Budget Statement

2002-03

New South Wales

Budget Paper No. 2

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BUDGET OVERVIEW

This chapter summarises the 2002-03 Budget:

Section 1: fiscal outcomes for 2001-02; estimates for 2002-03 to 2005-06; the medium-term fiscal strategy.

Section 2: service delivery; new expenditure proposals in this Budget; the allocation of total expenses and asset acquisitions by policy area; concessions and tax expenditures.

Section 3: revenue sources; recent trends and new tax policy measures introduced in this Budget.

Section 4: trends in liabilities for both the general government sector and total state sector; improvements in the management of liabilities.

Section 5: an overview of the macroeconomic forecasts underlying the Budget estimates and other factors affecting budget outcomes.

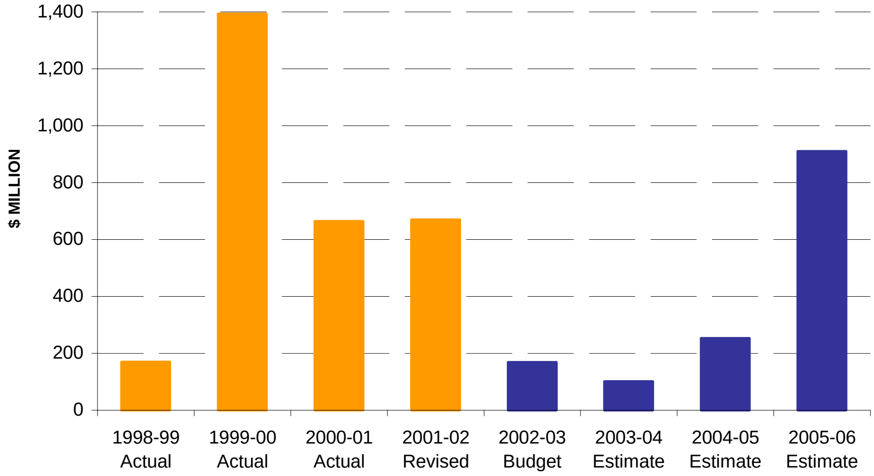
1. FISCAL POSITION, OUTLOOK AND STRATEGY

The Budget delivers a general government surplus of $168 million in 2002-03, surpluses in each of the forward years to 2005-06, and further reductions in net debt of the general government sector.

The expected budget result in 2002-03 continues the trend of surpluses in recent years (Chart 1). These surpluses have made possible the strengthening financial position of the Government, which has seen net financial liabilities of the general government sector decline from $32.6 billion in June 1995 (19.8 percent of gross state product) to an estimated $22 billion (8.8 percent of GSP) in June 2002. Net financial liabilities are estimated to decline further to $20.9 billion (6.7 percent of GSP) by June 2006 (Chart 2). The resultant lower finance costs combined with strong economic growth have enabled the Government to provide additional funding for key service areas.

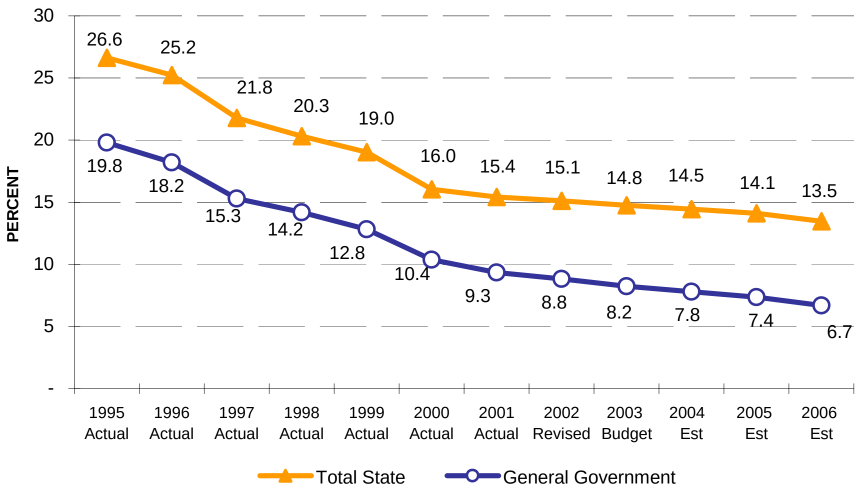
A surplus of $664 million was achieved in 2000-01. The revised surplus for 2001-02 is $670 million, which exceeds the budget estimate of $368 million. Above-budget revenue growth mainly due to a buoyant property market, combined with the impacts of improved debt levels, have allowed the Government to increase expenditure on health, education, transport and other priority areas, while delivering an above-budget surplus that will contribute to the further reduction of debt and other financial liabilities.

Chart 1: Budget Surplus (Net Lending), 1998-99 to 2005-06



SOURCE: Chapter 8, Table 8.9.

Chart 2: Net Financial Liabilities as a Percentage of Gross State Product at 30 June, 1995 to 2006



SOURCES: Net financial liabilities from Chapter 4, Table 4.1. GSP from ABS (actual) and NSW Treasury (estimates from 2001-02).

The 2002-03 Budget, however, does not rely on a continuation of the present levels of activity in the notoriously volatile Sydney property market. In 2002-03 a projected slowdown in revenue growth, along with the continuation and expansion of the taxation reduction program commenced in 1998-99, will result in a more modest budget surplus of $168 million.

Within these parameters, the Government has still allowed for additional expenditure on public order and safety, education, health, community services and transport services, and continued to reduce the levels of debt and other liabilities. Assuming a continuation of existing policies, surpluses are expected to remain modest in 2003-04 and 2004-05 before rising in 2005-06.

This Budget is framed within a fiscal strategy that aims to:

- ***improve service delivery in key priority areas;***
- ***strengthen the State's balance sheet and maintain New South Wales' AAA credit rating in order to enhance the sustainability of service delivery; and***
- ***continue and expand the Government's tax reduction program.***

The fiscal strategy is directed towards achieving and maintaining fiscal sustainability. A "sustainable" fiscal position means that a sharp economic downturn or other fiscal shock will not force the Government to cut spending or increase taxes dramatically in order to manage its debt and other liabilities.

Fiscal sustainability is underpinned by a strong balance sheet. Being in a fiscally sustainable position helps the Government to ensure continuity of service provision throughout the economic cycle. Although revenue growth is sensitive to the economic climate, service delivery demands at the State government level tend not to be. A strong balance sheet will also provide the Government with the financial flexibility to respond to short-term cyclical fluctuations, unanticipated shocks and long-term pressures on the Budget.

The growth in both revenues and expenses are expected to be less than GSP growth in 2002-03, but will accelerate in the forward years in line with economic parameters (Chart 3).

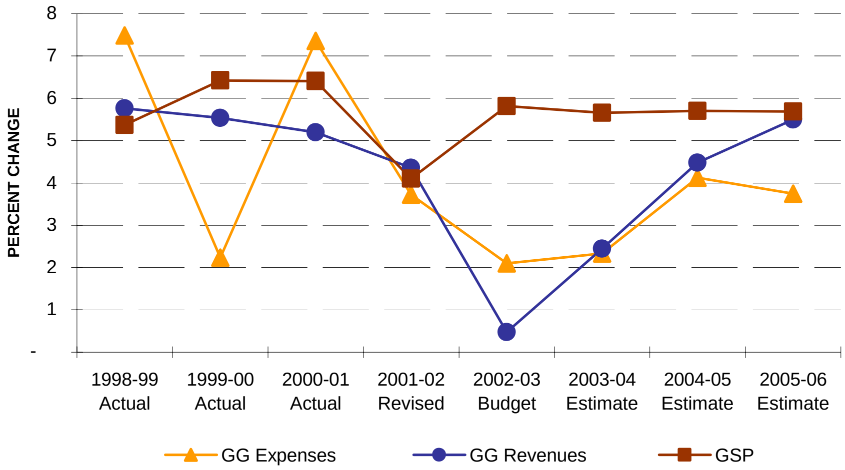
The ratio of revenues and expenses to GSP have been fairly stable in recent years, averaging 13.5 percent and 12.8 percent, respectively, in the four years to 2001-02. On current estimates, these ratios are expected to decline over the four years to 2005-06 (Table 1).

Table 1: GFS Expenses and Revenues (Percent of GSP)

	1997-98 Actual	1998-99 Actual	1999-00 Actual	2000-01 Actual	2001-02 Revised	2002-03 Budget	2003-04 Est	2004-05 Est	2005-06 Est
Revenues	13.6	13.7	13.5	13.4	13.4	12.7	12.4	12.2	12.2
Expenses	12.9	13.1	12.6	12.7	12.7	12.2	11.9	11.7	11.5

SOURCE: Chapter 1 for revenues and expenses from 2000-01. GSP data from ABS (actual) and NSW Treasury (estimates from 2001-02).

Chart 3: Nominal Growth in General Government Revenues, Expenses and Gross State Product, 1998-99 to 2005-06

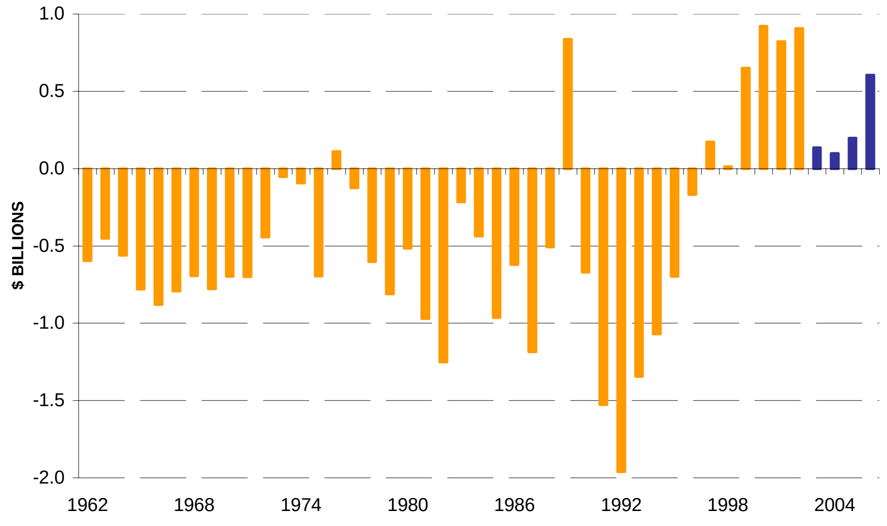


SOURCE: Chapter 1, Table 1.2 for estimates from 2000-01.

Fiscal outcomes are on track, with surpluses of $2.9 billion generated in the four years to 2001-02. In this Budget, estimated surpluses total $1.4 billion in the four years to 2005-06. More modest surpluses in the next three years are consistent with the medium-term fiscal strategy.

To put the forward estimates in perspective, Chart 4 shows underlying cash budget outcomes since 1962.

Chart 4: Underlying Cash Result, General Government Sector 1961-62 to 2005-06 (at constant 2002-03 prices)



NOTES: For comparability with prior years, estimates for 2002-03 to 2005-06 exclude the impact of the new Liability Management Fund (see Chapter 4). Estimates for 2000-01 onwards are from Chapter 1, Table 1.4.

The *General Government Debt Elimination Act 1995* provides the legislative underpinning for the fiscal strategy, and targets a sustainable level of net debt by 2005 and zero net debt by 2020. A review of the Act, completed in December 2001, concluded that the policy objectives and terms of the Act remain valid. However, legislative amendments are being introduced with this Budget to more clearly specify the fiscal principles in the Act.

Chapter 1 of this Budget Paper summarises progress against the principles and targets in the Act (Table 1.1), and describes the legislative amendments arising from the review of the Act.

Successive surpluses, asset sales, and capital repatriations from public trading enterprises have reduced general government net debt from $12 billion or 7.3 percent of GSP in June 1995 to $4.9 billion or 2.0 percent of GSP in June 2002. Over the same period, net unfunded superannuation liabilities of the general government sector have declined from $12 billion to $10 billion.

Net financial liabilities of the general government sector have dropped from $32.6 billion or 19.8 percent of GSP in June 1995 to $22 billion or 8.8 percent of GSP in June 2002. Total state sector net financial liabilities stand at $37.7 billion or 15.1 percent of GSP in June 2002, down from $43.8 billion or 26.6 percent of GSP seven years ago.

New South Wales' fiscal fundamentals remain strong, with international credit rating agencies again reaffirming this State's AAA domestic debt rating in 2001-02. The State is well positioned for a period of weaker revenue growth as anticipated in this Budget.

Surpluses in the four years to 2005-06, and initiatives in financial liability management, provide scope to achieve the Government's medium term fiscal target of a sustainable level of net debt by 2005 or earlier. On current policy settings, general government net debt will decline in 2002-03, and subsequent further reductions will lead to net debt of $3.9 billion or 1.3 percent of GSP (excluding the impact of the new Liability Management Fund, which would reduce net debt further) in June 2005. This is the medium-term target date under the *General Government Debt Elimination Act*. At that date, general government sector net financial liabilities are projected to be $21.7 billion or 7.4 percent of GSP.

Chapter 1 provides more detail on the fiscal strategy, fiscal position and outlook for this Budget. Chapter 8 provides detailed historical data from 1997-98 and estimates for the forward years for the general government and public trading enterprise sectors on an ABS government finance statistics (GFS) basis. Chapter 8 also outlines the differences between GFS reporting and Australian Accounting Standards.

The fiscal aggregates are founded on a financial management framework for, among other things, managing the budgetary process and identifying sources of financial risk. Chapter 4 outlines measures relating to aggregate financial risk management, and Budget Paper No. 3 discusses elements of the financial management framework that aid in identifying and managing agency-level financial risk for general government sector agencies.

2. SERVICE DELIVERY

The Government has committed in this Budget $32.3 billion of expenses, $3 billion for capital investment by the general government sector, and $3.4 billion for concessions and tax expenditures.

The services and programs delivered by this Budget are designed to meet the Government's strategic objectives of:

- investment and job promotion;
- responding to the requirements of rural and regional communities;
- building strong, healthy, safe and well-educated communities;

- balancing the environment and the economy;
- supporting families, children and the disadvantaged;
- improving the safety and reliability of public transport services; and
- maintaining and modernising the State's infrastructure.

General government expenses will increase by 2.1 percent in 2002-03, and by an average 3.4 percent per annum over the three forward estimate years.

Table 2 provides a disaggregation of total expenses in this Budget and historical data from 1998-99.

Table 2: General Government Total Expenses, 1998-99 to 2005-06 ($ Billions)

	1998-99 Actual	*1999-00 Actual*	*2000-01 Actual*	*2001-02 Revised*	*2002-03 Budget*	*2003-04 Est*	*2004-05 Est*	*2005-06 Est*
Employee-related	13.3	13.5	14.0	14.6	15.4	16.2	16.9	17.7
Maintenance, other operating	7.1	7.1	7.6	8.1	8.4	8.6	9.0	9.3
Grants & subsidies	5.1	5.1	6.7	6.8	6.4	6.1	6.3	6.4
Finance, Depreciation, Other	2.4	2.7	2.3	2.2	2.2	2.2	2.2	2.3
TOTAL EXPENSES[(a)]	**27.8**	**28.4**	**30.5**	**31.7**	**32.3**	**33.1**	**34.5**	**35.7**
Growth %	7.5	2.2	7.4	3.7	2.1	2.3	4.1	3.7
Nominal GSP growth %	5.4	6.4	6.4	4.1	5.8	5.7	5.7	5.7

(a) Components may not add up to totals due to rounding.

SOURCE: Chapter 1, Table 1.2 for estimates from 2000-01.

New or significant activities that are funded by total expenses of $32.3 billion in this Budget include the following (unless otherwise specified, amounts refer to funding provided in 2002-03). Details are in Chapter 2 and Budget Paper No. 3.

- *Education:* enhanced information and communication technology services in schools and TAFE ($250 million over four years, with total recurrent spending on technology amounting to $823 million over four years); improving the quality of teaching in government schools and ensuring an adequate supply of teachers in key learning areas ($88.5 million over four years) and targeted funding to government schools to meet specific needs at the local level ($50 million over four years), including the 'priority action schools' program and a pilot program of reduced class sizes in designated schools in Kindergarten to Year 3, to be independently evaluated and monitored.

- *Public Order and Safety*: Police expenses of $1.7 billion (an increase of 8.5 percent) mainly to fund previous commitments, such as increasing the number of front line police by 2,110 over the four years to December 2003 including the employment of an extra 1,000 officers, and the final stage of the civilianisation program to release police to the front line. An additional $17.3 million will be provided to the Department of Corrective Services to accommodate additional inmates as a result of the decision to tighten bail conditions. The Probation and Parole Service will receive an additional $5.1 million for the management of offenders in the community.

- *Health*: as a result of Health's recurrent growth funding formula, an additional $237 million has been provided in 2002-03 (relative to 1999-2000) to support increasing demands upon health services. Systems reform funding of $65 million per annum, major enhancements of over $110 million approved in the 2002-03 Budget and this growth fund allocation have resulted in the Government exceeding its $8.1 billion recurrent health expenditure target for 2002-03 by around $240 million.

  This Budget includes additional funding of $16 million for oral health services, providing for an extra 4,000 denture services to older persons and new funding for Aboriginal oral health care; $35 million for rural health initiatives; funding for mental health services with the provision of an extra 226 beds; $10 million to the NSW Ambulance Service to implement operational reforms; $8 million to fund the implementation of a Universal Newborn Hearing Screening program; and $38 million for Drug Summit Government Plan of Action projects.

- *Social Welfare Services*: this Budget provides $33.9 million for increases in the cost of programs affected by the Social and Community Services (State) Award, including 24-hour day services for community-based accommodation for people with a disability, supported accommodation assistance, and the Home and Community Care (HACC) Program; $12.3 million for foster care allowances and support; and $17 million for expansion of the Adult Training, Learning and Sport (ATLAS) program. Growth funding provided for HACC this year is $28.4 million.

- *Housing and Water*: public, community and Aboriginal housing providers will receive $231.5 million to expand housing supply by 1,945 dwellings, and $244 million to improve older stock and bring more than 60,000 dwellings to a contemporary standard. A wide range of new housing assistance products and services for vulnerable families will be introduced over the next three years (costing $11.1 million in 2002-03) to reform and strengthen the social housing system. Also, $56.4 million will fund the delivery of backlog water supply and sewerage projects in country towns.

♦ *Environment*: continued commitment to conservation and environmental protection is demonstrated by expansion of national parks and reserves and new projects to improve park facilities, with a total of $281.7 million to be spent by the National Parks and Wildlife Service. In addition, $51.5 million will be available for waste minimisation and management.

♦ *Transport*: this Budget continues a step-up in rail funding of $1 billion over four years, commencing last year. Major works for 2002-03 include $188 million for new passenger rolling stock, $118 million for additional track and train maintenance, and $30 million for signalling and other safety works. An additional $80 million per year will be provided for non-metropolitan track maintenance commencing in 2002-03, and $82 million for the Parramatta Rail Link as part of total spending of $222 million on this project in 2002-03. Funding for roads includes $40.5 million for traffic incident management and $65 million for M4/M5 Cashback Scheme payments.

♦ *Information technology (IT) improvements and enhanced asset management programs, funded from expenses or asset acquisitions*. New IT activities vary in scale and cost. Most of these aim to improve user access to information, upgrade or digitise data bases, or enhance data processing capability for service delivery (eg, client profiling, geographical information systems) or regulatory (eg, licensing and registration) purposes.

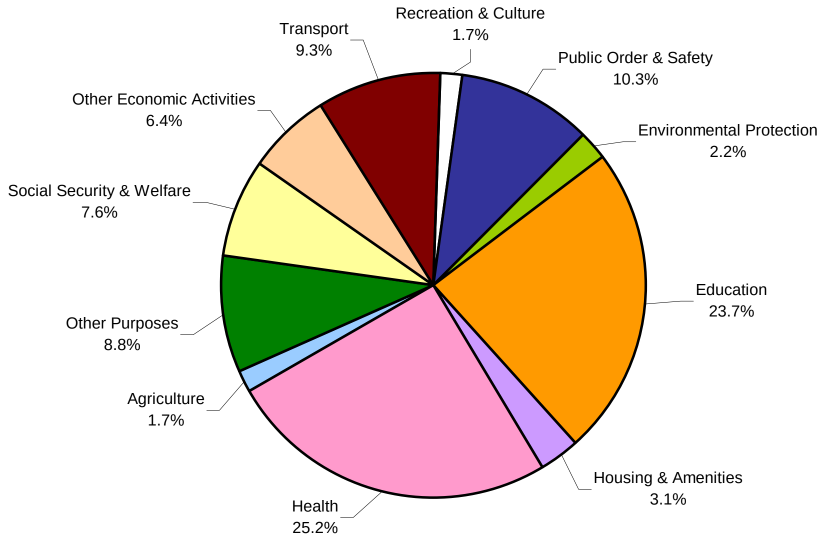
  Examples include $12 million for the *connect.nsw* program; $8 million for online business licensing; and electronic information systems improvements for various portfolios (eg, land and water conservation $4.4 million, national parks $1.8 million, and most of the asset acquisitions for land and property information $14.2 million). Some IT initiatives entail the development of centralised information systems to service multiple portfolios (eg, $4.6 million for the Courts Administration System).

  Asset management initiatives include enhanced cyclic maintenance and activities to reduce risk in procurement and contracting for capital works (eg, $5.8 million for the Office of the Minister for Public Works and Services for procurement risk management and total asset management activities).

Health, education, public order and safety, and social security and welfare comprise about two-thirds of total expenses in 2002-03 (Chart 5).

Chapter 1 provides more information on recent trends, the outlook for aggregate expenses and a review of expenses impacting government service delivery in total, e.g. insurance. Chapter 2 provides details of expenses for 2002-03 by policy area, and Budget Paper No. 3 by agency.

Chart 5: General Government Total Expenses by Policy Area, 2002-03



Total = $32,335 million

SOURCE: Chapter 2.

General government sector capital spending of $3.0 billion in 2002-03 focuses on modernising and upgrading the State's infrastructure, and provides $362 million for the first-year cost of new capital works with a total project cost of $1.1 billion.

New and significant capital works funded in this Budget include the following (unless otherwise specified, amounts refer to funding provided in 2002-03):

- *Education*: for schools, an asset acquisition program of $300 million (16.5 percent more than last year) as part of the Schools Improvement package announced in last year's budget ($1.1 billion over four years). Over the four-year period the package will provide more than 30 primary and high schools and improvements to facilities for students, teachers and the community.

  This year's program will provide for commencement of 41 major new works projects at an estimated total cost of $140 million, including various upgradings, replacement of demountable classrooms with permanent facilities, libraries, school halls and gymnasiums. In addition there will be major enhancements in information technology infrastructure, with a total value of $100 million.

The Government has also sought proposals from the private sector to undertake, under a Privately Financed Project (PFP) arrangement, the financing, delivery and maintenance of nine new schools in urban release areas of the State. Provision has also been made for some works as part of the proposed revitalisation of schools in the inner Sydney area.

For TAFE services, $72 million will be available to commence 27 major new works projects, including new facilities at Albury, Cootamundra, Shellharbour and Wyong. Construction will continue on a number of projects in both metropolitan and regional colleges commenced in previous years.

- *Transport*: the capital program provides funds averaging $160 million per year for continued upgrading of the Pacific Highway, $63 million to continue the major upgrade of Windsor/Old Windsor Roads, $61.6 million to construct the Western Sydney Orbital Link, $80.8 million for the Liverpool to Parramatta Transitway, $30 million for the North Kiama Bypass, $36.3 million for major upgrading of Cowpasture and Hoxton Park Roads, and $12.8 million to continue priority works to improve rail access for freight to Port Botany and through Southern Sydney.

- *Health*: the long-term funding arrangements for Health's capital works program introduced in 2001-02 have been extended to 2005-06 within an approved asset acquisition capped commitment of $1.9 billion over four years.

  The $504 million asset acquisition program in 2002-03 will enable the comprehensive redevelopment of Royal North Shore Hospital (RNSH) ($20 million in 2002-03), and the continuation of the Sutherland Hospital redevelopment ($31 million), Central Sydney Resource Transition Program ($38.4 million) and ongoing redevelopment of Wollongong and Shoalhaven Hospitals ($32.1 million). Other major expenditure relates to the Central Coast Health Access Plan ($58.4 million) and the construction of rural health facilities under the Rural Hospital and Health Services Program Phase 1 ($26.3 million).

  Other new works commencing in 2002-03 include redevelopment of the Bourke, Hay, Henty and Kyogle Rural Hospitals and health services ($9.6 million) and $10.5 million for the Metropolitan Clinical Networks Infrastructure Strategy. Health accounts for $464 million (17.4 percent) of the works-in-progress/minor works and $40 million (11 percent) of new works of the general government sector.

- *Social Welfare*: $4.6 million to enhance the Client Information System of the Department of Community Services.

- *Housing and Water*: asset acquisitions by housing agencies are included in expenses mentioned above. Other agencies are projecting asset acquisitions of $17.9 million.

- *Public Order and Safety*: $18 million to acquire or replace fire fighting equipment; $14.4 million to commence various new works in the Department of Corrective Services; $13.3 million to continue existing commitments to construct new fire stations at eleven locations; $4.6 million for a centralised database to facilitate the transfer of matters between courts and various locations; $2 million to commence construction of new court houses at Bankstown, Blacktown, Nowra and Mount Druitt; $15.3 million to construct or redevelop juvenile justice centres at Lidcombe, Reiby and Cobham; and $2.8 million to commence new police stations at Griffith, Muswellbrook and Thirroul.

- *Recreation and Culture*: $7.1 million to construct a new theatre at Walsh Bay; $5.5 million for the Museum of Applied Arts and Sciences, including a new collection storage facility at Castle Hill; and the final stage of the Art Gallery's $16.1 million building extension project.

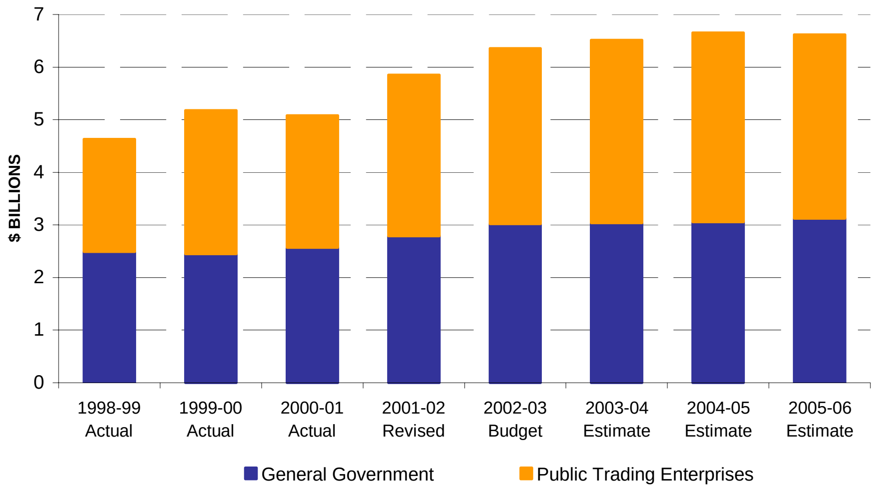
- *Environment*: asset acquisitions of $52.5 million for the National Parks and Wildlife Service (an increase of 16.9 percent from the 2001-02 budgeted capital program) will be used to, among other things, acquire land with high conservation values, including $5.3 million for lands in western New South Wales; $10 million over four years will fund acquisitions arising from the regional forests agreements in north-eastern New South Wales; and $1.5 million for the purchase of wilderness areas.

Budget Paper No. 4 provides further details on the State Asset Acquisition Program and policy developments relating to asset management.

Capital investment by the total state sector is $26.1 billion in the four years to 2005-06, exceeding by $5 billion (or 26 percent) the investment in the four years to 2001-02. The latter included $1.2 billion for the 2000 Olympic Games. Total state capital expenditure in 2002-03 of $6.4 billion includes about $1.1 billion worth of new works, and will increase by 8.5 percent over the previous year (Chart 6).

The general government sector directly contributes $11.8 billion of the four-year total state capital program to 2005-06, and $3 billion (including $361 million of new works) of the total state program of $6.4 billion in 2002-03. General government sector capital investment in 2002-03 is expected to increase by 8.2 percent.

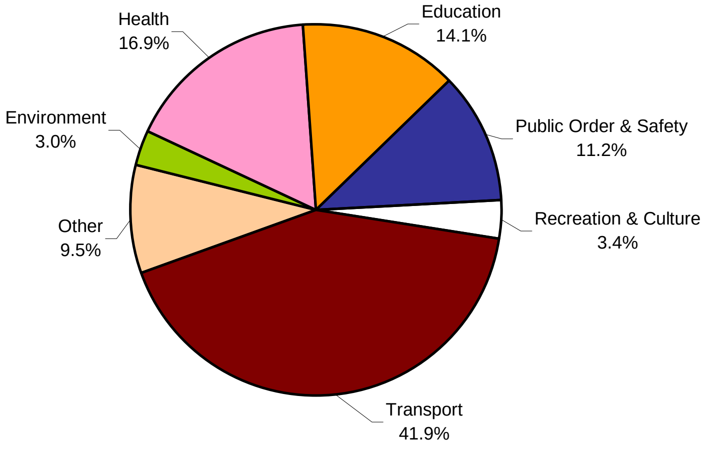
Chart 6: Total State Asset Acquisition Program, 1998-99 to 2005-06



SOURCE: Budget Paper No.4.

The general government sector acquires assets mainly for transport, health, education, and public order and safety. These collectively account for close to 85 percent of general government capital expenditure (Chart 7).

Chart 7: General Government Asset Acquisitions by Policy Area, 2002-03



Total = $3,022 million

SOURCE: Budget Paper No. 4.

Public trading enterprises (PTEs) account for over half of total state capital investment in 2002-03. PTE asset acquisitions will increase by 8.9 percent.

Although electricity capital expenditure of $1.3 billion accounts for most of the total PTE program, the bulk of the *growth* in PTE capital investment is due to the transport and environment areas. Major capital works by the PTE sector that account for the increase in 2002-03 include investment of $400 million by Sydney Water on environment protection (mainly upgrading of wastewater transport systems and treatment plants); and transport asset acquisitions that include provision for stage 1 of the Parramatta Rail Link.

Concessions and tax expenditures, while not necessarily entailing a direct budget outlay, are also a significant instrument of fiscal policy because they have the same budgetary and welfare effects as a direct outlay. This Budget provides for concessions of $712 million and tax expenditures worth $2.7 billion. Tax expenditures are mainly on economic services, while the bulk of concessions are for social security and welfare, and housing and community amenities. Chapter 6 provides detailed estimates of tax expenditures and concessions by policy area and by type of tax.

3. REVENUES

This Budget implements net tax reduction measures worth $215 million in a full year (Table 3). Tax measures in this Budget continue the comprehensive tax reduction program commenced in 1998-99.

Table 3: Impact of 2002-03 Tax Policy Changes ($ Millions)

MEASURE	2002-03	Full year
PREVIOUSLY ANNOUNCED:		
- Reduction in payroll tax rate from 6.2% to 6.0%	(130)	(142)
NEW MEASURES IN 2002-03 BUDGET:		
- Removal of payroll tax concessions for fringe benefits and eligible termination payments	107	117
- Full payroll tax exemption for all apprentices	(9)	(10)
- Reduction of general insurance stamp duty rate from 10.0% to 5.0%	(150)	(180)
NET REVENUE IMPACT	***(182)***	***(215)***

SOURCE: Chapter 3, Table 3.1.

Tax policy changes implemented from 1998-99 to 2002-03 will result in annual tax revenue being $1.4 billion lower in 2002-03 than it would have been otherwise. Payroll tax rate reductions, the abolition of debits tax, and reductions in the general insurance stamp duty rate account for $1.1 billion of this total. These figures are additional to $1.2 billion per year of state taxes abolished under national tax reform.

The largest components of total revenue are state taxes and Commonwealth grants (Table 4).

Table 4: State Revenues and Operating Revenues, General Government Sector, 1998-99 to 2005-06 ($ Billions)

	1998-99 Actual	1999-00 Actual	2000-01 Actual	2001-02 Revised	2002-03 Budget	2003-04 Est	2004-05 Est	2005-06 Est
STATE REVENUES [(a)]	25.4	26.8	28.4	**30.1**	**29.9**	**30.7**	**32.1**	**33.9**
-Taxation	14.1	15.2	13.3	13.4	12.9	13.4	14.1	14.9
-C'wealth Grants	9.0	9.5	13.0	14.9	15.1	15.2	15.7	16.5
-Dividends & Tax Equivalents	1.4	1.3	1.2	1.0	1.2	1.3	1.4	1.6
-Other	0.9	0.8	0.9	0.8	0.8	0.8	0.9	0.9
OPERATING REVENUES	3.5	3.7	3.7	3.4	3.7	3.8	3.9	4.1
TOTAL [(a)]	**28.9**	**30.5**	**32.1**	**33.5**	**33.6**	**34.5**	**36.0**	**38.0**
Growth %	5.8	5.5	5.2	4.4	0.5	2.4	4.5	5.5
Nominal GSP growth (%)	5.4	6.4	6.4	4.1	5.8	5.7	5.7	5.7

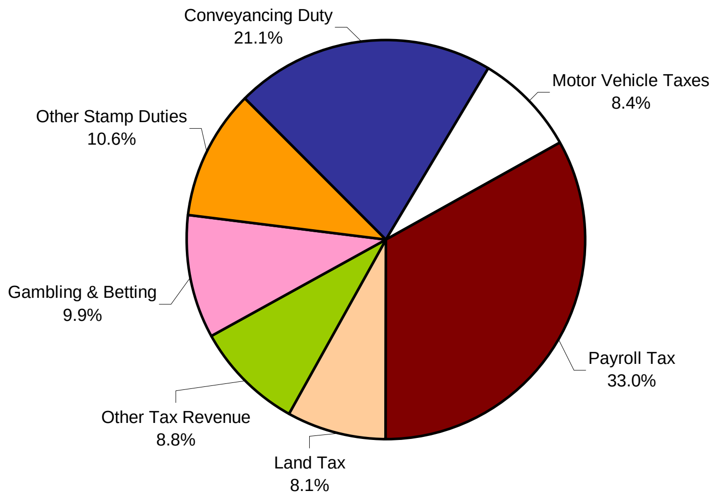
(a) Components may not add up to totals due to rounding.
SOURCE: Chapter 3, Table 3.5 for estimates for 2000-01 onwards.

Total revenue growth of 4.4 percent in 2001-02 was significantly stronger than anticipated in last year's Budget, mainly due to variations in conveyance duty revenue and, to a lesser extent, Commonwealth grants.

Historically, most of the variation between budget revenue estimates and outcomes has come from stamp duty revenues related to property market activity. This was certainly the case in recent years, with conveyance duty revenue growing at well above its long-term historical average.

Payroll tax and stamp duties are the largest components of state tax revenue (Chart 8).

Chart 8: State Tax Revenues, 2002-03



Total = $12,862 million

SOURCE: Chapter 3, Table 3.6.

Forward estimates in this Budget anticipate state tax revenue growth easing off from the above-average growth rates of the past few years. In 2002-03, total NSW revenue will increase by only 0.5 percent, reflecting a 3.7 percent decline in tax revenue and an increase of only 0.8 percent in Commonwealth grants.

The decline in tax revenue takes into account an 11 percent decline in property-related stamp duties (compared with an increase of 35 percent the previous year), the halving of general insurance stamp duty announced in this Budget, and the first full-year costs of abolishing financial institutions duty, share transfer duty and debits tax in 2001-02.

The growth in Commonwealth grants – now the largest component of total general government revenue - is limited by a cut in New South Wales' share of grants as recommended by the Commonwealth Grants Commission, and the Commonwealth's unilateral changes to compensation arrangements for states under national tax reform.

New South Wales will receive no net gain from GST grants until 2008-09. National tax reform effectively increased states' dependence on Commonwealth grants, which now account for about 45 percent of NSW total revenue compared with 31 percent in 1999-2000.

Chapter 3 of this Budget Paper details recent trends in state revenue, tax measures introduced in this Budget, and revenue estimates by source. Chapter 7 discusses developments in intergovernmental financial arrangements, including Commonwealth payments to New South Wales.

4. BALANCE SHEET MANAGEMENT

General government sector net financial liabilities will decline by over $1 billion over the budget year and forward estimates period. Net financial liabilities of both the general government and state sectors will continue falling as a proportion of gross state product. This Budget introduces a number of initiatives in the management of the State's balance sheet.

General government net financial liabilities will decline from $22 billion (8.8 percent of GSP) in June 2002 to $20.9 billion (6.7 percent of GSP) in June 2006 (Table 5). Underlying general government net debt (excluding the impact of the new Liability Management Fund which would reduce net debt further) will drop from $4.9 billion (2.0 percent of GSP) to $2.9 billion (0.9 percent of GSP) over the same period.

The considerations influencing the management of financial liabilities of public trading enterprises and public financial enterprises differ from those relevant to the general government sector. The financial liabilities of commercial enterprises support assets that earn a financial return in addition to providing public services. In contrast, assets held by the general government sector do not earn market returns and are funded from taxation revenue.

The amount of debt held by public trading enterprises should generally reflect typical gearing levels of private firms in the relevant industries, in order to provide incentives for public enterprises to use their resources efficiently. Net debt of public trading enterprises will increase over the forward estimates period, reflecting the continuing shift to commercially comparable gearing levels and new investment in electricity networks, water and sewerage systems, rail track and other infrastructure.

