that the Government implemented a comprehensive program of tax reductions and hosted the 2000 Olympics.

New South Wales retains a AAA credit rating. In reaffirming its AAA rating for New South Wales this year, the ratings agency Standard and Poors stated,

"Fiscal performance in recent years has been very strong with five consecutive public sector cash surpluses.....financing the Olympic Games within these budget surpluses was a major achievement".

The soundness of NSW fiscal fundamentals holds the State in good stead at a time of uncertainty about the global economic outlook. While the most likely outcome is for economic growth to start to pick up over the next few quarters providing for a Budget surplus of \$368 million in 2001-02, a more sober outcome can be accommodated without harsh policy reactions being required.

Section 1.2 provides further details on financial performance and progress against fiscal targets and principles underpinning the State's medium term fiscal strategy, while section 1.3 provides details on recent economic performance and the economic outlook for the forward estimates period.

A separate Budget Guide which accompanies these Budget Papers provides additional information on various Budget operating results and measures of the State's financial performance.

NEW SOUTH WALES REMAINS THE ENGINE ROOM OF THE AUSTRALIAN ECONOMY

The Government's key strategies to ensure that New South Wales remains the engine room of the Australian economy include:

Maintaining a good environment for business

- ◆ Continuing the implementation of a comprehensive tax reduction program commenced in the 1999-2000 Budget, which will help ensure that New South Wales remains a preferred destination for business investment. This Budget introduces further tax cuts and implements previous tax reduction commitments.
- ◆ As part of the measures announced in the 1999-2000 Budget, the payroll tax rate will be reduced from 6.2 percent to 6.0 percent from 1 July 2002 at a cost of \$142 million in a full year.
- ◆ New tax reduction measures to benefit businesses in the 2001-02 Budget worth \$421 million a year include the abolition of debits tax (provided that the Commonwealth agrees to New South Wales not being penalised under national tax reform arrangements) and duty on instruments relating to superannuation; the suspension of the electricity distributors levy; and greatly increased thresholds for lease duty and hiring arrangements duty.
- ◆ These measures are in addition to about \$1,100 million worth of State taxes to be abolished from 1 July 2001 as part of the tax reform program agreed between the Commonwealth and States and Territories in 1999.
- ◆ Continuing reforms in the water, electricity and gas sectors to promote competition, complemented by the process of review and reform of anti-competitive legislation.
- ◆ Capitalising on the international exposure the 2000 Olympics gave New South Wales to promote the State as a modern, dynamic and high-technology economy as well as a highly attractive tourist destination.
- ◆ Maintaining the State's AAA credit rating, keeping debt at sustainable levels and maintaining a tax regime which provides reasonable predictability and stability of tax rates.

- ◆ Re-invigorating the public education system so that young people can take up the opportunities of a diverse economy through, among other things, a broad and responsive curriculum, new multi-campus arrangements, and integration of information technology into more aspects of teaching and learning.

Making it easier for business to deal with Government

As part of the initiative to further advance e-government, transactions between the private sector and the Government will be made easier through the investment of \$79 million in a package of measures, including the following:

- ◆ Replacement of the current licensing system, where several Government agencies administer some 20 licences, with a single entry point for electronic licensing by all major agencies. This is expected to be completed by June 2003.
- ◆ A single internet point for lodging court documents electronically and land title related inquiries will be available by the end of the fiscal year, allowing the lodging of application forms, development applications, affidavits and expert reports. Court decisions on all criminal and some civil matters will also be available through the internet.
- ◆ Businesses will be able to submit their annual payroll tax returns over the internet from July 2001.
- ◆ Lawyers and conveyancers will be able to pay stamp duty for property purchases, mortgages and leases online by early 2002.
- ◆ Planning information on the industrial and commercial development of land in Newcastle, Wollongong and the Central Coast will become available online during the year, expanding the current service beyond Sydney.

Creating jobs, improving the workplace and minimising economic dislocation

- ◆ The Government will continue to implement, in partnership with the private sector, its *Beyond 2000* jobs strategy introduced in 1999-2000. The strategy aims to create 200,000 jobs by 2003, and includes construction, infrastructure and forestry projects worth over \$25,000 million. The strategy contains a number of regional infrastructure projects representing more than \$10,000 million in new investment for regional New South Wales.

- ◆ The Government is on track to achieve its jobs target. Between March 1999 and April 2001, employment in New South Wales increased by over 150,000. New capital works projects should sustain an average of 6,000 construction jobs each year for the next four years.
- ◆ The Government is committed to helping minimise economic dislocation during times of difficulty. Examples of this include:
 - One-off assistance to farmers and small businesses in flood-affected areas, including increases in low interest loans as well as lengthening the interest free period from one to two years for new loans. This will now be a permanent part of future responses to natural disasters.
 - New South Wales is currently working with other States and the Commonwealth to deal with the consequences of the collapse of HIH Insurance. Provision is made in the 2001-02 Budget for an additional \$600 million in General Government expense in 2000-01, of which \$50 million will be absorbed and the remainder funded by the recently announced introduction of an Insurance Protection Tax. Further details of the impact of HIH Insurance related measures on the NSW Budget and forward estimates are provided in Chapter 2.
- ◆ In the work place, the Government is pursuing a number of measures, including legislating a code of conduct for the clothing industry; amending the *Industrial Relations Act 1996* to allow the recovery of unpaid wages; retraining workers to improve job choices; and negotiating with the Commonwealth for a national scheme protecting workers' entitlements. A new public sector management and employment framework will be introduced to ensure the continued delivery of public services in the most efficient manner.

DEVELOPING RURAL AND REGIONAL NEW SOUTH WALES

The NSW Government recognises the strengths and opportunities, and also the difficulties facing rural and regional New South Wales. Regional New South Wales makes a key contribution to the State economy, while significant economic, social and environmental stress is being experienced by some communities with specific needs in relation to access to social and economic infrastructure.

A separate Budget Paper on regional budget highlights provides further details on rural and regional initiatives. Sector-specific priorities for health, education, social welfare, transport, law and order and the environment are summarised below.

Service Access Measures

The Government is pursuing improvements to service access for rural and regional New South Wales. These generally take a whole-of-government approach to service delivery, in many cases supported by advanced communication technologies, and include the following:

- ◆ An additional 38 Government Access Centres - one-stop shops for local, state and federal services - will be opened in small country towns across New South Wales following the successful opening of seven such centres on a pilot basis.

These centres provide consumer protection services and facilitate driver's licence renewals, provision of boating and fishing licences, car registration and birth certificates. Three centres will be opened in 2001-02 with a commitment of \$1.8 million, and the remainder will be open by June 2003.

- ◆ Regional Service Delivery Plans jointly formulated by various Government agencies in each region to make coordinated decisions about that region's service provision.
- ◆ Continued implementation of the *connect.nsw* project which uses information technology and the internet to improve Government service provision, particularly for cross-Government IT projects.

Service Delivery Measures

The 2001-02 Budget includes continuing and new initiatives that specifically benefit regional and rural New South Wales including:

- ◆ An additional \$45 million (an increase of 28.6 percent) will be allocated for mental health services, and dental funding for pensioners and disadvantaged people will be increased by an average 28.9 percent, as part of the rural health initiatives over the first three years of the Government Action Plan for Health;
- ◆ Additional caseworkers for frontline child protection, and specialist training positions will be allocated in rural and regional areas to assist frontline workers providing welfare services;

- ◆ The proportion of funding for the arts going to the regions will be increased, including the rebuilding and modernisation of 28 arts buildings in country New South Wales, \$1.5 million for regional music centres and \$500,000 to shift film-making from the city to country towns;
- ◆ One-stop shops will be established to deliver natural resource programs involving seven separate agencies. For example, a farmer seeking advice on salinity will be able to obtain all relevant NSW Government services (land, water, forestry and farm assistance) from a single access point; and
- ◆ Continuing support will be provided for programs that attract and strengthen the existing jobs base in regional and rural New South Wales, including the Regional Business Development Scheme, the Regional Economic Transition Scheme, the Country Lifestyles Program, the Hunter Advantage Fund and the Illawarra Advantage Fund.

Decentralising jobs

The Government will continue to decentralise Government jobs where feasible. During 2001-02 and 2002-03, more than 1,000 Government jobs are expected to be created or relocated to country New South Wales.

Some key Government operations have been relocated outside the Sydney metropolitan area. Relocation of operations to generate jobs and improve service access will continue to be undertaken where feasible. Some examples of relocations include:

- ◆ Superannuation Administration Corporation to Wollongong, to be completed in 2001-02 (involving approximately 350 employees);
- ◆ WorkCover Authority to Gosford in early 2002. This is the largest relocation of a State Government organisation (approximately 400 employees) to regional New South Wales in over 30 years;
- ◆ Smaller-scale relocations include a Police Firearms Registry in Murwillumbah (50 jobs created in the Far North Coast) and a Native Vegetation Unit in Wellington (24 jobs created in the Central West).

Rural and Regional Infrastructure

The Government is committed to maintaining and enhancing rural and regional infrastructure. The 2001-02 Budget includes the following measures:

- ◆ Upgrade of acute mental health, oncology, orthopaedics and renal services at rural base and referral hospitals; funding for rural information technology infrastructure within rural and regional hospitals; and provision to redevelop 34 small rural health facilities over the next three years, with construction to commence on 19 facilities in rural and remote communities during 2001-02;
- ◆ New capital works initiatives for both schools and TAFE in rural and regional New South Wales total almost \$25 million. Key projects for schools include Mullumbimby High School, Dubbo Multi-Campus College, Great Lakes College and Merimbula Public School; and for TAFE, refurbishment of Albury TAFE Campus, an Aboriginal Development Centre at Dubbo TAFE Campus, and a building and construction industry work area at Tamworth TAFE Campus;
- ◆ New rail passenger carriages and other equipment upgrades in the Hunter region and for intercity routes from the Central Coast, the Blue Mountains and Illawarra; and
- ◆ An additional \$60 million to be spent over the four years to 2004-05 under the Country Towns Water Supply and Sewerage Program. A total of \$66.8 million will be provided under the Program in 2001-02.

PROVIDING THE BEST POSSIBLE EDUCATION OPPORTUNITIES

The NSW Government is committed to providing children with the best possible school education, giving children a fair start in their preparation for life and work. Beyond high school, the Government is committed to ensuring that students have access to training which will help them to build the essential skills required for the workplace throughout their working lives.

Strategic directions for education supported in the 2001-02 Budget include:

- ◆ For Schools, continuation of the State Literacy and Numeracy Plan; more intensive use of computers as learning aids, with ongoing replacement of 90,000 computers through leasing arrangements and the acquisition of an additional 25,000 computers; better opportunities for teacher training in using new technology in the classroom; and key initiatives relating to:
 - the staged introduction of expanded internet services for students and teachers in Government schools and TAFE; and
 - the introduction of Computing Skills Assessment tests for students in Years 6 and 10.

- ◆ For Technical and Further Education services, support will continue to be provided for TAFE scholarships and students at risk programs; ongoing development of partnerships between TAFE NSW and industry to deliver flexible and client-friendly training programs; and joint TAFE and schools initiatives particularly addressed to the needs of youth.
- ◆ A major statewide upgrade of the buildings, facilities and grounds of public schools will commence from 2001-02. The program includes the construction of 31 new schools; upgrades to classrooms, libraries and security at 1,000 public schools; improved facilities for students, teachers and school staff; and landscaping, new fencing and general improvements at older schools.

ADVANCING THE PUBLIC HEALTH SYSTEM

Developments within the NSW Health system are being driven by the Government Action Plan for Health, which implements the recommendations of the NSW Health Council and the Ministerial Advisory Council on Health Services in Smaller Towns.

Strategic directions for health services in the 2001-02 Budget include the following:

- ◆ Funding committed in 2000-01 to support reform initiatives under the Government Action Plan for Health, amounting to \$45 million per annum, is being used to reduce pressure on local emergency departments, to improve the care of patients with chronic cardiovascular, respiratory or cancer related illnesses and to enhance medical and surgical inpatient services.
- ◆ A total of \$7,770 million is committed to health services in 2001-02, 4.7 percent higher than in 2000-01, with additional growth funding to provide for: increases in medical and surgical procedures at hospitals throughout the State; additional intensive care beds; major redevelopment in the Tweed Valley; expansion of aged care, cardiac, palliative and respiratory rehabilitation and extended care services in the Mid North Coast; and increased outpatient procedures.

- ◆ The 2001-02 Budget provides \$1,980 million for health capital works over the next four years (\$529 million in 2001-02), with a guarantee to the Department of Health of \$480 million per year for four years to build and upgrade hospital services. A further \$49 million has been provided in 2001-02 to accelerate several key projects in the Government Action Plan for Health. Capital works funded in 2001-02 include construction or upgrading and redevelopment of facilities in metropolitan centres as well as significant investment in health facilities in regional and rural New South Wales.

SUPPORTING FAMILIES, CHILDREN AND THE DISADVANTAGED

The Government aims to provide high quality care and protection and to promote opportunities for those in vulnerable positions. This includes families, young people and children, frail older people, people with disabilities and their carers. In line with these objectives, the 2001-02 Budget continues to support the following strategic directions in respect of social welfare services:

- ◆ Early intervention and prevention programs through the extension of the *Families First* network across New South Wales by 2002-03;
- ◆ Continued implementation of the *Children and Young Persons (Care and Protection) Act 1998*;
- ◆ Ongoing review and reform of out-of-home care services, including improving the quality and capacity of services;
- ◆ Enhancement of the disability services system, including additional supported accommodation places; an immediate assistance pool for clients in crisis; local area coordination to improve response time and strengthen informal supports in the community; and the relocation of residents from large disability residential facilities;
- ◆ Growth funding for the Home and Community Care program;
- ◆ The development of a NSW Action Plan on Dementia; and
- ◆ Continuing support for the Assistance to Aborigines program and various concessions for transport, local council rates and electricity, water and sewerage.

IMPROVING THE QUALITY OF PUBLIC TRANSPORT

The Government aims to provide New South Wales with efficient and accessible transport infrastructure and services that support both the growth of the State's economy and improvements in the quality of life of NSW residents. The Government continues to implement reforms to achieve increased patronage of public transport and to make transport services more accessible, reliable and safe.

The Government's initiatives include *Action for Transport 2010*, a plan which aims to develop the State's transport links and support the goals of economic development and jobs, social justice, environmental protection and improved financial performance of Government.

The Plan includes a number of major road developments to support rural and regional industries and communities, as well as improvements in Western and North Western Sydney.

In addition to the broader and longer-term objectives of *Action for Transport 2010*, measures in the 2001-02 Budget continue enhancements in public transport safety and reliability initiated in 2000-01 under the rail improvement program.

Major initiatives are listed below:

- ◆ Commencement of construction of the Parramatta Rail Link, with expenditure of approximately \$145 million in 2001-02;
- ◆ Commissioning of the new Millennium Trains, with \$90 million to be spent in 2001-02;
- ◆ Measures to enhance rail safety and reliability. These include better track and carriage maintenance, refurbishment of older trains, and new signalling junctions and related safety measures, with an allocation of \$170 million in 2001-02;
- ◆ Measures to increase the capacity of the existing rail network through enhancement of the East Hills, Richmond and Dapto to Kiama lines and new turnback facilities, with projected spending of \$49 million in 2001-02;
- ◆ A major upgrade of station access, security and facilities across the rail network, with funding of \$60 million in 2001-02; and

- ◆ A major upgrading of Windsor Road to be completed in 2006 at a total cost of \$323 million (\$47 million in 2001-02). The upgrade will include an expansion of capacity to four lanes. Support will also be provided for other major road construction, some with Commonwealth funding.

PROTECTING THE COMMUNITY

The Government aims to better protect people and property by preventing, detecting and investigating crime, providing justice through the operation of the courts and minimising the impact of emergency incidents.

Most of the 2001-02 Budget allocation for public order and safety supports measures initiated in previous years. Significant activities in respect of law and order services include the following:

- ◆ The implementation of the next stage of the plan to increase the frontline strength of the Police Service by 2,110 officers in accordance with the Government's election commitment. This is being achieved by recruiting additional police officers and undertaking a range of measures to redirect existing police resources;
- ◆ Funding of \$6 million will be provided for improvements to the Police Service's Country Radio Communications Network, and almost \$18 million for the continuing development of various information technology applications within the Service;
- ◆ \$3.6 million will be made available to the Department of Juvenile Justice for various drug action initiatives, including diversionary counselling and group works program, drug rehabilitation program and Youth Drug Court;
- ◆ Additional funding of \$8 million will be provided in 2001-02 for the expansion of the Department of Corrective Services' correctional bed capacity to cope with the increase in inmate numbers arising from the increase in frontline police numbers;
- ◆ Capital works expenditure will include almost \$59 million in 2001-02 for the three new gaols under construction at Kempsey, Parklea and South Windsor;
- ◆ Construction will commence on a new Children's Courts complex at Parramatta (estimated total cost \$17.3 million) and a new Children's Court in the Hunter District at Worimi (estimated total cost \$6.5 million);

- ◆ \$18 million is being provided to the NSW Fire Brigades to purchase fire pumpers, aerial appliances and special appliances;
- ◆ A three-year program to refit Rural Fire Service vehicles with more sophisticated protection systems and fireproof blankets will continue in 2001-02 at a cost of \$5 million. In addition, funding of \$19.2 million will be provided in 2001-02 for improvements to the management arrangements of the service, resulting in the transfer of the employment of fire control officers from Local Councils to the State Government.

PRESERVING THE ENVIRONMENT

The Government is committed to preserving and protecting the natural environment. Strategies in the 2001-02 Budget combine new and ongoing initiatives, including the following:

- ◆ Testing of the carbon credit market, in line with the Government's carbon sinks 1998 legislation. Some 250,000 tonnes of carbon credits stored in existing plantation forests will be offered for sale;
- ◆ Implementation of measures to meet salinity targets set by all Catchment Management Boards within the NSW Murray-Darling Basin as part of the NSW Salinity Strategy;
- ◆ Administrative improvements such as the introduction of a timber product labelling system and the setting up of one-stop shops to provide advice on the natural resource programs of the Government; and
- ◆ Tackling urban congestion through the *Action for Transport 2010* plan, which includes strategies for safeguarding the environment, improving air quality, reducing car dependency and getting more people on public transport.

In support of the Government's commitment to the environment and consistent with the broad strategies listed above, the 2001-02 Budget provides for the following:

- ◆ The implementation of the *Water Management Act 2000*;
- ◆ A capital works allocation to the National Parks and Wildlife Service to acquire additional lands with high conservation value, significantly extend and upgrade sewerage infrastructure and public amenities in parks, and develop and upgrade recreational facilities in regional and metropolitan parks;

- ◆ Support for the implementation of reduction in air and noise emissions;
- ◆ Support for the State's contribution towards floodplain management;
- ◆ Environmental compliance measures by the Environment Protection Authority; and
- ◆ A comprehensive program for the Zoological Parks Board to rebuild and modernise facilities and exhibits, for research and for public education.

1.2 FISCAL STRATEGY STATEMENT

This section describes recent developments and progress against fiscal targets and the implementation of key principles underpinning the fiscal strategy.

MEDIUM-TERM FISCAL STRATEGY

New South Wales' medium and long-term fiscal strategy and financial management policies are underpinned by the principles in the *General Government Debt Elimination Act 1995*, and beyond this, also emphasise the broad financial aggregates of the total State sector. Key elements of the NSW fiscal strategy are summarised in Box 1.1, and were described in detail in the 2000-01 Budget Paper No. 2.

Box 1.1: Key Elements of the NSW Fiscal Strategy

- ◆ Reducing Net Financial Liabilities to a sustainable level through the prudent management of both assets and liabilities, which takes into account in addition to Net Debt:
 - other General Government (GG) sector *Net Financial Liabilities* - ie, unfunded superannuation and insurance;
 - other Net Financial Liabilities of the *Total State sector*, which includes the Public Trading Enterprise (PTE) and Public Financial Enterprise (PFE) sectors in addition to the GG sector;
- ◆ Controlling growth in the net cost of services; and
- ◆ Maintaining a tax regime conducive to business investment and ensuring a reasonable degree of predictability about the level and stability of tax rates.

Recent Developments

The NSW economy has experienced strong growth in recent years, and underlying revenue growth has generally been robust. This has helped the Government to fund growth in essential services while delivering surpluses in the last five years.

Along with these surpluses, returns of capital from the PTE sector have also been applied towards reducing General Government Net Debt (details are given in section 5.3). Additional funding of superannuation liabilities has also been possible in the last two years. The State therefore has a strong starting position for the 2001-02 Budget, which is ahead of both its General Government Net Debt and Net Financial Liabilities projections of the previous two Budgets.

Growth in NSW Gross State Product (GSP) has softened markedly in 2000-01 and is expected to remain subdued in 2001-02. There remains considerable short-term uncertainty around the extent of the slow-down domestically, which will be heavily influenced by developments abroad. The strategy of consolidating finances and reducing net debt in recent years means that New South Wales' fiscal fundamentals are now very sound, and the State is well positioned to weather a period of weaker growth (section 1.3 details the economic outlook).

NSW GSP is expected to grow by around 2¾ percent in 2001-02, a little stronger than the expected outcome for 2000-01 of just 2 percent, but not reaching the near 4 percent rate of prior years.

In the 2000-01 Budget Papers, it was recognised that the economy could not indefinitely retain its recent strength and corresponding robust growth in asset-related tax revenue (primarily from conveyancing and financial transactions). In the event, revenue growth slowed. The 2001-02 Budget estimates incorporate continued subdued growth in total revenue.

The NSW Budget is not expected to reap any net benefit from growing GST revenues until late in this decade¹.

On the expenditure side, a number of commitments made after the 2000-01 Budget have resulted in higher growth in underlying expenses in 2000-01 (5.1 percent in nominal terms) than the Budget projection (3.4 percent). These expenditure commitments have included both increases required to maintain levels of service delivery for existing programs, and funding for new measures. A significant proportion will have enduring impacts on future Budgets.

¹ The impact of tax reform on the NSW Budget is described in more detail in Chapter 8.

Consequences for Fiscal Aggregates in 2001-02 Budget

General Government Net Debt is projected to decline from \$7,531 million or 3.1 percent of GSP (\$6,352 million or 2.7 percent of GSP excluding temporary debt raised to fund the prepayment of superannuation²) in June 2001 to \$4,828 million (1.6 percent of GSP) by June 2005. This compares with \$12,027 million (7.3 percent of GSP) in June 1995. At current levels, and those projected in this Budget, General Government Net Debt remains on track to achieve both the medium-term target of Net Debt being at a sustainable level by June 2005, and the long-term debt elimination target.

Although the debt targets required by the *General Government Debt Elimination Act 1995* suggest targets for the *cash* result, the broader focus of the fiscal strategy on managing the balance sheet, encompassing other liabilities in addition to Net Debt, makes it appropriate to budget for adequate *Net Lending* surpluses.

This is because Net Lending is the accrual measure most closely matching prospective changes in *Net Financial Liabilities*³.

For the remainder of the Budget Papers, the term *Budget Surplus* refers to the *Net Lending Surplus*, except where the *cash* surplus is being discussed in reference to targets in the *General Government Debt Elimination Act 1995*.

² See 2000-01 Budget Paper No 2 for further details.

³ Valuation changes, which are not included in Net Lending per the Government Finance Statistics (GFS) standards of the Australian Bureau of Statistics (ABS), have accounted for material changes in Net Financial Liabilities in the past few years. However, for the forward estimates there is no basis on which to assume future valuation changes. From 2001-02 onwards, Net Lending therefore most closely reflects changes in Net Financial Liabilities.

Table 1.1: Net Financial Liabilities and Net Debt, Total State and General Government Sectors (\$million)

As at 30 June	General Government		Total State	
	Net Financial Liabilities ^{(a)(c)}	Net Debt ^(b)	Net Financial Liabilities	Net Debt ^(b)
Actual:				
1995	32,594	12,027	43,717	19,443
1996	32,194	10,849	44,323	19,398
1997	28,937	10,817	41,222	18,846
1998	28,486	10,159	40,794	18,750
1999	27,144	12,818	40,246	21,487
2000	23,390	11,222	36,101	19,701
Estimated:				
2001	22,481	7,531	37,280	19,103
2002	21,944	6,176	37,561	18,389
2003	21,864	5,809	37,481	18,022
2004	21,832	5,598	37,449	17,811
2005	21,272	4,828	36,889	17,041

(a) Excludes the equity assets of the PTE and PFE sectors.

(b) Including the impact of temporary debt associated with prepaid superannuation of \$3,264m in 1998-99, \$2,250m in 1999-2000 and \$1,179m in 2000-01.

(c) Data for 1995 to 2000 differ from the 2000-01 Budget as they have been adjusted to put them on a comparable basis with the 2001-02 Budget estimates as follows: (1) unfunded superannuation liabilities exclude obligations to the Commonwealth for universities; and (2) Net Financial Liabilities exclude Provisions for Doubtful Debts as determined by the ABS.

Projected General Government Budget surpluses average about \$330 million per annum over the Budget estimates period. These contribute to a projected decline in General Government Net Financial Liabilities from \$22,481 million (9.4 percent of GSP) in June 2001 to \$21,272 million (7.1 percent of GSP) by June 2005.

As shown in Table 1.1, both Net Financial Liabilities and Net Debt for the Total State and General Government sectors have fallen very significantly since June 1995, and are projected to fall further over the forward estimates period. Net Financial Liabilities are further discussed later in this section and in Chapter 5.

RECENT PERFORMANCE AND PROGRESS AGAINST FISCAL TARGETS AND PRINCIPLES

Reporting requirements of the *General Government Debt Elimination Act 1995* are addressed in this section, which contains:

- ◆ the 2001-02 Budget Policy Statement;

- ◆ an assessment of the application of the seven fiscal principles; and
- ◆ projections of the ability of the Government to achieve the fiscal targets, and a review of progress in achieving the fiscal principles.

Three-year projections of all relevant economic and financial variables are required by the *General Government Debt Elimination Act 1995*. These are provided in section 1.3 and Chapter 2.

The medium and longer term focus of the Act requires assessment of the attainment of the fiscal targets and compliance with the fiscal principles to be over a several year period. This recognises that fiscal outcomes will be affected by cyclical economic and other one-off factors in the short term.

The fiscal principles and targets in the *General Government Debt Elimination Act 1995* against which progress is reviewed in the following sections are:

- ◆ Adherence to fiscal targets, consisting of:
 - a **short-term** fiscal target (achievement of a sustainable General Government Budget surplus by 1998-99);
 - a **medium-term** fiscal target (reduce General Government Net Debt to a sustainable level by 30 June 2005); and
 - a **long-term** fiscal target (eliminate General Government Net Debt by 30 June 2020).
- ◆ Maintaining or increasing General Government real Net Worth per capita;
- ◆ Funding employer superannuation liabilities;
- ◆ Asset maintenance;
- ◆ Constrained growth in net cost of services and outlays;
- ◆ Prudent risk management; and
- ◆ Tax restraint.

1. Adherence to Fiscal Targets

As the 2001-02 Budget is on an accrual basis, and fiscal targets in the *General Government Debt Elimination Act 1995* are cash-based, both cash and accrual results are presented in this section⁴.

The General Government sector had a cash surplus of \$867 million in 1999-2000, and is expected to have a \$484 million cash surplus in 2000-01, exceeding the 2000-01 Budget estimate of \$314 million.

The substantial cash surpluses of recent years, and the use of equity returned from electricity distributors and generators in 2000-01, have contributed to an estimated \$4,496 million cumulative reduction in General Government Net Debt between June 1995 (the Act was assented to in December 1995) and June 2001. Over the same period, unfunded superannuation liabilities have been reduced by an estimated \$4,174 million. Further details on movements in debt and unfunded superannuation are provided in Chapter 5.

The 2001-02 Budget estimates take into account a decline in conveyancing duty in 2000-01, and expectations that output and employment growth will be soft in 2001-02. Given the economic outlook and the further tax cuts introduced in this Budget, the projected surpluses over the first three forward years are smaller than in the recent past (Table 1.2).

The Operating Surplus (accounting basis) declines slightly from \$1,575 million in 2000-01 to \$1,454 million in 2001-02, and further to \$895 million in 2002-03 due mainly to additional expenditure commitments and more subdued growth in tax revenues. The Operating Surplus improves to \$1,505 million by 2004-05.

⁴ Under the previous cash GFS standard of the ABS, the cash result was defined as the difference between cash outlays (recurrent and capital) and cash revenues (tax and nontax). The accrual GFS standards introduced in 1999-2000 include three financial statements: the Operating Statement, the Cash Flow Statement and the Statement of Financial Position. The new cash measure shown in Table 1.2 is broadly equivalent to the former GFS cash result while being derived from the Cash Flow Statement.

Table 1.2: Operating Result and Budget Result, General Government, 1996-97 to 2004-05 (\$million)

YEAR	Accounting Operating Result ^(a)	Budget (GFS Net Lending) Result	GFS Cash Surplus/-Deficit ^(b)
1996-97 Actual	2,560	n.a.	151
1997-98 Actual	2,093	26	48
1998-99 Actual	2,007	187	597
1999-2000 Actual	4,471	1,301	867
2000-01 Projection	1,575	221	484
2001-02 Estimate	1,454	368	321
2002-03 Estimate	895	334	331
2003-04 Estimate	916	171	35
2004-05 Estimate	1,505	639	625

n.a. - not available.

(a) After abnormals.

(b) The figure for 1996-97 is on the former ABS GFS cash basis. From 1997-98 onwards, the data is on the new ABS GFS cash basis, with adjustments for prepaid superannuation in each of 1998-99, 1999-2000 and 2001-02.

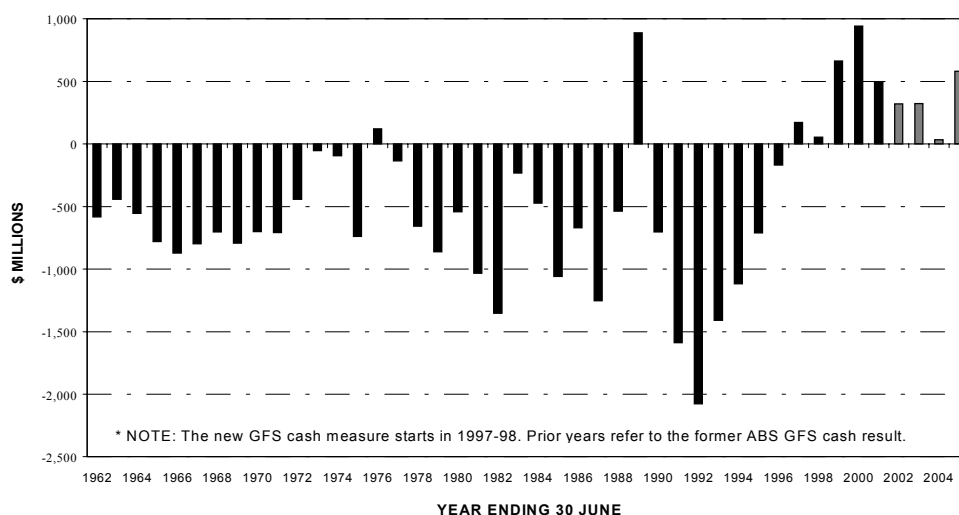
Projected General Government Budget surpluses in the four years to 2004-05 total \$1,512 million, and cash surpluses total \$1,312 million. The cash surpluses that commenced in the late 1990s are striking given that only two cash surpluses have been achieved between 1961 and 1995, the latter following a series of very large cash deficits in the early 1990s (see Chart 1.1). These results were achieved at the same time that the Government implemented a comprehensive program of tax reductions and funded the 2000 Olympics.

The *short-term target* in the *General Government Debt Elimination Act 1995* - a sustainable General Government Budget Surplus by 1998-99 - was achieved with a cash surplus of \$597 million in that year. The projected cash outcomes provide scope for reductions in Net Debt consistent with the *medium-term target*, as shown in the forward estimates of General Government sector Net Debt in Table 1.1 above. The medium-term target, in turn, represents progress towards the *long-term target*.

The *General Government Debt Elimination Act* specifies a June 2005 medium-term target date for reducing General Government Net Debt to a sustainable level. The debt level can be regarded as sustainable if it is low enough for a sharp economic downturn to be weathered without harsh corrective action (significant spending cuts and/or tax increases) being required to manage the level of debt.

The strong surpluses in recent years have enabled the State to reduce General Government Net Debt and Net Financial Liabilities to levels lower than projected in the previous two Budgets. With underlying Net Debt (ie, excluding the impact of the superannuation prepayment) estimated to be \$6,352 million (2.7 percent of GSP) in June 2001, the medium-term target of reducing General Government Net Debt to a sustainable level can be comfortably achieved by June 2005 or earlier.

**Chart 1.1: NSW Underlying Budget Result, GFS Cash Basis*
1961-62 to 2004-05 (at constant 2001-02 prices)**



2. General Government Sector Net Worth

Net Worth is defined as *Total Assets* less *Total Liabilities*. The second fiscal principle in the Act is to ensure that the Net Worth of the General Government sector is at least maintained in real terms.

The available history and projections for General Government Net Worth are given in Table 1.3 (the balance sheet data available prior to 1997 relates to the Consolidated Budget Sector, not strictly comparable with the General Government sector).

General Government Net Worth was \$88,069 million in June 2000, and is estimated to be \$89,552 million in June 2001 (including PTE/PFE equity). The June 2000 figure is about \$1,500 million above the 2000-01 Budget estimate due mainly to a higher than expected Budget Surplus and valuation changes.

General Government Net Worth increased by an average 7.9 percent per annum in the four years to 30 June 2001, exceeding the 2.5 percent per annum required to maintain Net Worth in real terms over the four-year period.

Net worth is projected to be 44 percent above its June 1997 level by June 2005, a real per capita increase of around 10 percent. From 2002-03 onwards, General Government Net Worth projections in Table 1.3 are conservative in making no allowance for the growth in PTE and PFE equity that is typically experienced.

Table 1.3: Trends in General Government Net Worth^(a)

At 30 June	Assets \$m	Liabilities \$m	Net Worth \$m
Actual^(b)			
1997	104,711	38,565	66,146
1998	111,151	38,454	72,697
1999	116,282	37,296	78,986
2000	121,250	33,181	88,069
Estimated			
2001	121,641	32,089	89,552
2002	123,808	31,616	92,192
2003	124,856	31,757	93,099
2004	125,785	31,758	94,027
2005	127,366	31,832	95,534

(a) Assets and Net Worth of the General Government sector defined on an ABS basis include equity investment in the PTE and PFE sectors of the order of \$46,600 million at 30 June 2001.

(b) Prior years' data on Total Assets and Net Worth differ from those reported in the 2000-01 Budget due to adjustments to make prior years comparable with 2001-02 Budget estimates. The adjustments reflect (1) the ABS's exclusion of Provision for Doubtful Debts from the GFS balance sheet; and (2) the exclusion of superannuation obligations of universities.

3. Funding Employer Superannuation Liabilities

Unfunded superannuation liabilities account for the majority of non-debt liabilities for both the General Government sector and the Total State sector. The third fiscal principle in the *General Government Debt Elimination Act 1995* requires that accruing superannuation liabilities of both the General Government sector and the Public Trading Enterprise sector be fully funded, and that accrued unfunded employer superannuation liabilities be extinguished over time.

The trend in General Government unfunded superannuation liabilities from 1995 is given in Table 1.4 and is discussed in Chapter 5. In the past five years, unfunded liabilities decreased in accordance with the third fiscal principle. The large reduction in 1999 was the result of the prepayment of three years' worth of employer superannuation contributions (detailed in previous Budget Papers). Subsequent above average investment return is estimated to provide a favourable financial impact of at least \$800 million on net superannuation liabilities by June 2002.

While the 1999-2000 Budget assumed zero employer contributions until 2002-03 because of the superannuation prepayment, subsequent additional contributions were \$587 million in 1999-2000 and an expected \$243 million in 2000-01 (against \$320 million budgeted). General Government unfunded superannuation which amounted to well over 7 percent of GSP in June 1995, is estimated to decline to 3.3 percent by June 2001, and is projected to also be around that percentage by June 2005.

Table 1.4: Trends in Net Unfunded Superannuation, Total State and General Government Sectors (\$million)

At 30 June	General Government ^{(a)(c)}	Total State ^(c)
Actual:		
1995	12,037 ^(b)	14,041
1996	12,976 ^(b)	14,757
1997	11,765	12,216
1998	11,852	11,988
1999	7,952	8,179
2000	5,686	5,284
Estimated:		
2001	7,863	7,593
2002	8,990	8,872
2003	9,269	9,151
2004	9,530	9,412
2005	9,753	9,635

(a) Data for 1995 to 2000 differ from those in the 2000-01 Budget due to an adjustment to exclude obligations to the Commonwealth for universities. This adjustment makes data for prior years comparable with the Budget year and forward estimates.

(b) Refers to the Budget sector.

(c) Unfunded superannuation of the General Government sector is greater than that of the Total State sector from 2000 onwards because superannuation for the PTE sector is over-funded in that period.

As a result of higher than originally planned employer contributions, liability management initiatives and favourable investment returns the Government has brought forward the target date for full funding of superannuation from 2045 to 2030. The funding plan in 1995 projected that unfunded liabilities of the Budget Sector would be \$14,200 million at June 2001. The actual level of unfunded liabilities is \$7,863 million (for General Government). This is \$6,337 million or 45 percent less than the 1995 estimate.

A recent Triennial Review of the schemes' liabilities as at 30 June 2000 has led to valuation changes. The improved position confirmed by the review allowed the target date for the achievement of full funding to be brought forward by fifteen years to 2030. The 2001-02 Budget estimates therefore adopt a revised funding plan.

While earnings on the superannuation fund's assets are expected to be weak in 2000-01, this is not expected to compromise the achievement of the 2030 target date under the new funding plan.

The projected increase in the unfunded superannuation liability of \$1,890 million over the forward estimates period reflects the fact that the assets accumulated from contributions and fund investment returns are initially smaller than the liabilities, which are projected to grow at a faster rate over the first half of the period. The gross liability is expected to reach a peak in 2015 and decline thereafter. Nevertheless the 2015 peak is around \$3,500 million below that expected when the former funding plan was introduced in 1995. After 2015, the rate of reduction in assets is overtaken by the rate of reduction in gross liabilities resulting in a decline of net liabilities.

4. Asset Maintenance

Infrastructure and other long-life physical assets comprised about 86 percent of General Government Total Assets (excluding PTE and PFE equity) at 30 June 2000. The Government seeks to achieve an appropriate balance in expenditure between creating new capital, including public infrastructure, and efficiently utilising the existing capital stock.

The fourth fiscal principle in the *General Government Debt Elimination Act 1995* requires proper maintenance of the long-lived physical assets of General Government sector agencies. Budget-dependent General Government sector agencies having a total physical asset base of \$5 million or more are required to submit Asset Maintenance Plans to Treasury.

The Asset Maintenance Plans identify all assets, set out a maintenance program for each asset or grouping of assets, identify any deferred maintenance requirements and establish a funding plan. This facilitates the efficient and effective management of assets.

Of the 30 General Government agencies required to submit asset maintenance plans, 28 have complied and all have been deemed adequate. The two remaining agencies have prepared or are in the process of preparing separate plans for each of their operating units.

A broader total asset management strategy (which involves asset acquisition, asset maintenance and asset disposal) should provide the context for asset maintenance plans. Further details regarding asset management strategies in the General Government sector, as well as details on the State Asset Acquisition Program (SAAP), are provided in Budget Paper No 4.

The SAAP in 2001-02 will increase by close to 4 percent (to \$5,581 million) over that budgeted for in 2000-01, then average about \$5,500 million per annum in the three years to 2004-05. The total SAAP will amount to \$22,195 million in the four years to 2004-05.

The discretionary component of General Government sector capital acquisitions is projected to be maintained in real terms over the forward estimates period.

5. Constrained Growth in Net Cost of Services and Outlays

The fifth fiscal principle in the *General Government Debt Elimination Act 1995* specifies that the growth in net cost of services and in budget outlays (both current and capital) should be kept at or below the growth in inflation and population (ie. zero growth in real per capita terms).

In the five years to 1999-2000, average real per capita growth in total outlays (current plus capital outlays on the former ABS GFS cash basis) was about 2 percent per annum.

The accrual measure, *net cost of services* (defined as underlying expenses less underlying operating revenues⁵) increased by an average annual real per capita rate of about 1.7 percent from 1997-98 to 2000-01 (the period for which this measure is available).

Deviation from the target was due mainly to the following factors:

- ◆ *Demand growth.* Given current demographic and social trends, the rate of growth of the real cost of maintaining existing policies in the health and community service sectors in particular, has exceeded the rate of growth of the population. While Olympics-related spending added marginally to outlays growth in the lead-up to the 2000 Sydney Olympic and Paralympic Games, the maintenance and upgrading of ageing capital stock in some portfolios has also necessitated increased outlays in recent years.
- ◆ *Policies to raise standards of provision for some essential services.* Commonwealth Grants Commission data from the early 1990s show important areas where the level of service provision in New South Wales was below that of other States, including public health, nursing homes, pre-school education, public safety and emergency services and some economic services.

The 2001-02 Budget and forward estimates have been framed to meet the principle of constrained growth in net cost of services while providing an adequate allowance for growth in demand for Government services, and future contingencies. The Service and Resource Allocation Agreements being introduced for a growing number of agencies are helping to reduce the risk of unanticipated demands on government, while adding discipline to agency strategic planning.

For the four years to 2004-05, underlying net cost of services is projected to grow at an average annual rate of 0.8 percent in real per capita terms, the bulk of the growth occurring in the first two years. Chapter 4 provides more detail on the underlying movement in expenses after excluding one-offs and extraordinary items.

⁵ *Underlying expenses are defined as total expenses less material one-off items, structural shifts in expenses, items relating to national tax reform and major non-discretionary expenses (superannuation, finance costs, insurance and depreciation). Operating revenues are likewise adjusted for material one-off items (eg, major asset sales), national tax reform related items and revenue offsets to the expense adjustments (such as those relating to some Olympics transactions). Real growth rates are based on the Government Consumption deflator of the ABS State Accounts, which is a better measure of changes in the cost of Government services than the Consumer Price Index.*

6. Prudent Risk Management

Risk management is required across a broad range of matters, including service delivery, asset and liability management, commercial risks for PTEs, environmental factors and all forms of legal liability, and requires processes to identify and manage those risks.

Fiscal and financial risks⁶ are present at three levels:

- ◆ the aggregate level (associated with total expenditure, revenue and deficit financing, often arising from changes in the economy and emerging demographic trends);
- ◆ the sectoral level, associated with the broad composition of expenditure and revenue sources; and
- ◆ the specific program or project level.

New South Wales' AAA credit rating bears testimony to the effectiveness of the management of aggregate level risk associated with the level and composition of debt, largely centralised with the NSW Treasury Corporation.

The sixth fiscal principle in the *General Government Debt Elimination Act 1995* requires General Government agencies to maintain risk management plans dealing with financial and other significant risks. These agency-level plans contribute towards the management of aggregate level risk and sectoral or program/project level risk.

The General Government agencies subject to Service and Resource Allocation Agreements for 2001-02 have been required to identify risks and risk management strategies as in previous years. Over time, with the development and broader application of these Agreements, agency risk identification, management and reporting will be enhanced.

⁶ *Fiscal risk is slightly more specific, and tends to be more directly associated with the management of the Budget, while broader financial risk tends to arise, for instance, from the autonomous operation of financial markets. While there may be considerable overlap between the two types of risk, Governments have traditionally been viewed as having a slightly greater degree of control over fiscal risk via explicit revenue or expenditure policies.*

Additionally, an extensive survey by the NSW Audit Office is in train to ascertain the extent and practice of risk management in agencies. The results of the survey will be used to promote better risk management practice throughout the NSW public sector. The survey complements previous initiatives, including the *Treasury Risk Management and Internal Control Toolkit* and the *Statement of Best Practice for Internal Control and Audit*.

The management of broad financial risk also includes the following:

- ◆ *Public Authorities (Financial Arrangements) Act 1987* risk management review - the Act gives many Government agencies the power to borrow and invest funds and enter into various financial arrangements, and provides for State Government guarantees of financial arrangements. Treasury is reviewing approvals under the Act to ensure that the risk of significant liabilities arising from approved arrangements is minimised. Further detail of the review is provided in section 5.6.
- ◆ Guidelines on investment and liability management performance and reporting are issued or updated from time to time via Treasury Circulars. The insurance risks of all Budget-funded General Government agencies and a number of Government authorities are covered by the Government's own self-insurance scheme, the Treasury Managed Fund. Section 5.7 provides further details.
- ◆ Ownership risks from Government businesses are managed through, *inter alia*, Statements of Financial Performance for non-corporatised Public Trading Enterprises and Statements of Corporate Intent for State Owned Corporations which identify all financial and operating risks as part of the annual performance agreement between the Government (as shareholder) and the Government business. These agreements document the financial performance targets and associated risks for the year, and performance is monitored against targets on a quarterly basis.

7. Tax Restraint

The seventh principle in the *General Government Debt Elimination Act 1995* requires that tax rates be restrained to the maximum possible extent, and that policies be pursued consistent with a reasonable degree of predictability about the level and stability of tax rates for future years.

New South Wales property and asset market activity was strong in the three years to 1999-2000, leading to strong growth in property-related and financial transactions taxes. Strong, partly cyclical, employment growth assisted payroll tax revenue growth. Cyclical factors and not policy changes were largely responsible for the significant rise in the level of tax revenues during this period.

However, in 2000-01 the growth in tax revenue was significantly lower than the previous year mainly because of a reduction in receipts of some taxes such as conveyancing duty (-13.8 percent), debits tax (-1.6 percent), and taxes on motor vehicle ownership and operation (-2.3 percent). Revenue growth is expected to pick up but remain subdued in 2001-02 compared with the three years to 1999-2000.

Policy changes from 1998-99 have significantly reduced the tax burden. Table 1.5 shows the effect of tax policy changes on revenue in each year. New South Wales' tax burden is expected to decline over the forward estimates period as a result of the tax reduction measures in this and previous Budgets.

By 2004-05 the net effect of all tax policy changes since 1994-95 will have been a net real reduction in the order of \$800 million per year. This excludes reductions associated with the removal or restructuring of State taxes from 2000-01 as a result of national tax reform.

In 1999, the New South Wales cross-subsidy to other States was marginally reduced through the Commonwealth fiscal equalisation system, and the State made the last of three annual Fiscal Contribution Payments to the Commonwealth. This allowed payroll tax and land tax rates to be cut in the 1999-2000 Budget.

The 1999-2000 Budget provided for further reductions in payroll tax rates on 1 July 2001 and 1 July 2002 as well as further unspecified tax cuts of \$150 million in 2001-02 and \$175 million (full-year cost) in 2002-03.

The 2000-01 Budget brought forward by six months, to 1 January 2001, the cut in the payroll tax rate from 6.4 percent to 6.2 percent.

Table 1.5: Annual Contribution of New Policy Changes to Tax Collections^(a) (\$million)

Year	Policy Induced Tax Changes, Current Terms ^{(b) (c)}
1990-91	310
1991-92	80
1992-93	240
1993-94	100
1994-95	(-) 40
1995-96	15
1996-97	180
1997-98	295
1998-99	(-) 95
1999-2000	(-) 395
2000-01	(-) 220
2001-02	(-) 270
2002-03	(-) 325
2003-04	(-) 5
2004-05	(-) 5

(a) Table 1.5 shows in any one year only the impact of measures in that year, and (unlike Table 3.2 in Chapter 3) does not include the cumulative impact of measures introduced in prior years.

(b) Estimates of the effect of new policy on revenue in each year. Where the tax change commenced during the year, and therefore had only a part year effect in that year, the balance is included in the following year. For example, if a policy has a part-year impact of \$50m in the year it commences and a full year impact of \$100m the following year, the impact of the policy measure would be \$50m in each year.

(c) Notes on specific years: (1) from 1999-2000 onwards, the annual indexation of the land tax threshold is treated as a discrete tax change; (2) from 2000-01, excludes the impact of national tax reform and includes the impact of measures introduced in the 1999-2000 and 2000-01 Budgets and foreshadowed in this Budget; (3) 1996-97 to 1998-99 include the tax increases to fund Fiscal Contribution Payments to the Commonwealth; (4) 1997-98 excludes the one-off loss from abolishing business franchise fees and their replacement by Commonwealth Safety Net taxes; (5) 2001-02 includes, in addition to tax reduction measures, the impact of the Insurance Protection Tax to help provide for the Policyholders' Protection Fund.

In total, the 2001-02 Budget includes \$237 million worth of tax reductions (\$421 million in a full year). This is offset by the recently announced introduction of an Insurance Protection Tax which is intended to raise \$69 million a year in order to help provide for the Policyholders' Protection Fund in response to the collapse of HIH Insurance.

Key measures in the 2001-02 Budget include the abolition of debits tax from 1 January 2002 and the suspension of the electricity distributors levy from 1 July 2001. The abolition of debits tax is conditional on New South Wales not being disadvantaged under national tax reform arrangements for acting to abolish this tax early. More details on trends in tax receipts and new tax initiatives in this Budget are provided in Chapter 3.

1.3 THE ECONOMY

INTRODUCTION

Both revenues and outlays are affected by conditions in the economy. Economic factors are most critical in influencing taxes, interest costs and departmental expenses⁷.

This section reviews the performance of the economy compared with expectations in the 2000-01 Budget and details the economic forecasts that underlie the 2001-02 Budget.

Domestic and overseas economic conditions weakened during 2000-01. However this was largely the result of temporary and transitional factors which will have played themselves out by year's end.

Growth in economic output is expected to recover in 2001-02, although the labour market will remain subdued by the lagged impact of slower output growth in 2000-01.

Sources of uncertainty in the forecasts include prospects for overseas economies (particularly the United States), the strength and timing of recoveries in dwelling construction and in business confidence, and the outlook for crude oil prices.

RECENT PERFORMANCE⁸

Overall, economic outcomes in Australia and New South Wales in 2000-01 are likely to be less favourable than expected in the 2000-01 Budget due to:

- ◆ weaker world economic conditions;
- ◆ prolonged high petroleum prices; and
- ◆ a larger than anticipated transitory impact from national tax reform.

⁷ The sensitivity of the Budget to economic variables is analysed in Section 2.6.

⁸ The economic estimates are based on data available as at mid-May 2001, which included results to June 2000 for Gross State Product, to December 2001 for State final demand and wage costs, to March 2001 for consumer prices, and to April 2001 for employment. Estimates for 2000-01 are subject to more than usual uncertainty due to distortions flowing from the GST and the 2000 Olympics.

World growth slowed rapidly during late 2000 and early 2001, precipitated by steep declines in profitability and prices for technology shares in the United States. High international petroleum prices also constrained growth in global output. Synchronised downturns appeared to be developing in the United States, Japan and Europe for the first time in over a decade. Economic fundamentals, however, remained sound in most OECD countries except Japan, and timely intervention by monetary and fiscal authorities was generally under way to rekindle demand and boost confidence. It therefore appears likely that world output will make a reasonably rapid recovery from the second half of 2001, setting the foundations for an uplift in world trade and investment.

The world price of crude oil in 2000 averaged 57 percent higher than in 1999, and was more than double its price in 1998, in US dollar terms. Higher world oil prices together with a lower exchange rate raised business costs and reduced the household income remaining after fuel expenses to meet other consumption needs.

The **Olympic Games** and NRMA partial demutualisation contributed only modestly to year average growth in New South Wales although they sharply distorted quarterly trends, first boosting State demand in September then dropping out in December. In annual average terms, however, the 2000 Olympics effect was overwhelmed by the steep national downturns in building activity and in business confidence.

Transition to the new Commonwealth tax arrangements had an unexpectedly large temporary impact on Australian and New South Wales economic performance in 2000-01. While it is difficult to isolate the effects of national tax reform from other influences, anticipation of tax changes appears to have brought forward domestic expenditures, amplifying both the strength of domestic demand in 1999-2000 and its subsequent weakness. This was particularly evident in house building and renovation. At the same time, the non-residential building cycle reached a peak in 1999-2000, particularly in New South Wales. Business sentiment, most notably in the small business sector, was dented by the compliance burden and cash flow aspects of the GST. The financial exposure of policyholders following the collapse of HIH Insurance posed another risk to economic growth and confidence.

Economic downturn in the United States also depressed business sentiment, which was swayed by the close historical correlation between trends in the United States and Australia. But unlike the United States, Australia was not weighed down by a disintegrating technology share market, or by an appreciating exchange rate. Australia's share market remained comparatively resilient; while downward adjustment in the A\$ exchange rate provided a major boost to net exports, helping to offset weak domestic demand. This was reflected in a halving of the current account deficit as a ratio to GDP.

Revisions to the forecasts

The 2000-01 Budget noted the risks to the forecasts from uncertainty regarding the world economy, the danger of a major share market correction in the United States, and reactions to the new Commonwealth tax arrangements. All of these concerns proved to be well-founded. Treasury's economic forecasts for 2000-01 were downgraded during the year in line with weakening economic indicators and falling business and consumer expectations. Revisions were published in the Half-Yearly Budget Review in December 2000, and current estimates incorporate further revisions to the outlook.

- ◆ The downward revision to estimated output growth is attributable in large part to the steep decline in the construction sector. In the first half of 2000-01 compared to a year earlier construction activity in New South Wales declined by 27 percent, while final demand net of construction increased by 4.7 percent.
- ◆ On the positive side, business investment in equipment remained very resilient; and public sector demand seemed close to Budget expectations.
- ◆ Total final demand growth was substantially stronger in New South Wales (1.8 percent) than in the rest of Australia (1.2 percent) in the first half of 2000-01.

Table 1.6: Revised 2000-01 Estimates^(a)

	<i>2000-01 Budget Time</i>	<i>Half Yearly Review</i>	<i>Current Estimate</i>
Gross State Product	4	3 ¾	2
Employment	2 ¼	2	1 ¾
Unemployment rate ^(b)	5 ¾	5 ¾	5 ½
CPI (Sydney)	6	6	6
Wages ^(c)	4	4	3 ¾

Notes:

(a) Year average percent change, unless otherwise indicated.

(b) Year average, percent.

(c) Wage Cost Index, ordinary time earnings, in New South Wales.

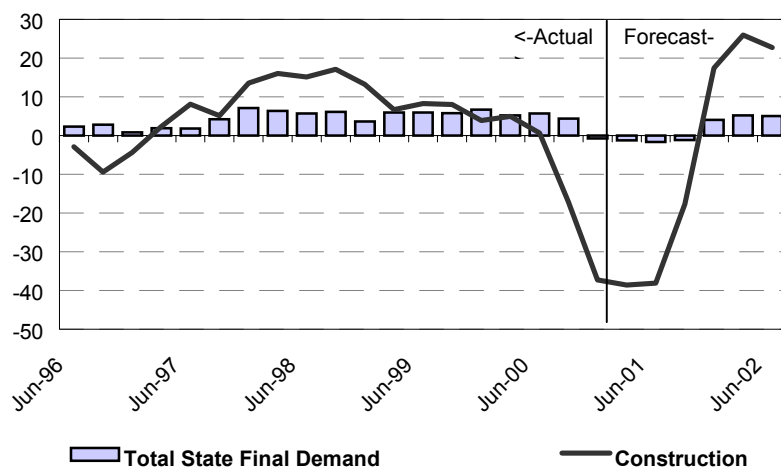
Dwelling construction declined by 24 percent on an annual basis in the first half of 2000-01. While dwelling approvals were again weak in the March quarter, this sector appeared to be close to its trough and some modest resumption in growth seemed likely by year's end, assisted by lower mortgage interest rates and more generous Commonwealth first home owner assistance. Despite steep falls in new construction, house prices remained fairly stable through the first half of the financial year, contributing positively to conveyancing duty collections.

While total business investment is expected to expand in line with 2000-01 Budget forecasts, results for components will differ from previous expectations.

Non-residential construction is likely to be substantially weaker than anticipated in the 2000-01 Budget, in light of its 32 percent decline in the first half. This downturn mainly represents the unwinding of the previous cyclical upswing (from 1997 through early 2000) in Sydney CBD office tower construction.

However investment in **machinery and equipment** and **intangible assets** (including software) is likely to be somewhat stronger than expected in the 2000-01 Budget. This class of investment increased by 26 percent in New South Wales (substantially faster than in the rest of Australia) in the first half of the year. Given increased difficulties in the technology sector globally, however, investment growth is likely to be slower in the second half.

Chart 1.2: Construction and the New South Wales Economic Cycle
(Annual percent change)



Total *state final demand* (domestic demand) growth in 2000-01 is likely to be much more subdued than had been anticipated in the last Budget due to the weakness in construction activity and in general business sentiment. State final demand increased at an annual rate of 1.8 percent in New South Wales in the first half of 2000-01 (compared to 1.2 percent in the rest of Australia). Weakness in domestic demand was partially offset by stronger external demand, reflected in the 25 percent annual increase in merchandise exports from New South Wales. Service exports and interstate commerce also are likely to record substantial improvements, due in part to the 2000 Olympics and in part to the more competitive exchange rate.

While average *employment* growth in the first three quarters of 2000-01 was around 2¼ percent, trend employment was declining during most of that period while forward indicators such as job advertising were weak, implying a likely average of around 1¾ percent for 2000-01 as a whole. Job losses through the year to March were greatest in the construction sector and in wholesale trade (reflecting technology-driven rationalisation); while substantial employment gains were recorded in property and business services and in accommodation and catering. Demand was slightly stronger among larger firms than smaller enterprises (whose share of total employment fell by half a percentage point in the first half of 2000-01 compared to a year earlier).

Unemployment reached a low of 5.2 percent in the first quarter of 2000-01 but trended upward thereafter and is expected to average 5½ percent for the year as a whole⁹.

The Sydney **consumer price index** during the first three-quarters of 2000-01 was 6.2 percent higher than a year earlier, including a significant contribution from a spike in fresh food prices due to poor weather in the March quarter. For the year as a whole average inflation is expected to be in line with the budget forecast reflecting moderate consumer demand, intensified competition putting pressure on margins, and a slightly smaller than expected price effect from the GST.

Growth in **wage costs** appears likely to average around 3¾ percent in 2000-01, up from 3 percent a year earlier, but not posing any significant danger to price stability in the longer run. The outcome will remain inside the Reserve Bank of Australia's (RBA) 3½ to 4½ percent "wage corridor" consistent with consumer price inflation of between 2 to 3 percent. **Average weekly earnings** (which reflect changes in workforce composition as well as in wage rates) increased by a more robust 4.8 percent annual rate in the first three quarters of 2000-01.

⁹ ABS revisions to labour force definitions in May 2001 had the effect of lowering the unemployment rate for 2000-01 and most prior years by about ¼ percent compared to the 2000-01 Budget estimates.

Box 1.2: Sources of Economic Strength

Many indicators attest to continued strength and resilience in the national and New South Wales economies at the close of 2000-01:

- ◆ The successful 2000 Olympic Games provided a strong and continuing boost to inbound tourism and greater recognition for Australian exporters.
- ◆ Business balance sheets are much more solid than at the start of the 1990s.
- ◆ Inflation remains subdued despite the GST shock, high world petroleum prices, exchange rate depreciation and the impact of recent flooding in eastern Australia on fresh food prices.
- ◆ Wage pressures (as measured by the wage cost index) have been moderate. Interest rate costs to business are declining.
- ◆ The lower exchange rate has provided an additional cushion to Australian producers against weakness in overseas markets.
- ◆ Although the building boom has ended, it has not left any major excess stock of commercial space or housing.
- ◆ The Australian share market has held up better than overseas exchanges such as the United States during 2000-01. Property prices also have remained firm. As a result, wealth effects have remained supportive of private consumption.
- ◆ With higher world commodity prices (including contract prices for coal which rose for the first time in several years), Australia's Terms of Trade have improved strongly, providing a further boost to real income.
- ◆ Australia's Balance of Payments (current account) deficit has halved from over 6 percent of GDP a year ago to under 3 percent of GDP towards the close of 2000-01.
- ◆ Australia's productivity growth continues to out-perform the US and most other OECD countries. Australia's average annual productivity growth during the 1990s was more than double its growth rate during the 1980s.
- ◆ Australia, according to the International Monetary Fund, has invested in information and communications technology (ICT) more rapidly than any other country, including the United States. Because Australia is primarily an importer rather than a producer of this technology, however, it is much less exposed than the US and some other ICT producer countries to the current shakeout in this sector.

The combination of strong average earnings growth and initially strong employment growth boosted the total *compensation of employees* by 7.3 percent on an annual basis in the first half of 2000-01, up from 5.9 percent in the same period a year earlier. Performance of payroll tax receipts was broadly consistent with this trend.

Interest rates averaged somewhat lower than forecast in the Budget, as the weakening economic outlook led central banks both in Australia and overseas to ease monetary policy aggressively from early 2001. The RBA reduced Australia's cash rate three times totalling 1¼ percentage points, leading to comparable reductions in variable mortgage interest rates. Long bond rates fell during the first three quarters of 2000-01 but rebounded strongly upward in the final quarter on expectations of an imminent economic recovery. Bond rates flow through to the cost of State debt management in the medium term while mortgage interest rates can affect the volume of property transactions and hence conveyancing revenue.

The *exchange rate* during the first half of May 2001 was about 10 percent lower than a year earlier against the US dollar and about 5 percent lower against the Trade Weighted Index (TWI). This may have reflected shifting market perceptions about relative medium term growth prospects, relative production versus use of technology, and net foreign asset positions. But such factors seem insufficient to explain the extent of the depreciation during 2000-01, which left the currency appearing substantially oversold.

Domestic *equity markets* were fairly stable in the first nine months of 2000-01, contrasting with steep falls in some overseas markets (particularly US technology shares), although differences in performance were less pronounced after adjustment for the lower A\$ exchange rate. Daily turnover in exchange traded equities was 10.2 percent higher in the first nine months of 2000-01 than in the same period a year earlier, although growth in share transfer revenue was more subdued.

Trends in revenue collections did not always mirror trends in the economy. Payroll tax receipts were generally more buoyant than implied by aggregate employment, while contracts and conveyancing receipts did not fall to the extent of the slide in dwelling construction. Employment through March appeared to have held up better in larger firms relative to those below the payroll tax threshold; while activity in the established dwellings market appeared to have been sufficient to offset declines in the market for newly constructed dwellings.

In summary, while economic conditions generally were weaker than anticipated during the first three quarters of 2000-01, some aspects of particular consequence for the Budget showed somewhat more resilience. However, subdued prospects for the United States economy and their potential implications for Australia weighed on both business and consumer sentiment toward the close of the financial year.

OUTLOOK FOR 2001-02

While world growth slowed in 2000-01, economic fundamentals remained sound and the strong response of monetary and fiscal authorities should preclude a deep downturn, even though a short lived global recession remains possible. There is the possibility that world growth could escape downturn altogether (in which case business confidence would rise and hence economic outcomes for the New South Wales and Australian economies would be stronger than assumed in Table 1.7). The most likely course of events is for economic slowdown abroad to be followed by a relatively rapid recovery from the second half of 2001, setting the framework for an uplift in world trade and investment. These changes in economic activity and expectations add complexity and uncertainty to developments in the year ahead.

In summary:

- ◆ The New South Wales and Australian economies are less vulnerable than North America to being tipped into a recession and should recover momentum during 2001-02.
- ◆ Outcomes in the labour market, however, are likely to reflect the lagged effect of the 2000-01 economic slowdown.
- ◆ Falling inflation is likely to allow interest rates to remain lower on average than in the preceding year.
- ◆ While aggregate output growth is expected to strengthen in 2001-02, the composition of growth is likely to shift away from net exports (due to subdued overseas markets) towards domestic demand (reflecting a recovery in dwelling construction in particular).
- ◆ The New South Wales economy, which is relatively less exposed to export fluctuations and more reliant on domestic demand than the national economy, is expected to perform close to the national average during 2001-02.

Table 1.7: Economic Performance and Outlook^(a)

	<i>Outcomes</i> 1999-2000	<i>Estimates</i> 2000-01	<i>Forecasts</i> 2001-02
New South Wales			
Gross State Product	3.7	2	2 ³ / ₄
State Final Demand	5.8	¹ / ₄	3 ¹ / ₄
Employment	3.2	1 ³ / ₄	³ / ₄
Unemployment rate ^(b)	5.8	5 ¹ / ₂	6 ¹ / ₄
CPI (Sydney)	2.4	6	2 ¹ / ₄
Wages ^(c)	3.0	3 ³ / ₄	3 ¹ / ₂
Australia			
Non-farm GDP deflator	1.8	3 ³ / ₄	3
Ten year bond rate ^(b)	6.5	5 ¹ / ₂	6

Source: Australian Bureau of Statistics; New South Wales Treasury.

Notes: (a) Year average percent change, unless otherwise indicated.

(b) Year average, percent.

(c) Wage Cost Index, ordinary time pay, New South Wales.

Growth of *private consumption* in New South Wales is forecast to strengthen modestly in 2001-02. Although household income growth is likely to be more moderate and higher unemployment is likely to constrain consumer sentiment, spending nonetheless is likely to be boosted by declining interest rates and expectations of improved economic conditions ahead.

Dwelling construction in New South Wales fell sharply in 2000-01 due in large part to the transition to new national tax policies. Nonetheless underlying demand appears to remain strong, as reflected in the buoyancy of house prices. Reduced interest rates together with first home owner incentives from the State and Commonwealth Governments appear to be boosting affordability. Therefore dwelling construction is likely to have reached a trough in the second half of 2000-01 and is expected to recover by around 10 percent in 2001-02, albeit from a low base.

Machinery and equipment investment is expected to decline somewhat in 2001-02 mainly reflecting slower information and communications technology (ICT) investment. Since most ICT equipment is foreign sourced, reduced imports would directly offset the impact on GSP from lower investment. *Non-residential construction* on the other hand, with higher domestic content, is likely to undergo a mild recovery after steep falls in the preceding year. Overall, business investment in New South Wales is forecast to be fairly stable in 2001-02.

New South Wales *employment growth* in year average terms is expected to ease to $\frac{3}{4}$ percent in 2001-02 from $1\frac{3}{4}$ percent in 2000-01, as implied by subdued leading indicators such as the ANZ Job Advertisements series. However employment growth should strengthen through the year as demand recovers in the construction sector and more generally across the economy.

The more subdued pace of employment growth is likely to exert some mild upward pressure on the *unemployment rate* which is forecast to rise from an average $5\frac{1}{2}$ percent in 2000-01 to $6\frac{1}{4}$ percent in 2001-02, but remain below the national average.

Wage cost growth is expected to ease slightly to $3\frac{1}{2}$ percent in 2001-02, reflecting more subdued conditions in the labour market and greater post-GST stability in the cost of living. Award wage increases available under the May 2001 national Safety Net Decision remain modest. While trends in federal enterprise bargaining agreements strengthened slightly during 2000, labour market conditions ahead are not expected to sustain further acceleration.

Sydney *consumer price inflation* is forecast to ease from 6 percent in 2000-01 to $2\frac{1}{4}$ percent in 2001-02 with the unwinding of the one-off impact of the GST and the delayed impact of slower economic growth in the preceding year. Moderating crude oil prices in response to slower world growth plus a likely appreciation in the Australian dollar also are expected to help reduce pressure on inflation.

Given expectations of a modest recovery in economic growth in 2001-02 and in view of the $1\frac{1}{4}$ percent reduction in official interest rates during the first half of 2001, any further easing of monetary policy is assumed to be slight. Long bond rates are likely to maintain their recent values with markets anticipating the reversal of the economic downturn and increased demand for investment capital further ahead.

MEDIUM TERM OUTLOOK

Prospects for the economy throughout the period beyond 2001-02 will depend on trends in world output, the business cycle and domestic policy settings. Because these factors cannot be predicted with any precision more than a short period ahead, the budget estimates beyond 2001-02 are based on economic parameters determined by expectations for their average performance this decade.

The medium term parameters for output, employment and population are consistent with historical performance and with demographic projections by the Australian Bureau of Statistics, and reflect currently observable trends. Expected average population growth has been revised down since the last Budget, and this necessitates a downward revision to expected average employment growth and consequently to GSP growth. Growth on a per capita basis is unchanged. Medium term assumptions for prices and wages reflect public statements by the Reserve Bank of Australia as to their policy objectives.

Table 1.8: Economic Parameters Beyond 2001-02^(a)

	<i>Medium Term</i>
Gross State Product	3
Population	1
Employment	1
CPI (Sydney)	2 ½
Wages ^(b)	4
Ten year bond rate ^(c)	5 ¾

Notes: (a) Year average percent change, unless otherwise indicated.

(b) Wage Cost Index, ordinary time, New South Wales.

(c) Year average yield, in percent, on Commonwealth Government ten year bonds.

MAJOR RISK FACTORS

The economic outlook remains clouded by considerable uncertainty, as the economy faces up to its second major test since the 1991 recession (the first being the 1997-98 Asian financial crisis). Uncertainty is compounded because current trends have been obscured by the transitional distortions resulting from the GST and the 2000 Olympics. Major risks and uncertainties (all of which are *possible* but not *assumed*) include:

(a) *Developments which might detract from growth:*

- ◆ The US economy is undergoing a very sharp deceleration, with steep falls in share markets, industrial production, and business and consumer confidence. The correlation between US and Australian performance has been close historically, but it is neither automatic nor inevitable for the future. While the forecasts allow for the possibility of a shallow US recession, they do not make provision for a deeper recession in the US flowing on to the local economy;

- ◆ The projected upturn in the New South Wales construction sector may not emerge as rapidly or as strongly as expected; and
- ◆ Business confidence in 2001-02 may not recover as quickly as expected.

(b) Developments which might add to growth:

- ◆ The recovery in world growth may prove stronger and more durable than anticipated. This could rekindle growth in asset markets and investment while putting upward pressure on prices and interest rates; and
- ◆ A shift to expansionary monetary and fiscal policy, together with a favourable evolution of external conditions may lead to an overcorrection upwards in business and consumer behaviour.

A guide to the significance of these risk factors is provided in Section 2.6, which assesses the sensitivity of the Budget net lending to alternative economic scenarios.

Box 1.3: Possible Economic Outcomes

The forecast for the New South Wales and Australian economies for the remainder of the current and next financial year is for continued growth at a somewhat slower pace than in the previous three financial years. That deceleration is largely the result of a short downturn in residential and non-residential building and slower growth of business investment in machinery and equipment against a background of a softer global economy.

The forecasts are influenced by the information available at the time they were made, information that largely applies to some period in the past. As additional information becomes available it may suggest that a somewhat different outcome is more likely. That, of course, is an unavoidable source of risk for forecasts which involve anticipating what will happen in the future based on limited and dated information.

One possibility that was considered in making forecasts for 2001-02 is that of the world sliding into a significant recession as happened in 1990-91. If that were to happen, growth in output and employment in Australia would be lower than forecast and unemployment would be higher. On the basis of the information available towards the end of 2000-01, however, this is not the most likely of the possible outcomes.

Even if that worst case scenario were to occur, however, the domestic economy would not suffer a recession of the magnitude of that of ten years ago. Economic conditions in Australia, and for that matter in the rest of the world, are far different from 1990-91. Because of those differences, any economic slowdown would be much milder than a decade ago.

One major difference is that inflation is low and there is no overhang of excessive wage increases weighing down employment growth. Furthermore, interest rates are far lower than they were at the beginning of the last recession. As a result dwelling construction will almost certainly rebound much more quickly.

As the economy moved into recession ten years ago, there was a very large surplus of office space in all Australia's capital cities, including Sydney. Office vacancy rates were as high as 30 percent, compared to around 5 percent in March 2001. There was also surplus capacity in shops, factories and other business premises. Resumption of new construction had to wait five years until that excess of space had been absorbed.

Also in 1990-91 Australian banks, like banks around the world, were carrying a load of bad debts so large that the continued existence of some banks was threatened. To help restore their balance sheets, banks stopped lending, meaning those companies that did want to build and invest were starved of finance. We do not have an equivalent situation today.

A final difference with the previous recession is that at that time the \$A was above \$US0.75. Today, the \$A is close to \$US0.50. Australia's exporters are much more competitive than they were in the previous recession. Australia's exports will not be impervious to a world recession but they will hold up better than they did in the previous recession.

For the reasons outlined above, if the world does slip into recession, growth will not fall as far as it did a decade ago, nor will unemployment rise as far.

CHAPTER 2: FISCAL POSITION AND OUTLOOK

BUDGET SUMMARY

The key financial aims of the New South Wales Government are:

- ◆ To strengthen the State's Balance Sheet and maintain New South Wales' AAA credit rating.
- ◆ To continue and expand the Government's tax reduction program.
- ◆ To improve service delivery in key priority areas.

The 2001-02 Budget has been framed to deliver on each of these objectives and provides:

- ◆ A Budget Surplus of \$368 million in 2001-02.
- ◆ Budget Surpluses in each of the Forward Years.
- ◆ A reduction in Net Financial Liabilities of \$537 million in 2001-02.
- ◆ A reduction in Net Financial Liabilities over the Forward Estimates period.

KEY AGGREGATES

Introduction

In pursuing its aim to properly manage the State's financial position, the Government has expanded its focus beyond net debt to that of achieving reductions in Net Financial Liabilities. This aggregate encompasses all liabilities (including borrowings, unfunded superannuation and insurance obligations), after taking into account financial assets (including cash, investments, advances and non-equity assets). It is, therefore, a more comprehensive measure of the financial health of a government than the more narrow net debt measure. Net Financial Liabilities are affected by the Budget result and valuation changes to liabilities and financial assets.

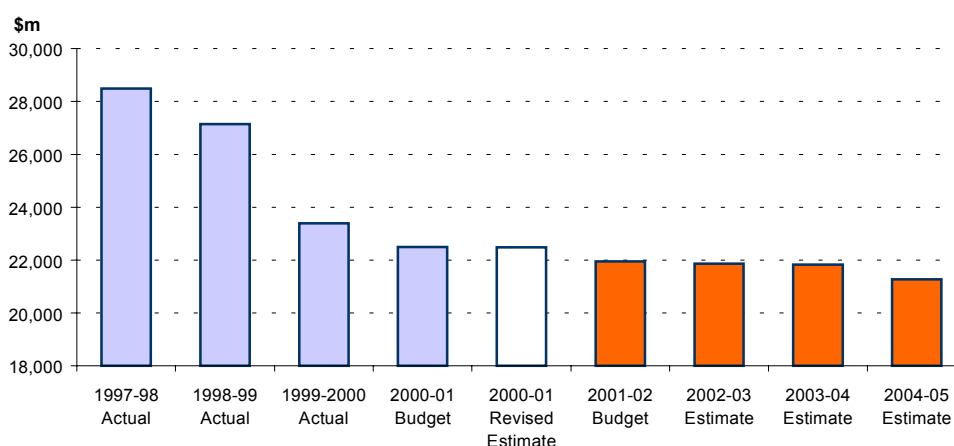
Definitions of key aggregates and terms used in this chapter can be found in the Budget Guide.

Trends

General Government Sector Net Financial Liabilities

Following the estimated decline of more than \$6,000 million in the three years to 30 June 2001, Net Financial Liabilities are projected to continue to decline over the Forward Estimate period.

Chart 2.1: General Government Sector Net Financial Liabilities



It is estimated that General Government Sector Net Financial Liabilities will fall by more than \$900 million in 2000-01. Reductions have been effected as a result of the \$2,500 million net impact of the re-gearing of the Electricity Distributors and Generators and the estimated Budget surplus of \$221 million. These gains have been partially offset by a \$1,289 million revaluation of superannuation liabilities within the Pooled Superannuation Fund following the triennial valuation of liabilities as at 30 June 2000 and other valuation losses amounting to approximately \$500 million.

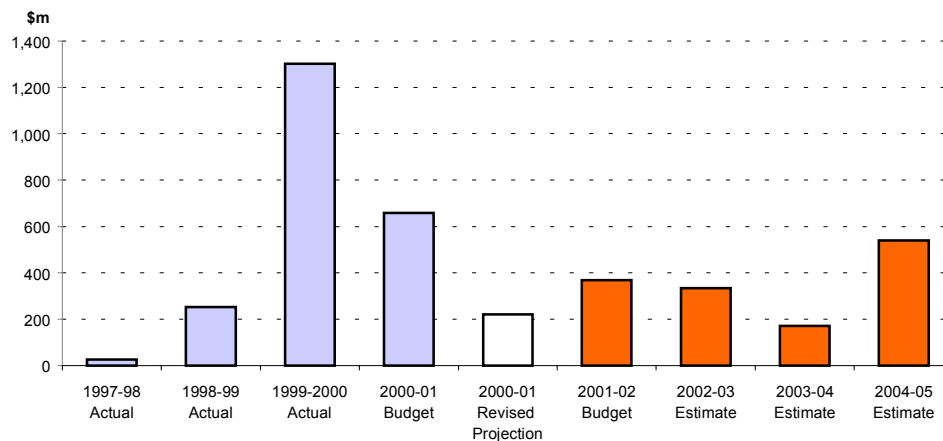
Net Financial Liabilities are expected to fall by a further \$537 million in 2001-02. This reduction is principally due to the expected Budget surplus of \$368 million.

Over the Forward Estimates period, Net Financial Liabilities are projected to fall by \$672 million, resulting in a total reduction of more than \$1,200 million on the level expected at the close of the 2000-01 financial year.

Budget Results

As shown in Chart 2.2, Budget surpluses are projected in 2001-02 and over the Forward Estimates period. These Budget Results have been made possible by the Government's fiscal strategy, which has resulted in the sizeable reductions in General Government Net Financial Liabilities achieved over recent years and projected over the Forward Estimates period.

Chart 2.2: Budget Surplus



The trend in Budget results between 2000-01 and 2003-04 encompasses the Government's taxation reduction program, the impact on revenues of projected economic conditions and additional commitments to key service delivery areas. As revenue growth returns to trend and growth in expenses moderates, the Budget result should be higher in 2004-05.

Expenses and Revenues

The Budget result is derived applying the Government Finance Statistics (GFS) principles used by the Australian Bureau of Statistics to measure the financial performance of governments⁽¹⁾. Under these principles a number of accounting expenses and revenues (primarily depreciation and valuation movements) do not have a direct impact on the Budget result. Instead the GFS Budget result captures the full impact in the year of capital expenditure and asset sales.

¹ Chapter 9 of this Budget Paper provides a detailed outline of GFS reporting and how it differs from reporting under the Australian Accounting standards

Table 2.1: Percentage Growth in Expenses and Revenues that affect the Budget Result

	<i>Projection Revised</i>	<i>Budget</i>	<i>Estimate</i>		
	2000-01 %	2001-02 %	2002-03 %	2003-04 %	2004-05 %
Revenue	4.4	0.6	2.4	3.2	4.1
Expenses	8.6	- 0.2	2.6	3.4	2.6
Gross State Product (GSP) (nominal)	6.3	5.6	5.6	5.5	5.7

The increase in expenses reflects the direction of additional spending by the Government to the priority areas of health, education, community services, transport and law and order. The reduction in 2001-02 reflects the 2000 Olympic costs met in the prior year and the additional expense incurred in assuming liabilities of \$600 million in 2000-01 as a result of the HIH collapse, which is recognised as an expense.

Employee expenses in the Budget and Forward Years are predicated on the agreed partial funding of public sector salary increases. A portion of the increase is to be met through productivity measures initiated by Agencies as agreed under the Memorandum of Understanding between Government and the relevant unions.

Revenues are expected to increase by 0.6 percent in 2001-02 following stronger than expected growth of 4.4 percent in 2000-01. The 2001-02 estimate includes a 11.1 percent increase in Commonwealth Grants offset by a 7.0 percent reduction in taxation revenue.

The increase in Commonwealth Grants in 2001-02 follows from the Intergovernmental Agreement (IGA) on the reform of Commonwealth State Relations. However, because of the New South Wales taxes that are abolished and extra spending required under that agreement, national tax reform will not benefit the New South Wales Budget until 2007-08.

In accord with the IGA, the 2001-02 Budget reflects the abolition, from 1 July 2001, of Financial Institutions Duty and stamp duty on listed marketable securities.

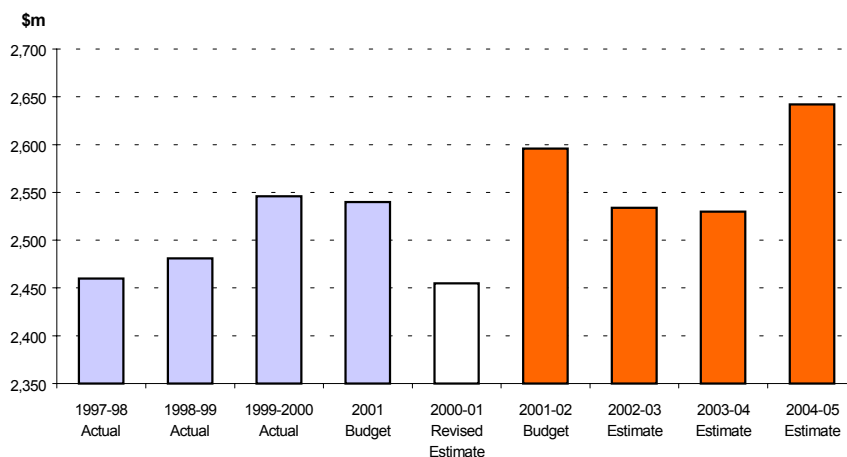
Taxation revenue will be further reduced in 2001-02 and 2002-03 through the continuation and expansion of the New South Wales taxation reduction program. Under the program the Electricity Distributors Levy will be suspended from 1 July 2001, Debits Tax will be abolished from 1 January 2002 and payroll tax will be reduced from 6.2 to 6.0 percent from 1 July 2002.

Revenue growth beyond 2002-03 is expected to strengthen under the assumed economic parameters.

Capital Expenditure

Capital expenditure and sales of capital assets by General Government agencies also affects the Budget result. Chart 2.3 illustrates the trend in asset acquisitions between 1997-98 and 2004-05.

Chart 2.3: Capital Expenditure



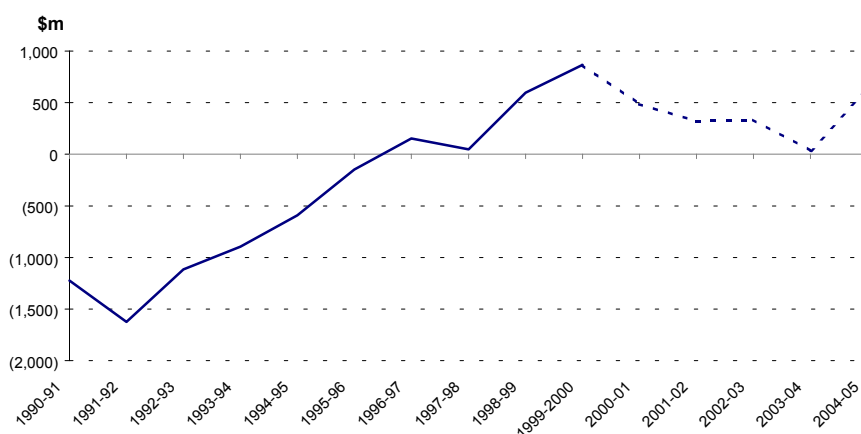
Capital expenditure is expected to increase by 5.7 percent in 2001-02 and over the four-year period to June 2005 is estimated to total \$10,302 million. Capital expenditure in the previous four-year period is expected to total \$9,942 million, including \$1,205 million for the 2000 Olympic games.

The reduction in capital expenditure in 2000-01 relative to 1999-2000 is mainly attributable to the reclassification of expenditure from capital to maintenance and other operating expenses.

GFS Cash Result

The accrual based Budget result is the key measure in determining the financial outcome for the year. However the GFS cash result, which was used as the basis for measuring financial performance prior to the 2000-01 Budget, is still a useful indicator and links closely to movements in net debt. Chart 2.4 shows GFS cash results between 1990-91 and 2004-05.

Chart 2.4: GFS Cash Result



New South Wales has recorded cash surpluses in each year since 1996-97. Table 2.5 provides details of the GFS cash results over a fifteen year timeframe.

The pattern of GFS cash results is consistent with the projected movement in the accrual Budget results over the Budget and Forward Estimates period.

THE COLLAPSE OF HIH INSURANCE

Following the collapse of HIH Insurance, the Government will introduce legislation to establish the New South Wales Policyholders Protection Fund. The Fund will pay the claims against Compulsory Third Party (CTP) policies in force with HIH prior to 31 December 2000 and claims under the Home Warranty Insurance Scheme for policies entered into prior to 15 March 2001.

For Budget purposes, the gross liabilities for these Schemes are estimated at \$600 million. At this stage, total liabilities from HIH are uncertain and could vary when the provisional liquidator makes his report. Also, the value of HIH assets available for distribution is uncertain as well as the timing of the distribution.

For CTP the Government has appointed the Motor Accident Authority as the Nominal Defendant. The Nominal Defendant is the agent and attorney of persons insured by expired policies and has the duty of discharging liabilities of those persons. Also, the Nominal Defendant is a creditor of HIH and will present a log of payments to the liquidator as proof of its claim against the HIH assets distributed after liquidation.

For Home Warranty Insurance, the Government does not have a legal responsibility as exists in the Compulsory Third Party Nominal Defendant. Consequently, an agreement has been reached with the provisional liquidator that the Government will take over the conduct of home-owner warranty claims and acquire the right to submit a log of payments to prove its claim against HIH assets.

Up to 2004-05 total claim payments are estimated at \$476 million and will be funded by:

- ◆ \$200 million from the Budget - \$50 million in 2000-01 and \$150 million over the period to 2004-05; and
- ◆ the introduction of the Insurance Protection Tax from 1 July 2001.

The Insurance Protection Tax (IPT) will raise \$69 million per annum from all general insurance companies operating in New South Wales. It will be apportioned among insurance companies on the basis of a company's share of the total premium income collected in the previous year from all classes of general insurance and Compulsory Third Party insurance in New South Wales. The IPT legislation will include provisions that allow the Government to reduce the amount of tax collected each year as greater knowledge of liabilities and assets is gained.

In the future, the Treasurer, or other responsible Minister, will have the power to extend coverage of the Fund to claims against a future insolvent insurer in home warranty or Compulsory Third Party insurance. A separate Bill establishing the New South Wales Policyholders Protection Fund will be introduced soon after the Budget.

Box 2.1 Impact of HIH on Key Budget Outcomes

	2000-01 \$m	2001-02 \$m	2002-03 \$m	2003-04 \$m	2004-05 \$m
Budget Result	221	368	334	171	639
- excluding HIH	821	299	265	102	570
Cash Result	484	321	331	35	625
- excluding HIH	534	376	390	68	628
Net Financial Liabilities	22,481	21,944	21,864	21,832	21,272
- excluding HIH	21,881	21,413	21,402	21,438	20,947
Net Debt	7,531	6,176	5,809	5,598	4,828
- excluding HIH	7,481	6,071	5,645	5,400	4,627

As shown in Box 2.1 acceptance of the gross liabilities for Compulsory Third Party and Home Warranty Schemes has reduced the 2000-01 Budget Result by \$600 million. The impact on the other accrual aggregate is an increase of \$600m in the General Government Net Financial Liabilities in 2000-01.

Between 2001-02 and 2004-05 the Budget Result improves by \$69 million per annum compared to what it otherwise would be. This increase is necessary to allow Net Financial Liabilities to be reduced by the same amount per annum, so that over the period to 2004-05, liabilities have partially recovered to the level that would have prevailed in the absence of the HIH collapse.

The cash aggregates are affected by the net flows of claims payments and revenue from the Insurance Protection Tax. The Cash Result deteriorates by \$50 million in 2000-01, \$55 million in 2001-02, \$59 million in 2002-03, \$33 million in 2003-04 and \$3 million in 2004-05. Net Debt, while still reducing, will be \$200 million higher over the period to 2004-05 than it otherwise would have been. This is equivalent to the deterioration in the Cash Result over the same period.

2.1 GENERAL GOVERNMENT SECTOR OPERATING STATEMENT 2001-02 BUDGET AND FORWARD ESTIMATES

2001-02 BUDGET

The Budget result for the year 2001-02 is expected to be \$368 million. (see Table 2.2).

Revenue

Total revenue, excluding capital repatriations from the re-gearing of the electricity sector, is estimated to rise by 1.2 percent in 2001-02. Full details of revenue estimates are provided in Chapter 3.

Taxation revenue is expected to fall by 7.0 percent in 2001-02 due to:

- ◆ the continuation and expansion of the tax reduction program started in the 1999-2000 Budget, at a cost of \$963 million in 2001-02, up from \$600 million in 2000-01; and
- ◆ the separate abolition of Financial Institutions Duty which is estimated to raise \$634 million in 2000-01 and Marketable Securities Duty on listed securities estimated to raise around \$470 million in 2000-01, as provided by the Intergovernmental Agreement (IGA) on the Reform of Commonwealth-State Financial Relations.

Commonwealth Grants are expected to increase by 11.1 percent, largely to compensate for the taxes abolished under the IGA.

Financial distributions are expected to fall by \$148 million, due mainly to reduced dividends from the rail sector and property and resource sector.

Investment income is expected to fall by \$52 million. Reductions in interest rates during 2000-01 resulted in strong gains in bond portfolios, which are unlikely to be repeated in 2001-02.

Grants and Contributions revenue is expected to decline by \$181 million compared to 2000-01 when grants totalling \$173 million and other revenue totalling \$127 million were received in connection with the 2000 Olympic Games.

Table 2.2: General Government Sector Operating Statement

	1999-2000 Actual	2000-01 Budget	2000-01 Revised	2001-02 Budget	2002-03	2003-04 Estimate	2004-05
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
State Revenues							
Taxation	15,185	12,412	12,989	12,084	12,275	12,855	13,465
Commonwealth Grants	9,460	12,780	12,972	14,413	14,792	14,980	15,447
Capital Repatriations	...	2,400	3,203	...	...	77	115
Financial Distributions	1,299	1,210	1,277	1,129	1,236	1,479	1,661
Fines, Regulatory Fees & Other	876	792	888	861	864	885	947
Total State Revenues	26,820	29,594	31,329	28,487	29,167	30,276	31,635
Operating Revenues							
Sale of Goods and Services	2,583	2,171	2,279	2,323	2,394	2,426	2,474
Investment Income	492	391	509	457	475	477	536
Grants and Contributions	422	421	506	325	299	314	314
Equity Investment Received	...	...	...	328	...	...	...
Other	342	298	357	250	260	260	268
Total Operating Revenues	3,839	3,281	3,651	3,683	3,428	3,477	3,592
Expenses							
Employee Related							
- Superannuation Valuation	(2,713)	...	1,289	(25)	72	65	46
- Superannuation Other	1,540	1,540	1,646	1,766	1,870	1,946	2,006
- Other	12,022	12,157	12,384	12,583	13,200	13,815	14,257
Other Operating	6,235	6,765	7,117	6,788	6,948	7,247	7,597
Maintenance	1,144	1,120	1,159	1,160	1,186	1,195	1,240
Depreciation and Amortisation	1,411	995	1,443	1,493	1,528	1,569	1,624
Current Grants and Subsidies	4,086	4,060	5,011	4,647	4,644	4,698	4,768
Capital Grants	970	1,252	1,476	1,399	1,433	1,537	1,462
Finance Valuations	141	278	903	6	30	11	...
Finance Other	1,309	1,009	996	879	823	758	728
Total Expenses	26,145	29,176	33,424	30,696	31,734	32,841	33,728
Gain/(Loss) on Disposal of Non-Current Assets	(43)	(14)	19	(20)	34	4	6
Net Cost of Services	(22,349)	(25,909)	(29,754)	(27,033)	(28,272)	(29,360)	(30,130)
Operating Surplus	4,471	3,685	1,575	1,454	895	916	1,505
Valuation Item Adjustments under GFS	(2,432)	(1,888)	(587)	(254)	69	7	(63)
Less: Capital Expenditure	2,546	2,540	2,456	2,596	2,534	2,530	2,642
Plus: Depreciation	1,411	995	1,443	1,493	1,528	1,569	1,624
Asset Sales & Other	397	407	246	271	376	209	215
BUDGET RESULT (GFS BASIS)	1,301	659	221	368	334	171	639

Expenses

The Budget result is affected by expenses within the ordinary operations of Government. Other expenses, such as valuation changes to superannuation are excluded from the result and are discussed later in this chapter. In 2001-02 expenses are estimated at \$1,766 million or 6.1 percent higher than the 2000-01 Budget estimate. Once expenses incurred after the 2000-01 Budget are taken into account, such as the cost of the HIH collapse, expenses affecting the Budget result in 2001-02 are expected to decline by \$54 million or 0.2 percent.

Health expenses are expected to be \$310 million, or 4.4 percent, above the 2000-01 Budget. The increase is due to additional funding provided to meet growth in demand and related service delivery and workforce needs. This growth funding will support implementation of the Government Action Plan for Health, providing significant improvements in the quality and effectiveness of health services across the State's public hospital system.

Education and Training expenses are expected to be \$292 million or 4.9 percent higher than the 2000-01 Budget. This reflects additional funds directed to the Government school system, particularly in school maintenance and the schools' computer network. In addition, payments to the non-Government schools sector have risen due to higher than anticipated enrolment growth.

Funding has been provided for a number of initiatives. These include:

- ◆ the staged introduction of expanded internet services for students and teachers in Government schools and TAFE creating new communication methods for students, teachers and parents;
- ◆ introduction of Computing Skills Assessment testing for both Year 6 and Year 10 students;
- ◆ additional funding for targeted student welfare programs;
- ◆ a major review of the school syllabus for students in Years 7-10; and
- ◆ additional funding for building maintenance in both schools and TAFE.

In 2000-01 the Government provided additional funding for **Transport** as part of the Rail Improvement Package. Additional funds were provided to the State Rail Authority for more intensive rolling stock maintenance, additional training and staffing and more comprehensive train cleaning. Rail Infrastructure Corporation also received funds for improved track maintenance and replacement of assets. As a result funding in 2001-02 for the Transport portfolio is 16.4 percent higher than the 2000-01 Budget.

The combined expenses of the **Department of Community Services** and the **Department of Ageing and Disability and Home Care** are \$197 million or 15.4 percent higher than the 2000-01 Budget. This includes additional funds for Disability Services for prevention and support, respite and in-home support services; funding for the relocation of high needs residents from boarding houses, increased assistance under the Commonwealth-State Disability Agreement; growth in foster care; Families First initiatives; additional child protection caseworkers and asset maintenance expenses.

Expenses of the **Department of Information Technology and Management (DITM)** are expected to increase by \$61 million or 100 percent on the 2000-01 Budget. The major reason for the increase is the additional expenses as a result of the anticipated return of a Commonwealth contribution to the Forest Industry Restructure Package (\$35 million). However, there is no net affect on the Budget result as matching revenue will be received from the Commonwealth. The other major new initiative for DITM is \$8 million allocated for online business licensing.

Expenses of the **Department of Corrective Services** are expected to increase by \$31 million or 6.9 percent on the 2000-01 Budget. Additional funding had been provided for expansion of correctional bed capacity to cope with an increase in inmate numbers. Funds have also been provided for an upgrade in training, court security and regional inmate transport.

Rural Fire Service expenses are expected to increase by \$23 million or 25.8 percent on the 2000-01 Budget. Additional funding has been provided to allow for the transfer of the district fire control staff to the Service from 1 July 2001. Additional funds have also been directed to the tanker replacement program.

The above estimated increases in expenses have been offset by a reduction to Operating Expenses following the finalisation of Olympic related costs in 2000-01. A further discussion of expenses is contained on a policy area basis in Chapter 4, and on an agency basis in Budget Paper No. 3.

A number of other financial initiatives of the Government in the current and Budget years have no direct impact on the Budget Result. However, they are included in the Operating Statement and affect General Government Net Financial Liabilities.

In 2000-01, \$2.5 billion in net capital repatriations were received as a result of the debt re-gearing of the electricity sector.

A capital restructure of entities within this sector was undertaken to raise debt levels closer to those of equivalent private sector firms. This action was necessary to ensure that these businesses face the same commercial disciplines as private sector firms.

The proceeds of the increased debt were returned to the General Government sector and applied in reducing General Government debt. Through paying off high coupon loans, ongoing savings in interest costs have been maximised and, although there will be a reduction in dividends paid by the relevant electricity entities, an overall benefit has been captured for future Budgets.

In 2001-02 the Commonwealth, New South Wales and Victorian Governments agreed to corporatise the Snowy Mountains Hydro Electricity Scheme in order to improve its economic efficiency in the new national electricity market. As a result, an initial share in the scheme amounting to \$328 million has been recognised in the financial statements. However, this amount is classed as a valuation gain and does not affect the Budget result.

A triennial revaluation of superannuation liabilities and the reassessment of the projected investment returns of the Pooled Superannuation Fund resulted in a \$1,289 million increase in the estimated level of unfunded superannuation liability as at 30 June 2001. The reassessment is treated as a valuation loss and excluded from the Budget result.

In 2000-01 \$200 million in debt was transferred from the Department of Housing to the General Government sector enabling the Department to benefit from lower interest costs. The assumption of debt is treated as a valuation adjustment and is excluded from the Budget result.

Capital Expenditure

Capital expenditure is expected to increase by \$140 million to \$2,596 million in 2001-02. This amount includes \$952 million for Roads, \$529 million for Health, \$358 million for Education and Training, \$86 million for Corrective Services and \$66 million for the Police Service.

FORWARD ESTIMATES

Revenue

Total revenue is estimated to rise by an average 3 percent per annum over the forward years. These increases are below the projected nominal rate of growth in Gross State Product (GSP).

Taxation revenue is expected to increase by an average 3.7 percent per annum. Commonwealth Grants are projected to increase by an average 2.3 percent per annum. Details of these trends are contained in Chapter 3.

The average estimated annual increase in Financial Distributions is 11.6 percent. Financial distributions in the electricity sector are expected to increase significantly due to ongoing growth in electricity usage, firm energy generation prices and increased earnings from particular businesses.

Expenses

Superannuation expenses are expected to increase by 11.5 percent in 2002-03, as the Superannuation Guarantee contributions to accumulation schemes increase from 8 percent to 9 percent, effective 1 July 2002. The cost of superannuation in 2003-04 and 2004-05 will increase by an average of 2.7 percent, in line with the movement in salaries.

Other employee related expenses are expected to increase by an average of 4.3 percent per annum over the Forward Estimates period. The costs of the Department of Health and the Department of Education and Training constitute about 66 percent of other employee related expenses. The average annual increase for these agencies is 4.7 percent.

Within Health, the Government has continued its commitment to provide a guaranteed level of growth funding within a three-year recurrent Health budget, enabling clinicians and managers to plan for growth in demand and related service delivery and workforce needs.

Grants are expected to increase by an average of \$60 million per annum during the forward estimates period. In 2000-01, the Transport sector received \$295 million more than was originally budgeted. Transport funding is still expected to increase by an average of \$74 million per annum over the forward years, primarily due to the Government's ongoing commitment to the Rail improvement package and the continuation of *Action for Transport 2010* projects.

Finance expenses will fall significantly over the forward estimates period as debt levels are reduced from continuing cash surpluses and the application of capital repatriation revenue to retire debt.

Capital Expenditure

Capital expenditure is expected to total \$10,302 million in the four years to 30 June 2005. When added to the capital program in the PTE sector over the same period, it constitutes a Total State Sector Asset Acquisition program of over \$22,000 million, an increase of \$3,019 million compared to the previous four-year period.

2.2 GENERAL GOVERNMENT SECTOR STATEMENT OF FINANCIAL POSITION

2000-01 RESULT

The estimated General Government Sector Net Worth as at 30th June 2001 is \$89,552 million (Table 2.3). This is \$1,535 million higher than the 2000-01 Budget estimate of \$88,017 million. This increase is principally due to the following factors:

- ◆ An additional \$2,873 million in Net Worth as at the 30th June 2000 compared to the revised estimate included in the 2000-01 Budget estimate. This increase resulted from the end of year revaluation of assets within the Department of Housing, reflected in PTE equity in the Balance Sheet, along with a reduction in the unfunded superannuation liabilities due to improved returns on fund assets. This was partially offset by increased provisions for depreciation within the RTA as a result of a revised accounting treatment.
- ◆ Asset revaluations in the Public Trading Enterprise sector totalling \$823 million in 2000-01.
- ◆ An unfavourable movement in Net Worth in the current year estimated at \$1,395 million due principally to the re-valuation of unfunded superannuation liabilities and the recognition of an estimated \$600 million liability relating to the collapse of HIH Insurance Limited.

2001-02 BUDGET

The Net Worth for the General Government Sector as at 30 June 2002 is expected to be \$92,192 million (Table 2.3). This includes investments in Public Trading and Financial Enterprises valued at \$47,750 million. The Net Worth of the General Government Sector is expected to increase by \$2,640 million during the Budget year.

The increase in Net Worth is due primarily to the General Government Operating Surplus of \$1,454 million, the net \$334 million operating surplus in the PTE sector and PFE sector and asset revaluation increments in those sectors amounting to \$823 million.

Land and Fixed Assets are expected to rise by \$813 million. This reflects the net investment being made in fixed assets after allowing for depreciation and asset sales.

Net Financial Liabilities, which excludes Land and Fixed Assets, are expected to fall by \$537 million in 2001-02. The largest contributors to this reduction are the Budget surplus and the revenue from the initial recognition of equity in Snowy Hydro Limited.

Borrowings are projected to fall by \$1,461 million while unfunded superannuation liabilities will increase by \$1,127 million. These variations are essentially due to the three year superannuation contribution holiday that ends on 30 June 2002. The contribution holiday followed the prepayment of \$3,261 million of additional contributions on 30 June 1999 (further details of this transaction are in Chapter 5).

Forward years

Land and Fixed Assets should rise by an average of \$769 million per annum over the Forward Estimates period. This is consistent with the Government's asset acquisition program which will result in capital expenditure exceeding depreciation by almost \$1 billion per annum, while asset sales will average \$267 million per annum.

Net Financial Liabilities are projected to decline by nearly \$700 million, and Net Debt by nearly \$1,350 million over the period from 30 June 2002 to 30 June 2005.

Table 2.3: General Government Sector Statement of Financial Position 2000-05, as at 30 June (GFS Basis)

	1999-2000 <i>Actual</i>	2000-01 <i>Budget</i>	2000-01 <i>Revised</i>	2001-02 <i>Budget</i>	2002-03	2003-04 <i>Estimate</i>	2004-05
	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>
ASSETS							
Financial Assets							
Cash and Deposits	418	87	573	360	180	113	83
Advances Paid	1,693	1,622	1,409	1,353	1,304	1,254	1,219
Investments, Loans and Placements	3,860	3,581	3,978	3,915	4,139	3,940	4,293
Other Non-Equity Assets	3,698	3,192	3,581	3,629	3,855	4,205	4,551
PTE/PFE Equity	46,475	43,137	46,576	47,750	47,750	47,750	47,750
Other Equity Assets	121	113	66	415	415	415	415
Total Financial Assets	56,265	51,732	56,183	57,422	57,643	57,677	58,311
Non-Financial Assets							
Land and Fixed Assets	64,230	66,521	64,604	65,417	66,130	66,905	67,725
Other Non-Financial Assets	754	849	854	969	1,083	1,204	1,330
Total Non-Financial Assets	64,984	67,370	65,458	66,386	67,213	68,109	69,055
TOTAL ASSETS	121,249	119,102	121,641	123,808	124,856	125,786	127,366
LIABILITIES							
Deposits Held	90	55	71	53	52	43	44
Advances Received	2,142	2,082	2,060	1,852	1,809	1,699	1,655
Borrowing	14,961	11,587	11,360	9,899	9,572	9,163	8,724
Provisions	13,125	14,825	16,144	17,472	18,004	18,574	19,138
Other Non-Equity Liabilities	2,862	2,536	2,454	2,340	2,320	2,280	2,271
TOTAL LIABILITIES	33,180	31,085	32,089	31,616	31,757	31,759	31,832
NET WORTH	88,069	88,017	89,552	92,192	93,099	94,027	95,534
Net Debt	11,222	8,434	7,531	6,176	5,809	5,598	4,828
Underlying Net Debt**	8,971	7,255	6,352	6,176	5,808	5,598	4,828
- as a % of GSP	4.0	3.0	2.7	2.4	2.2	2.0	1.6
Net Financial Liabilities*	23,390	22,490	22,481	21,944	21,864	21,832	21,272
- as a % of GSP	10.4	9.3	9.4	8.7	8.2	7.7	7.1

* Excluding PTE/PFE equity.

** adjusted for prepayment of superannuation contributions in June 1999.

2.3 GENERAL GOVERNMENT SECTOR STATEMENT OF CASH FLOWS

Table 2.4 shows the net cash flows of the General Government sector from operating, investing and financing activities.

Net Cash Flows from Operating Activities will move broadly in line with the Operating and Balance Sheet results. Net Cash Flows in 2000-01 are \$232 million better than Budget as the increase in receipts more than offsets the increase in payments in the key service delivery areas.

Net Cash Flows for Investments in Non-Financial Assets in 2000-01 are \$141 million below budget. The main factor in this result is the deferral of some asset sales to 2001-02 and 2002-03.

The cash surplus is expected to be \$484 million in 2000-01, \$91 million more than the Budget time estimate, and \$321 million in 2001-02. Cumulative surpluses of \$1,312 million at an average of approximately \$330 million per annum are expected to occur over the Budget and forward estimates period.

Table 2.5 shows GFS cash results from 1990-91 to 2004-05.

Table 2.4: General Government Sector Statement of Cash Flows (GFS Basis)

	1999-2000 Actual	2000-01 Budget	2000-01 Revised	2001-02 Budget	2002-03	2003-04 Estimate	2004-05
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Cash Receipts from Operating Activities							
Taxes Received	15,195	12,465	13,048	12,095	12,295	12,868	13,482
Receipts from sales of goods & services	2,819	2,545	2,653	2,460	2,545	2,588	2,688
Grants/Subsidies Received	9,610	12,926	13,181	14,515	14,863	15,047	15,521
Other Receipts*	2,815	2,822	3,262	3,117	3,058	3,192	3,442
Total Cash Receipts from Operating Activities	30,439	30,758	32,144	32,187	32,761	33,695	35,133
Cash Payments from Operating Activities							
Payments for goods & services*	(22,182)	(22,574)	(22,800)	(22,840)	(23,556)	(24,572)	(25,529)
Grants & Subsidies Paid	(3,898)	(4,067)	(4,572)	(4,854)	(4,835)	(4,911)	(4,815)
Interest Paid*	(1,103)	(858)	(953)	(829)	(875)	(857)	(727)
Other Payments	(248)	(734)	(1,062)	(975)	(963)	(963)	(975)
Total Cash Payments from Operating Activities	(27,431)	(28,233)	(29,387)	(29,498)	(30,229)	(31,303)	(32,046)
Net Cash Flows from Operating Activities	3,008	2,525	2,757	2,689	2,532	2,392	3,087
Cash Flows from Investments in Non-Financial Assets							
Purchases of New Non-Financial Assets	(2,546)	(2,540)	(2,455)	(2,596)	(2,534)	(2,530)	(2,642)
Sale of Non-Financial Assets	405	408	182	228	333	173	180
Total Cash Flows from Investments in Non-Financial Assets	(2,141)	(2,132)	(2,273)	(2,368)	(2,201)	(2,357)	(2,462)
Cash Flows from Investments in Financial Assets							
Financial Assets for Policy Purposes	(64)	2,342	3,230	11	48	132	157
Financial Assets for Liquidity Purposes	(257)	6	(191)	61	(222)	203	(347)
Cash Flows from Financing Activities							
Advances Received (net)	(132)	(67)	(76)	(223)	(44)	(106)	(43)
Borrowing (net)*	(1,982)	(3,825)	(4,294)	(1,500)	(296)	(324)	(429)
Deposits Received (net)	27	(1)	(16)	(21)	(1)	(9)	(1)
Total Cash Flows from Financing Activities	(2,087)	(3,893)	(4,386)	(1,744)	(341)	(439)	(473)
Net Increase/(Decrease) in Cash held	(1,541)	(1,152)	(863)	(1,351)	(184)	(69)	(38)
Net Cash from Operating Activities Investments in Non-Financial Assets and Distributions Paid							
	867	393	484	321	331	35	625
Assets acquired under finance leases	...	...	...	...	...	...	...
Surplus/(Deficit)*	867	393	484	321	331	35	625

* Note: Adjusted for prepayment of superannuation.

Table 2.5: General Government Results - Cash

Year	Current			Capital			Cash Flows from Operating Activities			Capital Expenditure \$m	Asset Sales & Other \$m	Surplus/ (Deficit) \$m
	Outlays \$m	Receipts \$m	Result \$m	Outlays** \$m	Receipts \$m	Result \$m	Payments \$m	Receipts \$m	Result \$m			
1990-91	14,773	15,245	472	2,921	1,226	(1,695)						(1,223)
1991-92	16,060	16,101	41	2,692	1,047	(1,645)						(1,604)
1992-93	16,748	16,749	1	2,892	1,776	(1,116)						(1,115)
1993-94	17,069	18,178	1,109	3,315	1,310	(2,005)						(896)
1994-95	17,819	19,122	1,303	2,941	1,048	(1,893)						(590)
1995-96	18,325	20,417	2,092	3,175	936	(2,239)						(147)
1996-97	19,717	22,100	2,383	3,316	1,086	(2,230)						153
1997-98							24,667	26,830	2,163	(2,460)	345	48
1998-99*							26,011	28,580	2,569	(2,481)	509	597
1999-2000*							27,431	30,439	3,008	(2,546)	405	867
2000-01*							29,387	32,144	2,757	(2,455)	182	484
2001-02*							29,498	32,187	2,689	(2,596)	228	321
2002-03							30,229	32,761	2,532	(2,534)	333	331
2003-04							31,303	33,695	2,392	(2,530)	173	35
2004-05							32,046	35,133	3,087	(2,642)	180	625

* Adjusted for prepayment of superannuation – Actual operating payments were \$3,266 million higher than the figure stated in the table above in 1998-99 and \$1,005 million lower in 1999-2000. Actual payments are projected to be \$1,058 million lower than stated in 2000-01 and \$1,134 million lower in 2001-02. The unadjusted results would be a deficit of \$2,669 million in 1998-99, and surpluses of \$1,872 million in 1999-2000, \$1,542 million in 2000-01 and \$1,455 million in 2001-02.

** Outlays equals capital direct expenses and capital grants. Under new GFS reporting, capital grants are treated as expenses and therefore included in payments.

2.4 GENERAL GOVERNMENT SECTOR OPERATING STATEMENT 2000-01 BUDGET AND REVISED ESTIMATES

The revised Budget result for 2000-01 is a surplus of \$221 million (see Table 2.6). Prior to the assumption of liabilities following the collapse of HHH Insurance, a Budget Surplus of \$821 million was expected.

Revenue

Total State Revenues are expected to be \$28,126 million, (excluding the impact of the previously mentioned electricity re-gearing). This exceeds the Budget estimate by \$932 million. Full details are provided in Chapter 3.

Taxation revenue is expected to exceed the Budget estimate by \$577 million or 4.6 percent. Most of this variation is due to Stamp duties, which are expected to exceed budget by \$505 million. Payroll tax revenue of \$3,976 million will marginally exceed budget by \$45 million.

Commonwealth grants are expected to exceed the Budget estimate by \$192 million. Grants to meet the cost of the First Home Buyers' scheme and the administration cost incurred by the Australian Tax Office to administer GST account for \$140 million of the increase in Commonwealth payments, while Specific Purpose Payments for Health, Education and the Disabled are all up on budget.

Financial Distributions exceeded the Budget Estimate by \$67 million principally due to increased dividends and tax equivalent revenues from the energy sector.

Operating Revenues are expected to be \$3,651 million for 2000-01. This exceeds the Budget estimate by \$370 million. Full details are provided in Chapter 3.

Revenues from the Sale of goods and services are expected to exceed the Budget estimate by \$108 million. Hospital fees and charges are expected to be \$52 million higher than Budget, partly due to more patients electing to be treated as chargeable patients. The Department of Veterans' Affairs has contributed an additional \$20 million to Health revenues while the Roads and Traffic Authority generated an additional \$24 million from work performed for external parties.

Investment revenue is expected to exceed the Budget estimate by \$118 million. Most of this increase relates to the bond portfolio held by the New South Wales Insurance Ministerial Corporation. Reductions in interest rates led to increases in the capital value of the portfolio.

Grants and Contributions revenue are expected to exceed the budget estimate by \$85 million. The Sydney Olympic Committee for the Olympic Games and Sydney Paralympic Organising Committee, which were outside the General Government sector, provided an additional \$40 million to the Olympic Roads and Transport Authority (ORTA) and the Olympic Co-ordination Authority (OCA). The Department of Transport also received unbudgeted grants amounting to \$16 million, from Public Trading Enterprises, for the purpose of funding the Integrated Transport Information Service.

Expenses

Part of the increased revenue has been utilised to provide grants to the Transport sector and meet costs incurred in the key service delivery areas of Health, Education, Law and Order and Community Services. The Government's initiative on HIH, as noted, has also increased expenses. Details of variations in estimated expenses are contained in Appendix D. Major variations in expenses that affect the Budget result are briefly described below:

Transport expenses are expected to be higher than the Budget estimate by \$322 million primarily due to additional funding for the Rail Improvement Package, including extra rail carriage and track maintenance, and further grants to Rail Infrastructure Corporation to upgrade rail infrastructure. Additional funds have also been provided for improving the State Rail Authority's operational performance and meeting shortfalls in budgeted revenue.

Education expenses are expected to exceed the Budget estimate by \$171 million or 2.8 percent. Additional costs were incurred for salary adjustments under the May 2000 teachers' salary increase, which was unresolved at the time the 2000-01 Budget was brought down. Other increases include the career change scheme for school teachers, additional operating costs for the Department's technology network, per capita grants to non-Government schools and additional costs for Commonwealth funding programs (offset by Commonwealth grants).

ORTA and OCA expenses are expected to exceed the Budget estimate by \$127 million. Additional expenses were incurred in relation to the Olympic allowance payments, transport costs, payment to the Commonwealth (Paralympic Games), depreciation and urban domain costs. Most of these expenses were met from unbudgeted revenues of these agencies (as detailed above).

Health operating expenses of \$7,070 million are projected to be \$51 million or 0.7 percent greater than the Budget estimate. The major reason for this variation is that certain cash flows that were originally categorised as asset acquisitions have now been reclassified to expenses.

Expenses of the **Welfare** sector are expected to be higher than the Budget estimate by \$101 million, partly due to additional costs associated with disability services, expenses previously capitalised and grants carried over from 1999-2000.

Police Service expenses are expected to be higher than the Budget estimate by \$28 million or 2.1 percent. This primarily consists of \$17 million for the recent Police salary settlement and \$11 million in additional depreciation.

First Home Owners' grants are expected to exceed the Budget estimate by \$78 million. **Reimbursements to the Australian Tax Office** for the costs of administering the GST are expected to exceed budget by \$61 million. These additional expenses are offset by a matching increase in Commonwealth grants.

As noted earlier a number of events have occurred in 2000-01 that are outside the normal operations of Government and are excluded from the Budget result as valuation adjustments under ABS guidelines. However these items are included in the Operating Result and impact Net Financial Liabilities.

Superannuation expenses are expected to exceed the Budget estimate by \$1,395 million as a result of the new assumptions about benefit payments adopted in the triennial actuarial review, and revisions to the expected investment earning rate for 2000-01.

The **Roads and Traffic Authority (RTA)** expense for depreciation on roads is expected to exceed the Budget estimate by \$435 million. The increased expense reflects a change in the relevant accounting treatment. Prior to 1999-2000 the RTA used a condition based methodology to assess depreciation. In accordance with the Urgent Issues Group Abstract 30, this method has been discontinued and replaced with a straight line depreciation method. This is in accordance with Australian Accounting Standards.

Finance valuation expenses are projected to be \$625 million higher than the Budget estimate. This consists primarily of costs associated with the electricity sector re-gearing and the acceptance of debt from the Department of Housing, as mentioned earlier.