Table 5: Net Financial Liabilities, Total State and General Government Sectors, at 30 June 1995 to 2006 ($ Billions)

	1995 Actual	2000 Actual	2001 Actual	2002 Revised	2003 Budget	2004 Est	2005 Est	2006 Est
GENERAL GOVERNMENT:								
Net Financial Liabilities	**32.6**	**23.4**	**22.4**	**22.0**	**21.7**	**21.8**	**21.7**	**20.9**
Of which:								
- Underlying Net Debt [(a)]	12.0	9.0	6.0	4.9	4.3	4.1	3.9	2.9
- Net Unfunded Superannuation	12.0	5.7	8.1	10.0	11.3	12.6	14.0	15.6
TOTAL STATE:								
Net Financial Liabilities	43.8	36.1	36.9	37.7	39.0	40.3	41.6	42.0
Of which:								
- Underlying Net Debt [(a)]	19.4	17.5	17.3	17.0	17.7	18.6	19.5	19.3
- Net Unfunded Superannuation	14.0	5.3	8.0	10.2	11.6	13.0	14.5	16.1

(a) Excluding prepayment/deferral of superannuation contribution. *SOURCE: Chapter 4, Table 4.1.*

This Budget introduces some new measures and continues some existing measures to manage the balance sheet of the general government and state sectors:

- Establishment of a new non-superannuation investment fund (the Liability Management Fund) that will provide greater financial flexibility to fine-tune the management of unfunded superannuation and debt liabilities, consistent with the revised superannuation funding plan.
- Full funding of insurance liabilities of the Treasury Managed Fund by 30 June 2002 with a special $800 million Crown grant, and full funding of all general government insurance liabilities by June 2006.
- Further re-gearing of the electricity industry, with $120 million in 2001-02 and an additional $400 million in 2002-03, to raise gearing to levels similar to those in comparable private sector organisations.
- Reviews of Treasury's risk assessment policies and processes, and current assessment guidelines for joint ventures.
- Continuing financial risk management reviews of agencies covered by the *Public Authorities (Financial Arrangements) Act 1987*.

Chapter 4 describes in greater detail recent trends and policy developments relating to debt, superannuation, insurance and aggregate financial risk management.

5. THE ECONOMY AND OTHER FACTORS AFFECTING BUDGET OUTCOMES

NSW economic and employment growth in 2002-03 are expected to be stronger than in the previous year, and inflation more moderate. This follows an improvement in the outlook for both the global and Australian economies since late 2001.

Assumptions about the macroeconomic outlook (Table 6) underpin the budget estimates.

NSW estimated outcomes in 2001-02 are based on first-half performance, and are broadly in line with budget forecasts. Strong private consumption and an upturn in the dwelling sector underpinned gains in output and employment, despite recession in several major trading partners and the aftermath of events on 11 September 2001.

Table 6: NSW Major Economic Aggregates (Percent)

	2000-01 Actual	2001-02 Budget	2001-02 Revised	2002-03 Forecast
Real Gross State Product	2.7	2¾	2	3½
State Final Demand	(1.1)	3¼	3	4¼
Employment	1.9	¾	¾	1¾
Unemployment Rate	5.6	6¼	6¼	5¾
Wages	3.7	3½	3½	3¾
Inflation (CPI Sydney)	6.2	2¼	3	2½
Ten year bond rate	5.8	6	6	6½

SOURCE: Chapter 5

Since late 2001 the economic outlook has improved considerably with a rebound in many of Australia's major trading partners, which will sustain further growth in the national and NSW economies. While growth is expected to strengthen in 2002-03, the composition of growth is likely to shift away from dwelling construction towards business investment and exports.

In 2002-03, NSW gross state product is expected to increase by 3½ percent and the unemployment rate to fall to 5¾ percent. A strong pick-up in business investment following two moderate years, and robust growth in household consumption and employment, will likely more than compensate for an expected slowdown in housing activity. Inflation is expected to remain moderate at 2½ percent.

Sources of uncertainty in the economic forecasts include the robustness of the recovery overseas (mainly the USA and Japan), the outlook for crude oil prices, and the response of monetary policy to the business cycle upswing.

This Budget provides estimates on a "no policy change" basis, but also provides some sensitivity analysis of budget outcomes under alternative global growth scenarios. The outlook for the economy in 2002-03 is more buoyant than for tax revenue, which in the past has not systematically or contemporaneously tracked movements in the economy. This is because state tax bases are narrow, cycles for individual taxes differ in depth and duration, and there may be considerable time lags between movements in underlying economic drivers (eg, growth and employment) and their impact on tax revenue.

Actual revenues and expenses will also be influenced, among other things, by the magnitude and timing of economic developments, changes to government policy (both Commonwealth and State) and consequent shifts in demand for government services, and possible risks from contingent liabilities.

Chapter 5 of Budget Paper No. 2 provides further details on the economic situation and outlook in this Budget, the impact on the budget of possible alternative economic scenarios, and other influences on budget outcomes.

CHAPTER 1: FISCAL STRATEGY, POSITION AND OUTLOOK

- The 2002-03 Budget is based on a medium-term fiscal strategy designed to achieve fiscal sustainability by:
  - Reducing net debt and other financial liabilities;
  - Constraining expenditure while supporting spending priorities; and
  - Maintaining a tax regime that is conducive to business investment.
- The strategy is supported by the fiscal principles and targets of the *General Government Debt Elimination Act*. This chapter summarises progress against those principles and targets.
- Revised estimates for 2001-02, Budget estimates for 2002-03 and the forward estimates to 2005-06 represent further progress towards the goals of the medium-term strategy.
- The budget surplus for 2001-02 is now estimated at $670 million, compared with the original estimate of $368 million. Underlying net debt is estimated to fall from $6 billion (2.5 percent of gross state product) at June 2001 to $4.9 billion (2.0 percent of GSP) at June 2002, and net financial liabilities from $22.4 billion (9.3 percent of GSP) to $22 billion (8.8 percent of GSP).
- A budget surplus of $168 million is estimated for 2002-03, followed by surpluses in each of the three forward estimates years.
- Underlying net debt is estimated to fall by $600 million during 2002-03 and by a further $1,445 million during the forward years to $2.9 billion (0.9 percent of GSP) at June 2006.
- Net financial liabilities are projected to decline by $1,122 million over the four years to $20.9 billion (6.7 percent of GSP) at June 2006.

1.1 FISCAL STRATEGY STATEMENT

This section summarises the medium-term fiscal strategy and outlines progress against key targets and principles of the *General Government Debt Elimination Act 1995*. The progress report and fiscal aggregates cited in the remainder of this section draw from details provided in other sections of this chapter on the fiscal position and outlook, Chapter 2 on expenses, Chapter 3 on revenues, Chapter 4 on net financial liabilities and Chapter 5 on the economy.

MEDIUM-TERM FISCAL STRATEGY

The fiscal strategy is designed to ensure continuity of service provision, particularly during periods of economic weakness. This notion of fiscal sustainability is achieved by:

- strengthening the State's overall financial position by reducing the State's net debt and other financial liabilities to a sustainable level, as a foundation for government service delivery both now and in the future;

- being forward-looking by anticipating demographic and other long-term pressures on the budget; and

- aligning the growth of government spending to sustainable revenue growth.

To meet these aims, the fiscal strategy includes balance sheet management focusing on total state and general government net financial liabilities; constraining expenditure while supporting spending priorities; and maintaining a tax regime that is conducive to business investment and enables New South Wales to be competitive with other states and countries.

Reductions in net debt and other financial liabilities in recent years have considerably strengthened the State's financial position. The medium-term goal is to lower liabilities to sustainable levels, at which the State's finances could absorb adverse shocks - such as a sharp fall in property-based revenue - without the need for disruptive expenditure cuts or tax increases. With net financial liabilities at a sustainable low level, they can be increased to some extent when tax revenues turn down or the State is subject to fiscal stress, without threatening the State's AAA credit rating.

The Government's overall fiscal policy takes into account the financial position of the state sector as a whole, including public trading enterprises. As the financial position of these enterprises affects the budget, judgments about the State's fiscal sustainability need to take a broad view that encompasses the net debt and net financial liabilities of the total state sector, while being cognisant of the commercial criteria applying to trading enterprises' debt.

Considerations that influence the management of financial liabilities of public trading enterprises and public financial enterprises fundamentally differ from those relevant to the general government sector. The financial liabilities of commercial enterprises support assets that earn a financial return, which can cover expenses incurred to service PTE debt. In contrast, assets held by the general government sector do not earn financial (market) returns and are funded from taxation revenue. Therefore, with a given taxation policy, debt servicing by the general government sector diverts resources from service delivery.

The amount of debt held by public trading enterprises should generally reflect typical gearing levels of private firms in the relevant industries, in order to provide incentives for public enterprises to use their resources efficiently. Net debt of public trading enterprises is expected to increase over the forward estimates period, reflecting their capital expenditure plans and the continuing shift to commercially comparable gearing levels.

The link between the budget and net financial liabilities is the budget result. Although not the only determinant of changes in net financial liabilities, it is the factor most directly within the control of the Government through policy choices. Other factors affecting net financial liabilities include actuarial revaluations of superannuation and other liabilities, and movements in market interest rates. Budget surpluses will help keep net financial liabilities on a falling trend towards sustainability.

However, the budget result is highly sensitive to conditions in the economy and the property market, mainly via budget revenues. Once net financial liabilities have been reduced to sustainable levels, the fiscal strategy is therefore to maintain surpluses during periods of buoyant economic and property market conditions, allowing deficits if necessary in weaker periods.

Fiscal sustainability requires the State to have the fiscal capacity to deal with foreseeable long-term pressures. Recognition of future pressures reinforces the need to reduce the fiscal burden being placed by the current generation on future generations through debt and other liabilities.

Like other states, New South Wales faces long-term budgetary pressures from the need to maintain environmental quality, the demands of an ageing population on the public health system and other state services, and the need to keep education services up to the mark in a highly competitive global economy. Global competition also poses threats to tax revenues.

Government expenditure almost invariably expands from year to year, and its *rate* of growth is critical to fiscal sustainability. A cornerstone of the fiscal strategy is for the growth of expenditure to be *sustainable* – ie, consistent with the growth of the revenue base. For a given tax policy (set of tax rates, thresholds and bases), the sustainable revenue base depends on the economy's sustainable growth rate.

Actual tax revenue can be highly volatile and may deviate from a sustainable average growth rate for lengthy periods. Cycles for individual taxes differ in depth and duration, and there are time lags between trends in underlying economic drivers (eg, economic growth and employment) and their impact on tax revenue.

When revenue rises faster than its historical average, it would be detrimental to fiscal sustainability to allow expenditure growth to match the rise in revenue. Experience shows that when revenue drops, expenditure does not follow it down. Even if expenditure were that flexible, such variability would be disruptive to service delivery.

Sustainable revenue growth in New South Wales is estimated at no more than 2.5 percent per annum in real terms, abstracting from tax policy changes. This is below estimates of the economy's sustainable growth rate (upwards of 3 percent) because of the narrowness of the State's tax bases and the impact on New South Wales of Horizontal Fiscal Equalisation.

Sustainable revenue growth also depends on the underlying tax policy. Since 1998-99 the Government has had a tax reduction program in place to reduce the state tax burden. This has decreased revenue growth by approximately 1 per cent per year on average below what it otherwise would have been.

The receipt of Goods and Services Tax (GST) revenue by the states is commonly believed to have enhanced their revenue capacity, but this is yet to occur because the revenue sources the states have given up exceed the GST revenue. For New South Wales, receipt of GST revenue grants will not result in net financial benefits until 2008-09[1]. Only then will GST revenue boost sustainable revenue growth, by approximately ½ percentage point per year.

[1] *While New South Wales will cease to receive transitional assistance from 2007-08, it will not be until 2008-09 that GST revenue grants will offset the shortfall in transitional assistance arising from the change to the guarantee arrangements imposed by the 2002 Treasurers' Conference. See Chapter 7, section 7.3 for details.*

RECENT PERFORMANCE AND PROGRESS AGAINST FISCAL TARGETS AND PRINCIPLES

Fiscal principles in the *General Government Debt Elimination Act 1995* (the Act) support New South Wales' medium and long term fiscal strategy and financial management policies.

A review of the Act completed in December 2001 concluded that the policy objectives of the Act remain valid and the terms of the Act remain appropriate for securing those objectives[2]. Amendments arising from the review are being introduced with this Budget. These amendments aim to:

- update the Act to reflect the shift from cash to accrual financial reporting, and streamline legislative requirements such that a common set of financial reporting requirements will fulfil the objectives of both the *General Government Debt Elimination Act* and the *Public Finance and Audit Act 1983*;
- clarify the fiscal principles on unfunded superannuation liabilities, expenditure constraint and tax restraint, in order to facilitate progress reporting against these principles;
- provide an explicit reference to *fiscal sustainability* as an overarching principle underpinning the Act;
- distinguish between high-level fiscal principles and specific instruments in respect of asset maintenance and risk management; and
- require another review of the Act in five years, to help ensure its continuing validity and relevance.

The Act requires the Treasurer to include in the budget papers a statement that includes:

- an assessment of progress achieved against the fiscal targets and fiscal principles;
- projections of the ability to achieve fiscal targets in the future and to progress the achievement of the fiscal principles; and
- three-year projections of all relevant economic and financial variables.

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[2] *Details of the review are in the Report of the Treasurer to the NSW Parliament on the Review of the General Government Debt Elimination Act 1995, 19 December 2001.*

The first two matters are summarised in Table 1.1 below, with references to the appropriate parts of these budget papers for further details. The remainder of Chapter 1 details the budget projections to 2005-06. Projections for economic variables are in Chapter 5.

Table 1.1: Summary of Progress against Fiscal Principles in the General Government Debt Elimination Act 1995

Fiscal Principle	Progress Indicator	Legislative Requirement/Target	Actual
1. Adherence to fiscal targets:			
- Short term	Budget outcome	Sustainable general government (GG) sector surplus by 1998-99 (See Chapter 8 for a definition of the scope of the GG sector.)	*Achieved.* A cash surplus of $597 million in 1998-99. Surpluses in each of the subsequent three years (totalling $2.7 billion), and projected for the 2002-03 Budget and forward estimates, demonstrate the sustainability of the surplus. (See Table 1.4 of this chapter for forward estimates of cash outcomes.)
- Medium term	GG sector net debt	Sustainable level by June 2005	*On target.* GG sector net debt more than halved between June 1995 ($12 billion or 7.3% of GSP) and June 2002 ($4.9 billion or 2.0% of GSP). Underlying GG sector net debt (excluding the impact of the new Liability Management Fund, which further improves the result) is projected to be $3.9 billion (1.3% of GSP) by June 2005 and $2.9 billion (0.9% of GSP) by June 2006. (See Chapter 4 for details). On current estimates, the medium-term target can be achieved by June 2005 or earlier.
- Long term	GG sector net debt	Zero by 2020	*On target.* Achievable given the projected June 2005 position.
2. GG net worth	GG sector net worth	Maintain or increase in real terms	*On target.* GG net worth increased in real terms by 1.1% in the year to June 2002, and by an average 5% p.a. from June 1997. (Net worth data on a comparable basis is not available for periods prior to June 1997.) Will increase in real terms by an average of 0.6% p.a. in the 4 years to June 2006 (see Chapter 1, Table 1.3).

Fiscal Principle	Progress Indicator	Legislative Requirement/Target	Actual
3. Superannuation liabilities	Unfunded super liability of GG sector and PTE sector	Fund accruing liability, and extinguish accrued unfunded liability over time	*On target.* From June 1995 to June 2002, unfunded liability reduced by $2.1 billion for GG sector and by $3.8 billion for total state sector. Funding plan to eliminate liability brought forward by 15 years to 2030 (see Chapter 4, section 4.7).
4. Asset maintenance	Asset Maintenance Plans (AMPs)	Proper maintenance of long-lived physical assets of GG sector agencies	*On target*. All agencies required to submit AMPs or equivalent information have done so. Plans require updating periodically. (See Budget Paper No. 4 for more details on asset management.)
5. Constrained expenditure growth	Growth in net cost of services (NCOS) and outlays	Not to exceed inflation plus population growth (ie, zero real per capita growth or 1 percent real growth)	Annual real growth in underlying NCOS or expenses averaged 2% in the 5 years to 2001-02. Annual real growth in net underlying expenses is 2% in 2002-03 and will average 1% p.a. in the 4 years to 2005-06.
6. Prudent risk management	Risk management plans or measures	GG sector agencies to maintain risk management plans dealing with financial and other significant risks	*On target*. Aggregate risk is managed by Treasury, TCorp and IMC (see Chapter 4, section 4.8). Agency and project level risk identification procedures and strategies are in place or being developed through the Financial Management Framework; the Commercial Policy Framework; and Total Asset Management guidelines. The latter incorporates the *Guidelines for Privately Financed Projects* dealing with private sector participation in the provision of public infrastructure. (See Budget Paper No. 3 for more details on the Financial Management Framework and agency-level risk management.)
7. Tax restraint	Impact of tax policy measures	Maximum possible restraint on tax levels, policies should enable predictability about level and stability of tax rates.	*On target.* Net effect of all tax policy changes since 1994-95 is to reduce the NSW tax burden by $910 million p.a. in 2002-03. (See Chapter 3, Table 3.4.)

1.2 GENERAL GOVERNMENT SECTOR OPERATING STATEMENT

2001-02 RESULT

The budget surplus for 2001-02 is now estimated to be $670 million, compared with an original estimate of $368 million. Revenues are expected to be $1,660 million or 5.3 percent above budget, and expenses are expected to be $1,053 million or 3.4 percent higher than budget. Asset acquisitions are projected to exceed budget by $196 million or 7.6 percent, whereas asset sales and other movements in non-financial assets are expected to be $47 million higher than budget.

Further details of these variations are found in Section 1.5 and Appendix D.

2002-03 BUDGET

The budget result for the year 2002-03 is expected to be a surplus of $168 million. (see Table 1.2).

The projected budget result for 2002-03 reflects the Government's commitment to meet its fiscal strategy, while continuing and expanding its taxation reduction program and delivering better services for the community.

The Government is committed to reducing debt and other financial liabilities. Underlying net debt is projected to fall by $600 million to $4.3 billion during 2002-03, and to less than $2.9 billion by June 2006. Over the same four years, net financial liabilities are projected to fall from $22 billion to less than $21 billion.

Taxation revenue in the 2002-03 Budget is expected to be $496 million lower than that projected in the current year. However, the 2002-03 Budget provides for increased expenditure in key government service delivery areas, including health, education and transport. The budget also provides for costs associated with increased insurance liabilities and an expanded capital program of more than $3 billion, an increase of 8.2 percent.

Revenue

Total state revenue is estimated to decrease by $173 million or 0.8 percent in 2002-03. Full details of revenue estimates are provided in Chapter 3.

Taxation revenue is expected to fall by $496 million or 3.7 percent in 2002-03. The fall results from an expected fall in property market related stamp duties, and the continuation and expansion of the tax reduction program started in 1998-99. Tax policy changes implemented as part of this Budget will cost a net $182 million in 2002-03, bringing to $1.4 billion, the net cost of all policy changes since 1998-99.

Commonwealth grants are expected to increase by $122 million or 0.6 percent.

Financial distributions are expected to increase by $181 million or 17.5 percent. The estimate provides for higher profitability within the electricity sector following lower returns in 2001-02 due to mild weather and a fall off in national wholesale market prices.

Fines and regulatory fees are forecast to increase by $20 million or 2.6 percent.

Operating revenue, apart from investment revenue, is expected to increase by $98 million or 3.2 percent. Investment revenue is forecast to increase by $232 million as a result of an increased asset base and an expected improvement in returns from financial assets.

The asset base for investment will increase as a result of the projected $800 million grant from Crown Finance Entity to the New South Wales Insurance Ministerial Corporation (IMC) in June 2002, as part of the Government's strategy to fully fund general government insurance liabilities. This grant will fully fund the Treasury Managed Fund and contributes significantly to the full funding of all insurance liabilities by June 2006.

A forecast higher average level of deposits with Treasury Corporation in 2002-03, as compared with the current year, is also expected to contribute to higher investment income.

Table 1.2: General Government Sector Operating Statement

	2000-01 Actual	2001-02 Budget	2001-02 Revised	2002-03 Budget	2003-04	2004-05 Estimate	2005-06
	$m	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*
State Revenues							
Taxation	13,343	12,090	13,358	12,862	13,380	14,102	14,869
Commonwealth Grants	12,971	14,465	14,931	15,053	15,202	15,702	16,510
Financial Distributions	1,231	1,148	1,034	1,215	1,272	1,396	1,615
Fines, Regulatory Fees & Other	882	860	779	799	817	871	865
Total State Revenues	**28,427**	**28,563**	**30,102**	**29,929**	**30,671**	**32,071**	**33,859**
Operating Revenues							
Sale of Goods and Services	2,380	2,289	2,363	2,479	2,538	2,568	2,628
Investment Income	470	437	357	589	705	821	944
Grants and Contributions	349	295	353	382	272	271	271
Other	453	234	303	256	271	269	278
Total Operating Revenues	**3,652**	**3,255**	**3,376**	**3,706**	**3,786**	**3,929**	**4,121**
Expenses							
Employee Related							
- Superannuation	1,690	1,794	1,729	1,959	2,090	2,211	2,351
- Other	12,274	12,590	12,836	13,473	14,097	14,663	15,375
Other Operating	6,552	6,518	6,899	7,229	7,447	7,845	8,110
Maintenance	1,001	1,132	1,204	1,147	1,127	1,185	1,220
Depreciation and Amortisation	1,333	1,493	1,337	1,404	1,471	1,551	1,622
Current Grants and Subsidies	4,417	4,815	4,916	5,029	4,952	5,029	5,122
Capital Grants	2,275	1,399	1,883	1,334	1,176	1,279	1,276
Finance Other	992	877	867	760	730	691	669
Total Expenses	**30,534**	**30,618**	**31,671**	**32,335**	**33,090**	**34,454**	**35,745**
Net Cost of Services	**(26,882)**	**(27,363)**	**(28,295)**	**(28,629)**	**(29,304)**	**(30,525)**	**(31,624)**
Net Operating Surplus	**1,545**	**1,200**	**1,807**	**1,300**	**1,367**	**1,546**	**2,235**
Less: Asset Acquisitions	2,569	2,596	2,792	3,022	3,038	3,057	3,123
Plus: Depreciation	1,333	1,493	1,337	1,404	1,471	1,551	1,622
Asset Sales & Other movements in Non-Financial Assets	355	271	318	486	301	213	176
BUDGET RESULT (GFS BASIS)	**664**	**368**	**670**	**168**	**101**	**253**	**910**

Expenses

In 2002-03, expenses are estimated to be $32,335 million, more than $1,700 million or 5.6 percent higher than the 2001-02 Budget estimate. Once expenses incurred after the 2001-02 Budget are taken into account, such as the increased public liability costs and significant expansion of capital grants, including the First Home Owners' Grant, expenses in 2002-03 are expected to increase by $664 million or 2.1 percent.

The increase in expenses in 2001-02 and 2002-03 is mainly a result of additional services being provided, particularly in the areas of Health, Education, Law and Order, Transport and Social Welfare. A review of expenditure on a policy area basis is contained in Chapter 2 and on an agency basis in Budget Paper No 3.

The following analysis details expenses relating to items of a global nature, impacting on government service delivery as a whole.

Superannuation expenses relating to accumulation funds in 2002-03 are expected to increase by $131 million or 22.7 percent on the revised projection in 2001-02. This increase is attributable to employer contributions increasing from 8 to 9 percent of salary from 1 July 2002, and growth in the number of scheme members as existing employees who are members of the closed defined benefits schemes are replaced by new employees who must join an accumulation scheme.

The cost of the closed superannuation schemes in 2002-03 is impacted by the creation of the Liability Management Ministerial Corporation discussed in section 4.2 and 4.7.

Finance expenses in 2002-03 are projected to be $107 million or 12.3 percent lower than the revised projection for 2001-02. This is due to estimated lower levels of debt, on average, in the 2002-03 budget year.

In 2001-02, insurance expenses are projected to be $340 million or 37.2 percent above estimate due to significant increases in the cost of public liability insurance. These increases have resulted from an increase in the number of large claims, which led to a general increase in the actuarial calculation of outstanding liability claims, and as a result of an unexpected number of liability claims lodged due to the introduction of the Health Care Liability Act, 2001. The Government has also accepted responsibility for certain new liabilities relating to visiting medical officers. As most of this increase was of a once-only nature, insurance expenses are projected to fall by $184 million or 14.6 percent in 2002-03.

Asset Acquisitions

In 2001-02, general government asset acquisitions are projected to exceed budget by $196 million or 7.6 percent. In 2002-03, there is a further increase of $230 million or 8.2 percent to $3,022 million. This amount includes $1,196 million for Roads, $504 million for Health, $417 million for Education, $117 million for Corrective Services and $85 million for the Police Service.

Asset acquisitions are expected to total more than $12.2 billion in the four years to 30 June 2006. When added to the asset acquisitions in the PTE sector, the total state sector capital acquisitions program is more than $26.1 billion, an increase of more than $5.4 billion or 26 percent, compared to the previous four-year period.

The assets that will flow from this investment represent a commitment to the long term strength of the state. Full details of projects in the asset acquisition program can be found in Budget Paper No.4.

FORWARD ESTIMATES

Revenue

Total revenue is estimated to rise by an average 3.2 percent per annum over the four years to 2005-06. These increases are below the projected nominal rate of growth in Gross State Product (GSP).

Taxation revenue is expected to increase by an average 2.7 percent per annum, again below the projected rate of growth in the State economy. The forward years should see a return to the long-term average growth rate.

Commonwealth grants are projected to increase by an average 2.5 percent per annum. Fines and regulatory fees are projected to increase by 2.7 percent per annum. Details of these trends are contained in Chapter 3.

Financial distributions in the electricity sector are expected to increase significantly in the forward years due to ongoing growth in electricity usage and firmer energy generation prices.

Investment income is projected to increase by an average of 28 percent per annum, primarily due to the redirection of superannuation contributions to the Liability Management Ministerial Corporation (LMMC). Further details of the LMMC appear in Chapter 4 of this budget paper.

Operating revenues, apart from investment income, are expected to increase by an average 1.3 percent per annum.

Expenses

Expenses are expected to increase by an average of 3.1 percent per annum over the four years to 2005-06. These increases are below the projected nominal rate of growth in GSP, and compare with an average increase of 6.0 percent in the four years to 2001-02.

There is estimated to be significant increases in funding for key service delivery areas over the forward years. A reduction in finance costs over the same period has contributed to this additional expenditure.

1.3 GENERAL GOVERNMENT SECTOR STATEMENT OF FINANCIAL POSITION

2001-02 RESULT

The estimated net worth as at 30 June 2002 is nearly $94 billion. This $1.8 billion increase on budget is principally due to the following factors:

- an additional $2.3 billion in net worth as at 30 June 2001 compared to the revised estimate included in the 2001-02 Budget. This increase resulted mainly from the end of year revaluation of assets by EnergyAustralia and Integral Energy, reflected in the value of equity in the public trading enterprise (PTE) and public financial enterprise (PFE) sectors;

- an increase of more than $600 million in the operating surplus in 2001-02 for the general government sector;

- a $779 million decrease in net worth due to an increase in unfunded superannuation liabilities. Investment returns throughout the fund management industry were significantly lower than the long-term average. This impact on the assets of the closed defined benefit superannuation funds was partially offset by a favourable reassessment of future taxation liabilities of the funds.

Net financial liabilities are projected to be just over $22 billion at 30 June 2002. This is in line with budget.

Underlying net debt is projected to be $4,910 million as at 30 June 2002. This $1,266 million decrease on budget is principally due to the following factors:

- underlying net debt as at 30 June 2001 was $328 million lower than the revised estimate included in the 2001-02 Budget;
- a $566 million increase in the projected cash result for 2001-02; and
- a $330 million favourable movement from the sale of FreightRail Corporation.

2002-03 BUDGET

The net worth for the general government sector as at 30 June 2003 is expected to be approximately $97.7 billion, including investments in the PTE and PFE sectors valued at nearly $50 billion. The net worth of the general government sector is expected to increase by nearly $3.7 billion or 3.9 percent during the budget year.

The increase in net worth is due primarily to the operating surplus of $1.3 billion in the general government sector and asset revaluation increments in PTE and PFE sectors amounting to $2.3 billion.

Land and fixed assets are expected to rise by nearly $1.2 billion. This reflects the net investment being made in fixed assets after allowing for depreciation and asset sales.

Net debt adjusted for the impact of the Liability Management Ministerial Corporation (LMMC) is projected to fall by $600 million to $4.3 billion at 30 June 2003.

Net financial liabilities are projected to fall by $265 million in 2002-03.

Forward years

Land and fixed assets should rise by nearly $4.1 billion over the forward estimates period. This is broadly consistent with the Government's asset acquisition program, which will result in asset acquisitions exceeding depreciation by more than $1.5 billion per annum, while asset sales will average about $230 million per annum. This increase is consistent with fiscal principle No.2 of the GGDEA.

Investments and other non-equity assets (largely LMMC) increase by nearly $4.8 billion to partially offset the more than $5.1 billion increase in provisions, largely unfunded super liabilities.

As a percentage of GSP, net financial liabilities are projected to fall from 8.2 percent to 6.7 percent and underlying net debt is projected to fall from 1.6 percent to 0.9 percent, over the period from 30 June 2003 to 30 June 2006.

Table 1.3: General Government Sector Statement of Financial Position, 2001 to 2006, as at 30 June (GFS Basis)

	2001 Actual	*2002 Budget*	*2002 Revised*	*2003 Budget*	*2004*	*2005 Estimate*	*2006*
	$m	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*
ASSETS							
Financial Assets							
Cash and Deposits	1,035	360	796	1,277	1,208	1,430	1,334
Advances Paid	1,439	1,353	1,494	1,418	1,355	1,319	1,263
Investments, Loans and Placements	3,951	3,915	4,984	5,535	6,545	7,394	9,422
Other Non-Equity Assets	4,001	3,629	3,863	4,092	4,284	4,587	4,969
PTE/PFE Equity	47,521	47,750	47,885	49,973	50,384	50,883	52,695
Other Equity Assets	21	415	369	399	399	399	399
Total Financial Assets	**57,968**	**57,422**	**59,391**	**62,694**	**64,175**	**66,012**	**70,082**
Non-Financial Assets							
Land and Fixed Assets	65,805	65,417	67,170	68,368	69,703	71,067	72,458
Other Non-Financial Assets	847	969	957	1,071	1,191	1,315	1,443
Total Non-Financial Assets	**66,652**	**66,386**	**68,127**	**69,439**	**70,894**	**72,382**	**73,901**
TOTAL ASSETS	**124,620**	**123,808**	**127,518**	**132,133**	**135,069**	**138,394**	**143,983**
LIABILITIES							
Deposits Held	61	53	52	51	51	52	52
Advances Received	2,041	1,852	1,827	1,789	1,693	1,654	1,517
Borrowing	11,525	9,899	10,306	9,748	9,427	9,163	8,848
Provisions	16,431	17,472	18,680	20,311	21,887	23,531	25,442
Other Non-Equity Liabilities	2,778	2,340	2,656	2,570	2,503	2,454	2,420
TOTAL LIABILITIES	**32,836**	**31,616**	**33,521**	**34,469**	**35,561**	**36,854**	**38,279**
NET WORTH	**91,784**	**92,192**	**93,997**	**97,664**	**99,508**	**101,540**	**105,704**
Underlying Net Debt[(b)]	**6,024**	**6,176**	**4,910**	**4,310**	**4,075**	**3,907**	**2,865**
- as a % of GSP	**2.5**	**2.4**	**2.0**	**1.6**	**1.5**	**1.3**	**0.9**
Net Financial Liabilities[(a)]	**22,390**	**21,944**	**22,014**	**21,749**	**21,770**	**21,725**	**20,892**
- as a % of GSP	**9.3**	**8.9**	**8.8**	**8.2**	**7.8**	**7.4**	**6.7**

(a) *Excluding PTE/PFE equity.*

(b) *Adjusted for prepayment of superannuation contributions in June 1999 and deferral of superannuation contributions for the period 1 July 1999 to 30 June 2006. During this period payments will be made to the Liability Management Ministerial Corporation, reducing unadjusted. net debt.*

1.4 GENERAL GOVERNMENT SECTOR STATEMENT OF CASH FLOWS

Table 1.4 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 2001-02 are $799 million more favourable 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 2001-02 are $233 million above budget. The main factor in this result is expansion of road works, the acceleration of health capital works and the delay in some asset sales.

Cash surpluses are forecast in 2002-03, and in each of the forward years.

Table 1.5 shows GFS cash results from 1990-91 to 2005-06. The general government sector has been in surplus since 1996-97.

Table 1.4: General Government Sector Statement of Cash Flows (GFS Basis)

	2000-01 Actual	2001-02 Budget	2001-02 Revised	2002-03 Budget	2003-04	2004-05 Estimate	2005-06
	$m	$m	$m	$m	$m	$m	$m
Cash Receipts from Operating Activities							
Taxes Received	13,202	12,095	13,330	12,842	13,375	14,097	14,845
Receipts from sales of goods & services	2,444	2,460	2,679	2,686	2,781	2,850	2,888
Grants/Subsidies Received	13,055	14,515	15,032	15,191	15,233	15,733	16,538
Other Receipts	4,022	3,117	3,500	3,559	3,903	4,038	4,347
Total Cash Receipts from Operating Activities	**32,723**	**32,187**	**34,541**	**34,278**	**35,292**	**36,718**	**38,618**
Cash Payments from Operating Activities							
Payments for goods & services	(21,333)	(21,672)	(22,030)	(23,314)	(24,403)	(25,557)	(26,499)
Grants & Subsidies Paid	(4,460)	(4,854)	(5,269)	(4,977)	(4,655)	(4,743)	(4,798)
Interest Paid	(1,044)	(863)	(850)	(760)	(723)	(656)	(827)
Other Payments	(1,647)	(975)	(1,771)	(1,554)	(1,563)	(1,587)	(1,581)
Total Cash Payments from Operating Activities	**(28,484)**	**(28,364)**	**(29,920)**	**(30,605)**	**(31,344)**	**(32,543)**	**(33,705)**
Net Cash Flows from Operating Activities	**4,239**	**3,823**	**4,621**	**3,673**	**3,948**	**4,175**	**4,913**
Cash Flows from Investments in Non-Financial Assets							
Purchases of New Non-Financial Assets	(2,569)	(2,596)	(2,792)	(3,021)	(3,038)	(3,057)	(3,123)
Sale of Non-Financial Assets	144	228	191	434	252	258	148
Total Cash Flows from Investments in Non-Financial Assets	**(2,425)**	**(2,368)**	**(2,601)**	**(2,587)**	**(2,786)**	**(2,799)**	**(2,975)**
Cash Flows from Investments in Financial Assets							
Financial Assets for Policy Purposes	3,228	11	842	538	188	89	262
Financial Assets for Liquidity Purposes	(354)	61	(1,112)	(614)	(1,062)	(908)	(2,488)
Cash Flows from Financing Activities							
Advances Received (net)	(85)	(223)	(203)	(40)	(97)	(40)	(138)
Borrowing (net)	(4,211)	(1,500)	(1,778)	(561)	(327)	(270)	(148)
Deposits Received (net)	(25)	(21)	(10)	(1)	(1)	(1)	(1)
Total Cash Flows from Financing Activites	**(4,321)**	**(1,744)**	**(1,991)**	**(602)**	**(425)**	**(311)**	**(287)**
Net Increase/(Decrease) in Cash held	**367**	**(217)**	**(241)**	**408**	**(137)**	**246**	**(575)**
Net Cash from Operating Activities Investments in Non-Financial Assets and Distributions Paid	**1,814**	**1,455**	**2,020**	**1,086**	**1,162**	**1,376**	**1,938**
Assets acquired under finance leases	**...**	**...**	**...**	**...**	**...**	**(93)**	**...**
Surplus/(Deficit)	**1,814**	**1,455**	**2,020**	**1,086**	**1,162**	**1,283**	**1,938**
Impact of contributions prepaid superannuation	(1,058)	(1,134)	(1,134)				
Liability Management Fund				(951)	(1,061)	(1,169)	(1,287)
Adjusted Surplus/(Deficit)	756	321	886	135	101	114	651

Table 1.5: General Government Cash Results (GFS basis), 1990-91 to 2005-06[c]

Year	Current			Capital			Cash Flows from Operating Activities			Asset Acquisitions	Asset Sales & Other	Superannuation adjustments[a]	Underlying Surplus/ (Deficit)
	Outlays $m	Receipts $m	Result $m	Outlays[b] $m	Receipts $m	Result $m	Payments $m	Receipts $m	Result $m	$m	$m		$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							24,551	26,785	**2,234**	(2,548)	327	...	**13**
1998-99							29,264	28,563	**(701)**	(2,494)	520	3,266	**591**
1999-2000							26,519	30,435	**3,916**	(2,450)	390	(1,005)	**851**
2000-01							28,484	32,723	**4,239**	(2,569)	144	(1,058)	**756**
2001-02							29,920	34,541	**4,621**	(2,792)	191	(1,134)	**886**
2002-03							30,605	34,278	**3,673**	(3,021)	434	(951)	**135**
2003-04							31,344	35,292	**3,948**	(3,038)	252	(1,061)	**101**
2004-05							32,543	36,718	**4,175**	(3,150)	258	(1,169)	**114**
2005-06							33,705	38,618	**4,913**	(3,123)	148	(1,287)	**651**

(a) Adjustment for prepayment of superannuation contributions and establishment General Government Liability Management Fund. See Chapter 4.