**Table 2.6: General Government Sector 2000-01
Operating Statement - Estimated Result**

	2000-01		
	Budget	Revised \$m	Variation \$m
State Revenues			
Taxation	12,412	12,989	577
Commonwealth Grants	12,780	12,972	192
Capital Repatriations	2,400	3,203	803
Financial Distributions	1,210	1,277	67
Fines, Regulatory Fees & Other	792	888	96
Total State Revenues	29,594	31,329	1,735
Operating Revenues			
Sale of Goods and Services	2,171	2,279	108
Investment Income	391	509	118
Grants and Contributions	421	506	85
Other	298	357	59
Total Operating Revenues	3,281	3,651	370
Expenses			
Employee Related - Superannuation Valuation	...	1,289	1,289
- Superannuation Other	1,540	1,646	106
- Other	12,157	12,384	227
Other Operating	6,765	7,117	352
Maintenance	1,120	1,159	39
Depreciation and Amortisation	995	1,443	448
Current Grants and Subsidies	4,060	5,011	951
Capital Grants	1,252	1,476	224
Finance valuations	278	903	625
Finance other	1,009	996	(13)
Total Expenses	29,176	33,424	4,248
Gain/(Loss) on Sale of Non-Current Assets	(14)	19	33
Net Cost of Services	(25,909)	(29,754)	(3,845)
Operating Surplus	3,685	1,575	(2,110)
Valuation Items Adjustments under GFS	(1,888)	(587)	1,301
Less Capital Expenditure	2,540	2,456	(84)
Plus Depreciation	995	1,443	448
Asset Sales	407	246	(161)
BUDGET RESULT (GFS BASIS)	659	221	(438)

2.5 STATEMENT OF GOVERNMENT FINANCE STATISTICS AND ACCOUNTING PRINCIPLES AND POLICIES

BUDGET RESULTS

FINANCIAL STATEMENTS

The NSW Budget Papers present three Budget financial statements that comply with the accrual based Government Financial Statistics (GFS) principles recently developed by the Australian Bureau of Statistics. This Chapter summarises key information from the three statements:

- ◆ Budget Operating Statement
- ◆ Statement of Financial Position
- ◆ Statement of Cash Flows.

In addition, accrual GFS statements complying with the Uniform Presentation Framework are contained in Chapter 9, and statements complying with Australian Accounting Standards are contained in Appendix A.

Some presentational changes have been made to the Budget Operating Statement. However, the classification of transactions is consistent with the 2000-01 Budget Papers.

Budget Operating Statement

The Budget Papers include a Budget Operating Statement that combines an accrual accounting presentation and certain disclosures under the new GFS accrual format.

The Budget result (GFS Basis) in the Budget Operating Statement is the key indicator of change in the State's financial position. It represents the balance available to reduce General Government Sector net liabilities. Consequently, the Budget result broadly approximates the movement in Net Financial Liabilities, underscoring the Government's focus on balance sheet management.

The Budget Operating Statement also discloses the Operating Surplus by consolidating the operating results of each of the agencies included in the General Government sector. This accounting based result reflects the full cost of delivering Government services. One-off events not necessarily associated with the day-to-day operations of the State, such as the actuarial revaluations of the State's superannuation liabilities, the impact of the collapse of HIH Insurance and the re-gearing of the Public Trading Enterprise (PTE) sector, are included in this total.

Consistent with changes in Accounting Standards, the Budget Operating Statement no longer discloses abnormal items. Consequently, items that would have been classified as abnormal in previous years, such as capital repatriations from the PTE sector and superannuation valuation adjustments, are now disclosed in the body of the report. However, the majority of these abnormal items are removed as valuation adjustments to arrive at the Budget result.

The principal difference between the Operating result and the Budget result is the treatment of capital. The Operating Result includes a depreciation charge that reflects the cost of wear and tear of agencies' assets arising from the delivery of services. The Budget result excludes depreciation but instead reflects agencies' acquisition and sale of assets.

Statement of Financial Position

The Statement of Financial Position is disclosed on a GFS basis. It reflects the financial position of the Government at a particular time providing information on financial assets, non-financial assets, and liabilities. The relevant balance sheet indicators disclosed include Net Debt, Net Financial Liabilities and Net Worth.

The key difference between the accounting based Statements of Financial Position is the inclusion of an equity investment in the Public Trading and Public Financial Enterprise sectors in the GFS statement.

Statement of Cash Flows

The Statement of Cash Flows adopts a GFS format and classification approach with the key focus being the cash surplus/(deficit). The result reflects all payments and receipts on a cash basis. Any accrual transactions included in the Budget result, such as accrued dividends, are removed and replaced with the equivalent cash transactions.

The cash result is fully detailed in the GFS Statement of Cash Flows and is a key result in the assessment of performance against the fiscal targets and principles in the *General Government Debt Elimination Act 1995* (see Chapter 1).

Under the *General Government Debt Elimination Act 1995*, the Treasurer is required to present a statement that discusses the nature of and the reasons for any departure from Australian Accounting Standards and principles, and from any GFS principles.

Departures from Australian Accounting Standards

The Budget has been prepared on an accrual basis in accordance with generally accepted accounting principles and Australian Accounting Standards except as discussed below. The Budget has also been prepared consistent with the accounting policies in the Consolidated Financial Statements of the NSW Total State Sector which incorporate the Public Accounts. However, the Budget only includes the financial statements and does not include detailed disclosures that are included in the annual audited accounts.

The Budget preparation departs from the Australian Accounting Standards as follows:

- ◆ lack of reliable information has resulted in undeveloped Crown Land, certain cultural collection assets and school bank accounts not being recognised in the financial statements;
- ◆ an abnormal income of \$704 million was recorded in the 1998-99 General Government Operating Result. This income was the Government Actuary's estimate of unallocated superannuation reserve balances in the State Superannuation Scheme to be transferred to Crown employer reserve accounts when the allocation process was completed. The Auditor-General is of the opinion that these amounts should not have been recognised until the 1999-2000 year when the allocation process was completed and approved by the SAS Trustee Corporation and the Minister as required by the *Superannuation Act, 1916*. This impacts the 1998-99 and 1999-2000 Operating Results only and has no impact on the Budget and Forward Years;
- ◆ some assets and liabilities of the FANMAC trusts are not consolidated as it is considered that they are not controlled by the NSW Government. The NSW Auditor-General disagrees with this treatment; and
- ◆ the WorkCover Scheme Statutory Funds have not been consolidated because they are regulated, but not controlled by the NSW Government. This treatment has been confirmed in three separate legal opinions provided by the Crown Solicitor's Office since 1996, including advice given on the matter by the NSW Solicitor General. Despite these opinions the Auditor-General has qualified his June 2000 Independent Audit Report, because he is of the opinion that the State has the capacity to control decision making in relation to the Scheme's financial and operating policies.

Departures from GFS Principles

The Budget has been prepared in accordance with Government Finance Statistics principles except as discussed below:

- ◆ the Australian Bureau of Statistics requires that selected payments that pass through the State's accounts e.g. transfer payments for non-government schools from the Commonwealth, be included in the Operating Statement and Statement of Cash Flows. Reports in the Budget Papers exclude these receipts and payments as the NSW Government has no control over them;
- ◆ Government Finance Statistics requires the General Government sector to record an investment in the equity of the Public Trading and Financial Enterprise sectors. The equity investment has been excluded from the General Government's "Net Financial Liabilities" as the investment is supported largely by physical infrastructure and in practical terms it is not in the true nature of a financial asset; and
- ◆ current GFS principles as followed by the ABS statistical standards require a premium on a loan to be classified as a negative interest payment in the year the loan is raised. New South Wales disagrees with this approach since it results in an asymmetric treatment with discounts on loans that are treated as a balloon interest payment on the maturity of the loan.

Whilst strict accordance with GFS standards requires the ABS approach to be adopted, the ABS has recognised the accounting difficulties of this approach. Given this, a compromise has been reached which involves all jurisdictions and the ABS departing from GFS principles and recording the premium as a negative interest payment in the final year of the loan.

The first two of the above three transactions have, however, been treated in accordance with GFS principles in Chapter 9, Uniform Presentation Framework, which is required to be prepared on a GFS basis.

2.6 KEY FACTORS AFFECTING BUDGET OUTCOMES

The 2001-02 Budget estimates are predicated on assumptions and judgements influenced by the information available at the time of their preparation. In practice, both revenues and expenses will be subject to change from budget, and the size of changes will inevitably increase over the forward estimates period.

Actual revenues and expenses and the timing thereof will be influenced by:

- ◆ the economic environment and general influences that have indefinite timing and/or a magnitude that has not been established, notably those related to technological change;
- ◆ policy delivery, new policy developments and service delivery pressures;
- ◆ regulatory outcomes;
- ◆ Commonwealth Government policy, most notably around taxation and revenue support to the States; and
- ◆ the possible realisation of contingent liabilities.

Management of the State's finances requires giving consideration to uncertain future developments, both external to the State's control and in respect of new policy. The flexibility to respond to changes in circumstances as they occur, rather than overly restrictive adherence to a set of targets for their own sake, is critical to effective budget management and the formulation of fiscal strategy. The impact of possible changes on budget aggregates can be favourable in some circumstances and adverse in others.

Some contingency funding is provided in the Budget. The *Treasurer's Advance* is for contingencies such as those associated with natural disasters and the costs of unanticipated policy responses that may be required in the budget year. A separate Treasurer's Advance is provided for capital works.

ECONOMIC PARAMETERS

There are two sources of uncertainty associated with the economic parameters and their bearing on the Budget. First, the forecasts for 2001-02 and parameters thereafter will be subject to forecasting errors. The economic parameters from 2002-03 abstract from cyclical factors over the estimates period, reflecting expectations for average economic performance over the current decade due to the difficulty in accurately predicting cyclical variations more than a short period ahead. Second, the relationship and timing between some revenue and expense items and economic factors can be unpredictable. Therefore, even if economic outcomes were identical to those assumed for budgeting purposes, total revenues and expenses may still vary from the Budget, all other factors being unchanged.

Variations between Budget estimates and actual outcomes from time to time are unavoidable. Revenues from contracts and conveyance duty and other transaction based taxes are particularly volatile and difficult to forecast. Some revenue items may have had an inadvertent bias in past Budgets. Most notably, in the past there appears to have been on average a conservative bias in the profit estimates for PTEs, which flows through to the Budget via dividend and tax equivalent payments.¹

A useful way to illustrate the scope for Budget outcomes to be affected by changes in the economic environment is to consider the consequences of different economic scenarios for the Budget.

Examples of Alternative Economic Scenarios and Budget Impacts

Three scenarios are explored for the purposes of illustrating the potential for changes in the economy to affect the Budget year's outcomes: a *higher growth* scenario, a *lower growth* scenario, and a *severe recession* scenario. The economic scenarios should not be interpreted as likely possible outcomes for the economy or as confidence intervals around the Budget estimates.

¹ Section 9.5 provides details.

Table 2.7: Illustrative Economic Scenarios, 2001-02

	<i>Budget Economic Forecasts</i> %	<i>Alternative Scenarios</i>		
		<i>Higher Growth</i> %	<i>Lower Growth</i> %	<i>Severe Recession</i> %
Gross State Product	2 ¾	3¾	1	-1½
Employment (NSW)	¾	1¾	¼	-½
Wages	3½	4	3¼	2
CPI	2¼	2½	2	1½
Mortgage interest rates	6¼	6½	5½	4¾

In the *higher growth* scenario a slightly stronger labour market than the 2001-02 Budget forecast accompanies better output growth of 3¾ percent, putting modest upward pressure on prices. Confidence and investor sentiment would be expected to improve.

In the *lower growth* scenario, output and employment undergo relatively subdued growth of 1 percent and ¼ percent respectively putting downward pressure on interest rates. Wages and prices are slightly lower than the 2001-02 Budget forecast and business and consumer confidence is assumed to be lower.

The *severe recession* scenario is the most extreme. Under this scenario a prolonged downturn in the United States is assumed to have flow-on effects to the Australian economy. Consumer confidence and business investment would be hard hit and output declines by 1½ percent. In line with this, labour market conditions would deteriorate and interest rates fall.

Budget scenarios corresponding to each economic scenario have been derived. For each scenario, Table 2.8 shows the deviations from the Budget result assuming *no* explicit policy response to changed economic conditions by State and Federal Governments.

Table 2.8: Illustrative Alternative Budget Outcomes, 2001-02

	<i>Change on Budget Estimate</i>		
	<i>Higher Growth</i> \$m	<i>Lower Growth</i> \$m	<i>Severe Recession</i> \$m
GFS Budget Result	360	(-) 435	(-) 970
GFS Revenues	365	(-) 445	(-) 995
Tax	325	(-) 380	(-) 825
Non-tax	40	(-) 65	(-)170
GFS Expenses	5	(-) 10	(-) 25

The projected Budget outcome is a Budget Surplus of \$368 million. However, under the higher growth scenario the outcome could be a higher Budget Surplus of about \$730 million (an improvement of around \$360 million), while under the lower growth scenario the outcome could be a Budget Deficit of about \$70 million (a deterioration of around \$435 million).

In all scenarios, the Budget result is primarily driven by changes in revenues. In the short term, expenses are relatively insensitive to changes in economic parameters largely because growth in public sector wages (the largest component of expenses) is 'locked in' through wage agreements for the Budget year and beyond and major program changes are difficult to achieve in a short time frame.

In contrast, revenue items such as payroll tax and stamp duty can be quite sensitive to economic factors. Both employment levels and wage rates affect payroll tax. Stamp duties, including contracts and conveyances, are affected by changes in transaction volumes and confidence. Note also that while the state of the economy will impact on GST collections, this will not flow through to the NSW Budget because *Budget Balancing Assistance* will be adjusted.

Revenues under the higher growth scenario are higher in line with higher output growth, a stronger labour market, improved confidence and stable interest rates. Consistent with the fall in confidence under the lower growth scenario, transaction based tax revenues decline.

Under the more extreme severe recession scenario the Budget outcome deteriorates by over \$970 million, and with no policy adjustments a Budget Deficit of about \$600 million results.

TECHNOLOGICAL DEVELOPMENTS

The potential costs or benefits of technological developments cannot be readily quantified. Technological developments will often affect the Budget over a longer period than that covered by the forward estimates. Examples include:

- ◆ New technology and the associated increased mobility of capital and greater exploitation of tax loopholes have the potential to erode NSW tax revenue.
- ◆ There is the potential to improve the quality of service delivery and/or reduce the cost per unit of service delivery, as new technologies are applied in key service areas such as education and health. However, new technologies could also produce unanticipated changes in service demand patterns, especially in the health sector, which have the potential to affect expenses.

CHANGES IN THE POLICY ENVIRONMENT

Apart from possible changes to the macroeconomic environment, Budget outcomes may depend on any or a combination of the following:

- ◆ The cost of implementing a new policy or maintaining an existing policy may be different from that assumed in the Budget estimates – for example, due to different take-up rates or subsequent refinements to cost estimates.
- ◆ Delays in implementation or the need for additional government funding may arise, such as weather-related delays to capital works, or the occurrence of natural disasters.
- ◆ Policies will be fine-tuned or changed and new policies will inevitably be introduced over the forward estimates period.
- ◆ Changes in the regulatory environment at the State and Federal level can affect the prices and costs of government provided services such as transport, electricity and water.

Policy Delivery Assumptions

The Budget is framed on a ‘no policy change’ basis – ie, it assumes that expenditure and revenue policies prevailing at the time of the Budget (including any new policies announced up until and in the Budget) are carried into the forward estimates period. Therefore a subsequent change in policy would affect the Budget year and forward estimates.

Funding for the Treasurer’s Advance provides a contingency for unforeseen demand and increased cost pressures in each of the forward years.

Demographic and social changes and other external factors can have a substantial impact on demand and hence the cost of maintaining existing policies, in particular in the health, community services, criminal justice and education sectors.

The forward estimates make allowances for such costs where possible, and in some areas to a greater extent than in previous Budgets. For example, since the commencement of the Government Action Plan for Health in 1999-2000, the forward estimates of the Department of Health have included guaranteed growth funding to meet projected increases in activity. In the welfare area, the forward estimates have been revised in 2001-02 Budget to meet expected growth in foster care expenditure.

However, some of the changes in demand are difficult to predict. For example, the demand for public health services will be affected by the usage of private health insurance which in turn is influenced by Commonwealth Government policy.

Additionally, the impact of policy changes in one area can have unpredictable consequences for other interconnected areas. For example, the increase in police numbers will have flow-on costs for other parts of the criminal justice system. While an allowance has been made for these kinds of flow-ons in the forward estimates, the size of these flow-on costs may turn out to be different from those assumed.

In regard to liabilities associated with superannuation schemes and other employee benefits and insurance schemes, measures of such liabilities depend on actuarial estimates that rely on policy assumptions regarding public sector wage growth and non-policy assumptions regarding inflation and fund earnings. Therefore actuarial estimates are subject to change, which can influence the size of funding contributions required from the Budget.

Capital Works

In past years, budgeted capital outlays have tended to exceed actual capital outlays to a small degree.

In part agencies expectations of the capital works they would complete were over-optimistic with insufficient allowance for unavoidable circumstances such as bad weather and other factors which delayed spending. While every effort is made to account for these effects, the impact of such factors cannot be accurately forecast.

The forward year estimates assume that the size of the “discretionary” component of the capital program (ie. that component which is not funded through dedicated revenue sources) will remain relatively constant in real terms. This means in effect that the forward estimates contain an allowance for new projects yet to be identified or approved.

PRICING AND REGULATION OF UTILITIES

Potential adjustments to the Budget (adverse or favourable) could arise from price determinations by the Independent Pricing and Regulatory Tribunal (IPART). IPART is expected to provide pricing determinations with effect in 2001-02 in respect of public transport fares (affecting the State Rail Authority and State Transit Authority). This determination could influence the level of Budget subsidies required.

IPART reviews may also impact on revenues from financial distributions. IPART recently released a review of the Rail Infrastructure Corporation's (RIC) asset values affecting the maximum permitted return on assets. The impact of this review on profitability is currently being assessed by RIC.

IPART has established electricity retail prices until June 2004 for those customers choosing not to enter the contestable retail market. From 1 January 2002, all electricity customers are scheduled to be able to choose their retail electricity supplier. However, competition could reduce margins earned by Government owned electricity retailers, thereby putting pressure on financial distributions.

POLICY CHANGES IN OTHER JURISDICTIONS

Changes in Commonwealth Government policies can affect the States in a variety of ways. The impacts on the Budget can be direct, such as through changes in Commonwealth grants, conditions associated with tied grants, and changes in Commonwealth tax policy. The impact of most such changes cannot readily be quantified in advance, but could be quite significant.

Commonwealth Government policy can also have indirect impacts. For example, a change in migration policy, tariff policy, or Australian commitments to international agreements could have flow-on effects to the NSW Budget.

In addition, Commonwealth policy changes can alter the incentive for individuals to use State Government services - e.g. pricing and/or changes to eligibility requirements or waiting list criteria for some social services - can significantly change the patterns of demand and usage, and therefore the costs faced by States.

Policy changes in other States can flow through to the NSW Budget. For instance, different tax regimes may apply to border regions in order to minimise tax revenue leakages between States or policy changes may affect Commonwealth Grants Commission relativities. New South Wales has also closely monitored changes in other States' tax regimes for highly mobile tax bases such as financial transactions. Apart from taxation, cross-border charging arrangements by other States for some services can also lead to variations in the demand for or cost of services provided by New South Wales.

COMMONWEALTH TAX REFORMS

Not all costs and forgone revenues have been recognised in the Commonwealth's *Budget Balancing Assistance* payments to the States associated with national tax reform. Furthermore, the costs agencies are incurring to comply with the GST on an ongoing basis may vary from those provided for in the forward estimates.

CONTINGENT LIABILITIES

The Budget can be affected by a wide variety of contingent liabilities, defined as costs the Government will have to face or otherwise respond to if a particular event occurs. These may arise from:

- ◆ disputes including claims for compensation and litigation;
- ◆ State guarantees under statute;
- ◆ other guarantees provided to facilitate the provision of certain services and the construction of infrastructure assets; and
- ◆ developments where the Government intervenes in the public interest, despite there being no legal obligation for the Government to do so.

The main contingent liabilities of the General Government and State Sectors, both quantifiable and unquantifiable, are identified in the *Consolidated Financial Statements of the New South Wales Total State Sector* published in the second quarter of each calendar year.

Note 19 in the 1999-2000 Statements identifies \$754 million worth of quantifiable contingent liabilities in the General Government Sector as at 30 June 2000, as well as a number of other unquantifiable contingent liabilities.

The Government may also face contingent liabilities associated with private sector infrastructure projects which are detailed in Chapter 9 of this Budget Paper to satisfy Loan Council reporting requirements. Some of these liabilities are also noted in the *Consolidated Financial Statements of the New South Wales Total State Sector*.

Other additional contingent liabilities which are not identified in either the *Consolidated Financial Statements* or Loan Council reporting requirements may arise from contractual obligations, guarantee arrangements or claims in connection with land development, forestry/environmental programs and native title. For example, the State is required to meet 25 percent of compensation costs when native title is forcibly extinguished. The potential size of these liabilities has not been quantified.

Additional unquantifiable contingent liabilities may also arise throughout the course of the year. For instance, the Government may undertake to provide financial assistance to victims of drought or flood or to those suffering significant adverse impacts as a consequence of financial or other mismanagement of public or private entities.

CHAPTER 3: GENERAL GOVERNMENT SECTOR REVENUES

- ◆ New tax cuts announced and implemented in the 2001-02 Budget will reduce revenue by \$237 million in 2001-02 and \$421 million in a full year. Taking into account the recently announced Insurance Protection Tax to help fund the response to the collapse of HIH Insurance and the new Policyholders Protection Fund, the measures will reduce revenue by a net \$352 million in a full year and \$168 million in 2001-02.
- ◆ Together with tax cuts introduced since 1999, the 2001-02 Budget measures will reduce tax revenue by \$963 million in 2001-02, rising to \$1,405 million in 2004-05. These cuts are additional to the taxes to be removed from 1 July 2001 as part of national taxation reform, totalling around \$1,100 million in 2001-02.
- ◆ The 2001-02 Budget measures comprise:
 - abolition of Debits Tax from 1 January 2002 – 3½ years ahead of the national tax reform timetable. Abolition of Debits Tax on this date is conditional on the Commonwealth Government guaranteeing that New South Wales will not be disadvantaged under national tax reform arrangements from acting early to abolish this tax;
 - suspension of the Electricity Distributors Levy, including the Transmission Operators' Levy, from 1 July 2001, with the need for the levy to be reviewed in the 2003-04 Budget;
 - abolition of duty on instruments relating to superannuation from 1 July 2001;
 - from 1 July 2001, increasing the exemption threshold for stamp duty on leases from \$3,000 to \$20,000 and abolishing lease duty on franchise agreements; and
 - increasing the monthly threshold for stamp duty on hiring arrangements from \$6,000 to \$14,000 for ordinary goods hire, from 1 July 2001.
- ◆ Changed funding arrangements associated with national taxation reform will have no net effect on the NSW Budget in 2001-02 and the forward estimates years. According to current estimates, the New Tax System will not produce net financial gains for New South Wales until 2007-08.

3.1 INTRODUCTION

Total revenue is expected to rise by 1.2 percent in 2001-02 excluding the impacts of one-off capital restructuring (see Table 3.1).

Taxation revenue is expected to fall by 7.0 percent, mainly as a result of the tax measures announced in the 2001-02 Budget and the previously announced measures to abolish Financial Institutions Duty and stamp duty on the transfer of listed marketable securities as part of national tax reform. Excluding the effect of national tax reform measures, NSW taxation revenue is estimated to increase by 3.0 percent, below the expected nominal rate of economic growth.

Commonwealth grants are expected to increase by 11.1 percent mainly reflecting the substitution of Commonwealth grants for abolished State taxes. Excluding the impact of these changes, Commonwealth grants would increase by around 3.3 percent.

Table 3.1: Summary of Revenues

	1999-2000	2000-01		2001-02	2002-03	2003-04	2004-05
	<i>Actual</i> \$m	<i>Budget</i> \$m	<i>Revised</i> \$m	<i>Budget</i> \$m	\$m	<i>Estimates</i> \$m	
State Revenues							
Taxation	15,185	12,412	12,989	12,084	12,275	12,855	13,465
Commonwealth Grants	9,460	12,780	12,972	14,413	14,792	14,980	15,447
Financial Distributions	1,299	1,210	1,277	1,129	1,236	1,479	1,661
Other	876	792	888	861	864	885	947
	26,820	27,194	28,126	28,487	29,167	30,199	31,520
Operating Revenues							
Sale of Goods and Services	2,583	2,171	2,279	2,323	2,394	2,426	2,474
Investment Income	492	391	509	457	475	477	536
Grants and Contributions	422	421	506	325	299	314	314
Other	342	298	357	578	260	260	268
	3,839	3,281	3,651	3,683	3,428	3,477	3,592
Total Revenues Excluding Capital Restructure	30,659	30,475	31,777	32,170	32,595	33,676	35,112
Capital Restructure	...	2,400	3,203	...	...	77	115

Care is required in making comparisons of revenue between years given the impact of national tax reform in replacing State taxes with Commonwealth grants and the move to present revenue on an accrual basis from 1999-2000.

While there are few differences between cash and accrual estimates for most revenues, financial distributions from Public Trading and Financial Enterprises and revenue from Land Tax are significantly affected, requiring caution when comparing these estimates with those published in years before 1999-2000. The financial distributions of Public Trading Enterprises and Public Financial Enterprises are recorded in the accrual estimates in the year income is earned, but the cash payment is made in the financial year after the accrual.

3.2 TAXATION MEASURES

2001-02 BUDGET TAX MEASURES

The 2001-02 Budget contains additions to the medium-term tax reduction program the Government commenced in the 1999-2000 Budget. The 2001-02 Budget tax measures are summarised in Table 3.2, which also summarises tax reduction measures since the 1999-2000 Budget.

Table 3.2: Tax Measures

<i>Initiative</i>	<i>Revenue Impact^a</i>			
	<i>2001-02 \$m</i>	<i>2002-03 \$m</i>	<i>2003-04 \$m</i>	<i>2004-05 \$m</i>
2001-02 Budget Initiatives				
Abolish debits tax, from 1.1.02 ^b	(-) 131	(-) 314	(-) 312	(-) 310
Suspend Electricity Distributors Levy, from 1.7.01	(-) 100	(-) 100	(-) 100	(-) 100
Increase lease duty exemption threshold, and abolish lease duty on franchise agreements, from 1.7.01	(-) 3	(-) 3	(-) 3	(-) 3
Increase hiring arrangements duty threshold, from 1.7.01	(-) 2	(-) 2	(-) 2	(-) 2
Abolish duty on instruments relating to superannuation, from 1.7.01	(-) 1	(-) 1	(-) 1	(-) 1
Total – 2001-02 Budget initiatives	(-) 237	(-) 420	(-) 418	(-) 416

Table 3.2: Tax Measures (cont)

<i>Initiative</i>	<i>Revenue Impact</i> ^a					
	<i>1999-2000</i> <i>\$m</i>	<i>2000-01</i> <i>\$m</i>	<i>2001-02</i> <i>\$m</i>	<i>2002-03</i> <i>\$m</i>	<i>2003-04</i> <i>\$m</i>	<i>2004-05</i> <i>\$m</i>
<i>Previously announced measures</i>						
Decrease land tax rate from 1.85% to 1.7%, from 31.12.99	(-) 67	(-) 81	(-) 84	(-) 86	(-) 88	(-) 91
Payroll tax rate reductions:						
From 6.85% to 6.7%, (1.7.99)	(-) 80	(-) 93	(-) 101	(-) 106	(-) 113	(-) 119
From 6.7% to 6.4%, (1.7.99)	(-) 161	(-) 187	(-) 201	(-) 213	(-) 225	(-) 238
From 6.4% to 6.2%, (1.1.01)		(-) 52	(-) 134	(-) 142	(-) 150	(-) 159
From 6.2% to 6.0%, (1.7.02)				(-) 130	(-) 150	(-) 159
Phase out of \$43 third-party motor vehicle registration levy, completed 1.7.00	(-) 85	(-) 112	(-) 112	(-) 112	(-) 112	(-) 112
Parking Space Levy changes, from 1.7.00		25	25	25	26	26
Remove surcharge on motor vehicle registration fees and transfer fees, from 1.7.00		(-) 36	(-) 36	(-) 36	(-) 36	(-) 36
First Home Plus stamp duty concessions for first home buyers, from 1.7.00		(-) 110	(-) 114	(-) 117	(-) 121	(-) 126
Insurance stamp duty rate decrease from 11.5% to 10.0%, from 1.10.00		(-) 23	(-) 38	(-) 40	(-) 42	(-) 44
Introduce the Insurance Protection Tax, from 1.7.01			69	69	69	69
Total – previously announced measures	(-) 393	(-) 669	(-) 726	(-) 888	(-)942	(-)989
Total - Tax changes since 1 July 1999	(-) 393	(-) 669	(-)963	(-)1,308	(-)1,360	(-)1,405

^a Revenue impacts expressed in nominal dollars.

^b Conditional on the Commonwealth Government guaranteeing that New South Wales will not be disadvantaged under national tax reform arrangements.

The medium-term tax reduction program aims to reduce the overall tax burden in New South Wales and improve the climate for business investment and employment growth.

Tax reductions announced in the 2001-02 Budget will reduce revenue by \$237 million in 2001-02 and \$421 million in a full year. The tax cuts are partly offset by the recently announced Insurance Protection Tax designed to raise \$69 million a year to help fund the response to the collapse of HIH Insurance and establish the Policyholders Protection Fund. Nevertheless, the net tax reduction of \$168 million in 2001-02 and \$352 million in a full year exceeds the Government's commitment in the 1999-2000 Budget to provide tax reductions with a full year cost of \$175 million from 2001-02.

The measures announced in this Budget, together with those introduced in the preceding two years, result in a cost to revenue of \$963 million in 2001-02, rising to \$1,405 million in 2004-05.

Debits Tax

Debits tax will be abolished from 1 January 2002, at a cost to revenue of \$131 million in 2001-02 and \$315 million in a full year, conditional on certain Commonwealth Government guarantees outlined below.

Debits tax is regressive, effectively taxing smaller withdrawals at a higher rate than larger withdrawals. Debits tax also distorts consumer and business behaviour, thereby imposing an efficiency cost on the economy. The inefficiency of this tax was recognised by its inclusion in the taxes to be abolished under national tax reform. It was initially proposed to be abolished from 1 January 2001, but following the Commonwealth's negotiations with the Australian Democrats to secure passage of GST legislation through the Senate, it was decided that the tax would be abolished by 1 July 2005, subject to the review of the Annual Treasurers' Conference.

The NSW Government's decision to abolish this tax from 1 January 2002 will result in New South Wales acting three and a half years before the national date for abolition currently proposed in the Intergovernmental Agreement on the Reform of Commonwealth State Financial Relations (IGA). The Government has indicated that it will bear the cost of the early abolition of Debits Tax providing New South Wales will not be penalised for abolishing the tax in advance of other States. In particular, the NSW Government is seeking a Commonwealth guarantee that New South Wales will not be adversely affected under the compensation arrangements of the Intergovernmental Agreement.

Electricity Distributors Levy

The Electricity Distributors Levy (EDL), including the Transmission Operators Levy, will be suspended from 1 July 2001, at an annual cost to revenue of \$100 million. The need for the levy will be reviewed in the 2003-04 Budget in the context of trends in electricity prices and the dividends of electricity generators.

The EDL was introduced following deregulation of the electricity industry which led to substantial and unsustainable falls in electricity prices during 1997-98 and 1998-99. The fall in electricity prices produced a windfall gain to large electricity consumers at the expense of taxpayer-owned electricity generators. As demand and supply within the national market move more into balance, electricity prices in the competitive segment of the market have tended to recover. However, even with the price rises, NSW electricity prices remain amongst the lowest in the world, and are the lowest in mainland Australia. Furthermore, prices in real terms are lower in 2001 than they were in 1995. Given the outlook for electricity prices for competitively supplied consumers, the Government has chosen to suspend the levy.

Lease Duty

Currently, above an exemption threshold of \$3,000, lease duty is imposed on the total amount payable under a lease of land, an agreement for rights to use land, or a franchise agreement. (Lease duty does not apply to residential leases.)

From 1 July 2001, the exemption threshold for lease duty will be increased to \$20,000, and franchise agreements will no longer be subject to lease duty. The total cost to revenue is \$3 million in 2001-02. Removal of franchise agreements from the lease duty base and the increase in the threshold will reduce costs and paperwork for small business. The measures are expected to more than halve the number of leases subject to duty.

Hire of Goods Duty

From 1 July 2001, the monthly duty free threshold for hire of ordinary goods will be increased from \$6,000 to \$14,000 (based on the turnover of the hiring business), at a cost to revenue of \$2 million in 2001-02.

Again, the main beneficiaries of the measure will be small businesses that hire out goods and their customers. Increasing the duty free threshold is estimated to reduce the number of duty taxpayers by nearly 20 percent. The threshold applies only to the hire of ordinary goods, not to equipment financing and hire purchase arrangements. The threshold has remained unchanged since 1987. Legal liability for the duty rests with the business that hires out the goods, but its cost is passed on to the hirer of the goods.

Stamp Duty on Instruments relating to Superannuation

The stamp duty on instruments relating to superannuation will be abolished from 1 July 2001, at a cost to revenue of \$1 million in 2001-02. This stamp duty is levied at a flat rate on instruments that establish or amend provisions governing superannuation funds. The duty has relatively high administration and compliance costs.

MEASURES INTRODUCED SINCE THE 2000-01 BUDGET

A number of taxation measures have been announced since the 2000-01 Budget.

Insurance Protection Tax

A tax on insurance companies will be introduced from 1 July 2001 to help fund the new Policyholders Protection Fund. The fund will meet claims against policies held by HIH Insurance in relation to Compulsory Third Party (CTP) and Home Owner Warranty Schemes following the collapse of HIH Insurance. The cost of HIH-related relief measures is estimated to total \$600 million. Over the period of the forward estimates to 2004-05 the Budget will fund \$200 million – \$50 million from 2000-01 and \$150 million of additional borrowings over the forward estimates period. Total outflows to claimants over the forward estimates period will be an estimated \$476 million. The Insurance Protection Tax will raise \$276 million in that period. The \$69 million per year will be apportioned among insurance companies annually on the basis of the companies' shares of total premium income in respect of all classes of general insurance and CTP insurance in the previous financial year. Companies will be notified in September of each year of the amount apportioned to them.

Insurance Duty Exemption for former HIH Policyholders

From 15 March 2001, for a period of three months, insurance policies taken out to replace policies formerly held with the voluntarily liquidated HIH Insurance will be fully exempt from stamp duty. The estimated cost to revenue in 2000-01 is \$15 million.

Financial Institutions Duty Exemption for Social Security Benefits

From 1 July 2000, the exemption from Financial Institutions Duty (FID) for the direct crediting of certain Department of Social Security benefits was extended to a benefit or allowance under the *A New Tax System (Family Assistance) Act 1999* and a bonus payment under the *A New Tax System (Bonuses for Older Australians) Act 1999*.

First Home Plus Extension of Metropolitan Area

From 1 July 2000, the definition of 'metropolitan area' under the First Home Plus scheme was extended to include the local government areas of Newcastle and Lake Macquarie. This means that the thresholds for these areas under First Home Plus are now the same as those applying to the metropolitan area of Sydney. The estimated full year cost to revenue is less than \$1 million.

3.3 DETAILED REVENUE ESTIMATES

3.3.1 STATE REVENUES

Taxation

Taxation revenues are estimated to be 14.5 percent lower in 2000-01 than 1999-2000 with a further fall of 7.0 percent expected in 2001-02.

A factor in the decline in 2000-01 was national tax reform – with the abolition from 1 July 2000 of the Accommodation Levy, safety net revenue payments in respect of tobacco, alcohol and petrol, and the reduction of gambling taxes to make way for the GST. Excluding the impact of tax reform, taxation revenue is expected to rise by 3.2 percent in 2000-01.

The decline in taxation revenue in 2000-01 was less than expected in last year's Budget. This mainly reflected stronger than expected property and share market turnover, boosting contracts and conveyancing and marketable securities stamp duty revenues. Contracts and conveyances duty and marketable securities duty accounted for just over 70 per cent of the variance.

The further decline in taxation revenue expected in 2001-02 reflects New South Wales Government initiated tax cuts and further measures associated with national tax reform. Excluding the effect of national tax reform, tax revenue would rise by 3.0 percent in 2001-02, still below the expected nominal rate of growth in economic output.

Table 3.3 provides detailed estimates of revenue from taxation for the period to 2004-05. Payroll tax remains the largest single source of taxation revenue, followed by stamp duty from contracts and conveyances.

Table 3.3: Taxation Revenue

	1999-2000	2000-01		2001-02	2002-03	2003-04	2004-05
	<i>Actual</i> \$m	<i>Budget</i> \$m	<i>Revised</i> \$m	<i>Budget</i> \$m	\$m	<i>Estimates</i> \$m	\$m
Stamp Duties							
Contracts and Conveyances	2,406	1,746	2,075	2,150	2,200	2,280	2,380
Insurance	383	384	423	441	464	490	513
Mortgage	229	201	210	226	230	247	266
Marketable Securities	483	425	510	52	45	48	50
Motor Vehicle Registration							
Certificates	462	449	475	453	515	546	576
Financial Institutions Duty	602	634	634	57	...	...	...
Hire of Goods	73	76	76	73	82	87	92
Leases	43	47	66	56	60	64	68
Adhesive Stamps	2	2	2	3	3	3	3
Other Stamp Duties	...	7	5	4	4	4	5
	4,682	3,971	4,476	3,514	3,603	3,769	3,953
Payroll Tax	3,769	3,931	3,976	4,125	4,292	4,554	4,804
Land Tax	900	921	919	965	1,011	1,055	1,095
Debits Tax	322	331	317	184	...	...	...
Taxes on Motor Vehicle Ownership and Operation							
Weight Tax	728	756	764	796	826	855	886
Vehicle Registration and Transfer Fees	224	194	197	201	215	224	232
Other Motor Vehicle Taxes	49	19	17	17	18	19	20
	1,001	969	978	1,014	1,059	1,098	1,138
Gambling and Betting							
Racing	192	137	137	140	143	147	150
Club Gaming Devices	596	409	411	427	455	485	515
Hotel Gaming Devices	359	323	323	321	343	367	392
Lotteries and Lotto	277	246	252	255	259	262	265
Casino	126	86	82	87	91	96	101
Other Gambling & Betting	17	11	9	9	9	9	9
	1,567	1,212	1,214	1,239	1,300	1,366	1,432
Safety Net Revenues (Net of Subsidies before 2000-01)							
Alcohol	319	31	40	...	...	...	...
Petroleum	614	66	76	...	...	...	...
Tobacco	1,083	21	21	...	...	...	...
	2,016	118	137	...	...	...	...

Table 3.3: Taxation Revenue (cont.)

	1999-2000	2000-01		2001-02	2002-03	2003-04	2004-05
	Actual \$m	Budget \$m	Revised \$m	Budget \$m	Estimates \$m		
Other Revenues							
Accommodation Levy	69	6	9	...	...	...	...
Health Insurance Levy	60	63	91	97	100	104	109
Insurance Protection Tax	...	...	...	69	69	69	69
Parking Space Levy	15	42	40	40	41	41	42
Fire Brigades Levy	227	231	240	249	245	235	235
Waste Disposal Levy	84	76	86	82	79	79	79
Bush Fire Services Levy	59	67	67	83	75	68	70
Electricity Distribution Levy	117	100	100	...	...	...	...
Government Guarantee of Debt	33	73	59	83	84	84	84
Private Transport Operators Levy	5	7	9	8	8	8	8
Pollution Control Licences	31	29	29	38	31	35	36
Other Taxes	228	265	243	295	278	290	311
	928	959	973	1,044	1,010	1,013	1,043
Total Tax Revenue	15,185	12,412	12,989	12,084	12,275	12,855	13,465

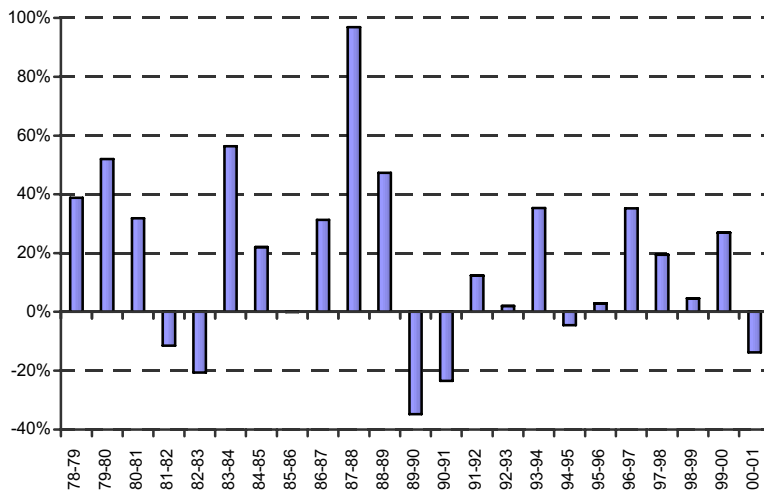
Contracts and Conveyances Duty

Stamp duty on contracts and conveyances represents the largest single component of stamp duty revenues. Conveyancing duty and marketable securities duty represent the most volatile revenue sources available to the State. The volatility of conveyancing duty revenue is evident in Chart 3.1.

As expected in the 2000-01 Budget, contracts and conveyance revenue fell sharply in the first half of 2000-01. However, from the middle of the year revenue began to recover, earlier than anticipated. As a result of the earlier than expected recovery, revenue is expected to fall by 13.8 percent in 2000-01 compared with the previous year, rather than the 22.4 percent fall expected at Budget time.

Part of the reason for the earlier turnaround and overall milder downturn in revenue was that interest rates fell earlier and more steeply than expected. Activity was particularly strong in the upper end of the market.

Chart 3.1: Contracts and Conveyances Duty - Annual Revenue, Percentage Change on Previous Year



For 2001-02, market conditions are expected to remain firm, albeit down from the levels reached in the second half of 2000-01. In the absence of a repeat of the fall in activity that occurred in the first half of 2000-01, revenue in 2001-02 is expected to grow by 3.6 percent, to \$2,150 million. This forecast reflects an expectation that the recent downturn in economic activity will not be sustained and that lower interest rates will continue to support property market activity.

There are, of course, both upside and downside risks to the outlook. Lower interest rates could lead to stronger property market activity, outweighing the expected impact of lower general economic activity and a weaker labour market. Equally, economic confidence could weaken, particularly if unemployment worsens more than expected, leading to a more substantial slowing in property market activity.

For the forward years, revenues are assumed to increase as economic activity strengthens, interest rates are steady and employment increases.

Other Stamp Duties

Collections for 2000-01 are anticipated to be around \$176 million, or 7.9 percent, above the level predicted at Budget time, due mainly to stronger revenues for marketable securities, insurance and motor vehicle registration duty.

Marketable securities duty revenue in 2000-01 is expected to be around 20 percent above the original Budget estimate. Share market activity in 2000-01 has been higher than expected. New listings on the Australian Stock Exchange in the nine months to March 2001 are up slightly on the previous year – 138 compared with 133 in the same period last year – and two large merger proposals in 2001 also have boosted turnover.

Insurance duty revenue in 2000-01 was boosted by higher than anticipated premium increases. Motor vehicle registration stamp duty was boosted by strong vehicle sales in the first half of the financial year, with the reduction of new vehicle prices following the tax changes, and possibly some bring forward of purchases as the Australian dollar exchange rate declined in the second half of 2000.

For 2001-02, other stamp duty revenue is expected to be around 43 percent lower than in 2000-01. The main factors accounting for the large fall are the abolition of FID and listed share transfer duty from 1 July 2001, which result in a structural reduction in stamp duty revenue in 2001-02. Revenue to be received from FID in 2001-02 represents lagged payments on FID incurred before 1 July 2001. Likewise, revenue from marketable securities duty represents lagged payments on duty from transfers of listed securities occurring before 1 July 2001, as well as duty on the transfer of unlisted securities (which has not been abolished).

Excluding those changes, other stamp duty revenue is expected to remain virtually unchanged in 2001-02.

Payroll Tax

Payroll tax revenue for 2000-01 is expected to be \$45 million, or 1.1 percent, higher than forecast in the 2000-01 Budget. Employment in businesses above the payroll tax threshold appears to have held fairly firm, notwithstanding a weakening in aggregate employment growth compared with Budget forecasts.

In 2001-02, payroll tax revenue growth is expected to be modest. This reflects the full-year impact of the cut in the payroll tax rate to 6.2 percent from 1 January 2001, as well as an expectation that slower employment growth will affect larger firms and wages growth will be lower than in 2000-01. Annual growth in revenue will be influenced over the rest of the forecast period by a further reduction in the tax rate to 6.0 percent on 1 July 2002.

Land Tax

Land tax revenues in 2000-01 are expected to be close to Budget estimates.

Over 2001-02 and the forward years, land tax revenues are expected to grow in line with increasing land values, subject to continued annual indexation of both the investor and premium property tax thresholds. Indexation of the land tax thresholds reduced 2000-01 revenue by an estimated \$17 million, and is estimated to reduce revenue by \$14 million in 2001-02.

Taxes on Motor Vehicle Ownership and Operation

Motor vehicle weight tax and vehicle registration fees are the largest two components of this category, representing over 95 percent of revenue in 2000-01. Also included are motor vehicle registration transfer fees and miscellaneous taxes.

Revenue for 2000-01 is expected to be slightly above that estimated at Budget time, mainly due to higher than expected weight tax revenue. Revenue for this category is expected to increase slightly in 2001-02, reflecting continued growth in the motor vehicle stock and indexation of fees.

Gambling Taxes

Revenue from gambling taxes in 2000-01 is expected to be marginally above the Budget estimate, with higher than anticipated gaming device and lotteries revenue offsetting lower casino revenue.

Overall gambling revenues declined in 2000-01 on the previous year, reflecting the adjustment to gambling taxation arrangements required of the States under the IGA to offset the impact of the GST on gambling operators. Revenue growth in 2001-02 will be moderated by the full year impact of the lower tax rates.

Commonwealth Grants

In 2000-01 Commonwealth payments in aggregate are expected to be above the Budget estimate by about \$192 million or 1.5 percent, spread fairly evenly between general and specific purpose payments. Table 3.4 provides estimates of Commonwealth payments (capital and recurrent) for the period to 2004-05. These estimates are based on data available prior to the 2001-02 Commonwealth Budget.

Under the national tax reform arrangements, Commonwealth payments in 2000-01 and 2001-02 are increased to compensate the States for the abolition of a number of State taxes. Accordingly, general purpose payments in 2000-01 (\$8,419 million) and 2001-02 (\$9,661 million) cannot be directly compared since they reflect different policy environments.

In its 2000-01 Mid-Year Economic and Fiscal Outlook, the Commonwealth increased its estimate of GST revenue by \$2,250 million, which increased estimated GST Revenue Grants to New South Wales in 2000-01 from \$7,180 million to \$7,863 million.

The increased GST revenue has not improved New South Wales' net budget position. The increased GST grants are fully offset by a corresponding reduction in Budget Balancing Assistance payments to New South Wales. The upward revision also does not affect the date at which New South Wales begins to make net financial gains from the New Tax System, since only 2000-01 GST revenue was revised upward. According to current estimates, the New Tax System will not produce net financial gains for New South Wales until 2007-08.

General purpose Commonwealth payments to New South Wales are expected to be \$101 million higher overall in 2000-01 than expected at Budget-time, although this increase only offsets higher costs to New South Wales associated with tax reform. This is consistent with the Commonwealth guarantee that the State not be worse off from tax reform. The higher payment compensates New South Wales for the higher than expected cost of the First Home Owners Scheme (FHOS) and GST administration payments to the Australian Taxation Office.

As well as higher than expected costs under the FHOS as the scheme was originally agreed by the Commonwealth and States, on 9 March 2001 the Commonwealth Government announced an extra \$7,000 grant under the FHOS for first home purchasers buying a newly constructed home before 31 December 2001. New South Wales will administer the extra grant on behalf of the Commonwealth. General purpose payments in 2000-01 include Commonwealth grants to fund the extra FHOS grant. In 2001-02, Commonwealth funding for the extra FHOS grant is included as a specific purpose payment.

Apart from the funding for the extra FHOS payment, growth in specific purpose payments of about 4.3 percent in 2001-02 mainly reflects increased Health Care and Land Transport Development grants.

Table 3.4: Commonwealth Grants

	1999-2000	2000-01		2001-02	2002-03	2003-04	2004-05
	<i>Actual</i> \$m	<i>Budget</i> \$m	<i>Revised</i> \$m	<i>Budget</i> \$m	\$m	<i>Estimates</i> \$m	\$m
General Revenue Grants	5,183	152	152	234	239	245	251
Budget Balancing Assistance							
Payments	...	986	404	940	924	663	385
GST Revenue Grants	...	7,180	7,863	8,487	8,677	9,074	9,623
Total General Purpose Payments	5,183	8,318	8,419	9,661	9,841	9,982	10,258
Specific Purpose Payments							
Companies Regulation	45	46	46	46	47	49	50
Technical and Further Education	313	313	313	317	323	327	332
Schools	565	590	598	620	621	645	668
Highly Specialised Drugs	91	102	95	101	104	107	110
Australian Health Care Grant	2,000	2,104	2,121	2,252	2,384	2,500	2,646
Home and Community Care	162	173	173	189	204	220	237
Supported Accommodation							
Assistance	45	45	50	51	51	51	51
Assistance to Disabled	118	124	141	164	167	169	172
Pensioner Concessions	54	56	57	57	58	58	58
Debt Redemption Assistance	10	10	10	9	9	9	9
Blood Transfusion Services	21	23	22	24	25	26	26
National Land Care	50	51	50	55	52	52	51
Public Housing	253	269	273	269	266	234	234
Australian Land Transport							
Development	314	323	322	335	427	384	381
Housing	37	40	37	37	37	37	37
Supplementary FHOS Grant	...	...	...	25	...	...	...
Other	200	195	246	200	176	130	125
Total Specific Purpose Payments	4,278	4,464	4,554	4,751	4,951	4,998	5,187
Total Grants	9,460	12,780	12,972	14,413	14,792	14,980	15,447

Financial Distributions

Dividends represent a return on equity invested by taxpayers in business enterprises while tax equivalent payments are intended to mirror as closely as possible tax liabilities that would be incurred if the entity concerned was owned by the private sector. Table 3.5 provides estimates of financial distributions for the period to 2004-05.

In 2000-01, dividends and income tax equivalents are expected to exceed 2000-01 Budget estimates by approximately \$67 million. Distributions from the electricity sector were higher than expected, reflecting higher than anticipated National Electricity Market prices. Higher electricity sector distributions were partially offset by lower distributions from the property and resources sector – reflecting lower State Forest timber sales and lower Landcom land sales associated with the slowdown in dwelling construction – and lower water and waste services sector distributions. Lower sales tax equivalent revenue in 2000-01 reflects the abolition of the Wholesale Sales Tax equivalent regime under the new national taxation arrangements.

In 2000-01 electricity sector balance sheets were restructured to move the gearing levels of electricity businesses towards those of private sector businesses. The restructure involved the enterprises repaying equity to the General Government Sector, funded through increased debt. Proceeds of the capital restructuring were used to retire General Government Sector Debt. The \$803 million increase in capital restructuring proceeds in 2000-01 results from the additional restructuring of the balance sheets of electricity generators that was not included in the 2000-01 Budget estimate.

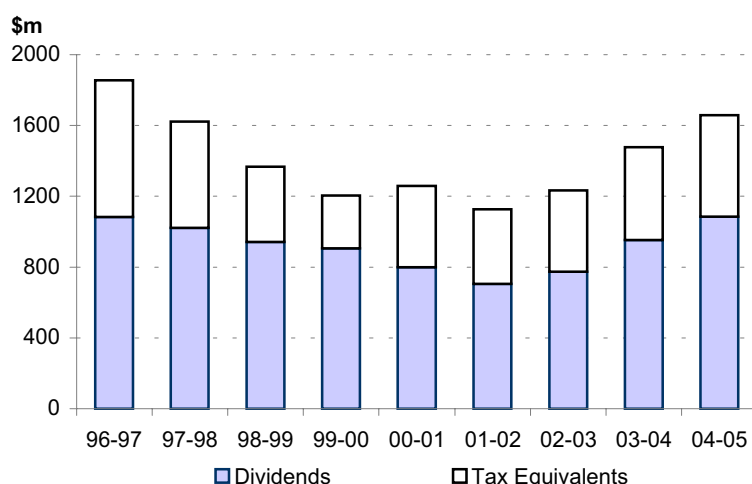
For 2001-02, dividend and income tax equivalent payments are expected to be 10.5 percent lower than in 2000-01. This mainly reflects lower distributions from the electricity sector – related to increased interest costs to enterprises associated with the capital restructure, though this is more than offset by lower General Government interest costs – and lower distributions from the transport and property and resources sectors.

Table 3.5: Financial Distributions from Public Trading and Financial Enterprises (accruals basis)

	1999-2000	2000-01		2001-02	2002-03	2003-04	2004-05
	Actual	Budget	Revised	Budget	Estimates		
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Dividends							
Electricity	516	365	453	440	476	598	672
Water and Waste Services	173	128	106	119	110	130	147
Property and Resources	80	88	70	36	51	57	60
Financial Services	22	18	27	21	20	20	19
Ports	30	31	32	23	28	23	29
Transport	71	95	95	48	70	106	137
Other	15	13	18	18	19	20	20
	907	738	800	705	775	953	1,084
Income Tax Equivalents							
Electricity	128	205	237	220	234	283	318
Water and Waste Services	104	151	141	131	132	138	149
Property and Resources	43	38	24	22	38	34	34
Financial Services	10	8	12	7	7	7	7
Ports	19	18	19	18	19	19	19
Transport	(17)	25	16	18	19	35	39
Other	11	8	9	8	8	9	9
	298	453	459	423	458	525	575
Dividend and Income Tax Equivalents	1,206	1,193	1,260	1,128	1,234	1,479	1,660
Sales Tax Equivalents	72	5	8	...	...	...	...
Capital Restructure	...	2,400	3,203	...	...	77	115
Other Income	22	11	9	1	2	...	...
Total	1,299	3,610	4,480	1,129	1,236	1,556	1,776
Total Excluding Capital Restructure	1,299	1,210	1,277	1,129	1,236	1,479	1,661

Chart 3.2 shows financial distributions bottoming in 2001-02 and increasing from 2002-03 mainly due to increased returns from the electricity sector. Financial distributions from the electricity sector are expected to increase significantly reflecting growth in energy usage, firm energy generation prices and increased earnings from particular businesses.

Chart 3.2: Financial Distributions from Public Trading and Financial Enterprises^a



^a Excludes capital restructure proceeds.

Other Revenues

Licences

This item mainly consists of drivers' and riders' licences. Revenue is volatile (see Table 3.6) because it is heavily influenced by the renewal pattern of three and five year drivers' licences.

Fines

The main item in this category relates to motor traffic fines. The bulk of these fines are collected by the Police Service through on-the-spot infringement notices issued by Police and Parking Patrol Officers. These fines are also collected through Local Courts for more serious offences and through the Roads and Traffic Authority which has the authority to cancel motor vehicle registrations or drivers' licences unless infringement notices are paid.

Revenue in 2000-01 is estimated to be \$72 million higher than expected in the 2000-01 Budget mainly reflecting a change in accounting treatment. Fine revenues and the associated provision for doubtful debts were previously included on a net basis. Revenue and the doubtful debt provision are now reported on a gross basis with no impact on the operating result.

Table 3.6: Other State Revenues

	1999-2000	2000-01		2001-02	2002-03	2003-04	2004-05
	<i>Actual</i>	<i>Budget</i>	<i>Revised</i>	<i>Budget</i>	<i>Estimates</i>		
	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>
Licences	142	119	139	90	88	123	183
Fees	98	102	96	98	96	100	95
Fines	278	226	298	335	331	308	307
Royalties	215	208	209	215	223	230	237
Fire Brigades Levy on							
Local Government	39	39	40	42	41	39	39
Other State Revenues	104	98	106	81	86	85	86
Total Other Revenue	876	792	888	861	864	885	947

Royalties

Forecasts for royalties are predominantly associated with the volume of coal production.

3.3.2 OPERATING REVENUES

Operating revenues represent revenues earned by public sector agencies in the normal course of their operations. The primary source is user charges levied to recover the costs of providing goods or services. Table 3.7 provides estimates of operating revenues for the period to 2004-05.

Sales of Goods and Services

Sales of goods and services include revenue from the use of government assets as well as revenue generated by agencies in their normal trading activities.

In 2000-01, revenues are expected to exceed the budget estimate by \$108 million. The higher result is mainly due to \$52 million in increased hospital fees and other hospital charges to private patients using the public health system, and an additional \$20 million from the Department of Veterans' Affairs for Concord Hospital.

Investment Income

Revenue from investment income includes interest on advances to Public Trading Enterprises, interest on Treasury Corporation deposits and interest on private sector deposits. In 2000-01, revenues were \$118 million above the Budget estimate, mainly reflecting increases in the capital value of the bond portfolio held by the New South Wales Insurance Ministerial Corporation, stemming from reductions in official interest rates. This is unlikely to be repeated in 2001-02.

Table 3.7: Operating Revenues

	1999-2000	2000-01		2001-02	2002-03	2003-04	2004-05
	<i>Actual</i> \$m	<i>Budget</i> \$m	<i>Revised</i> \$m	<i>Budget</i> \$m	\$m	<i>Estimates</i> \$m	\$m
Sales of Goods and Services							
Rents and leases	143	125	132	103	104	107	110
Fees for Service	106	78	80	82	85	88	90
Entry Fees	15	19	17	18	19	19	20
Patient Fees	406	440	492	504	515	529	541
Department of Veterans Affairs							
- Concord Hospital	223	209	229	229	234	241	246
Court Fees	103	94	103	114	116	120	123
Road Tolls	57	57	56	57	57	58	58
Operating Revenue	87	90	78	81	84	87	89
Income from Milk Agents	317	...	...	...	...	...	...
Commercial Land Sales	45	15	28	14	21	10	5
Other Sales of Goods and Services	1,081	1,044	1,064	1,121	1,159	1,167	1,192
	2,583	2,171	2,279	2,323	2,394	2,426	2,474
Investment Income	492	391	509	457	475	477	536
Grants and Contributions	422	421	506	325	299	314	314
Other Operating Revenues	342	298	357	578	260	260	268
Total Operating Revenue	3,839	3,281	3,651	3,683	3,428	3,477	3,592

Grants and Contributions

This item mainly consists of contributions from Public Trading Enterprises and the private sector. Revenue in 2000-01 was \$85 million higher than the Budget estimate. The increase was mainly attributable to the Sydney Organising Committee for the Olympic Games (SOCOG) and the Sydney Paralympic Organising Committee (SPOC) providing an additional \$40 million to the Olympic Roads and Traffic Authority (ORTA) and the Olympic Co-ordination Authority (OCA). Additionally, the Department of Transport received \$16 million in unbudgeted grants to fund the Integrated Transport Information Service.

In 2001-02, grants and contributions revenue is expected to decline by \$181 million. This mainly reflects the fact that grants in connection with the 2000 Olympic Games (\$172 million in 2000-01) will not be received in 2001-02.

Other Operating Revenue

Other operating revenue in 2000-01 is expected to exceed the Budget estimate by \$59 million, mainly reflecting increased ORTA and OCA revenue. Other operating revenue is expected to increase by \$221 million in 2001-02, principally due to the revenue generated by the Government's initial recognition of the equity in Snowy Hydro Limited.

CHAPTER 4: GENERAL GOVERNMENT SECTOR SERVICE DELIVERY

- ◆ Health, education and public order and safety policy areas represent 54 percent of total Budget expenses. After excluding finance and superannuation costs, these policy areas account for 60 percent of the Budget.
- ◆ A further 17 percent of expenditure is in the social security and welfare, and transport policy areas (19 percent after excluding finance and superannuation costs).
- ◆ Asset acquisitions are expected to be \$2.6 billion in 2001-02.
- ◆ The transport sector represents 40 percent of General Government sector asset acquisitions (mainly roads). Health, education and public order and safety represent a further 44 percent of General Government sector asset acquisitions.
- ◆ The growth in total expenses needs to be adjusted for one-off events and major non-discretionary spending to give a true measure of the increase in costs associated with core service delivery functions. After adjusting for these factors, expenses are expected to increase by 4.9 percent in 2001-02 and an average increase of 4.1 percent per annum over the five years to 2004-05.

4.1 INTRODUCTION

The Government undertakes expenditure to achieve its key objective of delivering services needed by the community. To provide these services, agencies incur operating expenses (e.g. wage costs for nurses) and undertake spending on asset acquisition programs (e.g. building new hospitals).

This Chapter outlines the key service delivery initiatives in the 2001-02 Budget and analyses the longer-term trend in total expenses over the forward estimates period.

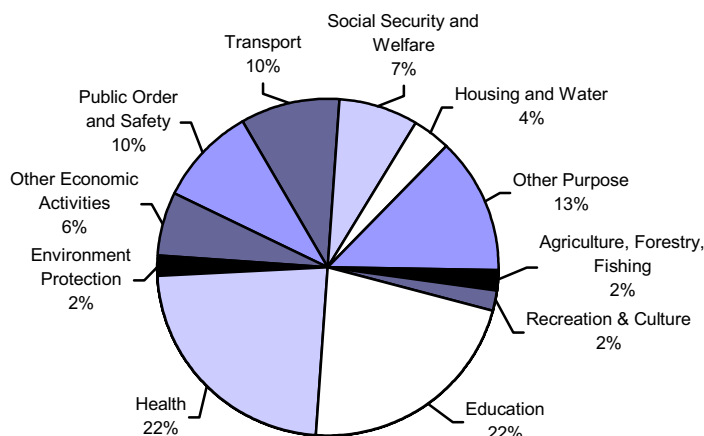
The classification of expenditure to policy areas is based on Australian Bureau of Statistics (ABS) standards. This ensures consistency of treatment of government expenditure over time, regardless of agency restructures. Nevertheless, some inconsistencies do arise.

The policy area categories used in this Chapter have been adapted from the standard ABS policy categories in Chapter 9 to better reflect service delivery in New South Wales. The main change involves the addition of a policy area for environment protection. This new area identifies government expenditure on sewerage services, protection of the environment and national parks and wildlife activities.

Policy area expenditure classifications are not directly comparable with agency expenditure as detailed in Budget Paper No. 3. In many cases agency expenditure spans a number of different policy areas. For instance the Department of Agriculture conducts animal education programs which are classified as education expenditure. Department of Transport expenses relating to school student transport are also classified as education expenditure. In addition, superannuation and interest expenses for all agencies are recorded against the Other Purposes classification. Finally estimates provided in this section are based on consolidated aggregates which eliminate inter-agency transactions (eg agency purchases from the Department of Public Works and payroll tax payments).

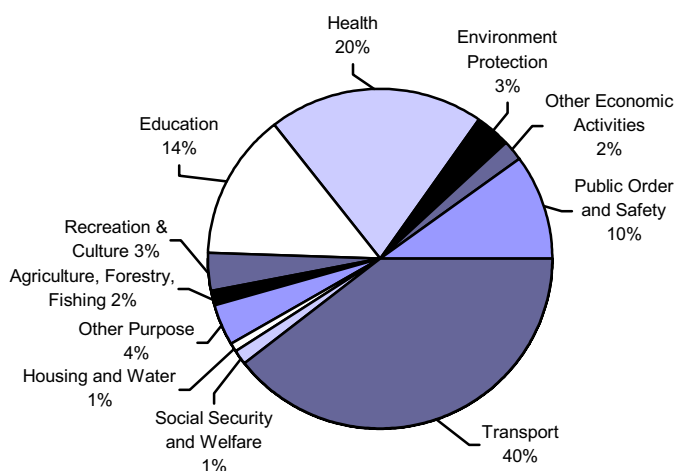
Charts 4.1 and 4.2 show the distribution of expenses and asset acquisitions by function. Budget expenses are dominated by the health and education policy areas while transport is the major contributor to asset acquisitions.

Chart 4.1: General Government Expenses in 2001-02 by Policy Area



Total Expenses = \$30,696 million

Chart 4.2: General Government Asset Acquisitions in 2001-02 by Policy Area



Total Asset Acquisitions = \$2,596 million

4.2 TOTAL EXPENSES

Total expenses in 2001-02 are expected to be \$30,696 million. This represents a decrease of \$2,728 million or 8.2 percent on the estimated 2000-01 level of expenses. Total expenses are expected to increase by 3.4 percent in 2002-03, 3.5 percent in 2003-04 and 2.7 percent in 2004-05.

Trends in expenses should be treated with caution because of the distortions created by special factors. These special factors can be classified as:

- ◆ Significant one-off expenses such as the 2000 Olympics. Olympics related expenses peak at \$806 million in 2000-01. Included in this total is a non-cash accounting adjustment that recognises that certain Olympic assets (eg Ryde Aquatic Leisure Centre, Penrith Whitewater Stadium, media centre and Blacktown Olympic Centre) will be transferred at zero cost to third parties. This non cash accounting adjustment generates in part the difference between the accounting expense recognised in the operating statement and the cash outflows referred to in Chapter 6.

- ◆ Expense impacts of the GST package as outlined in the “Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations”. Changes in expenses related to the agreement are offset by equivalent changes in Commonwealth grants.
- ◆ Major structural shifts in expenses. The most significant example is the impact of the dairy industry restructure on Safe Food Production NSW. Milk purchases and sales previously made by the agency were discontinued in 2000-01. The impact on the operating result is minimal, but results in large reductions in expenses and revenues in 2000-01.
- ◆ Major non discretionary expenses such as superannuation, depreciation, finance costs and insurance claims.

Table 4.1 shows the underlying level of General Government expenses between 1999-2000 and 2004-05 after adjustments for the above special factors. Details of the specific adjustments made to the expense totals are listed.

Underlying expenses are a measure of costs associated with core service delivery functions. The moderate growth in underlying expenses over the forward estimates period is the foundation for the State’s strong financial performance, as evidenced by strong Budget results and continuing declines in net debt and net financial liabilities.

In nominal terms underlying expenses are expected to increase by 4.9 percent in 2001-02 and by an average of 4.1 percent per annum over the five-year period between 1999-2000 and 2004-05. In real terms this represents a growth of 2.5 percent in the Budget year and an average growth of 1.7 percent over the five-year period.

Table 4.1: Total Expenses

	1999-2000 Actual \$m	2000-01 Revised \$m	2001-02 Budget \$m	2002-03 \$m	2003-04 Estimate \$m	2004-05 \$m
Total Expenses (as per Chapter 2)	26,145	33,424	30,696	31,734	32,841	33,728
Less material one-off items:						
Assumption of HIH liability		600				
Contingency grant to SOCOG	140					
Olympics and ancillary services (net of SOCOG contributions)	393	517	22			
Transfer of Olympic facilities to third parties		168	71			
Olympics expenses funded by SOCOG contributions	22	121				
State election costs (approx)				30		
Reimbursement of backlog sewer grants		(36)				
GST transitional payments to clubs	68					
Write back of investment in National Rail Corporatisation adjustment for Pacific Power		141				
Asset revaluation for Department of Health	(72)					
Less items related to GST package (offset by Commonwealth grants):						
First Home Buyers scheme		297	337	318	325	331
GST administration costs		335	174	126	124	122
Wholesale sales tax savings		(95)	(153)	(191)	(232)	(261)
Less structural shifts in expenses:						
Change in Budget scope	118	142				
Reclassification of petrol & alcohol subsidies		80	73	77	81	85
Reduction in costs associated with the de-regulation of the NSW Dairy Industry	312					
Less major non discretionary expenses						
Superannuation	(1,173)	2,935	1,741	1,942	2,011	2,052
Finance costs	1,450	1,899	885	853	769	728
Depreciation	1,411	1,443	1,493	1,528	1,569	1,624
Insurance claims expense	674	858	914	974	1,044	1,105
NET UNDERLYING EXPENSES	22,802	23,967	25,139	26,077	27,150	27,942
Increase in Net Underlying Expenses	+ 2.9%	+ 5.1%	+ 4.9%	+ 3.7%	+ 4.1%	+ 2.9%
- Real Increase ^(a)	+ 0.8%	+ 2.7%	+ 2.5%	+ 1.3%	+ 1.5%	+ 0.4%

(a) Calculated using Government Consumption Deflator.

HEALTH

Overall Objective

The objective of the Health policy area is to improve the health of the people of New South Wales, to provide fairer access to services, to improve the quality of health care and to ensure health services are well-managed and efficient.

Scope of Policy Area

The Health policy area includes costs associated with the provision of acute hospital services, accident, emergency and outpatient clinics, rehabilitation, counselling, support and palliative care, community health centres, services for people seriously affected by mental illness, health promotion and education, dental services as well as services to persons affected by drugs, alcohol and HIV/AIDS.

The policy area includes expenses and asset acquisitions associated with the provision of services by the NSW Department of Health and the Health Care Complaints Commission.

Services Delivered

On an average day, 3,600 people are admitted to NSW public hospitals for inpatient care, 17,700 people spend the day being treated in a hospital bed, with more than 5,000 people every day (or around three people per minute) seen in emergency departments. Ambulance services respond to an average of 1,800 calls a day.

The NSW health system delivers a wide range of essential services to assist in improving the health of the community. These services are provided through:

- ◆ 206 general hospitals
- ◆ 15 multi-purpose services
- ◆ 15 nursing homes
- ◆ 280 community health centres
- ◆ 500 early childhood centres

Government Initiatives

The Government Action Plan for Health commenced in 2000-01 and has been supported by substantial growth funding. Major uses of the additional growth funding provided in 2001-02 include -

- ◆ an increase in medical and surgical procedures undertaken across a variety of disciplines at hospitals throughout the State including those in the Hunter, Mid North Coast, Central Coast, Northern Rivers, Greater Murray and South West Sydney;
- ◆ establishment of new community centres at Wyong, Erina and Lake Haven on the Central Coast;
- ◆ an additional eight fully operational intensive care beds at a number of centres in Western Sydney and the Hunter;
- ◆ new funding to provide additional orthopaedic services at Shoalhaven and the restoration of obstetrics services at Shellharbour Hospital;
- ◆ major redevelopment occurring in the Tweed Valley region involving an additional 36 beds, including surgical ward and theatre staff, increased community services and establishment of a 25 patient mental health unit at Tweed Heads;
- ◆ increase in activity in outpatient procedures particularly for chemotherapy, cardiac catheterisation, endoscopy, cancer radiotherapy and imaging services;
- ◆ the provision of community-based acute and post-acute care services throughout Northern Sydney aimed at reducing inpatients length of stay;
- ◆ expansion of aged care, cardiac, palliative and respiratory rehabilitation and extended care services in the Mid North Coast; and
- ◆ improvements in the provision and management of chronic care patients with respiratory disease, cardiovascular and cancer related illnesses throughout the Mid Western area of New South Wales.

Funding commenced in 2000-01 to support reform initiatives under the Government Action Plan, and amounting to \$45 million per annum, will continue to be used to reduce pressure on local emergency departments, to improve the care of patients with chronic cardiovascular, respiratory or cancer related illnesses and to increase medical and surgical in-patient services.

The Government Action Plan is also achieving results through a wide range of reforms including:

- ◆ improving Day of Surgery Admission and Day Only Surgery rates;
- ◆ development of a coordinated discharge planning policy;
- ◆ a coordinated planning process for Metropolitan Specialty Services;
- ◆ development of an Acute Aged Care Interface policy;
- ◆ work on a whole-of-government approach to community and non-urgent health transport;
- ◆ expansion of NSW Telehealth services;
- ◆ development of a statewide emergency services plan; and
- ◆ creation of an Institute for Health Care Improvement and Excellence.

In addition, the Government will commence the following health capital works in 2001-02:

- ◆ redevelopment of Gosford Hospital to upgrade the emergency department, operating theatres, cardiac care and acute inpatient facilities at an estimated total cost of \$100.8 million;
- ◆ redevelopment of Wyong Hospital to provide additional acute inpatient and mental health beds and clinical, imaging and diagnostic facilities at an estimated total cost of \$79.6 million;
- ◆ implementation of a \$19.4 million pilot project of the NSW Electronic Health Record which will enable information to be shared between hospitals, community health, general practitioners and other clinicians within the context of chronic and complex care;
- ◆ provision of \$7 million for rural information technology infrastructure;
- ◆ a \$7 million refurbishment of the Prince of Wales Parkes Block;
- ◆ provision of \$46.6 million for Ambulance infrastructure works including enhancements to clinical care and information systems, medical equipment and fleet replacement;

- ◆ an additional \$25.1 million for the Mental Health program to address service priorities including an expanded inpatient and new ambulatory care facility at Liverpool Hospital; and
- ◆ \$4 million to finalise planning and commence work for the Newcastle and Western Sydney strategies.

In 2001-02, expenses in the Health policy area are expected to total \$7,110 million while asset acquisitions of \$529 million are projected. Further details are provided in Budget Papers No. 3 and No. 4.

SOCIAL SECURITY AND WELFARE

Overall Objective

Expenditure within the Social Security and Welfare policy area is applied towards the:

- ◆ provision of the best possible care and protection and the promotion of opportunities for those in vulnerable positions including families, young people and children, frail older people, people with disabilities and their carers;
- ◆ promotion of opportunities for Women, Aboriginal and Torres Strait Islander people and people from non-English speaking backgrounds; and
- ◆ provision of assistance to those experiencing financial difficulty.

Scope of Policy Area

The policy area includes expenses and asset acquisitions of the Department of Community Services, the Department of Ageing, Disability and Home Care, the Community Services Commission, the Commission for Children and Young People, the Office of the Children's Guardian, the Home Care Service, the Community Relations Commission for a Multicultural NSW (former Ethnic Affairs Commission) and the Department for Women, as well as:

- ◆ services provided by the Department of Aboriginal Affairs;
- ◆ compensation to victims of crime (administered by the Attorney-General's Department); and

- ◆ Budget-funded concessions and subsidies to social security beneficiaries (including payments by the Department of Transport, and pensioner rebates for rates and for electricity, water and sewerage services).

Services Delivered

During 2001-02, the NSW Government's Social Security and Welfare policy area will continue to deliver services to people with special needs or requiring a particular commitment, including:

- ◆ investigation of over 115,000 reports and notifications of potential abuse and neglect of children;
- ◆ protection for an estimated 26,300 children, substitute care for an estimated 14,700 children, and associated care and support for children, young people and families;
- ◆ support and services to older people, people with disabilities and their carers aimed at helping them achieve greater independence and community involvement. This includes accommodation, nursing home care, food services, transport and personal care with:
 - over 300,000 hours of respite care; and
 - over 3.8 million hours of service provided by the Home Care Service of New South Wales;
- ◆ an estimated 6,300 awards made by the Victims Compensation Tribunal;
- ◆ assistance, including accommodation, to people affected by crises and natural disasters; and
- ◆ promotion of social, economic and cultural opportunities for Women, Aboriginal and Torres Strait Islander people and multicultural communities.

Government Initiatives

Expenditure within the Social Security and Welfare area is projected at \$2,261 million in 2001-02. Additional funding provided in the 2001-02 Budget includes:

- ◆ \$5.7 million for foster care support, with total additional expenditure on these services expected to amount to \$28.8 million over the next four years;

- ◆ \$4 million for child protection services to enable the recruitment of a further 60 case workers;
- ◆ \$2 million for the Charitable Goods Transport Subsidy to ensure that this scheme can be operated on a sustainable basis in the future;
- ◆ \$26.2 million for growth in the Home and Community Care program to assist frail older people and people with disabilities who do not receive residential care support;
- ◆ \$2.7 million (\$11 million over four years) to fund a Dementia Action plan that will promote dementia awareness, expand dementia advisory services and establish behaviour support services; and
- ◆ \$0.6 million (\$1.7 million over three years) to improve access by older people to information technology through training and the development of a website that will provide information about Government and other services.

The Department of Ageing, Disability and Home Care will continue implementation of the substantial funding initiatives commenced in the 2000-01 Budget including:

- ◆ \$134 million over four years for additional supported accommodation places;
- ◆ \$22 million over four years for an immediate assistance pool providing short-term placements for clients in crisis;
- ◆ \$18 million over four years for local area co-ordination to meet immediate needs quickly and to help strengthen informal supports in the community;
- ◆ \$24.6 million over four years for the relocation of residents from large disability residential facilities;
- ◆ \$20 million over four years for other disability support services; and
- ◆ \$6.9 million for a capital grant to the Home Care Service of New South Wales to fund an information technology project (estimated total cost - \$9.8 million) enabling the establishment of the new Service Delivery Model.

The 2001-02 Budget also provides for concessions to social security beneficiaries and other financial assistance including:

- ◆ \$300 million for transport concessions on CityRail, Countrylink and State Transit services;

- ◆ \$208.4 million for local council rate rebates and electricity, water and sewerage rate concessions; and
- ◆ \$92.2 million for compensation to victims of crime.

The Government will support a significant asset acquisition program of \$17.4 million in 2001-02 within the Department of Community Services, including \$12.6 million for the system design, specification and implementation of a Financial Management System.

The Department of Ageing, Disability and Home Care will spend \$7.8 million on its asset acquisition program in 2001-02 including \$250,000 on the second stage of an E_Business project to enable the community, service providers, Departmental personnel and other Human Services agencies to access the information and systems necessary to significantly improve the delivery of services to the ageing and disability sectors.

Further details are provided in Budget Papers No. 3 and No. 4.

EDUCATION

Overall Objective

The objective of the Education policy area is to provide a comprehensive range of quality education services for the people of New South Wales.

Scope of Policy Area

The Education policy area includes all expenses and revenues for the educational activities of the Department of Education and Training, the Office of the Board of Studies, the Department of Agriculture, Department of Community Services and Department of Transport.

Services Delivered

The Education policy area incorporates:

- ◆ Primary and Secondary Education services for over 761,000 students at some 2,200 Government schools, as well as the provision of significant financial assistance to non-Government schools;
- ◆ Tertiary, Vocational Education and Training Services for over 800,000 students;

- ◆ Pre-school Education services for 2,290 students;
- ◆ Payments for the conveyance to school of around 670,000 students by various Government and non-Government service providers; and
- ◆ training and educational policy activities.

Government Initiatives

Key initiatives for 2001-02 include:

Schools

- ◆ \$464.5 million over four years for the further expansion of the State Literacy and Numeracy Plan with almost \$117 million to be spent in 2001-02;
- ◆ \$555.3 million over four years for the Computers in Schools Plan, including the replacement of the existing 90,000 computers through leasing arrangements and provision of an additional 25,000 computers. A total of \$137.3 million will be provided in 2001-02 for this program;
- ◆ \$160 million over four years for targeted student welfare programs, including \$46.2 million for a wider range of placement and support options for students with disruptive behaviour. In 2001-02 over \$42 million will be available for these programs;
- ◆ \$18.2 million will be spent over four years to expand opportunities for teacher training in using new technology in the classroom, including \$5.6 million allocated in 2001-02;
- ◆ some \$21.5 million over four years (\$5.7 million in 2001-02) will be provided to prepare young people for work through the development of individual school to work plans for all students in Years 9 to 12; and
- ◆ an expanded school maintenance program, providing \$628 million over the next four years. Some \$157 million will be spent in 2001-02 to maintain public schools.

TAFE

- ◆ \$18.3 million over four years to support TAFE scholarships and students at risk programs, with some \$4.4 million being allocated this year;

- ◆ the ongoing development of partnerships between TAFE and industry to deliver flexible training programs specific to the clients needs and at times and locations suitable to the client;
- ◆ \$1.8 million in 2001-02, for a joint TAFE and schools initiative through TAFE NSW Outreach and school substitute care, to target youth and to expand their access to vocational education and training. An additional 100 TAFE places for students in Juvenile Justice Centres will be available; and
- ◆ \$2.6 million assistance to students from rural and low socio-economic areas who have successfully completed vocational education training courses as part of the Higher School Certificate to continue full-time study at TAFE NSW.

Asset Acquisitions

Schools

In 2001-02, \$257.6 million will be available for spending on capital projects at schools, an increase of \$80.4 million on last year's allocation. The allocation is part of a four year \$1.12 billion Schools Improvement package, which will see a significant upgrade in the amenity of New South Wales public schools and deliver improved facilities for students, teachers and the community.

The Schools Improvement package, over the four years, includes:

- ◆ more than \$240 million for 23 new primary schools and 8 high schools in growth areas including the Tweed, Camden, Kellyville, the Hawkesbury, the Central Coast and the Hills District;
- ◆ more than \$70 million extra for upgrades to classrooms, libraries and security at 1,000 public schools;
- ◆ \$130 million to improve facilities for students, teachers and school staff, including \$50 million for better disabled access;
- ◆ \$80 million for new school halls;
- ◆ \$50 million extra to replace 330 demountables with permanent facilities; and
- ◆ \$45 million for landscaping, new fencing and general improvements at older schools.

TAFE

The asset acquisition program for 2001-2002 is \$86 million. The program provides for the commencement of 38 new projects in 2001-2002, including new facilities at Dubbo, Cessnock, Kurri Kurri, Miller and Ultimo campuses and major refurbishment works at Gymea, Wollongong and St George campuses. Construction will continue on major works commenced in prior years.

Further details of expenses and asset acquisitions within the education sector are contained in Budget Papers No. 3 and No. 4.

PUBLIC ORDER AND SAFETY

Overall Objective

Expenditure within the public order and safety policy area involves protecting both people and property by preventing, detecting and investigating crime, providing justice through the operation of the courts, the imposition of penalties on offenders and minimising the impact of emergency incidents.

Scope of Policy Area

The public order and safety policy area covers the cost of maintaining the State's police service, corrective services, fire fighting and emergency services as well as administration of court systems and legal processes throughout the State.

The policy area includes expenses and capital acquisitions of the Ministry for Police, Police Integrity Commission, the NSW Police Service, Crime Commission, Department of Corrective Services and Department of Juvenile Justice. Others are NSW Fire Brigades, NSW Rural Fire Service, State Emergency Service, Attorney General's Department, Judicial Commission, Legal Aid Commission and the Office of the Director of Public Prosecutions as well as the Ombudsman's Office, the Land Titles Office, the Public Trust Office and the Registry of Births, Deaths and Marriages.

Services Delivered

Services delivered within this policy area include:

- ◆ the provision of police officers serving and protecting the community from criminal activity;
- ◆ provision of accommodation for around 7,920 prisoners daily;

- ◆ dealing with over 250,000 criminal and over 32,000 civil cases annually through the courts;
- ◆ responding to over 125,000 fire incidents in metropolitan areas; and
- ◆ support for 9,000 State Emergency Service volunteers contributing 440,000 hours per year to operations and training.

Government Initiatives

In delivering the above services, the Government will undertake the following initiatives in 2001-02 Budget year.

- ◆ The third stage of the plan to increase the front-line strength of the Police Service by 2,110 in accordance with the Government's election commitment. This will be achieved by recruiting an additional 1,000 police officers over the four years to December 2003 and undertaking a range of measures to release existing police resources, including the Police civilianisation program. This program is expected to release an estimated 159 police to the front-line.

The full benefits of the Police Assistance Line are also flowing through into police operations following the commissioning of call centres at Tuggerah and Lithgow. It is estimated that the equivalent of up to 500 police officers have been released for operational duties through this initiative, in addition to the 240 new positions created at the call centres.

- ◆ An additional \$9.55 million per annum will be provided to the Department of Juvenile Justice to improve staff to detainee ratios in detention centres.
- ◆ \$3.6 million will be available to the Department of Juvenile Justice for various drug action initiatives, including diversionary counselling and group works program (\$600,000); drug rehabilitation program (\$1 million) and Youth Drug Court (\$750,000).
- ◆ An additional \$35.6 million will be provided to the Department of Juvenile Justice over five years (commencing in 2001-02) for the completion of the Department's major capital works, the first stage of which was completed in 1999-2000. This funding will be used for the construction of a young women's facility on the Minda/Minali site at Lidcombe (to replace the outdated Yasmar facility at Haberfield), the redevelopment of the Reiby facility and the provision of additional facilities at Cobham Juvenile Justice Centre.

- ◆ An additional \$2.2 million per annum will be provided to the Legal Aid Commission for the implementation of the *Children and Young Persons (Care and Protection) Act 1998*. This funding will enable the Commission to provide high quality legal representation in both court processes and alternative dispute resolution for children and young people who are at risk.
- ◆ Funding for the Legal Aid Commission's Criminal Law program will be increased by an additional \$4.7 million to compensate for the withdrawal of Commonwealth funds under the four year agreement signed in July 2000. Under the previous agreement, the Commission was permitted to utilise part of the Commonwealth allocation for State criminal law matters. The new agreement has withdrawn this provision.
- ◆ \$633,000 has been provided to the Office of the Director of Public Prosecutions for the technology infrastructure project. This will allow the Office to better support business goals by providing cost efficient conduct of prosecutions, high quality service, accountability, staff development and criminal justice system improvements.
- ◆ Completion of a refurbishment of the King Street Courts Complex to conserve and upgrade the site (\$2.7 million).
- ◆ Commencement of construction of a new Children's Courts complex at Parramatta (estimated total cost \$17.3 million) and a new Children's Court in the Hunter District at Worimi (estimated total cost \$6.5 million). The courts at Parramatta will provide discrete care and criminal courts, with holding areas and other necessary facilities, whilst the court in the Hunter will provide for children's care and criminal matters and have two courtrooms and associated facilities for the delivery of children's court services.
- ◆ Extension of the Attorney General's Department's video conferencing capability as part of a justice agencies' project. Recurrent funding of \$3.2 million has been provided to meet expenses associated with video conferencing enabling video links between courts, correctional facilities and various related facilities.
- ◆ \$500,000 to expand the Safer Communities Development Program assisting local councils and community groups undertake crime prevention activities.
- ◆ \$1 million per annum to implement the Attorney General's Department's Indigenous Justice Strategy involving initiatives to improve outcomes for indigenous people who come into contact with the criminal justice system.

- ◆ \$2.1 million for the establishment of a Revenue Division of the Administrative Decisions Tribunal. The Revenue Division has been given jurisdiction by legislative amendment to review certain decisions of the Chief Commissioner of Taxation of State Revenue as set out in the *Taxation Administration Act 1996*.
- ◆ An additional \$100,000 per annum has been provided to the Judicial Commission to update and maintain the Criminal Trial Courts Bench Book used by Judges of the Supreme and District Courts, when directing juries on the law.
- ◆ \$190,000 has been provided to the Judicial Commission for the hosting on the internet and enhancement of the user interface of the Judicial Information Research System. This will allow a wider legal audience access to sentencing information and statistical data.
- ◆ A total amount of \$8.3 million has been provided in 2001-02 for the continuing development and operation of the Police Complaints Case Management System (PCCM). The Police Service, the Police Integrity Commission and the Ombudsman, under the management of the Premier's Department, are jointly undertaking this project. The PCCM will provide a system of oversight for complaints made against police officers in accordance with Royal Commission recommendations.
- ◆ Funding of \$6 million has been provided for improvements to the Police Service's Country Radio Communications Network, while \$20.8 million has been allocated for the continuing development of various information technology applications within the Service. This includes \$6.2 million for enhancement of the Computerised Operational Policing and Investigation Management systems and \$7.1 million for the upgrade of technology for the Infringement Processing Bureau.
- ◆ An amount of \$2 million has been provided to the Department of Corrective Services to meet costs of training additional staff to fill current vacancies.
- ◆ \$1.6 million has been provided to the Department of Corrective Services to meet the full year operating costs of court security and regional inmate transport activities taken over from the Police Service.
- ◆ Expenditure of almost \$59 million will occur in respect of the three new gaols that are under construction at Kempsey, Parklea and South Windsor.
- ◆ \$18 million has been provided to the NSW Fire Brigades to purchase fire pumps, aerial appliances and special appliances.

- ◆ \$156,000 has been provided in 2001-02 and \$121,000 per annum thereafter to the State Emergency Service for the employment of two additional permanent part time Divisional Controllers for rural and regional New South Wales.
- ◆ \$1.8 million has been provided to the State Emergency Service for the purchase of communications equipment. This includes an election commitment of \$200,000 for radio equipment for the Far West Division of New South Wales.
- ◆ \$1.2 million has been provided to the State Emergency Service for the purchase of rescue equipment.
- ◆ \$250,000 has been provided for the second year of a three-year election commitment to provide computers to State Emergency Service volunteer units.
- ◆ \$100,000 has been provided to the State Emergency Service for sand bagging machines as part of an election commitment.
- ◆ \$5 million has been provided to continue a three-year program to refit Rural Fire Service vehicles with more sophisticated protection systems and fireproof blankets. In addition, \$19.2 million will be spent on improvements to the management arrangements of the Service, resulting in the transfer of the employment of fire control officers from local councils to the State Government.

In 2001-02, expenses in the Public Order and Safety policy area are expected to total \$6,705 million while asset acquisitions of \$364 million are projected. Further details are provided in Budget Papers No. 3 and No. 4.

TRANSPORT

Overall Objective

The provision of efficient, accessible and integrated transport infrastructure and services, that in turn supports both the growth of the State's economy and the improvement in the quality of life of its residents.

Scope of Policy Area

The major components of the Transport policy area are:

- ◆ the management of the State's road and rail systems;

- ◆ the operation of public transport, including passenger rail services and Sydney and Newcastle ferries and buses;
- ◆ the management of NSW waterways and deep water ports at Sydney, Newcastle and Port Kembla; and
- ◆ the provision of rail freight services.

The policy area predominantly includes expenses and asset acquisitions of the Department of Transport, Waterways Authority and the Roads and Traffic Authority. The Department of Transport, in turn, provides funding to the State Transit Authority, the State Rail Authority, the Rail Infrastructure Corporation and Freight Rail Corporation.

Services Delivered

The Government's Transport policy will deliver:

- ◆ implementation of a long term, fully funded integrated plan for the growth of the State's Public Transport and Road Infrastructure – based upon *Action for Transport 2010*;
- ◆ a road network of around 20,600 kilometres for around 4 million vehicles that is continually improved to deliver both increased safety and reduced congestion;
- ◆ a rail network of 8,700 kms, including 1,700 kms of electrified track, carrying freight and passenger traffic;
- ◆ safe, reliable and convenient public transport services, including State operated services that will carry in excess of 500 million passenger journeys annually; and
- ◆ four major ports that collectively will export in excess of 70 million tonnes of coal and 2 million tonnes of grain, delivered to port predominantly by a State operated rail freight business.

Government Initiatives

In delivering the above services the Government will undertake the following initiatives:

- ◆ a major step up in the level of rail funding of in excess of \$1 billion over the next 4 years (\$300 million more in 2001-02). Major initiatives announced by the Premier and the Minister for Transport include:
 - \$50 million for new passenger cars for the Newcastle and the Hunter region;
 - \$270 million for an additional 60 Millennium passenger carriages (in addition to 81 already under construction) and 40 new inter-urban cars;
 - accelerating train maintenance (\$38 million in 2001-02 and \$122 million over 4 years);
 - increasing track maintenance (\$320 million over 4 years);
 - \$147 million over 4 years on new signalling and other safety works; and
 - \$41 million specifically for additional tracks within the Sydney network.
- ◆ the commencement of construction of the Parramatta Rail Link (approximately \$145 million will be spent in 2001-02);
- ◆ the provision of \$90 million in 2001-02 for 81 Millennium carriages presently under construction;
- ◆ a major upgrade of facilities, passenger information systems and security at stations across the rail network, with funding of \$28.7 million in 2001-02;
- ◆ \$31.5 million in 2001-02 to continue the program to provide easy access to railway stations;
- ◆ upgrading of the XPT fleet at a cost of \$4 million in 2001-02;
- ◆ spending of \$6 million for the electrification of the Dapto to Kiama rail line;
- ◆ the construction, at a total cost in excess of \$200 million, of the Parramatta to Liverpool Bus only transit way (\$44 million in 2001-02);
- ◆ major upgrades for commuter parking and interchange facilities at a total cost of \$29 million in 2001-02;

- ◆ major upgrading of Windsor/Old Windsor Roads to provide four lanes to Windsor by 2006 at a cost of \$323 million over five years (\$47 million in 2001-02);
- ◆ \$160 million for upgrading works on the Pacific Highway including duplication at Cooperbrook and Tandys Lane, and jointly with the Commonwealth, duplication between Yelgun and Chinderah and between Taree and Cooperbrook;
- ◆ completion of the M5 East to provide continuous motorway conditions between South Western Sydney and Sydney Airport and the City (\$116 million in 2001-02);
- ◆ construction of the North Kiama Bypass (\$25.5 million in 2001-02); and
- ◆ construction of the West Charlestown Bypass (\$23.2 million in 2001-02).

In 2001-02, expenses in the Transport policy area are expected to total \$2,936 million while asset acquisitions of \$1,047 million are projected. Full details of various initiatives are shown in Budget Papers No. 3 and No. 4.

HOUSING AND WATER

Overall Objective

The key objectives of this policy area are to:

- ◆ meet community needs for housing, urban development and water and sewerage;
- ◆ improve investor and community confidence in the urban planning and assessment system; and
- ◆ advance sustainable economic development in relation to the provision of housing and local area infrastructure.

Scope of Policy Area

This policy area covers Payments to Other Government Bodies for Housing, the Aboriginal Housing Office, the First Home Owner Grant Scheme, the Department of Aboriginal Affairs, housing-related consumer protection functions of the Department of Fair Trading, land development funds and urban development policy programs of the Department of Urban Affairs and Planning.

Some small non-budget dependent General Government agencies are also included in this policy area, including the Home Purchase Assistance Authority, Home Purchase Assistance Fund and Honeysuckle Development Corporation.

Services Delivered

Examples of the services provided within this policy area in 2001-02 include:

- ◆ housing support to an estimated 479,000 people as part of the Government's \$502.1 million Housing Assistance Program. This includes 326,000 people accommodated in Government subsidised housing managed by public, community or Aboriginal housing providers and around 84,000 private renters and home buyers;
- ◆ grants of \$337.4 million under the First Home Owner Grant Scheme;
- ◆ \$32.6 million in funding for the Aboriginal Communities Development Program to address major deficiencies in housing and essential infrastructure experienced by a number of Aboriginal communities;
- ◆ activities to improve the social and physical amenity of housing estates and older housing stock;
- ◆ construction and / or completion of 91 water supply and sewerage projects (\$66.8 million in 2001-02) under the Country Towns Water Supply and Sewerage Scheme; and
- ◆ the management of 91,500 water licences.

Government Initiatives

In delivering these services, the Government will undertake the following key initiatives in the 2001-02 Budget year:

- ◆ fund \$192.6 million, \$8.9 million and \$18.6 million in improvements to older housing stock in the public, community (including crisis) and Aboriginal housing sectors, respectively. This will involve more than 60,000 dwellings;
- ◆ maintain a supply program of \$242.9 million to fund public, community (including crisis) and Aboriginal housing works-in-progress, new capital works and existing and new leased dwellings from the private market;
- ◆ provide \$26.6 million for maintenance and fire safety on public housing properties, as well as Aboriginal Housing Office property upgrades;

- ◆ implement *Plan First* reforms – utilising a whole-of-government approach, in partnership with local government, to State, regional and local planning;
- ◆ provide \$10.7 million for the redevelopment of the Festival Development Corporation site at Mount Penang;
- ◆ provide \$5 million to meet the Honeysuckle Development Corporation’s community service obligations;
- ◆ provide \$66.8 million to meet commitments in delivering projects in backlog water supply and sewerage schemes in country towns. This includes enhanced funding of \$15 million in 2001-02 as part of a commitment to an additional \$60 million over the next four years. An additional \$20 million will be spent over five years in bringing forward projects in the Sydney catchment area; and
- ◆ provide \$7.7 million for Irrigation Areas Land and Water Management Plans.

In 2001-02, expenses in the Housing and Water policy area are expected to total \$1,084 million (which includes grants for asset acquisitions by Housing agencies) while other asset acquisitions of \$22 million are projected. Further details are provided in Budget Papers No. 3 and No. 4.

AGRICULTURE, FORESTRY AND FISHING

Overall Objective

The objectives of this policy area are to:

- ◆ assist the agriculture, forestry and fishing sectors to be economically and environmentally sustainable;
- ◆ develop and implement major reform priorities in water, land, vegetation and fishery management;
- ◆ provide research, advice, education and regulation for landholders and industry to improve catchment management planning, agricultural systems and fisheries management; and
- ◆ provide advice and assistance in relation to the Government’s forestry policy reform and structural adjustment program.

Scope of Policy Area

The functions underlying this policy area are carried out primarily by NSW Agriculture, the Department of Land and Water Conservation, NSW Fisheries, the Rural Assistance Authority and the forestry policy and reforms program of the Department of Information Technology and Management.

Services Delivered

Examples of the services and activities provided within this policy area in 2001-02 include:

- ◆ skills workshops for 11,200 farmers;
- ◆ 26,000 home study and short course enrolments through the State's agricultural colleges;
- ◆ 18 educational courses on farm and land management sustainability issues;
- ◆ administration of the Natural Disaster Relief Scheme on behalf of the State;
- ◆ business planning and skills training for up to 7,000 farmers under the joint State / Commonwealth funded FarmBis program;
- ◆ provision of financial support for water use efficiency schemes under the Government's \$25 million, five-year Water Reform Structural Adjustment Package;
- ◆ an allocation of \$38.2 million for Natural Heritage Trust programs administered by the Department of Land and Water Conservation;
- ◆ assistance to 35 forestry businesses to invest in value adding employment creation;
- ◆ provision of retraining for 1,850 forestry workers affected by forestry policy reforms; and
- ◆ implementation of ten fisheries Management Plans, protection of 26 fish species and various initiatives supporting the State's \$46 million aquaculture industry.

Government Initiatives

In delivering these services, the Government will undertake the following key initiatives in the 2001-02 Budget year:

- ◆ provide a new allocation of \$13.1 million, spread across several agencies, to fund service delivery costs associated with implementing the second phase of the Government's water reform initiatives as embodied in the *Water Management Act 2000*. These reforms will ensure the sustainable and integrated management of the State's water for the benefit of present and future generations. A total allocation of \$64.7 million program over four years has been provided for these reforms;
- ◆ expend around \$13 million under the *NSW Salinity Strategy* – part of a total \$52 million program over four years, spread across several agencies. Specific initiatives include the establishment of an Environmental Services Investment Fund to facilitate sustainable investment in salinity remediation actions; creation of specialist salt action teams to provide landholders with up-to-date scientific and land management advice; upgrade of information data and analytical tools to underpin effective on-ground action; additional investment in scientific research and development; and implementation of salinity targets, catchment planning systems and an effective regulatory framework;
- ◆ provide up to \$7.4 million over the next three years (including around \$3 million in 2001-02) to continue combating the problem of soil acidity, including acid sulfate soils. Expenditure will be in the form of grants and operating funds for community projects and education, and research to prevent, manage and find solutions to soil acidity problems;
- ◆ provide \$6.9 million in grants to local government authorities to improve the delivery of noxious weed control programs across New South Wales by developing and implementing coordinated regional plans, controlling weeds on road sides, inspecting private properties and introducing appropriate control measures;
- ◆ provide \$2.3 million to assist the sheep industry combat the debilitating Ovine Johne's disease through the monitoring and control of the diseases further spread as well as providing personalised service to approximately 500 owners of currently infected flocks;
- ◆ commence a new FarmBis program – Skilling Farmers for the Future Program – from 1 July 2001, with \$26.8 million in joint State / Commonwealth funding being provided over three years;

- ◆ provide \$5 million for the Native Vegetation Management Fund (as part of a total program of \$18.5 million over four years) to protect, maintain and rehabilitate native vegetation by promoting on-farm conservation;
- ◆ build a \$1.5 million joint office facility for the Marine Parks Authority, New South Wales Fisheries and the National Parks and Wildlife Service at Huskisson, Jervis Bay;
- ◆ provide an additional \$178,000 to assist in the conservation of marine biodiversity through the creation of marine parks;
- ◆ re-invest the \$8.5 million expected to be raised by the general recreational fishing fee back into improving recreational fishing across New South Wales; for example, through the creation of recreational fishing areas, restocking initiatives, research and conservation; and
- ◆ provide \$73.3 million for forest industry reforms, including \$48.9 million in support for expenditure incurred under the joint State / Commonwealth Forest Industry Structural Adjustment Package.

In 2001-02, expenses in the Agriculture, Forestry and Fishing policy area are expected to total \$582 million while asset acquisitions of \$41 million are projected. Further details are provided in Budget Papers No. 3 and No. 4.

ENVIRONMENT PROTECTION

Overall Objective

The key objectives of this policy area are to:

- ◆ protect, maintain and restore the quality of the environment, having regard to the need to maintain ecologically sustainable development;
- ◆ conserve, protect and manage the State's natural and cultural heritage;
- ◆ achieve a balanced mix of social, economic and environmental outcomes in the management of natural resources;
- ◆ promote education and research into environmental problems; and
- ◆ implement a range of initiatives to improve the quality of the State's waterways.

Scope of Policy Area

The natural resources aspects of this policy area are carried out by the Department of Land and Water Conservation, National Parks and Wildlife Service, Environment Protection Authority, Waste Planning and Management Fund, Stormwater Trust and the Environmental Trust.

Expenditure related to the acquisition and improvement of regionally significant and open space lands under the Sydney Region Development Fund is also included.

Services Delivered

Examples of the services and activities provided within this policy area include:

- ◆ development of the strategic policy framework and programs for the sustainable management of the State's key natural resources;
- ◆ provision of 146 national parks, 302 nature reserves, 19 State recreation areas and seven regional parks as part of the 5.1 million hectares reserved in New South Wales under the *National Parks and Wildlife Act 1974*;
- ◆ grants to the Zoological Parks Board for asset maintenance and as a contribution towards the operating costs of the zoos;
- ◆ the conservation, protection and management of the State's natural and cultural heritage and recreational opportunities through the network of national and regional parks. Since 1995-96, the Government has declared over 250 new national parks and reserves, including additions to existing reserves. More than 700,000 hectares of State Forest in the north-east and south-east of New South Wales has also been transferred to the National Parks and Wildlife Service as a result of the Government's forestry reform process;
- ◆ development of waste minimisation and air and noise emission control initiatives by the Environment Protection Authority; and
- ◆ funding of programs under the Stormwater Trust (\$80 million over the four-year period 1997-98 to 2001-02) to plan for and control stormwater discharges and reduce the impact from sewerage systems.

Government Initiatives

In delivering these services, the Government will undertake the following key initiatives in the 2001-02 Budget year:

- ◆ contribute \$22.1 million to the Zoological Parks Board for various purposes, including a major program of rebuilding and modernisation of facilities and exhibits, and for research and public education;
- ◆ spend \$56.7 million on waste minimisation and management initiatives, including an amount of \$47.4 million to support the Waste Planning and Management Fund;
- ◆ extend Stormwater Trust funding by \$20 million;
- ◆ implement the new *Protection of the Environment (Operations) Act 2000* and other new legislation;
- ◆ provide a total of \$44.9 million for capital works by the National Parks and Wildlife Service to acquire additional lands with high conservation values, with a particular focus on suitable parcels of land in western New South Wales. These funds will also be used to significantly extend and upgrade sewerage infrastructure and public amenities in a number of parks across the State, and develop and upgrade recreational facilities in regional and metropolitan parks in western Sydney;
- ◆ provide \$0.9 million for the establishment and management of the proposed Stockton Bight National Park;
- ◆ provide \$5.4 million (\$4.7 million per annum from 2002-03) for the management of newly established parks in south-eastern New South Wales following the Southern Comprehensive Regional Assessment;
- ◆ allocate \$1.8 million (with a further \$1 million in 2002-03) for a further stage of the State Biodiversity Strategy. Funding will be used to undertake assessments, develop plans and improve public access to information in respect of flora and fauna that are important to the conservation of specific bio-regions;
- ◆ provide \$0.9 million as a capital grant to the Jenolan Caves Reserve Trust for remediation works, including the upgrade of sewerage systems at Wombeyan and Jenolan Caves and flood mitigation at Abercrombie Caves;

- ◆ develop markets and investment strategies that encourage public and private participation in activities producing environmental benefits;
- ◆ expend \$35.9 million on regionally significant and open space lands, either acquired or improved through funding provided by the Sydney Region Development Fund; and
- ◆ provide new funding of \$2 million (as part of a two-year, \$4 million commitment) to expedite the construction of a levee bank at Lismore - part of the State's contribution (\$13.9 million) towards floodplain management.

In 2001-02, expenses in the Environment Protection policy area are expected to total \$83 million while asset acquisitions of \$22 million are projected. Further details are provided in Budget Papers No. 3 and No. 4.

RECREATION AND CULTURE

Overall Objective

The objectives of the Recreation and Culture policy area are to provide a range of recreational, sporting and cultural amenities for the use and enjoyment of the people of New South Wales, and to ensure the proper conduct and balanced development of the gaming, racing, charity and liquor industries.

Scope of Policy Area

The Recreation and Culture policy area is diverse and includes the major functions of the Olympic Co-ordination Authority (OCA), Department of Sport and Recreation, Department of Gaming and Racing, Casino Control Authority, Royal Botanic Gardens and Domain Trust, Centennial Park and Moore Park Trust, Ministry for the Arts and the State's cultural institutions including the Historic Houses Trust, Film and Television Office, Museum of Applied Arts and Sciences, State Library, Australian Museum and the Art Gallery of New South Wales.

Services Delivered

The Recreation and Culture policy area includes:

- ◆ a cultural grants program and other funding to support the development of the arts and cultural sector. This includes supporting the activities of a range of individuals and organisations and promoting the development of the film and television industry;

- ◆ museum, information, performing arts, education and exhibition services provided by the cultural institutions for over 7 million on-site visitors and 500,000 regional participants;
- ◆ maintenance and improvement of high-use community areas such as parklands, gardens and leisure facilities. This is a complex task requiring the balancing of conflicting demands for recreational use of facilities, protection of the environment, financial sustainability and equity of access;
- ◆ support for sport and recreation services at the State and regional levels, including provision of 450 participant days at eleven Sport and Recreation Centres and Academies, assisting the development of 467 local and 22 regional sports facilities, and supporting the operations of the NSW Institute of Sport, Sydney Aquatic and Athletic Centres and the State Sports Centre; and
- ◆ overseeing the operations of the liquor, gaming, racing and charity industries and ensuring the minimisation of harm from liquor and gambling activities.

Government Initiatives

Key initiatives for 2001-02 include:

- ◆ \$1.8 million over three years to implement an industry assistance package for the performing arts sector, which will help to ensure the ongoing financial viability of the major companies based in New South Wales, provide incentives for the companies to work with festivals and young performers, and enhance marketing initiatives and training;
- ◆ \$0.5 million per annum from 2001-02 to assist in the development of essential arts infrastructure in Western Sydney such as studio, rehearsal, performance and office space;
- ◆ \$0.75 million per annum from 2001-02 rising to \$0.95 million per annum from 2003-04 to provide regional audiences access to performances by the State's leading theatre and music companies and to renew and enhance arts activities in targeted regional centres;
- ◆ \$1.5 million to the Sydney Opera House Trust in 2001-02 for a detailed study of the Opera Theatre. This project will evaluate options to address acoustic deficiencies of the pit and occupational health and safety concerns, as well as provide for subsequent planning and design;

- ◆ \$5.2 million over four years to promote New South Wales as a filming location and to strengthen script and project development;
- ◆ \$13.8 million over four years to conserve the historic industrial buildings behind The Mint in Macquarie Street and relocate the head office of the Historic Houses Trust;
- ◆ \$3.4 million over three years to integrate and digitise the Australian Museum's collections databases and develop the Museum's Internet site to provide greater access to collections and resources online; and
- ◆ \$1.2 million to the Department of Sport and Recreation to improve water safety in New South Wales.

In 2001-02, expenses in the Recreation and Culture policy area are expected to total \$594 million while asset acquisitions of \$87 million are projected. Further details are provided in Budget Papers No. 3 and No. 4.

OTHER ECONOMIC SERVICES, MINING, ENERGY AND CONSTRUCTION

Scope of Policy Area

This policy area includes a broad range of functions, activities and expenditures incurred by the Department of State and Regional Development, Industrial Relations Commission, Department of Industrial Relations, Compensation Court of the Attorney-General's Department, Office of Information Technology, Independent Pricing and Regulatory Tribunal, Department of Fair Trading, Tourism New South Wales, Department of Mineral Resources, Coal Compensation Board, Ministry of Energy and Utilities, Sustainable Energy Development Authority, vocational educational programs administered by the Department of Education and Training and expenditure by the Market Implementation Group within NSW Treasury.

Some of the larger non-budget dependent General Government agencies are also included in this policy area: for example, the New South Wales Insurance Ministerial Corporation, WorkCover Authority, Building and Construction Industry Long Service Payments Corporation and Workers' Compensation (Dust Diseases) Board.

Services Delivered

Examples of the services and activities provided within this broad policy area in 2001-02 include:

- ◆ expenditure of \$17.5 million to provide a comprehensive information framework on the State's geological, mineral and energy resources;
- ◆ the seven-year \$30 million "Exploration NSW" initiative aimed at attracting exploration investment to the State. Estimated outcomes in 2001-02 include: private mineral and petroleum exploration expenditure of \$82 million, investment in new mines and expansions of \$1,000 million and an annual value of mineral production of \$7,300 million;
- ◆ funding of \$46.3 million to promote New South Wales as a tourist destination;
- ◆ provision of an industry-based, portable long-service benefit scheme for workers in the building and construction industry;
- ◆ ongoing development and implementation of the Government's energy reform initiatives; and
- ◆ funding for resolution of worker' compensation disputes, including funding of the Compensation Court of New South Wales and the Workers' Compensation Resolution Service.

Government Initiatives

In delivering the above services, the Government will undertake the following key initiatives in the 2001-02 Budget year:

- ◆ undertake a natural gas and electricity market retail contestability communication campaign (\$3 million);
- ◆ transfer the electricity pensioner rebate scheme (\$67.5 million) to the Ministry of Energy and Utilities from 1 July 2001. This transfer will ensure the scheme is integrated with arrangements for households being able to enter the contestable market for both gas and electricity as from 1 January 2002;
- ◆ facilitate the development of financing options for sustainable energy for both business and consumers such as energy performance contracts and pooled investment vehicles;

- ◆ initiation of a series of measures (\$1.5 million) under the Outworker project aimed at protecting clothing outworkers from industrial exploitation and enhancing the long-term viability of the New South Wales clothing industry;
- ◆ provide funding of \$12 million under the *connect.nsw* program;
- ◆ provide \$8 million for the online business licensing project coordinated by the Office of Information Technology;
- ◆ establish a post Olympics Business Program within the Department of State and Regional Development aimed at maximising the investment attraction and trade potential of the State; and
- ◆ establish a new service for technology start-up companies as part of the Small Business Expansion Program, taking account of the special challenges faced in areas such as biotechnology and information technology.

In 2001-02, expenses in the Other Economic Services policy area are expected to total \$1,867 million while asset acquisitions of \$52 million are projected. Further details are provided in Budget Papers No. 3 and No. 4.

OTHER PURPOSES

Overall Objective

The objective of this policy area is to effectively and efficiently meet the machinery of Government activities, including the Legislature and central agencies, and meet superannuation and debt servicing costs of the whole General Government Sector.

Scope of Policy Area

The Other Purposes policy area covers a range of activities including:

- ◆ interest payments of the General Government Sector including the RTA and other transactions such as long service leave and superannuation which cannot be specifically allocated to other policy areas;
- ◆ legislative services including The Legislature and the Parliamentary Counsel's Office;
- ◆ the majority of the operations of the central agencies, namely Treasury, Cabinet Office and Premier's Department;

- ◆ State Electoral Office, Ombudsman's Office, Independent Commission Against Corruption and State Records Authority;
- ◆ operations of the Department of Local Government and the policy, development and compliance functions of the Department of Gaming and Racing; and
- ◆ funding provided to the Department of Public Works and Services for the administration and co-ordination of community and General Government services and maintenance of certain Crown assets.

Services Delivered

Around \$4 billion will be spent in the Other Purposes Policy Area in 2001-02. The major components of total expenses in this policy area are \$1.7 billion for superannuation, \$300 million for long service leave and \$885 million for finance costs across the whole General Government Sector. Other significant services in this policy area include:

- ◆ \$340 million for services of the Department of Public Works and Services, including procurement, asset and project management, property disposal, engineering and valuation services;
- ◆ \$139 million for the operations of the Premier's Department, Cabinet Office, and Treasury, including all the revenue collection functions of the Office of State Revenue;
- ◆ \$74 million for legislative services;
- ◆ \$15 million to be invested in water saving projects to increase water flow in the Snowy River. This is part of a NSW Government contribution of \$150 million towards a ten years \$375 million program funded by NSW, Victoria and the Commonwealth Governments to increase water flows in the Snowy River to an average 21 percent of the original level prior to the construction of the Snowy Scheme; and
- ◆ \$250 million for the Treasurer's Recurrent Advance, which is a contingency item that provides for unforeseen recurrent expenditure by the General Government Sector.

The major components of asset acquisitions in this policy are plant and equipment and the development and implementation of information technology systems, which are necessary for the administrative support.

Also included within this policy area is the Treasurer's Capital Advance of \$40 million, which is a contingency item that provides for unforeseen asset acquisition expenditure by the General Government Sector.

Further details are provided in Budget Papers No. 3 and No. 4.

CHAPTER 5: NET FINANCIAL LIABILITIES

- ◆ Net Financial Liabilities of the General Government Sector are estimated to fall by \$6,456 million over the four years to June 2001 and reduce by a further \$1,209 million by June 2005.
- ◆ General Government net debt is estimated to fall from \$10,817 million to \$4,828 million over the eight years to June 2005.
- ◆ Gross interest expenses over the same period are expected to more than halve, from \$1,588 million to \$728 million.
- ◆ Assets available to meet the State's superannuation commitments are projected to increase significantly with over 73 percent of liabilities funded by 2005 compared to 41 percent in 1995.

5.1 INTRODUCTION

Two key financial management performance benchmarks are the trends in the Net Financial Liabilities of the General Government Sector and State Sector expressed as a percentage of NSW Gross State Product (GSP).

Net Financial Liabilities is a measure of the total liabilities (primarily borrowings, superannuation and outstanding insurance claims) less the liquid financial assets available to meet these obligations (mainly cash, deposits and investments). Increasingly, movements in Net Financial Liabilities are being regarded as the most significant fiscal indicator, as opposed to the narrower measure of net debt.

For the four year period ending 30 June 2001, General Government Sector Net Financial Liabilities are estimated to decline by \$6,456 million and, as a percentage of GSP, to decline from 15 percent to 9 percent. State Sector Net Financial Liabilities are expected to decline by \$3,942 million and, expressed as a percentage of GSP, to decline from 22 percent to 16 percent.

Given this ongoing reduction in Net Financial Liabilities and the State's record of General Government Sector Budget surpluses, the credit rating agencies have again confirmed New South Wales' AAA credit standing.

5.2: STATE SECTOR NET FINANCIAL LIABILITIES

Table 5.1: State Sector Net Financial Liabilities

<i>As at 30 June</i>	<i>1997 Actual \$m</i>	<i>1998 Actual \$m</i>	<i>1999 Actual \$m</i>	<i>2000 Actual \$m</i>	<i>2001 Revised \$m</i>
GENERAL GOVERNMENT SECTOR					
Gross Debt	18,314	18,046	15,816	14,917	12,313
Financial Assets	7,497	7,887	6,262	5,945	5,961
Underlying Net Debt	10,817	10,159	9,554	8,972	6,352
Prepayment of Superannuation Contributions	...	...	3,264	2,250	1,179
Net Debt	10,817	10,159	12,818	11,222	7,531
Accrued Superannuation Liabilities	23,676	25,593	26,235	26,797	28,722
Investments	11,911	13,741	18,283	21,111	20,859
Unfunded Superannuation	11,765	11,852	7,952	5,686	7,863
Other Financial Liabilities*	6,355	6,475	6,374	6,482	7,087
Net Financial Liabilities**	28,937	28,486	27,144	23,390	22,481
PUBLIC TRADING ENTERPRISE SECTOR					
Gross Debt	10,375	10,135	9,993	9,872	13,075
Financial assets	2,848	2,478	2,387	2,199	1,898
Net Debt	7,527	7,657	7,606	7,673	11,177
Unfunded Superannuation	452	136	227	(402)	(270)
Other Financial Liabilities	3,553	3,617	4,144	4,738	3,550
Net Financial Liabilities	11,532	11,410	11,977	12,009	14,457
PUBLIC FINANCIAL ENTERPRISE SECTOR					
Gross Debt	28,446	30,616	34,211	30,686	26,560
Financial Assets	27,803	29,680	33,148	29,872	26,166
Net Debt	643	936	1,063	814	394
Unfunded Superannuation	...	...	...	...	...
Other Financial Liabilities/(Assets)	110	(38)	62	(112)	(52)
Net Financial Liabilities	753	898	1,125	702	342
TOTAL STATE SECTOR					
Net Financial Liabilities	41,222	40,794	40,246	36,101	37,280

* Mainly represented by outstanding insurance claims, including HIH liabilities.

** Equity investment in the PTE/PFE sectors is excluded to give a more conservative picture of the General Government Sector overall financial obligations.

Total State Sector Net Financial Liabilities are a consolidation of the Net Financial Liabilities of the General Government, Public Trading Enterprise, (PTE) and Public Financial Enterprise (PFE) sectors as shown in Table 5.1.