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

(c) Aggregates in prior years may vary slightly from those previously published because of changes in classifications made by the ABS, and backcast for consistency.

1.5 GENERAL GOVERNMENT SECTOR OPERATING STATEMENT- 2001-02 RESULT

The revised budget result for 2001-02 is a surplus of $670 million (see Table 1.6). This compares to a budget time estimate of $368 million.

During the current year revenues have exceeded budget, mainly due to higher than expected stamp duties as a result of the buoyant property market. Some of these additional funds have been directed towards growing service demands in key areas such as education and health, as well as meeting the expenses associated with the recent bush fires and the increasing cost of insurance. The remaining balance has been used to reduce debt in accordance with the Government's long-term fiscal strategy.

The combination of a strong surplus and funds from the sale of the FreightRail Corporation, offset by a $779 million unfavourable movement in superannuation liabilities, has resulted in a projected $375 million reduction in net financial liabilities during 2001-02.

Revenue

Total State Revenues in 2001-02 are expected to be $30,102 million or $1,675 million more than in 2000-01. Full details are provided in Chapter 3.

Taxation revenue is expected to be 0.1 percent higher in 2001-02 than 2000-01, and exceeds the 2001-02 budget estimate by $1,268 million. Most of this variation is due to stamp duties, which are expected to exceed budget by $1,043 million, due to the stronger than expected property market, in an environment of low interest rates and relatively low unemployment.

Payroll tax revenue of $4,019 million will be $106 million below budget. Land tax revenue of $999 million will be $34 million higher than budget. Electricity tariff equalisation revenue is projected to be $262 million, and other tax revenue is expected to exceed budget by $55 million.

Commonwealth grants are expected to exceed the budget estimate by $466 million. The Guaranteed Minimum Amount under the Intergovernmental Agreement with the Commonwealth is expected to be $225 million higher than budget, including $126 million to meet the projected increase in First Home Owners Scheme grants paid by New South Wales. Specific purpose payments are expected to be $233 million higher than budget. The main increases are for education, roads, supplementary First Home Owners Scheme grants and natural disasters.

Financial distributions are expected to be $114 million lower than the budget estimate, principally due to lower returns from the electricity sector.

Fines, and regulatory fees are expected to be $81 million lower than the budget estimate. This variation was largely due to a revised accounting treatment in relation to State Debt Recovery Office fines ($57 million). The 2001-02 Budget provided that all fines would be recorded as revenue and then a large percentage of the debts would be written off. The accounting policy has now reverted to the situation that applied prior to 2001, that is, only revenue that the State expects to collect will be recorded as revenue. This revised accounting treatment is budget neutral as expenses also fall by $57 million.

Operating revenues are expected to be $3,376 million for 2001-02. This exceeds the budget estimate by $121 million. Full details are provided in Chapter 3.

Revenues from the s*ale of goods and services* are expected to exceed the budget estimate by $74 million or 3.2 percent. *Investment income* is expected to be $80 million or 18.3 percent below the budget estimate due to the poor performance of equity and bond markets.

Grants and contributions revenue are expected to exceed the budget estimate by $58 million. The 2001-02 Budget made provision for a refund of $30 million from the $140 million contingency payment made to the Sydney Olympic Committee for the Olympic Games. $80 million was repaid.

Other revenue is expected to exceed the budget estimate by $69 million or 29.5 percent primarily due to accounting adjustments in the Department of Transport relating to recognition of an asset where the item was expensed in a previous year.

Expenses

This increased revenue has been used to provide grants to the transport sector and meet costs incurred in the key service delivery areas of health, education, public order and safety and community services A review of variances in agency expenditure is detailed in Chapter 2, and a detailed review of estimated expenses is contained in Appendix D.

In 2001-02, employee related expenses are projected to be $181 million or 1.3 percent higher than the budget estimate. Education accounts for about two thirds of this amount and increases have also occurred in the areas of health, policing and social welfare. These increases are partially offset by reduced superannuation and long service leave costs.

In 2001-02, other operating expenses are projected to be $246 million or 2.0 percent higher than the budget estimate. This is mainly due to a projected increase in insurance expenses of $340 million or 37.2 percent, as previously noted. This has been offset by reductions to some other operating expenses of $94 million.

In 2001-02, maintenance expenses are expected to be $72 million or 6.4 percent higher than the budget estimate. Additional funding provided to the Department of Education and Training accounts for $57 million of this increase.

Depreciation is expected to be $156 million or 10.5 percent lower than the budget estimate for 2001-02. This variation relates to lower expense for the Roads and Traffic Authority and the Department of Health. Depreciation has no impact on the budget result.

In 2001-02, recurrent and capital grants are expected to exceed the budget estimate by $585 million or 9.4 percent. An additional $128 million has been paid to transport authorities and an additional $128 million was paid to the Department of Housing. Natural Disasters expenses are expected to be $87 million higher than the budget estimate, mainly as a result of the Christmas bushfires, and First Home Owners' Scheme grants are expected to be $163 million higher than the budget estimate.

Asset acquisitions in 2001-02 are projected to be $196 million or 7.6 percent higher than the budget estimate. Roads expenditure accounts for $145 million of this increase, as a result of capitalisation of works previously classified as either maintenance expenses or road safety expenses, and additional works funded by increased road tolls and other user charges.

Table 1.6: General Government Sector 2001-02 Operating Statement - Estimated Result

	2001-02		
	Budget	*Revised $m*	*Variation $m*
State Revenues			
Taxation	12,090	13,358	1,268
Commonwealth Grants	14,465	14,931	466
Financial Distributions	1,148	1,034	(114)
Fines, Regulatory Fees & Other	860	779	(81)
Total State Revenues	**28,563**	**30,102**	**1,539**
Operating Revenues			
Sale of Goods and Services	2,289	2,363	74
Investment Income	437	357	(80)
Grants and Contributions	295	353	58
Other	234	303	69
Total Operating Revenues	**3,255**	**3,376**	**121**
Expenses			
Employee Related - Superannuation	1,794	1,729	(65)
- Other	12,590	12,836	246
Other Operating	6,518	6,899	381
Maintenance	1,132	1,204	72
Depreciation and Amortisation	1,493	1,337	(156)
Current Grants and Subsidies	4,815	4,916	101
Capital Grants	1,399	1,883	484
Finance	877	867	(10)
Total Expenses	**30,618**	**31,671**	**1,053**
Net Cost of Services	**(27,363)**	**(28,295)**	**(932)**
GFS Operating Balance	**1,200**	**1,807**	**607**
Less Asset acquistions	2,596	2,792	196
Plus Depreciation	1,493	1,337	(156)
Asset Sales	271	318	47
BUDGET RESULT (GFS BASIS)	**368**	**670**	**302**

1.6 STATEMENT OF GOVERNMENT FINANCE STATISTICS AND ACCOUNTING PRINCIPLES AND POLICIES

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:

- budget operating statement;
- statement of financial position; and
- statement of cash flows.

In addition, accrual GFS statements complying with the Uniform Presentation Framework are contained in Chapter 8, and statements complying with Australian Accounting Standards (AAS) are contained in Appendix A.

The budget operating statement varies from last year's presentation. The 2001-02 presentation showed the operating result as defined under AAS and how the budget result was derived on a GFS basis. A reconciliation of the operating surplus derived under AAS and the budget result reported on a GFS basis appears in Appendix A.

Budget Operating Statement

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 principal difference between the net operating surplus and the budget result is the treatment of capital. The net operating surplus 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

This statement describes the financial position of the Government. It details financial assets, non-financial assets and liabilities. The relevant balance sheet indicators are net debt, net financial liabilities and net worth.

The Government uses a GFS statement, rather than the accounting based version. The key difference is that the former includes an equity investment in the PTE and PFE sectors.

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*.

Comparability of historical data

Historical data has been restated so that the results are consistent with the basis on which the forward estimates have been prepared.

The results reported for 2001 vary from the audited version published in November 2001 due to:

- a change from reporting capital expenditure (cash) to asset acquisitions (accrual); and

- reclassification of transactions so that rather than be treated as a valuation expense and excluded from the operating statement, these transactions appear as a GFS expense and are offset by a movement in non-financial assets. This change reduces the operating surplus but has no impact on the budget result.

Accounting based reports

Agency statements in Budget Paper No. 3 and the consolidated statements in Appendix A of this budget paper, have been prepared in accordance with generally accepted accounting principles and AAS.

They include all accrued expenses and revenues and reflect the operating result for general government agencies. This differs from the budget result in this chapter which is prepared on a GFS basis. GFS has an economic focus and for this reason excludes from the operating result any revenues and expenses that are related to the revaluation of assets or liabilities. These types of revenues and expenses are largely outside the control of governments. This different treatment can result in wide variances in the reported results under the GFS and the AAS approaches.

Examples of revenues or expenses included in the accounting operating result but excluded from the budget result include:

- depreciation;
- superannuation actuarial assessments;
- gains or losses on the sale of assets;
- negative valuation changes for non-financial assets; and
- gains or losses associated with debt management activities.

In addition, the budget result includes asset acquisition and asset sales to reflect the funds available to reduce financial liabilities.

While the financial statements included in Appendix A and Budget Paper No. 3 have been prepared under AAS, they do not include the detailed disclosures found in annual audited accounts.

DEPARTURES FROM AUSTRALIAN ACCOUNTING STANDARDS AND GFS

Under the Act, the Treasurer is required to present a statement that discusses the nature of and the reasons for any departure from AAS and principles, and from any GFS principles

Departures from Australian Accounting Standards and Principles

The Budget preparation departs from the AAS and principles 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;

- 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 recent Independent Audit Reports, 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; and

- the presentation in Budget Paper No.3, of agency statements of financial performance, is more concise than required under accounting standards. The Budget Paper No.3 presentation has been prepared to focus on agency operations and their net cost of services. Therefore operating statements exclude government contributions and movements in equity that are normally required under accounting standards.

Departures from GFS Principles

The Budget has been prepared in accordance with GFS 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;

- GFS requires the general government sector to record an investment in the equity of the PTE and PFE 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 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 8, Uniform Presentation Framework.

BUDGET SCOPE

The Budget incorporates all general government sector agencies as defined by the Australian Bureau of Statistics (ABS). A list of New South Wales public sector agencies (classified according to sector) appears in an Appendix C.

The general government sector covers all agencies that receive parliamentary appropriations or are regulatory in nature.

Defining the budget sector as equal to the general government sector improves transparency and accountability by providing:

- a comprehensive picture of the non-commercial operations of the Government; and
- an independent definition of the Budget's scope.

The financial transactions of public financial enterprise (PFE) sector and public trading enterprise (PTE) sector agencies are not generally reflected in the budget aggregates.

However, there are two exceptions to the above which the budget aggregates do include. These are:

- explicit payments for "social programs", which are non-commercial functions required of public trading enterprises by the Government; and
- dividends, tax equivalent payments and guarantee fees payable by the public trading and financial enterprise sectors which are shown as revenues in the general government sector.

Another important measure of the Government's performance is how the Government is managing the total state sector balance sheet. Chapter 4 *Net Financial Liabilities* includes commentary on the management of total state sector financial assets and liabilities, including net debt and superannuation liabilities.

Similarly, Chapter 8 *Government Finance Statistics and Uniform Reporting Framework* includes information presented on a GFS format for both the general government sector and the public trading enterprise sector. This fulfils uniform presentation framework requirements agreed between the Commonwealth and state governments.

CHAPTER 2: SERVICE DELIVERY

2.1 INTRODUCTION

- The Government's strategic objectives determine the allocation of resources.
- These objectives are to provide services to the community, attract investment and jobs and safeguard the environment.
- In 2001-02 expenses are expected to be 3.4 percent higher than budget, reflecting additional service provision in key areas.
- The 2002-03 budget reflects further funding increases to meet the strategic objectives of government. Expenses in the year are expected to increase by 2.1 percent. Additional funding will be provided particularly in the areas of Health, Education, Public Order and Safety and Transport.

Government policy objectives may be achieved through either direct expenditure, the levying of taxes or charges or the imposition of a regulatory regime. This chapter provides details of expenditure undertaken by the general government sector to achieve government policy objectives including the direct costs of revenue raising activities and the administration of regulatory requirements.

Section 2.2 provides an outline of key government policy objectives and links these objectives with various budget initiatives. Sections 2.3 and 2.4 provide details of the growth in expenses and asset acquisitions at both an aggregate and agency level for 2001-02 and 2002-03. The estimates shown in these sections are prepared on a consolidated Government Finance Statistics basis which eliminates transactions between agencies (mainly superannuation, insurance and payroll tax) to obtain the general government sector financial statements in Chapter 1. This differs from the agency specific estimates shown in Budget Paper No. 3 which are on an unconsolidated basis.

Section 2.5 shows a dissection of expenses and asset acquisitions by *policy area*. This is a categorisation of government activities developed by the Australian Bureau of Statistics, which does not depend on the way governments allocate these activities between departments.

Further details of expenses and asset acquisitions for individual agencies are provided in Budget Paper No. 3 (*Budget Estimates*) and Budget Paper No. 4 (*State Asset Acquisition Program*).

2.2 STRATEGIC OBJECTIVES

This budget provides for both ongoing programs and new initiatives that support the Government's objectives within the fiscal strategy parameters discussed in Chapter 1. These objectives are summarised below.

> This Budget supports the Government's objectives of:
>
> - Investment and job promotion;
> - Responding to the requirements of rural and regional communities;
> - Building strong, healthy, safe and well-educated communities;
> - Balancing the environment and the economy;
> - Supporting families, children and the disadvantaged;
> - Improving the safety and reliability of public transport services; and
> - Maintaining and modernising the State's infrastructure.

The objectives of this Budget are:

Investment and jobs promotion

The health of the NSW economy depends, in part, on the Government adhering to a sound fiscal strategy which provides a competitive taxation environment, public services which make New South Wales an attractive place to live and work and infrastructure consistent with sound economic growth.

The budget provides for further net tax reductions (see Chapter 3) with a full year cost of $215 million. Furthermore, past and projected reductions in net debt and other financial liabilities as a percentage of GSP should provide confidence to investors in the long term sustainability of tax levels in New South Wales.

Combined with lower taxes, new budget spending initiatives will support investment and a growth in jobs. Spending in the education policy area will see improvements to literacy, numeracy and the quality of teaching preparing school aged children to fully participate in a competitive global economy. In addition, upgrading the technology used in schools provides an opportunity to link classrooms with the most up-to-date educational resources.

The Budget provides for implementation of the Government's online licensing system which will further reduce the cost of doing business in New South Wales.

Capitalising on the State's economic advantages will remain a focus of government initiatives. Over the period from 2001-02 to 2005-06, the Government has allocated an additional $68 million to expand and promote biotechnology in New South Wales. This funding, combined with the existing biotechnology activities of government agencies and institutions, should ensure New South Wales plays a major role in this sector in future years.

In 2002-03 State asset acquisition spending will total $6,350 million – an increase of 8.5 per cent on the expected outcome for 2001-02. Within the program, nearly 60 percent will be spent on key economic infrastructure such as roads, public transport, electricity, water supply and other services to industry providing a sound base for future economic growth.

Responding to the requirements of rural and regional communities

The Budget provides for new registration and licensing access centres for small towns, the opening of natural resource centres and community technology centres and enhanced employment opportunities outside Sydney over the next three years. In addition, the Government Access Program will establish 45 Government Access Centres in small country towns. These centres will be the priority service delivery network for use by all agencies in rural New South Wales, delivering Government transactions and information face to face to ensure access to services by people living in rural communities.

As part of a long term plan to upgrade the rural rail network, the Government has significantly increased funding to the Rail Infrastructure Corporation. In 2002-03, funding of $286 million will be provided for the maintenance and restoration of country track compared with $167 million in 1999-2000. In the four years to 2001-02, the Government provided around $800 million for non-metropolitan track subsidies. This compares with subsidies of over $1,140 million in the next four years.

Combined with significant spending on road assets (including the Pacific, Great Western and Princes Highways), improvements in transport infrastructure should allow rural industries to get products to market at the lowest cost possible.

Water management and salinity initiatives will further assist rural areas and underwrite the continued productive capacity of the land relied upon by these communities. In 2002-03, $17.6 million will be provided for the second phase of the Government's water reform initiatives. In addition, $46 million has been allocated under the National Action Plan on Salinity and Water Quality (NAP) for expenditure in 2002-03. Total expenditure under the NAP, which is jointly funded by the State and the Commonwealth, is estimated at $396 million to 30 June 2007. As recently outlined by the Premier, up to $100 million from the program will be spent on a major reafforestation program.

In the area of social services, the Budget provides for the continued expansion of Telehealth services with 51 new sites bringing the total number of sites to 160. This program allows rural areas to link with medical specialists located in the Sydney region.

Building strong, healthy, safe and well-educated communities

As outlined above, the Budget provides substantial funding for literacy and numeracy in schools, updates the technological base of these institutions as well as improving teacher quality. The Government is also piloting reduced class sizes in Kindergarten to Year 3. These initiatives will ensure that the education system in New South Wales continues to deliver the highest standards possible.

In 2002-03, asset acquisitions within the Department of Education and Training will reach a record of $417 million. Asset acquisition spending by the Department in 2002-03 will be 17 percent higher than the Budget for 2001-02, 38 percent higher than 2000-01 and 86 percent higher than 1997-98.

The Budget also meets the Government's commitment to provide additional funding to the health system to address the demands of a growing and ageing population. In 2002-03, health capital works spending will again exceed $500 million, providing for both growth and improvements to essential health facilities, particularly in Newcastle, Western Sydney and Central Coast regions along with rural areas.

In line with the Government's commitment to increases in police numbers, the Budget provides funding for various recruitment and police training initiatives. In addition, the NSW Police Service is being restructured to allow it to better focus on crime prevention and detection with the release of more police for frontline activities.

A key initiative is the proposed amendments to the Bail Act 1978 for repeat offenders. The budget provides recurrent and capital funding to the Department of Corrective Services to allow it to accommodate an additional 800 remand inmates within the prison system.

The Budget continues to encourage local solutions to crime and other social problems by providing $40 million in funding under the Community Solutions Program over the next four years.

The Rural Fire Service and the State Emergency Service have yet again proven their value to the community during the Christmas bushfires. The Budget provides record levels of funding to both these organisations after taking account of one-off expenditure associated with the Christmas bushfires.

Supporting the requirements of the disadvantaged

The budget continues its support for existing programs to assist the disadvantaged in the community. As outlined in Chapter 6, the Budget provides concessions in the Education, Health, Social Security and Welfare and Housing and Associated Amenities policy areas valued at over $700 million in 2002-03. Among these are discounted transport tickets and concessions on electricity and water charges for pensioners. From 2002-03, the Energy Accounts Payment Assistance Scheme will be extended to include gas bills.

The Budget will also see extension of the Government's *Families First* policy to a number of new areas in the State. Under this program, the Government provides a coordinated prevention and early intervention strategy that aims to give children aged 0-8 years a good start in life by ensuring access to services that will maximise their health and development.

The Aboriginal community will also benefit from an allocation of $17.4 million over four years to the Improving Outcomes in Aboriginal Communities project. This project involves piloting new ways of working with Aboriginal communities in the delivery of Government services as well as working with Aboriginal community leaders to respond more quickly to the critical needs of Aboriginal children, young people and their families and carers.

With the linkage between housing stress and social disadvantage being increasingly recognised, the Government is reforming and strengthening the social housing system with a range of new housing assistance products and services. These will help people without a tenancy track record and those with high support needs to rent in the private sector, improve the transition from crisis accommodation to more stable accommodation and improve access to home ownership.

Mental health services will be expanded with the provision of an extra 226 beds. This is on top of the 150 beds announced in 2000. Annual funding of $20 million will enable the implementation of service network arrangements and result in around 300 new beds being opened in 2002-03.

The Government's commitment to the disadvantaged has been demonstrated in its response to the decision on a new Social and Community Services (State) Award. The package of assistance provided to the non-government sector is estimated to cost the Budget $19 million in 2001-02 and $107.3 million over the three years to 2003-04. The Commonwealth Government has made no commitment to provide additional funding to cover its share of the Award increases.

Balancing the environment and the economy

The budget continues the progress made by the government to balance the needs of the environment and the economy. As part of this, the government intends to continue to develop markets and investment strategies that encourage public and private participation in activities producing environmental benefits.

As outlined in Budget Paper No. 3, key initiatives to address salinity and air and water quality issues will be expanded in 2002-03. The government will continue its waste minimisation and management initiatives along with acquisition of additional lands with high conservation values.

The budget provides $1 million for a further stage of the State Biodiversity Strategy 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.

The government has announced a *Cleaner Vehicles Action Plan*. Under the plan, motor vehicle registration certificate stamp duty may be reduced on new vehicles (passenger cars, trucks up to 3.5 tonnes and similar vehicles such as four-wheel drives) approved as ‘environmentally-friendly’ and duty on new ‘high-polluting’ vehicles may be increased. Details of the scheme will be released for public consultation later in 2002. The scheme is expected to be in place in 2003.

Improving the safety and reliability of transport services

The 2001-02 Budget provided an additional $1 billion over four years to upgrade public transport infrastructure. Key initiatives include additional funding for track maintenance, new passenger rolling stock and infrastructure enhancements.

The 2002-03 budget again provides for significant additional transport expenditures. In particular, funding for non-metropolitan track has been increased substantially from $167 million in 1999-2000 to $286 million in 2002-03 and will continue at this level. This expenditure will permit the progressive restoration of much of the non-metropolitan rail network.

The budget also continues to provide funding for the Millenium trains, new Easy Access station upgrades and bus and ferry fleet enhancements. In 2002-03 major work will commence on the Parramatta Rail Link representing the largest addition to the metropolitan network in over 60 years.

To improve public transport in Western Sydney the Government has committed $80.8 million in 2002-03 to the construction of the Parramatta to Liverpool Bus-only transit way.

Maintaining and modernising the State's infrastructure

The State's asset base continues to expand in real terms. As outlined below and in Budget Paper No. 4, the State asset acquisition program in 2002-03 is expected to total $6,350 million which is more than double the estimated level of depreciation for that year.

The Budget provides for record spending in a number of areas. In addition, the public trading enterprise sector is entering a new investment phase which will expand its asset base substantially over the next few years particularly in the transport, electricity and water and sewerage sectors.

In the social sector, the budget provides funding for a number of information and technology and communication related infrastructure projects in areas including schools, courts and community services. As part of a major initiative in the education sector, $963 million ($823 million in expenses and $140 million in capital) will be spent over four years for technology initiatives. This includes $584 million in expenses and $50 million in capital to continue the Computers in Schools program, teacher training and support, maintaining software licenses and managed access to the Department of Education and Training's Intranet site. There is a further $82 million for e-learning accounts, and $157 million and $90 million in capital for high speed broadband.

The Budget also provides for a school maintenance program of the order of $600 million over the next four years. Some $179 million will be spent in 2002-03 to maintain public schools.

2.3 2001-02 EXPENSES AND ASSET ACQUISITIONS

The favourable projected budget outcome for 2001-02 has allowed the Government to bring forward a number of policy initiatives in key service delivery areas such as education, health, public order and safety, community services and transport. The reassessment of public liability insurance liabilities, including certain liabilities relating to visiting medical officers, has also increased expenses. Expenses in 2001-02 are expected to be 3.4 percent higher than budgeted. Major variations in expenses are briefly described below. Further details are contained in Appendix D.

Department of Education and Training expenses in 2001-02 are expected to be $330 million or 5.3 percent more than in 2000-01 and exceed the 2001-02 Budget estimate by $282 million or 4.5 percent. The increase in spending compared with the budget primarily reflects increased maintenance expenditure on schools and additional salary costs resulting from various award changes and industrial decisions. There has been also increased expenditure to meet New South Wales' obligations under the Australian National Training Authority (ANTA) Agreement for the provision of vocational education and training services, additional per capita grants to non-government schools, flow on from Commonwealth funded programs (offset by Commonwealth grants) and the commencement of long-term internet and email projects.

Department of Health expenses in 2001-02 are projected to be broadly in line with the Budget estimate. In 2001-02 expenses are expected to be $67 million or 0.9 percent higher than budgeted and 4.5 percent higher than 2000-01. The increase in expenses in 2001-02 compared with budget reflects increased remuneration for visiting medical officers, higher expenses relating to Commonwealth funded programs where the Commonwealth provided unbudgeted increases in funding and additional services funded by user charges.

Expenses of the *Insurance Ministerial Corporation* are forecast to be above the 2001-02 budget by $340 million, mainly as a result of a large increase in public liability claims including acceptance of past claims liability for visiting medical officers.

Grants to the *Department of Housing* will be $128 million higher than the budget estimate. These grants will mainly be used to reduce maintenance backlogs in public housing.

Expenses of the *Department of Ageing, Disability and Home Care and Department of Community Services* in 2001-02 are expected to be higher than the budget estimate by $75 million. The main factors causing this increase are the additional costs associated with the Social and Community Services (State) Award, the devolution project, the Helpline and increased demand for out-of-home care places. Compared with 2000-01, expenses are forecast to increase by $179 million in 2001-02.

Police Service expenses are expected to be higher than the budget estimate by $54 million or 4.2 percent. This includes additional funding to support parking patrol activities; additional funding for Police and Community Youth Clubs; and funding associated with police recruitment activities. Expenses are expected to be around $26 million less in 2001-02 compared with 2000-01 reflecting the impact of the Olympics on police resources in that year.

First Home Owners' Scheme grants are expected to exceed the budget estimate by $163 million as a result of a greater than expected take up of the Scheme. This additional expense is offset by a matching increase in Commonwealth grants.

Transport expenses are expected to be higher than the budget estimate by $149 million primarily due to additional maintenance on non-metropolitan rail lines, accelerated capital works, including additional rail safety spending and ferry refurbishment, and increased operating subsidies for public transport. Estimated expenses in 2001-02 will exceed 2000-01 by around $140 million or 6.5 percent.

Roads and Traffic Authority expenses are expected to be $129 million lower than the budget estimate as a result of a revision in the level of depreciation. Expenses are still expected to be $161 million higher than in 2000-01.

The alteration in the revenue recognition policy for *State Debt Recovery Office,* referred to in Chapter 1, results in a $57 million reduction in expenses.

Asset acquisitions in 2001-02 are projected to be $196 million or 7.6 percent higher than the budget estimate. Roads expenditure accounts for $145 million of this increase, as a result of capitalisation of works previously classified as maintenance expenses and road safety expenses, and additional works funded by increased road tolls and other user charges.

2.4 2002-03 EXPENSES AND ASSET ACQUISITIONS

In 2002-03, expenses are estimated to be $32,335 million - $1,717 million or 5.6 percent higher than the 2001-02 Budget estimate. Once expenses incurred after the 2001-02 Budget are taken into account, such as the increased public liability costs and significant expansion of capital grants, expenses in 2002-03 are expected to increase by $664 million or 2.1 percent.

Expenses of the *Department of Health* are projected to be $7,834 million in 2002-03. This represents an increase of $512 million or 7.0 percent compared with the 2001-02 budget and an increase of $445 million on the expected outcome for 2001-02. Department of Health expenses in 2002-03 will be around $240 million higher than the Government’s March 2000 target for health recurrent expenditure.

Growth and reform funding provided since 1999-2000 largely accounts for higher expenses and supports the ongoing implementation of the *Government Action Plan for Health.* This reform agenda is providing significant improvements in the quality and effectiveness of health services across the State’s public health system.

These improvements are evidenced, for example, by a reduction in the average length of stay in public hospitals, the increased percentage of booked surgery performed on a same day basis (from 46 percent in 1995 to an estimated 60 percent in 2002-03); and improvements in ambulance response times (within 10 minutes) for emergency cases in metropolitan areas from 46.9 percent in 2000-01 to an estimated 61 percent in 2002-03. The introduction of new funding models and arrangements over the last two years under the *Government Action Plan for Health* will assist in promoting ongoing value for money and the best practice delivery of quality health care.

Department of Education and Training expenses are projected to increase by $327 million or 5.2 percent compared with the 2001-02 budget and $46 million compared with the revised projection for 2001-02. In 2002-03, particular emphasis is being given to information technology to assist in the implementation of an e-learning framework as well as measures to improve teacher quality and ensure an adequate supply of teachers across the State. Specific initiatives are summarised in Section 2.5 and in Budget Paper No. 3.

Expenses of the *Department of Community Services* are projected to be $614 million. This is an increase of $55 million or 9.8 percent on the 2001-02 budget estimate and $8 million more than the expected level of expenses in 2001-02. The increase in expenses in 2002-03 compared to the 2001-02 budget results from additional costs associated with Social and Community Services (State) Award and increased demand for out-of-home care places.

NSW Police Service expenses are expected to be $101 million or 7.9 percent higher than the 2001-02 budget estimate and $47 million more than the projected outcome for 2001-02. The increase in expenses in 2002-03 compared to the 2001-02 budget is mainly due to additional funds to fulfil the Government's commitment both to increase police numbers and to release officers for front line duties through the civilianisation program.

Department of Corrective Services expenses are expected to increase by $47 million or 9.8 percent to $529 million compared with the budget estimate for 2001-02. Compared with the revised outcome for 2001-02, expenses are expected to be around $39 million higher in 2002-03. Provision has been made for increases in the number of inmates, including increases due to recent changes to the *Bail Amendment (Repeat Offenders) Bill 2002*, the number of offenders under community supervision and inmate transport costs.

In 2002-03 expenses of the *Department of Transport* are expected to total $2,266 million representing an increase of $138 million or 6.5 percent compared with the budget estimate for 2001-02 and a decrease of $11 million compared with the expected outcome for 2001-02. The increase in expenses in 2002-03 results from higher payments to Rail Infrastructure Corporation for maintenance of rural line infrastructure, additional capital grants to the State Rail Authority arising from purchases of new rolling stock, increased operating subsidies to the State Rail Authority and State Transit Authority and increased funding for the Parramatta Rail Link, offset by lower freight haulage subsidies following the privatisation of FreightCorp.

Expenses of the *Roads and Traffic Authority* are expected to fall by $136 million or 8.4 percent to $1,481 million in 2002-03 compared to the 2001-02 Budget (mainly due to a reduction in depreciation of $130 million) or by $7 million compared with the expected outcome for 2001-02. Apart from depreciation costs, the level of RTA expenses have been maintained, and at the same time, asset acquisitions in 2002-03 will be up by $97 million or 8.8 percent.

In 2002-03, general government *asset acquisitions* are projected to total $3,022 million representing an increase of $426 million or 16.4 percent on the original budget estimate for 2001-02 and an increase of $230 million compared with the expected outcome for 2001-02. In 2002-03 major spending agencies will be the Roads and Traffic Authority ($1,196 million), Department of Health ($504 million), Education ($417 million), Corrective Services ($117 million) and the Police Service ($85 million).

Asset acquisitions are expected to total more than $12.2 billion in the four years to 30 June 2006.

A further discussion of expenses and asset acquisitions is contained in Section 2.5 and in Budget Papers Nos. 3 and 4.

2.5 EXPENSES AND ASSET ACQUISITIONS BY POLICY AREA

An analysis of expenditure on a policy area basis is designed to identify the impact of government expenditure on economic functions as opposed to an analysis of a department’s activities.

For example, the Government’s response to issues of public order and safety in society are reflected in expenditure across a number of agencies. Under a policy area analysis, expenditure relating to public order and safety is classified under this category irrespective of the agency which actually incurs the expenditure.

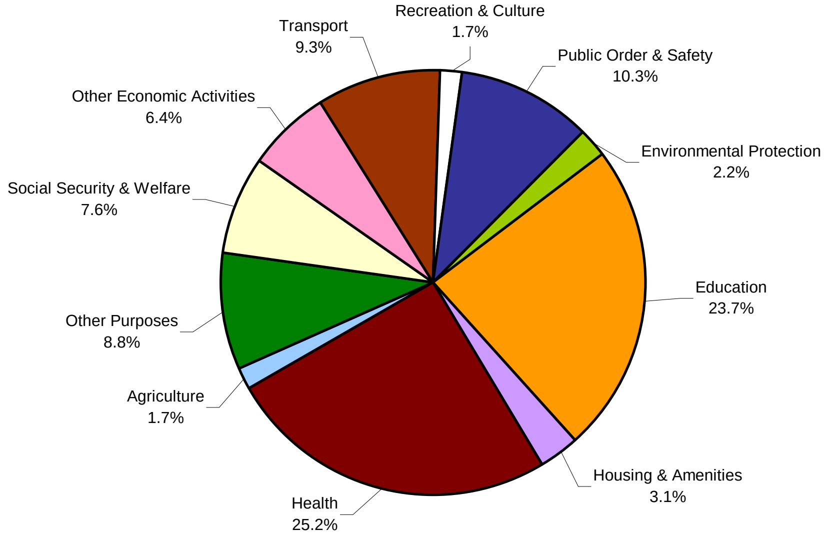
The classification of expenditure to policy areas is based on Australian Bureau of Statistics (ABS) standards. This ensures consistency of treatment of government expenditure over time, regardless of agency restructures.

The policy area categories used in this chapter have been adapted from the standard ABS policy categories in Chapter 8 to better reflect service delivery in New South Wales. The main difference involves the addition of a policy area for environment protection. This 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, 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 (for example, agency purchases from the Department of Public Works and Services, superannuation, insurance and payroll tax payments).

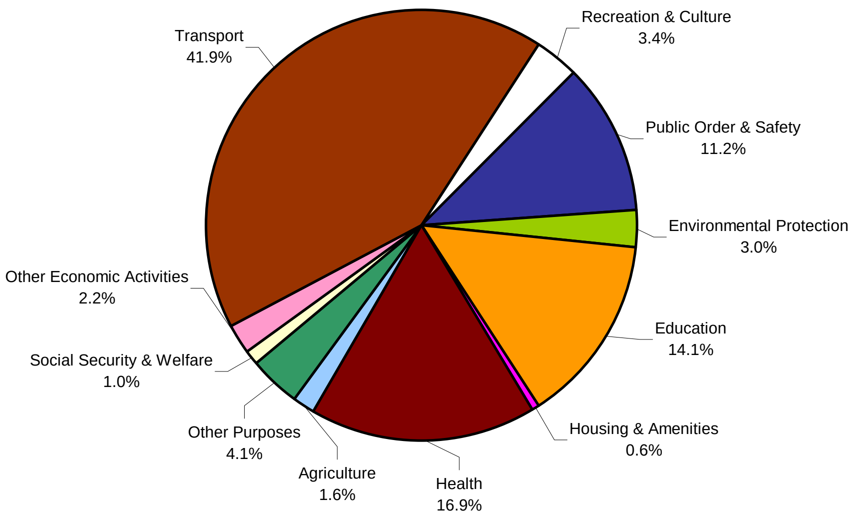
Charts 2.1 and 2.2 show the distribution of expenses and asset acquisitions by policy area. Budget expenses are dominated by the health and education policy areas while transport is the major contributor to asset acquisitions.

Chart 2.1: General Government Expenses in 2002-03 by Policy Area



Total Expenses = $32,335 million

Chart 2.2: General Government Asset Acquisitions in 2002-03 by Policy Area



Total Asset Acquisitions = $3,022 million

HEALTH

Overall Objective

The objective of the Health policy area is to improve the health of the people of New South Wales, by providing fairer access to services, improving the quality of health care and ensuring 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, the Health Care Complaints Commission and Safe Food Production New South Wales.

Services Delivered

On an average day, 3,600 people are admitted to New South Wales public hospitals for inpatient care, 17,000 people spend the day being treated in a hospital bed and more than 5,100 people every day (or around four people per minute) are seen in emergency departments. Ambulance services respond to an average of 2,300 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
- 18 rural hospitals and health 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 funding injections with total expenses in the Department of Health now expected to exceed $8.34 billion in 2002-03.

In the budget year, new and ongoing recurrent initiatives include:

- increased funding of $8.5 million for a range of medical and surgical services conducted across the south western area of Sydney, covering cardiology, increased gynaecology surgery, enhanced immunology and AIDS / HIV services, establishment of a new stroke unit at Campbelltown Hospital and full year funding for providing neurosurgical, paediatric and ophthalmology surgical services;
- an additional $2.1 million to fund the operating costs of the twenty-five bed mental health inpatient unit at Tweed Heads Hospital and major redevelopments at Tweed Heads and Murwillumbah Hospitals ($6.5 million);
- $3.5 million to improve the access and provision of aged care and rehabilitation services on the mid-north coast;
- $3.0 million to improve a range of paediatric care and clinical services provided by the Children's Hospital at Westmead, including nurse educators, speech pathologists and dieticians to fight child obesity; and

- $1.5 million to meet increased demand for emergency department services on the Central Coast.