The financial management considerations that influence the level of Net Financial Liabilities in the PTE and PFE sectors are quite different to those in the General Government Sector.

The amount of debt held by individual Government commercial enterprises e.g. electricity generators and distributors, should generally reflect the relevant industry average gearing levels in order to reinforce incentives for the efficient use of the organisation's capital and other resources.

The net financial liabilities held by commercial enterprises support physical assets that earn a financial return in addition to providing a service to the community. The physical assets in the General Government Sector, while underpinning the sector's services do not earn a financial return but are primarily funded from taxation revenue.

General Government Sector Net Financial Liabilities are estimated to decline by \$6,456 million over the four year period ending 30 June 2001. This result reflects a reduction in unfunded superannuation liabilities of \$3,902 million and in net debt of \$3,286 million and an increase of \$732 million in other financial liabilities, including the assumption of \$600 million in respect of HIH outstanding claims.

The overall improvement in the General Government financial position is attributable to the Budget surpluses achieved over this period and dedicating the proceeds of major asset sales and capital repatriations from the PTE sector to debt reduction.

These actions are in accordance with the Government's fiscal strategy which has the objective of reducing the cost of servicing outstanding General Government Sector financial liabilities and thereby freeing up resources for improved service delivery and tax reductions.

The increase in the General Government Sector superannuation liability estimate in 2000-01 is due to the impact of revised actuarial demographic assumptions and projected lower asset investment returns. Conversely the large decline in 1999-2000 was caused by a change to the actuarial economic assumptions and higher than expected investment returns.

Overall the superannuation liability position has improved significantly since 1995. The current liability projection of \$7,863 million as at 30 June 2001 is \$6,337 million less than the original funding plan estimate and thus the target date for fully funding superannuation liabilities has been brought forward 15 years, from 2045 to 2030.

The projected increase in PTE Sector Net Financial Liabilities in 2000-01 primarily reflects the increase in debt due to the re-gearing of the electricity distributors and generators.

Another factor affecting PTE Net Financial Liabilities is the utilisation of cash balances by Water, Electricity, Transport and other agencies to fund capital works projects.

Other Financial Liabilities in the PTE Sector are expected to decline significantly in 2000-01 primarily because net expenditure incurred by the Sydney Organising Committee for the Olympic Games and the Sydney Paralympic Organising Committee had been deferred and recorded as a liability. The expense has been brought to account in the financial year in which the Olympic Games took place along with the offsetting revenue from the Games.

State Sector Net Financial Liabilities are expected to decline by \$3,942 million for the four year period ending 30 June 2001. Over the forward estimates period, General Government Sector and State Sector Net Financial Liabilities are projected to stabilise in nominal terms and to continue to decline as a percentage of Gross State Product, as shown in Table 5.2 and Chart 5.1.

Table 5.2: Net Financial Liabilities Projections

	2000	2001	<i>Budget</i>		<i>Estimates</i>	
	<i>Actual</i>	<i>Revised</i>	2002	2003	2004	2005
	\$m	\$m	\$m	\$m	\$m	\$m
General Government Sector						
Net Debt ¹	11,222	7,531	6,176	5,809	5,598	4,828
Unfunded Superannuation ²	5,686	7,863	8,990	9,269	9,530	9,753
Insurance Claims ³	3,142	3,883	3,914	3,984	4,097	4,267
Other ⁴	3,340	3,204	2,864	2,802	2,607	2,424
Total	23,390	22,481	21,944	21,864	21,832	21,272
State Sector						
Net Debt ¹	19,701	19,103	18,389	18,022	17,811	17,041
Unfunded Superannuation ²	5,284	7,593	8,872	9,151	9,412	9,635
Insurance Claims ³	3,142	3,883	3,914	3,984	4,097	4,267
Other ⁴	7,974	6,701	6,386	6,324	6,129	5,946
Total⁵	36,101	37,280	37,561	37,481	37,449	36,889

¹ Includes temporary borrowings to fund prepayment of superannuation contributions.

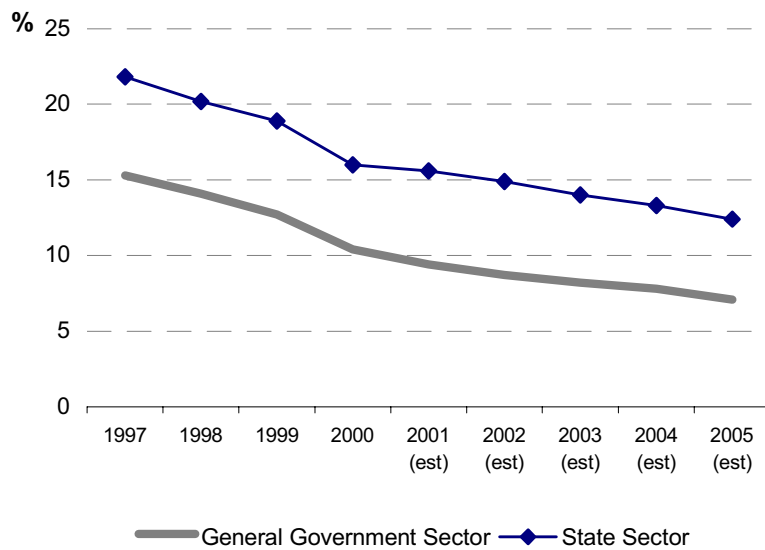
² Increase between 2001 and 2002 mainly due to Crown employer contribution funding holiday following prepayment of contributions in 1999.

³ Gross amount of insurance assets are included in financial assets in accordance with Australian Bureau of Statistics Standards. The increase in 2001 reflects the take over of HIH liabilities.

⁴ Mainly represented by long service leave and other employee entitlements.

⁵ PTE/PFE net financial liabilities and their components are assumed constant from 2003 and 2002 respectively.

Chart 5.1: Net Financial Liabilities as percentage of Gross State Product, as at 30 June



Further detailed commentary on the major General Government Sector Net Financial Liabilities is contained in the following sections.

5.3: GENERAL GOVERNMENT SECTOR NET DEBT

Table 5.3: General Government Sector Net Debt

<i>As at 30 June</i>	<i>1995 Actual \$m</i>	<i>1996 Actual \$m</i>	<i>1997 Actual \$m</i>	<i>1998 Actual \$m</i>	<i>1999 Actual \$m</i>	<i>2000 Actual \$m</i>	<i>2001 Revised \$m</i>
Gross Debt							
Borrowings	*	*	14,363	14,064	16,761	14,961	11,360
Advances Received	*	*	3,907	2,340	2,270	2,142	2,061
Deposits Held	*	*	44	57	59	90	71
	17,377	18,192	18,314	16,461	19,090	17,193	13,492
Financial Assets							
Cash	1,562	2,192	2,169	1,184	961	418	574
Investments	2,007	3,326	3,649	3,448	3,658	3,860	3,978
Advances	1,781	1,825	1,679	1,670	1,653	1,693	1,409
	5,350	7,343	7,497	6,302	6,272	5,971	5,961
Net Debt	12,027	10,849	10,817	10,159	12,818	11,222	7,531
Less: Prepayment of Superannuation Contributions							
	...	...	...	...	3,264	2,251	1,179
Underlying Net Debt	12,027	10,849	10,817	10,159	9,554	8,971	6,352

* *Gross debt dissections not available.*

The Government has established a fiscal target to eliminate General Government Net Debt by 2020, which has been incorporated in the *General Government Debt Elimination Act 1995*.

Substantial progress has already been made in achieving this target with the revised estimate of underlying net debt in 2001 being \$5,675 million lower than the level prevailing in 1995.

This reduction excludes the impact of the prepayment of superannuation contributions. Temporary debt was raised in 1999 to fund these payments and will be fully repaid by 30 June 2002. Mainly because of high investment returns on the prepaid contributions, General Government Sector Net Financial Liabilities are expected to be at least \$800 million lower as a result of this initiative.

The net debt reduction is partly due to ongoing Budget cash surpluses and asset sales, including the TAB. These receipts have been utilised to buy back high coupon rate bonds and thus significantly reduce General Government Sector interest expenses. This has provided the opportunity for the Government to allocate additional funding to high priority core government services such as the recent transport initiatives.

Further, during 2000-01 the electricity industry was re-gearing to the extent of \$2,800 million (market value) and the capital receipts were used to retire General Government Sector high coupon loans.

In order to repurchase these securities in the market an additional amount of premium had to be paid to existing bond holders. Thus the reduction in the book value of General Government Sector borrowings was approximately \$270 million less than the market value and the interest expense in 2000-01 was increased by an equivalent amount. This cost will be fully offset by future interest cost savings.

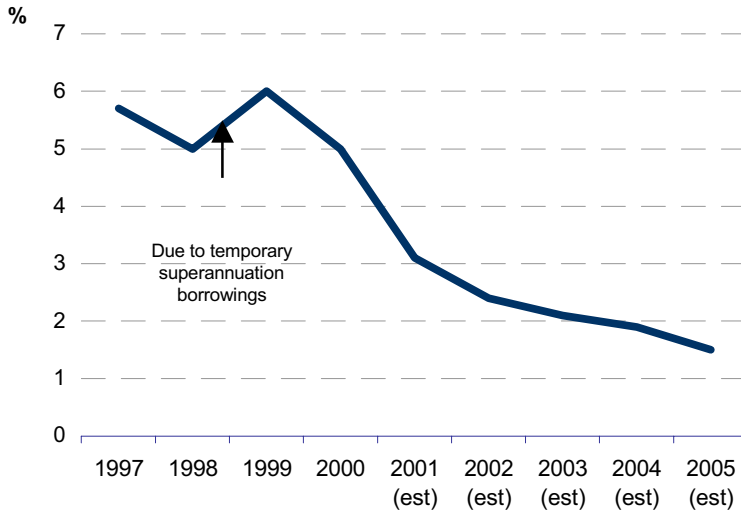
The electricity businesses are able to prudently support additional debt with revised gearing levels nearer to those of comparable private sector organisations. While the additional interest cost will lower dividends, the net Budget impact is positive because General Government interest cost savings are expected to exceed the revenue forgone.

Net debt would be approximately \$320 million lower if the State was not required to meet ongoing State Bank post sale costs paid since 1993-94.

Over the four year period to 30 June 2005, General Government Net Debt is expected to further decline as a result of projected cash surpluses totalling \$1,312 million.

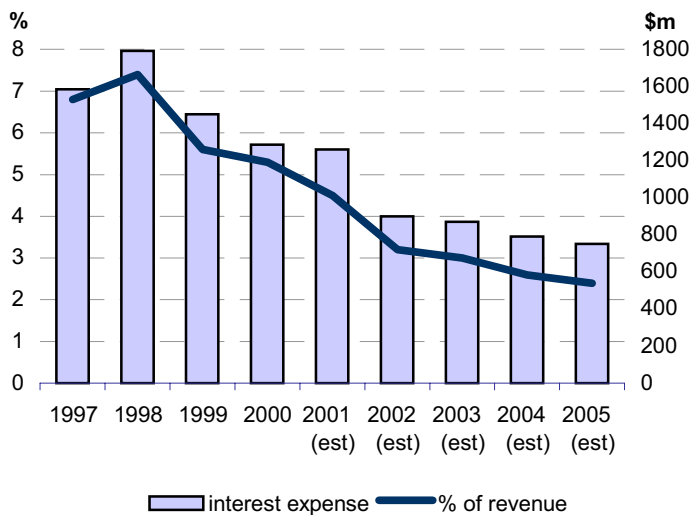
Allowance has been made in 2000-01 for the assumption of certain liabilities as a result of the HIH collapse and the resulting impacts on cash balances over the forward estimates period. Despite the adverse impact on the Budget and Forward Estimates, the Net Debt to GSP ratio is still expected to fall to 1.5 percent by 2005, as shown in Chart 5.2.

Chart 5.2: General Government Sector Net Debt as percentage of Gross State Product, as at 30 June



GENERAL GOVERNMENT SECTOR INTEREST EXPENSE TRENDS

Chart 5.3 General Government Sector Gross Debt Interest Expense, and as a percentage of State Revenue, as at 30 June



As shown in Chart 5.3 the ratio of gross interest expense to State revenue is projected to fall from 6.8 percent to 2.4 percent over the eight year period ending 30 June 2005.

Gross debt interest expense is expected to more than halve during the same period from \$1,588 million to \$728 million due to ongoing reductions in General Government gross debt and a lower average debt portfolio interest rate as existing debt matures and/or the portfolio is restructured to take advantage of lower prevailing finance costs.

General Government net interest expense is also considerably lower due to high asset investment earnings on Treasury Banking System cash balances and insurance scheme financial assets. The additional premium cost paid in order to redeem high coupon rate bonds, referred to earlier, is included in the revised 2000-01 interest expense estimate. The forward year estimates reflect the favourable impact of these debt redemptions on future expense levels. Table 5.4 details the actual and estimated net interest expenses.

Table 5.4 General Government Sector Net Interest Expense

to 30 June	<i>Actual</i>				<i>Revised</i>	<i>Budget</i>	<i>Estimates</i>		
	1997	1998	1999	2000	2001	2002	2003	2004	2005
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Interest expense*	1,588	1,792	1,397	1,450	1,279	885	853	769	728
Investment Income	636	424	420	493	509	457	475	477	537
Net Interest expense	952	1,368	977	957	770	428	378	292	191

- represents coupon accrual interest expense and any losses on debt management resulting from retirement of high interest rate loans

5.4 GENERAL GOVERNMENT SECTOR UNFUNDED SUPERANNUATION LIABILITIES

General Government Sector net superannuation liabilities are estimated to be \$4,174 million lower for the six year period ending 30 June 2001. The proportion of funded accrued liabilities is expected to increase during the same period from 41 percent to 73 percent, as shown in Table 5.5.

Table 5.5: General Government Sector Unfunded Superannuation Liabilities

As at 30 June	Actual						Revised
	1995* \$m	1996 \$m	1997 \$m	1998 \$m	1999 \$m	2000 \$m	2001 \$m
Liabilities	20,386	22,258	23,676	25,593	26,235	26,797	28,722
Assets	8,349	9,282	11,911	13,741	18,283	21,111	20,859
Net**	12,037	12,976	11,765	11,852	7,952	5,686	7,863
Assets as proportion of liabilities (%)	41	42	50	54	70	79	73

* 1995 figures are for Budget Sector only

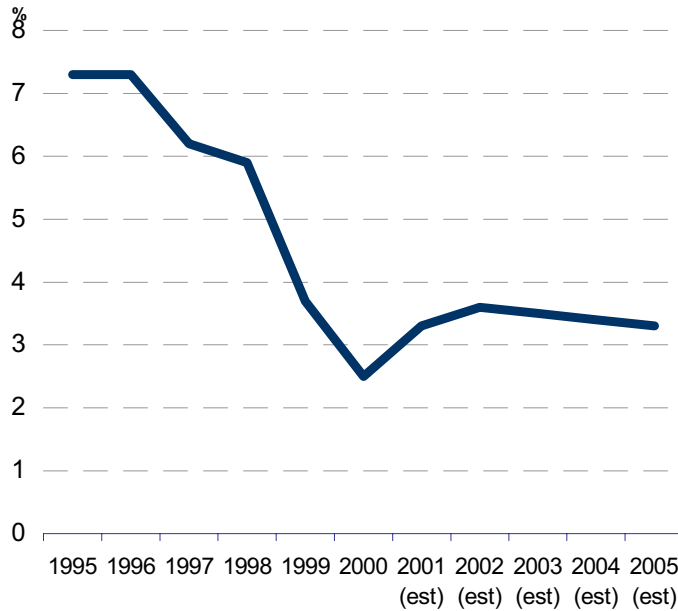
** The time series is adjusted to take into account that New South Wales no longer recognises any superannuation liability for Universities.

The net unfunded superannuation liability is the difference between the present value of liabilities accrued in respect of past service and the market value of financial assets, primarily domestic and international shares, held in defined benefit superannuation funds.

The estimate of unfunded superannuation liabilities is sensitive to the demographic and economic actuarial valuation assumptions used, and the market value of financial assets which is volatile. A 7 percent investment return (being the long term assumption adopted by the scheme actuary in the latest triennial review of the schemes) has been assumed for the forward estimates period. For 2000-01 a lower return of 4 percent has been estimated, which takes into account actual results, up to 31 March 2001.

During the period since 1995 assets have grown strongly, with higher than expected investment returns (e.g. 15.2 percent in 1999-2000), and a high level of employer cash contributions. Further, the Unfunded Superannuation to GSP ratio is expected to fall from 7.3 percent to 3.3 percent over the ten year period ending 30 June 2005, as shown in Chart 5.4.

Chart 5.4: General Government Sector Unfunded Superannuation as percentage of Gross State Product, as at 30 June



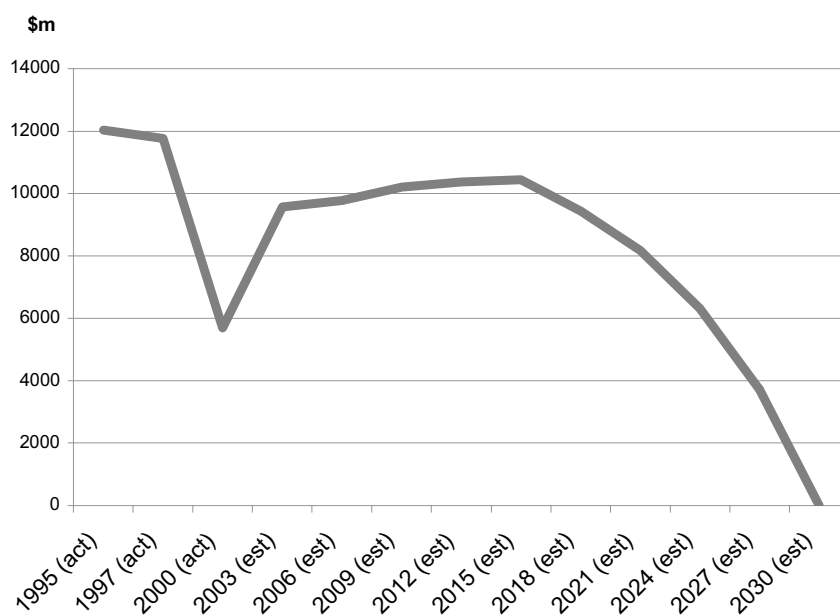
Over the forward estimates period to 30 June 2005 the unfunded superannuation liability is projected to increase by approximately \$1,890 million, as shown in Table 5.6.

Table 5.6: Projected General Government Sector Unfunded Superannuation Liabilities

As at 30 June	Revised	Budget	Estimates		
	2001 \$m	2002 \$m	2003 \$m	2004 \$m	2005 \$m
Liabilities	28,722	30,095	32,138	34,177	36,178
Assets	20,859	21,105	22,869	24,647	26,425
Net	7,863	8,990	9,269	9,530	9,753
Assets as proportion of Liabilities (%)	73	70	71	72	73

This increase is mainly due to a revised actuarial estimate of unfunded liabilities and an employer contribution “funding holiday” in 2001 and 2002 as a result of the prepayment of employer contributions in 1999 for the three year period ending 30 June 2002. The increase is in accordance with an accelerated actuarial funding plan to fully fund the liabilities by 2030. The nominal net liability values are expected to increase until approximately 2015 and then decline steadily as shown in Chart 5.5.

Chart 5.5 Projected General Government Sector Unfunded Superannuation Liabilities



Under the revised funding plan unfunded liabilities are estimated to peak around 2015 when the growth in gross accrued liabilities reduces due to the retirement of active members and higher mortality rates. The gross liability escalation is then primarily based on consumer price index movements (assumed to be at 2.5 percent) applicable to pensioners compared to wage growth (assumed to be at 4 percent) for the remaining active defined benefit scheme members.

When Crown employee contributions resume in 2002-03, assets will resume growing. Employer contributions escalated by the consumer price index plus the anticipated 7 percent per annum long term investment return will exceed benefit payment. The asset to liability ratio will dip initially but return to the current level of 73 percent by then end of the forward estimates period.

Triennial Review

The actuary, William M Mercer, was appointed by the Trustee of the pooled defined benefits superannuation fund to undertake the triennial review of the schemes as at 30 June 2000. Actuarial economic assumptions have changed in respect of salary growth (from 5 percent to 4 percent) and consumer price index movements (from 3.25 percent to 2.5 percent). These adjustments were reflected in the 2000 liability valuation.

Demographic assumptions were also reassessed by the actuary and reduced pensioner mortality rates and higher Police disability retirement levels resulted in an increased 2001 liability valuation.

Superannuation Funding Plan

In 1993 a funding plan was developed with the objective of fully funding superannuation liabilities by 2045. As a result of higher than originally estimated employer contributions, various liability management initiatives and favourable actual investment returns over recent years, the Government has brought forward the full funding target date by fifteen years from 2045 to 2030.

When the funding plan was revised in 1995 the liability projection for 2001 was \$14,200 million, \$6,337 million more than the present liability estimate. Furthermore the 2015 liability peak in the current funding plan will be approximately \$3,500 million lower.

New South Wales' superannuation liability position has, therefore, improved significantly since 1995 and the earlier funding target date can be achieved on the basis of the funding plan shown in table 5.7.

Table 5.7: Superannuation Employer Contributions*

To 30 June	Actual				Revised	Budget	Estimates		
	1997 \$m	1998 \$m	1999 \$m	2000 \$m	2001 \$m	2002 \$m	2003 \$m	2004 \$m	2005 \$m
Defined Benefit									
Closed schemes	1,021	1,145	4,301	587	243	...	929	951	975
Open schemes	18	23	23	25	25	28	29	30	31
Accumulation									
First State Super	238	273	348	387	480	518	632	687	738
TOTAL	1,039	1,168	4,324	612	268	28	958	981	1,006

* Contributions for the Crown Entity which meets the superannuation costs for all General Government Sector budget dependent agencies.

The Government is committed to the effective management and eventual elimination of unfunded superannuation liabilities via an actuarially calculated funding plan which is reviewed every three years. In particular, employer contribution levels will be reassessed to ensure they are sufficient to fully fund superannuation liabilities by 2030.

While the reassessment of unfunded liabilities is subject to change at particular points of time, an overall cap has been placed on the liabilities of the pooled defined benefit public sector superannuation schemes through their closure to new members. This fact combined with an actuarially assessed funding plan has resulted in those liabilities being reduced from \$12,037 million in 1995 to their current level of \$7,863 million and will ultimately ensure their complete elimination.

First State Superannuation accumulation scheme contributions will continue to increase due to salary growth, an increase in the superannuation guarantee charge rate from 8 percent to 9 percent from 1 July 2002 and the recruitment of new employees to replace retiring closed defined benefit scheme members.

5.5 GENERAL GOVERNMENT SECTOR INSURANCE LIABILITIES

General Government Insurance Net Liabilities are comprised primarily of the Net Financial Liabilities of the Insurance Ministerial Corporation (IMC), as well as the Net Financial Liabilities of the Workers' Compensation (Dust Diseases) Board and various WorkCover Authority of New South Wales administered schemes such as the Emergency Rescue Workers and Bush Fire Fighters Compensation Funds. They do not include liabilities under the workers' compensation scheme for private sector employees.

Following the collapse of HIH Insurance the Government has approved of the establishment of a Policyholders Protection Fund with an initial contribution of \$50 million in 2000-01. The Government has assumed liability for the outstanding Compulsory Third Party claims under policies in force with HIH prior to 31 December 2000 and for the claims under the Home Warranty Insurance Scheme in respect of HIH policies entered into prior to 15 March 2001. The extent of the claim costs arising from the HIH collapse and assumed by the NSW Government is currently assessed at \$600 million but could vary when the liquidator makes his report.

Table 5.8: General Government Sector Unfunded Insurance Liabilities

<i>As at 30 June</i>	Actual				Revised	Budget	Estimates		
	1997 \$m	1998 \$m	1999 \$m	2000 \$m	2001 \$m	2002 \$m	2003 \$m	2004 \$m	2005 \$m
Financial Liabilities									
Outstanding Claims	2,871	3,129	3,213	3,142	3,883	3,914	3,984	4,097	4,267
Financial Assets									
Cash	299	233	126	167	148	140	143	149	149
Investments	1,609	1,888	2,084	2,250	2,441	2,671	2,923	3,203	3,517
Other	68	76	107	128	170	176	180	186	192
	1,976	2,197	2,317	2,545	2,759	2,987	3,246	3,538	3,858
Net	895	932	896	597	1,124	927	738	559	409
Assets as proportion of liabilities (%)									
	69	70	72	81	71	76	81	86	90

As Table 5.8 shows, the growth in insurance scheme assets has exceeded the growth in liabilities, resulting in an ongoing increase in assets available to fund outstanding claims. The impact of estimated claims of \$600 million taken up as a result of the HIH collapse account for the deterioration shown in the 2001 year. The improvements shown in the following years reflect the continuing improved performance of the IMC and the reduction in HIH liabilities as claims are paid.

The IMC administers the insurance liabilities and financial assets of the Treasury Managed Fund (TMF), the Governmental Workers' Compensation Account and the Transport Accidents Compensation Fund. The latter two schemes are closed and relate primarily to workers' compensation and compulsory third party (bodily injury) motor vehicle claims that were incurred before 1 July 1989.

The TMF is a self-insurance scheme owned and underwritten by the Government. It provides a full range of insurance covers and services for its members. Fund members include all General Government Budget dependent agencies, all public hospitals and a number of other Government authorities. The management of insurance claims is outsourced. GIO General Ltd was reappointed in this role in July 2000 for a three-year term following a competitive tender process.

A feature of the new contract with GIO is the implementation of service level agreements covering 30 separate activities within the areas of claims management, reporting services, policy administration and overarching service provision. Individual agencies are also able to establish service level agreements that are applicable to their particular agency.

The TMF's overall purpose is to provide a structure and a range of services that assist agencies to reduce the impact of risk exposures and, by reducing the impact of insurance exposures, maximise resources available to support their core business.

Fund members are provided financial incentives to motivate best management practices through "hindsight adjustments" to premiums that offer rewards or sanctions based on their own experience. A comprehensive range of risk management services is offered to member agencies including an allocation of resources towards agency initiated "Sponsored Projects".

In respect of workplace safety, detailed policy and guidelines were developed by the Premier's Department and issued to agencies in 1999 under the "Taking Safety Seriously Program". Benchmarks for improvement were established and the positive effect of improvements in occupational health and safety has been reflected in recent "hindsight" refunds to agencies.

The recent collapse of the HIH Insurance Group has had no adverse impact on the TMF. The only exposure of the Fund was a minor coverage within a large reinsurance program. There are no claims current against this cover and alternative arrangements have been made to replace HIH within the program.

5.6 FINANCIAL RISK MANAGEMENT

The *Public Authorities (Financial Arrangements) Act 1987* (PAFA Act) provides government agencies with power to borrow and invest funds, and enter derivative contracts, joint financing and joint venture arrangements. The PAFA Act also provides for State government guarantees of financial arrangements entered into under the Act.

In 1999, Treasury reviewed the effectiveness of the PAFA Act as a control over NSW government agencies' borrowings, investments, derivative transactions and joint ventures. It concluded that the Act could be made more effective in its coverage of agencies and the range of financial transactions being effected by government agencies. The Act was subsequently amended in the following ways:

- ◆ the legislation became the sole source of legal power for agencies to enter into financial arrangements;
- ◆ other entities controlled by Government agencies are now included in the Act's coverage; and
- ◆ joint ventures became regulated.

The amendments came into effect on 30 August 2000, with agencies able to exercise existing powers outside the PAFA Act until 1 March 2001.

Risk management reviews were undertaken during the current financial year to ensure that any potential financial risks to the State arising from existing PAFA Act approvals were identified, appropriately managed and minimised.

If the Treasury Risk Management Committee, which oversaw the review process, is satisfied that an agency has appropriate risk management procedures, systems and policies in place, then the approvals under the Act are extended for a maximum of three years, at which time they will be subject to further review.

Other major financial risks are actively managed as follows:

◆ DEBT MANAGEMENT

NSW Treasury Corporation (TCorp) manages the Crown and the Roads and Traffic Authority debt portfolios. The primary debt management objective is the minimising of the market value cost of debt subject to specified risk constraints over the long term.

TCorp employs an active management style, characterised by positioning the portfolios, according to an interest rate view, with an expectation of adding value relative to a benchmark portfolio. Constraints on the management of the portfolios, including adherence to budget allocations, are detailed in memoranda of understandings between Treasury, Roads and Traffic Authority and TCorp.

◆ SUPERANNUATION MANAGEMENT

The Trustee, SAS Trustee Corporation, is required by legislation to arrange for a triennial actuarial review of the defined benefit superannuation schemes under its administration. All demographic and economic assumptions used in calculating the gross liabilities are assessed against current experience.

The Trustee reviews the fund's strategic asset allocation annually. The asset allocation to bonds and cash is generally around 30 percent of investments, with 70 per cent in growth assets, namely equities and property. About a quarter of the fund assets is with market index investment managers, the remainder with active investment managers.

◆ INSURANCE MANAGEMENT

The TMF scheme's gross liabilities are actuarially assessed annually as part of the premium setting process.

The NSW Insurance Ministerial Corporation's investments are held with TCorp in the form of either investments in TCorp Hour-Glass facilities, or direct investment in an individually managed bond portfolio. Bonds represent an average of 60 percent of investments.

TCorp undertakes asset management directly for the bond portfolio and acts as manager of other fund managers for the other asset sectors. A Memorandum of Understanding between TCorp and the Treasury details investment policies and procedures and benchmarks for each asset class.

CHAPTER 6: SYDNEY 2000 OLYMPIC AND PARALYMPIC GAMES

6.1 INTRODUCTION

- ◆ The estimated net Budget impact of the Olympic and Paralympic Games was \$1,446.2 million.
- ◆ SOCOG and SPOC will return funds to the NSW Government estimated at \$30 million and \$14.8 million respectively.
- ◆ The Sydney Olympic Park Authority will commence from 1 July 2001 and will be responsible for promoting and developing the Homebush Bay precinct.

In September 1993, the International Olympic Committee awarded Sydney the right to host the Olympic Games in the year 2000. The Olympic Games, which were hailed as the “best ever”, were held between 15 September and 1 October 2000. The Paralympic Games were held between 18 and 29 October 2000.

Both events were highly successful, with the Paralympic Games in particular achieving outcomes well beyond expectations, with in excess of one million ticket sales. Paramount in this successful outcome was essential logistical support from the NSW Government. This support commenced from the time of the original bid with the Government entering into a commitment to underwrite the SOCOG budget outcome.

World class venues, such as Stadium Australia, the International Aquatic and Athletic Centres, the Sydney SuperDome, the International Regatta Centre, the Velodrome, the Shooting Centre and the Equestrian Centre remain as legacies of hosting the Games for the people of New South Wales.

The *Sydney 2000 Games Administration Act 2000*, assented to on 20 November 2000, provides for the wind up of the various Olympic and Paralympic agencies. It is anticipated that a Sydney Olympic Park Authority (SOPA) will be established from 1 July 2001 to operate, manage and oversee the ongoing development of the Homebush Bay precinct. The future arrangements for venues outside of the Homebush Bay precinct are the subject of a separate Government policy review.

6.2 GAMES' ORGANISATION

The Government established four organisations to deliver a quality Games. They were the Olympic Co-ordination Authority (OCA); the Sydney Organising Committee for the Olympic Games (SOCOG); the Olympic Roads and Transport Authority (ORTA); and the Sydney Paralympic Organising Committee (SPOC).

OCA had responsibility for organising the construction of all Olympic facilities (including Games' time venue fit-out) and for overall co-ordination of all NSW Government activities impacting on the Olympic Games.

At Games' time, OCA had responsibility for managing the public spaces at Sydney Olympic Park and for managing and controlling Olympic related activities and events in the Sydney Central Business District.

SOCOG had specific responsibility for the important Games areas of ticketing, sponsor servicing, technology, ceremonies, licensed products, the torch relay and the athletes' and media villages. SOCOG was also responsible for the sport operations aspects of the Games through the SOCOG Sports Commission and international broadcasting through Sydney Olympic Broadcasting Organisation.

ORTA was established by the NSW Government to co-ordinate all ground transport services for the Olympic and Paralympic Games.

ORTA looked after the specific transport needs of the Olympic and Paralympic athletes, officials, accredited media and spectators as well as ensuring that the Sydney public and private transport networks continued to function smoothly and efficiently. It co-ordinated rail, bus, road and pedestrian transport requirements.

SPOC organised the staging of the Paralympics.

Prior to the Games, operational management of all agencies was integrated to ensure a seamless event over the sixty-day Games period. Many of the tasks undertaken by staff in preparing for the Olympic Games were also being done for the Paralympic Games.

A "Main Operations Centre" and "Games Co-ordination and Operations Group" made up of senior agency and Sports Commission officers were formed to provide a rapid response to all Games issues as they arose. The Group was chaired by the Minister for the Olympics. Both met on a daily basis during the Games period. ORTA co-ordinated Olympic and Paralympic transport from the Transport Operations Centre located at the RTA's Transport Management Centre.

In addition to the creation of the above special purpose Games agencies, a number of existing Government departments and authorities were provided with specific purpose funding to deliver necessary services to support the Games. The major contributing agencies were the Olympic Security Command Centre through the NSW Police Service; the Waterways Authority which acted as a lead agency for the management of Sydney Harbour and the visitation of international cruise ships; the Department of Sport and Recreation which contributed to the preparation of training venues and the Department of Health.

6.3 ESSENTIAL PUBLIC SERVICES PROVIDED BY OTHER GOVERNMENT AGENCIES

The Government satisfied dual objectives of hosting the Olympic Games and managing the day to day operations of Sydney. The roles of Government agencies such as police, transport and health were central to the provision of essential services.

TRANSPORT

The Sydney 2000 Olympics created the highest demand for passenger transport experienced in Australia. Rail, bus and ferry trips and passengers reached record levels during the Olympic period:

- ◆ more than 4.6 million passengers travelled to Sydney Olympic Park on public transport during the Olympic Games – 3,527,500 on trains and 1,134,750 on 13 regional bus routes;
- ◆ Australia's biggest ever bus fleet made around 371,800 trips transporting athletes, officials and spectators over the Olympic and Paralympic periods;
- ◆ around 1,178,000 passengers travelled to Sydney Olympic Park for the Paralympic Games – 806,050 on trains, 245,790 on private buses and 126,920 on the regional bus routes; and
- ◆ more than 1 million passengers travelled on Sydney Harbour ferries.

SECURITY

The Olympic Security Command Centre was established to protect the Olympic Family, athletes, spectators and officials. The hosting of the Olympic Games required significant security planning and resource deployment. Security initiatives included:

- ◆ risk and threat assessments for Olympic and other venues;
- ◆ provision of direct security services to the Olympic family, athletes and officials;
- ◆ establishment of 24 hour Olympic Intelligence Centre to manage international terrorist activity and other Olympic related crime and risk information;
- ◆ venue security to prevent unauthorised access and introduction of contraband to Olympic events. This included the availability of sufficient resources to address a rapid deployment situation; and
- ◆ close liaison and co-ordination with Federal security and intelligence agencies.

HEALTH

The NSW Health Olympic Co-ordination Centre was established to allow strategic responses to Olympic issues such as venue incidents. Health monitoring was conducted to allow the rapid detection of unusual patterns of illness and injury and outbreaks of disease. Special food inspection services were introduced to cope with the unique nature of catering arrangements for the Games period.

Three Sydney hospitals were designated as Olympic hospitals during the Games to cater for the needs of spectators, athletes, officials and the Olympic Family. Comprehensive interpreter services were provided for treatment of patients from non-English speaking backgrounds.

6.4 BUDGET IMPACT OF THE GAMES

Table 6.1 details the budget impact of the Olympic and Paralympic Games and outlines major cash inflows and outflows. The impact excludes the construction cost of the Royal Agricultural Society's new Showground at Homebush Bay which is not considered to be an Olympic cost.

The estimated net impact of the 2000 Games on the State Budget was \$1,446.2 million and can be summarised as follows:

	<i>\$m</i>
Infrastructure	1,837.5
Services	810.3
Other	234.4
Revenue	(-) 783.0
Gross Cost to Government	2,099.2
Less: additional taxation revenue	(-) 653.0
Net Budget Impact	1,446.2

The net Budget impact was an increase of \$79 million on the \$1,367.2 million cost estimated in the 2000-01 Budget. The main components of the variation, all announced since the 2000-01 Budget, were:

- ◆ additional funding for the State Rail Authority of \$22.2 million;
- ◆ additional funding of \$19.3 million for the Olympic attendance allowance;
- ◆ \$140 million in contingency funding provided to SOCOG in June 2000 which provided a financial target with adequate provision for unforeseen risks;
- ◆ \$30 million expected return to NSW Government from SOCOG;
- ◆ \$14.8 million expected return to NSW Government from SPOC; and
- ◆ \$58 million in foreign exchange gains from the NSW Treasury Corporation's hedge of US dollar receipts arising from Olympic revenues.

SOCOG and SPOC were funded primarily through sponsorship, ticket sales and television rights which did not pass through the Budget. The operations of OCA and other Government agencies were mainly funded by Government appropriations and are reflected in Budget aggregates.

Olympic Games revenue of SOCOG and SPOC includes \$1,125 million in television rights, \$659.9 million in ticketing revenue and \$651.2 million in sponsorship. SPOC raised \$96.7 million in sponsorship, ticket sales, television rights and other revenue.

Over the period 1994-95 to 2005-06, NSW Treasury estimates that net costs to Government will be offset by some \$765 million which will flow through to the State from Games induced additional tax revenue. However, only revenue of \$653 million collected during the Olympic period (1994-95 to 2001-02) has been included in Table 6.1 as a reduction to the gross cost of the Olympic and Paralympic Games.

Cash outflows from the Budget in Table 6.1 relate to:

- ◆ venue and infrastructure costs of \$1,837.5 million;
- ◆ agency service provision and operation costs of \$810.3 million;
- ◆ a repayable advance (\$28.6 million), onpassing of Commonwealth funding (\$30.8 million) and contingency funding (\$140 million) to SOCOG; and
- ◆ grants to SPOC of \$35 million.

Cash Inflows in Table 6.1 relate to:

- ◆ Commonwealth receipts of \$180.8 million, representing \$150 million toward the cost of venues and infrastructure and \$30.8 million to enable SOCOG to purchase Commonwealth Government services;
- ◆ SOCOG's contributions to the cost of construction of venues of \$310.5 million, repayment of SOCOG advance (\$28.6 million) and SOCOG remaining funds of \$30 million;
- ◆ SPOC return of funds of \$14.8 million;
- ◆ the post Olympic sale of the Media Officials' Village (\$35 million), other minor sales (\$8.4 million) and other contributions to the cost of the venue and construction program of \$38.5 million;
- ◆ interest on investments of \$78.4 million;
- ◆ foreign exchange gains of \$58 million; and
- ◆ Olympics-related taxation revenue of \$653 million over the Olympic period (1994-95 to 2001-02).

LEGACY ASSETS

The Government contribution to the cost of venues and infrastructure in Table 6.1 is estimated at \$1,837.5 million. This represents a decrease of approximately \$20 million from the 2000-01 Budget due to savings expected to arise from the release of capital contingencies.

The total cost of Olympic projects is offset by grants from the Commonwealth of \$150 million, contributions from SOCOG of \$310.5 million, contributions from other organisations of \$38.5 million, interest received from investments and sale of property of approximately \$80.3 million. The net cost to Government of venues and infrastructure is estimated at \$1,258.2 million.

New venues were fully funded prior to the Games through a mixture of State Budget allocations, private sector funding and the contributions made to the construction program by the Commonwealth and SOCOG.

The Olympic Co-ordination Authority worked closely with the private sector to provide new venues, facilities and infrastructure that satisfied the dual requirements of facilitating the Olympics and providing world class legacy assets for New South Wales.

These legacy assets include the Olympic Stadium, Olympic Park Railway Station, SuperDome, Aquatic Centre, International Regatta and White Water Centres, Equestrian Centre, Shooting Centre and the Velodrome.

In addition, essential support agencies incurred capital costs such as the major upgrade of Central Sydney, Lidcombe, Penrith and Blacktown railway stations and the provision of other transport infrastructure. The estimated cost of the transport related capital legacy works is \$46.2 million.

Security related capital purchases estimated at \$25 million included communication equipment enhancements, water police vessels, magnetometers, x-ray machines and other specialist police equipment, which will continue to be used well beyond the period of the Games.

OLYMPIC SERVICES

The cost of Olympic services is comprised of OCA, ORTA and other NSW Government agencies that provided essential Olympic support services. The total estimated cost of Olympic services was \$810.3 million.

Recurrent funding costs for OCA (\$345.7 million) relates to government planning and co-ordination and OCA managed programs. OCA programs include the procurement of government owned venues, temporary overlay works at Homebush Bay and temporary facilities for the City (Urban Domain).

Urban Domain managed the large number of people in the city during Games time by providing entertainment, public information and essential services at live sites throughout the City. Funding of \$52.8 million was provided specifically to ensure that Sydney as a city set a new benchmark for community participation and enjoyment of the Olympic and Paralympic Games.

A major element of transport expenditure was the provision of \$127.9 million to ORTA as the co-ordinating agency. This included provision and training of additional train crews, overtime, train costs such as increased maintenance and station costs to accommodate increased passenger numbers. The Sydney rail service operated at peak hour levels for 19 hours per day for 16 days. Special services were also provided for the Paralympic Games.

Security funding of \$98.7 million provided for perimeter, venue and precinct security to prevent unauthorised access and included provision for rapid resource deployment in response to high-risk contingencies. SOCOG also contributed a further \$38.1 million to meet security costs.

Health expenditure included hospital, ambulance and food inspection services.

Funding to agencies was also provided for other services including:

- ◆ management of Sydney Harbour as the Olympic and Paralympic sailing venue provided by Waterways (\$4.4 million);
- ◆ emergency capabilities provided by the NSW Fire Brigade and State Emergency Services \$3.5 million; and
- ◆ triathlon and entertainment venues provided by the Royal Botanical Gardens.

6.5 POST GAMES ADMINISTRATIVE ARRANGEMENTS

The *Sydney 2000 Games Administration Act 2000* provided for:

- ◆ SOCOG to be wound up on a date to be proclaimed or by 31 March 2002 which ever is the earlier;
- ◆ the SOCOG Board and Executive to cease office from 1 January 2001;

- ◆ the Director-General of OCA to perform the functions of the Board of Directors and the Chief Executive of SOCOG from 1 January 2001;
- ◆ SPOC to be dissolved from 1 January 2001 and its assets and liabilities to transfer to OCA from that date; and
- ◆ ORTA to be dissolved on a date to be proclaimed and its assets, rights and liabilities to be transferred to OCA.

Finalisation of contractual arrangements in respect of the Games is progressing. It is expected that ORTA's arrangements will be finalised within the 2000-01 financial year providing for a formal wind up by 30 June 2001. SOCOG is expected to be formally wound up by 31 December 2001 with any outstanding issues at that stage being transferred to a nominated Government agency. OCA is also expected to be wound up within the 2001-02 financial year with venues within the Sydney Olympic Park transferring to a new Sydney Olympic Park Authority.

6.6 SYDNEY OLYMPIC PARK - FUTURE DIRECTIONS

In January 2001 the Government announced that the Sydney Olympic Park Authority is to be established to commence operations from 1 July 2001 with the principle functions of promoting and developing the Homebush Bay precinct.

The proposed future development of Sydney Olympic Park is the key to its financial viability. The long term objective is to achieve a viable and vibrant precinct which would no longer require funding support from Consolidated Fund and may be able to pay commercial dividends back to Government.

Initiatives relating to the fostering of further development on site, entertainment and festival programs and provision of transport will be employed to ensure ongoing use and financial viability of the Sydney Olympic Park precinct. Ongoing viability will depend heavily on event schedules and more importantly a critical mass of permanent inhabitants and visitations at Homebush Bay.

Draft masterplanning provides for a mixture of premium residential and commercial development opportunities on site. The Government will seek broad proposals from the private sector for these developments in 2001-02 and it is expected Sydney Olympic Park Authority will share in revenue opportunities from these developments in order to meet the costs of maintaining and promoting the substantial public areas particularly in the Millennium Parklands.

Key strategies include:

- ◆ preservation of natural and cultural heritage;
- ◆ restoration and every day use of heritage facilities in the Millennium Parklands;
- ◆ promotion and marketing of the site particularly in the form of developing a program of special community events and festivals;
- ◆ ongoing development of the site Master Plan in liaison with the Department of Urban Affairs and Planning;
- ◆ commercial development inviting private industry participation of the site particularly in the core areas of the rail station and venue precinct; and
- ◆ development of the regional bus transport routes to service and promote use of the site.

Table 6.1: Net Budget Impact of the Sydney Olympic and Paralympic Games

	To 1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Outflows												
Infrastructure												
Olympic Stadium	...	...	...	...	26.6	46.9	21.6	6.9	6.7	12.9	13.0	134.6
Olympic Villages	...	...	...	...	0.2	36.3	66.3	78.3	6.7	1.1	...	188.9
Sydney SuperDome	...	...	...	...	...	51.6	89.8	0.1	3.1	...	...	144.6
Other venue costs	11.5	5.7	8.0	12.1	17.0	56.2	132.6	94.7	24.0	0.8	...	362.6
Transport infrastructure	1.6	5.5	2.8	5.1	159.4	122.1	122.1	24.2	9.0	...	...	451.8
Services infrastructure	2.9	0.5	1.1	11.4	28.0	18.5	13.9	16.0	2.0	...	...	94.3
Sydney Athletic and Aquatic Centres	101.9	98.2	14.7	0.7	0.4	(2.8)	2.6	(0.4)	0.6	...	...	215.9
Other infrastructure	27.8	15.0	13.8	12.3	20.8	34.5	41.4	49.7	29.5	...	...	244.8
<i>Sub total - Infrastructure</i>	<i>145.7</i>	<i>124.9</i>	<i>40.4</i>	<i>41.6</i>	<i>252.4</i>	<i>363.3</i>	<i>490.3</i>	<i>269.5</i>	<i>81.6</i>	<i>14.8</i>	<i>13.0</i>	<i>1,837.5</i>
Services												
OCA and ORTA - operating costs	...	...	11.1	10.5	17.7	38.5	37.4	55.6	103.2	14.0	...	288.0
Common Domain Works at Homebush Bay	...	...	...	...	...	...	...	36.8	...	7.5	...	44.3
Other Olympic costs - recurrent	...	...	...	...	0.4	3.3	17.0	87.3	284.4	...	...	392.4
Other Olympic costs - asset acquisition	...	...	...	...	...	0.8	19.8	53.3	11.7	...	...	85.6
<i>Sub total - Services</i>	<i>...</i>	<i>...</i>	<i>11.1</i>	<i>10.5</i>	<i>18.1</i>	<i>42.6</i>	<i>74.2</i>	<i>233.0</i>	<i>399.3</i>	<i>21.5</i>	<i>...</i>	<i>810.3</i>
Other												
Advance/Grants to SOCOG	...	3.1	6.0	19.5	...	...	...	153.2	17.6	...	...	199.4
Grants to SPOC	...	...	0.4	0.8	2.7	4.0	6.0	16.0	5.1	...	...	35.0
<i>Sub total - Other</i>	<i>...</i>	<i>3.1</i>	<i>6.4</i>	<i>20.3</i>	<i>2.7</i>	<i>4.0</i>	<i>6.0</i>	<i>169.2</i>	<i>22.7</i>	<i>...</i>	<i>...</i>	<i>234.4</i>
Total Outflows	145.7	128.0	57.9	72.4	273.2	409.9	570.5	671.7	503.6	36.3	13.0	2,882.2

Table 6.1: Net Budget Impact of the Sydney Olympic and Paralympic Games (cont)

	To 1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Inflows												
Commonwealth Government	...	50.0	50.0	50.0	...	...	...	13.2	17.6	...	...	180.8
Interest on investments	9.6	18.6	17.8	14.5	9.7	8.0	0.2	...	78.4
Sale of assets	4.0	...	4.4	35.0	...	43.4
SOCOG repayments/ contributions	32.7	218.8	3.2	52.3	32.1	30.0	...	369.1
SPOC repayment	14.8	...	...	14.8
Foreign exchange gains	1.7	0.9	1.3	20.8	33.3	...	...	58.0
Other contributions	1.5	...	1.5	13.2	14.6	2.1	5.6	...	38.5
Total Inflows	...	50.0	50.0	61.1	53.0	239.0	36.2	110.6	112.3	70.8	...	783.0
GROSS COST TO GOVERNMENT	145.7	78.0	7.9	11.3	220.2	170.9	534.3	561.1	391.4	(34.5)	13.0	2,099.2
Less: Additional taxation revenue	20.0	32.0	46.0	72.0	105.0	135.0	192.0	51.0	...	653.0
NET COST TO GOVERNMENT	145.7	78.0	(12.1)	(20.7)	174.2	98.9	429.3	426.1	199.4	(85.5)	13.0	1,446.2

CHAPTER 7: TAX EXPENDITURE AND CONCESSIONS STATEMENT

- ◆ Tax expenditures in 2001-02 total \$2,688 million (compared with \$3,914 million in 2000-01) and concessions total \$650 million (\$626 million in 2000-01).
- ◆ The major policy changes contributing to the large decrease in tax expenditures in 2001-02 are:
 - abolition from 1 July 2001 of stamp duty on the transfer of shares and securities quoted on exchanges, reducing tax expenditures associated with Marketable Securities Duty by \$365 million in 2001-02 compared with 2000-01;
 - abolition from 1 July 2001 of Financial Institutions Duty, reducing tax expenditures associated with that duty by \$52 million in 2001-02 compared with 2000-01; and
 - abolition of Debits Tax from 1 January 2002, conditional on the Commonwealth Government guaranteeing that New South Wales will not be disadvantaged under national tax reform arrangements in acting early to abolish the tax, reducing tax expenditures associated with that tax by \$8 million in 2001-02 compared with 2000-01.
- ◆ Tax expenditures associated with contracts and conveyances duty are estimated to fall by \$641 million in 2001-02 compared with 2000-01, largely due to the occurrence of a number of large and irregular tax expenditures in 2000-01.

7.1 INTRODUCTION

Tax expenditures and concessional charges represent an important mechanism through which a government's fiscal decisions affect the community. They have the same budgetary and welfare effects as a direct outlay. A tax expenditure refers to the cost of granting certain activities or assets favourable tax treatment. A concession involves the sale by the government of goods and services to certain users at a price that is lower than generally available to the rest of the community.

Direct outlays are examined and subject to public scrutiny through the annual budget process whereas tax expenditures and concessional charges typically are not subject to regular review, even where explicitly funded by the Budget. This makes the control of total government expenditure (including tax expenditures and concessional charges) more difficult on an ongoing basis. Unless reviewed regularly, it is likely that tax expenditures and concessional charges may outlive their original justification, resulting in some loss of overall community wellbeing.

To better inform policy choices and public understanding of the Budget, this chapter provides a summary of tax expenditures and concessional charges. Appendix B presents a comprehensive listing and costing of each tax expenditure and concession.

Both tax expenditures and concessions have been valued on the basis of public sector revenue forgone. A full discussion of the conceptual issues in the measurement of tax expenditures is given in the 1998-99 Budget Papers.

Tax expenditures may take the form of:

- ◆ an exemption of certain classes of goods or taxpayers from a tax;
- ◆ the imposition of a lower rate of tax, the provision of a rebate or deduction; or
- ◆ deferral of the time for payment of a tax liability.

Concessions on user charges may take the form of:

- ◆ an exemption of certain users from a charge for government goods and services; or
- ◆ the imposition on certain users of a charge lower than that generally applied to the rest of the community for government goods and services.

Some government agencies providing goods or services for free or at concessional prices to some sections of the community receive compensation from the Consolidated Fund for the revenue forgone. These payments are known as Social Program Policy Payments (SPPPs). While the cost of these concessions appears in the Budget, the revenue cost of these concessions to the agencies is included in this section since they remain a whole-of-government cost.

In some cases, government provides subsidies to the private sector for concessions provided by the private sector to certain purchasers of goods and services. Examples are payments to private sector transport operators for providing free transport for eligible students to and from school and subsidies for eligible people renting in the private housing market.

Those subsidies to the private sector are not included in the estimates of concessions. Subsidies provided to the private sector are direct outlays, rather than costs to public sector revenue. As direct outlays, subsidies provided to the private sector are included in the expenditure side of the Budget.

7.2 OVERVIEW OF TAX EXPENDITURES AND CONCESSIONS

TAX EXPENDITURES

The estimates of tax expenditures in this statement are for the years 1999-2000, 2000-01 and 2001-02 except for the estimates for land tax, which are for the 2000, 2001 and 2002 land tax years.

As a result of cuts to NSW taxes announced in this Budget, some tax expenditures will decline in 2001-02 compared with 2000-01.

- ◆ Abolition of Debits Tax from 1 January 2002, conditional on Commonwealth guarantees that New South Wales will not be disadvantaged under the new Commonwealth-State tax arrangements by early abolition of the tax, will reduce tax expenditures associated with that tax by \$8 million in 2001-02.
- ◆ Increasing, from 1 July 2001, the duty free exemption threshold for lease duty from \$3,000 to \$20,000 will reduce tax expenditures associated with that duty by \$6 million, since a significant proportion of leases will be removed from the tax base.

From 1 July 2000 as part of wider Commonwealth-State tax reform, the Commonwealth introduced the Goods and Services Tax (GST). As a consequence:

- ◆ the accommodation levy ceased from 1 July 2000 and therefore tax expenditures associated with the levy also ceased;
- ◆ stamp duty on the transfer of those shares and securities quoted on exchanges will cease from 1 July 2001, and therefore tax expenditures associated with the Marketable Securities Duty will decline; and

- ◆ Financial Institutions Duty will cease from 1 July 2001, and therefore tax expenditures associated with that duty also will cease (though a small amount will be recorded in 2001-02, since lagged payments of FID will be recorded in 2001-02).

Table 7.1 provides a summary of major (i.e. \$1 million or greater) tax expenditures for each type of tax.

Table 7.1: Major Tax Expenditures by Type of Tax

Tax	1999-2000		2000-01		2001-02	
	\$m	% of tax revenue	\$m	% of tax revenue	\$m	% of tax revenue
Contracts and Conveyances Duty	278.8	11.6	1,323.2	63.8	682.5	31.7
General and Life Insurance Duty	403.5	105.5	414.8	98.1	395.7	89.7
Mortgage Duty	42.7	18.7	56.1	26.7	55.7	24.6
Marketable Securities Duty	353.6	72.9	373.2	73.2	7.9	15.2
Financial Institutions Duty	53.7	8.9	55.5	8.8	3.1	5.5
Lease Duty	5.2	10.5	5.5	8.3	...	...
Payroll Tax	613.1	16.3	645.7	16.2	659.5	16.0
Land Tax	367.5	40.9	372.5	40.5	377.2	39.1
Debits Tax	19.5	6.0	19.5	6.2	11.3	6.1
Taxes on Motor Vehicles	218.5	14.9	221.2	15.2	209.2	14.3
Accommodation Levy	1.2	1.7	...	...	...	...
Parking Space Levy	3.5	23.8	9.3	23.3	10.1	25.3
Gambling and Betting Taxes	384.1	24.5	417.9	34.4	275.4	22.2
Total	2,744.9	21.1	3,914.4	30.5	2,687.6	22.2

On the basis of revenue forgone, quantifiable tax expenditures are estimated to total \$3,914 million in 2000-01, representing 30.5 percent of total tax revenue. Tax expenditures are expected to decline to \$2,688 million, or 22.2 percent of tax revenue, in 2001-02. Apart from the abolition of taxes noted above, tax expenditures in 2001-02 will decline because the 2000-01 total was boosted significantly by a number of large and irregular tax expenditures associated with contracts and conveyancing duty.

Tax expenditures are spread across all tax bases. By value, tax expenditures are concentrated in contracts and conveyances duty, payroll tax and insurance duties, which account for close to or over one-half of total measurable expenditures in each of the years covered by this statement. The rising importance of contracts and conveyances duty tax expenditures, apart from the large, irregular tax expenditures in 2000-2001, reflects in part the higher tax expenditures associated with the First Home Plus scheme introduced in last year's Budget.

As a percentage of tax revenue collected under individual tax heads, tax expenditures in 2001-02 are expected to be largest for insurance duty, land tax and contracts and conveyances duty. The sharp decline of marketable securities duty tax expenditures between 2000-01 and 2001-02 – as a share of total tax expenditures (down from 9.5 percent to 0.3 percent) and as a share of marketable securities duty revenue (down from 73.2 percent to 15.2 percent) – reflects the abolition from 1 July 2001 of the duty on listed shares and securities.

Table 7.2: Tax Expenditures and Direct Expenses by Function

<i>Function</i>	<i>1999-2000</i>		<i>2000-01</i>		<i>2001-02</i>	
	<i>\$m</i>	<i>% of Expenses</i>	<i>\$m</i>	<i>% of Expenses</i>	<i>\$m</i>	<i>% of Expenses</i>
General Public Services	163.5	10.3	170.0	6.8	130.8	5.7
Public Order and Safety	1.3	0.0	1.4	0.0	1.4	0.0
Education	60.8	0.9	65.8	1.0	67.3	1.0
Health	306.0	4.7	325.5	4.7	329.0	4.6
Social Security and Welfare	201.2	10.6	222.1	8.1	201.0	8.9
Housing and Community Amenities	81.1	7.9	199.7	15.2	200.7	13.8
Recreation and Culture	388.3	39.5	422.4	35.8	280.1	34.6
Fuel and Energy	...	...	...	...	...	...
Agriculture, Forestry, Fishing and Hunting	247.8	30.3	246.9	49.9	247.6	42.5
Mining, Manufacturing and Construction	...	...	...	...	...	...
Transport and Communication	11.6	0.4	11.7	0.4	11.7	0.4
Other Economic Affairs	1,240.0	91.1	2,197.3	111.1	1,168.6	71.5
Other Purposes	43.3	2.2	51.6	2.4	49.4	2.8
Total	2,744.9	9.6	3,914.4	12.2	2,687.6	8.8

Table 7.2 provides a functional classification of tax expenditures and compares this with direct expenses.

On the basis of revenue forgone, the largest categories of tax expenditures are Other Economic Affairs (as it constitutes assistance to industry generally rather than to a particular type of economic activity), Health, and Recreation and Culture. The distribution of tax expenditures by function is broadly similar over the three years covered by this statement. The large jump in Other Economic Affairs in 2000-01 reflects the large, irregular contracts and conveyances duty tax expenditures noted earlier.

CONCESSIONS

Table 7.3 classifies the major concessions provided by the NSW Government by function. The total value of major concessions in 2000-01 was \$626 million, representing 2 percent of expenses. Concessions are expected to amount to approximately the same proportion of expenses in 2001-02.

Table 7.3: Concessions and Expenses by Function

<i>Function</i>	<i>1999-2000</i>		<i>2000-01</i>		<i>2001-02</i>	
	<i>\$m</i>	<i>% of Expenses</i>	<i>\$m</i>	<i>% of Expenses</i>	<i>\$m</i>	<i>% of Expenses</i>
General Public Services	...	...	...	...	...	...
Public Order and Safety	...	...	...	...	...	...
Education	76.1	1.2	82.9	1.3	84.3	1.3
Health	72.5	1.1	73.6	1.1	75.4	1.1
Social Security and Welfare	247.5	13.0	251.7	9.2	257.0	11.4
Housing and Community Amenities	151.2	14.8	153.1	11.7	153.4	10.5
Recreation and Culture	...	...	...	...	...	...
Fuel and Energy	61.5	37.0	63.1	81.3	76.2	118.9
Agriculture, Forestry, Fishing and Hunting	1.1	0.0	1.8	0.0	3.8	0.0
Mining, Manufacturing and Construction	...	...	...	...	...	...
Transport and Communication	...	...	...	...	...	...
Other Economic Affairs	...	...	...	...	...	...
Other Purposes	...	...	...	...	...	...
Total	609.9	2.1	626.2	2.0	650.1	2.1

CHAPTER 8: FINANCIAL ARRANGEMENTS WITH THE COMMONWEALTH

- ◆ Gross payments from the Commonwealth to New South Wales will increase from \$12,972 million in 2000-01 to \$14,413 million in 2001-02.
- ◆ The Commonwealth's upward revision in the GST revenue collection estimate for 2000-01 did not benefit New South Wales. It is exactly offset by a reduction in Budget Balancing Assistance payments from the Commonwealth.
- ◆ The New South Wales Budget is not expected to see net gains from GST revenue until 2007-08.
- ◆ In 2001-02 New South Wales will receive \$8,487 million in GST revenue grants (out of a total of \$28 billion for all States). This is \$110m less than would have been received had the Commonwealth Grants Commission's 2001 Update report not recommended a reduction in New South Wales' share of Commonwealth grants.
- ◆ New South Wales will receive \$940 million in Budget Balancing Assistance in 2001-02, out of an estimated total of \$1,853 million for all States. This is required to compensate New South Wales for the State budgetary losses resulting from tax reform. The disproportionate share of the total reflects the disproportionate share of the losses borne by New South Wales.
- ◆ The new Commonwealth-State funding arrangements leave in place the New South Wales cross-subsidy to other States under horizontal fiscal equalisation. The new arrangements also considerably increase the problem of vertical fiscal imbalance because the GST is a Commonwealth tax.
- ◆ Total Specific Purpose Payments to New South Wales will increase by 4.3 percent to \$4,751 million in 2001-02. Total General Purpose Payments will be \$9,661 million, an increase of 14.8 percent largely due to Commonwealth compensation for the abolition of FID and stamp duty on marketable securities under the Intergovernmental Agreement.
- ◆ Estimates used in this chapter are the latest available at the time of finalising these Budget papers. The estimates may have been subsequently revised in the Commonwealth Budget, released on 22 May 2001.

8.1 INTRODUCTION

The *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (the IGA), signed in June 1999, established new Commonwealth-State financial arrangements. The first year of these new arrangements was 2000-01.

Under these new arrangements, the Commonwealth pays the revenue raised from the Goods and Services Tax (GST) to the States and Territories. In return, States and Territories agreed to forgo Financial Assistance Grants from the Commonwealth, abolish a number of their own taxes and to take on additional expenditure responsibilities. The New South Wales Budget is not expected to gain from these new arrangements until 2007-08.

Although the new arrangements give States access to revenue from a broad-based tax, they also:

- ◆ exacerbate the problem of vertical fiscal imbalance (VFI, that is, the mismatch between Commonwealth and State tax powers and expenditure responsibilities); and
- ◆ continue the practice of horizontal fiscal equalisation (HFE), whereby the Commonwealth Grants Commission recommends the transfer of over \$2 billion annually from donor States (New South Wales, Victoria and Western Australia) to other States and Territories.

This chapter outlines the operation of the new financial arrangements and their effect on New South Wales' finances in 2000-01 and 2001-02, and examines key developments and prospects in relation to Commonwealth-State financial relations.

8.2 RECENT DEVELOPMENTS

NATIONAL TAX REFORM – FINANCIAL EFFECTS

A key feature of the reformed tax arrangements is that States must forgo a number of their own revenue sources, and take on additional expenditure responsibilities, in order to receive the GST revenue from the Commonwealth. On current estimates, the costs to New South Wales of the forgone revenue and new responsibilities will exceed the revenue from the GST in each of the first seven years.

The shortfall in GST revenue below the costs to New South Wales will be funded by the Commonwealth, which agreed to ensure that no State would be worse off under the new arrangements.

The Commonwealth's guarantee that States will be no worse off means that during the transition period the Commonwealth must make payments of Budget Balancing Assistance (BBA) to the States. The BBA payments are calculated as the difference between what States would have received under the old arrangements and the GST revenue they receive under the new arrangements.

Table 8.1 shows all the expected effects of tax reform on the New South Wales Budget encompassed by the IGA, including the aggregate losses and gains, and the net shortfall. The net shortfall is the amount that is covered by BBA payments.

There are no net gains to the New South Wales Budget from tax reform expected until 2007-08. In the absence of Commonwealth transitional assistance, the New South Wales Budget would be worse off by about \$3.8 billion in total over the next seven years. On current estimates, only Queensland is expected to begin to benefit from the new arrangements within the first three years.

The estimates are based on assumptions agreed between the Commonwealth and States for the purposes of calculating the BBA payments to the States. They assume for working purposes that all States that have not already done so will abolish debits tax from 1 July 2005. New South Wales' decision to abolish debits tax from 1 January 2002 has been made conditional on the Commonwealth's guarantee that New South Wales' compensation under the IGA will not be adversely affected. These estimates are broadly indicative only, and are subject to continuous revision.

Table 8.1: Estimated Financial Impact of National Tax Reform on the NSW Budget, 2000-01 to 2007-08

Year ended 30 June	2001 \$m	2002 \$m	2003 \$m	2004 \$m	2005 \$m	2006 \$m	2007 \$m	2008 \$m
Losses								
Revenue Forgone								
Financial Assistance Grants	5,211	5,283	5,289	5,324	5,445	5,587	5,777	5,962
Gross Safety-Net Revenue	2,140	2,361	2,455	2,552	2,653	2,759	2,869	2,985
State taxes abolished	72	1,034	1,163	1,226	1,292	1,688	1,797	1,882
Reduction in gambling taxation	480	572	599	617	639	673	699	725
Loss of Interest Income	3	3	4	...	...	...	...	...
WST Equivalents	38	38	38	...	...	...	...	...
Additional Expenditures								
First Home Owners' Scheme	297	312	318	325	331	338	344	351
GST Administration Costs	335	174	126	124	122	120	119	117
Total Losses	8,577	9,778	9,992	10,168	10,482	11,165	11,605	12,022
Gains								
Additional Revenue								
GST Revenue	7,863	8,487	8,677	9,074	9,623	10,281	10,927	11,606
Growth Dividend - State Taxes	42	57	77	99	123	149	177	206
Reduced Expenditures								
Off-road Diesel Subsidies	120	137	145	152	160	169	178	188
Savings from Tax Reform	147	157	168	179	191	204	218	233
Total Gains	8,173	8,838	9,067	9,505	10,097	10,803	11,499	12,232
SHORTFALL	404	940	924	663	385	362	106	- 211

2000-01 – The First Year

In the first year of the IGA, New South Wales is now expected to receive \$7,863m in GST revenue and \$404m in BBA payments. This year saw the abolition of the Accommodation Levy on 1 July 2000. States also commenced payment of First Home Owners Scheme Grants of \$7000 to compensate homebuyers for the effects of the GST and payments to the Commonwealth to fund the administration of the GST by the Australian Taxation Office (ATO).

The amount of BBA to be received by New South Wales in 2000-01 is estimated to be \$578m less than the original 2000-01 Budget estimate of \$982m. This change is driven primarily by an increase of \$683m in estimated GST revenue, partially offset by an increase in the ATO's GST administration costs. Since neither of these changes affects what New South Wales would have received under the old system of Commonwealth-State financial relations, they do not affect the total grants received from the Commonwealth.

The Commonwealth's guarantee that States will be no worse off under tax reform means that States are protected from any increase in the costs of their new expenditure responsibilities, and from any reduction in GST revenue. However it also means that States do not benefit from the Commonwealth's upward revision of estimated GST revenue in 2000-01. The Commonwealth receives this benefit, in the form of reduced BBA payments required to States.

2001-02 – The Second Year

Consistent with the IGA, FID and stamp duty on marketable securities will be abolished from 1 July 2001. This additional revenue forgone is the main reason for the \$536m increase in the BBA payment to New South Wales in 2001-02.

GST collections across the whole of Australia are estimated by the Commonwealth to total about \$28 billion in 2001-02. But revenue forgone by the States, and their additional expenditure responsibilities, are estimated to cost \$30 billion. Additional funding will be provided by the Commonwealth to cover this \$2 billion gap. However, according to the agreed estimates, no State will see any immediate benefit to their budget bottom line.

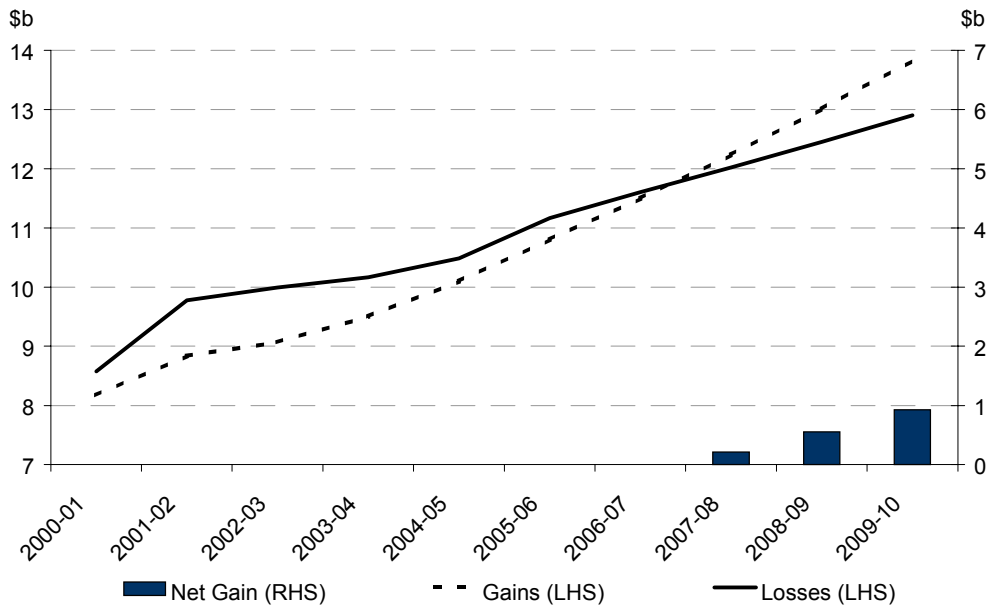
Longer Term Outlook

As noted above, the States have a guarantee that they will be no worse off financially under tax reform. As a result, the Commonwealth bears all of the risk associated with any downward revision of GST revenue collections, but is the first beneficiary of any increase in collections. The New South Wales Budget is not expected to gain from tax reform for the entire Budget forward estimates period. There is no scope to apply the GST revenue towards reducing State taxes or to fund increases in outlays.

GST revenue will grow in the years ahead as the economy grows, but so too will the revenue forgone and additional expenses charged to the States. Eventually the GST revenue should exceed what the States are giving up, but at the moment in New South Wales' case that is not expected to be until 2007-08. It is only when that occurs that New South Wales will be in a position to gain any additional budgetary flexibility from growth in GST revenue.

Chart 8.1 shows the estimated losses and gains from tax reform for the New South Wales Budget until 2009-10.

Chart 8.1: Overall Effects of Tax Reform on the NSW Budget, 2000-01 to 2009-10



LOSS OF \$110 MILLION DUE TO COMMONWEALTH GRANTS COMMISSION 2001 UPDATE

The reforms described above are revenue neutral for New South Wales. However, the latest Commonwealth Grants Commission recommendations will redistribute \$110.3 million in revenue from New South Wales to other States in 2001-02.

The Commonwealth Grants Commission (the Commission) recommends to the Commonwealth Treasurer the appropriate distribution of GST revenue amongst the States. These recommendations are in the form of ‘relativities’, which describe the ratio of per capita revenue that each State will receive compared with the Australian average. The Commission bases its recommendations on its interpretation of the principle of horizontal fiscal equalisation (HFE) and on the terms of reference provided to it by the Commonwealth.

The Commission also advises States and the Commonwealth what its recommendations would have been under the old system of Financial Assistance Grants (FAGs), which existed before the GST was introduced. The Commonwealth has guaranteed that the States will be at least as well off as they would have been if the FAGs scheme had continued. As a result, changes in the FAGs-based recommendations affect the Guaranteed Minimum Amount that the Commonwealth has promised, since they affect what New South Wales would have received under the old FAGs system.

The Commission bases its recommendations on a complex revenue and expenditure model. The assumptions underlying this model are revised every five years, with the next Review due to be completed in 2004. The model is also updated annually to take account of the most recent data. The Commission released the most recent Update Report in February 2001. Its recommendations were accepted by the Commonwealth at the Annual Treasurers' Conference meeting in March 2001, subject to clarification of a data related issue identified by Western Australia.

Features of the 2001 Update include:

- ◆ A loss of \$110.3 million for New South Wales due to changes in the FAGs relativities. Households and families in New South Wales will receive \$110.3 million less in 2001-02 than if the previous year's FAGs relativities had continued to apply. This change does not affect New South Wales' share of GST revenue but it reduces the amount of BBA paid under the Commonwealth's guarantee.
- ◆ A change to the treatment of the superannuation expense category, involving the adoption of a hybrid cash and accrual measure to account for accrued unfunded liabilities. New South Wales argued against this change because it equalises expenses that have been incurred in the past, double counts disabilities which have already been assessed in previous years and rewards those States that have not addressed their unfunded liabilities. This change caused about \$23.5 million of the \$110.3 million loss to New South Wales.
- ◆ Continued cross subsidies from New South Wales, Victoria and Western Australia to the other States. In 2001-02 New South Wales will receive \$1.7 billion less in GST revenue than is generated by its residents. New South Wales will receive only 30.3 percent of total Australia-wide GST revenue, while it will generate an estimated 36 percent of total GST paid Australia-wide.

- ◆ Incorrect data relating to stamp duty in Western Australia. If the original recommendations had been allowed to stand, Western Australia would have been underpaid by \$41.7 million in 2001-02 because data supplied by Western Australia overstated the capacity of that State to collect stamp duty levied on corporate reconstructions. The Commission has revised the relativities to rectify this error, which caused the loss to New South Wales to increase by \$17.7 million, from \$92.6m in the original report to \$110.3 million.
- ◆ A reliance on poor quality data for the calculations in the report. This is due to the Commission requiring accrual expenditure data to a higher level of detail than States are able to provide. The Commission has frequently been forced to estimate data itself, since States' budgeting systems do not produce all the figures that the Commission's processes require.

COMPOSITION OF COMMONWEALTH GRANTS TO NEW SOUTH WALES

The following table shows the composition of Commonwealth grants to New South Wales.

**Table 8.2: Commonwealth Payments to New South Wales,
1999-2000 to 2004-05**

<i>Year ended 30 June</i>	<i>2000 \$m</i>	<i>2001 \$m</i>	<i>2002 \$m</i>	<i>2003 \$m</i>	<i>2004 \$m</i>	<i>2005 \$m</i>
General Purpose Payments						
FAGs	5,034	...	...	...	...	...
GST Revenue	...	7,863	8,487	8,677	9,074	9,623
BBA	...	404	940	924	663	385
Other general purpose payments	149	152	234	239	245	251
Total general purpose payments	5,183	8,419	9,661	9,841	9,982	10,258
SPPs	4,278	4,554	4,751	4,951	4,998	5,187
GROSS PAYMENTS	9,460	12,972	14,413	14,792	14,980	15,447

As shown in Table 8.2, Commonwealth grants can be divided into two broad categories, namely general purpose payments and specific purpose payments. General purpose payments are untied funds that States are free to spend in the same manner as own-source revenues. Specific purpose payments consist of funds that must be spent as the Commonwealth directs. They typically have stringent conditions on their use, and often require States to contribute a matching amount of their own funds towards the specified purpose.

General Purpose Payments

GST Revenue grants are the single largest component of general purpose payments. GST Revenue Grants in 2001-02 will amount to \$28,029 million for all States and \$8,487 million for New South Wales. The remainder of general purpose payments to New South Wales consists of BBA of \$940 million and competition payments totalling \$234 million.

Under the *Agreement to Implement the National Competition Policy and Related Reforms*, signed by States and the Commonwealth in April 1995, States receive competition payments from the Commonwealth. The first tranche of these payments, with a total value of \$200m in 1994-95 prices, commenced in 1997-98. These annual payments doubled in value in the second tranche in 1999-2000, to \$400m in 1994-95 prices. The third tranche is scheduled to commence in July 2001, with a total annual value of \$600 million in 1994-95 prices. The Agreement specifies that the payments are made quarterly and are distributed to the States on an equal per capita basis.

Each State's share of the payments is conditional on satisfactory progress in implementing the reforms specified in the Agreement. The National Competition Council assesses progress. New South Wales has been assessed as having complied with the Agreement in each of the past four years. At this stage, New South Wales can foresee no constraints to receiving its full competition payment in 2001-02.

Specific Purpose Payments

In 2000-01, the Commonwealth complied with its commitment in the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (the IGA) not to cut Specific Purpose Payments (SPPs).

Total SPPs "to" New South Wales are expected to increase by 4.3 percent in 2001-02 following an increase of 6.5 percent in the previous year.¹ Total SPPs for New South Wales (including SPPs both "to" and "through" New South Wales) are expected to increase by 4.8 percent in 2001-02 following an increase of 7.6 percent in the previous year.

State Treasuries have worked closely with the Commonwealth throughout the year to improve the exchange of information between all parties and facilitate the process of future SPP reform. Significant achievements have been the development of a database of SPP information, the formulation of 'best practice' principles and guidelines for SPP agreements, and a pilot project to promote outcomes-based SPP agreements.

¹ SPPs "to" the State are payments made directly to the State. SPPs "through" the State are payments that must be passed on to local governments, other bodies and individuals.

The development of the SPP database is significant because it brings together detailed financial and descriptive data on all SPPs for the first time. The benefits of using the SPP database will flow to both the Commonwealth and the States. The main benefit for the States of using the database is that it will assist them in monitoring the Commonwealth's commitment not to cut SPPs.

The 'best practice' principles and guidelines are designed to provide SPP negotiators in the Commonwealth and all States with practical advice about the desirable features of good SPP agreements. The guidelines are important because they change the focus of SPP agreements from the amount of money being spent, ie. inputs, to service delivery outcomes. The States benefit from an approach based on outcomes because it gives them more of an incentive to achieve efficiency savings and also more flexibility to apply such savings to other areas of need.

The aim of the pilot project is to promote SPP agreements based on outcomes. A project team has been established, consisting of Victoria, South Australia, and the Commonwealth, which is examining the existing Supported Accommodation Assistance Program (SAAP) agreement to determine the extent to which it conforms to the SPP 'best practice' principles and guidelines. The project team is also working towards developing alternative outcome measures, restating the reporting requirements of the agreement using the outcome measures, and seeking to identify any costs or risks associated with the outcome approach.

8.3 THE TASKS AHEAD

Major challenges over the coming year are to finalise the remaining tasks associated with national tax reform and to continue to seek changes in the levels of vertical fiscal imbalance and horizontal fiscal equalisation in Australia.

NATIONAL TAX REFORM

The States and Territories are required to pay the Australian Taxation Office (ATO) for the costs of collecting and administering the GST. An interim performance agreement to cover this arrangement has been negotiated between the States and the ATO. This interim agreement sets out a process for the States to approve the ATO's GST administration plan and budget. It also specifies performance indicators, audit arrangements and the provision of annual data to the States.

The interim agreement will assist the monitoring of the ATO during 2001-02, and allow a trial of the arrangements for the final agreement. The final agreement is expected to contain a more robust set of performance indicators, and to establish a clear framework for the ATO to attribute its costs. The final performance agreement is due to take effect on 1 July 2002.

In the longer term, the IGA specifies that all States that have not already done so will cease to apply debits tax by 1 July 2005, subject to review by the Treasurers' Conference. In addition, a number of stamp duties will be reviewed as part of national tax reform, to assess whether they should be retained. This review is scheduled to occur by 2005.

VERTICAL FISCAL IMBALANCE

Vertical fiscal imbalance (VFI) refers to the mismatch between revenue capacity and spending responsibilities of different levels of government. Australian State governments have access to only a small number of taxes, and are forced to rely on grants from the Commonwealth to be able to fund their expenditure responsibilities. On the other hand, the Commonwealth Government collects significantly more revenue than it needs for its own purposes.

Table 8.3: Ratio of Share of Own-source Tax Revenue to Share of Own-purpose Outlays, 1999-2000 to 2001-02

	1999-2000	2000-01	2001-02
Commonwealth	1.41	1.44	1.46
States	0.42	0.32	0.28
Local Government	0.68	0.66	0.63

Sources: Commonwealth and State Budget Papers, various years; ABS Cat 5501.0, various years; NSW Treasury estimates.

The Effect of Tax Reform on Vertical Fiscal Imbalance

The introduction of the GST has worsened VFI. In order to receive GST revenue, the States were required to abolish a number of their own taxes. Whilst the Commonwealth will compensate States for this lost revenue, the States are now dependent on the Commonwealth for these funds rather than on their own revenue bases. Commonwealth grants now account for close to 40 percent of aggregate State revenues, compared with slightly over one third before the introduction of the GST.

Although the Commonwealth has agreed to provide all GST revenue to the States, this agreement is not a legally enforceable document. The Commonwealth has the constitutional power to unilaterally change the GST rate or the base without consulting the States. The Commonwealth also has the power to veto any changes proposed by the States. Nonetheless, the States must pay the Commonwealth for the costs of administering and collecting the GST.

Effects of Vertical Fiscal Imbalance

VFI undermines governmental accountability for taxing and spending decisions because governments that seek to adopt policies relating to service provision are not necessarily responsible for actually delivering the service. This results in costly duplication and overlap of services and encourages cost shifting between levels of government.

VFI also restricts States' ability to respond to community needs in a timely and effective manner. Commonwealth conditions on specific purpose payments (SPPs) create obstacles to flexible service delivery. For example, the Commonwealth may set conditions that require services to be delivered in a particular way, at a particular price or to a particular group of people. This can lead to implicit rationing and under- or over-utilisation of some services, which can reduce allocative efficiency.

Many SPP agreements require States to contribute a matching amount of State own-source revenue to the service delivery. These matching requirements reduce States' ability to fund their own policy priorities and produce a bias to over-expenditure in some areas. Matching requirements focus on the amount spent on the provision of a service, rather than the level of service actually delivered. This is a disincentive to eliminating waste and inefficiency.

Similarly, reporting requirements for Commonwealth SPPs tend to be structured to meet the Commonwealth's need for information rather than to measure the efficiency or effectiveness of service delivery. Continued payment of the SPPs is typically conditional on States spending the whole amount of the grant, rather than being conditional on the delivery of services or the achievement of outcomes.

Historically, VFI has also been a disincentive to the pursuit of microeconomic reform. This has occurred because States must bear most of the costs of undertaking reform, whereas the increased revenue that results from these reforms generally accrues to the Commonwealth.

The VFI problem could be remedied through a redistribution of either taxation powers or expenditure responsibilities. New South Wales remains open to pursuing such options in future, in cooperation with the Commonwealth and other States.

HORIZONTAL FISCAL EQUALISATION

The Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations states:

“The Commonwealth will distribute GST revenue grants among the States and Territories in accordance with horizontal fiscal equalisation (HFE) principles.” (IGA, clause 8)

Historically, the Commonwealth Treasurer has accepted the recommendations of the Commonwealth Grants Commission in this respect. The Commission applies HFE principles in such a way that New South Wales, Victoria and Western Australia provide subsidies, not only to financially weaker States such as South Australia, Tasmania and the Northern Territory, but also to the stronger States of Queensland and the Australian Capital Territory.

The average GST revenue grant in 2001-02 for New South Wales, Victoria and Western Australia (the donor States) in 2001-02 will be \$1,283 per head, compared with an average of \$1,776 for the other jurisdictions. In per capita terms Queensland will receive 13 percent more than the donor State average, whilst the Northern Territory will receive 429 percent more.

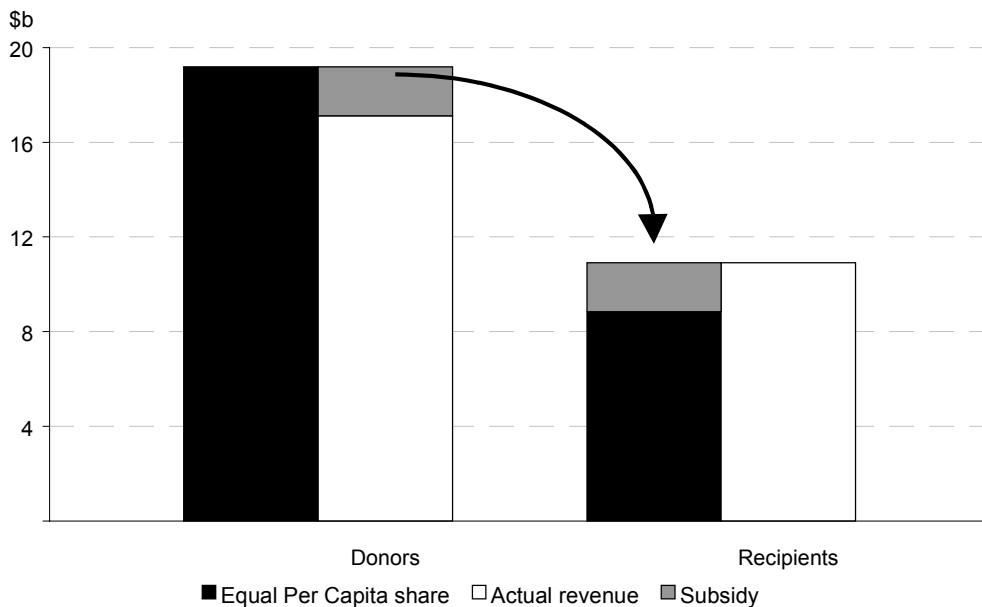
New South Wales’ GST revenue grants in 2001-02 will be \$1,293 per capita or about 27 percent less than the average of the five recipient States. States’ estimated per capita GST revenue grants for 2001-02 are shown in Table 8.4.

Table 8.4: GST Revenue Grants Per Capita by State, 2001-02

<i>State/Territory</i>	<i>GST Revenue Grants (In \$ per capita)</i>
New South Wales	1,293
Victoria	1,223
Queensland	1,450
Western Australia	1,401
South Australia	1,722
Tasmania	2,359
Australian Capital Territory	1,770
Northern Territory	6,781
Average, 3 donor States	1,283
Average, 5 recipient States	1,776
AUSTRALIAN AVERAGE	1,439

These per capita figures can be used to calculate the total subsidy paid to the recipient States. New South Wales will be transferring to other States \$955 million or \$145 per capita in 2001-02. The combined transfer from New South Wales, Victoria and Western Australia is estimated at about \$2.1 billion.² The payment of this subsidy is shown in the following chart, which compares actual GST received with the benchmark of an equal per capita (EPC) share.

Chart 8.2: Actual GST Revenue Received, compared with an Equal Per Capita Share, 2001-02



The donor States of New South Wales, Victoria and Western Australian have agreed that the current system of determining the distribution of GST revenue amongst the States and Territories is no longer appropriate. In particular, the governments of Queensland and the ACT both have strong fiscal positions and a demonstrated capacity to contribute to the Federation, rather than draw on its wealth.

The donor States are commissioning a major review of the distribution of Commonwealth grants. The review will assess whether the current system: efficiently allocates resources across Australia to enhance national employment and economic growth; whether it achieves equitable outcomes for all Australians; and whether it is simple and transparent.

² The estimated cross-subsidies in this chapter may differ from those in Commonwealth Budget papers because the latter calculates the cross-subsidy based on the sum of FAGS (or GST revenue grants) and unquarantined Health Care Grants. The estimates in this chapter are based solely on FAGs (or GST revenue grants).

An alternative method of measuring the level of transfers from donor States to recipient States is to compare the GST revenue grant distribution with the amount of GST generated by each State's residents. At this early stage of the GST there is no reliable data available on the amount of GST collected in each State. Instead, household final consumption expenditure has been used as a rough proxy³ of interstate shares of GST revenue.

On this basis, the total transfer from donor States (New South Wales and Victoria) in 2001-02 is about \$2.9 billion, of which New South Wales will contribute \$1.7 billion or \$252 per capita.

This means that, despite the GST being characterised by the Commonwealth as the States' tax, every person in New South Wales pays an average of \$252 more GST each year than the amount that goes to the New South Wales Government. This \$252 per capita goes to the governments of other States. Table 8.5 indicates the amounts expected to be transferred from donor States to recipient States in 2001-02 using the benchmarks of equal per capita (EPC) and household final consumption expenditure (HFCE).

Table 8.5: Estimates of Cross-subsidies between States, 2001-02

	RECIPIENT STATES						
	Qld \$m	WA \$m	SA \$m	Tas \$m	ACT \$m	NT \$m	Total \$m
EPC Benchmark							
NSW	19	na	196	199	48	493	955
Vic	21	na	215	218	52	540	1,047
WA	1	na	15	15	4	37	72
TOTAL	42	na	426	432	104	1,070	2,074
HFCE Benchmark							
NSW	260	79	370	295	18	634	1,656
Vic	193	58	274	219	13	470	1,227
TOTAL	453	137	644	513	31	1,104	2,883
NSW PER CAPITA CONTRIBUTION (in \$)							
EPC Benchmark	3	na	30	30	7	75	145
HFCE Benchmark	40	12	56	45	3	97	252

SOURCE: NSW Treasury estimates. Figures may not add due to rounding.

³ Household consumption is used as a benchmark here only for indicative purposes, on the premise that the GST is a tax on consumption and not on investment, production or transfers. Estimates of household consumption have been adjusted to remove expenditure on food, health and education services, as these are largely GST free, in an effort to more closely approximate the GST revenue base.

Commonwealth Grants Commission 2004 Review

The other major opportunity for New South Wales to reduce the size of the subsidy it pays to other States is through convincing the Commonwealth Grants Commission (the Commission) to change its methods of calculating interstate relativities. The Commission will complete the next review of its assessment methods in 2004. The issues that the 2004 Review (the Review) is currently considering are Priority Issues of Principle, Depreciation and Debt Charges, and Urban Transit.

Priority Issues of Principle

The Commission will be holding a high level conference in June 2001 which will provide an opportunity for the Commissioners and the Heads of Treasuries to discuss priority issues of principle. The Commission originally proposed three issues for consideration at the conference, namely:

- ◆ Increasing simplicity in the HFE process. The Commission has proposed options for simplifying the methods of assessing the States' expenditure and revenue needs, in order to reduce the cost and effort of fiscal equalisation. New South Wales believes that this is an important issue for all States and is keen to see the current processes significantly simplified.
- ◆ State policies and disabilities. The States are concerned that the Commission's methods do not adequately distinguish between policy and disability influences on State revenues and expenditures. The Commission has proposed to address this on a case-by-case basis within the normal processes of the Review rather than by making wholesale changes to its methods. New South Wales believes that this is the most contentious of the priority issues and that the long-term effects of the Commission's assessments should be further explored.
- ◆ Impact of changes in public administration. Changes in public administration flow from micro-economic reform, national competition policy, and technological advances. The Commission has researched whether its current methods for assessing the needs of the States take into account the prospective major changes in public administration. The Commission believes that its current assessment methods and the normal processes of the Review will be able to take the changes into account. New South Wales and other States agree with the Commission in this regard.

Depreciation and Debt Charges Assessments

The Commission is reviewing its current assessment of the expenditure categories that are related to capital. These are the depreciation category and the debt charges category. The Commission is attempting to undertake a practical review of the existing theoretical approach to the depreciation and debt charges assessments.

The Commission is currently considering submissions by the States on the issue and will continue to consult with the States before making a decision in December 2002.

Urban Transit Assessment

The Commission is considering whether to adopt an assessment that recognises that public transport services can be viably provided by the private sector, as long as the costs of providing concession fares are recognised. New South Wales' longstanding position is that equalisation should not apply to privately provided goods and services, nor to the privately funded component of publicly provided goods.

The direction of the Commission's research is consistent with the position of New South Wales. For bus services in particular, there are a number of private sector providers. The Commission should not be seeking to equalise services that are provided in a private market.

The Commission is currently preparing a data request that will seek to establish the degree of private involvement in public transport in the States and Territories. This will be followed by a discussion paper and consultation with the States before a final decision in December 2002.

CHAPTER 9: GOVERNMENT FINANCE STATISTICS AND UNIFORM REPORTING FRAMEWORK

9.1 INTRODUCTION

- ◆ Financial Aggregates are prepared on an accrual basis in accordance with the Uniform Presentation Framework (UPF).
- ◆ Time series data is provided for the first time for accrual UPF reports.
- ◆ The Loan Council Allocation Estimate for 2001-02 is a negative \$429 million (ie a surplus).

This chapter presents financial aggregates for the General Government and Public Non-financial Corporation (PNFC)¹ sectors according to international statistical standards and in accordance with a revised uniform reporting framework agreed to by the Australian Loan Council in March 2000. The new, enhanced reporting arrangements are the result of a review prompted by a shift from cash to accrual reporting and the Australian Bureau of Statistics accrual-based Government Finance Statistics reporting standard.

The financial aggregates presented in this chapter serve a number of purposes including:

- ◆ allowing comparisons between the financial position of Australian Governments on a consistent basis;
- ◆ facilitating time series comparisons since they are relatively unaffected by changes in public sector administrative structures; and
- ◆ permitting an assessment of the impact of NSW Public Sector transactions on the economy by providing data classified by economic type.

¹ The PNFC sector was formerly known as the Public Trading Enterprise or PTE sector. Other Chapters in this Budget Paper continue to use the term "PTE".

Section 9.2 provides information on the development of the Accrual Uniform Presentation Framework (UPF) and the transition to Government Finance Statistics (GFS) accrual reporting. Section 9.3 outlines the format of the accrual UPF statements, comparing and contrasting them to their equivalent accrual accounting reports. It also describes the main fiscal measures in the accrual GFS reports.

The classification of Public Sector Entities is outlined in Section 9.4.

Section 9.5 provides a brief commentary on the operations of the PNFC sector.

The Accrual Uniform Presentation Framework estimates are presented in Section 9.6. They are presented in the sequence of Operating Statements, Balance Sheets and Cash Flow Statements which are then grouped into their economic type classifications. This is followed by tables of General Government Expenses by Function and Taxes by Type.

Section 9.7 presents estimates of the State's Loan Council Allocation (LCA) for 2001-02 and compares this to the original LCA bid. Information is also presented in Section 9.8 on new infrastructure projects for 2000-01 and 2001-02 in accordance with Loan Council reporting requirements.

9.2 THE UNIFORM PRESENTATION FRAMEWORK

The format of the UPF is based on the reporting standards of the Australian Bureau of Statistics (ABS) Government Finance Statistics (GFS) framework. This ensures a high degree of consistency in the treatment and presentation of financial data.

In line with international trends, the ABS has adopted an accrual framework for GFS. The information presented in this chapter is consistent with the framework for the presentation of accrual budget data adopted by Commonwealth, State and Territory Governments and agreed by Loan Council in March 2000.

9.3 ACCRUAL GFS REPORTING

This section outlines the key features of the accrual GFS reporting framework.

THE ACCRUAL GFS PRESENTATION

Public sector estimates and outcomes are presented in the accrual GFS framework in three primary statements: operating statement, balance sheet, and cash flow statement. These statements form the core of the accrual UPF.

GFS includes only those transactions over which a government exercises control under its legislative or policy framework. This means that, unlike the accounting viewpoint, the GFS excludes from the calculation of net operating balance both revaluations (holding gains or losses) arising from a change in market prices, and other changes in the volume of assets that result from discoveries, depletion and destruction of assets. This means that differences arise between the GFS and accounting frameworks, particularly within the operating statement.

Operating Statement

The operating statement presents information on GFS revenues² and GFS expenses³. This statement is designed to capture the composition of revenues and expenses and the net cost of a government's activities within a fiscal year. It shows the full cost of resources consumed by the government in achieving its objectives, and how these costs are met from various revenue sources.

Unlike a standard accounting operating statement, the GFS operating statement reports two major fiscal measures – the GFS net operating balance, and GFS net lending. The **GFS net operating balance** is calculated as GFS revenue minus GFS expenses, while **GFS net lending**⁴ is GFS revenues less GFS expenses (excluding depreciation), less net capital expenditure and other selected asset movements/adjustments, thereby giving a better measure of a jurisdiction's call on financial markets.

Balance Sheet

The balance sheet records the stocks of financial and non-financial assets and liabilities. This statement, also referred to as a 'statement of assets and liabilities' or a 'statement of financial position', discloses the resources over which the government exercises control. The balance sheet is a financial snapshot taken at the end of each financial year. By providing information on the type of assets and liabilities held by a government, the statement gives an indication of financial liquidity.

² GFS revenues differs from accounting revenues. GFS revenues includes all (mutually agreed) transactions that increase net worth. Revaluations, included in accounting revenues, are not considered mutually agreed transactions, and so are excluded from GFS revenues. Included in this revaluations category are asset write-offs. Asset sales, which involve a transfer of a non-financial asset for a financial asset, are also excluded.

³ GFS expenses differ from AAS31 expenses. GFS expenses encompass all transactions that decrease net worth, including dividend and tax equivalent payments.

⁴ Net Lending is equivalent to the Budget Result shown elsewhere in the Budget Papers. Commonwealth Treasury has adopted the term "Fiscal Balance".

The balance sheet includes data on the composition of financial assets, on the holdings of fixed assets, and on the extent of liabilities such as borrowing and unfunded superannuation. This allows for intertemporal and interjurisdictional comparisons of asset and liability levels.

The GFS balance sheet differs from the standard accounting presentation:

- ◆ it provides information on financial and non-financial assets, and does not distinguish between current and non-current assets and liabilities; and
- ◆ receivables are presented on a gross basis (ie excluding all provisions for doubtful debts) resulting in GFS net worth being greater than accounting net assets.

Further, the GFS balance sheet for the General Government Sector discloses an equity investment in the Public Financial Corporation (PFC) and Public Non-financial Corporation (PNFC) Sectors. GFS recognises a holding company model for the General Government's ownership of the PFC and PNFC Sectors.

Balance sheet indicators include net debt, net financial worth and net worth.

Net debt comprises the stock of selected gross financial liabilities less selected financial assets and is the same under cash and accrual-based financial reporting.

The net debt measure is limited in that it does not include employee liabilities such as superannuation or insurance claim obligations, which can be substantial. In addition, net debt does not provide information on whether this debt has been incurred to finance capital expenditure or operations.

Net financial worth (NFW) measures net holdings of financial assets. It is calculated from the balance sheet as financial assets minus total liabilities. It is also commonly referred to as Net Financial Liabilities or Net Financial Assets. NFW excludes physical assets such as property and infrastructure which can be subject to significant valuation movements. It is a useful indicator for examining the soundness of a government's fiscal position, particularly over the medium-to-long term.

Net worth, also known as net assets, provides a comprehensive picture of the financial position, as it is measured by total assets less total liabilities. Net worth shows the impact of asset acquisitions over time, giving an indication of the extent to which borrowings are used to finance asset purchases, rather than only current expenditure.

For the PNFC and PFC sectors, net worth is always zero. The difference between total assets and total liabilities is deemed to be owners' equity (shares and other contributed capital) and net worth includes this for the PNFC and PFC sectors.

In addition to the UPF requirement to report net debt and net financial worth, debt after adjusting for the impact of a special prepayment of superannuation is also reported. Net debt is published after adjustment to avoid the distortionary impact of the events, which are basically temporary and reversing.

Cash Flow Statement

The cash flow statement records cash receipts and payments, revealing how a government obtains and expends cash.

This statement requires cash flows to be categorised into operating, investing and financing activities. Operating activities are those which relate to the collection of taxes, the distribution of grants, and the provision of goods and services. Investing activities are those which relate to the acquisition and disposal of financial and non-financial assets. Financing activities are those which relate to the changing size and composition of a government's financial structure.

The 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 GFS cash flow statement reports two major fiscal measures – net increase in cash held, and cash surplus. **Net increase in cash held** is the sum of net cash flows from all operating, investing and financing activities. The **cash surplus** comprises net cash received from operating activities, and from sales and purchases of non-financial assets, minus distributions paid (in the case of public non-financial corporations), minus finance leases and similar arrangements.

The cash surplus measure is broadly comparable with the old cash-GFS surplus measure, allowing for comparisons between the two frameworks.

COMPARISON TO ACCRUAL BASED ACCOUNTING REPORTS

Information reported in the accrual UPF tables is generally consistent with that reported elsewhere in Budget Paper No.2. However, differences in treatment and disclosure can occur because the Australian Bureau of Statistics requires that:

- ◆ selected payments that pass through the State's accounts e.g. for non-government schools, be included in the UPF tables. Reports in other chapters of the Budget Paper exclude these receipts and payments as the NSW Government has no control over them;
- ◆ the General Government Sector balance sheet in the UPF table reports an equity investment in the Public Financial and Non-financial Corporation Sectors while the accounting based statement of financial position does not record this item. A residual entity model of the Crown is considered more appropriate under an accounting framework than a holding company model; and
- ◆ provisions for doubtful debts are excluded from balance sheets presented on a GFS basis.

APPLICATION OF GFS PRINCIPLES

The standards applied to produce the Uniform Presentation Tables in this chapter are the same as those used by the ABS in its Government Financial Estimates publication (Catalogue No. 5501.0) except for the treatment of premiums on loans.

Current ABS statistical standards require a premium on a loan to be classified as a negative interest payment in the year the loan is raised. New South Wales disagrees with this approach since it results in an asymmetric treatment with discounts on loans which are treated as a balloon interest payment on the maturity of the loan.

The ABS has recognised the accounting difficulties of their approach. Given this, a compromise has been reached and all jurisdictions and the ABS have departed from GFS principles on this matter and record the premium as a negative interest payment in the final year of the loan.

9.4 CLASSIFICATION FRAMEWORK

INTRODUCTION

The economic type classification adopted in this Budget Paper follows international conventions as outlined in the ABS information paper, "*Accruals-based Government Finance Statistics Australia 2000*", Catalogue Number 5517.0.

Classification of Public Sector Entities

Public sector entities in New South Wales can be classified as General Government Enterprises (GGEs), Public Non-financial Corporations (PNFCs)⁵ or Public Financial Corporations (PFCs)⁶.

GGEs consist of those public sector entities that provide, in the main, goods and services outside the market mechanism as well as providing for the transfer of income for public policy purposes. The major form of financing of these goods and services is by taxation, imposed by the State or by the Commonwealth and subsequently on-passed to the State. In New South Wales, most government departments and a number of statutory authorities (for example WorkCover Authority) fit into this category.

In contrast, PNFCs charge for services provided and hence have a broadly commercial orientation. They do not, however, necessarily operate in competitive markets. While PNFCs are not required to be fully self-funding, a substantial portion of their costs must be met by user charges. The PNFC sector in New South Wales includes for example Eraring Energy, Pacific Power, Sydney Water Corporation, State Rail Authority.

PFCs are the third category of authorities in the ABS framework. NSW Treasury Corporation is the major entity in New South Wales operating in this sector. PFCs are not included in this chapter as the Uniform Presentation Agreement only requires the publication of PFC data ex-post.

Appendix C lists New South Wales public sector entities and their sector classifications.

The **Non-financial Public (NFP) Sector** is a consolidation of GGEs and PNFCs.

⁵ *The PNFC sector was formerly known as the Public Trading Enterprise or PTE sector.*

⁶ *The PFC sector was formerly known as the Public Financial Enterprise or PFE sector.*

9.5 OPERATIONS OF THE PUBLIC SECTOR

Detailed commentary on the operations of the General Government Sector is contained elsewhere in Budget Paper No.2. Given this, the detailed commentary below is mainly focused on the Public Non-financial Corporation Sector.

The GFS treatment of the Sydney Organising Committee for the Olympic Games (SOCOG) and Sydney Paralympic Organising Committee (SPOC) together with the magnitude of their operations, obscures the performance of the PNFC and NFP Sectors. Analyses are therefore provided below of:

- ◆ the GFS treatment and financial impact of SOCOG and SPOC operations; and
- ◆ sector results excluding the impact of SOCOG and SPOC.

THE GFS TREATMENT OF SOCOG/SPOC OPERATIONS

PNFC and NFP Sectors' results have been impacted by the GFS treatment of SOCOG and SPOC revenues and expenses and balance sheet. The difference between expenses and income (excluding TV rights and ticketing income) in the years prior to 2000-01 were capitalised as a build up of "inventory stock". TV rights and ticketing income were deferred on the Balance Sheet until the Olympic and Paralympic Games were held in 2000-01 when it was recognised in the GFS Operating Statement. In 2000-01 the net deferred expenditure in the form of "inventories" was written back against the operations.

The GFS impact of SOCOG and SPOC on the PNFC sector operating statement is shown in the following table:

Table 9.1: GFS Impact of SOCOG and SPOC on NSW Public Non-financial Corporation Sector Operating Statement (ABS Basis)

	<i>Actual</i> 1999-2000 \$m	<i>Revised</i> 2000-01 \$m	<i>Budget</i> 2001-02 \$m
GFS Revenue			
Sale of goods and services	332	2,136	...
Current grants and subsidies	179	79	(30)
Other	...	47	...
Total Revenue	511	2,262	(30)
less GFS Expenses			
Gross operating expenses	511	2,162	...
Capital transfers	...	70	...
Total Expenses	511	2,232	...
equals GFS Net Operating Balance	...	30	(30)
less Net Acquisition of Non-financial Assets			
Gross fixed capital formation	14	3	...
less Depreciation	...	(43)	...
plus Changes in inventories	260	(791)	...
plus Other movements in non-financial assets	...	...	...
equals Total Net Acquisition of Non-financial Assets	274	(831)	...
equals GFS Net Lending / (Borrowing)	(274)	861	(30)

In the cash flow statement there was not any special GFS treatment for SOCOG and SPOC. Receipts and payments were brought to account as they occurred.

PUBLIC NON-FINANCIAL CORPORATION SECTOR PERFORMANCE

The Public Non-financial Corporation (PNFC) sector policy framework injects a commercial approach to operations designed to promote the appropriate management of financial risk and shareholder value. Therefore it is to be expected that the performance of the sector in aggregate will reflect reasonable commercial outcomes, while being mindful of the constraints under which a number of NSW Government PNFCs operate. This section presents the GFS accrual data that is available for the PNFC sector from 1997-98.

Given the short period covered, the scope for assessing trends in the PNFC sector's actual performance from this data is limited. Moreover, movements in some sector aggregates are distorted by the GFS treatment of SOCOG and SPOC mandated by the Australian Bureau of Statistics⁷, and therefore the analysis below generally relates to the PNFC sector excluding these entities. Nevertheless, in spite of these limitations, broad conclusions regarding the PNFC sector's commercial performance are possible by drawing on the combination of available balance sheet and operating statement data.

As shown in Table 9.11, during the period 1997-98 to 2000-01 the Total Assets of the PNFC sector increased each year, with the estimated total increase being \$7.5 billion. Total Liabilities also increased each year but to a lesser extent, by an estimated total of \$2.5 billion over the same period. Therefore the value of General Government equity in the PNFC sector is estimated to have increased by over \$5 billion, even after the \$3.2 billion recapitalisation of electricity entities in 2000-01. These upward trends in the PNFC sector balance sheet aggregates are expected to continue in 2001-02, with the General Government sector's equity projected to rise by a further \$1.2 billion. This broad pattern of healthy growth is unchanged even if the impact of SOCOG and SPOC are removed from the sector aggregates.

These PNFC sector balance sheet movements reflect a sound financial performance. Shareholder value has consistently increased with returns on investments exceeding the cost of capital. Movements in the Operating Statement aggregates for the sector should be interpreted in the light of these balance sheet trends.

The GFS Operating Statement reports both the net operating balance and the net lending result. Unless otherwise stated, the following commentary on the PNFC sector performance is based on Table 9.2. Table 9.2 presents the PNFC sector operating statement on an underlying basis by excluding the impacts of SOCOG and SPOC.

⁷ See the start of this section for further details.

**Table 9.2: NSW Public Non-financial Corporation Sector
Operating Statement excluding SOCOG and SPOC
(ABS Basis)**

	<i>Actual 1997-98 \$m</i>	<i>Actual 1998-99 \$m</i>	<i>Actual 1999-2000 \$m</i>	<i>Revised 2000-01 \$m</i>	<i>Budget 2001-02 \$m</i>
GFS Revenue					
Sales of goods and services	8,565	8,140	8,901	9,143	9,322
Current grants and subsidies	1,009	1,083	984	1,072	1,109
Capital grants	577	632	596	890	661
Interest income	146	110	77	83	60
Other	895	1,041	1,168	869	907
Total Revenue	11,192	11,006	11,726	12,057	12,059
less GFS Expenses					
Gross operating expenses	8,184	8,648	8,609	9,343	9,628
Property expenses	2,515	2,038	1,912	1,960	1,962
Current transfers	172	14	41	49	55
Capital transfers	6	185	63	6	13
Total Expenses	10,877	10,885	10,625	11,358	11,658
equals GFS Net Operating Balance	315	121	1,101	699	401
less Net Acquisition of Non-financial Assets					
Gross fixed capital formation	1,489	1,837	2,607	2,372	2,733
less Depreciation	(1,423)	(1,372)	(1,389)	(1,494)	(1,608)
plus Change in inventories	84	(24)	(8)	121	40
plus Other movements in non-financial assets	(118)	(33)	(141)	(67)	12
equals Total Net Acquisition of Non-financial Assets	32	408	1,069	932	1,177
equals GFS Net Lending / (Borrowing)	283	(287)	32	(233)	(776)

GFS NET OPERATING BALANCE - RESULTS AND OUTLOOK

The net operating balance is a good measure of the commercial health of the PNFC sector over time as it provides insight into the sustainability of existing operations. Over the four years to 2000-01, the net operating balance indicates a commercially sound performance. The net operating balance has been positive every year, averaging over \$500 million, albeit with considerable year to year variability with no consistent trends in either total revenue or expenses over this period.

A rise in the sales of goods and services underpinned the estimated \$865 million rise in underlying revenue between 1997-98 and 2000-01. Sales growth can mainly be attributed to the electricity distributors and the transport sector which experienced consistent annual increases, averaging 4 and 5 percent respectively. In the two years to 1999-2000 there was little movement in underlying total expenses. Subsequently, PNFC sector underlying total expenses are estimated to have risen by over \$700 million in 2000-01 and are projected to increase by a further \$300 million in 2001-02, somewhat greater than the increase in revenues. The falls in property expenses reflect a decline in the PNFC sector's financial distributions to the General Government sector and are discussed further below.

The 2001-02 projections reflect the more challenging trading environment that is expected for some PNFCs. Although this will place pressure on the net operating balance, it is still expected to remain positive, with an underlying balance of around \$400 million projected for 2001-02.

The revenue and profit projections provided by a number of PNFCs have often been conservative in past years. The PNFC sector's aggregate projections have, as a consequence, a history of conservative bias and a comparison of the budget estimate and revised outcome in Table 9.3 shows that this is expected to be the case again in 2000-01. It is therefore quite likely that the result for 2001-02 will be better than the Budget estimate.

GFS NET LENDING/BORROWING RESULTS AND OUTLOOK

Aggregate PNFC sector net lending/borrowing is comprised of the operating result adjusted for the impact of capital investments undertaken. The net lending/borrowing result includes net capital expenditure, but not the use of capital (ie depreciation). It is therefore a better measure of the call the sector makes on capital markets and reveals the PNFC sector's impact on national savings on a National Accounts basis.

As shown in Table 9.2, the underlying net lending result for the PNFC sector has fluctuated since 1997-98 from a \$283 million surplus at the high end, to a \$287 million deficit in 1998-99.

Changes in the net lending result are significantly influenced by changes in gross fixed capital formation. Capital expenditure decisions for the PNFC sector are in general commercially based and are expected to provide an adequate return above the cost of capital, allowing for risk. No meaning should therefore be attached to changes in the total for the PNFC sector without reference to its component parts. Corporations within the sector undergo capital investment at different times in response to changes in market conditions and other factors.

Over the four years to 2000-01, the PNFC sector has been in a period of strong investment. The relatively low amount of underlying capital expenditure in 1997-98 of \$1,489 million marked a trough in PNFC aggregate investment. In 1998-99 the electricity distributors and the water sector increased their capital expenditure by approximately 30 and 50 percent respectively. By 1999-2000 aggregate underlying gross fixed capital formation for the sector had risen to \$2,607 million. This reflected small rises in capital expenditure by most PNFCs and particularly sharp rises in the transport and electricity transmission sectors of 95 percent and 250 percent, respectively.

For 2000-01, PNFC sector underlying gross fixed capital formation is expected to be \$2,372 million. Although this is below the 1999-2000 level, it remains considerably above the \$1,978 million average annual underlying capital expenditure of the previous three years. The continuation of relatively large capital programs (as well as a jump in underlying GFS expenses), contributes to the PNFC sector estimated underlying net lending deficit of \$233 million in 2000-01.

Stronger investment by the transport sector and electricity generators in 2001-02 is expected to contribute to a \$361 million increase in PNFC sector gross fixed capital formation.

Higher projected capital expenditure in 2001-02, together with a lower net operating balance, result in a projected underlying net lending deficit of \$776 million for the PNFC sector. This projection contains no adjustment for a possible conservative bias.

GFS CASH FLOW POSITION – RESULTS AND OUTLOOK

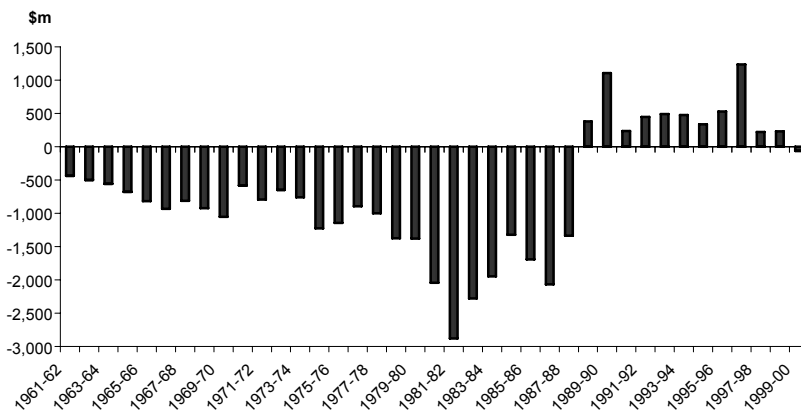
Given that the primary goal for PNFCs is to increase shareholder value through the commercial delivery of services to the public, the aggregate PNFC sector may over time experience both surplus and deficit cash positions depending on investment cycles and the strength of the economy.

Although the cash flow statement is a useful tool for cash management purposes, there is no clear basis for judging the PNFC sector's overall performance based on the aggregate cash outcome measure. Unlike the General Government sector there is no economic rationale for targeting a consistent cash surplus for the aggregate PNFC sector during the positive phase of the business cycle. Indeed, while it is desirable for the sector to produce a positive cash flow over the long term, after allowing for cash subsidies, it is not necessarily true that a positive aggregate cash result in any particular year is a mark of success.

Nevertheless, it is noted that the cash flow measure for the PNFC sector has received attention from some commentators because it is perceived to be a potential source of funds for the General Government sector. This however, should be considered less of an issue now that the General Government sector has established a consistent pattern of cash surpluses.

The surplus/deficit measure from the cash flow statement is broadly comparable to the old GFS cash surplus measure. As such, comparable data is available over a longer period than for the major accrual measures, providing a longer term perspective:

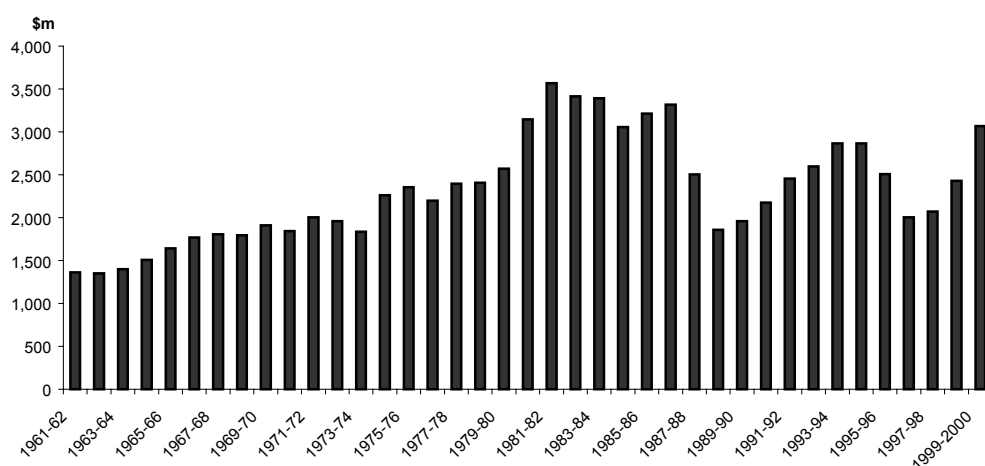
Chart 9.1: PNFC Sector Real Cash Result 1961-62 to 1999-2000
(\$1999-2000 GFS Cash Basis)



Source ABS 5206.0; NSW Treasury

- ◆ Chart 9.1 illustrates that during the period from 1960 to the mid 1980s, the PNFC sector posted annual cash deficits with a deteriorating trend in real terms as capital expenditure more than offset net cash flows generated from operations.
- ◆ It is only in the last decade or so that the PNFC sector has experienced cash surpluses as shown in Chart 9.1. The establishment of a commercial policy framework for the PNFC sector undoubtedly contributed positively to this turn around in performance. Since these reforms commenced the PNFC sector has posted eleven consecutive annual cash surpluses commencing in 1988-89.