Other major funding initiatives in 2002-03 include:

- a major metropolitan planning initiative, led by clinicians, has resulted in enhancements of some $60 million per annum being provided to meet a range of specialist services, such as severe burns, brain injury, and spinal cord injury. Services such as cardiac, bone marrow transplantation and stroke units will be increased across the greater metropolitan area. Funding to district metropolitan hospitals will also be boosted to provide a greater range of health care services to their resident communities;

- $8.5 million to fund the establishment of new Intensive Care Unit (ICU) beds at Westmead (four), Wollongong and Royal Prince Alfred Hospitals (two at each) and John Hunter, St George, Liverpool and Royal North Shore hospitals (one each) as part of the state-wide Intensive Care Service Plan;

- an additional $16 million for oral health services, exceeding the Government's March 2000 oral health commitment by $5 million. The extra $5 million provides for an additional 4,000 denture services to older persons across the State on an annual basis, increases the delivery of specialist oral health services and provides new funding for Aboriginal oral health care;

- $36 million allocated over five years to Health as part of the Government's initiative for implementing BioFirst, the Government's Biotechnology Strategy;

- an additional $2 million for podiatry services, providing an extra 40,000 podiatry occasions of service in the metropolitan area and 15,000 in rural areas;
- further funding for mental health services with the provision of an extra 226 beds. This is on top of the 150 beds announced in 2000. Annual funding of $20 million will enable the implementation of service network arrangements and result in around 300 new beds being opened in 2002-03;
- under the Rural Government Action Plan for Health, there is additional new funding of $35 million for rural health initiatives;

- $8 million will be made available on an ongoing basis to fund the implementation of a Universal Newborn Hearing Screening Program across the State. From 1 December 2002 all babies will be tested for significant hearing impairment enabling early treatment to occur;

- $10 million to the NSW Ambulance Service to continue its implementation of the operational reforms identified by the Auditor-General, further building on its efficiency, operational effectiveness and improvements in response times;

- $38 million for various Drug Summit Government Plan of Action projects;

- the provision of $11 million for the Magistrates Early Referral Into Treatment (MERIT), a court based diversion program that allows arrested defendants with illicit drug problems to undertake treatment and rehabilitation under bail; and

- the provision of medical indemnity insurance to Visiting Medical Officers (VMOs), ensuring the treatment of public patients in New South Wales public hospitals at an estimated additional cost of around $30 million per annum.

In 2002-03 the Government will commence the following capital works:

- $20 million ($3.7 million of new planning works) for the comprehensive redevelopment of the Royal North Shore Hospital campus, consolidating facilities into acute, subacute and support service zones around a central plaza at an estimated total cost of $452 million. (This total includes $44.6 million in current works-in-progress and planning expenditures related to works commenced in 1998 and 2000; for example, the POEM facility and Burns Unit). Implementation will be ongoing through to 2010;

- construction of new obstetric, paediatric and emergency service facilities at Hornsby Ku-ring-gai Hospital at an estimated total cost of $16.4 million;

- construction of new rural hospitals and health services at Bourke, Hay, Kyogle and Henty at a combined estimated cost of $40.8 million with $9.6 million being spent in 2002-03;

- provision of $10.5 million for the Metropolitan Clinical Networks Infrastructure Strategy, which establishes sustainable clinical networks in Sydney, Newcastle and Wollongong through investment in clinical speciality services infrastructure*;*

- expansion of the Liverpool Hospital emergency / trauma facilities and the provision of additional capacity for paediatric services at an estimated total cost of $9.1 million;

- redevelopment and extension of the Nepean Hospital emergency service facilities including additional capacity for paediatrics, acute treatment areas and observation wards at an estimated total cost of $8.6 million;

- redevelopment of Blue Mountains Hospital clinical and inpatient wards at an estimated total cost of $6 million;

- implementation of a $5 million pilot project for the Point of Care Clinical Information System, which will enable the presentation of patient diagnostic results at point of care and automate test and service ordering;

- expansion of Shellharbour Hospital emergency service facilities from twelve to twenty spaces at an estimated total cost of $5 million;

- redevelopment of Milton-Ulladulla Hospital including a major upgrade to inpatient, birthing and operating suites, emergency, imaging and occupational therapy services at an estimated total cost of $4.4 million; and

- provision of $4 million for the mental health accelerated accommodation program, involving the development of additional mental health inpatient beds within existing surplus accommodation.

In 2002-03, expenses in the Health policy area are expected to total $8.1 billion with asset acquisitions of $510 million projected. Expenses in the Health policy area are lower than the expenses of the Department of Health of $8.3 billion mainly because the former excludes expenses associated with insurance payments to the Treasury Managed Fund. Further details of expenses and asset acquisitions 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 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 and users of life-support equipment (including payments by the Department of Transport, and pensioner rebates for rates and for electricity, gas, water and sewerage services).

Services Delivered

During 2002-03, the NSW Government's social security and welfare agencies will continue to deliver services to people with special needs or requiring a particular commitment, including:

- protection for an expected 44,000 children and young people at risk of abuse, harm or neglect;
- substitute care for an estimated 13,800 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 500,000 hours of respite care and over 4 million hours of service provided by the Home Care Service of New South Wales;
- provision of 83,000 spectacles for disadvantaged persons;
- an estimated 4,000 awards made by the Victims Compensation Tribunal;
- assistance, including accommodation, to people affected by crises and natural disasters;

- promotion of social, economic and cultural opportunities for women, Aboriginal and Torres Strait Islander people and multicultural communities; and

- provision of nearly 200 million concession trips (excluding school children) on SRA and STA transport services.

Social and Community Services Award Decision

On 16 November 2001, the New South Wales Industrial Relations Commission delivered its decision on a new Social and Community Services (State) Award.

Major changes under the new Award, which came into effect on 28 November 2001, include a wage increase of between 5.5 and 7 percent, a reduction from a 40 hour to 38 hour working week and the payment of on-call/call-back allowances. A further wage increase of 3 percent will occur on 28 November 2002.

The new Award also provides a revised grading structure with the creation of new supervisory levels (Grades 5 and 6). These new grades come into effect on 28 May 2002.

Workers under the Award are predominately employed by non-government social service providers, including disability, out-of-home care, supported accommodation and home and community care.

On 21 November 2001, the New South Wales Government committed to meet its share of the additional costs from the Award decision with the expectation that the Commonwealth Government would do the same. The Commonwealth Government provides approximately half of all government funding for a number of key community and disability services delivered by the non-government sector.

The funding formula agreed between the Government and relevant non-government peak bodies and the Australian Services Union recognises the greater cost impact the Award has on services operating on a 24 hour - 7 days a week basis. The formula provides an increase to the salary and related costs component of a service's grant funded at State level.

The assistance package is a significant commitment by the New South Wales Government to the non-government sector. In 2001-02 the package is estimated to cost $19 million and over the three years from 2001-02 total State Government assistance is estimated at $107.3 million.

The Commonwealth Government has not committed to provide additional funding to cover its share of the Award increases. The Commonwealth's share is estimated at $11.6 million in 2001-02; $24.1 million in 2002-03, and $27 million in 2003-04 and beyond – a total of $62.7 million over three years.

Government Initiatives

Expenses within the social security and welfare area are projected at $2,456 million in 2002-03 compared with a budget of $2,319 million in 2001-02. Total expenses are estimated to have increased by $510 million (26.2 percent) since 1999-2000. Additional expenditure in the 2002-03 Budget will provide:

- ♦ $33.9 million for the estimated increase in costs of programs affected by the Social and Community Services (State) Award, including:
  - 24-hour, seven day services in community-based accommodation services for people with a disability, in the Supported Accommodation Assistance Program and in the community-based residential care for children and young people unable to live at home;
  - prevention and early intervention community services and children's services; and
  - community-based disability services and Home and Community Care services;
- ♦ $12.3 million for foster care allowances and support, with total additional expenditure on these services estimated at $61.1 million over the next four years;
- ♦ $3.8 million for the recruitment of 43 extra staff (including 30 caseworkers) to implement the requirements of the new *Children and Young Persons (Care and Protection) Amendment (Permanency Planning) Act 2001* in intensive and statutory intervention services and out-of-home care services;
- ♦ $1 million for Aboriginal Community Partnerships (Improving Outcomes), a trial involving community participation in government service provision and planning in three Aboriginal communities/regions;
- ♦ $1.9 million for the Aboriginal Child, Youth and Family Strategy (Improving Outcomes) meeting critical needs such as community family violence and parenting programs, drug and alcohol services, community pre-schools and community capacity building initiatives across New South Wales;
- ♦ $28.4 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;

- $17 million ($36 million over four years) in support of the Adult Training and Learning System (ATLAS) Review and Reform, to provide transitional services to assist school leavers with a disability to achieve employment, vocational education and training, and improved community access; and

- $1.5 million ($15 million over four years), to accommodate people with a disability outside of boarding houses.

Increased expenditure within the social security and welfare area in recent years includes a number of initiatives by the Department of Ageing, Disability and Home Care. The following key initiatives, which began in 2000-01 and 2001-02, will continue to be implemented by the Department:

- $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

- $12.8 million over four years for enhancement to the 5-year dementia program.

The 2002-03 Budget also provides for concessions to social security beneficiaries and other financial assistance including:

- $307.9 million for transport concessions on CityRail, Countrylink and State Transit services;

- $230.1 million for programs delivering programs delivering local council rate rebates and electricity, gas, water and sewerage rate concessions; and

- $67.2 million for estimated compensation to victims of crime.

The Government will support an asset acquisition program in the social services and welfare area of $31.2 million in 2002-03. The Department of Community Services' program of $12.3 million includes $4.6 million for the final stage of a Client Information System.

The Department of Ageing, Disability and Home Care's $12.5 million asset acquisition program in 2002-03 includes $2 million in funding for asset acquisitions associated with the relocation of people with a disability from boarding houses, and $0.7 million for fire safety in group homes.

Further details or expenses and asset acquisitions 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 757,000 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 900,000 students;

- pre-school education services for 2,293 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 2002-03 include:

Schools

- nearly $500 million over four years for the further expansion of the State Literacy and Numeracy Plan with over $124 million to be spent in 2002-03;

- $963 million ($823 million in expenses and $140 million in capital) will be spent over four years for technology initiatives. This includes $584 million in expenses and $50 million in capital to continue the Computers in Schools program, teacher training and support, maintaining software and licenses and managed access to the Department of Education and Training's Intranet site. There is a further $82 million in expenses for e-learning accounts and $157 million in expenses and $90 million in capital for high speed broadband;

- $88.5 million over the next four years for initiatives to enhance the quality of teachers and to ensure an adequate supply of teachers in key learning areas;

- an additional $40 million over four years for targeted assistance to schools to meet locally identified needs;

- an additional $10 million over the next two years to undertake pilot programs to provide intensive support for specifically targeted primary, high and central schools, designed to improve educational outcomes and to introduce a pilot of reduced class sizes in designated schools for Kindergarten to Year 3, to be independently monitored and evaluated;

- $47.5 million over the next four years to provide a wider range of placement and support options for students with disruptive behaviour; and

- a school maintenance program in the order of $600 million over the next four years. Some $179 million will be spent in 2002-03 to maintain public schools.

In 2002-03, $300 million will be available for spending on capital projects at schools, an increase of $42.4 million on last year's allocation. The allocation is part of a four year $1.1 billion Schools Improvement package, announced last year, 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, including:

- more than 30 new primary schools and high schools;

- improvements to facilities for students, teachers and school staff, including upgrades to classrooms, libraries and administrative facilities, as well as better disabled access and school security; and

- funding for landscaping, fencing and general improvements at older schools.

In addition to the above, work will also commence on a package of nine new schools under the New Schools program. The Government is proposing that, subject to satisfying 'value for money' criteria, the schools will be constructed in partnership with the private sector, under a Privately Financed Project (PFP) arrangement.

TAFE

Nearly $20 million over four years to support TAFE scholarships and students at risk programs, with some $4.7 million being available this year including:

- $1.8 million in 2001-02, for a joint TAFE and schools initiative to target youth and to expand their access to vocational education and training. TAFE NSW will provide an additional 100 places for students in Juvenile Centres;

- 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 at a cost of $2.9 million; and

- 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.

The asset acquisition program for 2002-03 is $72 million. The program provides for the commencement of 27 new projects, including new facilities at Albury, Cootamundra, Shellharbour and Wyong. Construction will continue on major works commenced in prior years.

In 2002-03, expenses in the Education policy area are expected to total $7,648 million while asset acquisitions of $417 million are projected. Expenses of the Department of Education and Training are expected to reach $7,617 million in 2002-03 with part of the agency's expenses classified to other functional areas. Further details of expenses and asset acquisitions are provided 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 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 8,140 prisoners daily;
- dealing with over 260,000 criminal and over 36,000 civil cases annually through the courts;
- responding to over 125,000 fire incidents in metropolitan, urban and rural areas; and
- support for 9,000 State Emergency Service volunteers responding to 30,000 incidents per year.

Government Initiatives

In delivering the above services, the Government will undertake the following initiatives in 2002-03 Budget year:

- An amount of $600,000 per annum has been provided to the Attorney General's Department to continue the operation of the Legal Resource and Referral Centre. This initiative is designed to deliver a legal information, assistance and referral service to the people of New South Wales.

- An amount of $800,000 per annum has been provided to the Department of Juvenile Justice to take over the responsibility for juvenile escort in the Hunter area from the New South Wales Police freeing up police resources for other functions.

- The Legal Aid Commission's Criminal Law Program has been allocated an additional $5 million to address additional demand and to compensate for the withdrawal of Commonwealth funding of State matters.

- In 2002-03 the Legal Aid Commission will provide the Youth Justice Hotline on a 24 hour basis from 9.00am Friday to 12 midnight on Sunday at a cost of $0.5 million per annum. This will allow more children to access the service and receive free legal advice and other information.

- An amount of $1.7 million has been provided to the Office of the Director of Public Prosecutions to pilot the distribution and use of electronic evidence briefs within the public sector criminal justice agencies.

- An additional $800,000 will be provided to the Department of Corrective Services for grants to community organisations which assist inmates, ex-inmates and their families.

- An additional $17.3 million will be provided to the Department of Corrective Services for the cost of additional inmates as a result of the government decision to tighten bail conditions.

- The Probation and Parole Service will be provided with an additional $5.1 million for management of offenders in the community.

- Staffing of Mental Health Assessment Units at the Metropolitan Remand and Reception Centre and at Mulawa Correctional Centre will be increased through the allocation of an additional $850,000 per annum.

- An additional $12.4 million will be provided to the NSW Fire Brigades over the next four years to provide 51 permanent and 12 retained firefighters for new fire stations being built under the Hunter and Central Coast strategic programs.

- Over $21 million in additional funding will be provided over the next four years to maintain the NSW Fire Brigades' property and fleet assets with an additional $22 million being provided to enhance the Brigades' information technology and telecommunications capability. An additional allocation of $1.7 million per annum over the next two years will be provided to enhance the personal and protective equipment of operational firefighters.

- Additional funding of $750,000 will be provided to the NSW Fire Brigades in 2002-03 to establish additional Community Fire Units. These units played a major role in containing the damage caused by the Christmas bush fires.

- The NSW Rural Fire Service will receive an additional $2 million per annum to meet increased responsibilities in relation to bushfire hazard reduction work envisaged in the proposed amendments to the *Environmental Planning and Assessment Act* and the *Rural Fires Act*. A further $2.5 million per annum will be provided to enhance the Service's ability in fire control management at a local level as well as funding of $1.35 million towards the acquisition of a Geographical Information System for the Service.

- An additional $250,000 per annum will be provided for grants to Volunteer Rescue Units.

- The State Emergency Service will undertake the development of programs aimed at raising the readiness of communities for floods at a cost of $250,000 per annum. This will include the production of community specific guides with locally generated and locally relevant data.

- A new program to assist in meeting the day to day expenses of operating State Emergency Service units has been approved and $778,000 in 2002-03 has been allocated. The program will benefit volunteers who currently have to meet these expenses through fund raising activities.

- An additional $150,000 per annum has been provided to the Police Service to continue the Cabramatta Anti-Drug Strategy commenced in 2001-02.

- An amount of $2 million is being provided in 2002-03 for police recruitment and $6.6 million for the restructured Diploma of Policing Practice.

- A new management structure for Police and Community Youth Clubs will be trialled at a cost of $443,000 in 2002-03.

- Funding of $6.3 million has been provided to the Police Service for DNA testing and ongoing maintenance and operational support for the Livescan (fingerprints) and Integrated Ballistics Information System (IBIS) forensic systems.

- The ability of the New South Wales Crime Commission to target high level drug traffickers and persons involved in organised crime in New South Wales will be enhanced by the provision of $1.2 million over four years for the expansion of telecommunications interception.

- Additional funding of $715,000 over four years has been provided to the Ministry for Police for the continuation of the Innocence Panel established in 2001-02. The Panel was established as a Government initiative to facilitate the establishment of innocence through DNA testing of persons convicted of crimes.

In 2002-03, expenses in the Public Order and Safety policy area are expected to total $3,330 million while asset acquisitions of $340 million are projected. Further details of expenses and asset acquisitions are provided in Budget Papers No. 3 and No. 4.

TRANSPORT

Overall Objective

The objective of the Transport policy area is the provision of efficient, accessible and integrated transport infrastructure and services, that in turn support 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; and

- The management of NSW waterways and deep water ports at Sydney, Newcastle and Port Kembla.

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 and the Rail Infrastructure 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 1,800 kms of electrified track, carrying freight and passenger traffic;
- ♦ Safe, reliable and convenient public transport services, including State operated services that will carry 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 and handle the equivalent of over 1 million twenty-foot containers.

Government Initiatives

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

- ♦ Continuing the major step up in the level of rail funding of more than \$1 billion over 4 years beginning in 2001-02. Major works forming part of the expanded program include:
  - \$517.4 million for an additional 141 Millennium passenger carriages (\$181 million in 2002-03) and 41 new outer suburban cars (\$4.6 million in 2002-03);
  - \$106 million for new passenger cars for the Hunter region and Broken Hill (\$2.6 million in 2002-03);

- accelerating train and track maintenance ($118 million in 2002-03); and

- $30 million per year on new signalling and other safety works.

♦ Providing a further $80 million per year, for maintenance of rural track infrastructure, bringing total CSO funding to $286 million per annum compared with $167.2 million in 1999-2000;

♦ Commencing construction of the Parramatta Rail Link, with approximately $222 million to be spent in 2002-03;

♦ Continuing *Easy Access* upgrades at 16 locations currently in progress as well as 5 new sites ($37.8 million in 2002-03);

♦ Investigation of the Epping to Castle Hill line, Newcastle and Wollongong high speed upgrades, Cronulla line amplification and development of the Parramatta to Epping section of the Parramatta Rail Link ($6.7 million in 2002-03);

♦ The construction, at a cost of $258 million, of the Parramatta to Liverpool Bus only transit way ($80.8 million in 2002-03);

♦ Upgrades for commuter parking and interchange facilities at a cost of $24 million in 2002-03;

♦ Upgrading of Windsor/Old Windsor Roads to provide four lanes to Windsor by 2006 at a cost of $323 million over five years ($63 million in 2002-03);

♦ Funds averaging $160 million per year for works as part of $1.6 billion continuing Pacific Highway upgrade program, which in 2002-03 includes the Halfway Creek upgrade and the Coopernook by-pass, and jointly with the Commonwealth, the Karuah Bypass and duplication between Yelgun and Chinderah and between Taree and Coopernook;

♦ Commencement of preliminary works for the Western Sydney Orbital Link between the M5 and M2 motorways ($61.6 million in 2002-03);

♦ Upgrading of Cowpasture Road and Hoxton Park Road in South Western Sydney ($36.3 million in 2002-03); and

♦ Continuing construction of the North Kiama Bypass ($30 million in 2002-03).

In 2002-03, expenses in the Transport policy area is expected to total $3,022 million with asset acquisitions of $1,267 million projected. Further details of expenses and asset acquisitions are provided in Budget Papers No. 3 and No. 4.

HOUSING AND WATER

Overall Objective

The key objectives of the Housing and Water 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 Office of State Revenue (First Home Owners 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 Planning.

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

Services Delivered

Key services provided within this policy area include:

- housing support to an estimated 500,000 people through the Government's Housing Assistance Program;
- the provision of assistance to 44,500 first home owners;
- the Aboriginal Communities Development Program that addresses 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;
- delivering backlog water supply and sewerage projects in country towns; and
- the management of the State's water licensing system.

Government Initiatives

In delivering these services, the Government will undertake the following key initiatives in the 2002-03 Budget year:

- funding of $219.6 million, $8.5 million and $15.9 million will be provided for improvements to dwellings in the public, community (including crisis) and Aboriginal housing sectors, respectively. This will involve more than 60,000 dwellings;
- maintain a supply program of $231.5 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;
- funding of $294 million is expected to be provided to first home owners under the joint Commonwealth-State First Home Owners Grant Scheme;
- funding of $4 million to implement *Plan First* reforms – utilising a whole-of-government approach, in partnership with local government, to State, regional and local planning;
- provide $8.4 million for the redevelopment of the Festival Development Corporation site at Mount Penang; and
- provide $56.4 million to meet commitments in delivering projects in backlog water supply and sewerage schemes in country towns after significantly accelerating the program in 2001-02.

In 2002-03, expenses in the Housing and Water policy area are expected to total $1,013.3 million (which includes grants for asset acquisitions by Housing agencies) while other asset acquisitions of $17.9 million are projected. Further details of expenses and asset acquisitions are provided in Budget Papers No. 3 and No. 4.

AGRICULTURE, FORESTRY AND FISHING

Overall Objective

The objectives of the Agriculture, Forestry and Fishing 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 2002-03 include:

- skills workshops for 11,200 farmers;

- 23,000 home study and short course enrolments through the State's agricultural colleges;

- 20 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;

- financial support for water use efficiency schemes under the Government's $25 million, five-year Water Reform Structural Adjustment Package;

- allocation of funds for Natural Heritage Trust programs administered by the Department of Land and Water Conservation;

- assistance to forestry businesses to invest in value adding employment creation;

- provision of retraining for forestry workers affected by forestry policy reforms;

- implementation of fisheries management plans, protection of fish species and various initiatives supporting the State's aquaculture industry; and

- re-invest funds 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.

Government Initiatives

In delivering these services, the Government will undertake the following key initiatives in the 2002-03 Budget year:

- allocate $17.6 million, spread across several agencies, to continue funding 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 of $64.7 million over four years has been provided for these reforms;

- spend around $13 million under the *NSW Salinity Strategy* – part of a total $52 million program over four years, spread across several agencies. Expenditure on *NSW Salinity Strategy* is recognised as part of New South Wales’ contribution to the National Action Plan on Salinity and Water Quality. An additional $33 million has been allocated bringing the total in 2002-03 to $46 million. The National Action Plan, which is scheduled for completion in June 2007, will provide $396 million as a joint State/Commonwealth contribution to address New South Wales’ most pressing salinity and water quality problems.

- provide up to $13 million over six years (including around $2 million in 2002-03) 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 $7 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 $1.4 million to assist the sheep industry combat Ovine Johne’s disease;

- the FarmBis program – Skilling Farmers for the Future Program, commenced on 1 July 2001, with $26.8 million in joint State / Commonwealth funding being provided over three years;

- an additional $3 million for the buy-out of commercial fishing entitlements from Jervis Bay Marine Park, following the $4 million Solitary Islands buyout in 2001-02;

- provide $1.5 million for the development of the emerging aquaculture industry – part of the $3 million three year aquaculture initiative;

- an additional $0.9 million for the management of aquatic pests including the weed *Caulerpa taxifolia*; and

- provide $60 million for forest industry reforms.

In 2002-03, expenses in the Agriculture, Forestry and Fishing policy area are expected to total $547 million while asset acquisitions of $48 million are projected. Further details of expenses and asset acquisitions are provided in Budget Papers No. 3 and No. 4.

ENVIRONMENT PROTECTION

Overall Objective

The key objectives of the Environment Protection 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, Resource NSW, Waste Fund, Stormwater Trust and the Environmental Trust and includes expenditures to address salinity.

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 161 national parks, 359 nature reserves, 22 State recreation areas and ten regional parks as part of the 5.4 million hectares reserved in New South Wales under the *National Parks and Wildlife Act 1974* to support conservation values and sustaining some 21 million public visitations per annum;
- 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 271 new national parks and reserves, including additions to existing reserves. More than 1,035,000 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 ($82 million over the five-year period 1997-98 to 2002-03) 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 2002-03 Budget year:

- spend $51.5 million on waste minimisation and management initiatives, including an amount of $40.9 million to support the Waste Fund;

- provide for capital works totalling $52.5 million by the National Parks and Wildlife Service. These funds will be used to acquire additional lands with high conservation values, with a particular focus on suitable parcels in western New South Wales, 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 $9.5 million per annum for the management of newly established parks in southern and south-eastern New South Wales, and $10.5 million per annum in north eastern New South Wales, following comprehensive assessments in those regions;

- allocate a further $3.1 million (increasing to $5.2 million per annum in 2005-06) to establish and manage the remaining parcels of land to be acquired in north-eastern New South Wales for addition to national park reserves;

- allocate $1 million for a further stage of the State Biodiversity Strategy 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 an additional $5 million to upgrade sewerage works and facilities in parks throughout New South Wales;

- provide a further $1.5 million for the purchase of wilderness areas as part of the Dunphy Wilderness Fund;

- develop markets and investment strategies that encourage public and private participation in activities producing environmental benefits;

- spend $20 million on regionally significant and open space lands, either acquired or improved through funding provided by the Sydney Region Development Fund; and

- provide $2 million to expedite the construction of a levee bank at Lismore as part of the State's $13.9 million contribution towards floodplain management.

In 2002-03, expenses in the Environment Protection policy area are expected to total $708.5 million while asset acquisitions of $90.8 million are projected. Further details of expenses and asset acquisitions 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 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: the Historic Houses Trust, Film and Television Office, Museum of Applied Arts and Sciences, State Library, Australian Museum, the Art Gallery of New South Wales and State Records.

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 600,000 regional participants.

- The 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 440 participant days at eleven Sport and Recreation Centres and Academies, assisting the development of 460 local and 20 regional sports facilities, co-ordinating the operations of five Western Sydney Olympic venues and supporting the operations of the NSW Institute of Sport, Sydney Aquatic and Athletic Centres and the State Sports Centre.

- Oversighting 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 2002-03 include:

- $0.5 million per annum from 2002-03 to the Ministry for the Arts for the Western Sydney Arts Strategy. This is in addition to the one-off increase of $14.9 million in 2001-02 for the Western Sydney capital project. The increased funding will contribute to the necessary infrastructure to enable implementation of the strategy to further develop the arts in Western Sydney. Total funding for this program in 2002-03 is $1.5 million.

- $1.0 million per annum additional funding from 2002-03 for cultural grants, taking total funding to $26.7 million. Funds will go towards a range of performance arts initiatives and improvements to the regional museum network.

- An increase of $0.7 million in 2002-03 (rising to $0.8 million in 2003-04) for the Ministry's Community Cultural Development Program. This includes funding for two additional Regional Arts Development Officers (RADOs), increases in RADO operating budgets and an increase for the Community Arts Support Program administered through Regional Arts NSW. Total funding for the Community Cultural Development Program is $2.7 million in 2002-03.

- Additional funding of $24.1 million was provided to the Sydney Opera House Trust in 2001-02 to begin the Venue Improvement Plan, costing $69 million over six years. This plan includes projects such as improvements to the opera theatre orchestra pit to address occupational health and safety and acoustic issues.

- Funding of $294,000 to the Museum of Applied Arts and Sciences to establish a Movable Heritage Research Centre within the Museum.

- $10.9 million over four years to construct a specialised collection storage facility at the Museum of Applied Arts and Sciences' Castle Hill site to replace rented premises in Ultimo. Construction is scheduled for completion by the end of 2004.

- $6.1 million to the Centennial Park and Moore Park Trust in 2002-03 for the first stage of the planned seven-year park improvement plan to secure its long term future as a sustainable integrated leisure environment serving metropolitan recreation seekers, local communities, domestic and international tourists.

- A $311,000 increase to $650,000 for the Industry and Audience Development Program of the NSW Film and Television Office in 2002-03, to increase its services to regional NSW and Western Sydney. This program will strategically assist the expansion of film-related activities such as local film festivals, travelling industry programs and specialised training initiatives outside the Sydney CBD.

- An additional $2.5 million (taking the total to $16.25 million) to the Sport and Recreation Fund for grants to sporting organisations throughout New South Wales.

In 2002-03, expenses in the Recreation and Culture policy area are expected to total $554 million while asset acquisitions of $102.5 million are projected. Further details of expenses and asset acquisitions 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, Tourism NSW, Compensation Court of the Attorney-General's Department, Office of Information Technology, Ministry of Energy and Utilities, Independent Pricing and Regulatory Tribunal, Department of Fair Trading, Tourism New South Wales, Department of Mineral Resources, Coal Compensation Board, Sustainable Energy Development Authority, vocational educational programs administered by the Department of Education and Training and economic development expenditure by the 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 2002-03 include:

- operations of the Treasury Managed Fund, which provides cover for all insurance exposures faced by budget dependent agencies (other than compulsory third party insurance);

- expenditure of $18.6 million to provide a comprehensive information and knowledge framework on the State’s geology and mineral resources. The funding provides for responsible exploration and development of the State’s mineral and energy resources and will ensure that informed decisions are made on land use, infrastructure planning and the sustainable development of the State’s resources;

- the seven-year $30 million “Exploration NSW” initiative aimed at attracting exploration investment to the State. Funding of $5 million is available in 2002-03 for work programs focusing on Broken Hill, the Murray Basin, the Central West and northern regions of the State;

- promoting New South Wales as a tourist destination. In 2002-03, it is estimated that domestic and international tourists will spend just under 140 million visitor nights in New South Wales;

- provision of an industry-based, portable long-service benefit scheme for over 300,000 workers in the building and construction industry;

- ongoing development and implementation of the Government’s energy reform initiatives; and

- funding for resolution of workers’ compensation disputes, including funding of the new Workers Compensation Commission and the Compensation Court of New South Wales.

Government Initiatives

In delivering the above services, the Government will undertake the following key initiatives in the 2002-03 Budget year:

- continuing full funding of the Government insurance liability. The Treasury Managed Fund became fully funded in 2002 and all government insurance liabilities will be fully funded by June 2006;

- provide funding of $12 million under the *connect.nsw* program which is a whole-of-government electronic service delivery strategy, that outlines the use of information technology to streamline internal government practices;

- provide $8 million for the online business licensing project co-ordinated by the Office of Information Technology;

- continuation of a series of measures ($1.3 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;

- continuation of reform measures to the New South Wales workers' compensation scheme including an increased emphasis on injury management and return to work strategies; and

- as part of recent workers' compensation reforms, a new Workers Compensation Commission (funded and operated by the WorkCover Authority from 1 January 2002) has replaced the Workers Compensation Resolution Service.

In 2002-03, expenses in the Other Economic Services policy area are expected to total $2,057 million while asset acquisitions of $66 million are projected. Further details of expenses and asset acquisitions 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 activities of the Legislature and central agencies.

Scope of Policy Area

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

- transactions of the Crown Finance Entity, including interest payments for the general government sector;

- legislative services including The Legislature and the Parliamentary Counsel's Office;

- the majority of the operations of the central agencies, specifically Treasury, Cabinet Office and the 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

- activities of the Department of Public Works and Services and the Crown Property Portfolio.

Services Delivered

In 2002-03, expenses in Other Purposes policy area are expected to total $2,861 million with asset acquisition of $123 million projected. The major components of total expenses in this policy area are the transactions of the Crown Finance Entity, including $640 million for debt servicing costs across the general government sector. Other significant services in this policy area include:

- $380 million for services of the Department of Public Works and Services, including procurement, asset and project management, property disposal, engineering and valuation services;

- $160 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;

- $84 million for legislative services;

- $136 million for activities of the Crown Property Portfolio, including the maintenance of various Crown assets; and

- $250 million for the Treasurer's Recurrent Advance, which is a contingency item.

Asset acquisition for the Other Purposes Policy Area for 2002-03 are budgeted around $120 million. The major components of the asset acquisitions are plant and equipment and the development and implementation of information technology systems, which are necessary for the administrative operations of government.

Also included within this policy area is the Treasurer's Capital Advance of $60 million.

Further details of expenses and asset acquisitions are provided in Budget Papers No. 3 and No. 4.

CHAPTER 3: GENERAL GOVERNMENT SECTOR REVENUES

- Tax changes implemented in 2002-03 will reduce revenue by $182 million in 2002-03, and $229 million in 2003-04, increasing to $260 million a year by 2005-06.
- Together with tax changes implemented since 1999, the 2002-03 measures will reduce tax revenue by $1,399 million in 2002-03, rising to a cost of $1,589 million a year by 2005-06.
- From 1 July 2002, wages paid to apprentices will be totally exempt from payroll tax. Additionally, the payroll tax base will be broadened – by removing the concessions for fringe benefits and eligible termination payments – to provide for consistent treatment of these items with wages and salary, and bring the NSW payroll tax base into line with other states.
- The payroll tax rate will be cut from 6.2 percent to 6.0 percent from 1 July 2002.
- From 1 August 2002, the stamp duty on general insurance, (including duty on public liability insurance), will be reduced from 10 percent to 5 percent.
- Changed funding arrangements associated with national taxation reform will not provide net financial benefits to New South Wales in 2002-03. In fact, the Commonwealth's decision at the Treasurer's Conference on 22 March 2002 to deviate from the agreed methodology for determining assistance provided to ensure the states are no worse off from national tax reform will cost New South Wales around $416 million over the five years to 2006-07, and delay by one year (to 2008-09) the time when New South Wales will receive cumulative net benefits from national tax reform.

3.1 INTRODUCTION

This chapter provides detailed information on the revenue side of the 2002-03 NSW Budget. General government sector revenue is divided into state revenue and operating revenue. State revenue comprises state tax collections, Commonwealth Government grants, state enterprise dividends and tax equivalent payments, and revenue from licences, fees, fines, levies and royalties. Operating revenue comprises revenue earned by public sector agencies in the normal course of their operations and mainly consists of user charges levied to recover the cost of providing some goods and services.

Section 3.2 details the changes to state taxation policy in this Budget as well as policy changes introduced since the 2001-02 Budget.

Section 3.3 provides an overview of expected changes in total general government sector revenue and its main components.

Section 3.4 provides detail on the expected outcome for State revenue in 2001-02, and the outlook for 2002-03 (the Budget year) and the following three years (the forward years). Section 3.5 provides the same details for operating revenue.

For the first time, this Budget presents revenue based on accrual Government Finance Statistics (GFS) guidelines in accordance with principles used by the Australian Bureau of Statistics in compiling its GFS data. While the effect of the change to GFS guidelines on revenue aggregates is minor, care is required in making comparisons of revenue between years covered in this Budget and results published in earlier budgets.

3.2 TAXATION POLICY MEASURES

2002-03 BUDGET TAX MEASURES

Revenue measures in the 2002-03 Budget reflect the Government’s policies of ensuring the sustainability of the State’s fiscal position over the course of an economic cycle, while at the same time maintaining New South Wales’ position as a competitive location for business investment and employment growth.

Tax changes implemented in 2002-03 will reduce revenue by $182 million in 2002-03 and $215 million in a full year. These measures are summarised in Table 3.1.

Table 3.1: Tax Measures Taking Effect in 2002-03

Initiative	*Revenue Impact*	
	2002-03 $m	*Full Year [(a)] $m*
Reduction of payroll tax rate from 6.2% to 6.0%, from 1.7.02	(-) 130	(-) 142
Exemption of apprentice wages from payroll tax, from 1.7.02	(-) 9	(-) 10
Broadening of payroll tax base, from 1.7.02	107	117
Reduction of general insurance stamp duty rate from 10.0% to 5.0%, from 1.8.02	(-) 150	(-) 180
Total – 2002-03 Measures	**(-) 182**	**(-) 215**

[(a)] *The full year impact is the effect on revenue had the measure been operative for the whole of 2002-03. For taxes where revenue in one month relates to the previous months' activity, a measure taking effect from 1 July will affect only eleven months' revenue. The full-year 2002-03 impact differs from the 2003-04 revenue impact shown in Table 3.3 due to growth in the tax base between the years.*

Payroll Tax – Exemption for Apprentices and Base Broadening

In the 1999-2000 Budget, the Treasurer announced the payroll tax rate would decline from 6.2 percent to 6.0 percent from 1 July 2002. The Government has taken further payroll tax measures in this Budget.

From 1 July 2002, apprentices' wages will be totally exempt from payroll tax.

At present, there are two payroll tax apprenticeship concessions. First, wages paid to employees under group apprenticeship or group traineeship schemes approved by the Department of Industrial Relations are exempt from payroll tax. (Under such schemes, group training companies employ apprentices and trainees and place them with host employers.) Second, from 1 July 1999, employers of apprentices not under a group scheme have been required to include in taxable wages only 25 percent of wages paid to first year apprentices, 50 percent of wages paid to second year apprentices and 75 percent of wages paid to third year apprentices.

Total exemption of apprentices' wages from payroll tax will reduce costs for employers of apprentices and greatly simplify the payroll tax treatment of apprentices.

Also from 1 July 2002, the Government will broaden the payroll tax base by removing concessions for fringe benefits and eligible termination payments.

From that date, payroll tax will apply to the ‘grossed-up’ value of fringe benefits, i.e. to the full pre-tax value of the fringe benefit. The Interim Report of the *Review of Employers’ Compliance with Workers Compensation Premiums and Payroll Tax in New South Wales* recommends that the definition of wages for payroll tax purposes should include the grossed-up value of fringe benefits.

At present, payroll tax is applied to the nominal value of fringe benefits provided by the employer, i.e., if provision of a car is valued at, say, $15,000 in the hands of the employee, that is the amount included for payroll tax purposes.

The treatment of fringe benefits up to now is inconsistent with the payroll tax treatment of remuneration by way of wages or salary, where payroll tax is applied to the gross or pre-income tax amount. That is, $15,000 provided by way of wages or salary in the hands of the employee (i.e. net of tax) would have a higher gross (i.e. pre-tax) value that would be used to determine payroll tax. It is also inconsistent with the Commonwealth’s treatment of fringe benefits for fringe benefits tax (FBT) purposes.

Also from 1 July 2002, eligible termination payments no longer will be exempt from payroll tax.

Broadening the payroll tax base will:

- bring New South Wales into line with recent or proposed changes in Victoria, Queensland and South Australia. Western Australia also broadened its payroll tax base in 2001-02 by taxing fully grossed-up fringe benefits;

- improve equity as organisations paying senior executives large redundancy packages will no longer benefit from the payroll tax concession;

- provide greater consistency with Commonwealth income and FBT treatment of employee remuneration; and

- remove the more favourable treatment of fringe benefits and eligible termination payments, which may influence the way employers remunerate employees.

The revenue cost of reducing the payroll tax rate from 6.2 percent to 6.0 percent and exempting apprentices’ wages from payroll tax more than offsets the revenue gain from broadening the tax base. In 2002-03, the net cost to revenue of changes to the payroll tax rate and base is $32 million, or $35 million in a full year.

Insurance Stamp Duty Rate Reduction

The Government will reduce the general stamp duty rate on insurance from 10 percent to 5 percent where the period of insurance begins on or after 1 August 2002. This will reduce the cost of insurance on household, travel, mortgage and certain types of commercial, including public liability insurance. This cut aligns the general duty rate with the existing 5 percent concessional rate applying to motor vehicle, occupational indemnity, disability income and aviation insurance.

Taken with the cut in the general insurance duty rate from 11.5 percent to 10 percent from 1 October 2000, the general insurance duty rate has been more than halved since 30 September 2000, to be the lowest general rate in Australia (see Table 3.2). The measure will cost an estimated $150 million in 2002-03 and $180 million in a full year.

Table 3.2: State Stamp Duty Rates on General Insurance [(a)] from 1 August 2002

State	*Duty Rate (%)*
Victoria	10
Queensland	8.5
Western Australia	8
South Australia	11
Tasmania	8
Northern Territory	10
Australian Capital Territory	10
New South Wales	5

(a) Concessional rates or exemptions apply to some general insurance products. Details are contained in "Interstate Comparison of Taxes, 2001-02", NSW Treasury.

MEASURES INTRODUCED SINCE THE 2001-02 BUDGET

A number of taxation measures have been introduced since the 2001-02 Budget.

Abolition of Bookmakers' Turnover Tax

On 25 February 2002, the Minister for Gaming and Racing announced the abolition of bookmakers' turnover tax. The tax, levied on bookmakers' racing and sports betting turnover, was abolished from 31 March 2002.

The abolition of this tax will improve bookmakers' ability to compete with bookmakers in states where turnover tax has already been abolished. With most bookmakers located in non-metropolitan areas, regional New South Wales will particularly benefit.

The estimated cost to revenue is $1 million in 2001-02 and $5 million in a full year. However, this will be partially offset by a saving to spending since the NSW Government's reimbursement of goods and services tax (GST) paid by bookmakers also ceased from 31 March 2002. Allowing for this saving, the net cost of abolishing the tax is $0.6 million in 2001-02 and $3.2 million in a full year[1].

Changed Method of Lotteries Taxation

From 1 September 2001, the Government changed the basis of NSW Lotteries taxation from a licence duty plus a general duty on subscriptions (sales in New South Wales of Lotteries products) to a tax on player loss (sales less return to player). The new effective universal tax rate is 66.1 percent of player loss. The new method of tax raises the same amount of revenue as the method it replaced.

The change considerably simplifies the taxation of NSW Lotteries products, and makes Lotteries taxation consistent with the taxation of all other major gambling operators. Taxing player loss is less distorting than taxing subscriptions, as the latter results in different effective rates of taxation for various Lotteries products.

Abolition of Adhesive Stamps

From 1 January 2002, the Government abolished the use of adhesive stamps for legal documents. In recent years, adhesive stamps were used for only one type of document, and their use for paying other fees and charges was decreasing. Abolishing adhesive stamps provides administrative savings to the Office of State Revenue (OSR). Since the measure affects only the method of paying stamp duty, not the requirement to pay stamp duty, there is no cost to revenue.

Refunds for stocks of unused adhesive stamps are available until 31 December 2002. Payment of refunds is expected to result in no revenue being recorded under the adhesives stamps head in 2001-02. Revenue that would have been recorded under adhesive stamps will now be recorded under the relevant stamp duty revenue head.

[1] *When the Commonwealth introduced the GST from 1 July 2000, the States were required to reduce State taxes on gambling to allow for the GST. For bookmakers, as the NSW Government could not achieve that by a simple reduction of tax rates, it reimbursed bookmakers the amount of GST paid on their fixed odds betting operations. The maximum reimbursement was capped at the amount of State turnover tax paid by bookmakers. New South Wales was compensated by the Commonwealth, under the terms of the Commonwealth-State tax reform agreement, for, in effect, reducing taxation on bookmakers.*

Motor Vehicle Taxes

From 1 January 2002, the Government introduced increased charges relating to hazard perception and driver qualification tests. From 1 March 2002, heavy vehicle inspection fees also increased. The revenue derived from the increased charges will be directed to the Roads and Traffic Authority's road program.

Cleaner Vehicles Stamp Duty Review

On 23 November 2001, the Premier announced the Government's *Cleaner Vehicles Action Plan*.

Under the plan, motor vehicle registration certificate stamp duty may be reduced on new vehicles (passenger cars, trucks up to 3.5 tonnes and similar vehicles such as four-wheel drives) approved as 'environmentally-friendly'; duty on new 'high-polluting' vehicles may be increased. Overall, there will be no change in the total revenue derived from stamp duty on new motor vehicle registration certificates. Details of the scheme will be released for public consultation later in 2002. The scheme is expected to be in place in 2003.

TAX RESTRAINT

The *level* of tax revenue has been buoyant in recent years because of the strength of the economy and the property market. However, tax *policy changes* have reduced revenue over recent years through adjustments to tax rates, thresholds and bases, as required under Fiscal Principle No. 7 in the *General Government Debt Elimination Act*.

Table 3.2 calculates for 2002-03 and the forward years the cumulative revenue impact in each year of the 2002-03 Budget tax measures and tax policy changes since the 1999-2000 Budget.

Table 3.3: Tax Measures

Initiative	Revenue Impact (a) 2002-03 $m	2003-04 $m	2004-05 $m	2005-06 $m
2002-03 Measures and Budget Initiatives				
Reduction of payroll tax rate from 6.2% to 6.0%, from 1.7.02	(-) 130	(-) 150	(-) 159	(-) 168
Exemption of apprentice wages from payroll tax, from 1.7.02	(-) 9	(-) 11	(-) 11	(-) 12
Broadening of payroll tax base, from 1.7.02	107	121	127	131
Reduction of general insurance stamp duty rate from 10.0% to 5.0%, from 1.8.02	(-) 150	(-) 189	(-) 200	(-) 211
Total – 2002-03 Measures	**(-) 182**	**(-) 229**	**(-) 243**	**(-) 260**
Measures Implemented since 1 July 1999				
Introduction of payroll tax concessions for non-group apprentices, from 1.7.99	(-) 5	(-) 5	(-) 5	(-) 5
Reduction of payroll tax rate:				
From 6.85% to 6.7%, (1.7.99)	(-) 106	(-) 113	(-) 119	(-) 125
From 6.7% to 6.4%, (1.7.99)	(-) 213	(-) 225	(-) 238	(-) 252
From 6.4% to 6.2%, (1.1.01)	(-) 142	(-) 150	(-) 159	(-) 168
Reduction of land tax rate from 1.85% to 1.7%, from 31.12.99	(-) 86	(-) 88	(-) 91	(-) 95
Phase-out of third-party motor vehicle registration levy, completed 1.7.00	(-) 112	(-) 112	(-) 112	(-) 112
Changes to Parking Space Levy, from 1.7.00	25	26	26	26
Removal of surcharge on motor vehicle registration fees and transfer fees, from 1.7.00	(-) 36	(-) 36	(-) 36	(-) 36

Table 3.3: Tax Measures (cont.)

Initiative	Revenue Impact (a) 2002-03 $m	2003-04 $m	2004-05 $m	2005-06 $m
First Home Plus stamp duty concessions for first home buyers, from 1.7.00	(-) 153	(-) 157	(-) 166	(-) 176
Reduction of general insurance stamp duty rate from 11.5% to 10.0%, from 1.10.00	(-) 40	(-) 42	(-) 44	(-) 47
Introduction of Insurance Protection Tax, from 1.7.01	69	69	69	69
Suspension of Electricity Distributors Levy, from 1.7.01	(-) 100	(-) 100	(-) 100	(-) 100
Increase of lease duty exemption threshold, and abolition of lease duty on franchise agreements, from 1.7.01	(-) 3	(-) 3	(-) 3	(-) 3
Increase of hiring arrangements duty threshold, from 1.7.01	(-) 2	(-) 2	(-) 2	(-) 3
Abolition of stamp duty on instruments relating to superannuation, from 1.7.01	(-) 1	(-) 1	(-) 1	(-) 1
Abolition of Debits Tax, from 1.1.02	(-) 314	(-) 312	(-) 310	(-) 309
Increase in miscellaneous Roads and Traffic Authority taxes, from 1.1.02	5	9	10	11
Abolition of Bookmaker's Turnover Tax, from 31.3.02 (net cost)	(-) 3	(-) 3	(-) 3	(-) 3
Total – previously implemented measures	**(-) 1,217**	**(-) 1,245**	**(-) 1,284**	**(-) 1,329**
Total – Tax changes since 1 July 1999	**(-) 1,399**	**(-) 1,474**	**(-) 1,527**	**(-) 1,589**

(a) Revenue impacts are expressed in nominal dollars.

Tax changes implemented in 2002-03, together with those introduced in the preceding three years, result in annual tax revenue being around $1.4 billion lower in 2002-03 than it would have been without those measures. Payroll tax rate reductions account for almost $600 million of this total, with the rate having been reduced from 6.85 percent at 30 June 1999 to 6 percent at 1 July 2002. Abolishing debits tax from 1 January 2002 accounts for another $314 million.

Without any further changes to policy, tax changes implemented since 1999-2000 will result in 2005-06 tax revenue being around $1.6 billion lower than it otherwise would have been.

Table 3.4: Impact of Tax Policy Changes [(a)]

Year	*Annual Contribution of New Policy Changes to Tax Collections (not including State taxes abolished with the GST) $m* [(b)]
1988-89	50
1989-90	200
1990-91	310
1991-92	80
1992-93	240
1993-94	100
1994-95	(-) 40
1995-96	20
1996-97	180
1997-98	280
1998-99	(-) 110
1999-2000	(-) 390
2000-01	(-) 220
2001-02	(-) 270
2002-03	(-) 400
2003-04	(-) 50
2004-05	(-) 20
2005-06	(-) 20

(a) This table shows the effect of new policy on tax revenue in any one year only, and (unlike Table 3.3) does not include the cumulative impact of measures introduced in prior years. 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 $50 million in the year it commences and a full year impact of $100 million, the impact of the policy is measured as $50 million in each year.

(b) Expressed in nominal dollars. 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) 1996-97 to 1998-99 include the tax increases to fund Fiscal Contribution Payments to the Commonwealth; (3) 1997-98 excludes the one-off loss from abolishing business franchise fees and their replacement by Commonwealth safety net taxes; (4) 2001-02 includes the impact of the insurance protection tax to help provide for the Policyholders' Protection Fund; and (5) 2002-03 includes the impact of the payroll tax base-broadening measures.

Looking at tax restraint another way, Table 3.4 shows the discrete impact of new tax policy measures in any one year. It shows that over the four years, 1999-2000 to 2002-03, tax policy changes have reduced revenue by an average of $320 million each year.

The tax policy changes in Tables 3.3 and 3.4 are in addition to about $1.2 billion worth of State taxes (accommodation levy, financial institutions duty, marketable securities duty on listed shares) abolished as part of the national tax reform program agreed between the Commonwealth and States in 1999.

3.3 TOTAL REVENUE

Total general government sector revenue is estimated to increase marginally, by 0.5 percent, in 2002-03 (see Table 3.5).

State revenue will fall by 0.6 percent in 2002-03, mainly due to an estimated reduction of 3.7 percent in taxation revenue. Commonwealth grants are estimated to increase by 0.8 percent in 2002-03. In contrast to the previous two years, the change in state tax revenue and Commonwealth grants between 2001-02 and 2002-03 will not be significantly affected by the substitution of Commonwealth grants for state tax revenues under the Commonwealth-State agreement for national tax reform.[2]

[2] *There is a small impact on tax revenue as 2002-03 revenue will reflect the first full-year effects of abolishing, from 1 July 2001, financial institutions duty and marketable securities duty on the transfer of listed securities.*

Table 3.5: Summary of Revenues

	2000-01	2001-02		2002-03	2003-04	2004-05	2005-06
	Actual	*Budget*	*Revised*	*Budget*	*Forward Estimates*		
	$m	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*
State Revenues							
Taxation	13,343	12,090	13,358	12,862	13,380	14,102	14,869
Commonwealth Grants	12,971	14,465	14,931	15,053	15,203	15,702	16,510
Dividends and Tax Equivalents	1,231	1,148	1,034	1,215	1,272	1,396	1,615
Other	882	860	779	799	817	871	865
	28,427	**28,563**	**30,102**	**29,929**	**30,671**	**32,071**	**33,859**
Operating Revenues							
Sale of Goods and Services	2,380	2,289	2,363	2,479	2,538	2,567	2,628
Investment Income	471	438	357	589	705	821	944
Grants and Contributions	348	294	353	382	272	271	271
Other	453	236	303	256	271	269	278
	3,652	**3,256**	**3,376**	**3,706**	**3,786**	**3,929**	**4,121**
Total Revenues	**32,079**	**31,819**	**33,478**	**33,635**	**34,457**	**36,000**	**37,980**

However, Commonwealth grants to New South Wales in 2002-03 would have been higher had the Commonwealth retained the method agreed by the Commonwealth and all state governments, under the arrangements for national tax reform, for calculating compensation to the states for petrol safety net revenue forgone (see Chapter 7).

The increase in operating revenue in 2002-03 mainly reflects an expected recovery in investment income from a sharp decline in 2001-02, and increased revenue from sales of goods and services.

3.4 ESTIMATES OF STATE REVENUE

TAXATION

Table 3.6 provides detailed estimates of revenue from taxation for the period to 2005-06. Payroll tax remains the largest single source of taxation revenue, followed by stamp duty from contracts and conveyances.

Table 3.6: Taxation Revenue

	2000-01	2001-02		2002-03	2003-04	2004-05	2005-06
	Actual	*Budget*	*Revised*	*Budget*	*Forward Estimates*		
	$m	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*
Stamp Duties							
Contracts and Conveyances	2,267	2,150	3,050	2,720	2,783	2,950	3,130
Insurance	419	441	480	385	374	394	415
Mortgage	206	226	295	278	294	313	333
Marketable Securities	534	52	40	31	33	35	37
Motor Vehicle Registration Certificates	465	453	500	528	559	592	627
Financial Institutions Duty	638	57	61	...	...	...	...
Hire of Goods	76	73	73	78	84	89	94
Leases	56	56	56	60	64	68	72
Adhesive Stamps	2	3	...	...	...	...	...
Other Stamp Duties	3	4	2	2	2	2	3
	4,666	**3,515**	**4,557**	**4,082**	**4,193**	**4,443**	**4,711**
Payroll Tax	3,986	4,125	4,019	4,246	4,528	4,808	5,109
Land Tax	929	965	999	1,047	1,096	1,147	1,199
Debits Tax	319	184	187	...	...	...	...
Taxes on Motor Vehicle Ownership and Operation							
Weight Tax	769	796	812	847	880	912	945
Vehicle Registration and Transfer Fees	197	201	204	217	227	236	249
Other Motor Vehicle Taxes	16	17	17	20	25	26	27
	982	**1,014**	**1,033**	**1,084**	**1,132**	**1,174**	**1,221**
Gambling and Betting							
Racing	138	140	139	139	143	148	153
Club Gaming Devices	406	427	412	437	463	495	525
Hotel Gaming Devices	323	321	321	342	364	391	416
Lotteries and Lotto	255	255	257	262	269	276	283
Casino	82	87	80	81	83	87	89
Other Gambling & Betting	9	9	9	9	9	9	10
	1,213	**1,239**	**1,218**	**1,270**	**1,331**	**1,406**	**1,476**
Safety Net Revenues							
Alcohol	40	...	...	...	...	...	...
Petroleum	76	...	...	...	...	...	...
Tobacco	21	...	...	...	...	...	...
	137	**...**	**...**	**...**	**...**	**...**	**...**

Table 3.6: Taxation Revenue (cont.)

	2000-01	2001-02		2002-03	2003-04	2004-05	2005-06
	Actual	*Budget*	*Revised*	*Budget*	*Forward Estimates*		
	$m	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*
Other Revenues							
Accommodation Levy	10	...	...	...	...	...	...
Health Insurance Levy	90	97	95	99	103	107	112
Insurance Protection Tax	...	69	69	69	69	69	69
Parking Space Levy	46	40	40	41	41	42	42
Fire Brigades Levy	239	249	253	286	258	261	266
Bush Fire Services Levy	67	83	83	89	74	76	78
Waste Disposal Levy	81	82	86	74	76	77	78
Electricity Distribution Levy	124	...	6	...	...	...	...
Government Guarantee of Debt	143	83	97	126	126	126	126
Private Transport Operators Levy	9	8	6	6	6	6	6
Pollution Control Licences	31	38	40	31	35	36	37
Other Taxes	273	301	570	315	313	325	342
	1,113	**1,050**	**1,345**	**1,136**	**1,101**	**1,125**	**1,156**
Total Tax Revenue	**13,343**	**12,090**	**13,358**	**12,862**	**13,380**	**14,102**	**14,869**

Total taxation revenue is estimated to be 0.1 percent higher in 2001-02 than 2000-01.

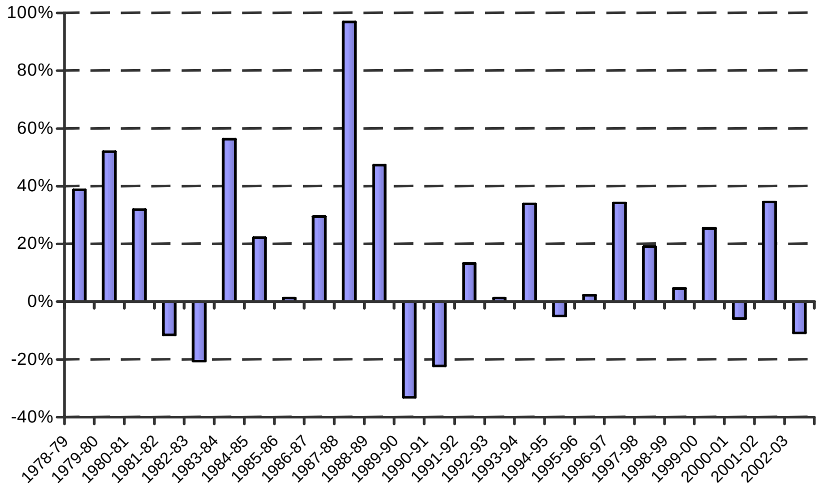
Revenue was higher than expected in 2001-02, mainly because of stronger property market turnover and prices, which boosted contracts and conveyancing and mortgage stamp duty revenues. These two stamp duties accounted for three quarters of the variance in taxation revenue from Budget. Payroll tax revenue was 2.6 percent lower than the Budget estimate.

Total taxation revenue is estimated to decline by 3.7 percent in 2002-03. The main reasons are lower stamp duty collections – flowing from expected lower contracts and conveyancing and mortgages stamp duty collections and the insurance duty rate cut – and the first full-year impact of abolishing debits tax from 1 January 2002.

Contracts and Conveyances Duty

Stamp duty on contracts and conveyances represents the largest single component of stamp duty revenue. However, it is also the most volatile revenue source available to the State, falling or rising by up to 80 percent from year to year (see Chart 3.1).

Chart 3.1: Revenue from Contracts and Conveyances Duty - Annual Change [(a)]



(a) Estimate for 2001-02 and 2002-03

In the 2001-02 Budget, contracts and conveyances duty revenue was estimated to grow moderately, by 3.6 percent, in 2001-02 in the face of weaker economic conditions. However, while economic activity and employment growth slowed, residential property market activity accelerated. Revenue is now expected to be 35 percent above the 2000-01 outcome, similar to revenue trends in other states. (see Box 3.1)

Box 3.1 Stamp Duty from Residential Real Estate Sales

2001-02 has been an exceptional year for residential real estate, both in New South Wales and other states.

- Grants under the First Home Owners Scheme (and the temporary top-up for new homes) are estimated to total $1,761 million nationally, up from $1,064 million in 2000-01.
- The Commonwealth Treasury estimates that home building activity leapt by 16 percent following a 21 percent slump in 2000-01.
- Prices of established houses have risen at the fastest pace since the late 1980s boom in many areas, including Sydney and New South Wales as a whole.
- States' revenue from stamp duty on conveyances has risen sharply.

While the First Home Owners Scheme (FHOS), and its temporary new home variant, have fuelled the upsurge in building activity, its direct contribution to stamp duty revenue is much more limited, at least in New South Wales.

NSW Treasury estimates that first home buyers will contribute directly less than 10 percent of total conveyance duty revenue in 2001-02. Moreover, many of these would have been home buyers even without the incentive of the FHOS grant. The contribution of first home buyers to revenue is small partly because of the stamp duty concessions under the NSW First Home Plus scheme. More generally, first home buyers are still very much in the minority in total housing turnover.

The sharp rise in stamp duty revenue reflects broader factors such as the inducement of historically low interest rates and, possibly, a flight to perceived safety by investors from volatile share markets. The total *volume* of residential (house and unit) sales in New South Wales in 2001 (latest available full year) was 28 percent higher than in 2000 and the *value* of sales (which forms the stamp duty base) was further boosted by double-digit increases in median *prices*. The increases in both *volumes* and *prices* have been historically exceptional and are unsustainable.

This explains why conveyance duty revenue in 2001-02 is now expected to exceed the previous year's level by 35 percent and the original estimate for this year by 42 percent. As Table 3.7 shows, other States that have so far reported 2002-03 Budget updates of 2001-02 revenues have had a similar experience and, like New South Wales, they too are expecting a fall in this volatile revenue source in 2002-03.

Box 3.1 Stamp Duty from Residential Real Estate Sales (cont.)

Table 3.7: State Comparison of Conveyance Duty Revenue (Percent Variation)

State	*2001-02* (Latest estimate on original budget)	*2002-03* (On 2001-02 latest estimate)
New South Wales	42	(-)11
Victoria	61	(-)14
Western Australia	29	(-) 11 [(a)]
Tasmania	40	(-) 27

(a) After removing the effect of increased duty rates.

Complex rate scales for conveyance duty make interstate comparisons difficult. One way of comparing is to calculate the tax liability in each state for transactions over a range of values. On this measure, as Table 3.8 shows, at the middle - to higher-value transactions more typical in Sydney, New South Wales is close to the bottom of the ranking in terms of conveyance duty liability, as at 1 July 2002.

Table 3.8: State Comparison of Conveyance Duty Liability

Value of Property ($)	*200,000*	*400,000*	*600,000*	*800,000*	*1,000,000*
Stamp Duty Payable ($)	7,660 Vic	19,660 Vic	32,400 NT	43,660 Vic	55,000 Vic
	6,830 SA	18,800 NT	31,660 Vic	43,200 NT	54,000 NT
	6,800 NT	16,150 WA	26,800 WA	37,800 WA	48,800 WA
	6,350 WA	14,830 SA	23,330 SA	32,330 SA	41,330 SA
	5,675 Tas	13,550 Tas	22,515 ACT	31,515 ACT	40,515 ACT
	5,600 Qld[(a)]	13,515 ACT	**22,490 NSW**	**31,490 NSW**	**40,490 NSW**
	5,515 ACT	**13,490 NSW**	21,550 Tas	29,550 Tas	37,550 Tas
	5,490 NSW	12,475 Qld[(a)]	19,725 Qld[(a)]	27,225 Qld[(a)]	34.725 Qld[(a)]
	2,000 Qld [(b)]	7,750 Qld[(b)]	15,000 Qld[(b)]	22,500 Qld[(b)]	30,000 Qld[(b)]

(a) For properties other than principal places of residence.

(b) For values up to $250,000, Queensland has a concessional rate of 1 percent for principal places of residence.

For 2002-03, contracts and conveyances duty revenue should decline moderately, by 10.8 percent, as a result of lower sales volumes. Underlying that decline is:

- the end of the down cycle in interest rates, which will affect demand for properties; and

- some easing in investor interest in residential property in response to higher interest rates and relatively high residential vacancy rates in some areas of the market.

The anticipated decline in contracts and conveyances duty revenue is much smaller than declines in the past following extended periods of above average revenue growth. In the past such declines have been in the range of 20 to 40 percent. The decline in revenue is expected to be moderate because unemployment is expected to decline, consumer confidence is expected to remain strong and the increase in interest rates is expected to be modest.

As usual, there are risks that revenue in 2002-03 could be much higher or much lower than expected. Contracts and conveyances duty revenue is particularly sensitive to interest rates and overall confidence in the economic and employment outlook.

Other Stamp Duties

Collections for 2001-02 are anticipated to be $892 million below 2000-01 because of the abolition of financial institutions duty and marketable securities duty on listed securities. However, collections are around $142 million, or 10.4 percent, above the level in the 2001-02 Budget, mainly due to stronger revenues for mortgage, insurance and motor vehicle registration duties.

- The strong property market underpinned mortgage duty revenue.
- Insurance duty revenue was boosted by higher than expected premium increases.
- For motor vehicle registration duty, the decline in new motor vehicle sales in 2001-02 was less than expected, with sales held up by low interest rates and strong market competition. Though new motor vehicle sales in 2001-02 are still down on 2000-01, stamp duty revenue in 2001-02 is higher than the previous year. A compositional switch in new vehicle sales toward higher-priced vehicles boosted revenue – duty rates on registration certificates are higher for vehicles priced above $45,000. Additionally, a strong second-hand market pushed revenue higher.

For 2002-03, other stamp duty revenue is expected to decline by 9.6 percent on 2001-02.

- Insurance duty revenue will be reduced by the cut in the general insurance duty rate to 5.0 percent.
- Mortgage duty revenue should decline slightly, again reflecting property market developments.
- Partially offsetting these reductions, modest growth in new motor vehicle registrations should increase motor vehicle registration duty.

Payroll Tax

Modest growth in payroll tax revenue in 2001-02 reflects the full-year impact of the cut in the payroll tax rate to 6.2 percent from 1 January 2001, as well as labour market developments.

Aggregate employment growth has been much as expected at 2001-02 Budget-time. Payroll tax revenue growth has been less than expected because employment gains have been more significant in industries, like health and community services and retail trade, in which smaller firms below the payroll tax threshold are significant employers or payroll tax exemptions apply, while employment losses have been concentrated in manufacturing and property and business services.

Payroll tax revenue growth in 2002-03 will reflect faster employment growth, the increase in the Superannuation Guarantee Levy contribution rate from 8 percent to 9 percent from 1 July 2002, and the base broadening measures, partially offset by the further cut in the tax rate to 6.0 percent from 1 July 2002. In the out-years, payroll tax revenue should grow in line with assumed wages and employment growth.

Land Tax

Land tax revenues in 2001-02 should be $34 million, or 3.5 percent, higher than the 2001-02 Budget estimate. The increase is mainly due to the Office of State Revenue's implementation of the New Land Taxpayers System, which notifies new taxpayers as soon as they become liable for land tax. The new system is based on the recommendations of the 1999 Walton Report on the operation of the NSW *Valuation of Land Act 1916*.

Over 2002-03 and the forward years, land tax revenues are expected to grow in line with increasing land values, consistent with annual indexation of both the investor and premium property tax thresholds. Indexation of the land tax thresholds reduced 2001-02 revenue by an estimated $25 million, and is estimated to reduce revenue by a further $23 million in 2002-03.

Taxes on Motor Vehicle Ownership and Operation

Motor vehicle weight tax and vehicle registration fees are the largest two components of this category, representing around 98 percent of revenue in 2001-02. Also included are motor vehicle registration transfer fees and miscellaneous taxes.

Revenue for 2001-02 should be slightly above that estimated at 2001-02 Budget-time, mainly due to higher weight tax revenue. Weight tax revenue was higher than anticipated because of slightly higher than expected vehicle stock growth, and an increase in February 2002 in National Road Transport Commission (NRTC) heavy vehicle weight tax rates.

Revenue growth in 2002-03 and the out-years reflects continued growth in the motor vehicle stock and indexation of fees. No allowance is included for further increases in NRTC heavy vehicle weight tax rates. The increases in charges for hazard perception and driver qualification tests, from 1 January 2002, and for heavy vehicle inspections, from 1 March 2002, are included in the figures shown under 'Other Motor Vehicle Taxes'.

Gambling Taxes

Revenue from gambling taxes in 2001-02 is expected to be $21 million, or 1.7 percent, below the 2001-02 Budget estimate, reflecting weaker growth in club gaming duty revenue and the cessation of the casino's international premium player program.

Gambling tax revenue growth in 2002-03 and the out-years reflects forecast increases in household disposable income. Revenue from racing taxation in 2002-03 reflects the full-year effect of the abolition from 31 March 2002 of bookmakers' turnover tax.

Other Revenues

The most noticeable movement in this category is the increase of $269 million in 'Other Taxes' in 2001-02 above the Budget estimate and its reduction to more normal levels in 2002-03 and beyond. This is mainly the result of a temporary surplus accumulating in the Electricity Tariff Equalisation Fund (see Box 3.2).

Box 3.2 What is the Electricity Tariff Equalisation Fund (ETEF)?

The ETEF is a risk management tool designed to manage electricity purchase cost risk for those Government electricity retailers that are required to offer regulated retail tariffs to small retail customers. It also ensures that retailers earn no more than the regulated margin for supplying regulated customers.

The Independent Pricing and Regulatory Tribunal (IPART) sets regulated retail prices for residential and small business customers based on a review of the key cost components – regulated network charges (about 45 percent of the total), wholesale electricity purchase allowance (about 45 percent), and the retail margin including minor fees and charges (about 10 percent). Unlike the regulated network charges for the use of poles and wires, the wholesale price retailers pay for electricity is determined in the competitive National Electricity Market (NEM) and can vary from $0 to $10,000 MWh in any half hour.

ETEF manages the wholesale price volatility for retailers by calculating weekly payment amounts based on average differences in the wholesale market price and the IPART regulated energy allowance. Electricity retailers make payments into the Fund when average wholesale prices are less than the regulated allowance, and receive payments if their purchase costs are above the energy allowance. Surpluses in low price periods are used to make payments in high price periods.

A more detailed explanation of the ETEF payment flows is provided in Budget Paper No. 3.

Wholesale prices in New South Wales have fallen from an average of about $43 MWh in the period 1 January to 30 June 2001 to about an average of $29 MWh in the period 1 July 2001 to end-May 2002. The Fund balance is forecast to be about $270 million at 30 June 2002 as a consequence of the price fall. Mild conditions during winter 2001 and summer 2001-02 combined with additional interstate imports of electricity were the main factors behind 2001-02 wholesale prices.

The projected ETEF reserve is not large when the size and nature of the electricity market are taken into account:

- the total value of retail sales to customers on regulated tariffs exceeds $2.5 billion a year;
- the projected ETEF reserve equates to about 5 hours of wholesale prices at the maximum level of $10,000 MWh; and
- during January 2001, the Fund Administrator paid out more than $105 million to Government retailers following several hours of record high demand and wholesale prices.

Box 3.2: What is the ETEF? (cont.)

For the State-owned electricity generators profits reflect prices in the NEM and returns from associated hedging contracts. Their earnings are not linked to small retail customers' regulated tariffs.

During periods of relatively low wholesale prices when ETEF accrues reserves, generators will experience relatively low returns. During a sustained period of relatively high electricity prices, the reduction in the Fund would be broadly offset by an increase in returns from the New South Wales State-owned generators. While ETEF is designed to manage retailers purchase cost risks, a by-product is that it tends to insulate the State's Budget position from fluctuations in wholesale prices, through this relationship between generator returns and the ETEF balance.

The Fund ensures that the Government retailers are financially able to supply small retail customers at relatively low and stable regulated prices; tariffs that are the lowest of any State in Australia and amongst the lowest in the world. Since 1 January 2002, every electricity customer in New South Wales has had the option of shopping around for a negotiated supply contract that offers better terms and conditions than the regulated tariff. Based on trends to date, more than 100,000 residential customers are expected to sign negotiated contracts by the end of 2002. Since ETEF applies only to volumes of electricity sold under regulated tariffs, as more customers shift to negotiated tariffs over coming years, the potential size of ETEF will reduce.

COMMONWEALTH GRANTS

Table 3.9 provides estimates of Commonwealth payments to New South Wales for the period to 2005-06.

General Purpose Grants

General purpose grants are dominated by payments under the new Commonwealth-State financial relations associated with national tax reform. As outlined in Chapter 7, under the national tax reforms the states receive GST revenue grants from the Commonwealth and transitional assistance, termed Budget Balancing Assistance (BBA), to compensate for the cost of implementing tax reform.

Table 3.9: Commonwealth Grants

	2000-01	2001-02		2002-03	2003-04	2004-05	2005-06
	Actual	Budget	Revised	Budget	Forward Estimates		
	$m	$m	$m	$m	$m	$m	$m
General Revenue Grants [(a)]	156	234	243	249	255	261	267
Budget Balancing Assistance Payments	1,007	940	1,516	910	621	381	379
GST Revenue Grants	7,258	8,487	8,134	8,718	9,140	9,650	10,295
Total General Purpose Payments	**8,421**	**9,661**	**9,892**	**9,877**	**10,015**	**10,291**	**10,940**
Specific Purpose Payments							
Companies Regulation	46	46	49	50	52	53	54
Technical and Further Education	310	317	351	350	366	372	379
Schools	535	620	712	618	633	652	676
Highly Specialised Drugs	97	101	100	111	113	116	118
Australian Health Care Grant	2,121	2,252	2,249	2,379	2,493	2,638	2,792
Home and Community Care	173	189	189	205	221	239	257
Supported Accommodation Assistance	50	51	52	53	53	53	53
Assistance to Disabled	144	164	164	167	169	172	174
Pensioner Concessions	57	57	59	59	59	59	59
Debt Redemption Assistance	10	9	10	10	10	10	10
Blood Transfusion Services	22	23	24	26	27	27	28
National Land Care	47	55	46	51	52	51	51
Public Housing	273	269	269	266	234	234	234
Australian Land Transport Development	320	335	368	414	453	490	437
Housing	37	37	37	37	37	37	37
Supplementary FHOS Grant	...	25	62	8	...	...	...
Other	308	251	298	372	216	209	210
Total Specific Purpose Payments	**4,550**	**4,801**	**5,039**	**5,176**	**5,188**	**5,412**	**5,569**
Total Grants	**12,971**	**14,465**	**14,931**	**15,053**	**15,203**	**15,702**	**16,510**

(a) National Competition Policy payments.

Commonwealth grants for general purposes are estimated to be $231 million, or 2.4 percent, higher overall in 2001-02 than estimated in the 2001-02 Budget. This increase primarily reflects higher payments from the Commonwealth to offset higher than expected costs for the First Home Owners Scheme (FHOS). It therefore does not add to the State’s untied revenue.

In 2002-03, Commonwealth general purpose payments to New South Wales are estimated to fall by 0.2 percent, as reduced BBA offsets higher GST revenue grants. The drop in BBA is partly explained by an assumed one-third reduction in FHOS grants. Excluding FHOS, general purpose grants will increase by 1.4 percent.

The fall in BBA is also exacerbated by the Commonwealth's decision to deviate from the agreed methodology for determining assistance to be provided to ensure the states are no worse off from national tax reform. Details of this cut in state funding, which will cost New South Wales around $416 million over the five years to 2006-07, are provided in Chapter 7. The reduction in State funding will delay by one year (to 2008-09) the time when New South Wales will receive net benefits from national tax reform.

Specific Purpose Payments

Specific purpose payments in 2001-02 are estimated to be $238 million higher than expected in the 2001-02 Budget. Payments for schools increased by $92 million due to the timing of a payment, FHOS payments to new home purchasers increased by $37 million due to high demand, and technical and further education payments increased by $34 million.

Growth in specific purpose payments in 2002-03 of 2.7 percent mainly reflects increased Health Care, Land Transport Development and Home and Community Care grants. Payments for schools are expected to fall by $94 million, mainly due to the timing of a particular payment. The 2002-03 estimate for the extra FHOS payment for newly-constructed homes represents lagged payments for applications approved prior to 30 June 2002.

DIVIDENDS AND TAX EQUIVALENTS

Dividends paid by government business enterprises represent a return on equity invested by taxpayers in the enterprises. Income tax equivalent payments by government business enterprises are intended to mirror as closely as possible company tax liabilities that would be incurred if the entities concerned were owned by the private sector. Wholesale sales tax equivalent payments by State enterprises ceased following the Commonwealth's abolition of wholesale sales tax from 1 July 2000. Table 3.10 provides estimates of dividends and tax equivalents for the period to 2005-06.

In 2001-02, dividends and tax equivalents are expected to be lower than the 2001-02 Budget estimates by $114 million. This mainly reflects lower than anticipated returns from the electricity sector largely because mild weather conditions over summer depressed the demand for power, while higher power exports from Queensland have increased supplies; and lower returns from the transport sector reflecting the sale of FreightCorp and higher spending on rail maintenance reducing dividend payments by Rail Infrastructure Corporation. Partially offsetting these shortfalls are higher dividends from the water and waste services sector as a result of improved operating results.

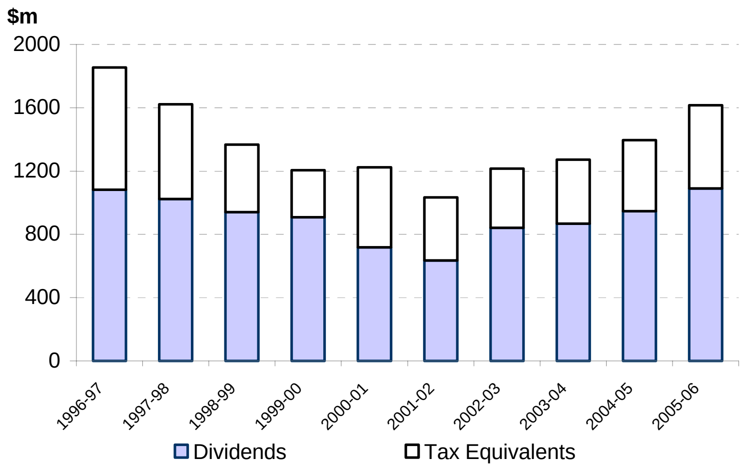
Table 3.10: Dividends and Tax Equivalents from Public Trading and Financial Enterprises

	2000-01	*2001-02*		*2002-03*	*2003-04*	*2004-05*	*2005-06*
	Actual	*Budget*	*Revised*	*Budget*	*Forward Estimates*		
	$m	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*
Dividends							
Electricity	428	440	342	535	550	612	705
Water and Waste Services	102	119	172	168	166	176	184
Property and Resources	47	36	41	46	57	73	75
Financial Services	27	21	24	18	18	17	17
Ports	28	23	23	23	22	24	24
Transport	61	48	...	...	...	...	...
Other	26	38	33	52	53	44	85
	717	**725**	**634**	**842**	**867**	**947**	**1,089**
Income Tax Equivalents							
Electricity	248	220	186	166	184	211	268
Water and Waste Services	138	131	152	144	150	158	179
Property and Resources	70	22	26	29	35	41	41
Financial Services	11	7	9	6	6	6	6
Ports	10	18	18	18	19	21	21
Transport	16	18	...	...	...	...	...
Other	13	8	10	9	10	10	11
	506	**423**	**400**	**373**	**405**	**448**	**526**
Dividend and Income Tax Equivalents	**1,222**	**1,148**	**1,034**	**1,215**	**1,272**	**1,396**	**1,615**
Sales Tax Equivalents	9	...	...	...	...	...	...
Total	**1,231**	**1,148**	**1,034**	**1,215**	**1,272**	**1,396**	**1,615**

For 2002-03, dividends and tax equivalents are expected to increase by $181 million, or 18 percent. Higher electricity sector payments reflect a more typical supply/demand balance. Water and waste services payments are expected to decline by $12 million mainly due to marginally lower forecast income tax liabilities.

Chart 3.2 shows dividends and tax equivalents increasing from 2002-03 mainly reflecting increased returns from the electricity sector from a more typical supply and demand balance.

Chart 3.2: Dividends and Tax Equivalents from Public Trading and Financial Enterprises



OTHER STATE REVENUES

Licences

Over 80 percent of revenue in this item comes from drivers' and riders' licences. Revenue is volatile (see Table 3.11) because it is heavily influenced by the renewal pattern of three and five year drivers' licences.

Fines

The main item – over 90 percent – in this category relates to motor traffic fines. The Police Service collects most fines through on-the-spot infringement notices. Some are also collected through Local Courts for more serious offences and through the Roads and Traffic Authority, which has authority to cancel motor vehicle registrations or drivers' licences unless infringement notices are paid. When fine debts become overdue government agencies pass them for collection to the State Debt Recovery Office (SDRO).

The recording of fines revenue in 2000-01 and in the 2001-02 Budget year was offset partly by very large provisions for doubtful debts. In accordance with accounting standards and principles, the SDRO has reviewed its revenue recognition policy to only recognise debts where it is probable that they will be collected. The revised revenue estimates for 2001-02 and forward years have been prepared on this lower basis.

On a cash basis, fine receipts are anticipated to grow from 2000-01 to a peak in 2002-03 and remain fairly constant in the forward years. This growth reflects the SDRO's three-year program to recover unpaid fines and, over time, reduce the large level of historical debt. The program is being implemented in several stages and includes Roads and Traffic Authority sanctions, property seizure orders, garnishee orders and community service orders.

Table 3.11: Other State Revenues

	2000-01	*2001-02*		*2002-03*	*2003-04*	*2004-05*	*2005-06*
	Actual	*Budget*	*Revised*	*Budget*	*Forward Estimates*		
	$m	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*
Licences	137	90	84	80	113	170	156
Fees	97	98	109	107	104	96	96
Fines [(a)]	300	335	244	250	236	234	232
Royalties	220	215	216	225	232	239	247
Fire Brigades Levy on Local Government	40	42	42	48	43	44	44
Other State Revenues	88	80	86	89	88	89	90
Total Other Revenue	**882**	**860**	**779**	**799**	**817**	**871**	**865**

(a) Decrease in 2001-02 is due to accounting policy change. Refer to commentary above.

Royalties

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

3.5 ESTIMATES OF OPERATING REVENUES

Operating revenues are 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 3.12 provides estimates of operating revenues for the period to 2005-06.

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 2001-02, revenues are expected to exceed the 2001-02 Budget estimate by a small margin, $74 million. The higher result is mainly due to $26 million in increased revenue from hospital fees and other hospital charges to private patients using the public health system, $14 million extra in court fees and $11 million in extra Land and Property Information NSW fees, reflecting higher property market activity. For 2002-03, revenue from sales of goods and services is expected to increase by 4.9 percent.

INVESTMENT INCOME

Revenue from investment income includes interest on advances to public trading enterprises, interest on NSW Treasury Corporation deposits and interest on private sector deposits. In 2001-02, revenues were $81 million below the Budget estimate, mainly reflecting weaker than expected bond and equity market returns. In 2002-03 and the forward years investment income is expected to return to more normal levels. Investment income also increases due to earnings from the General Government Liability Management Fund. (For more detailed discussion see Chapter 4).

Table 3.12: Operating Revenues

	2000-01	*2001-02*		*2002-03*	*2003-04*	*2004-05*	*2005-06*
	Actual	*Budget*	*Revised*	*Budget*	*Forward Estimates*		
	$m	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*
Sales of Goods and Services							
Rents and leases	156	103	103	106	108	109	112
Fees for Service	81	82	85	90	92	96	100
Entry Fees	17	18	16	18	18	18	19
Patient Fees	482	504	530	542	557	569	582
Department of Veterans Affairs							
- Concord Hospital	231	229	235	235	241	247	252
Court Fees	116	114	128	118	122	129	135
Road Tolls	55	57	65	77	78	78	79
Public Works and Services	89	77	89	107	112	115	118
Other Sales of Goods and Services	1,142	1,102	1,109	1,184	1,205	1,199	1,228
	2,380	**2,289**	**2,363**	**2,479**	**2,538**	**2,567**	**2,628**
Investment Income	471	438	357	589	705	821	944
Grants and Contributions	348	294	353	382	272	271	271
Other Operating Revenues	453	236	303	256	271	269	278
Total Operating Revenue	**3,652**	**3,256**	**3,376**	**3,706**	**3,786**	**3,929**	**4,121**

Grants and Contributions

This item mainly consists of contributions from public trading enterprises and the private sector. Revenue in 2001-02 was $59 million higher than estimated in the 2001-02 Budget. The variation was mainly attributable to the Sydney Organising Committee for the Olympic Games (SOCOG) returning $50 million in unspent contingency funds.

In 2002-03, grants and contributions revenue is expected to increase by $29 million.

Other Operating Revenue

Other operating revenue in 2001-02 is expected to exceed the 2001-02 Budget estimate by $67 million, and decline by $47 million in 2002-03. This mainly relates to $30 million expenditure in previous years by the Department of Transport that is being recognised as an asset in 2001-02.

CHAPTER 4: NET FINANCIAL LIABILITIES

- Net financial liabilities of the general government sector are estimated to fall by $7,594 million over the eight year period ending 30 June 2006, from $28,486 million to $20,892 million.
- In 1997-98, 13.9 cents of every dollar available for the provision of services was spent on funding these liabilities. The comparable figure for 2005-06 is estimated to be 7.9 cents.
- Full funding of Treasury Managed Fund insurance liabilities is forecast by 30 June 2002 and all other insurance liabilities by 30 June 2006.
- Gross general government interest expenses are expected to more than halve, from $1,792 million to $670 million over the eight year period ending 30 June 2006.
- Over the same period, general government net debt is estimated to fall by $7,293 million, from $10,158 million to $2,865 million.
- State sector net financial liabilities are expected to fall from 15.1 percent of gross state product in 2001-02 to 13.5 percent in 2005-06.
- State sector net financial liabilities are down from 20.3 percent of gross state product in 1997-98.
- State sector net financial liabilities are expected to increase by $1,203 million from $40,794 million to $41,997 million between 30 June 1998 and 30 June 2006 due primarily to the reduction in general government sector net debt being offset by higher public trading enterprise borrowings raised for funding capital works. Over the four year period ending 30 June 2006, borrowings will help fund improvements to water distribution systems, upgrades of sewage treatment plants and new rail and electricity infrastructure.

4.1 INTRODUCTION

A strong balance sheet provides the capacity to maintain high quality service provision to the community during periods of cyclical downturn and to mitigate the risks associated with long term economic and demographic trends, such as ageing of the population.

General government sector net financial liabilities are estimated to decline by $7,594 million over the eight year period ending 30 June 2006, from $28,486 million to $20,892 million. This result primarily reflects a reduction in net debt in accordance with the Government’s objective to eliminate net debt by 2020.

Unfunded superannuation is expected to increase during the four year forecast period ending 30 June 2006 in accordance with the actuarially prepared long term funding plan, but is on target to be fully funded by 2030, fifteen years earlier than previously planned.

The general government balance sheet has improved and is expected to continue to do so. This is despite having to assume HIH Insurance Group outstanding claims totalling $600 million and unfunded medical negligence liabilities in the public hospital system.

The balance sheet has improved because of budget surpluses achieved and projected and the dedication of the proceeds of major assets sales and capital repatriations from the public trading enterprise sector to debt retirement.

These actions are in accordance with the Government's fiscal strategy as explained in Chapter 1.

The following sections explain the establishment of a non-superannuation investment fund and details of state and general government sector net financial liability trends. Financial risk management arrangements are also summarised.

4.2 GENERAL GOVERNMENT LIABILITY MANAGEMENT FUND

A new non-superannuation investment fund (the General Government Liability Management Fund) will be established, to accumulate Crown employer superannuation contributions, in order to more efficiently manage defined benefit superannuation liabilities. The fund will receive the level of contributions already determined in the Crown funding plan to fully fund defined benefit superannuation liabilities by 2030.

Based on current actuarial advice, employer cash contributions of $929 million will be required in 2002-03 with this level of contribution indexed in each subsequent year by 2.5 percent until 2030 when contributions are forecast to cease. By 2030, liabilities for accrued benefits for the total state sector will be fully matched by financial assets, which are projected to be about $33 billion.

The proposed General Government Liability Management Fund (GGLMF) legislation requires that the financial assets accumulated in the investment fund be strictly applied only for the purposes of:

- ♦ transferring assets to the SAS Trustee Corporation defined benefit superannuation trust fund;

- directly meeting superannuation liabilities, including surcharge debt liabilities incurred by judges, whose pension arrangements are unfunded; and

- after providing assets to fully cover superannuation liabilities, repaying government borrowings on or before maturity.

Providing a statutory basis for the proposed fund will ensure that the assets accumulated in the fund can only be used to reduce financial liabilities.

The establishment of the GGLMF will provide greater flexibility to manage unfunded superannuation liabilities in a way that minimises the costs of providing for this liability.

The accumulation of financial assets, outside the superannuation fund, provides the flexibility to periodically determine the level of contributions that should be transferred from the general government sector to the superannuation trustee depending on whether superannuation liabilities accrue at the expected rate and/or investment return is more or less than expected.

With this additional information, the level of employer contributions can be more precisely adjusted to the level required to eliminate unfunded superannuation liabilities by 2030. The remainder of the chapter assumes that assets held in the GGLMF as at 30 June 2006 will be transferred to the superannuation fund during 2006-07.

4.3 STATE SECTOR NET FINANCIAL LIABILITIES

Table 4.1: State Sector Net Financial Liabilities

As at 30 June	Actual 1998 $m	Actual 1999 $m	Actual 2000 $m	Actual 2001 $m	Revised 2002 $m
GENERAL GOVERNMENT SECTOR					
Gross Debt	16,461	15,826	14,943	12,449	12,185
Financial Assets [(a)]	6,303	6,272	5,972	6,425	7,275
Underlying Net Debt	10,158	9,554	8,971	6,024	4,910
Superannuation Prepayment	...	3,264	2,251	1,179	...
Net Debt	10,158	12,818	11,222	7,203	4,910
Accrued Superannuation Liabilities	25,593	26,235	26,797	29,011	30,389
Investments	13,741	18,283	21,111	20,884	20,423
Unfunded Superannuation	11,852	7,952	5,686	8,127	9,966
Insurance Claims	3,083	3,128	3,141	3,913	4,120
Other [(b)]	3,393	3,246	3,341	3,147	3,018
Net Financial Liabilities[(c)]	**28,486**	**27,144**	**23,390**	**22,390**	**22,014**
PUBLIC TRADING ENTERPRISE SECTOR					
Gross Debt	10,135	9,993	9,872	12,712	13,262
Financial assets	2,478	2,387	2,199	1,880	1,563
Net Debt	7,657	7,606	7,673	10,832	11,699
Unfunded Superannuation	136	227	(402)	(150)	263
Insurance Claims	353	315	285	332	299
Other [(b)]	3,264	3,829	4,453	3,184	3,126
Net Financial Liabilities	**11,410**	**11,977**	**12,009**	**14,198**	**15,387**
PUBLIC FINANCIAL ENTERPRISE SECTOR					
Gross Debt	30,616	34,211	30,686	30,203	29,978
Financial Assets	29,680	33,148	29,872	29,798	29,594
Net Debt	936	1,063	814	405	384
Unfunded Superannuation	...	...	...	...	...
Insurance Claims	...	...	...	...	...
Other [(b)]	(38)	62	(112)	(61)	(66)
Net Financial Liabilities	**898**	**1,125**	**702**	**344**	**318**
TOTAL STATE SECTOR Net Financial Liabilities	**40,794**	**40,246**	**36,101**	**36,932**	**37,719**

[(a)] *Gross amount of insurance assets are included in financial assets in accordance with Australian Bureau of Statistics Standards.*

[(b)] *Mainly represented by employee entitlements, such as long service leave and provisions.*

[(c)] *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 4.1. State sector net financial liabilities are expected to decline by $3,075 million for the four year period ending 30 June 2002.

General government sector net financial liabilities are estimated to decline by $6,472 million over the four year period ending 30 June 2002. The reduction in general government net financial liabilities comprises decreases in net debt of $5,248 million, in unfunded superannuation liabilities of $1,886 million and in "other" liabilities of $375 million, partly offset by a $1,037 million increase in gross insurance claims, including $443 million outstanding HIH insurance claims.

The increase in the general government sector superannuation liability estimate in 2001-02 is due to the impact of the Crown employer contribution holiday following the prepayment of contributions in 1998-99 and the projected negative asset investment returns. Overall, the superannuation liability position has improved significantly since 1995, allowing the target date for fully funding superannuation liabilities to be brought forward 15 years, from 2045 to 2030.

The improvement in the general government financial position is attributable to the budget surpluses achieved over this period, above average investment returns and dedicating the proceeds of major asset sales and capital repatriations from the PTE sector to debt reduction.

The overall cost of providing for general government sector financial liabilities has declined, most notably in respect of debt financing charges.

Table 4.2 expresses the annual cost as cents in each budget payment dollar. Thus, in 1998, 13.9 cents out of every dollar available for the provision of services was required for these liability costs. This impost is expected to fall to 7.9 cents by 2006.

Table 4.2: General Government Payments for Major Liabilities expressed as cents of each Budget Dollar (cash)

	1997-98 cents	*1998-99 cents*	*1999-2000 cents*	*2000-01 cents*	*2001-02 cents*	*2002-03 cents*	*2003-04 cents*	*2004-05 cents*	*2005-06 cents*
Debt	7.3	4.8	5.5	4.6	3.0	2.4	2.3	2.1	1.9
Superannuation	4.8	14.8 [(a)]	2.4	1.0	0.1	3.0	3.1	3.0	3.0
Insurance	1.8	1.8	2.1	2.2	5.3 [(b)]	2.7	2.7	2.8	3.0
Total	13.9	21.4	10.0	7.8	8.4	8.1	8.1	7.9	7.9

(a) Three years of superannuation contributions were prepaid in 1999.

(b) An additional $800 million will be paid to fully fund Treasury Managed Fund as at 30 June 2002.

The smaller decline in state sector net financial liabilities over the four years to 30 June 2002 reflects the utilisation of the proceeds from regearing of public trading enterprises to reduce general government sector net debt.

Over the forward estimates period, state sector net financial liabilities are projected to increase in nominal terms but to continue to decline as a percentage of gross state product, as shown in Table 4.3 and Chart 4.1.

Table 4.3: Net Financial Liabilities Projections

	Actual	*Revised*	*Estimates*			
As at 30 June	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*
	$m	*$m*	*$m*	*$m*	*$m*	*$m*
General Government Sector						
Net Debt[(a)]	7,203	4,910	4,310	4,075	3,907	2,865
Unfunded Superannuation[(b)]	8,127	9,966	10,308	10,605	10,866	11,090
Insurance Gross Claims[(c)]	3,913	4,120	4,255	4,427	4,657	4,935
Other[(d)]	3,147	3,018	2,876	2,663	2,295	2,002
Total	22,390	22,014	21,749	21,770	21,725	20,892
State Sector						
Net Debt[(a)]	18,440	16,963	17,714	18,565	19,457	19,256
Unfunded Superannuation[(b)]	7,977	10,229	10,640	11,006	11,334	11,626
Insurance Gross Claims[(c)]	4,245	4,419	4,540	4,498	4,919	5,189
Other[(d)]	6,270	6,108	6,088	6,255	5,905	5,926
Total	**36,932**	**37,719**	**38,982**	**40,324**	**41,615**	**41,997**

(a) Includes temporary borrowings to fund prepayment of superannuation contributions. Excludes balances held in GGLMF.

(b) Increase between 2001 and 2002 mainly due to crown employer contribution holiday following prepayment of contributions in 1999. Liability reduced by balances held in GGLMF.

(c) Gross amount of insurance assets are included in financial assets in accordance with Australian Bureau of Statistics Standards. The increase in 2001 reflects the takeover of HIH liabilities.

(d) Other employee entitlements and provisions.

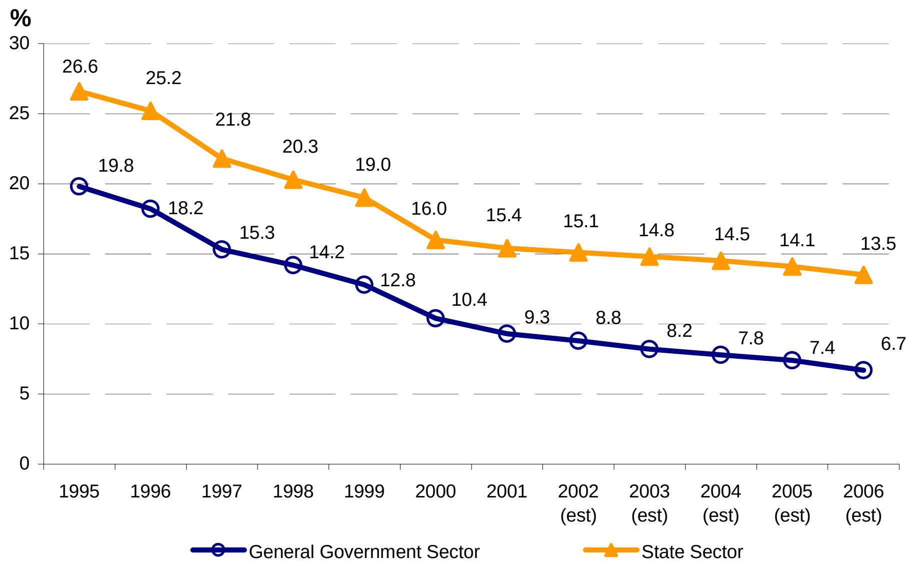
The financial management considerations that influence the level of net financial liabilities in the PTE and PFE sectors are quite different to those in the general government sector.

The 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.

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

The net debt level of public trading enterprises will increase over the forward estimates period, reflecting the continuing shift to commercially comparable gearing levels. The major borrowers will be the electricity industry, Sydney Water Corporation, Sydney Ports Corporation, Rail Infrastructure Corporation and Sydney Catchment Authority. Some of the capital expenditures to be financed by the additional borrowings are described in Budget Paper No. 4 *State Asset Acquisition Program*.

Chart 4.1: Net Financial Liabilities as percentage of Gross State Product, as at 30 June



4.4 GENERAL GOVERNMENT SECTOR INSURANCE LIABILITIES

The Treasury Managed Fund (TMF) is a self-insurance scheme owned and underwritten by the Government, which covers workers' compensation, public liability and other insurance. By 30 June 2002, the TMF is expected to be fully funded following a special $800 million Crown grant. This grant, related investment earnings and annual contributions matching new liabilities, are expected to ensure the level of financial assets fully matches general government insurance liabilities by 2006. The elimination of net insurance liabilities will be a significant financial management achievement given the current difficulties in the insurance industry.

The collapse of the HIH Insurance Group and the aftermath of the September 11 tragedy have 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.

The TMF's overall purpose is to provide a structure and a range of services that assist budget dependent agencies to reduce the impact of risk exposures and, by reducing the impact of insurance exposures, maximise resources available to support their core businesses. Fund members receive financial incentives to motivate best management practices through "hindsight adjustments" to premiums that are based on the agencies' experience.

In September 2001, the Auditor-General reported to Parliament on the collapse of HIH Insurance. The Auditor-General noted that agencies covered outside of the TMF had incurred an estimated $30 million exposure through the HIH collapse. A key recommendation of this report was:

> "The current structure of the Treasury Managed Fund should be reviewed to determine whether it is beneficial to include all non-budget dependent agencies under the cover provided."

Treasury is currently conducting this review. Any new arrangements will be implemented during 2002-03.

The NSW Government moved, in December 2001, to address concerns of rising costs for doctors' medical negligence insurance. The Government announced that it would cover the liability of all visiting medical officers (VMOs) treating public patients in NSW public hospitals. The financial impact of this decision is subject to an actuarial assessment but an allowance has been made in the estimates shown in Table 4.4.

Table 4.4: General Government Sector Unfunded Insurance Liabilities

As at 30 June	Actual				Revised	Budget	Estimates		
	1998 $m	*1999 $m*	*2000 $m*	*2001 $m*	*2002 $m*	*2003 $m*	*2004 $m*	*2005 $m*	*2006 $m*
Financial Liabilities									
Treasury Managed Fund[(a)]	1,817	2,050	2,176	2,459	2,745	3,036	3,331	3,640	3,994
HIH	...	...	...	567	443	309	207	135	63
Dust Diseases	271	295	343	373	398	417	434	452	471
Other (open schemes)[(b)]	303	229	203	205	225	227	226	228	229
Other (closed schemes)[(c)]	692	554	419	309	309	266	229	202	178
	3,083	3,128	3,141	3,913	4,120	4,255	4,427	4,657	4,935
Financial Assets									
Treasury Managed Fund	1,350	1,508	1,716	1,894	2,745	3,072	3,468	3,894	4,363
Dust Diseases	276	311	359	401	416	441	458	473	473
Other (open schemes)	257	232	274	289	241	206	196	197	201
Other (closed schemes)	138	115	62	49	35	31	28	26	22
	2,021	2,166	2,411	2,633	3,437	3,750	4,150	4,590	5,059
Unfunded Insurance Liabilities[(d)]	**1,062**	**962**	**730**	**1,280**	**683**	**505**	**277**	**67**	**(124)**
Assets as proportion of liabilities (%)	**66**	**69**	**77**	**67**	**83**	**88**	**94**	**99**	**103**

(a) Liabilities are recognised on a claims incurred basis for all insurance categories except public liability claims, which are recorded on a claims reported basis.

(b) Open schemes include the Uninsured Liability & Indemnity Scheme, the Insurers' Guarantee Fund, the Emergency & Rescue Workers Compensation Fund and the Bush Fire Fighters Compensation Fund.

(c) Closed schemes include the Transport Accidents Compensation Fund, Government Workers Compensation Fund, and the Solvency Fund.

(d) Does not include liabilities under the worker's compensation scheme for private sector employees.

Unfunded insurance liabilities increased in 2001 mainly due to the collapse of HIH. In order to maintain the community's confidence in the insurance industry, the Government assumed liability for the outstanding compulsory third party claims under policies in force with HIH prior to 31 December 2000, and for claims under the home warranty insurance scheme in respect of HIH policies entered into prior to 15 March 2001. The extent of the claim liabilities from the HIH liquidation assumed by the NSW Government was $600 million but could vary when the liquidator makes his report.

The forecast 2002 reduction in net liabilities reflects the impact of the $800 million grant made to fully provide for all existing claims against the TMF and the continued reduction in HIH liabilities as claim payments are made.

4.5 PUBLIC LIABILITY AND OTHER INSURANCE ISSUES

The NSW Government is well aware of the difficulties with insurance that some community and small business groups are facing. These difficulties include significant increases in premiums, decreased availability of certain types of insurance cover, and slow processing of applications for some compulsory cover. Similar problems are being encountered by community and small business groups in other states and territories.

The NSW Government alone cannot resolve these issues. However, on 27 March 2002, Ministers representing the Commonwealth and all State and Territory Governments issued a joint communiqué stating a shared determination to tackle these problems through pursuing a range of measures. The Premier of New South Wales has already announced a package of tort law reforms to be implemented in this State to reduce the cost of future awards for public liability claims and help reduce the cost of public liability insurance. Included amongst these measures are a cap on general damages of $350,000 and a cap on damages for loss of earnings and earning capacity equivalent to three times average weekly earnings.

Stage one of the legislative package will achieve greater consistency in the approach to compensating people suffering injury. Public liability claims will be more closely aligned with the standards established for health care and motor accident claims. It will also help address the escalating cost of processing claims.

Stage two will involve significant tort law reform including reforms to:

- protect good Samaritans who assist in emergencies;
- provide that risk warning can operate as a good defence for risky entertainment or sporting activities where there is no breach of safety regulations;
- provide that public authorities will have a good defence if they show that they complied with standards prescribed for the particular activity;
- change the professional negligence test to peer acceptance, so that conduct consistent with a respectable view within the profession cannot be held to be negligent;

- abolish reliance by plaintiffs on their own intoxication;
- prevent people from making public liability claims if they are injured while committing a crime;
- provide a wider range of options for damages awards, including provisional damages; and
- create a presumption in favour of structured settlements instead of lump sum damages awards.

All these measures are aimed at lowering the cost of obtaining insurance and making insurance more readily available to small business and community organisations.

4.6 GENERAL GOVERNMENT SECTOR NET DEBT

The Government has established a fiscal target to eliminate general government net debt by 2020, a target incorporated in the *General Government Debt Elimination Act 1995*.

Substantial progress has already been made in achieving this target. The net debt level of $12,027 million in 1995 is estimated to be reduced by $7,117 million to $4,910 million as at 30 June 2002.

The impact of the temporary borrowing in 1999 to fund the prepayment of superannuation contributions is reflected in the net debt increase for that year. These borrowings will be fully repaid by 30 June 2002.

The net debt reduction is partly due to ongoing cash budget surpluses and asset sales, including the recent FreightCorp sale. Most of these receipts will be utilised to retire general government sector loans and thus significantly reduce general government sector interest expenses.

During 2002-03, the electricity industry will be regeared to the extent of $400 million (market value) and the capital receipts will be used to retire general government sector loans. The electricity businesses are able to prudently support additional debt with gearing levels comparable to private sector organisations.

Table 4.5: General Government Sector Net Debt

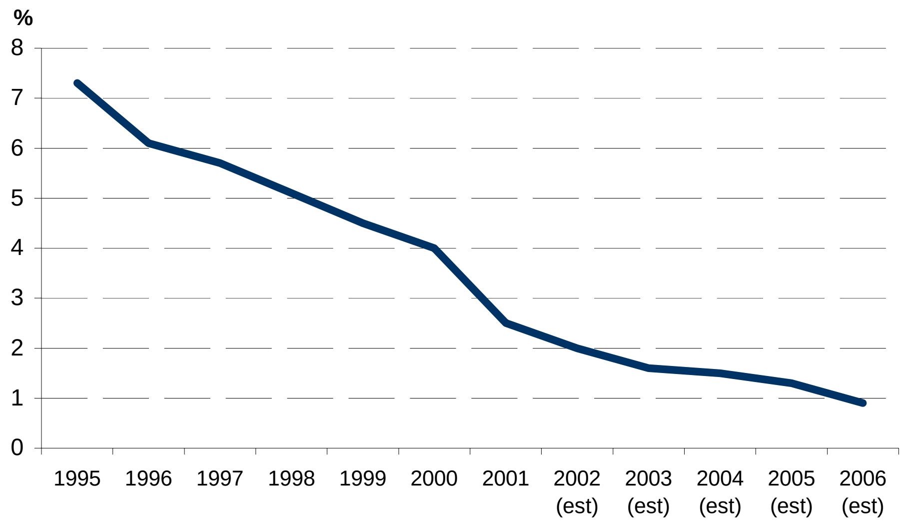
As at 30 June	Actuals 1998 $m	Actuals 1999 $m	Actuals 2000 $m	Actuals 2001 $m	Revised 2002 $m	Estimates 2003 $m	Estimates 2004 $m	Estimates 2005 $m	Estimates 2006 $m
Gross Debt									
Borrowings[(a)]	14,064	13,497	12,711	10,347	10,306	9,748	9,427	9,163	8,848
Advances Received	2,340	2,270	2,142	2,041	1,827	1,789	1,693	1,655	1,517
Deposits Held	57	59	90	61	52	51	51	52	52
	16,461	15,826	14,943	12,449	12,185	11,588	11,171	10,870	10,417
Financial Assets[(b)]									
Cash	1,184	961	418	1,035	796	1,277	1,209	1,430	1,334
Investments	3,449	3,658	3,861	3,951	4,985	4,583	4,532	4,214	4,955
Advances	1,670	1,653	1,693	1,439	1,494	1,418	1,355	1,319	1,263
	6,303	6,272	5,972	6,425	7,275	7,278	7,096	6,963	7,552
Underlying Net Debt	**10,158**	**9,554**	**8,971**	**6,024**	**4,910**	**4,310**	**4,075**	**3,907**	**2,865**

(a) Excludes borrowings for accelerated superannuation contributions in 1998-99.

(b) Excludes balances held in the General Government Liability Management Fund,which would reduce net debt further.

The net debt to gross state product ratio is forecast to reduce to 0.9 percent by 2006, as shown in Chart 4.2.

Chart 4.2: General Government Sector Underlying Net Debt as percentage of Gross State Product, as at 30 June



Gross debt interest expense is expected to fall from $1,792 million to $670 million over the eight year period ending 30 June 2006 (refer Table 4.6), due to ongoing debt reductions and a lower average interest rate as old loans in the debt portfolio mature and are replaced with new loans at lower prevailing interest rates.

Table 4.6: General Government Sector Net Interest Expense

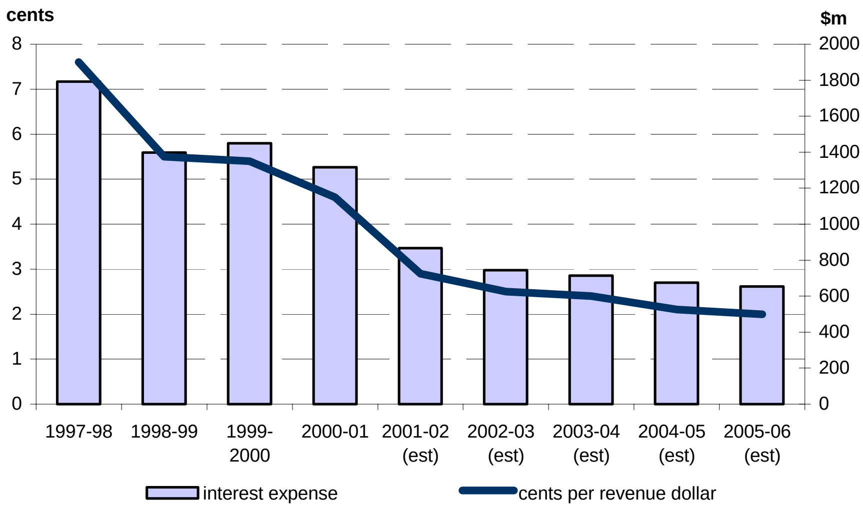
	Actual				*Revised*	*Estimates*			
	1997-98 $m	*1998-99 $m*	*1999-2000 $m*	*2000-01 $m*	*2001-02 $m*	*2002-03 $m*	*2003-04 $m*	*2004-05 $m*	*2005-06 $m*
Interest expense[(a)]	1,792	1,397	1,450	1,317	867	760	730	691	670
Investment Income [(b)]	424	420	493	484	357	568	585	605	644
Net Interest expense	**1,368**	**977**	**957**	**833**	**510**	**192**	**145**	**86**	**26**

(a) Represents coupon accrual interest expense and any gains or losses on debt management resulting from retirement of high interest rate loans

(b) Excludes General Government Liability Management Fund investment income.

In 1998, for every revenue dollar received, 7.6 cents was required to meet loan interest payments. By 2006 it is expected that only 2 cents in the dollar will be required (refer Chart 4.3). Significantly, by 2005-06 investment earnings of financial assets are expected to almost equal interest payments for debt.

Chart 4.3: General Government Sector Gross Debt Interest Expense, and as a percentage of State Revenue



4.7 GENERAL GOVERNMENT SECTOR UNFUNDED SUPERANNUATION LIABILITIES

Over the four year period ending 30 June 2006, underlying unfunded superannuation liabilities are projected to increase by approximately $1,124 million. This increase is consistent with the Government's actuarially prepared long-term funding plan and is largely explained by the combination of two factors:

- gross superannuation liabilities will continue to increase until around 2015 because current public sector defined benefit scheme employee members continue to provide service. Therefore, current service liabilities continue to accrue and each year previously unrecognised future service liabilities are reported as past service liabilities; and
- the accumulation of superannuation assets through employer contributions and investment earnings will not initially exceed the growth in gross liabilities.

Table 4.7: General Government Sector Unfunded Superannuation Liabilities [(a)]

As at 30 June	*Actuals*				*Revised*	*Budget*	*Estimates*		
	1998 $m	*1999 $m*	*2000 $m*	*2001 $m*	*2002 $m*	*2003 $m*	*2004 $m*	*2005 $m*	*2006 $m*
Liabilities [(a)]	25,593	26,235	26,797	29,011	30,389	31,780	33,127	34,380	35,542
Assets [(b)]	13,741	18,283	21,111	20,884	20,423	20,521	20,510	20,333	19,984
Unfunded Liabilities	**11,852**	**7,952**	**5,686**	**8,127**	**9,966**	**11,259**	**12,617**	**14,047**	**15,558**
Less: Reserves held in GGLMF	…	…	…	…	…	**951**	**2,012**	**3,181**	**4,468**
Underlying Net Unfunded Liabilities	**11,852**	**7,952**	**5,686**	**8,127**	**9,966**	**10,308**	**10,605**	**10,866**	**11,090**
Assets (including GGLMF Reserves) as proportion of Liabilities (%)	**54**	**70**	**79**	**72**	**67**	**68**	**68**	**68**	**69**

(a) Includes assets and liabilities of both employers and employees. The time series is adjusted to take into account that New South Wales no longer recognises any superannuation liability for Universities

(b) Includes the actuarially calculated increase in assets resulting from the tax benefits associated with the creation of the General Government Liability Management Fund on 30 June 2002.

Between 1998 and 2000, strong overall investment returns combined with substantial employer contributions resulted in an estimated growth in financial assets of $6.7 billion to $20.4 billion for the four year period ending 30 June 2002.

In June 1999, the Government brought forward its planned superannuation contributions for the three-year period to 30 June 2002 and paid $3,261 million into the STC Pooled Fund, from which benefits are paid to members of the public sector defined benefit schemes.

Table 4.7 shows that the ratio of assets to liabilities is stable over the four year period ending 30 June 2006. This is consistent with the Government's long term funding plan and as Chart 4.4 shows, the level of superannuation liabilities will fall towards the level of superannuation assets from about 2015 onwards.

Chart 4.4: Projected Total State Sector Superannuation Gross Liabilities, Assets and Net Liabilities

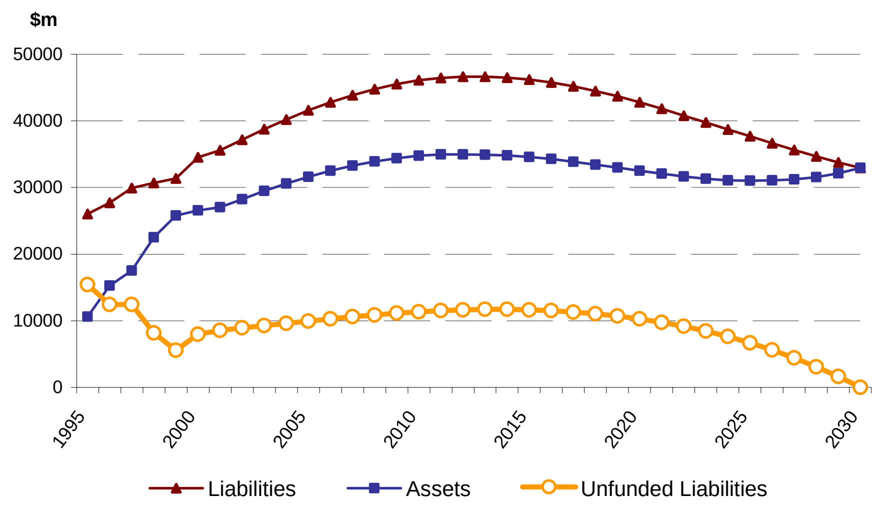


Chart 4.4 shows actuals from 1995 to 2001 and indicative trend values thereafter for total state sector gross superannuation liabilities, assets (in STC Pooled Fund and General Government Liability Management Fund) and unfunded liabilities to 2030.

Since the establishment of the Government's long-term superannuation funding plan in 1995, the level of superannuation assets has increased significantly. From 2003 to 2030, assets will generally increase at a more moderate rate, in line with the funding plan designed to extinguish unfunded liabilities over that period. This meets the requirement of fiscal principle No. 3 in the General Government Debt Elimination Act.

Nominal unfunded liabilities will continue to grow until around 2015, before gradually declining to zero in 2030, at which time assets are projected to match liabilities at approximately $33 billion.

After 2015, gross accrued liabilities reduce due to the retirement of active members.

The 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 equities, held to meet defined benefits of scheme members.

The actuarial calculation of unfunded superannuation liabilities takes into account both demographic and economic factors, as well as the market value of assets.

The annualised investment return of the STC Pooled Fund for the five year period ended 30 June 2001 was 11.3 percent. The industry average for the same period was 10.8 percent. STC Pooled Fund investment return dropped to 5.2 percent in 2000-01 and is estimated to be negative in 2001-02 in line with a general decline in industry returns. An average return of 7 percent per annum, based on the long-term assumption adopted by the STC Pooled Fund actuary, has been assumed in calculating the estimates of unfunded liabilities to 30 June 2006.

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 a number years, the Government has brought forward the full funding target date by fifteen years from 2045 to 2030.

New South Wales' superannuation liability position improved significantly during the 1990s. When the funding plan was revised in 1995, the net unfunded liability projection for 2001 was $14,200 million, $6,073 million more than the actual liability estimate actuarially assessed at that date. This has made possible the adoption of an earlier funding target date of 2030, which can be achieved on the basis of the funding shown in Table 4.8, and assuming government superannuation contributions are indexed annually by 2.5 percent until 2030.

Table 4.8: Superannuation Funding Plan Contributions[a]

	Actual				Revised	Budget	Estimates		
	1997-98 $m	1998-99 $m	1999-2000 $m	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m	2004-05 $m	2005-06 $m
Defined Benefit									
Closed schemes	1,145	4,301	587	243	...	...	...	...	...
Liability Management Fund	...	...	...	...	...	929	952	976	1,000
Open schemes	23	23	25	25	28	29	30	31	32
Total	**1,168**	**4,324**	**612**	**268**	**28**	**958**	**982**	**1,007**	**1,032**

(a) Contributions by 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 periodically. In particular, employer contribution levels will be periodically reassessed to ensure they remain sufficient to fully fund superannuation liabilities by 2030.

4.8 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 arrangement and joint ventures. The PAFA Act also provides for state government guarantees of financial arrangements entered into under the Act.

The approvals given under the PAFA Act were identified as a significant potential financial and business risk to the State. Therefore, reviews of the risk management policies and procedures of PAFA Act authorities are undertaken by the PAFA Act Administrative Review Committee involving Treasury and NSW Treasury Corporation (TCorp) officers as well as external risk management experts.

The aim of the reviews is to assess the policies, procedures and staff qualifications of the authority as a whole on a risk analysis basis. Larger, high risk authorities will be reviewed more frequently than smaller, low risk authorities, with all authorities being reviewed at least once every three years.

During the year, Treasury engaged PricewaterhouseCoopers to undertake a “peer review” of Treasury’s risk assessment policies and process and Deloitte Touche Tohmatsu to review current assessment guidelines for joint ventures.

The coverage of the PAFA Act was also subject to ongoing review during the year based on the criteria that only those bodies which are controlled by the State and for which the State is directly responsible should be covered.

INSURANCE MANAGEMENT

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

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.

DEBT MANAGEMENT

NSW Treasury Corporation manages the Crown and the Roads and Traffic Authority debt portfolios. The primary debt management objective is minimising the market value 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 STC Pool Fund's strategic asset allocation annually. The asset allocation to bonds and cash is currently approximately 20 percent of investments, with 80 percent in growth assets, namely equities and property. About a quarter of the assets is with market index investment managers, the remainder with active investment managers.

CHAPTER 5: THE ECONOMY AND OTHER FACTORS AFFECTING BUDGET OUTCOMES

Economic Situation and Outlook

Despite recession in several major trading partners, the NSW economy performed in 2001-02 in line with that year's Budget forecasts.

- Strong private consumption and an upturn in the dwelling sector underpinned gains in output and employment in 2001-02.

The forecasts for 2002-03 assume that world economic recovery will sustain solid growth in the Australian and NSW economies.

- NSW gross state product will increase by 3½ percent.
- NSW employment growth will strengthen to 1¾ percent while the unemployment rate will fall to 5¾ percent, and remain below the national average.

Sensitivity of Budget Outcomes to Alternative Economic Scenarios

- *Scenario One* considers a stronger global economic recovery flowing through to higher output and employment for New South Wales. The budget result under this scenario would improve significantly in 2002-03.
- *Scenario Two* considers the ramifications of a weak US economy and associated depreciating US dollar. New South Wales would experience slower growth and consequently a lower budget result.

Other Factors Affecting Budget Outcomes

Budget estimates are on a 'no policy change' basis, while budget outcomes may be affected by:

- new policies, changes to existing policies and regulatory decisions;
- changes in demand for government services and public sector wage costs;
- contingent liabilities arising from statute, guarantees and interventions; and
- Commonwealth policy on intergovernmental financial relations and other matters affecting state finances.

5.1 INTRODUCTION

The 2002-03 Budget estimates are based on assumptions and assessments that rely on the information available at the time of their preparation. Actual revenues and expenses will be influenced by outcomes for the economy and other factors that differ from expectations. This chapter describes those factors and their significance for the Budget.

The performance of the NSW economy during 2001-02 is reviewed in Section 5.2, which compares estimated outcomes with expectations in the 2001-02 Budget, before presenting the economic forecasts for the 2002-03 Budget and the economic parameters for the out-years.

The sensitivity of budget outcomes to changing economic circumstances is considered in Section 5.3, which compares the budget forecasts with two alternative economic scenarios: a "strong global growth" scenario; and a "weak US dollar" scenario.

Other sources of uncertainty affecting budget results, principally unanticipated policy and regulatory decisions, changed demand for services, and the realisation of contingent liabilities, are considered in Section 5.4.

5.2 THE ECONOMIC SITUATION AND OUTLOOK

Despite recession in several major trading partners and the shock from the September 11 tragedy, the domestic economy performed strongly during 2001-02. An upturn in Australian dwelling construction and solid private consumption underpinned solid gains in both output and employment.

With the momentum of recovery gathering pace overseas and with an encouraging outlook for domestic investment, growth in national economic output is expected to remain strong in 2002-03. The labour market also should firm appreciably.

Sources of uncertainty in the forecasts include the robustness of the recovery in overseas economies (particularly Japan and the United States), the outlook for petroleum prices, and monetary policy responses to the business cycle upswing.

RECENT PERFORMANCE [1]

Overall, economic outcomes in Australia in 2001-02 are likely to be slightly more favourable than expected in the 2001-02 Budget due to early recovery of world economic growth and the strong dwelling sector upswing which has sustained momentum in the domestic economy. State final demand and labour market outcomes in New South Wales have been much as expected in the 2001-02 Budget and, after a period of moderate performance, the State economy is now showing signs of regaining momentum.

The global economic slowdown which commenced in the middle of 2000 appeared to be bottoming out by early 2002, marking it as one of the milder downturns of recent decades. Factors limiting the downturn and bringing forward the recovery include:

- *Aggressive easing of monetary policy*. The United States Federal Reserve Board cut its Federal Funds rate from 6.5 percent in January 2001 to 1.75 percent in December 2001 – its lowest level since July 1961. Central banks in the Euro area, the United Kingdom, Canada, New Zealand and others also sharply reduced their interest rates.

- *Increased fiscal stimulus*. The fiscal balance[2] of the major industrialised countries fell from -0.3 percent of GDP in 2000 to -1.7 percent in 2001, including net changes of -1.4 percentage points in the United States, -1.6 points in the Euro area and -4.0 points in the United Kingdom;

- *Lower petroleum prices*. World petroleum prices halved from US$35/barrel in November 2000 to US$17/barrel in November 2001 as global demand fell away, reducing business costs and lifting net consumer spending power[3];

- *Home equity lending*. The increased availability of lending backed by home equity, reinforced by upward movement in house prices internationally, played an important role in maintaining consumer spending power in the US and much of Europe despite rising unemployment.

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[1] *Unless otherwise indicated, the sources for statistical information in this chapter are ABS (Australian Bureau of Statistics) data releases and NSW Treasury estimates. Economic estimates are based on data available as at mid-May 2002, which included results to June 2001 for gross state product, to December 2001 for state final demand, to March 2002 for consumer prices and wage costs, and to April 2002 for employment.*

[2] *Fiscal balance on a national income accounts basis, excluding social security transactions (IMF, World Economic Outlook, April 2002).*

[3] *Petroleum prices drifted back up during the second half of 2001-02.*

Signs of recovery were most evident in the United States where, despite the additional disruption of the September 11 tragedy, solid growth resumed from the December quarter 2001. Brighter prospects for US growth and for the battered information and communications technology sector boosted the outlook for electronics intensive East Asia, particularly South Korea. Even Japan, which continued to struggle against severe and longstanding structural difficulties, showed tentative signs of improvement.

World output should continue to build momentum during 2002 and 2003, setting the foundations for an uplift in world trade and investment.

The resilience of the national economy against external shocks was confirmed again by its strong performance during the latest global downturn. Through the year to the December quarter 2001, Australia recorded the strongest growth of any advanced economy[4] as it continued to reap the gains from two decades of microeconomic reform and effective macroeconomic management.

Australia also benefited in 2001-02 from a strong rebound in dwelling construction which was boosted by low interest rates and by the federal government's temporary additional home grant for the purchase of a newly constructed home by first-time buyers[5].

Australian economic performance was not weighed down, as was the United States, by a disintegrating technology share market, or by a high exchange rate. Australia's share market remained comparatively resilient; while downward adjustment in the A$ exchange rate helped maintain net exports despite weaker demand from trading partner economies during the global slowdown. This was reflected in the current account deficit ratio to GDP, which declined in calendar 2001 to its lowest level in more than two decades.

Rural Australia benefited in 2001-02 from a 35 percent rise in the real net value of farm production, while thermal coal producers gained from a 22 percent rise in the real value of their exports[6]. Improved rural conditions were reflected in employment, which increased by an average 5.4 percent in NSW agriculture versus 1.2 percent for the total NSW economy[7] in the four quarters ending March 2002.

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[4] *IMF, World Economic Outlook, April 2002*

[5] *This grant was additional to the basic FHOS grant of $7,000 and (in NSW) exemptions from state government stamp duty on home purchase and mortgage commitments for first home owners, with effect from July 2000.*

[6] *ABARE, Australian Commodities, March 2002*

[7] *These results are estimated from unadjusted quarterly data, and are not directly comparable to other employment estimates in this chapter which rely on seasonally adjusted monthly labour force survey data.*

Revisions to the forecasts

The 2001-02 Budget noted both upside and downside risks to the forecasts reflecting uncertainty regarding the world economy, the dwelling construction sector, and business investment; although not anticipating an event comparable to the September 11 tragedy. The collapse of Ansett Australia and other high-profile corporate entities also buffeted sentiment. Revisions published in the NSW Half Yearly Budget Review in December 2001 reflected the heightened risks to the world economy following those events, as well as more recent economic data; while current estimates take account of additional information on economic trends and prospects since the Half Yearly Budget Review.

Table 5.1: Revised 2001-02 Estimates

(Year average percent change, unless otherwise indicated)

	2001-02 Budget	Half Yearly Review	Current Estimate
Gross State Product	2¾	2	2
State Final Demand	3¼	3¼	3
Employment	¾	½	¾
Unemployment rate (year average, percent)	6¼	6½	6¼
CPI (Sydney)	2¼	2¾	3
Wages (wage cost index, ordinary time)	3½	3¾	3½

Gross state product growth will be more moderate than anticipated at the time of the 2001-02 Budget. The state economic accounts released in November 2001 implied that a large part of growth in 2000-01 derived from Olympics related exports (such as ticket sales and broadcast rights), which are absent in 2001-02. In consequence, the forecast for NSW growth in 2001-02 was lowered from 2¾ percent in the 2001-02 Budget to 2 percent in the Half Yearly Review, an assessment which has been maintained in the current Budget. (Box 5.1 provides additional information on this subject).

State final demand growth in 2001-02 however is likely to be close to that anticipated in the last Budget, with stronger private consumption and dwelling investment offsetting more moderate outcomes for business investment. This implies a significant turnaround in aggregate performance in the second half of 2001-02, after the modest 0.4 percent annual increase recorded in the first half.

Box 5.1 Divergences between Demand and Output

The latest annual State Accounts show gross state product growth was 2.7 percent compared to national GDP growth of 1.9 percent in 2000-01. NSW growth was the strongest of any state, and well above the 2 percent estimated for that year in the 2001-02 Budget papers.

State final demand was weaker than gross state product. The difference between state final demand and gross state product comprises net exports of goods and services, and a residual “balancing item” (mainly interstate trade, but also inventory changes and statistical discrepancies). The large boost to net international and interstate exports in 2000-01 (equivalent to 3½ percentage points in gross state product) reflected sales of tickets, broadcast rights and related services for the Sydney Olympics.

Because these factors have ceased contributing to exports, gross state product is likely to increase by considerably less than state final demand in 2001-02.

CONTRIBUTIONS TO GROWTH IN GROSS STATE PRODUCT[(a)]
(percentage points in GSP)

	New South Wales		Australia	
	1999-2000	2000-01	1999-2000	2000-01
State final demand	**6.1**	**-0.7**	**5.2**	**0.3**
Net merchandise exports	-2.2	-0.1	-0.7	1.3
Net services exports	-0.3	1.7	-0.2	0.6
Balancing item	0.9	1.9	-0.2	-0.2
Gross state product	**4.4**	**2.7**	**4.3**	**1.9**

(a) *Source: ABS Cat. 5220, 2000-01 State Accounts (released 16 November 2001). The ABS revised some (but not all) of these items in the National Accounts released on 7 March 2002. In particular, they revised the estimated growth rate of NSW state final demand in 2000-01 to -1.1 percent (from -0.7 percent previously). The revised estimate is relied upon elsewhere in this chapter, including Table 5.2.*

Private consumption in New South Wales increased by 2.5 percent in the first half of 2001-02 compared to a year earlier, and growth accelerated to 3.1 percent through the year to the December quarter. Consumption has been buoyed by improving employment, low interest rates, rising house prices, and growing confidence in global and domestic economic prospects. Consumption is expected to increase by around 2¾ percent in 2001-02 as a whole, a faster pace than anticipated in the 2001-02 Budget.

Dwelling construction in New South Wales was stable in the first half of 2001-02 but accelerated in the December quarter to a level 19.3 percent higher than a year earlier. Growth may be slightly below the national average, because the first home owner grant was proportionally less stimulatory due to the higher base cost of dwellings in Sydney compared to other capital cities. The impact was substantial, however, for first home purchasers in rural and regional New South Wales. Trends in dwelling approvals and housing finance imply that dwelling investment growth is likely to peak during the second half of the year. For 2001-02 as a whole, however, growth is expected to average around 20 percent – a far stronger outcome than anticipated in the 2001-02 Budget.

Non-residential construction in New South Wales is likely to be substantially weaker than anticipated in the 2001-02 Budget, in light of its 22.5 percent decline in the first half of 2001-02. This downturn mainly represents a continued unwinding of the previous cyclical upswing (from 1997 through early 2000) in Sydney CBD office tower construction.

Investment in *machinery and equipment* and *intangible assets* (including software) also is likely to be somewhat more subdued than expected in the 2001-02 Budget. This class of investment declined by 16 percent in New South Wales in the first half of the year. This reflects the State's relatively large exposure to the information and communications technology sector which was caught in a global downturn.

Employment is expected to rise by ¾ percent in New South Wales in 2001-02 as anticipated in the 2001-02 Budget. Annual growth averaged 0.7 percent during the first ten months of 2001-02, with subdued performance in the first six months followed by an improvement in early 2002. The largest additions to the number of persons employed between the March quarters of 2001 and 2002 were recorded in construction, health and community services and wholesale trade. These were partially offset by declines primarily in manufacturing and property and business services.

Unemployment in New South Wales drifted slightly higher in the first half of 2001-02 but eased back to 6.0 percent in April. For 2001-02 as a whole unemployment is expected to average 6¼ percent, as anticipated in the 2001-02 Budget.

The Sydney *consumer price index* is expected to increase by 3 percent in 2001-02 – in line with the outcome for the first three quarters, but above the result anticipated in the 2001-02 Budget. Sydney inflation in the first three quarters was driven primarily by rises for meat (reflecting strong export demand), fruit, house purchase and rental costs (reflecting the buoyant real estate market) and travel expenses (affected by the September 11 tragedy and the Ansett collapse). These pressures were partially offset by declining prices for automotive fuel.

Growth in *wage costs* appears likely to average around 3½ percent in 2001-02 both nationally and in New South Wales. This is at the lower end of the Reserve Bank of Australia's (RBA) 3½ to 4½ percent "wage corridor" consistent with consumer price inflation of between 2 to 3 percent.

Central banks in Australia and overseas eased *interest rates* aggressively during the second half of 2001 in response to the weakening economic outlook and the threat to confidence from terrorist attacks. The RBA reduced Australia's cash rate by a further ¾ of a percentage point between September and December 2001 but, given the subsequent marked improvement in economic conditions, began to draw back that monetary stimulus with a ¼ point rise in May 2002. Long bond rates declined through November but have since reversed course in anticipation of global economic recovery and tighter monetary policy.

The Australian and major overseas *equity markets* ended April 2002 near their levels at the fiscal year's start, reflecting a recovery from the falls experienced in the September quarter. *Residential property* markets responded strongly to low interest rates and Commonwealth subsidies, with established house prices in Sydney posting a 17.2 percent annual increase in December - the largest since 1988.

The *exchange rate* strengthened in the second half of 2001-02 in recognition of Australia's comparatively strong growth performance and its implications for interest rates.

In conclusion, while growth in aggregate demand and employment in New South Wales was much as anticipated during the first three quarters of 2001-02, other aspects of particular consequence for the Budget such as property markets were stronger. Moreover, improving prospects for the world economy and their potential implications for Australia buoyed both business and consumer sentiment toward the close of the financial year.

OUTLOOK FOR 2002-03

While world growth reached a trough in 2001-02, economic fundamentals remained sound and effective macroeconomic management succeeded in preventing a deep downturn. It is possible that this recovery may prove unsustainably strong (leading to an asset bubble necessitating a sharp and painful monetary response) or, alternatively, that recovery may become hesitant and protracted. The most likely outcome is a moderate and sustained economic recovery accompanied by a gradual firming of interest rates, setting the framework for a sustainable uplift in world trade and investment.

In summary, the forecasts for 2002-03 underlying the Budget are that:

- the Australian economy will maintain solid growth in 2002-03, with the NSW economy participating fully in that growth;

- the labour market will strengthen in response to the economic recovery now under way;

Table 5.2: Economic Performance and Outlook

(Percent change, year average, unless otherwise indicated)

	Outcomes 2000-01	Estimates 2001-02	Forecasts 2002-03
New South Wales			
Gross state product	2.7	2	3½
State final demand	-1.1	3	4¼
Employment	1.9	¾	1¾
Unemployment rate (year average, percent)	5.6	6¼	5¾
Sydney CPI	6.2	3	2½
Wage cost index	3.7	3½	3¾
Australia			
Non-farm GDP deflator	4.3	1¾	2½
Ten year bond rate (year average, percent)	5.8	6	6½

- moderate inflation will allow interest rates to move up only gradually;

- business investment and exports will be the major contributors to strengthening output growth, with dwelling construction slowing; and

- the NSW economy, having weathered a transitory slowdown in 2001-02 (reflecting its relative exposures to the tourism, finance, and information and communications technology sectors), will return to stronger growth during 2002-03.

Expectations underlying the forecasts are:

- Growth of *private consumption* in New South Wales will strengthen further in 2002-03, sustained by faster growth in wages and employment, wealth effects from continued (though more moderate) asset appreciation, and growing confidence in economic prospects. Higher mortgage interest costs, however, will partially offset those positive influences.

- *Dwelling construction* in New South Wales expanded strongly in 2001-02 in response to historically low interest rates, the time-limited opportunity to take up the additional Commonwealth first home owner grant, and concern to lock in early in a climate of rising house prices. With the removal of half the additional grant from 1 January 2002 and the remainder from 1 July 2002, and the prospect of higher interest rates, dwelling construction will ease back somewhat in 2002-03, although the correction will be modest compared to 2000-01. Since dwelling commencements have not run as far ahead of underlying demand in New South Wales as in other states in 2001-02, the adjustment in 2002-03 will be more moderate than the Australian average.

- *Business investment* will strengthen in 2002-03 in response to improved product markets both within Australia and abroad. Unlike the United States, Australia is not burdened by an overhang of excess capacity and hence will be earlier in requiring fresh expansion. Private capital expenditure expectations, surveyed by the ABS in December 2001, point to strong increases in business investment in 2002-03, both in New South Wales and nationally. The strong outlook for some commodity markets continues to encourage resource investment, with New South Wales host to 10 of 35 advanced minerals and energy projects which ABARE expects to be completed in Australia in the next 5 years.

- NSW *employment growth* in year-average terms will strengthen to 1¾ percent in 2002-03 from ¾ percent in 2001-02, reflecting faster output growth and continued moderate wage outcomes. The sectoral composition of employment growth in 2002-03 will reflect more subdued requirements in the dwelling construction sector and a greater demand associated with business investment and exports.

- The faster pace of employment growth will lead to a fall in the *unemployment rate* from an average 6¼ percent in 2001-02 to 5¾ percent in 2002-03, remaining below the national average.

- *Wage cost growth* will pick up slightly to 3¾ percent, reflecting the more generous award wage increases available under the May 2002 national safety net decision and the tighter conditions in the labour market. Wage outcomes nonetheless will remain within the range considered by the RBA to be consistent with price stability.

- Sydney *consumer price inflation* will ease from 3 percent in 2001-02 to 2½ percent in 2002-03. Exchange rate appreciation should exert some downward pressure on import prices, although this may be counterbalanced in part by tighter capacity constraints and a tighter world petroleum market.

- In the circumstances of these forecasts, monetary policy will be moved to a more neutral stance during 2002-03. However, the magnitude of the required tightening will be modest by historical standards, given the increased gearing of households and the low level of inflation. Long bond rates also will rise somewhat in response to increased demand for investment capital.

MEDIUM TERM OUTLOOK

Prospects for the economy beyond 2002-03 will depend on the strength of the global economy, the business cycle, domestic policy settings and productivity trends. Because these factors cannot be predicted with reasonable precision more than a short period ahead, the budget estimates beyond 2002-03 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. Medium term expectations for employment and output are based on an assessment of the resilience of the economy evident since the last Budget. Medium term assumptions for prices and wages are consistent with public statements by the Reserve Bank of Australia as to their policy objectives.

Table 5.3: Economic Parameters Beyond 2002-03

(Percent change, year average, unless otherwise indicated)

	Medium Term
Gross state product	3¼
Population	1
Employment	1¼
Sydney CPI	2½
Wage cost index	4
Ten year bond rate (year average, percent)	6

5.3 SENSITIVITY OF BUDGET OUTCOMES TO THE ECONOMY

The economic forecasts for 2002-03 and medium term projections presented in Section 5.2 are unavoidably vulnerable to error. Additionally, the relationships between some revenue and expense items and economic factors can be unpredictable, and may result in variations from forecast.

The economic outlook remains uncertain despite signs that the recovery is gaining momentum. A useful way to illustrate the scope for budget outcomes is to consider the effects of different economic scenarios. The following section explores two scenarios, the first involving an unexpectedly strong recovery in world growth where initial interest rate rises in Australia and abroad are insufficient to dampen an unsustainable surge in demand. Under this scenario, the likelihood of subsequent interest rate rises to contain inflationary pressures would have negative implications for economic output in subsequent years. The second scenario considers the possibility of a weak recovery in the United States combined with a depreciating US dollar.

Examples of Alternative Economic Scenarios and Budget Impacts

The scenarios presented should not be interpreted as likely possible outcomes or as confidence intervals around the budget estimates.

Table 5.4: Illustrative Economic Scenarios, 2002-03

	Budget Economic Forecasts	Alternative Scenarios	
		Strong Global Growth	Falling US Dollar
	%	%	%
Gross State Product	3½	5½	2½
Employment (NSW)	1¾	2½	1¼
Wages	3¾	4¾	2¾
CPI	2½	5	2
Mortgage interest rates	7	9	6½

Under a possible *strong global growth* scenario the recovery in economic activity is assumed to prove stronger and more durable than the budget forecast. The expansionary monetary and fiscal policies pursued by OECD countries during 2001-02 and rising confidence fuel a strong uplift in global business investment and consumer spending.

Inflationary expectations are rekindled as capacity utilisation increases and wages growth is stronger because of a tight labour market. The tightening of monetary policy assumed to occur during 2002-03 both in Australia and abroad is significant, but proves too limited and too late to prevent demand from surging to unsustainable levels. As a result, output growth under this scenario is a vigorous 5½ percent during 2002-03.

A possible *falling US dollar* scenario could eventuate if indicators of economic health in the United States turn less favourable. Imbalances in the United States economy at present include excess capacity, to some extent an over priced equity market, and a record high current account deficit. Further markdowns of corporate profitability augmented by concern over corporate accounting standards could prolong US economic weakness, contributing to a reversal of previously strong capital inflows, and a significant decline in the value of the US dollar.

The consequence for New South Wales is assumed to be relatively subdued output growth of 2½ percent and employment growth of 1¼ percent primarily reflecting a fall in commodity prices and declining export volumes. Wages growth is lower as inflation expectations remain within the RBA’s target range of 2 to 3 percent, largely due to softer import prices.

Budget scenarios corresponding to each economic scenario are shown in Table 5.5 as *deviations* from the budget result. No allowance is made for spending or revenue responses by State and Federal governments that might occur in these more extreme economic conditions.

Table 5.5: Illustrative Alternative Budget Outcomes, 2002-03

	Change on Budget Estimate	
	Strong Global Growth $m	Falling US Dollar $m
Change in Budget Result	**1,150**	**(-) 420**
Revenues	1,230	(-) 440
Tax	830	(-) 360
Non-tax	400	(-) 80
Expenses	80	(-) 20

The projected budget outcome is a surplus of $168 million. Under the *strong global growth* scenario, the budget outcome would be stronger, with a projected surplus of $1,318 million, while in the *falling US dollar* scenario the outcome would be a projected deficit of $252 million.

The impact of different economic scenarios on the budget result is primarily through revenues. In the short term with unchanged policy, expenses are relatively insensitive to changes in the economic environment, largely because a big proportion of outlays relate to employee expenses which are ‘locked in’ through wage agreements for the budget year. Also, 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 on contracts and conveyances and mortgages are largely related to property market activity. Changes in confidence can cause large changes in property transaction volumes which can lead to large swings in stamp duties over short periods.

Revenues under the *strong global growth* scenario are higher in line with higher output growth, a stronger labour market, and improved confidence. Initial interest rate increases are assumed to be insufficient to quell investor enthusiasm and property market related transaction revenues grow further along with the boom. The State’s interest costs in 2002-03 would not be significantly different due to the maturity profile of the debt portfolio. However, this scenario would set the stage for a much tighter monetary policy response to extinguish the boom which could then lead to a sharp economic slow-down and decline in property markets beyond 2002-03. Correspondingly there would be a rapid reversal in related revenues with the possibility that any short term gains would be eliminated over the ensuing period.

In the *falling US dollar* scenario, weaker business conditions and employment prospects would cause property based transaction revenues and payroll tax to soften in 2002-03.

5.4 OTHER FACTORS AFFECTING BUDGET OUTCOMES

The budget is framed on a ‘no policy change’ basis, i.e. the assumption that expenditure and revenue policies prevailing at the time of the budget (including new policies announced prior to the budget) are carried into the forward estimates period.

In practice, financial outcomes will depend on the following:

- variations in the costs of policies from those assumed in the budget estimates, for example because take-up rates differ from expectations;
- new policies and the fine-tuning of existing policies are inevitable over the forward estimates period;
- new policies in one area can also have hard to predict consequences for other related areas. These flow-on impacts may turn out different from the budget estimates;
- regulatory decisions at the State and Federal level can affect the prices and costs of government services such as transport, electricity and water; and
- unexpected events such as bushfires, natural disasters, and other circumstances where the government intervenes in the interest of the public.

FACTORS AFFECTING EXPENDITURE

There are many factors which have an impact on the expense side of the budget.

Changes in the demand for public sector services

Growth in the demand for public services is largely driven by demographic and social changes and other external factors. These influences can therefore have a substantial impact on the cost of maintaining existing policies, in particular in health, community services, criminal justice and educational services.

The forward estimates make allowances for such cost pressures where possible. However, some changes in demand are difficult to predict.

Unexpected events

Management of the State’s finances requires anticipating the impact of new government policies as well as possible future developments which are external to the State’s control. The flexibility to respond to changes in circumstances as they occur, rather than overly restrictive adherence to a set of targets, is critical to effective budget management and is integral to the NSW fiscal strategy. The impact of possible developments on budget aggregates can be favourable in some circumstances and adverse in others.

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. In 2002-03, the *Treasurer's Advance* is $250 million for recurrent services, and $40 million for capital works and services.

Technological change

New technologies have the potential to facilitate improvements in the quality of service delivery and/or reduce the cost per unit of service delivery, including in key areas such as education and health. However, new technologies can also lead to demands for new services, especially in the health sector, with the potential to increase expenses.

Superannuation Liabilities

The measures of liabilities associated with superannuation schemes and other employee benefits and insurance schemes depend on actuarial estimates. These estimates require assumptions regarding public sector wage growth, inflation and fund earnings. Accordingly actuarial estimates are subject to change, which can influence the size of funding contributions required from the budget.

Wages and Employment

The budget outcome is based on assumptions regarding the rate of growth in public sector wages and employment. Since the majority of public sector employees are covered by awards that run until June 2004, changes in forecast wage costs are likely to be small.

Consistent with government wages policy, agency budgets have been adjusted to reflect the need to achieve productivity targets. The Christie Taskforce has been appointed to ensure that all government agencies are committed to this process in accordance with government policy and the memorandum of understanding or other determination. The budget, through the Crown Finance Entity, includes provision for some budget support to those agencies that require a longer timeframe to develop an agreed implementation plan with the Taskforce than originally envisaged.

The first report to Cabinet from the Christie Taskforce was submitted in April 2002. This report gave a preliminary assessment of progress of the program to achieve productivity savings. The report also made recommendations to the Cabinet aimed at a more comprehensive reporting system to give the government a complete account of the measures and results of productivity enhancement programs of government agencies.

Future progress reports from agencies will cover the full range of productivity enhancing measures being undertaken or developed – including measures resulting in increased output or enhanced quality of service in addition to measures that result in savings to be applied to meeting increases in wages. Future progress reports will also indicate what measures agencies are undertaking in specified areas, especially in corporate services, information and communication technology, procurement and the full range of operation costs within agencies.

Capital Works

Agencies' expectations of capital works expenditure in a given period can be affected by unavoidable circumstances such as bad weather. While every effort is made to account for these effects, the impact of such factors can differ from that allowed for.

The forward estimates assume that the size of the "discretionary" component of the capital program (i.e. that component which is not funded through dedicated revenue sources or otherwise locked in) will remain more or less constant in real terms. This means that the forward estimates contain an allowance for new projects yet to be identified or approved.

Contingent Liabilities

Contingent liabilities are obligations that the government may face if a particular event occurs. Contingent liabilities include:

- ♦ claims for compensation and litigation;
- ♦ State guarantees under statute;
- ♦ other guarantees provided to facilitate the provision of services and the development of infrastructure; and
- ♦ developments where the government intervenes in the public interest, despite there being no legal obligation for the government to do so (e.g. the response of New South Wales and Victoria in April 2002 to the withdrawal of a major insurer for builders warranty).

The main contingent liabilities of the general government and total state sectors, both quantifiable and unquantifiable, are identified in the annual *Report on State Finances.*

Note 19 in the 2000-01 Report identifies quantifiable contingent liabilities of $633 million in the general government sector as at 30 June 2001.

The *Report on State Finances* identifies contingent liabilities that cannot be quantified, for example from pending litigation. Additional unidentified liabilities may also arise throughout the course of the year.

Contingent liabilities associated with private sector infrastructure projects are detailed in Chapter 8.

FACTORS AFFECTING NON-TAX REVENUES

Commonwealth General Purpose Payments

The main component of Commonwealth general purpose payments to the states is the distribution of GST revenues. These are shared between the states based on the recommendations of the Commonwealth Grants Commission.

New South Wales has no control over the funding received from the Commonwealth. Given the magnitude of GST revenues to be distributed, even a minor change in New South Wales' share of the total can have a substantial impact on revenues, and ultimately the budget outcome.

New South Wales also receives Budget Balancing Assistance from the Commonwealth to compensate for the shortfall between GST revenue and the Guaranteed Minimum Amount (GMA). Although the GMA is subject to an agreed methodology, the Commonwealth's recent action in unilaterally redefining one component from 2002-03 onwards - to the states' detriment - illustrates the uncertainty that persists in Commonwealth-State funding (see Chapter 7 for details).

Commonwealth Specific Purpose Payments

A large proportion of the specific purpose payments received by New South Wales consist of three programs that are being reviewed during 2002:

- ♦ Commonwealth/State Housing Agreement;
- ♦ Commonwealth/State Disability Agreement; and
- ♦ Supported Accommodation Assistance Program.

These reviews will affect specific purpose payments and therefore the budget.

Public Trading Enterprise (PTE) Revenues

The PTE sector affects the budget via dividend and tax equivalent payments.[8] Some PTEs operate in competitive markets for which outcomes can be very uncertain. Historically there has been conservative bias in the profit estimates for PTEs. Inevitably the robustness of PTE estimates falls as they extend into the forward years.

OTHER FACTORS

Pricing and Regulation of Utilities

Potential impacts on the budget (adverse or favourable) could arise from price determinations by the Independent Pricing and Regulatory Tribunal (IPART). IPART will provide determinations with effect in 2002-03 for public transport fares affecting the State Rail Authority and State Transit Authority. This determination will influence the level of budget subsidies required.

In 2002, IPART is undertaking a mid-term review of electricity retail prices for those customers choosing not to enter the contestable retail market. Prices were set to run from 1 January 2000 to 30 June 2004. The IPART determination could affect the dividends and tax equivalent payments received from government-owned electricity retailers. However, the risk of an adverse impact is low given the well understood nature of the IPART process and conservative forecasts by retailers.

Full contestability in retail electricity markets was introduced on 1 January 2002. Increased competition in retail electricity markets could have an impact on margins earned by government-owned electricity retailers, affecting dividends and tax equivalent payments. To date competition effects have been in line with retailers' forecasts.

Other Policy Changes

Changes in Commonwealth government policies can affect New South Wales. These impacts can be direct, such as through changes in financing arrangements. The impact of these changes cannot be quantified in advance, but can be significant.

[8] *Sections 3.4 and 8.5 provide details.*

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

In addition, Commonwealth policy changes can alter demand for state government services and therefore the costs faced by states - for example, pricing and/or changes to eligibility requirements or waiting list criteria for some social services, and health insurance policy.

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. Apart from taxation, cross-border charging arrangements by other states for some services can also lead to variations in the demand for or the cost of services provided by New South Wales.

CHAPTER 6: TAX EXPENDITURE AND CONCESSIONS STATEMENT

- Tax expenditures in 2002-03 are estimated at $2,738 million (compared with $3,111 million in 2001-02) and concessions at $712 million ($706 million in 2001-02).
- Lower tax expenditures in 2002-03 result mainly from tax policy changes announced in the 2002-03 Budget.
- Reducing the general insurance stamp duty rate to 5 percent from 1 August 2002 reduces tax expenditures associated with general insurance stamp duty by $263 million in 2002-03.
- Broadening the payroll tax base to include certain termination payments and the grossed-up value of fringe benefits reduces tax expenditures related to payroll tax by around $105 million in 2002-03 compared with 2001-02.
- Exempting apprentices' wages from payroll tax increases tax expenditures related to payroll tax by $9 million in 2002-03.
- The full-year impact of abolishing bank transactions taxes in 2001-02 – Financial Institutions Duty from 1 July 2001 and Debits Tax from 1 January 2002 – reduces tax expenditures by around $15 million in 2002-03.

6.1 INTRODUCTION

Concessional tax treatment, termed 'tax expenditures', and concessional charges represent an important mechanism through which a government can implement policy. Tax expenditures involve granting certain taxpayers, activities or assets tax treatment more favourable than that generally applicable. Concessions involve the sale by the government of goods and services to certain users at a price that is lower than generally available to the wider community.

Tax expenditures are an alternative to direct outlays to achieve policy objectives. They have the same budgetary and welfare effects as direct outlays. To better inform public understanding of their impact on the budget, this chapter provides a summary of tax expenditures (see section 6.2) and concessional charges (see section 6.3). Appendix B presents a comprehensive listing and, where possible, 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:

- exemption of certain 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.

The Tax Expenditure and Concessions Statement includes the cost of revenue forgone to those government agencies that provide goods or services for free or at concessional prices. Concessions are included even where the agencies receive compensation from the Consolidated Fund for the revenue forgone, because such concessions reduce revenue to the government sector as a whole. (These payments are known as Social Program Policy Payments (SPPPs)).

The Tax Expenditure and Concessions Statement does not include government subsidies paid 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. Subsidies provided to the private sector are direct outlays, rather than costs to public sector revenue. As direct outlays, they are included in the expenditure side of the budget.

6.2 TAX EXPENDITURES

The estimates of tax expenditures in this statement are for the years 2000-01, 2001-02 and 2002-03 except for the estimates for land tax, which are for the 2001, 2002 and 2003 land tax years.

As a result of changes to NSW taxes to be implemented in 2002-03, some tax expenditures are estimated to decline in 2002-03 compared with 2001-02.

- ♦ Reducing the general insurance stamp duty rate to 5 percent from 1 August 2002 reduces tax expenditures associated with insurance stamp duty by $263 million in 2002-03.
- ♦ Broadening the payroll tax base to include certain termination payments and the grossed-up value of fringe benefits will reduce tax expenditures related to payroll tax by around $105 million in 2002-03 compared with 2001-02.
- ♦ Exempting apprentices' wages from payroll tax increases tax expenditures related to Payroll Tax by $9 million in 2002-03.
- ♦ The full-year impact of abolishing bank transactions taxes in 2001-02 – financial institutions duty from 1 July 2001 and debits tax from 1 January 2002 – reduces tax expenditures by around $15 million in 2002-03.

Table 6.1 provides a summary of major (i.e. $1 million or greater) tax expenditures for each type of tax.

On the basis of revenue forgone, quantifiable tax expenditures (valued at more than $1 million) are estimated at $3,111 million in 2001-02, representing 23 percent of total tax revenue. Tax expenditures are expected to decline to $2,738 million, or 21 percent of tax revenue, in 2002-03. The decline – concentrated in the general and life insurance and payroll tax categories – chiefly reflects changes to tax policy announced in the 2002-03 Budgets.

Tax expenditures are spread across all major tax bases. By value, estimated tax expenditures in 2002-03 are highest in contracts and conveyances duty, payroll tax and gambling and betting taxes, which account for around 60 percent of total measurable expenditures. Reduction of the benchmark rate of general insurance duty from 10 percent to 5 percent from 1 August 2002 reduces the relative importance of tax expenditures for insurance stamp duty. The gambling and betting tax expenditure relates to the lower taxation of gaming machines installed in registered clubs compared to those installed in hotels.

Tax expenditures for contracts and conveyances duty vary markedly from year to year mainly due to large and irregular tax expenditures associated with corporate reconstructions. The decline in 2002-03 also reflects an expected moderation in the tax expenditure associated with the First Home Plus scheme as the first home buyer market cools with rising interest rates and the cessation from 1 July 2002 of the Commonwealth's extra First Home Owners Scheme grants for new houses.

Table 6.1: Major Tax Expenditures by Type of Tax

Tax	*2000-01*		*2001-02*		*2002-03*	
	$m	*% of tax revenue*	*$m*	*% of tax revenue*	*$m*	*% of tax revenue*
Contracts and Conveyances Duty	757	33.4	729	23.9	655	24.1
General and Life Insurance Duty	572	136.5	592	123.3	334	86.8
Mortgage Duty	48	23.3	61	20.7	73	26.3
Marketable Securities Duty [a]	373	69.9	8	19.8	...	...
Financial Institutions Duty [b]	56	8.7	5	7.7	...	...
Lease Duty	6	10.7	...	...	...	...
Payroll Tax	625	15.7	645	16.0	566	13.3
Land Tax	372	40.1	402	40.3	416	39.7
Debits Tax [c]	20	6.1	11	6.0	...	...
Taxes on Motor Vehicles	225	15.5	230	15.0	241	15.1
Parking Space Levy	8	17.5	7	17.5	7	17.3
Gambling and Betting Taxes	441	36.4	421	34.6	446	35.1
Total	**3,502**	**26.2**	**3,111**	**23.2**	**2,738**	**21.3**

(a) Stamp duty on the transfer of listed marketable securities was abolished from 1 July 2001.

(b) Financial institutions duty was abolished from 1 July 2001.

(c) Debits tax was abolished from 1 January 2002.

As a percentage of tax revenue collected under individual tax heads, tax expenditures in 2002-03 are expected to be largest for insurance duty (despite reduction of the benchmark tax rate), land tax and gambling and betting taxes.

Table 6.2: Tax Expenditures by Function

Function	2000-01		2001-02		2002-03	
	$m	*% of Expenses*	*$m*	*% of Expenses*	*$m*	*% of Expenses*
Public Order and Safety	1	0.0	1	0.0	2	0.1
Education	65	0.9	68	0.9	71	0.9
Health	311	4.3	318	4.2	329	4.0
Social Security and Welfare	216	10.2	219	9.1	221	9.0
Housing and Associated Amenities	193	17.6	231	16.9	217	21.4
Environmental Protection	...	...	...	...	...	...
Recreation and Culture	445	43.0	425	59.7	451	81.4
Agriculture, Forestry, Fishing and Hunting	245	50.2	262	49.4	268	49.0
Transport	11	0.3	12	0.4	8	0.3
Other Economic Activities	1,801	99.8	1,399	59.6	1,003	48.8
Other Purposes	215	8.0	177	6.7	168	5.9
Total	**3,502**	**11.5**	**3,111**	**9.8**	**2,738**	**8.5**

Table 6.2 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 Activities (which constitutes assistance to industry generally rather than to a particular type of economic activity), Recreation and Culture (reflecting the gambling and betting tax expenditure) and Health (mainly reflecting payroll tax exemptions for hospitals and nursing homes).

The distribution of tax expenditures by function is broadly similar over the three years covered by this statement, with the exception of a decline in Other Economic Activities. That decline reflects reduced tax expenditures related to general insurance and payroll tax, as well as the abolition of stamp duty on the transfer of listed marketable securities.

6.3 CONCESSIONS

Table 6.3 classifies the major concessions provided by the NSW Government by function. The total value of major concessions in 2001-02 is estimated at $686 million, representing 2.2 percent of expenses. Concessions are expected to amount to the same proportion of expenses in 2002-03.

Table 6.3: Concessions by Function

Function	*2000-01*		*2001-02*		*2002-03*	
	$m	*% of Expenses*	*$m*	*% of Expenses*	*$m*	*% of Expenses*
Public Order and Safety	...	...	...	...	...	...
Education	85	1.2	88	1.2	92	1.2
Health	72	1.0	81	1.1	82	1.0
Social Security and Welfare	251	11.8	278	11.5	289	11.8
Housing and Associated Amenities	215	19.7	255	18.6	245	24.2
Environmental Protection	...	...	...	...	...	...
Recreation and Culture	...	...	...	...	...	...
Agriculture, Forestry, Fishing and Hunting	2	0.0	4	0.0	4	0.0
Transport	...	...	...	...	...	...
Other Economic Activities	...	...	...	...	...	...
Other Purposes	...	...	...	...	...	...
Total	**625**	**2.0**	**706**	**2.2**	**712**	**2.2**

CHAPTER 7: FINANCIAL ARRANGEMENTS WITH THE COMMONWEALTH

- At the 2002 Treasurers' Conference, the Commonwealth advised it had made a unilateral decision to change the arrangements for calculating payments of transitional assistance to the States. This decision will cost New South Wales $43 million in 2002-03 and $416 million over the period to 2006-07.
- The changed arrangements will impose a net cost on New South Wales from tax reform. New South Wales is disproportionately affected by the change, bearing almost half the total cost to the States. The shortfall in Commonwealth payments will delay by one year – from 2007-08 to 2008-09 – the time when the NSW Budget is expected to obtain net gains from GST revenue.
- New South Wales' share of Commonwealth grants will be reduced by $203 million in 2002-03 as a result of the Commonwealth Grants Commission's recommended relativities. Compared with an equal per capita distribution of GST revenue grants, the revised relativities increase the cross-subsidy from New South Wales to recipient States to $1.2 billion in 2002-03.
- The Commonwealth and the States agreed to national arrangements to subsidise low alcohol beer relative to full strength beer, in place of existing State subsidies.
- The NSW Government continues to argue for reform of the current system for allocating Commonwealth funding to the States. In 2001-02, the State joined with Victoria and Western Australia in commissioning an independent review of the allocation of Commonwealth grants to the States and Territories.
    - Research commissioned by the Review has shown that the current arrangements for allocating funding among the States fail to achieve improved equity between individuals in different States and that annual gains of up to $250 million a year could be achieved through reforming the arrangements to promote greater economic efficiency.
    - The NSW submission to the Review argues that reforms to the current arrangements should provide more certainty and transparency and outcomes better supported by evidence with less reliance on judgement. The reformed arrangements should pay greater attention to the efficiency implications of the distribution of Commonwealth grants and impose a lower burden on donor States, by focusing on assisting States with clear natural disadvantages.

7.1 INTRODUCTION

The NSW Government is dependent on Commonwealth grants for half its revenue (see 3.4 for details of Commonwealth payments to the States). Consequently, financial relations with the Commonwealth are a key factor influencing the financial position of the State.

This chapter explains the financial arrangements between the Commonwealth and the States including key recent developments. Section 7.2 discusses the current framework for Commonwealth-State financial relations following the agreement of the States to implement taxation reform in exchange for the receipt of GST revenue.

Section 7.3 discusses the outcomes of the March 2002 Treasurers' Conference and the current estimate of the net impact of national taxation reform on the State budget. This section explains why New South Wales is not expected to receive net financial benefits from the reforms until 2008-09.

Section 7.4 outlines the arrangements for allocating Commonwealth funding to the States, and the outcome of the 2002 update of Commonwealth Grants Commission relativities, which will reduce New South Wales' share of Commonwealth funding.

The current arrangements for allocating Commonwealth funding among the States has long been a concern for New South Wales. To raise public awareness of the adverse implications of these arrangements, New South Wales, Victoria and Western Australia commissioned an independent review of this issue by respected economists Ross Garnaut and Vince FitzGerald. This review is discussed in Section 7.5.

7.2 COMMONWEALTH-STATE FINANCIAL ARRANGEMENTS

The current Commonwealth-State financial arrangements were set in place by the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (the Agreement), signed in June 1999. The arrangements took effect from 2000-01.

Under the Agreement, the Commonwealth agreed to pay the States all GST revenue. In exchange, the States agreed to:

- abolish some taxes (including financial institutions duty and stamp duty on quoted marketable securities);

- forgo a number of Commonwealth grants, including financial assistance grants and revenue replacement payments[1]; and

- take on additional expenditure responsibilities including the payment of Australian Tax Office (ATO) GST administration costs and the first home owners scheme.

Initially, the GST revenue will not be sufficient to offset the abolished revenue sources and additional State costs. A key feature of the agreement was the Commonwealth's commitment that no State would be worse off under the new arrangements. To ensure no State was disadvantaged, the Commonwealth agreed to pay transitional assistance (termed budget balancing assistance) to make up any shortfall in GST revenue relative to estimates of the revenue forgone and additional expenses taken on.

In recognition of the difficulty in determining whether the States are made worse off by taxation reform – which involves estimating each State's financial position in the absence of reform – a methodology paper was agreed setting out the way in which transitional assistance was to be calculated.

While the Agreement offered no immediate financial benefits, GST revenue grants are expected to grow more quickly over time than the revenue sources they have replaced. This more rapid growth is expected to deliver an improvement in State finances over time. In the interim, the Agreement appeared to provide more certain financial arrangements including a guarantee that no State would be worse off from the reforms.

ADMINISTRATIVE ARRANGEMENTS

The Agreement established a number of new administrative arrangements and forums for dealing with Commonwealth-State financial arrangements.

A Ministerial Council of Commonwealth and State Treasurers (the Treasurers' Conference) was established to oversight the operation of the GST and the implementation of the Agreement.

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1 Revenue replacement payments were paid by the Commonwealth following the 1997 decision of the High Court that effectively invalidated State Business Franchise Licence Fees. The Commonwealth funded the payments through higher Commonwealth excise rates and to ensure there was no net increase in taxation State subsidies were introduced where necessary (ie where the additional uniform excise rate applied by the Commonwealth was above the rate formerly applied by a State).

The Agreement also established the GST Administration Sub-Committee (GSTAS), composed of senior Commonwealth and State officials. GSTAS reports to Commonwealth and State Treasurers. Its role is to monitor the operation of the GST, assess proposals for the modification of the GST and monitor the performance of the ATO in GST administration.

In recognition of the role of the States in funding the administration of the GST, GSTAS developed a performance agreement with the ATO. The performance agreement sets out the arrangements for determining the ATO's GST administration budget and specifies performance indicators, audit arrangements and arrangements for the provision of GST collection data to the States. The performance agreement was signed by State and Territory Treasurers and the Commissioner of Taxation in March 2002, and will take effect on 1 July 2002. The performance agreement replaces the current interim agreement.

2005 Review of State taxes

In addition to the taxes already abolished, the Agreement specifies that all States will abolish Debits Tax by 1 July 2005, subject to review by the Treasurers' Conference. Of the States, New South Wales alone has acted independently and abolished this tax from 1 January 2002 – three and a half years in advance of its scheduled abolition.

The Agreement also stipulates that, by 2005, the following stamp duties will be reviewed to assess whether they should be retained: stamp duty on non-residential conveyances; on leases; on mortgages, debentures, bonds and other loan securities; on credit arrangements, instalment purchase arrangements and rental arrangements; on cheques, bills of exchange, promissory notes; and on unquoted marketable securities.

7.3 2002 TREASURERS' CONFERENCE OUTCOME

At the Treasurers' Conference, held on 22 March 2002:

- the Commonwealth advised of changed arrangements for the payment of transitional assistance;
- the Commonwealth confirmed the inter-State distribution of GST revenue grants would be based on the relativities recommended by the Commonwealth Grants Commission (see Section 7.4); and
- the Treasurers agreed new arrangements for subsidising low alcohol beer relative to full strength beer.

Table 7.1 shows that New South Wales has incurred substantially higher costs from the agreed reforms than the GST grants provided by the Commonwealth. Over the first two years of the Agreement this net cost has been fully offset by Commonwealth transitional assistance, leaving the State no worse off from the reforms.

Prior to the 2002 Treasurers' Conference, New South Wales was expected to commence receiving net financial benefits from taxation reform by 2007-08. However, at the 2002 Treasurers' Conference the Commonwealth advised its decision to override agreed arrangements for calculating payments of transitional assistance.

As a consequence, New South Wales will face a net cost from the revised financial arrangements in each year from 2002-03 to 2006-07. The cost to NSW is $43 million in 2002-03 and $416 million over the period to 2006-07. The new arrangements will have a proportionately larger impact on New South Wales than on any other State, largely because New South Wales will remain in receipt of transitional assistance for a longer period than most other States. New South Wales is bearing almost half the total cost of this decision.

The Commonwealth's change to the arrangements for calculating payments of transitional assistance to the States is inconsistent with the intent of the Agreement – which was based on the principle that the States should be no worse off from implementing taxation reform – and the letter of the agreed methodology for estimating transitional assistance.

- The change to the calculation of transitional assistance to the States involves varying the way in which revenue forgone by the States is calculated in relation to petroleum franchise fee revenue replacement payments. Prior to taxation reform, these revenue replacement payments were paid by the Commonwealth following a High Court decision that such State fees were unconstitutional.

- At the Treasurers' Conference, the Commonwealth advised the States that it would no longer include CPI indexation in the calculation of the value of petroleum revenue replacement payments forgone as specified by the agreed methodology.

- In doing so, the Commonwealth linked its decision to override the agreed methodology to its decision to cease indexation of petroleum excise rates to the CPI from March 2001. However, the agreed arrangements stipulate CPI indexation consistent with past State government practice. Under the Agreement there is no link between Commonwealth excise revenue and the States' entitlement to transitional assistance in respect of petroleum business franchise fees.

Table 7.1: Estimated Financial Impact of National Tax Reform on the New South Wales Budget, 2000-01 to 2008-09

Year ended 30 June	*2001 $m*	*2002 $m*	*2003 $m*	*2004 $m*	*2005 $m*	*2006 $m*	*2007 $m*	*2008 $m*	*2009 $m*
Losses									
Revenue Forgone									
Financial Assistance Grants	5,224	5,341	5,337	5,395	5,542	5,723	5,950	6,158	6,355
Gross Safety-Net Revenue [(a)]	2,135	2,388	2,487	2,576	2,671	2,759	2,850	2,781	2,856
State taxes abolished	72	1,035	1,155	1,217	1,281	1,675	1,786	1,875	1,961
Reduction in gambling taxation	476	558	581	599	621	652	685	719	755
Loss of Interest Income	3	3	4						
WST Equivalents	38	38	38						
Additional Expenditures									
First Home Owners Scheme [(b)]	307	438	294	298	303	308	313	318	323
Additional First Home Owners Scheme	7								
GST Administration Costs	335	174	188	192	195	199	204	208	212
Total Losses	**8,597**	**9,975**	**10,084**	**10,277**	**10,613**	**11,316**	**11,788**	**12,059**	**12,462**
Gains									
Additional Revenue									
GST Revenue	7,258	8,134	8,718	9,140	9,650	10,295	10,929	11,572	12,240
Growth Dividend - State Taxes	42	57	77	99	123	149	177	206	237
Reduced Expenditures									
Off-road Diesel Subsidies [(a)]	119	137	144	150	156	162	164	147	149
Savings from Tax Reform	147	157	168	179	191	204	218	233	248
Beer Subsidy Scheme Deduction			25	25	26	27	27	28	29
Total Gains	**7,566**	**8,485**	**9,132**	**9,593**	**10,146**	**10,837**	**11,515**	**12,186**	**12,903**
Net Losses/Gains	**(1,031)**	**(1,490)**	**(952)**	**(684)**	**(467)**	**(479)**	**(273)**	**127**	**441**
Commonwealth Transitional Assistance [(c)]	**1,007**	**1,515**	**910**	**621**	**380**	**377**	**151**	**...**	**...**
SHORTFALL/GAIN FOR NSW BUDGET	[(d)]	[(d)]	**(43)**	**(63)**	**(86)**	**(102)**	**(122)**	**127**	**441**
CUMULATIVE SHORTFALL/GAIN	**…**	**…**	**(43)**	**(106)**	**(192)**	**(294)**	**(416)**	**(289)**	**152**

(a) The Commonwealth's changed arrangements for determining revenue replacement payments will impact on NSW between 2002-03 and 2006-07; however, the estimates shown here include the State's entitlement to indexation in these years consistent with the agreed methodology referred to in the Intergovernmental Agreement.

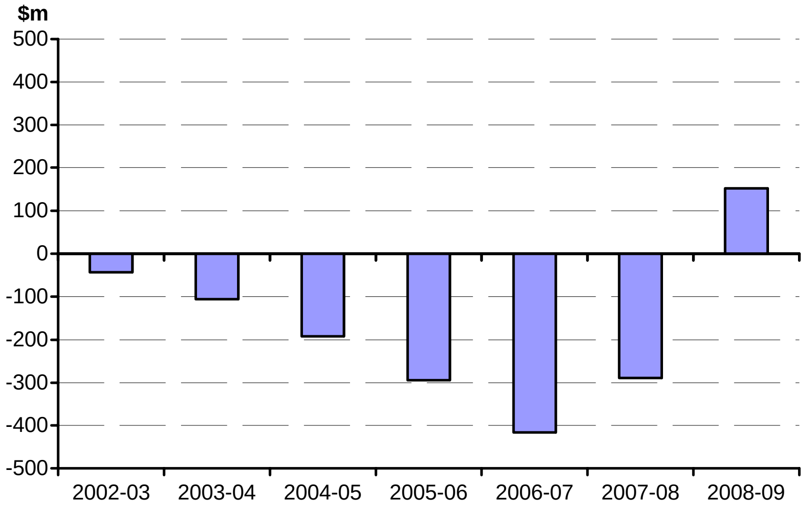
(b) Amounts shown for the First Home Owners Scheme for 2002-03 onwards are internal NSW Treasury estimates, not Commonwealth Treasury estimates.

(c) Amounts shown are based on the methodology imposed by the Commonwealth.

(d) Under the guarantee provisions of the Intergovernmental Agreement, the Commonwealth payments are intended to ensure no State is worse off as a result of the agreed tax reforms. The $25 million difference between the $1,031 million that New South Wales was entitled to in 2000-01 and the $1,007 million that New South Wales was actually paid is reimbursed by the Commonwealth in 2001-02.

- The Commonwealth's decision to link the change in transitional assistance to its decision to abolish excise indexation is also inexplicable, given the Commonwealth's decision to abolish excise indexation was taken a year earlier and at that time no change was made to the calculation of transitional assistance.

Chart 7.1: Cumulative Shortfall / Gain From Tax Reform Arrangements for New South Wales



It is evident that the new financial arrangements with the Commonwealth have fallen short of providing the sought for increased fiscal certainty for the States. On current estimates, the Commonwealth will cease to pay transitional assistance to New South Wales from 2007-08. However, it is not until 2008-09 that the shortfall in Commonwealth funding arising from the changed methodology will be offset by GST revenue grants. Chart 7.1 shows the cumulative financial impact of the revised tax reform arrangements, including the shortfall in Commonwealth transitional assistance to New South Wales reflecting the changed Commonwealth methodology.

LOW ALCOHOL BEER

The 2002 Treasurers' Conference agreed to revised arrangements for subsidising low alcohol beer relative to full strength beer. The Conference agreed to replace existing State subsidies for low alcohol beer with a lower Commonwealth excise rate, to commence from 1 July 2002. Development of the new arrangements was an initiative of New South Wales made in the context of the transfer of responsibility for the taxation of alcohol products from the States to the Commonwealth as part of national taxation reform.

The revised arrangements will apply a lower Commonwealth excise rate to beer with 3 percent or less alcohol per volume. Providing the concession through excise rates will reduce the costs to businesses of accessing the concession while providing a more consistent national scheme. The new scheme will not affect the price of low alcohol beer in New South Wales. The States agreed to contribute to funding the national scheme in line with their current subsidy costs while they are in receipt of transitional assistance, with funding of the concession beyond this period to be the responsibility of the Commonwealth.

7.4 NEW SOUTH WALES' SHARE OF COMMONWEALTH FUNDING

GST revenue grants are allocated among the States according to the principle of horizontal fiscal equalisation (HFE). Under the current system this means that the share of funding allocated to each State is determined taking account of the perceived expenditure needs and revenue capacity of each State as estimated by the Commonwealth Grants Commission (the Commission).

COMMONWEALTH GRANTS COMMISSION 2002 UPDATE OF STATE RELATIVITIES

Each year the Commission updates its recommended distribution of Commonwealth funding to take account of changed expenditure and revenue patterns. The recommendations are in the form of 'relativities', which determine the ratio of per capita GST revenue grants that each State will receive compared with the Australian average.

The Commission released the 2002 Update Report in February 2002. The Commonwealth accepted the Commission's recommendations at the Annual Treasurers' Conference meeting in March 2002.

The Commission's 2002 relativities will reduce the funding received by New South Wales by $203 million in 2002-03 compared with the 2001 relativities.

The reduction in funding reflects the Commission's assessment that New South Wales has increased its ability to raise State revenue relative to other States. Apart from Victoria, other States' revenue capacities generally grew much more slowly compared with New South Wales.

The Commission noted, in particular, the increased volume and value of property sales in New South Wales, which it considers has increased the capacity to generate revenue from stamp duty on conveyances. The Commission also took account of above average sales of shares and marketable securities (leading to an increased capacity to generate revenue from stamp duty on shares and marketable securities) and an increase in the value and volume of financial transactions in New South Wales (increasing the State's capacity to raise financial transactions revenue).[2]

A direct implication of the 2002 revenue assessment is that higher revenue in New South Wales, due to increased economic activity in the State, has effectively been transferred to other States through lower Commonwealth funding for New South Wales and increased funding for the other States.

On the expenditure side, the Commission considered New South Wales needed less funding for debt-servicing expenses, due to the reduced relative importance of debt servicing in State budgets. Partly offsetting these reductions in relative funding, was provision for the increased cost of providing services in New South Wales relative to other States, due to above average increases in construction costs and higher levels of fire insurance claims.

As discussed in Section 7.5, the NSW Government has major concerns with the current system of fiscal equalisation.

COMMONWEALTH GRANTS COMMISSION 2004 REVIEW

In addition to the annual update of relativities discussed above, the Commission reviews its method for determining relativities every five years. Such a review, the 2004 Review, is currently under way and will be implemented for the 2004-05 financial year. The process of review extends over a number of years, with work on the 2004 Review commencing during 2000-01.

Particular areas being reviewed include the estimation of each State's relative need for funding to meet urban transit costs and to fund debt and depreciation costs. These aspects of the current methodology are important to the determination of New South Wales' grant share, as the current methodology recognises the relatively high costs faced in New South Wales.

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[2] *Although stamp duty on the transfer of quoted marketable securities and financial institutions duty were abolished from 1 July 2001, the capacity to collect these taxes remains relevant under the new taxation arrangements. This is because the Agreement provides for transitional assistance to be paid to the States to ensure no State is worse off from implementing national taxation reform. Under these provisions, relativities are assessed assuming the continuation of the arrangements that were in place before the Agreement.*

As part of the 2004 Review, New South Wales hosted workplace discussions with the Commission in the week 19-23 November 2001. The workplace discussions are conducted so that the Commission is able to personally inspect the delivery of State government services and discuss the costs of service provision directly with agency officers.

The three main themes of the NSW workplace discussions included the relatively higher costs in New South Wales arising from: congestion; the above average number of migrants settling in New South Wales; and the tendency of Sydney, as Australia's largest and most densely populated city, to have a greater incidence of drug use than other State capital cities.

- The Commission discussed the costs of congestion with officers from the Departments of Housing and Transport, Planning NSW, the Roads and Traffic Authority, the State Rail Authority and the State Transit Authority.

- The Commission heard from the Departments of Health, Education and Training, Community Services and Ageing, Disability and Home Care how the culturally and linguistically diverse backgrounds of New South Wales' residents create extra needs for State services.

- The Commission also learnt how Sydney's status as the major entry point for illegal drugs into Australia increased the availability of drugs in the community, which increases the demands on the justice, health, education and community services sectors.

7.5 THE NEED FOR REFORM

New South Wales' level of funding has been reduced by the Commonwealth's decision to change the calculation of transitional assistance while the Commission's latest relativities have reduced its share of GST revenue grants. The vulnerability of the State to these decisions reflects the incidence of two features of Commonwealth-State financial arrangements – vertical fiscal imbalance and horizontal fiscal equalisation.

- Vertical fiscal imbalance (VFI) refers to the mismatch between revenue capacity and spending responsibilities between the Commonwealth and the States.

- Horizontal fiscal equalisation (as discussed earlier) refers to the allocation of funding to each State on the basis of the perceived expenditure needs and revenue capacity of each State.

VERTICAL FISCAL IMBALANCE

Vertical fiscal imbalance between the Commonwealth and the State is significant because Australian State governments have access to only a small number of taxes relative to their expenditure responsibilities. In contrast, the Commonwealth Government collects significantly more revenue than it needs for its own purposes. This imbalance results in the States relying on grants from the Commonwealth to be able to fund their expenditure responsibilities.

The introduction of the GST has worsened VFI through the requirement in the Agreement for the States to abolish a number of their own taxes and their replacement with Commonwealth grants of GST revenue. Commonwealth grants now account for half of aggregate State revenues in New South Wales, compared with slightly over one-third before the introduction of the GST.

The Commonwealth's decision to change the arrangements for paying transitional assistance to the States raises some questions about the future operation of the Intergovernmental Agreement. While the basic architecture of the Agreement remains in place, there is a risk that the Commonwealth may seek to further change the agreed arrangements in the future. If this were to increase the financial pressure on the States, there is a risk that the commitment of the States to the Agreement could be affected.

HORIZONTAL FISCAL EQUALISATION

The application of horizontal fiscal equalisation results in a substantially lower funding share for New South Wales.

Comparison with Equal Per Capita Funding

New South Wales receives significantly less in GST revenue grants than if funding were provided on an equal per capita basis (see Table 7.2 and Chart 7.2).

- New South Wales' GST revenue grants in 2002-03 will be $1,316 per capita or about 30 percent less than the average of the five recipient States.
- The average GST revenue grant in 2002-03 for New South Wales, Victoria and Western Australia (the donor States) will be $1,313 per head, compared with an average of $1,878 for the other jurisdictions.
- In per capita terms Queensland will receive 16 percent more than the donor State average, whilst the Northern Territory will receive 468 percent more.

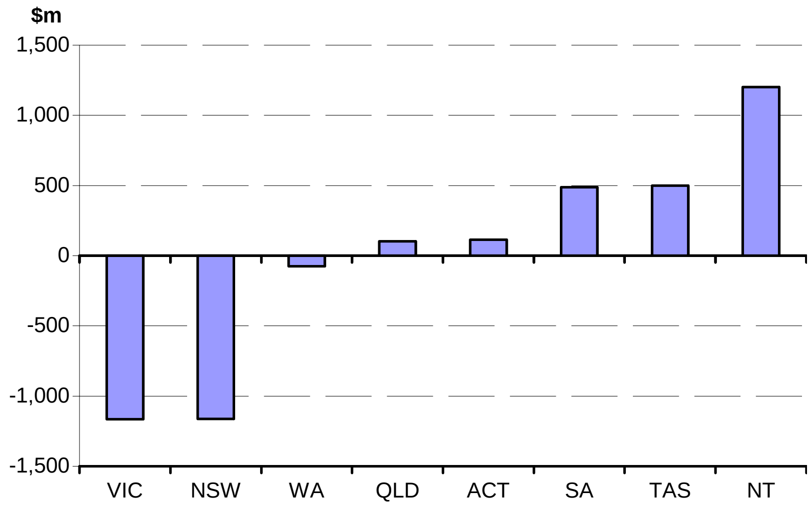
Table 7.2: GST Revenue Grants Per Capita by State, 2002-03

State/Territory	*GST Revenue Grants (In $ per capita)*
New South Wales	1,316
Victoria	1,255
Queensland	1,519
Western Australia	1,453
South Australia	1,814
Tasmania	2,550
Australian Capital Territory	1,851
Northern Territory	7,464
Average, 3 donor States	**1,313**
Average, 5 recipient States	**1,878**
AUSTRALIAN AVERAGE	**1,492**

The per capita figures outlined in Table 7.2 can be used to calculate the total subsidy paid to the recipient States. New South Wales will be transferring to other States $1,163 million or $176 per capita in 2002-03. The combined transfer from New South Wales, Victoria and Western Australia is estimated at about $2.4 billion.[3] 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.

[3] *The estimated cross-subsidies in this chapter differ from those in the 2002-03 Commonwealth Budget papers because the latter calculates the cross-subsidy based on the sum of FAGS and unquarantined Health Care Grants. The estimates in this chapter are based solely on GST revenue grants.*

Chart 7.2: Actual GST Revenue Received, compared with an Equal Per Capita Share, 2002-03



Comparison with State GST Payments

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 (estimated using household final consumption expenditure).[4]

On this basis, the total transfer from donor States (New South Wales and Victoria) in 2002-03 is about $3.4 billion, of which New South Wales will contribute $2.3 billion or $350 per capita.

Table 7.3 indicates the amounts expected to be transferred from donor States to recipient States in 2002-03 using the benchmarks of equal per capita (EPC) and household final consumption expenditure (HFCE).

[4] *State contributions to GST revenue are estimated using information on consumption in each State. 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.*

Table 7.3: Estimates of Cross-Subsidies between States, 2002-03

	RECIPIENT STATES						
	Qld $m	*WA $m*	*SA $m*	*Tas $m*	*ACT $m*	*NT $m*	*Total $m*
EPC[a] Benchmark							
NSW	49	na	236	241	55	581	1,163
Vic	49	na	236	242	55	582	1,164
WA	3	na	15	16	4	38	76
TOTAL	**102**	**na**	**488**	**499**	**114**	**1,200**	**2,402**
HFCE[b] Benchmark							
NSW	454	146	454	407	9	851	2,321
Vic	214	69	214	192	4	401	1,095
TOTAL	**669**	**214**	**668**	**600**	**14**	**1,252**	**3,416**
NSW PER CAPITA CONTRIBUTION (in $)							
EPC[a] Benchmark	7	na	36	36	8	88	176
HFCE[b] Benchmark	69	22	68	61	1	128	350

(a) Equal Per Capita.

(b) Household Final Consumption Expenditure.

SOURCE: NSW Treasury estimates. Figures may not add due to rounding.

REVIEW OF COMMONWEALTH-STATE FUNDING

Reflecting major concerns with the current system of horizontal fiscal equalisation, New South Wales and Victoria agreed to commission a *Review of Commonwealth-State Funding* at an historic meeting in Albury-Wodonga on 26 March 2001. Western Australia subsequently joined New South Wales and Victoria as co-sponsor of this Review.

The Review has sought submissions from all interested parties and consulted widely with the community. New South Wales provided a submission to the Review in February 2002.

New South Wales Submission to the Review

The current system of horizontal fiscal equalisation (HFE) is often defended as desirable to achieve equity objectives. However, New South Wales' Submission argues that its ability to achieve this is flawed because the system allocates funding in order to achieve inter-governmental equity, which does not translate into achieving improved equity between citizens of different States. In addition, the Submission raises concerns about the failure of the current system to take into account efficiency considerations.

Even if equity between governments were accepted as desirable in its own right, the Submission argues that Australia's current implementation of HFE is deficient, as data limitations result in an excessive reliance on judgement while the complexity of the analysis results in a lack of transparency and accountability.

The Submission argues that a reformed system of HFE would involve:

- a reduced scope for judgement, providing more certainty, transparency and better supported outcomes;
- a lower burden on donor States, by focusing on assisting States with clear natural disadvantages; and
- greater attention to the efficiency implications of HFE.

The Submission recognises the need for a degree of intergovernmental revenue transfer to support States with natural disadvantages. Neither Queensland nor the Australian Capital Territory (ACT) satisfies this requirement, and in fact they enjoy significant natural advantages. The Submission also argues that the current transfers under HFE to South Australia, Tasmania and the Northern Territory (NT) are excessive.

The Submission argues for revised arrangements for the Territories, to directly assist with their special features. These include the ACT's role as the national capital and the NT's earlier stage of economic development and strategic role in populating northern Australia. The Submission contends that such arrangements should include an explicit funding role for the Commonwealth, and that GST revenue grants to the States should not be used to address these special features of the Territories.

Commissioned Research

In addition to inviting submissions and meeting with interested parties, the Review has also commissioned research into the efficiency and equity implications of the current arrangements, which was discussed at a national public forum held in Canberra in March 2002.

- Research by the Centre of Policy Studies at Monash University on the efficiency implications of the current system found that national gains of up to $250 million a year could be achieved by moving to an equal per capita distribution of Commonwealth grants.

- Analysis of the distributional effects of Commonwealth grant distribution by the National Centre for Social and Economic Modelling concluded that the current system did not result in any benefits to equity for individuals compared to an equal per capita distribution of grants. Distribution of grants according to GST revenue contributions was found to have some implications for equity, with losses at the top and middle income deciles relative to the current system.

The Review released an interim report in April 2002. The final report is expected to be completed around the middle of 2002.

CHAPTER 8: GOVERNMENT FINANCE STATISTICS AND UNIFORM REPORTING FRAMEWORK

- Financial aggregates are prepared on an accrual basis in accordance with the uniform presentation framework (UPF).
- Forward time series data is provided for the first time for accrual UPF statements in relation to the public trading enterprise sector.
- The Loan Council allocation estimate for 2002-03 is a deficit of $301 million.

8.1 INTRODUCTION

This chapter presents financial aggregates for the general government and public trading enterprise (PTE)[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 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 PTE sector is also referred to by the Australian