**Chart 9.2: PNFC Sector Real Capital Expenditure
1961-96 to 1999-2000 (\$1999-2000 GFS Cash Basis)**



Source ABS 5206.0; NSW Treasury

- ◆ As shown in Chart 9.2, capital expenditure during the period spanning 1960 to the mid 1980s increased by over \$2.2 billion (in \$1999-2000), peaking at almost \$3.6 billion in 1980-81. Capital expenditure was particularly strong during the early 1980s with major power station developments undertaken.
- ◆ PNFC sector capital expenditure over the last decade has been at a lower level as highlighted in Chart 9.2. In terms of \$1999-2000, capital expenditure during the 1990s averaged \$2.6 billion per annum, compared to \$3 billion per annum over the 1980s.
- ◆ PNFC sector capital expenditure has been on the increase since 1996-97. In 2001-02 capital expenditure is expected to reach the same level as the peak recorded in the early 1990s in real terms.

As shown in Table 9.14, there was an underlying cash deficit of \$310 million recorded in 1999-2000, the first deficit in over a decade. The increased investment being undertaken within the PNFC sector, as discussed above, is significantly contributing to negative cash flows in the short term.

The forecast cash flow deficits for 2000-01 and 2001-02 should be viewed in the context of a tendency towards conservative bias in PNFC sector budget estimates. Consistent with this there was a \$621 million improvement in the 1999-2000 headline cash result, from a 2000-01 Budget time revised estimate of \$588 million deficit to an actual \$33 million surplus. Almost half of this pertains to additional SOCOG revenue.

Table 9.14 shows the PNFC sector's distributions have declined each year since 1997-98. A decline over time was expected as the electricity sector, which contributes the major share of distributions, has been facing increased competition. This has placed pressure on profit levels and a number of one-off factors have accentuated the decline, including:

- ◆ low wholesale electricity spot prices;
- ◆ the 1998-99 Sydney water quality incident;
- ◆ a special voluntary redundancy program instituted by Sydney Water Corporation in 1999-2000 that is designed to provide benefits in future years;
- ◆ a \$3.2 billion capital restructure of the electricity sector in 2000-01 that increased interest expenses through additional borrowing, and has also impacted on income tax equivalent expenses; and
- ◆ the termination of wholesale tax equivalent payments at the time of the introduction of the GST.

Distributions are expected to bottom out in 2001-02, with an increasing trend projected for the forward years as shown in Chart 3.2 in Chapter 3.

BUDGET ESTIMATES AND REVISED OUTCOMES FOR 2000-01

**Table 9.3: NSW Public Non-financial Corporation Sector 2000-01
Revised Outcomes excluding SOCOG and SPOC
(ABS Basis)^(a)**

		<i>Budget 2000-01 \$m</i>	<i>Revised 2000-01 \$m</i>	<i>Variation \$m</i>
	GFS Total Revenue	11,265	12,057	+ 792
Less	GFS Total Expenses	10,991	11,358	+ 367
Equals	GFS Net Operating Balance	274	699	+ 425
Less	Net Acquisition of Non-Financial Assets			
	Gross Fixed Capital Formation	2,443	2,372	(-) 71
less	Depreciation	(1,530)	(1,494)	+ 36
plus	Changes in inventories	(33)	121	+ 154
plus	Other movements in non-financial assets	(98)	(67)	+ 31
Equals	Total Net Acquisition of Non-financial Assets	782	932	+ 150
Equals	Net Lending/(Borrowing)	(508)	(233)	+ 275
	GFS Cash Flow Surplus/(Deficit)	(471)	(327)	+ 144

(a) A positive number denotes a net lending/cash flow surplus.

Table 9.3 illustrates the conservative bias PNFCs display in their Budget time estimates. Any analysis of PNFC sector performance during the Budget year should be qualified to reflect the tendency for actual results being considerably better than originally estimated.

The revised net lending deficit of \$233 million for the PNFC sector compares with the Budget net lending deficit estimate of \$508 million. The \$275 million improvement is due to a higher than expected net operating balance being partially offset by a greater than anticipated increase in the net acquisition of non-financial assets.

Total revenues increased on original Budget estimates by almost \$800 million as a result of better trading by the electricity generators and the transport sector. This helped offset weaker than anticipated revenues earned in electricity distribution and transmission sectors as well as the water sector. PNFC sector total expenses exceeded original Budget estimates by nearly \$400 million, mainly due to those PNFCs which experienced higher revenues. The operating result is therefore expected to be a \$425 million improvement on Budget.

The net acquisition of non-financial assets is likely to be \$150 million greater than expected in the 2000-01 Budget despite an estimated \$71 million reduction in gross fixed capital formation. The rise stems from an estimated \$150 million increase in inventories, particularly by the electricity generators and Landcom. Lower than expected depreciation charges and a slight improvement in other movements of non-financial assets also contributed to greater than anticipated net acquisitions of non-financial assets.

NON-FINANCIAL PUBLIC SECTOR PERFORMANCE

GFS NET OPERATING BALANCE

The net operating balance of the Non-financial Public (NFP) sector has averaged almost \$1.9 billion annually since 1997-98 (see Table 9.4) while fluctuating within a range of almost \$1.9 billion over the period as well. The PNFC sector's operating balance has been roughly 30 percent of the total NFP sector net operating balance.

Table 9.4 NSW Net Operating Balance by Sector excluding SOCOG and SPOC (ABS Basis)^(a)

<i>Sector</i>	<i>Actual 1997-98 \$m</i>	<i>Actual 1998-99 \$m</i>	<i>Actual 1999-2000 \$m</i>	<i>Revised 2000-01 \$m</i>	<i>Budget 2001-02 \$m</i>
General Government	1,500	1,139	2,038	988	1,200
PNFC	315	121	1,101	699	401
NFP	1,912	1,267	3,105	1,221	1,549

(a) Totals may not add due to inter-sector transactions between the General Government and PNFC sectors.

GFS NET LENDING RESULT

Table 9.5 shows for the NFP sector substantial surpluses in 1997-98 and 1999-2000, a small net lending deficit in 1998-99 and an expected \$518 million deficit in 2000-01, which would have been a surplus but for the takeover of HIH insurance liabilities. As the General Government sector has had a consistent net lending surplus, the NFP sector net lending deficits have been the result of the PNFC sector deficits. Higher PNFC capital investment is a major factor contributing to the estimated 2001-02 deficit.

Table 9.5 NSW Net Lending Result by Sector excluding SOCOG and SPOC (ABS Basis)^{(a) (b)}

Sector	Actual 1997-98 \$m	Actual 1998-99 \$m	Actual 1999-2000 \$m	Revised 2000-01 \$m	Budget 2001-02 \$m
General Government	26	187	1,301	221	368
PNFC	283	(287)	32	(233)	(776)
NFP	435	(42)	1,328	(518)	(481)

(a) A positive number denotes a net lending surplus.

(b) Totals may not add due to inter-sector transactions between the General Government and PNFC sectors.

GFS CASH FLOW POSITION

The NFP sector is a consolidation of the General Government and PNFC sectors. The projected outcomes of the NFP sector should therefore be viewed in the context of the historic conservative bias contained in PNFC sector budget estimates. Given this, the actual outcome of the NFP sector is likely to improve on the Budget estimate.

Table 9.6: NSW Cash Result by Sector excluding SOCOG and SPOC (ABS Basis)^{(a) (b)}

Sector	Actual 1997-98 \$m	Actual 1998-99 \$m	Actual 1999-2000 \$m	Revised 2000-01 \$m	Budget 2001-02 \$m
General Government ^(c)	48	597	867	484	321
PNFC	359	68	(310)	(327)	(575)
NFP ^(c)	101	681	488	16	(286)

(a) A positive number denotes a cash inflow or surplus.

(b) Totals may not add due to inter-sector transactions between the General Government and PNFC sectors.

(c) General Government and Non-financial Public Sector results and estimates are adjusted for the effects of a special prepayment of superannuation.

The NFP sector was in cash surplus in the three years to 1999-2000, and is expected to remain so in 2000-01 as shown in Table 9.6.

The surplus/deficit measure from the cash flow statement is comparable to the old GFS cash surplus measure. As such, comparable data is available over a longer period than for the major accrual measures, providing a longer term perspective:

- ◆ the NFP sector has enjoyed a cash surplus every year since 1995-96, assisted by substantial General Government cash surpluses over recent years. A small \$16 million surplus is expected to be achieved in 2000-01, a considerable improvement on the underlying budget estimate of a \$131 million deficit; and
- ◆ between 1990-91 and 1995-96 the PNFC sector cash surpluses limited the severity of overall NFP sector deficits given that the General Government sector consistently posted cash deficits.

The NFP sector is projected to have an underlying cash deficit of \$286 million in 2001-02 with the PNFC sectors' projected deficit more than offsetting the projected General Government cash surplus. The deficit is largely due to increased PNFC sector capital investment.

9.6 ACCRUAL UNIFORM PRESENTATION FRAMEWORK TABLES

In accordance with the revised Uniform Presentation Framework agreed by the Australian Loan Council in March 2000, Tables 9.7 through to 9.17 of this Section provide estimates on a comparable basis to those which the ABS will be publishing.

Table 9.5: NSW General Government Sector Operating Statement (ABS Basis)

	<i>Actual</i> 1997-98 \$m	<i>Actual</i> 1998-99 \$m	<i>Actual</i> 1999-2000 \$m	<i>Revised</i> 2000-01 \$m	<i>Budget</i> 2001-02 \$m	<i>Forward Estimates</i>		
						2002-03 \$m	2003-04 \$m	2004-05 \$m
GFS Revenue								
Taxation revenue ^(a)	12,903	14,122	15,192	12,995	12,091	12,281	12,861	13,472
Current grants and subsidies ^(a)	8,828	9,418	10,099	13,915	15,400	15,504	15,769	16,241
Capital grants	972	912	889	886	828	932	856	853
Sales of goods and services	2,525	2,658	2,775	2,573	2,501	2,565	2,646	2,754
Interest income	427	419	492	509	437	445	457	477
Other	2,961	2,647	2,452	2,440	2,269	2,404	2,631	2,861
Total Revenue	28,616	30,176	31,899	33,318	33,526	34,131	35,220	36,658
less GFS Expenses								
Gross operating expenses	19,594	21,618	22,547	23,707	23,984	25,010	26,042	27,011
Nominal superannuation interest expense	821	691	479	409	509	554	575	595
Other interest expenses	1,472	1,331	1,305	995	877	822	756	726
Other property expenses	...	...	...	...	...	...	...	...
Current transfers	4,231	4,393	4,544	5,714	5,485	5,269	5,281	5,314
Capital transfers	998	1,004	986	1,505	1,471	1,513	1,643	1,570
Total Expenses	27,116	29,037	29,861	32,330	32,326	33,168	34,297	35,216
equals GFS Net Operating Balance	1,500	1,139	2,038	988	1,200	963	923	1,442

Table 9.7: NSW General Government Sector Operating Statement (ABS Basis) (cont)

		<i>Actual</i>	<i>Actual</i>	<i>Actual</i>	<i>Revised</i>	<i>Budget</i>	<i>Forward Estimates</i>		
		<i>1997-98</i>	<i>1998-99</i>	<i>1999-2000</i>	<i>2000-01</i>	<i>2001-02</i>	<i>2002-03</i>	<i>2003-04</i>	<i>2004-05</i>
		<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>
less	Net Acquisition of Non-financial Assets								
	Gross fixed capital formation	2,191	2,095	2,138	2,297	2,420	2,222	2,370	2,471
less	Depreciation	(650)	(1,036)	(1,411)	(1,443)	(1,493)	(1,528)	(1,569)	(1,624)
plus	Change in inventories	(10)	14	(4)	1	5	4	2	5
plus	Other movements in non-financial assets	(57)	(121)	14	(88)	(100)	(69)	(51)	(49)
equals	Total Net Acquisition of Non-financial Assets	1,474	952	737	767	832	629	752	803
equals	GFS Net Lending / (Borrowing)	26	187	1,301	221	368	334	171	639

Note:

(a) *Impacted by the introduction of the Goods and Services Tax (GST) and the processing arrangements from 2000-01.*

Table 9.8: NSW Public Non-financial Corporation Sector Operating Statement (ABS Basis)

	<i>Actual 1997-98 \$m</i>	<i>Actual 1998-99 \$m</i>	<i>Actual 1999-2000 \$m</i>	<i>Revised 2000-01 \$m (a)</i>	<i>Budget 2001-02 \$m</i>
GFS Revenue					
Sales of goods and services	8,702	8,279	9,233	11,279	9,322
Current grants and subsidies	1,009	1,083	1,163	1,151	1,079
Capital grants	577	632	596	890	661
Interest income	146	110	77	130	60
Other	895	1,041	1,168	869	907
Total Revenue	11,329	11,145	12,237	14,319	12,029
less GFS Expenses					
Gross operating expenses	8,318	8,787	9,120	11,505	9,628
Property expenses	2,515	2,038	1,912	1,960	1,962
Current transfers	172	14	41	49	55
Capital transfers	9	185	63	76	13
Total Expenses	11,014	11,024	11,136	13,590	11,658
equals GFS Net Operating Balance	315	121	1,101	729	371

Table 9.8: NSW Public Non-financial Corporation Sector Operating Statement (ABS Basis) (cont)

	<i>Actual 1997-98 \$m</i>	<i>Actual 1998-99 \$m</i>	<i>Actual 1999-2000 \$m</i>	<i>Revised 2000-01 \$m (a)</i>	<i>Budget 2001-02 \$m</i>
less					
Net Acquisition of Non-financial Assets					
Gross fixed capital formation	1,506	1,842	2,621	2,375	2,733
less Depreciation	(1,423)	(1,372)	(1,389)	(1,537)	(1,608)
plus Change in inventories	198	147	252	(670)	40
plus Other movements in non-financial assets	(118)	(33)	(141)	(67)	12
equals Total Net Acquisition of Non-financial Assets	163	584	1,343	101	1,177
equals GFS Net Lending / (Borrowing)	152	(463)	(242)	628	(806)
GFS Net Lending/(Borrowing) after adjusting to exclude SOCOG and SPOC (a)	283	(287)	32	(233)	(776)

Note:

(a) Refer to commentary earlier in this chapter on the impact of the 2000 Olympic and Paralympic Games on the results.

Table 9.9: NSW Non-financial Public Sector Operating Statement (ABS Basis)

	<i>Actual 1997-98 \$m</i>	<i>Actual 1998-99 \$m</i>	<i>Actual 1999-2000 \$m</i>	<i>Revised 2000-01 \$m (a)</i>	<i>Budget 2001-02 \$m</i>
GFS Revenue					
Taxation revenue(b)	12,068	13,504	14,548	12,378	11,453
Current grants and subsidies(b)	8,781	9,402	10,121	13,937	15,325
Sales of goods and services	11,114	10,824	11,868	13,595	11,705
Capital grants	754	862	833	848	826
Interest income	502	463	504	574	442
Other	2,315	2,394	2,360	2,042	2,032
Total Revenue	35,534	37,449	40,234	43,374	41,783
less GFS Expenses					
Gross operating expenses	26,585	29,649	30,856	34,362	32,849
Nominal superannuation interest expense	821	691	479	409	509
Property expenses	2,267	2,055	1,932	1,785	1,692
Current transfers	3,360	3,307	3,573	4,654	4,397
Capital transfers	373	481	243	814	787
Total Expenses	33,406	36,183	37,083	42,024	40,234
equals GFS Net Operating Balance	2,128	1,266	3,151	1,350	1,549

Table 9.9: NSW Non-financial Public Sector Operating Statement (ABS Basis) (cont)

	<i>Actual</i> 1997-98 \$m	<i>Actual</i> 1998-99 \$m	<i>Actual</i> 1999-2000 \$m	<i>Revised</i> 2000-01 \$m (a)	<i>Budget</i> 2001-02 \$m
less Net Acquisition of Non-financial Assets					
Gross fixed capital formation	3,643	3,871	4,713	4,700	5,153
less Depreciation	(2,073)	(2,408)	(2,800)	(2,980)	(3,101)
plus Change in inventories	187	161	249	(661)	50
plus Other movements in non-financial assets	(149)	(139)	(111)	(154)	(72)
equals Total Net Acquisition of Non-financial Assets	1,608	1,485	2,051	905	2,030
equals GFS Net Lending / (Borrowing)	520	(219)	1,100	445	(481)
GFS Net Lending/(Borrowing) after adjusting to exclude SOCOG and SPOC (a)	435	(42)	1,328	(518)	(481)

Notes:

(a) Refer to commentary earlier in this chapter on the impact of the 2000 Olympic and Paralympic Games on the results.

(b) Impacted by the introduction of the Goods and Services Tax (GST) and the processing arrangements from 2000-01.

Table 9.10: NSW General Government Sector Balance Sheet (ABS Basis)

	<i>Actual</i>	<i>Actual</i>	<i>Actual</i>	<i>Revised</i>	<i>Budget</i>	<i>Forward Estimates</i>		
	<i>June 1998</i>	<i>June 1999</i>	<i>June 2000</i>	<i>June 2001</i>	<i>June 2002</i>	<i>June 2003</i>	<i>June 2004</i>	<i>June 2005</i>
	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>
Assets								
Financial assets								
Cash and deposits	1,184	961	418	573	360	180	113	83
Advances paid	1,670	1,653	1,693	1,409	1,353	1,304	1,254	1,219
Investments, loans and placements	3,448	3,658	3,860	3,979	3,915	4,139	3,939	4,293
Other non-equity assets	3,560	3,778	3,698	3,581	3,629	3,855	4,206	4,551
Equity ^(a)	41,114	41,500	46,596	46,642	48,165	48,165	48,165	48,165
Total Financial Assets	50,976	51,550	56,265	56,184	57,422	57,643	57,677	58,311
Non-financial assets								
Land and fixed assets	59,627	64,066	64,230	64,604	65,417	66,130	66,905	67,725
Other non-financial assets	548	666	754	853	969	1,083	1,203	1,330
Total Non-financial Assets	60,175	64,732	64,984	65,457	66,386	67,213	68,108	69,055
Total Assets	111,151	116,282	121,249	121,641	123,808	124,856	125,785	127,366

Table 9.10: NSW General Government Sector Balance Sheet (ABS Basis) (cont)

	Actual June 1998 \$m	Actual June 1999 \$m	Actual June 2000 \$m	Revised June 2001 \$m	Budget June 2002 \$m	Forward Estimates		
						June 2003 \$m	June 2004 \$m	June 2005 \$m
Liabilities								
Deposits held	57	59	90	71	52	52	43	44
Advances received	2,340	2,270	2,142	2,061	1,853	1,808	1,698	1,655
Borrowing	14,064	16,761	14,961	11,360	9,899	9,572	9,163	8,724
Superannuation liability ^(b)	11,852	7,952	5,686	7,863	8,990	9,269	9,530	9,753
Other employee entitlements and provisions	6,725	7,139	7,439	8,281	8,482	8,735	9,044	9,385
Other non-equity liabilities	3,416	3,115	2,862	2,453	2,340	2,321	2,280	2,271
Total Liabilities	38,454	37,296	33,180	32,089	31,616	31,757	31,758	31,832
NET WORTH	72,697	78,986	88,069	89,552	92,192	93,099	94,027	95,534
Net Financial Worth ^(c)	12,522	14,254	23,085	24,095	25,806	25,886	25,919	26,479
Net Debt ^(d)	10,159	12,818	11,222	7,531	6,176	5,809	5,598	4,828
Underlying Net Debt ^{(d) (e)}	10,159	9,554	8,971	6,352	6,176	5,809	5,598	4,828

Notes:

- (a) No projections for the PNFC or PFC sectors are available from 2002-03. Therefore the equity from these sectors is assumed to be unchanged.
- (b) Comprises net unfunded obligations.
- (c) Net financial worth equals total financial assets minus total liabilities.
- (d) Net debt equals the sum of deposits held, advances received and borrowing, minus the sum of cash and deposits, advances paid, and investments, loans and placements.
- (e) Adjusted for prepaid superannuation in the years 1998-99 to 2000-01 inclusive.

Table 9.11: NSW Public Non-financial Corporation Sector Balance Sheet (ABS Basis)

	<i>Actual June 1998 \$m</i>	<i>Actual June 1999 \$m</i>	<i>Actual June 2000 \$m</i>	<i>Revised June 2001 \$m</i>	<i>Budget June 2002 \$m</i>
Assets					
Financial assets					
Cash and deposits	920	1,026	1,324	975	990
Investments, loans and placements	1,559	1,361	875	923	792
Other non-equity assets	2,197	2,443	2,701	2,161	2,083
Equity	27	49	63	59	59
Total Financial Assets	4,703	4,879	4,963	4,118	3,924
Non-financial assets					
Land and fixed assets	53,264	54,434	58,883	61,013	62,991
Other non-financial assets	36	59	295	342	358
Total Non-financial Assets	53,300	54,493	59,178	61,355	63,349
Total Assets	58,003	59,372	64,141	65,473	67,273

Table 9.11: NSW Public Non-financial Corporation Sector Balance Sheet (ABS Basis) (cont)

	<i>Actual June 1998 \$m</i>	<i>Actual June 1999 \$m</i>	<i>Actual June 2000 \$m</i>	<i>Revised June 2001 \$m</i>	<i>Budget June 2002 \$m</i>
Liabilities					
Deposits held	29	29	40	31	33
Advances received	1,435	1,406	1,379	1,152	1,125
Borrowing	8,672	8,558	8,453	11,892	12,446
Superannuation liability / (prepaid contributions) ^(a)	136	227	(402)	(270)	(118)
Other employee entitlements and provisions	3,910	3,997	3,990	3,702	3,608
Other non-equity liabilities	1,931	2,639	3,512	2,068	2,119
Total Liabilities	16,113	16,856	16,972	18,575	19,213
Shares and other contributed capital ^(b)	41,890	42,516	47,169	46,898	48,060
NET WORTH ^(b)	...	...	...	...	...
Net Financial Worth ^(c)	(11,410)	(11,977)	(12,009)	(14,457)	(15,289)
Net Debt ^(d)	7,657	7,606	7,673	11,177	11,822

Notes:

(a) Comprises net unfunded obligations.

(b) For entities whose equity is not traded on the market, the GFS Net Worth is zero as the equity (shares and other contributed capital) is recorded as an asset in the General Government balance sheet.

(c) Net financial worth equals total financial assets minus total liabilities.

(d) Net debt equals the sum of deposits held, advances received and borrowing, minus the sum of cash and deposits, advances paid, and investments, loans and placements.

Table 9.12: NSW Non-financial Public Sector Balance Sheet (ABS Basis)

	<i>Actual June 1998 \$m</i>	<i>Actual June 1999 \$m</i>	<i>Actual June 2000 \$m</i>	<i>Revised June 2001 \$m</i>	<i>Budget June 2002 \$m</i>
Assets					
Financial assets					
Cash and deposits	2,105	1,987	1,742	1,548	1,350
Advances paid	239	246	312	304	276
Investments, loans and placements	5,005	5,011	4,727	4,845	4,649
Other non-equity assets	3,075	3,531	3,751	3,321	3,267
Equity	(750)	(968)	(510)	(196)	164
Total Financial Assets	9,674	9,807	10,022	9,822	9,706
Non-financial assets					
Land and fixed assets	112,891	118,501	123,114	125,617	128,408
Other non-financial assets	597	728	1,053	1,211	1,341
Total Non-financial Assets	113,488	119,229	124,167	126,828	129,749
Total Assets	123,162	129,036	134,189	136,650	139,455

Table 9.12: NSW Non-financial Public Sector Balance Sheet (ABS Basis) (cont)

	<i>Actual June 1998 \$m</i>	<i>Actual June 1999 \$m</i>	<i>Actual June 2000 \$m</i>	<i>Revised June 2001 \$m</i>	<i>Budget June 2002 \$m</i>
Liabilities					
Deposits held	86	88	121	102	86
Advances received	2,342	2,270	2,142	2,061	1,851
Borrowing	22,736	25,310	23,405	23,243	22,336
Superannuation liability ^(a)	11,988	8,179	5,284	7,593	8,872
Other employee entitlements and provisions	8,716	9,177	9,459	10,145	10,199
Other non-equity liabilities	4,597	5,026	5,709	3,954	3,919
Total Liabilities	50,465	50,050	46,120	47,098	47,263
Shares and other contributed capital	...	...	...	...	...
NET WORTH	72,697	78,986	88,069	89,552	92,192
Net Financial Worth ^(b)	(40,791)	(40,243)	(36,098)	(37,276)	(37,557)
Net Debt ^(c)	17,815	20,424	18,887	18,709	17,998
Underlying Net Debt ^{(c) (d)}	17,815	17,160	16,636	17,530	17,998

Notes:

(a) Comprises net unfunded obligations.

(b) Net financial worth equals total financial assets minus total liabilities.

(c) Net debt equals the sum of deposits held, advances received and borrowing, minus the sum of cash and deposits, advances paid, and investments, loans and placements.

(d) Adjusted for prepaid superannuation in the years 1998-99 to 2000-01 inclusive.

Table 9.13: NSW General Government Sector Cash Flow Statement^(a) (ABS Basis)

	<i>Actual</i>	<i>Actual</i>	<i>Actual</i>	<i>Revised</i>	<i>Budget</i>	<i>Forward Estimates</i>		
	<i>1997-98</i>	<i>1998-99</i>	<i>1999-2000</i>	<i>2000-01</i>	<i>2001-02</i>	<i>2002-03</i>	<i>2003-04</i>	<i>2004-05</i>
	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>
Cash Receipts from Operating Activities								
Taxes received ^(b)	12,902	14,192	15,196	13,048	12,096	12,296	12,868	13,482
Receipts from sales of goods and services	2,558	2,642	2,819	2,653	2,460	2,545	2,584	2,688
Grants/subsidies received ^(b)	9,786	10,349	10,979	14,804	16,228	16,436	16,625	17,094
Other receipts	2,716	2,668	2,814	3,263	3,116	3,058	3,191	3,442
Total Receipts	27,962	29,851	31,808	33,768	33,900	34,335	35,268	36,706
Cash Payments for Operating Activities								
Payment for goods and services	(19,133)	(23,795)	(21,034)	(21,650)	(21,672)	(23,556)	(24,571)	(25,529)
Grants and subsidies paid	(4,908)	(5,031)	(5,267)	(6,196)	(6,566)	(6,408)	(6,485)	(6,388)
Interest paid	(1,535)	(1,423)	(1,246)	(1,045)	(863)	(875)	(857)	(727)
Other payments	(223)	(298)	(248)	(1,062)	(976)	(964)	(963)	(975)
Total Payments	(25,799)	(30,547)	(27,795)	(29,953)	(30,077)	(31,803)	(32,876)	(33,619)
Net Cash Flows from Operating Activities	2,163	(696)	4,013	3,815	3,823	2,532	2,392	3,087
Net Cash Flows from Investments in Non-financial Assets								
Sales of non-financial assets	345	508	405	183	228	333	173	180
Purchases of non-financial assets	(2,460)	(2,481)	(2,546)	(2,456)	(2,596)	(2,534)	(2,530)	(2,642)
Net Cash Flows from Investments in Non-financial Assets	(2,115)	(1,973)	(2,141)	(2,273)	(2,368)	(2,201)	(2,357)	(2,462)
Net Cash Flows from Investments in Financial Assets for Policy Purposes								
	1,042	(3)	(64)	3,230	11	48	132	157

Table 9.13: NSW General Government Sector Cash Flow Statement^(a) (ABS Basis) (cont)

	Actual 1997-98 \$m	Actual 1998-99 \$m	Actual 1999-2000 \$m	Revised 2000-01 \$m	Budget 2001-02 \$m	Forward Estimates		
						2002-03 \$m	2003-04 \$m	2004-05 \$m
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	(57)	(177)	(257)	(191)	61	(221)	203	(347)
Net Cash Flows from Financing Activities								
Advances received (net)	(1,568)	(76)	(132)	(76)	(223)	(44)	(106)	(43)
Borrowing (net)	794	2,756	(1,983)	(4,295)	(1,501)	(296)	(325)	(429)
Deposits received (net)	(110)	6	28	(18)	(19)	(2)	(9)	...
Other financing (net)	(5)	...	...	2	(2)	...	...	...
Net Cash Flows from Financing Activities	(889)	2,686	(2,087)	(4,387)	(1,745)	(342)	(440)	(472)
Net Increase / (Decrease) in Cash Held	144	(163)	(536)	194	(218)	(184)	(70)	(37)
SURPLUS / (DEFICIT)								
Net Cash from Operating Activities and Investments in Non-financial Assets	48	(2,669)	1,872	1,542	1,455	331	35	625
Finance leases and similar arrangements	...	...	...	...	...	...	...	...
SURPLUS / (DEFICIT)	48	(2,669)	1,872	1,542	1,455	331	35	625
Impact of prepayment of superannuation	...	3,266	(1,005)	(1,058)	(1,134)	...	...	...
SURPLUS / (DEFICIT) (after adjusting for the prepayment of superannuation)	48	597	867	484	321	331	35	625

Notes:

(a) A positive number denotes a cash inflow, a negative (i.e. bracketed) sign denotes a cash outflow.

(b) Impacted by the introduction in 2000-01 of the Goods and Services Tax (GST) and the processing arrangements.

Table 9.14: NSW Public Non-financial Corporation Sector Cash Flow Statement^{(a) (b)} (ABS Basis)

	<i>Actual 1997-98 \$m</i>	<i>Actual 1998-99 \$m</i>	<i>Actual 1999-2000 \$m</i>	<i>Revised 2000-01 \$m</i>	<i>Budget 2001-02 \$m</i>
Cash Receipts from Operating Activities					
Receipts from sales of goods and services	9,078	8,679	9,617	10,705	9,573
Grants/subsidies received	1,612	1,763	1,844	1,837	1,740
Other receipts	953	1,005	1,258	1,986	2,084
Total Receipts	11,643	11,447	12,719	14,528	13,397
Cash Payments for Operating Activities					
Payment for goods and services	(7,386)	(7,462)	(8,383)	(9,572)	(8,088)
Grants and subsidies paid	(393)	(57)	(36)	(111)	(42)
Interest paid	(860)	(778)	(711)	(821)	(832)
Other payments	(362)	(318)	(251)	(1,629)	(1,603)
Total Payments	(9,001)	(8,615)	(9,381)	(12,133)	(10,565)
Net Cash Flows from Operating Activities	2,642	2,832	3,338	2,395	2,832
Net Cash Flows from Investments in Non-financial Assets					
Sales of non-financial assets	313	334	391	271	230
Purchases of non-financial assets	(1,702)	(2,038)	(2,867)	(2,573)	(2,937)
Net Cash Flows from Investments in Non-financial Assets	(1,389)	(1,704)	(2,476)	(2,302)	(2,707)
Net Cash Flows from Investments in Financial Financial Assets for Policy Purposes	...	14	4	24	8
Net Cash Flows from Investments in Assets for Liquidity Purposes	(31)	125	383	(49)	118

Table 9.14: NSW Public Non-financial Corporation Sector Cash Flow Statement^{(a) (b)} (ABS Basis) (cont)

	<i>Actual 1997-98 \$m</i>	<i>Actual 1998-99 \$m</i>	<i>Actual 1999-2000 \$m</i>	<i>Revised 2000-01 \$m</i>	<i>Budget 2001-02 \$m</i>
Net Cash Flows from Financing Activities					
Advances received (net)	(169)	(27)	(22)	(3,231)	(27)
Borrowing (net)	(141)	(212)	(109)	3,612	428
Deposits received (net)	1	1	1	(1)	1
Distributions paid	(1,153)	(913)	(829)	(809)	(730)
Other financing (net)	(43)	11	(33)	...	...
Net Cash Flows from Financing Activities	(1,505)	(1,140)	(992)	(429)	(328)
Net Increase / (Decrease) in Cash Held	(283)	127	257	(361)	(77)
SURPLUS / (DEFICIT)					
Net Cash from Operating Activities and Investments in Non-financial Assets	1,253	1,128	862	93	125
Distribution paid	(1,153)	(913)	(829)	(809)	(730)
Finance leases and similar arrangements	...	...	...	...	...
SURPLUS / (DEFICIT)	100	215	33	(716)	(605)
Reversing the impact of SOCOG and SPOC operations	259	(147)	(343)	389	30
SURPLUS / (DEFICIT) adjusted to exclude SOCOG & SPOC	359	68	(310)	(327)	(575)

Notes:

(a) A positive number denotes a cash inflow, a negative (i.e. bracketed) sign denotes a cash outflow.

(b) Refer to commentary earlier in this chapter on the impact of the 2000 Olympic and Paralympic Games on the results.

Table 9.15: NSW Non-financial Public Sector Cash Flow Statement^{(a) (b)} (ABS Basis)

	<i>Actual 1997-98</i>	<i>Actual 1998-99</i>	<i>Actual 1999-2000</i>	<i>Revised 2000-01</i>	<i>Budget 2001-02</i>
	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>
Cash Receipts from Operating Activities					
Taxes received ^(c)	12,066	13,575	14,545	12,430	11,458
Receipts from sales of goods and services	11,526	11,188	12,267	13,096	11,897
Grants/subsidies received ^(c)	9,537	10,333	11,027	14,744	16,182
Other receipts	2,286	2,364	2,932	3,935	4,108
Total Receipts	35,415	37,460	40,771	44,205	43,645
Cash Payments for Operating Activities					
Payment for goods and services	(25,610)	(30,566)	(28,653)	(30,398)	(29,027)
Grants and subsidies paid	(3,392)	(3,294)	(3,462)	(4,339)	(4,820)
Interest paid	(2,311)	(2,091)	(1,892)	(1,802)	(1,641)
Other payments	(573)	(272)	(293)	(2,279)	(2,218)
Total Payments	(31,886)	(36,223)	(34,300)	(38,818)	(37,706)
Net Cash Flows from Operating Activities	3,529	1,237	6,471	5,387	5,939
Net Cash Flows from Investments in Non-financial Assets					
Sales of non-financial assets	638	828	780	453	442
Purchases of non-financial assets	(4,108)	(4,504)	(5,368)	(5,056)	(5,533)
Net Cash Flows from Investments in Non-financial Assets	(3,470)	(3,676)	(4,588)	(4,603)	(5,091)
Net Cash Flows from Investments in Financial Assets for Policy Purposes	914	(22)	(88)	(6)	(20)
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	(88)	(52)	126	(241)	179

Table 9.15: NSW Non-financial Public Sector Cash Flow Statement^{(a) (b)} (ABS Basis) (cont)

	<i>Actual 1997-98 \$m</i>	<i>Actual 1998-99 \$m</i>	<i>Actual 1999-2000 \$m</i>	<i>Revised 2000-01 \$m</i>	<i>Budget 2001-02 \$m</i>
Net Cash Flows from Financing Activities					
Advances received (net)	(1,569)	(76)	(127)	(75)	(224)
Borrowing (net)	610	2,551	(2,091)	(657)	(1,059)
Deposits received (net)	(109)	7	29	(19)	(18)
Distributions paid	...	...	...	...	...
Other financing (net)	(33)	(11)	(14)	10	(13)
Net Cash Flows from Financing Activities	(1,101)	2,471	(2,203)	(741)	(1,314)
Net Increase / (Decrease) in Cash Held	(216)	(42)	(282)	(204)	(307)
SURPLUS / (DEFICIT)					
Net Cash from Operating Activities and Investments in Non-financial Assets	59	(2,439)	1,883	784	848
Distribution paid	...	...	...	...	...
Finance leases and similar arrangements	...	...	...	...	...
SURPLUS / (DEFICIT)	59	(2,439)	1,883	784	848
Impact of prepayment of superannuation	...	3,266	(1,005)	(1,058)	(1,134)
Impact of SOCOG and SPOC operations	42	(146)	(390)	290	...
SURPLUS / (DEFICIT) (after adjusting for the prepayment of superannuation and excluding SOCOG and SPOC operations)	101	681	488	16	(286)

Notes:

- (a) A positive number denotes a cash inflow, a negative (i.e. bracketed) sign denotes a cash outflow.
(b) Refer to commentary earlier in this chapter on the impact of the 2000 Olympic and Paralympic Games on the results.
(c) Impacted by the introduction in 2000-01 of the Goods and Services Tax (GST) and the processing arrangements.

Table 9.16: NSW General Government Sector Expenses by Function (ABS Basis)

	<i>Revised 2000-01 \$m</i>	<i>Budget 2001-02 \$m</i>
General public services	2,389	2,281
Defence	...	...
Public order and safety	2,907	2,917
Education	7,752	7,975
Health	6,855	7,096
Social security and welfare	2,138	2,261
Housing and community amenities ^(a)	1,366	1,447
Recreation and culture	1,073	738
Fuel and energy	78	64
Agriculture, forestry, fishing and hunting	491	579
Mining, manufacturing and construction	112	123
Transport and communications ^(a)	3,842	3,103
Other economic affairs	1,558	1,634
Other purposes	1,769	2,108
Total GFS Expenses	32,330	32,326

(a) 2000-01 estimate includes \$600 million assumption of HIH liability (\$70 million housing and \$530 million transport).

Table 9.17: NSW General Government Sector Taxes (ABS Basis)

	<i>Revised 2000-01 \$m</i>	<i>Budget 2001-02 \$m</i>
Taxes on employers' payroll and labour force	3,976	4,125
Taxes on property		
Land taxes	919	965
Stamp duties on financial and capital transactions	3,002	2,647
Financial institutions' transaction taxes	951	241
Other	50	50
Total taxes on property	4,922	3,903
Taxes on the provision of goods and services		
Excises and levies	...	...
Taxes on gambling	1,214	1,238
Taxes on insurance	1,002	1,156
Total taxes on the provision of goods and services	2,216	2,394
Taxes on use of goods and performance of activities		
Motor vehicle taxes	1,462	1,475
Franchise taxes	144	7
Other	275	187
Total taxes on use of goods and performance of activities	1,881	1,669
Total GFS Taxation Revenue	12,995	12,091

9.7 LOAN COUNCIL REPORTING REQUIREMENTS

Table 9.18 presents estimates of the State's Loan Council Allocation (LCA) for 2001-02.

As confirmed at the 1997 Loan Council meeting, States are to report their full contingent exposure to infrastructure projects with private sector involvement. Exposure is to be measured by the Government's termination liabilities and disclosed as a footnote to, rather than a component, of LCAs.

The 2001-02 New South Wales estimated Loan Council Allocation is a surplus of \$429 million.

Table 9.18: NSW 2001-02 Loan Council Allocation Estimates

	<i>Loan Council Allocation Bid 2001-02 \$m</i>	<i>Budget-time Estimate 2001-02 \$m</i>
General government sector cash deficit / (surplus)	(1,456)	(1,455)
Public Non-financial Corporations sector cash deficit / (surplus)	302	605
Non-financial public sector cash deficit / (surplus) ^(a)	(1,147)	(848)
Minus Net cash flows from investments in financial assets for policy purposes ^(b)	(22)	20
Plus Memorandum items ^(c)	320	399
Loan Council Allocation	(849)	(429)

Notes:

- (a) Does not directly equate to the sum of the General Government and PNFC cash deficits due to intersectoral transfers which are netted out.
- (b) This item is the negative of net advances paid under a cash accounting framework
- (c) Memorandum items are used to adjust the ABS deficit to include in LCAs certain transactions, such as operating leases, that have many of the characteristics of public sector borrowings but do not constitute formal borrowings. They are also used, where appropriate, to deduct from the ABS deficit certain transactions that Loan Council has agreed should not be included in LCAs — for example, the funding of more than employers' emerging costs under public sector superannuation schemes, or borrowings by entities such as statutory marketing authorities.

9.8 PRIVATE SECTOR INFRASTRUCTURE PROJECTS

CONTRACTS ENTERED INTO IN 2000-01

No contracts are expected to be signed in 2000-01.

CONTRACTS TO BE ENTERED INTO IN 2001-02

Cross City Tunnel

Project Description:

The Cross City Tunnel will comprise twin two-lane tunnels between the Kings Cross Tunnel and the Western Distributor, with connections to the Eastern Distributor.

Removing most east-west through-traffic from the City Centre will improve the local environment, will allow more bus priority (both east-west and north-south), will improve conditions for pedestrians, and will allow lanes to be marked for cyclists.

An Environmental Impact Statement was exhibited from 2 August to 6 October 2000. Approval of the project by the Minister for Urban Affairs and Planning is expected by August 2001.

Registrations of Interest closed on 23 October 2000. Eight applications were received. The review of applications is complete and a shortlist of 3 was announced on 28 February 2001. The shortlisted proponents are:

- ◆ Cross City Motorway Consortium - Boulderstone-Hornibrook Pty Limited/Bilfinger+Berger Bauaktiengesellschaft, Deutsche Bank AG;
- ◆ E-TUBE – Leighton Motorway Investment Pty Limited; and
- ◆ Sydney City Construction Consortium - Transfield Pty Limited/Multiplex Constructions Pty Limited.

Receipt of proposals is anticipated to close in mid to late 2001 and a contract should be awarded in early 2002.

A review of the announced cost, completed in December 2000, has confirmed the \$400 million concept cost estimate.

Government Contingent Liability

To Be Determined

APPENDIX A: GENERAL GOVERNMENT SECTOR ACCOUNTING FINANCIAL STATEMENTS

Refer Chapter 9 (Section 9.3) for an explanation of the differences in treatment and disclosure between the following financial statements which are prepared in accordance with Australian Accounting Standards, and the Accrual Uniform Presentation tables reported in Chapter 9 which follow the Government Finance Statistics convention.

Table A.1: General Government Sector Statement of Financial Performance

	1999-2000 <i>Actual</i>	2000-01 <i>Budget</i>	2000-01 <i>Revised</i>	2001-02 <i>Budget</i>	2002-03	2003-04 <i>Estimate</i>	2004-05
	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>
State Revenues							
Taxation	15,185	12,412	12,989	12,084	12,275	12,855	13,465
Commonwealth Grants	9,460	12,780	12,972	14,413	14,792	14,980	15,447
Financial Distributions	1,299	3,610	4,480	1,129	1,236	1,556	1,776
Fines, Regulatory Fees & Other	876	792	888	861	864	885	947
Total State Revenues	26,820	29,594	31,329	28,487	29,167	30,276	31,635
Operating Revenues							
Sale of Goods and Services	2,583	2,171	2,279	2,323	2,394	2,426	2,474
Investment Income	492	391	509	457	475	477	536
Grants and Contributions	422	421	506	325	299	314	314
Other	342	298	357	578	260	260	268
Total Operating Revenues	3,839	3,281	3,651	3,683	3,428	3,477	3,592
Expenses							
Employee Related							
- Superannuation	(1,173)	1,540	2,935	1,741	1,942	2,011	2,052
- Other	12,022	12,157	12,384	12,583	13,200	13,815	14,257
Other Operating	6,235	6,765	7,117	6,788	6,948	7,247	7,597
Maintenance	1,144	1,120	1,159	1,160	1,186	1,195	1,240
Depreciation and Amortisation	1,411	995	1,443	1,493	1,528	1,569	1,624
Current Grants and Subsidies	4,086	4,060	5,011	4,647	4,644	4,698	4,768
Capital Grants	970	1,252	1,476	1,399	1,433	1,537	1,462
Borrowing Costs	1,450	1,287	1,899	885	853	769	728
Total Expenses	26,145	29,176	33,424	30,696	31,734	32,841	33,728
Gain/(Loss) on Disposal of Non-Current Assets	(43)	(14)	19	(20)	34	4	6
Net Cost of Services	(22,349)	(25,909)	(29,754)	(27,033)	(28,272)	(29,360)	(30,130)
Operating Surplus	4,471	3,685	1,575	1,454	895	916	1,505

Table A.1: General Government Sector Statement of Financial Performance (cont)

	1999-2000 Actual \$m	2000-01 Budget \$m	2000-01 Revised \$m	2001-02 Budget \$m	2002-03 \$m	2003-04 Estimate \$m	2004-05 \$m
OTHER COMPREHENSIVE INCOME							
Increase in Accumulated Funds on Adoption of a New Standard							
- AAS 29 Financial Reporting By Government Departments, Initial recognition of certain collection assets	(192)	...	...	...	...	...	...
Increase in Accumulated Funds Arising From a UIG Transitional Provision							
- UIG 30 Changes in Depreciation Methodology for Road Infrastructure	(4,341)	...	...	...	...	...	...
Net Asset Valuation Increments	4,087	(6)	118	12	12	12	2
Total Revenues, Expenses and Valuation Adjustments Recognised Directly in Equity	(446)	(6)	118	12	12	12	2
Contributions by Owners Made to Wholly Owned Public Sector Agencies (Urgent Issues Group UIG 38)	15	...	(375)	...	...	...	...
Total Changes in Equity Resulting From Other Transactions	15	...	(375)	...	...	...	...
OTHER COMPREHENSIVE INCOME	(431)	(6)	(257)	12	12	12	2
Opening Balance Equity	37,164	41,202	41,204	42,522	43,988	44,895	45,823
Operating Surplus	4,471	3,685	1,575	1,454	895	916	1,505
Other Comprehensive Income	(431)	(6)	(257)	12	12	12	2
Closing Balance Equity	41,204	44,881	42,522	43,988	44,895	45,823	47,330

Table A.2: General Government Sector Statement of Financial Position 2000-2005, as at 30 June

	1999-2000	2000-01	2000-01	2001-02	2002-03	2003-04	2004-05
	Actual	Budget	Revised	Budget	Estimate		
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
ASSETS							
Current Assets							
Cash Assets	418	87	573	360	180	113	83
Receivables	2,151	1,657	1,919	1,822	1,905	2,073	2,228
Other Financial Assets	688	1,275	841	731	742	717	726
Inventories	145	144	147	149	158	162	162
Other	94	85	87	90	88	88	90
Total Current Assets	3,496	3,248	3,567	3,152	3,073	3,153	3,289
Non-Current Assets							
Receivables	2,708	3,032	2,479	2,566	2,656	2,784	2,937
Other Financial Assets	3,341	2,467	3,251	3,648	3,865	3,694	4,042
Inventories	68	34	35	38	33	31	35
Property, Plant and Equipment							
Land and Buildings	31,946	31,056	31,709	31,893	32,075	32,307	32,497
Plant and Equipment	4,110	4,402	4,129	4,203	4,199	4,106	4,238
Infrastructure Systems	27,956	30,885	28,579	29,129	29,661	30,294	30,788
Other	759	842	863	975	1,089	1,212	1,336
Total Non-Current Assets	70,888	72,718	71,045	72,452	73,578	74,428	75,873
Total Assets	74,384	75,966	74,612	75,604	76,651	77,581	79,162
LIABILITIES							
Current Liabilities							
Payables	1,516	1,320	1,262	1,192	1,206	1,201	1,220
Interest Bearing	4,165	2,868	2,560	2,643	2,503	583	2,359
Employee Entitlements and Other Provisions	2,167	1,932	1,787	2,688	2,733	2,766	2,749
Other	375	234	245	245	246	234	232
Total Current Liabilities	8,223	6,354	5,854	6,768	6,688	4,784	6,560
Non-Current Liabilities							
Interest Bearing	12,937	10,801	10,861	9,109	8,877	10,278	8,020
Employee Entitlements and Other Provisions	11,107	13,034	14,490	14,901	15,376	15,902	16,476
Other	913	896	885	838	815	794	776
Total Non-Current Liabilities	24,957	24,731	26,236	24,848	25,068	26,974	25,272
Total Liabilities	33,180	31,085	32,090	31,616	31,756	31,758	31,832
NET WORTH	41,204	44,881	42,522	43,988	44,895	45,823	47,330
Equity							
Asset Revaluation Reserves	14,982	11,022	15,063	15,067	15,073	15,079	15,074
Accumulated Funds	26,222	33,859	27,459	28,921	29,822	30,744	32,256
TOTAL EQUITY	41,204	44,881	42,522	43,988	44,895	45,823	47,330

Table A.3: General Government Sector Statement of Cash Flows

	1999-2000	2000-01	2000-01	2001-02	2002-03	2003-04	2004-05
	Actual	Budget	Revised	Budget	Estimate		
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Cash Flows from Operating Activities							
Receipts							
Taxation	15,192	12,456	13,040	12,088	12,288	12,860	13,474
Commonwealth Grants	9,460	12,780	12,972	14,413	14,792	14,980	15,447
Financial Distributions	1,509	1,112	1,249	1,073	1,002	1,120	1,307
Sale of Goods and Services	2,527	2,212	2,265	2,258	2,340	2,346	2,389
Investment Income	255	215	244	234	231	215	254
Other	1,203	1,810	2,138	1,893	1,867	1,917	1,988
Total Receipts	30,146	30,585	31,908	31,959	32,520	33,438	34,859
Payments							
Employee Related	(12,825)	(12,950)	(13,040)	(13,037)	(14,711)	(15,402)	(15,946)
Grants and Subsidies	(5,055)	(5,324)	(6,377)	(5,991)	(6,026)	(6,193)	(6,185)
Finance	(1,319)	(1,285)	(1,264)	(853)	(788)	(760)	(720)
Other	(7,234)	(7,996)	(7,852)	(8,472)	(8,608)	(8,843)	(9,182)
Total Payments	(26,433)	(27,555)	(28,533)	(28,353)	(30,133)	(31,198)	(32,033)
Net Cash Flows from Operating Activities	3,713	3,030	3,375	3,606	2,387	2,240	2,826
Cash Flows from Investing Activities							
Proceeds from Sale of Property, Plant and Equipment	329	408	157	218	333	164	180
Proceeds from Sale of Investments	602	315	395	353	205	654	106
Equity restructure	...	2,400	3,203	...	...	77	115
Advance Repayments Received	71	77	77	71	69	68	55
Purchases of Property, Plant & Equipment	(2,481)	(2,493)	(2,485)	(2,596)	(2,533)	(2,529)	(2,641)
Purchase of Investments	(622)	(198)	(310)	(118)	(200)	(199)	(181)
Advances Made	(91)	(38)	(33)	(14)	(14)	(14)	(14)
Other	(7)	(16)	(50)	...	...	...	...
Net Cash Flows from Investing Activities	(2,199)	455	954	(2,086)	(2,140)	(1,779)	(2,380)
Cash Flows from Financing Activities							
Proceeds from Borrowings and Advances	339	66	165	22	101	149	19
Repayments of Borrowings and Advances	(2,384)	(3,644)	(4,321)	(1,760)	(532)	(680)	(502)
Other	...	...	2	...	...	...	...
Net Cash Flows From Financing Activities	(2,045)	(3,578)	(4,154)	(1,738)	(431)	(531)	(483)
Net Increase/(Decrease) in Cash	(531)	(93)	175	(218)	(184)	(70)	(37)
Opening Cash and Cash Equivalents	915	162	384	561	343	159	89
Reclassification of Cash Equivalents	...	...	2	...	...	...	...
CLOSING CASH AND CASH EQUIVALENTS BALANCE	384	69	561	343	159	89	52

APPENDIX B: TAX EXPENDITURE AND CONCESSIONS STATEMENT

B.1: DETAILED ESTIMATES OF TAX EXPENDITURES

CONTRACTS AND CONVEYANCES DUTY

The benchmark is defined as the conveyance of property (whether residential or commercial) where a real change in beneficial ownership occurs. The benchmark tax rate is defined against marginal rates of tax varying from 1.25 to 5.5 percent.

Table B.1: Contracts and Conveyances Duty

<i>Major Tax Expenditures</i>	<i>1999-2000 \$m</i>	<i>2000-01 \$m</i>	<i>2001-02 \$m</i>
<p>First Home Purchase Scheme and First Home Plus</p> <p>Up to 1999-2000, first home buyers meeting certain (income and house price) eligibility criteria received a discount of 50 percent. From 1 July 2000, the First Home Plus scheme abolished the income criteria and introduced a full exemption up to certain property values, phasing out as the value increases. Group self-build schemes are also eligible.</p>	19.0	120.8	124.6
<p>Transfer of residences between spouses</p> <p>An exemption is granted for property conveyed between spouses or de facto partners, subject to the property being jointly held after transfer.</p>	4.5	9.9	9.9
<p>Transfers of matrimonial property consequent upon divorce</p> <p>An exemption is granted for conveyances between parties under the <i>Family Law Act 1975</i> (Cth) or partnership property under the <i>Property (Relationships) Act 1984</i>.</p>	12.0	25.5	26.1

Table B.1: Contracts and Conveyances Duty (cont)

<i>Major Tax Expenditures</i>	<i>1999-2000 \$m</i>	<i>2000-01 \$m</i>	<i>2001-02 \$m</i>
Intergenerational rural transfers			
An exemption is granted for transfers of rural land used for primary production between generations, and from 7 May 1997 between siblings, to facilitate young family members taking over family farms.	14.5	17.9	18.6
Property conveyed on behalf of benevolent institutions	4.1	3.9	3.7
Corporate reconstructions			
An exemption is given for corporate reconstructions provided certain qualifying criteria are satisfied. These criteria were relaxed from 11 November 1998.	223.7	557.2*	498.4
Transfer of property from companies and trusts to individuals			
Exemption for conveyances of a principal place of residence from a corporation or a special trust to certain individuals or conveyance of any land owned as at 31 December 1986 by a special trust from the trust to certain persons.	1.0	1.2	1.2
Property conveyed for poverty relief or education	n.a.	n.a.	n.a.

* Includes a number of large, irregular exemptions.

n.a. Not available

Minor Tax Expenditures (< \$1 million)

- ◆ A person who has sold his or her property to a local government council because the home was built on flood-prone land and has then purchased another home may pay duty on the contract by instalments over a five-year period.
- ◆ From 23 June 1999 a discount of 50 percent was offered to those participating in the (now discontinued) first home purchase instalment option, if they choose to pay the remaining instalments as a lump sum.
- ◆ Duty may be deferred for 'off the plan' purchases of real estate until completion of the sale or 12 months after the contract.
- ◆ Concessional duty of \$10 is payable for transfers of property within a managed investment scheme which falls within Chapter 5C of the Corporations Law.

- ◆ A credit of duty previously paid is applied to amalgamations of certain Western Lands leases.
- ◆ Concessional duty of \$10 is payable for transfers of poker machine permits where there is no change in beneficial ownership.

The following are exempt:

- ◆ conveyances back to a former bankrupt by trustee of his or her estate;
- ◆ transfers by way of mortgage or discharge of mortgage of old system titled properties;
- ◆ conveyances relating to the property of the 'notional estate' of a deceased person;
- ◆ certain purchases of manufactured relocatable homes (caravans);
- ◆ land resumed by operation of a Commonwealth Act where the Crown in right of the Commonwealth is the person upon whom liability of duty would otherwise be imposed. If land is subsequently transferred back to the person who was entitled to the land immediately before the resumption, the instrument of transfer is also exempted from duty provided that no compensation has been paid in respect of the resumption;
- ◆ conveyances where public hospitals are the liable party;
- ◆ instruments executed by or on behalf of a council or county council under the *Local Government Act 1993*;
- ◆ conveyances executed for the purpose of amalgamation or dissolution of clubs or the formation of a new club under Section 17A of 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;
- ◆ conveyances between associations of employees or employers registered under the *Industrial Relations Act 1988 (Cth)* for the purpose of amalgamation;
- ◆ NSW Aboriginal Land Council (ALC), Regional ALC, and Local ALC;

- ◆ conveyance of property between licensed insurers, and between the WorkCover Authority and licensed insurers, under the *Workers Compensation Acts of 1926 and 1987 (NSW)*;
- ◆ purchase of their principal place of residence by tenants of the Department of Housing, the Community Housing Program administered by the Department of Housing and the Aboriginal Housing Office;
- ◆ transfers of property made for the purpose of complying with the Commonwealth regulatory regime for managed investments, and other transfers by or as a consequence of a statute;
- ◆ transfers of property in a statutory trust as a result of an order under Section 66G of the *Conveyancing Act 1919*; and
- ◆ transfer of a liquor licence in certain circumstances under Sections 41, 42 or 61 of the *Liquor Act 1982*.

GENERAL INSURANCE

The benchmark is defined as all premiums for general insurance policies, except those for reinsurance (which is exempt because taxing reinsurance would amount to taxing the same risk twice). The benchmark tax rate is 11.5 percent of premium paid in 1999-2000 and, for premiums paid on or after 23 May 2000 for contracts or renewals that took effect on or after 1 October 2000, 10 percent of premium paid.

Table B.2: General Insurance

<i>Major Tax Expenditures</i>	<i>1999-2000 \$m</i>	<i>2000-01 \$m</i>	<i>2001-02 \$m</i>
Concessional rates for motor vehicle, aviation, disability income, occupational indemnity and crop and livestock insurance			
A concessional rate of 5 percent applies to a number of categories of insurance including motor vehicle (excluding compulsory third party (the 'green slip')), aviation, disability income and occupational indemnity. Crop and livestock insurance is taxed at 2.5 percent.	151.8	141.9	134.5
Exemption for third party motor vehicle personal injury insurance as per the <i>Motor Vehicle Act 1988</i>			
Third party motor vehicle personal injury insurance (the 'green slip') is exempt from stamp duty.	189.3	191.0	189.6

Table B.2: General Insurance (cont)

<i>Major Tax Expenditures</i>	<i>1999-2000 \$m</i>	<i>2000-01 \$m</i>	<i>2001-02 \$m</i>
Marine and cargo insurance			
Exemption for marine insurance covering hulls of commercial ships and the cargo carried by land, sea or by air.	11.6	11.7	11.7
HIH policyholders			
From 15 March 2001, for three months, policies taken out to replace policies formerly held with the voluntarily liquidated HIH Insurance are exempt from duty.	...	15	...

Minor Tax Expenditures (< \$1 million)

The following are exempt:

- ◆ insurance by non-profit charities, benevolent, philanthropic and patriotic organisations;
- ◆ insurance by Aboriginal Land Councils and non-commercial ventures of local councils;
- ◆ insurance covering mortgages acquired for issuing mortgage backed securities;
- ◆ separate policies covering loss by fire of labourer's tools;
- ◆ redundancy insurance in respect of housing that does not exceed \$124,000;
- ◆ insurance covering only property of the Crown.

LIFE INSURANCE

The benchmark is defined as all products (or part thereof) where the sum assured offered by life insurance companies provides for a payment in the event of death or injury from natural causes of the person insured or upon survival to a specified age. The benchmark tax rate is 10 cents per \$200 where the sum assured is less than \$2,000 and \$1 plus 20 cents per \$200 where the sum assured is greater than \$2,000.

Table B.3: Life Insurance

<i>Major Tax Expenditures</i>	<i>1999-2000 \$m</i>	<i>2000-01 \$m</i>	<i>2001-02 \$m</i>
Superannuation			
An exemption is granted to all superannuation other than that offered by life companies to an individual.	40.8	44.2	47.9
Annuities			
An exemption is provided to annuities.	10.0	11.0	12.0

MORTGAGE DUTY

The benchmark is defined as all secured loans that affect property in New South Wales. The benchmark tax rate is \$5 up to \$16,000 plus \$4.00 per \$1000 or part thereof on excess. Prior to 1 July 1998 Mortgage Duty was known as Loan Security Duty.

Table B.4: Mortgage Duty

<i>Major Tax Expenditures</i>	<i>1999-2000 \$m</i>	<i>2000-01 \$m</i>	<i>2001-02 \$m</i>
Refinanced loans where the borrower and the security for the loan remain the same			
A mortgage that secures the amount of the balance outstanding under an earlier mortgage granted for the same borrower over the same or substantially the same property is exempt. Any additional amount above the previously secured amount is liable for duty.	38.5	37.2	35.9
First home purchase mortgage covered by First Home Plus (or First Home Purchase Scheme)			
Mortgages given to assist the financing of a first home purchase eligible under the First Home Plus scheme (or before 1 July 2000 the First Home Purchase Scheme) are exempt from duty up to certain loan values, phasing out as value increases.	3.2	17.9	18.8
Additional advances up to \$10,000 in any 12 month period			
No duty is charged on additional loans secured under a mortgage if the additional loans do not exceed \$10,000 in any 12 month period, not being the 12 month period following the making of the initial loan.	1.0	1.0	1.0

Table B.4: Mortgage Duty (cont)

<i>Major Tax Expenditures</i>	<i>1999-2000</i> \$m	<i>2000-01</i> \$m	<i>2001-02</i> \$m
Mortgage-backed securities			
An exemption is given for financial institutions using pooled mortgages from their lending assets as security for borrowing funds.	n.a.	n.a.	n.a.
Loan-backed securities			
Securities issued backed by cash flow from loans (secured and unsecured) are exempted from duty.	n.a.	n.a.	n.a.
Fund raisings by finance companies through debenture issues			
A concession is given to companies whose sole or principal business is to provide finance to the public. Debentures issued, trust deeds and mortgages executed by "financial corporations" as defined in the legislation are not liable to duty. However, the trust deed is stamped as a Declaration of a Trust.	n.a.	n.a.	n.a.

Minor Tax Expenditures (< \$1 million)

A concession is provided for mortgages given by a custodian under a managed investment scheme.

The following are exempt:

- ◆ mortgages created solely for the purpose of providing security in accordance with a condition imposed on the grant of bail in criminal proceedings;
- ◆ mortgages securing amounts under a consumer credit contract, where the amount financed is \$35,000 or less;
- ◆ the refinancing of a loan following divorce or the break up of a de facto relationship;
- ◆ mortgages given by Federal or State/Territory governments or public statutory body;
- ◆ any loan security made or given to the WorkCover Authority;
- ◆ instruments executed by or on behalf of a council or county council under the *Local Government Act 1993*;
- ◆ loan security given for the relief of poverty and promotion of education;

- ◆ loan security given to institutions of charitable or benevolent nature, or for the promotion of the interest of Aborigines;
- ◆ NSW Aboriginal Land Council (ALC), Regional ALC and Local ALC;
- ◆ offshore banking units (as defined in the *Income Tax Assessment Act 1936 (Cth)*) where a loan is executed for offshore parties;
- ◆ tenants of the Department of Housing, the Aboriginal Housing Office or from the Community Housing Program who, in mortgaging the real property, obtain not less than 25 percent of the beneficial ownership of land and who intend to use the land as their principal place of residence;
- ◆ mortgages granted by a non-profit organisation in conjunction with a lease not subject to duty, the purpose of which is to provide accommodation to an aged or disabled person;
- ◆ mortgages by public hospitals;
- ◆ mortgage of liens under the *Liens on Crops and Wool and Stock Mortgage Act 1898*;
- ◆ 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;
- ◆ an instrument executed for the purpose of creating, issuing or marketing mortgage-backed securities; and
- ◆ mortgages by clearing houses of the Sydney Futures Exchange and Australian Options Market that do not secure an advance.

MARKETABLE SECURITIES DUTY

For 1999-2000 and 2000-01, the benchmark is defined as the turnover (sale price \times quantity traded) of shares traded on the Sydney operations of the Australian Stock Exchange (listed) or of shares of a company registered in New South Wales, with the exception of lending of shares, American Depository Shares (ADS) and American Depository Receipts (relating to ADS). The benchmark tax rate is 15 cents per \$100 or part thereof for both buyer and seller for on-market transactions; and 30 cents per \$100 or part thereof for off-market transactions in listed companies, and 60 cents per \$100 or part thereof for transactions in unlisted companies, with the purchaser paying all the duty for off-market transactions.

From 1 July 2001, marketable securities duty on the transfer of shares and securities quoted on the Australian Stock Exchange or a recognised stock exchange will be abolished as part of national tax reform.

Table B.5: Marketable Securities Duty

<i>Major Tax Expenditures</i>	<i>1999-2000 \$m</i>	<i>2000-01 \$m</i>	<i>2001-02 \$m</i>
Principal trading			
A concessional rate of duty of 0.25 cents per \$100 or part thereof applies to traders trading on their own behalf.	348.1	367.1	7.3
Papua New Guinea and New Zealand companies			
From 1 July 1998 concessional rate of duty of 0.25 cents per \$100 or part thereof applies to trading in securities of companies incorporated in Papua New Guinea or New Zealand.	5.5	6.1	<1

Minor Tax Expenditures (< \$1 million)

The following transfers are exempt:

- ◆ share buy-backs by NSW companies;
- ◆ mining companies whose operations relate solely to New South Wales;
- ◆ transfers to parties outside a marriage where the transfer is pursuant to an order of the Family Court of Australia;
- ◆ certain transfers of shares by superannuation funds to a Pooled Superannuation Fund;
- ◆ transfers to and from the benchmark Australian All Ordinaries Trust; and
- ◆ transfers of stocks to and from Stock Exchange Index Trusts.

MOTOR VEHICLE REGISTRATION DUTY

The benchmark taxable activity is defined as the purchase of a new vehicle and the subsequent transfer of the vehicle. The benchmark tax rate is \$3 per \$100 or part thereof of the value of the vehicle for vehicles valued to \$45,000. For vehicles valued at above this amount a marginal rate of tax of \$5 per \$100 or part thereof is applied to the value above \$45,000.

Table B.6: Motor Vehicle Registration Duty

<i>Major Tax Expenditures</i>	<i>1999-2000 \$m</i>	<i>2000-01 \$m</i>	<i>2001-02 \$m</i>
Local councils			
An exemption is granted for the transfer of registration into the name of a local council, not being for a trading undertaking.	5.1	5.2	5.0
Transfer of ownership after divorce or a breakdown of a defacto relationship			
An exemption is granted for the transfer of registration into the name of one of the parties to a divorce or separation in a de facto relationship.	1.2	1.3	1.2
Transfer of ownership of a deceased registered owner			
An exemption is granted for the transfer of registration to the legal personal representative of a deceased registered owner or the person beneficially entitled to the vehicle in his estate.	2.5	2.6	2.5
New demonstrator motor vehicle			
An exemption is granted for the registration of a motor vehicle to a licensed motor dealer or wholesaler under the <i>Motor Dealers Act 1974 (NSW)</i> .	23.5	24.2	23.0
Extreme Disablement Adjustment and other Disabled War Veterans			
An exemption is provided to war veterans in receipt of a totally and permanently incapacitated (TPI) pension. In November 1999 this was extended to veterans in receipt of an extreme disablement adjustment pension, an intermediate service pension or 70 percent or higher of the disability pension from the Department of Veterans Affairs.	3.6	3.7	3.6

Minor Tax Expenditures (< \$1 million)

The following are exempt:

- ◆ all vehicles registered by non-profit charitable, benevolent, philanthropic or patriotic organisations;
- ◆ vehicles specially constructed for ambulance or mine rescue work;
- ◆ conveyances weighing less than 250 kg used for transporting invalids;
- ◆ rural lands protection boards; and

- ◆ Aboriginal Land Councils within the meaning of the *Aboriginal Land Rights Act 1983 (NSW)*.

FINANCIAL INSTITUTIONS DUTY

For 1999-2000 and 2000-01, the benchmark is defined as all receipts to financial institutions except for receipts to internal and working accounts, clearing and settlement accounts. The benchmark tax rate is 0.06 percent, subject to a cap of \$1,200 per transaction. From 1 July 2001, Financial Institutions Duty will be abolished as part of national tax reform.

Table B.7: Financial Institutions Duty

<i>Major Tax Expenditures</i>	<i>1999-2000 \$m</i>	<i>2000-01 \$m</i>	<i>2001-02 \$m</i>
Non business activities of government departments			
Section 98A(1)(m) of the <i>Stamp Duties Act 1920</i> allows an exemption from FID for Departments of Commonwealth, State and Territory and Local Governments other than those departments whose sole or principal function is to carry on an activity in the nature of a business.	25-50	25-50	2-4
Direct crediting of social security and veteran affairs pensions			
The direct crediting of pensions from the Department of Social Security, extended from 1 July 2000 to include certain benefits associated with the New tax System, and the Department of Veteran Affairs are exempt from FID under section 98A(1)(ic) of the <i>Stamp Duties Act 1920</i> .	9.1	10.4	<1
Charitable, educational and religious bodies			
These bodies are exempt from FID under Section 98A(1)(z) of the <i>Stamp Duties Act 1920</i> .	2.9	3.0	<1
Public and non-profit hospitals			
These bodies are exempt from FID under Section 98A(1)(z) of the <i>Stamp Duties Act 1920</i> .	4.2	4.6	<1
Offshore Banking Units			
An exemption is provided in relation to offshore banking activity within the meaning of Section 121D of the <i>Income Tax Assessment Act 1936 (Cth)</i> .	n.a.	n.a.	n.a.

Minor Tax Expenditures (< \$1 million)

The following are exempt:

- ◆ payments to a farm management account as a result of the transfer by the Commonwealth Department of Agriculture, Forestry and Fisheries of an amount held in an income equalisation account or a farm management bond;
- ◆ centralised data processing operations of companies;
- ◆ receipts from the sale of goods other than under a credit contract, hiring arrangement or lease;
- ◆ initial receipt by a trustee company of the assets of a deceased person;
- ◆ licensed foreign exchange dealers;
- ◆ the initial issue of mortgage-backed securities;
- ◆ Association of Credit Unions Ltd, Association of Central Credit Unions Ltd and Co-operative Federation of NSW Ltd;
- ◆ duty paid under corresponding Act from another State;
- ◆ Aboriginal Land Councils;
- ◆ building society transfer of engagements and amalgamation;
- ◆ bill rollovers (reimbursement by a customer);
- ◆ home loan repayments by veterans;
- ◆ accounts of banks with other banks;
- ◆ transfers of receipts of workers compensation insurers;
- ◆ transfers between exempt accounts;
- ◆ deposits of trust money with the Australian Stock Exchange Ltd by members;
- ◆ Flemington Markets Commercial Services Co-operative Ltd (farm produce) and Newcastle Markets;
- ◆ scrip lending;
- ◆ account of Combined Financial Processing Pty Ltd;

- ◆ Australian Olympic Committee Incorporated and the New South Wales Olympic Council Incorporated in relation to the Sydney 2000 Games from 1 January 1996;
- ◆ Sydney Organising Committee for the Olympic Games and the Sydney Paralympic Organising Committee Ltd;
- ◆ amalgamation of credit unions, with effect from 20 November 1996;
- ◆ private charitable trusts from 29 March 1996;
- ◆ certain public trading enterprises and government businesses;
- ◆ direct credits of First Home Owner Scheme grants; and
- ◆ clearing or market settlement accounts of Transgrid, the International Air Transport Association, the ASX and ASX Clearing House Electronic Subregister System.

HIRING ARRANGEMENTS DUTY

The benchmark is defined as all short-term consumer hiring and other non-finance rentals greater than \$6,000 per month, and equipment financing arrangements, including hire purchase arrangements. The benchmark tax rate is 0.75 percent for equipment financing arrangements, and 1.5 percent for other hires, with a maximum of \$10,000 tax payable for any single arrangement. From 1 July 2001, the monthly duty free threshold for the hire of ordinary goods will be increased to \$14,000.

There are no major tax expenditures.

Minor Tax Expenditures (< \$1 million)

The following are exempt:

- ◆ prosthetic items;
- ◆ invalid aids;
- ◆ “wet hires” (where equipment is hired with an operator);
- ◆ motor vehicles subleased by an employee to an employer;
- ◆ gas, water and electricity meters;

- ◆ on-site caravans;
- ◆ arrangements between related bodies corporate;
- ◆ certain arrangements in relation to aircraft, ships and vessels;
- ◆ arrangements for the use of goods by a public hospital;
- ◆ a credit contract within the meaning of the Consumer Credit (New South Wales) Code;
- ◆ books;
- ◆ hire of goods as part of a franchise arrangement; and
- ◆ where the use of goods is incidental and ancillary to the provision of a service.

LEASE DUTY

In 1999-2000 and 2000-01, the benchmark is defined as any lease of property valued at greater than \$3,000 in New South Wales. From 1 July 2001, the threshold will be increased to \$20,000. The benchmark tax rate is 35 cents per \$100 of total rent. From 1 July 1998 the base has been restricted to leases of real property and franchise arrangements. Also from 1 July 2001, franchise agreements will be excluded from the duty base.

Table B.8: Lease Duty

<i>Major Tax Expenditures</i>	<i>1999-2000</i> \$m	<i>2000-01</i> \$m	<i>2001-02</i> \$m
Exemption for residential leases			
A residential lease under which a person has a right to occupy any premise as a place of residence for a term not exceeding five years is exempt.	5.2	5.5	<1

Minor Tax Expenditures (< \$1 million)

The following are exempt:

- ◆ leases on a movable dwelling site (essentially referring to sites in caravan parks and relocatable home parks);
- ◆ leases of accommodation for aged and disabled persons;
- ◆ leases executed by a public hospital;

- ◆ leases executed by an Aboriginal Land Council; and
- ◆ leases of premises to the Home Care Service of New South Wales.

PAYROLL TAX

The tax benchmark is defined as aggregate annual gross remuneration paid by a single or group taxpayer in excess of a threshold of \$600,000. The benchmark tax rate is 6.4 percent from 1 July 1999 to 31 December 2000 and 6.2 percent from 1 January 2001 to 30 June 2002.

Table B.9: Payroll Tax

<i>Major Tax Expenditures</i>	<i>1999-2000 \$m</i>	<i>2000-01 \$m</i>	<i>2001-02 \$m</i>
Public hospitals and Area Health Services			
An exemption is granted for remuneration paid by a public hospital or an area health service to a person while engaged in work of a kind ordinarily performed in connection with the conduct of these organisations.	283	301	308
Schools and colleges			
An exemption is granted for remuneration paid by a school or college (other than a technical school or a technical college) that is not for profit and which provides education at or below, but not above, the secondary level of education to a person while engaged in work of a kind ordinarily performed in connection with the conduct of these organisations.	56.6	62.2	64.9
Religious institutions			
An exemption is granted for remuneration paid by a religious institution to a person while engaged in work of a kind ordinarily performed in the conduct of these institutions.	6.7	7.2	7.5
Charitable institutions			
An exemption is granted for remuneration paid by a charitable, benevolent, philanthropic or patriotic institution (other than an instrumentality of the State) to a person while engaged in work of a charitable, benevolent, philanthropic or patriotic nature.	20.2	21.7	22.3

Table B.9: Payroll Tax (cont)

<i>Major Tax Expenditures</i>	<i>1999-2000 \$m</i>	<i>2000-01 \$m</i>	<i>2001-02 \$m</i>
Local councils			
An exemption is granted for remuneration paid by a council or county council, except in connection with a number of trading undertakings, including the operation of an abattoir or public food market, parking station, cemetery, crematorium, hostel, coal mine or transport service, the supply and distribution of coal and the supply of building materials.	101.5	107.7	110.4
Private hospitals and nursing homes			
An exemption is granted for remuneration paid by a non-profit hospital to a person in respect of time when the person is engaged in work of a kind ordinarily performed in connection with the conduct of hospitals.	8.8	9.4	9.6
Home Care Service			
From July 1998 an exemption has been provided for the salaries paid to employees of the Home Care Service.	7.7	7.9	8.0
Apprentices			
An exemption is provided for employees under the group apprenticeship scheme or a group traineeship scheme approved by the Department of Industrial Relations.	1.1	1.1	1.1
From 1 July 1999 employers of apprentices are only required to include in their calculations of 'taxable wages' 25 percent of wages paid to first year apprentices, 50 percent of the wages paid to second year apprentices and 75 percent of the wages paid to third year apprentices.	5.0	5.0	5.2
Certain Termination Payments			
Termination payments made in relation to leave accrued prior to 1 January 1990 are exempt from payroll tax.	<\$5m	<\$5m	<\$5m
Fringe benefits			
Payroll tax is applied to the pre-grossed-up value of fringe benefits, rather than the grossed-up value used in Commonwealth legislation to ensure wage/salary income and fringe benefits to employees receive similar income tax treatment.	80-90	80-90	80-90

Table B.9: Payroll Tax (cont)

<i>Major Tax Expenditures</i>	<i>1999-2000</i> \$m	<i>2000-01</i> \$m	<i>2001-02</i> \$m
Redundancy payments			
Redundancy payments that do not represent accrued benefits, lump sum superannuation and ex-gratia payments are not subject to payroll tax.	30-35	30-35	30-35

Minor Tax Expenditures (< \$1 million)

The following are exempt:

- ◆ wages paid to an employee who is on leave from employment by reason of service in the Defence Forces;
- ◆ wages paid to persons employed under the Community Development Employment Program administered by the Aboriginal and Torres Strait Islander Commission;
- ◆ wages paid by the Australian-American Educational Foundation;
- ◆ wages paid to members of the official staff by a consular or other non-diplomatic representative of another country or by a Trade Commissioner representing in Australia any other part of Her Majesty's dominions;
- ◆ wages paid by the Governor of the State;
- ◆ wages paid to employees while the employees are providing assistance to the State Emergency Services; and
- ◆ wages that are exempt from income tax under Section 23(z) of the *Income Tax Assessment Act 1936 (Cth)* being income derived by way of scholarship or other educational assistance received by a full-time student at a tertiary educational institution.

LAND TAX

The benchmark tax base for land tax is defined as the unimproved capital value of all land owned (as defined in the *Land Tax Management Act 1956 (NSW)*) at 31 December by a person or organisation other than the Commonwealth or NSW Governments which: (i) for owner-occupied residences, is above the threshold for principal places of residences for that year; (ii) for non-concessional companies and special trusts, the total aggregate land values; and (iii) for any other land owners, the aggregate land owned has an unimproved capital value above the threshold for that year. The benchmark tax rate is 1.7 percent for the 2000, 2001 and 2002 land tax years.

Table B.10: Land Tax

<i>Major Tax Expenditures</i>	<i>1999-2000</i> \$m	<i>2000-01</i> \$m	<i>2001-02</i> \$m
Boarding houses for low-income persons			
An exemption is granted for land used by boarding houses which meet approved guidelines, principally that the rent charged is less than the amount prescribed by the Office of State Revenue.	2.5	2.6	2.6
Land used for primary production			
An exemption is granted for land used for primary production. Hobby farms do not meet the requirement for land used for primary production and therefore do not fall within this exemption.	231.7	230.1	229.9
State-owned corporations and public trading enterprises			
Certain public trading enterprises are exempt from land tax.	47.5	49.9	52.4
Racing clubs			
An exemption is granted for land owned by or held in trust for any club for promoting or controlling horse-racing, trotting-racing or greyhound-racing which is used primarily for the purposes of the meetings of the above.	4.2	4.5	4.7
Employer and employee organisations			
An exemption is granted for land owned by or held in trust for employer and employee organisations for that part that it is not used for a commercial activity open to members of the public.	1.4	1.5	1.5

Table B.10: Land Tax (cont)

<i>Major Tax Expenditures</i>	<i>1999-2000 \$m</i>	<i>2000-01 \$m</i>	<i>2001-02 \$m</i>
Cooperatives			
An exemption is granted for land owned by a co-operative whose objectives are listed under the <i>Co-operatives Act 1992 (NSW)</i> and whose objectives are listed in Section 7 of that Act.	5.3	5.6	5.7
Public cemeteries and crematoriums			
An exemption is granted for any land used as a public cemetery or crematorium.	7.0	7.4	7.7
Retirement villages			
An exemption is given for land owned and used by retirement villages.	51.2	52.9	54.7
Child care centres			
An exemption is granted for land used as a residential child care centre licensed under the <i>Children (Care and Protection) Act 1987 (NSW)</i> or a school registered under the <i>Education Reform Act 1900 (NSW)</i> .	2.7	2.1	1.6
Public hospitals and Area Health Services			
An exemption is granted for land used by a public hospital or Area Health Service.	10.0	10.5	11.0
Early Payment Discount			
A discount of 1.5 percent on land tax payable is available where the taxpayer pays the whole amount within 30 days after issue of the notice of assessment.	4.0	5.4	5.4
Agricultural showgrounds			
An exemption is granted for land used and occupied for the purpose of holding agricultural shows, or shows of a like nature and owned by, or held in trust for, a society which is established for the purpose of holding such shows not for the pecuniary profit of its members and primarily uses its funds for the holding of such shows.	n.a.	n.a.	n.a.
Friendly societies			
An exemption is granted for any society registered under the <i>Friendly Societies Act 1989 (NSW)</i> .	n.a.	n.a.	n.a.
Religious societies			
An exemption is provided for land owned by or in a trust for a religious society if the society is carried on solely for religious, charitable or educational purposes.	n.a.	n.a.	n.a.

Table B.10: Land Tax (cont)

<i>Major Tax Expenditures</i>	<i>1999-2000</i> \$m	<i>2000-01</i> \$m	<i>2001-02</i> \$m
Non-profit societies, clubs and associations			
An exemption is provided where a building (or part thereof) is occupied by a society, club or association not carried on for pecuniary profit.	n.a.	n.a.	n.a.
Charitable and educational institutions			
An exemption is provided for land owned by or in a trust for a charitable or educational institution if the institution is carried on solely for charitable or educational purposes and not for pecuniary profit.	n.a.	n.a.	n.a.
Public gardens, recreation grounds and reserves			
An exemption is provided for land used as a public garden, public recreation ground or public reserve.	n.a.	n.a.	n.a.
Sporting clubs			
An exemption is provided for land owned by or in a trust for any club or body of persons where the land is used primarily for the purpose of a game or sport and not used for pecuniary profit of the members of that club or body.	n.a.	n.a.	n.a.
Sydney Light Rail			
An exemption is provided in respect of the land occupied by the Sydney Light Railway.	n.a.	n.a.	n.a.
Land owned and used by a local council	n.a.	n.a.	n.a.

Minor Tax Expenditures (< \$1 million)

- ◆ Concessions for land subject to heritage orders.

The following are exempt:

- ◆ low cost accommodation within 5 km of GPO;
- ◆ nursing homes;
- ◆ Marketing and Pastures Protection Boards;
- ◆ Aboriginal Land Councils;
- ◆ new rental residential accommodation for five years;

- ◆ bush fire victims;
- ◆ community land development;
- ◆ unoccupied flood-labile land;
- ◆ land used for maintaining endangered animals;
- ◆ land leased for use as a fire brigade, police, ambulance or mines rescue station; and
- ◆ land owned by RSL (NSW Branch), Anzac House.

DEBITS TAX

The benchmark is defined as all accounts with cheque drawing facilities. The benchmark rate of tax varies from 30 cents to \$4.00 per debit. Debits tax will be abolished from 1 January 2002, conditional on a guarantee from the Commonwealth Government that New South Wales will not be disadvantaged under the new Commonwealth-State financial arrangements.

Table B.11: Debits Tax

<i>Major Tax Expenditures</i>	<i>1999-2000 \$m</i>	<i>2000-01 \$m</i>	<i>2001-02 \$m</i>
Non-business activities of government departments			
The non-business activities of departments of Commonwealth, State and Territory and Local Governments are exempt.	10-20	10-20	6-12
Public benevolent and religious bodies			
Debits from cheque linked accounts of public benevolent, religious and non-profit bodies with a charitable purpose as defined under the Act are exempt. From February 2000 this exemption was extended to non-profit organisations having as one of their objects a charitable, benevolent, philanthropic or patriotic purpose.	2-4	2-4	1-2
Schools, colleges and non-profit making universities			
Debits from the cheque linked accounts of schools, colleges and non-profit universities as defined under the Act are exempt.	1-2	1-2	<1

Minor Tax Expenditures (< \$1 million)

The following are exempt:

- ◆ public and private hospitals as defined under the Act;
- ◆ named public trading enterprises and government businesses;
- ◆ foreign governments;
- ◆ Governor and Governor-General;
- ◆ debits for the payment of income tax on natural resources for non-residents (Section 221 YHZC(1A) of the *Income Tax Act (1936) (Cth)*);
- ◆ debits of Sydney Organising Committee for the Olympic Games and the Sydney Paralympic Organising Committee Ltd;
- ◆ the market settlements fund operated by Transgrid; and
- ◆ offshore banking units within the meaning of Section 121D of the *Income Tax Assessment Act 1936 (Cth)*.

VEHICLE WEIGHT TAX

The benchmark is defined as all vehicles intended for on-road use with the exception of Commonwealth Government vehicles, which for constitutional reasons cannot form part of the tax base. The benchmark tax rate is as defined in the *Motor Vehicles Taxation Act 1988 (NSW)* for private and business vehicles.

Table B.12: Vehicle Weight Tax

<i>Major Tax Expenditures</i>	<i>1999-2000</i> \$m	<i>2000-01</i> \$m	<i>2001-02</i> \$m
Selected social security recipients			
An exemption is granted in respect to any motor vehicle owned by holders of pensioner concession cards, Department of Veteran Affairs (DVA) TPI cards and DVA Gold War Widow's cards. The vehicle must be used by those pensioners substantially for non-business purposes.	92.0	96.1	101.0
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 percent of business rates for trucks, tractors and trailers.	16.1	16.8	17.7
Roadwork equipment – including local government			
An exemption is granted to any motor vehicle or plough, bulldozer, mechanical scoop or shovel, road grader, road roller or similar machinery that is owned by a local council within the meaning of the <i>Local Government Act 1993</i> and which is used for the purposes of road construction, road maintenance, road repair, removal of garbage or night soil, bush fire fighting, civil defence work or to any roller, lawn mower or similar machinery used solely or principally for the rolling or maintenance of tennis courts, cricket pitches, lawns or pathways.	4.4	4.6	4.9
Bush fire or civil defence work			
Any motor vehicle (other than Government owned) that is used for or in connection with civil defence work or in connection with fire fighting work is exempt from weight tax.	1.3	1.4	1.4
General purpose plant			
Concessions are provided for machines which cannot carry any load other than tools and accessories necessary for the operation of the vehicle.	4.3	4.5	4.8

Minor Tax Expenditures (< \$1 million)

- ◆ A concessional rate of 55 percent of business rates (or 30 percent if outside the Sydney metropolitan area, Newcastle or Wollongong districts) is applied to any motor vehicle which is used solely or principally as a tow truck.
- ◆ A concession is provided for mobile cranes.

- ◆ A concessional rate of tax is applied to any motor vehicle that is owned by a rural land protection board and is used solely for the carrying out of the functions of the board.

The following are exempt:

- ◆ all vehicles registered by non-profit charitable, benevolent, philanthropic or patriotic organisations;
- ◆ any motor vehicle that is used principally as an ambulance;
- ◆ motor vehicles that are designed for people with disabilities;
- ◆ motor vehicles used by the State Emergency Services; and
- ◆ any motor vehicle on which a trader's plate is being used in accordance with the *Traffic Act 1909 (NSW)* or the regulations under that Act.

DRIVERS' LICENCES

The benchmark is considered to be the licensing of all persons to drive a vehicle in New South Wales on public roads. The benchmark tax rates in 2000-2001 were \$35 for a one-year licence, \$85 for a three-year licence and \$115 for a five-year licence. From 1 July 2000 a new licensing scheme was implemented for new drivers – they are required to pass through three licensing stages before obtaining an unrestricted drivers' licence.

Table B.13: Drivers' Licences

<i>Major Tax Expenditures</i>	<i>1999-2000</i> \$m	<i>2000-01</i> \$m	<i>2001-02</i> \$m
Selected social security recipients			
An exemption is granted to any licence holder who also holds a pensioner concession card, Department of Veteran Affairs (DVA) TPI card, or DVA Gold War Widows Card and who can provide evidence that their income is below a certain level or can provide a DVA letter regarding their disability rate. The vehicle owned by the licence holder must be used substantially for social or domestic purposes.	38.3	33.5	15.3

VEHICLE TRANSFER FEES

The benchmark is considered to be all transfers of previously registered vehicles. From 1 February 1998 until 30 June 2000 the benchmark rate was \$40 for individuals and \$25 for motor dealers, established in the Motor Traffic Amendment (Fees and Charges) Regulation 1997. From 1 July 2000 the benchmark rate reverted to \$21 for all vehicles due to the operation of a sunset clause in the regulation.

Minor Tax Expenditures (< \$1 million)

The following are exempt:

- ◆ consignees;
- ◆ beneficiaries under wills;
- ◆ executors and administrators of deceased estates;
- ◆ vehicles awarded in court decisions;
- ◆ representatives of unincorporated organisations;
- ◆ adding/removing a trading name.

MOTOR VEHICLE REGISTRATION FEES

The benchmark is defined to be all vehicles intended for on-road use. The benchmark tax rate in 2000-01 was \$42 for most motor vehicles, \$152 for trucks with a mass of 5 tonnes or more and \$219 for articulated trucks. The \$46 fee, applicable from 1 February 1998 until 30 June 2000, reverted back to \$42 due to the operation of the sunset clause in the Motor Traffic Amendment (Fees and Charges) Regulation 1997.

Table B.14: Motor Vehicle Registration Fees

<i>Major Tax Expenditures</i>	<i>1999-2000</i>	<i>2000-01</i>	<i>2001-02</i>
	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>
Selected Social Security Recipients			
Holders of pensioner concession cards, Department of Veteran Affairs (DVA) TPI Cards, and DVA Gold War Widows Cards (based on income or based on disability pension rate) are exempt.	26.2	27.3	28.8

Minor Tax Expenditures (< \$1 million)

- ◆ Exemption for Mobile Disability Conveyance.

ACCOMMODATION LEVY

The benchmark is defined to be a levy equal to 10 percent of the value of accommodation provided by all commercial premises in the areas of the Sydney and North Sydney Central Business Districts described in the *Accommodation Levy Act 1997*. The tax commenced on 1 September 1997. From 1 July 2000 the tax was abolished as part of national tax reform.

Table B.15: Accommodation Levy

Major Tax Expenditures	1999-2000 \$m	2000-01 \$m	2001-02 \$m
Backpackers and Youth Hostel exemption			
Backpacker hostels and youth hostels are exempt from the levy.	1.2	<1	..

Minor Tax Expenditures (< \$1 million)

The following are exempt:

- ◆ accommodation provided by cruise ships while in Port Jackson;
- ◆ accommodation provided by a lodging or boarding house;
- ◆ residential accommodation provided by a club to persons who are full members of the club; and
- ◆ accommodation that exceeds 28 days.

GAMBLING AND BETTING TAXES

The only areas where a different tax treatment is provided to essentially the same activity are in respect of gaming machines in hotels and registered clubs and the taxation of totalisators operated by racing clubs. The benchmark for gaming machines in hotels and registered clubs is defined to be the rates of taxation applying to hotels. Tax rates for hotel and registered club gaming operations were reduced from 1 July 2000 to take account of the impact of the GST on gambling operators, as required under the Commonwealth-State agreement on national tax reform.

The benchmark for totalisators to 1 July 2000 was a tax rate of 28.2 percent of player loss. From 1 July 2000 this was reduced to a rate of 19.11 percent as part of national tax reform.

Table B.16: Gambling and Betting Taxes

<i>Major Tax Expenditures</i>	<i>1999-2000</i> \$m	<i>2000-01</i> \$m	<i>2001-02</i> \$m
Club gaming machines			
From 1 April 1997 hotels have been permitted to operate poker machines. Poker machines installed in clubs registered under the <i>Registered Clubs Act 1976</i> are taxed at lower rates than poker machines installed in hotels.	384.1	417.9	273.8
Central monitoring system fee concession			
From 1 July 2001 all gaming machines in hotels and clubs were required to connect to a central monitoring system. Small and less profitable clubs are to be provided with a concession on the fees which are payable to the licensee of the central monitoring system.	...	...	1.6

Minor Tax Expenditures (< \$1 million)

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

PARKING SPACE LEVY

In 1999-2000 the benchmark levy is defined as \$400 per space in the areas of Sydney CBD, North Sydney and Milsons Point.

From 1 July 2000, the benchmark was increased to \$800 per space in these areas. Additionally, a levy of \$400 was placed on parking spaces in the areas of Chatswood, Parramatta, St Leonards and Bondi Junction.

Table B.17: Parking Space Levy

<i>Major Tax Expenditures</i>	<i>1999-2000</i> <i>\$m</i>	<i>2000-01</i> <i>\$m</i>	<i>2001-02</i> <i>\$m</i>
Exempt spaces in all regions			
An exemption from the levy is granted to parking spaces for bicycles or motor bikes, parking of a motor vehicle by a person resident on the same premises, parking of a motor vehicle for the purpose of loading or unloading goods or passengers, parking of a vehicle by a person who is providing services on a casual basis, parking of a vehicle while a disabled person's parking authority is displayed, parking without charge of a motor vehicle on premises owned or occupied by the council of the local government area, parking without charge of a motor vehicle on premises owned or occupied by a religious body or religious organisation and the parking without charge of a motor vehicle on premises owned or occupied by a public charity or public benevolent institution.	3.5	6.1	6.6
Exempt parking spaces in the four new areas			
Parking spaces for customers attached to retail outlets, hotels, motels, clubs, restaurants and medical centres are exempt from the \$400 per space levy applied in the four new areas from 1 July 2000.	. .	3.2	3.5

B.2: DETAILED ESTIMATES OF CONCESSIONS

Details of concessions by function are shown below. Each concession is classified by type and a distinction is drawn between major concessions (\$1 million or more) and minor concessions (less than \$1 million).

Table B.18: Education

<i>Major Concessions</i>	<i>1999-2000 \$m</i>	<i>2000-01 \$m</i>	<i>2001-02 \$m</i>
TAFE concession for needy students			
Fees for TAFE courses are waived for students considered to be in need of financial assistance.	23.1	25.0	26.2
School transport subsidy scheme			
The State Rail Authority and State Transit Authority provide eligible students with free transport to and from school. (A similar subsidy to private transport operators is not included here, since it is an outlay from the public sector, and does not reduce public sector revenue.)	53.0	57.9	58.1

Table B.19: Health

<i>Major Concessions</i>	<i>1999-2000 \$m</i>	<i>2000-01 \$m</i>	<i>2001-02 \$m</i>
Ambulance service for pensioners			
Free transport by ambulance is provided for holders of pensioner health benefit cards.	70.4	71.4	73.2
Outpatient Pharmaceutical Scheme for Pensioners			
Free pharmaceuticals are provided for holders of pensioner health benefit cards.	2.1	2.2	2.2

Table B.20: Social Security and Welfare

<i>Major Concessions</i>	<i>1999-2000 \$m</i>	<i>2000-01 \$m</i>	<i>2001-02 \$m</i>
Pensioner Public Transport Concession Scheme			
Pensioners travel for less than full fare on public transport.	230.6	234.1	238.8

Table B.20: Social Security and Welfare (cont)

<i>Major Concessions</i>	<i>1999-2000 \$m</i>	<i>2000-01 \$m</i>	<i>2001-02 \$m</i>
Community Transport Scheme			
This Scheme addresses transport needs caused by location, isolation, passengers age, disability or factors relating to the time and/or cost of travel.	13.4	14.0	14.4
Community Interpreting and Translation Service			
The Community Relations Commission funds translation and interpreting services in criminal and family courts for holders of Pensioner Concession Cards.	3.5	3.6	3.8

Table B.21: Housing and Community Amenities

<i>Major Concessions</i>	<i>1999-2000 \$m</i>	<i>2000-01 \$m</i>	<i>2001-02 \$m</i>
Local council rates concession			
Local council rates are reduced by up to \$250 for holders of Pensioner Concession Cards.	70.9	71.5	72.0
Sydney Water Corporation Pensioner Rate Concession			
Holders of Pensioner Concession Cards receive a 50 percent discount on water rates and a special rate reduction to reduce the hardship associated with the move to a greater reliance on pricing.	61.0	62.0	62.5
Sydney Water Corporation Exempt Properties Concession			
Owners of properties which are used to provide non-profitable community services and amenities (principally local councils and charities) are exempt from the payment of water charges.	11.8	12.1	11.5
Hunter Water Corporation Water Rate Concession			
Holders of Pensioner Concession Cards receive a 50 percent discount on water rates.	7.5	7.5	7.4

Minor Concessions (< \$1 million)

- ◆ Blue Mountains septic pump-out service.
- ◆ Australian Inland Energy and Water – water rebates for pensioners.
- ◆ Hunter Water Corporation exempt properties concession.

Recreation and Culture

Minor Concessions (< \$1 million)

- ◆ Waterways Authority – concessional boat licence, registration and mooring fees for pensioners.
- ◆ Royal Botanic Gardens – concessional admission charges for pensioners and Seniors Cardholders for entry to the Tropical Centre, Mount Annan and Mount Tomah Botanic Gardens.
- ◆ National Parks and Wildlife Service – free day entry and 20 percent discount on annual passes for people holding pension concession and TPI cards.
- ◆ Historic Houses Trust – concessional admission charges for children and holders of seniors cards.
- ◆ Australian Museum – concessional admission charges for entry to special exhibitions for students, the unemployed and holders of pensioner health care cards, free general admission to seniors card holders, disadvantage school students, accompanying adults with school groups, Museum Society members and children under five years old.
- ◆ Powerhouse Museum – free entry for holders of Seniors cards and group supervisors, concessional membership fees for students, pensioners and the unemployed, free admission and reduced membership fee for schools for the disadvantaged, discount of \$30 on household membership for country residents and free or reduced charges for public program activities and free use of venue for meetings for community and charitable groups.

Table B.22: Fuel and Energy

<i>Major Concessions</i>	<i>1999-2000</i> \$m	<i>2000-01</i> \$m	<i>2001-02</i> \$m
Electricity concession			
The Department of Community Services funds a rebate for users of certain life support equipment and in emergencies to consumers in financial need. (For 1999-2000 and 2000-01 this item also includes energy rebates for eligible pensioners.)	61.5	63.1	9.7
Pensioner energy rebates			
Energy rebates for eligible pensioners will transfer to the Ministry of Energy and Utilities from the Department of Community Services from 1 July 2001.	...	...	66.5

Minor Concessions (< \$1 million)

- ◆ Sustainable Energy Development Authority rebates to purchasers of certain hot water systems.

Table B.23: Agriculture, Forestry and Fishing

<i>Major Concessions</i>	<i>1999-2000</i>	<i>2000-01</i>	<i>2001-02</i>
	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>
Recreational fishing fee concession			
Pensioners and children are exempt from the recreational fishing fee, applying from 23 March 2001, and before that the freshwater recreational fishing fee.	1.1	1.8	3.8

Minor Concessions (< \$1 million)

- ◆ State Forests provides pensioner discounts on firewood permits for the collection of firewood and discounts to charitable organisations on the purchase of Christmas trees.

APPENDIX C: CLASSIFICATION OF AGENCIES

Agency/Activity	ABS ¹ Category		Funding Category	
	General Government	Public Trading Enterprise ²	Budget Dependent	Non Budget Dependent
Aboriginal Affairs, Department of	•		•	
Aboriginal Housing Office	•			•
Advance Energy		•		•
Ageing, Disability and Home Care, Department of	•		•	
Agriculture, Department of	•		•	
Art Gallery of New South Wales	•		•	
Arts, Ministry for the	•		•	
Attorney General's Department	•		•	
Audit Office of NSW, The	•			•
Australian Inland Energy Water Infrastructure		•		•
Australian Museum	•		•	
Bicentennial Park Trust	•		•	
Board of Studies, Office of the	•		•	
Building and Construction Industry Long Service Payments Corporation	•			•
Cabinet Office	•		•	
Casino Control Authority	•		•	
Centennial Park and Moore Park Trust	•		•	
City West Housing Pty Ltd		•		•
Coal Compensation Board	•		•	
Cobar Water Board		•		•
Commission for Children and Young People	•		•	
Community Relations Commission	•		•	
Community Services Commission	•		•	
Community Services, Department of	•		•	
Corrective Services, Department of	•		•	
Crime Commission, New South Wales	•		•	
Crown Land Development		•		•
Crown Land Homesites		•		•
Crown Leaseholds	•		•	
Crown Property Portfolio	•			•
Crown Transactions	•		•	

¹ Australian Bureau of Statistics

² The Public Trading Enterprise or PTE sector is also referred to by the ABS as the Public Non Financial Corporations (PNFC) Sector.

Agency/Activity	ABS ¹ Category		Funding Category	
	General Government	Public Trading Enterprise ²	Budget Dependent	Non Budget Dependent
Delta Electricity		•		•
Eastern Creek Raceway	•			•
Education and Training, Department of	•		•	
Electricity Tariff Equalisation Ministerial Corporation	•			•
Energy and Utilities, Ministry of	•		•	
EnergyAustralia		•		•
Environment Protection Authority	•		•	
Environmental Planning and Assessment Act	•			•
Environmental Trust	•		•	
Eraring Energy		•		•
Fair Trading, Department of	•		•	
Film and Television Office, New South Wales	•		•	
Fire Brigades, New South Wales	•		•	
Fisheries, New South Wales	•		•	
Fish River Water Supply Authority		•		•
Freight Rail Corporation		•		•
Gaming and Racing, Department of	•		•	
Great Southern Energy		•		•
Health Care Complaints Commission	•		•	
Health, Department of (including Area Health Services, Ambulance Service of NSW, Corrections Health Service and New Children's Hospital)	•		•	
Heritage Office (including Heritage Conservation Fund)	•		•	
Historic Houses Trust of New South Wales	•		•	
Home Care Service of New South Wales	•		•	
Home Purchase Assistance Authority	•			•
Home Purchase Assistance Fund	•			•
Honeysuckle Development Corporation	•			•
Housing, Department of		•		•
Hunter Water Corporation		•		•
Independent Commission Against Corruption	•		•	
Independent Pricing and Regulatory Tribunal	•		•	
Industrial Relations, Department of	•		•	

¹ Australian Bureau of Statistics

² The Public Trading Enterprise or PTE sector is also referred to by the ABS as the Public Non Financial Corporations (PNFC) Sector.

Agency/Activity	ABS ¹ Category		Funding Category	
	General Government	Public Trading Enterprise ²	Budget Dependent	Non Budget Dependent
Information Technology and Management, Department of	•		•	
Insurance Ministerial Corporation, New South Wales	•			•
Integral Energy		•		•
Judicial Commission of New South Wales	•		•	
Juvenile Justice, Department of	•		•	
Land and Property Information New South Wales	•			•
Land and Water Conservation, Department of	•		•	
Landcom		•		•
Legal Aid Commission of New South Wales	•		•	
Legislature, The	•		•	
Local Government, Department of	•		•	
Lotteries Corporation, New South Wales		•		•
Luna Park Reserve Trust	•			•
Macquarie Generation		•		•
Mineral Resources, Department of	•		•	
Ministerial Development Corporation	•			•
Motor Accidents Authority	•			•
Museum of Applied Arts and Sciences	•		•	
National Parks and Wildlife Service	•		•	
Newcastle Port Corporation		•		•
NorthPower		•		•
Office of the Children's Guardian	•		•	
Office of the Co-ordinator General of Rail	•		•	
Olympic Co-ordination Authority	•		•	
Olympic Roads and Transport Authority	•		•	
Ombudsman's Office	•		•	
Pacific Power		•		•
Parliamentary Counsel's Office	•		•	
Parramatta Rail Link		•		•
Parramatta Stadium Trust		•		•
Police Integrity Commission	•		•	
Police, Ministry for	•		•	
Police Service, New South Wales	•		•	

¹ Australian Bureau of Statistics

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Agency/Activity	ABS ¹ Category		Funding Category	
	General Government	Public Trading Enterprise ²	Budget Dependent	Non Budget Dependent
Port Kembla Port Corporation		•		•
Premier's Department	•		•	
Public Prosecutions, Office of the Director of	•		•	
Public Trust Office - Administration	•			•
Public Works and Services, Office of the Minister for	•		•	
Public Works and Services, Department of	•			•
Rail Infrastructure Corporation		•		•
Registry of Births, Deaths and Marriages	•			•
Rental Bond Board	•			•
Roads and Traffic Authority	•		•	
Royal Botanic Gardens and Domain Trust	•		•	
Rural Assistance Authority	•		•	
Rural Fire Service, Department of	•		•	
Safe Food Production NSW	•			•
Sport and Recreation, Department of	•		•	
State and Regional Development, Department of	•		•	
State Electoral Office (includes Election Funding Authority of NSW)	•		•	
State Emergency Service	•		•	
State Forests of New South Wales		•		•
State Library of New South Wales	•		•	
State Rail Authority		•		•
State Records Authority	•		•	
State Sports Centre Trust	•			•
State Transit Authority		•		•
Stormwater Trust	•			•
Superannuation Administration Corporation	•			•
Sustainable Energy Development Authority	•		•	
Sydney Catchment Authority		•		•
Sydney Cricket and Sports Ground Trust		•		•
Sydney Harbour Foreshore Authority		•		•
Sydney Olympic Park Authority	•		•	
Sydney Opera House Trust		•		•

¹ Australian Bureau of Statistics

² The Public Trading Enterprise or PTE sector is also referred to by the ABS as the Public Non Financial Corporations (PNFC) Sector.

Agency/Activity	ABS ¹ Category		Funding Category	
	General Government	Public Trading Enterprise ²	Budget Dependent	Non Budget Dependent
Sydney Organising Committee for the Olympic Games		•		•
Sydney Paralympic Organising Committee Ltd		•		•
Sydney Ports Corporation		•		•
Sydney Water Corporation		•		•
Teacher Housing Authority of NSW		•		•
Tourism New South Wales	•		•	
TransGrid		•		•
Transport, Department of	•		•	
Treasury	•		•	
Urban Affairs and Planning, Department of	•		•	
Waste Planning and Management Fund	•			•
Waste Service NSW		•		•
Waterways Authority	•		•	
Wollongong Sports Ground Trust		•		•
Women, Department for	•		•	
WorkCover Authority	•			•
Workers Compensation (Dust Diseases) Board	•			•
Zoological Parks Board		•		•

Note 1: This table only includes those agencies which have had information collected directly from them for the Budget Papers. Other agencies not specifically listed may be incorporated within other agencies.

Note 2: The NSW Treasury Corporation, the Fair Trading Administration Corporation and the controlled FANMAC Trusts, all Public Financial Enterprises, provide data that is included in these Budget Papers.

¹ Australian Bureau of Statistics

² The Public Trading Enterprise or PTE sector is also referred to by the ABS as the Public Non Financial Corporations (PNFC) Sector.

APPENDIX D: 2000-01 BUDGET - SUMMARY OF VARIATIONS

<i>Category/Agency</i>	<i>Budget</i>	<i>Revised</i>	<i>Variation</i>	<i>Comment on Major Variations</i>
	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	
Taxation				
Stamp Duty -				
Contracts and conveyances	1,746	2,075	329	Higher than expected property market sales, including strong activity in high end of market, partly reflecting earlier turnaround of interest rates.
Share transfers	425	510	85	Higher sharemarket activity than assumed at budget time.
Insurance	384	423	39	Higher than anticipated premium increases.
Motor Vehicle registration	449	475	26	Higher than expected sales with lower vehicle prices following introduction of GST.
Leases	47	66	19	Increase in the number of variations of leases and strong rent growth in some market sectors.
Other duties	920	927	7	Minor variations.
Payroll Tax	3,931	3,976	45	Despite lower aggregate employment than assumed at budget time, employment in larger businesses above payroll tax threshold appears to have held fairly firm.
Debits Tax	331	317	-14	Declining use as preferred method of payment.
Commonwealth Safety Net Tax	118	137	19	Higher than anticipated lagged revenue following abolition from 1 July 2000.
Health Insurance Levy	63	91	28	Higher than anticipated membership growth following introduction of Lifetime Cover.
Other taxes	3,998	3,992	-6	Minor variations.
Total, Taxation	12,412	12,989	577	

<i>Category/Agency</i>	<i>Budget</i>	<i>Revised</i>	<i>Variation</i>	<i>Comment on Major Variations</i>
	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	
Commonwealth Grants				
First Home Owners grant	219	297	78	Increase represents higher than anticipated take up of offer and the introduction of the extra \$7000 offered by the Commonwealth for newly constructed homes.
Grant to pay GST administration cost to Australian Tax Office	274	335	61	Increase in numbers of clients resulting in substantial increases in key operational areas such as telephone enquiries and BAS.
Health Care grant	2,104	2,121	17	Revision of indexation factor.
National Health Development Fund	23	47	24	Payment of delayed 1999-2000 funding.
Education and Training	912	931	19	Additional grants for Indigenous Advancement and the Intervention Support program.
Other	9,248	9,241	-7	Minor variations.
Total Commonwealth grants	12,780	12,972	192	
Capital repatriations	2,400	3,203	803	Additional repatriations from Eraring Energy, Macquarie Generation and Delta Electricity.
Financial distributions	1,210	1,277	67	Mainly increased distributions from the energy sector.
Fines, Regulatory Fees and Other				
Crown Fines		71	71	Budget netted movements in fines receivables whereas projection grosses revenue and expense related to this item.
Drivers and Riders Licences	109	123	14	Stronger than anticipated take up of 5 year licences.
Olympic Foreign Exchange Gain	23	33	10	Favourable exchange rate movements.
Other	660	661	1	Minor variations.
Total Fines, Regulatory Fees and Other	792	888	96	
TOTAL STATE REVENUES	29,594	31,329	1,735	

<i>Category/Agency</i>	<i>Budget</i>	<i>Revised</i>	<i>Variation</i>	<i>Comment on Major Variations</i>
	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	
Sale of Goods and Services				
Patient fees and other hospital charges	440	492	52	Higher revenue including an increase in patients electing to be treated as chargeable patients.
Department of Veterans' Affairs	209	229	20	Revised payment arrangements.
Roads and Traffic Authority	144	167	23	Increase in work performed for external bodies.
Other	1,378	1,391	13	Minor variations.
Total Sale of Goods and Services	2,171	2,279	108	
Investment Income				
NSW Ministerial Insurance Corporation	129	217	88	Mainly capital gains on bond portfolio stemming from lower interest rates.
WorkCover Authority	8	17	9	Better than expected investment market conditions resulting in higher returns.
Other	254	275	21	Minor variations.
Total Investment Income	391	509	118	
Grants and Contributions				
Grants from SPOC/SOCO	79	119	40	Distribution of SPOC net assets to OCA and additional grants for Olympic/Paralympic transport services.
Transport		16	16	PTE contribution to costs of Integrated Transport Information service.
Other	342	371	29	Minor variations.
Other Grants and Contributions	421	506	85	
Other Operating revenue				
Olympic Co-ordination Authority	98	108	10	Budget netted Urban Domain expenses and revenues. Projection grosses up revenue and expenses.
Olympic Roads and Transport Authority	9	21	12	Sponsorship, bus hire to agencies and revenue from other major events.
Roads and Traffic Authority	36	45	9	Right to receive physical non-current assets.
WorkCover Authority	2	15	13	Distribution from the liquidation of an insurance company.
Other	153	168	15	Minor variations.
Total Other Operating revenue	298	357	59	
TOTAL OPERATING REVENUES	3,281	3,651	370	

<i>Category/Agency</i>	<i>Budget</i>	<i>Revised</i>	<i>Variation</i>	<i>Comment on Major Variations</i>
	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	
Expenses				
Crown Transactions Entity	2,816	5,756	2,940	Actuarial revision of superannuation, advances and receivables from PTE's forgiven, acceptance of PTE debt, payments to Australian Tax Office for GST administration costs and HIH Insurance costs.
Roads and Traffic Authority	1,173	1,629	456	Depreciation on roads and Road Safety program.
Department of Transport	1,828	2,150	322	Grants to SRA as part of the rail improvement and to offset revenue shortfalls, maintenance grants to RIC, additional expenses relating to the Integrated Transport Information Service, offset by lower redundancy costs for RSA and SRA.
Department of Education and Training	6,010	6,181	171	Teachers' salary award in excess of Budget provision, per capita grants to non-government schools, career change scheme for school teachers, maintenance costs of the information technology network and additional costs for Commonwealth funded programs (offset by Commonwealth grants).
Treasury	294	377	83	Higher First Home Owner Grants and external funding of the development work for electricity retail contestability.
NSW Insurance Ministerial Corporation	803	870	67	Revaluation of future claims costs following a change in interest rate discounts.
Department of Ageing and Disability and Home Care	763	828	65	Works originally budgeted as capital reclassified to expenses, disability services funded from increased Commonwealth revenue due to increase in demand, lag of expenses that were forecast to be incurred in 1999-2000 and increased depreciation.
Department of Health	7,019	7,070	51	Works originally budgeted as capital reclassified to expenses, additional expenses funded from Commonwealth revenue and internal revenue offset by lower superannuation costs.
Department of Community Services	574	610	36	Works originally budgeted as capital reclassified to expenses, increased numbers of children in foster care, staff for tele-service call centre, increase in crisis placement demand and increased depreciation.

<i>Category/Agency</i>	<i>Budget</i>	<i>Revised</i>	<i>Variation</i>	<i>Comment on Major Variations</i>
	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	
Olympic Roads and Transport Authority	190	264	74	Olympic allowance and transport costs.
Olympic Co-ordination Authority	361	415	54	Payment of SPOC dividend to Commonwealth, depreciation, urban domain expenses and additional expenses funded from capital savings.
NSW Police Service	1,338	1,366	28	Police officers salary award, depreciation, DNA testing.
Treasurers Advance	160		-160	Expenses included in agency data.
Other	5,847	5,908	61	Minor variations.
Total Expenses	29,176	33,424	4,248	
Gain/loss on disposal of non-current assets	-14	19	33	Lower indemnity payments for State bank and lower asset sales
Net Cost of Services	-25,909	-29,754	-3,845	
Valuation losses (gains)				
Capital repatriations	-2,400	-3,203	-803	Additional repatriations from Eraring Energy, Macquarie Generation and Delta Electricity.
Superannuation		1,289	1,289	Actuarial reassessment of superannuation liabilities (triennial review).
Debt acceptance etc		760	760	Acceptance of Eraring Energy debt and other PTE receivables forgiven.
Other	512	567	55	Minor variations.
Total Valuation losses (gains)	-1,888	-587	1,301	

<i>Category/Agency</i>	<i>Budget</i>	<i>Revised</i>	<i>Variation</i>	<i>Comment on Major Variations</i>
	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	
Capital expenditure				
Roads and Traffic Authority	902	977	75	Acceleration of M5 East and Yelgan to Chinderah works and fixed digital speed cameras.
Department of Education and Training	299	313	14	Expansion of minor works program.
Treasurer's Advance Account	40		-40	Capital expenditure included in agency data.
Deaprtment of Health	472	429	-43	Reclassified to expenses.
Department of Corrective Services	82	60	-22	Delays on obtaining development consent for new correctional facilities.
Sydney Harbour Foreshore Authority	21	7	-14	Reclassified to Public Trading Enterprise.
Olympic Co-ordination Authority	123	109	-14	Program savings.
Other	601	561	-40	Minor variations.
Total Capital expenditure	2,540	2,456	-84	
Depreciation	995	1,443	448	Mainly depreciation on roads.
Asset Sales and other	407	246	-161	Deferral of sales of Maritime Centre, Lidcombe Hospital and Crown Property Portfolio assets.
BUDGET RESULT	659	221	-438	

APPENDIX E: RECONCILIATION OF BUDGET AND PREVIOUS FORWARD ESTIMATES ON EXPENSES FOR 2001-02

	\$m
FORWARD ESTIMATE TOTAL 2001-02 EXPENSES	
AS SHOWN IN 2000-01 BUDGET	28,605
RTA depreciation (see page 2-23)	445
Transport grants (see page 2-24)	270
Superannuation (see page 2-24)	113
First Home Buyers' grants	114
Treasurer's Advance Account	90
Insurance claims	75
Payment to Australian Tax Office for GST administration	47
Education and Training:	
♦ Teachers pay agreement	37
♦ Per capita allowances - non-Government schools	19
♦ Maintenance of computer network	13
♦ Students with disruptive behaviour	11
♦ Building maintenance	10
♦ Career recognition of school administration staff	10
♦ Other expenses - Budget funding	11
♦ Other expenses - funded from additional revenue	18
Health:	
♦ Additional Commonwealth funding	30
♦ Expenses funded by additional internal revenue	45
Land and Water initiatives:	
♦ Base funding adjustment	22
♦ Water Management legislation	29
♦ Natural Heritage Trust	12
♦ Salinity strategy	10
Department of Information Technology and Management:	
♦ Forest Industry Structural Adjustment Package	44
♦ Online licensing	8
♦ Other expenses	14

	\$m
Other Agencies	
Increased Commonwealth-State Disability Agreement funding	33
Home and Community Care funding (Cwth and State)	26
Other ageing and disability initiatives	15
Energy pensioner rebate scheme	8
Other Community Services initiatives	21
Transfer of Fire control officers from local councils	12
Other Rural Fire Service initiatives	13
Petrol and alcohol subsidies	32
State Bank indemnities and post sale costs	34
Grants to Department of Housing for backlog maintenance	20
Department of Juvenile Justice - base funding adjustment	20
Greenhouse Gas Abatement program	16
Provision for natural disasters	18
Stormwater Trust grants	24
Waste planning	26
Provision for long service leave	21
National Parks & Wildlife initiatives	16
Grant to Zoological Park Board	10
Grant to Festival Development Corporation	10
Aboriginal Housing Office - gross up of expenses and revenues	12
CBD Asset Strategy	7
Escalation adjustment	25
Provision for doubtful debts	71
Other expenses	104
TOTAL EXPENSES 2001-02 BUDGET	30,696
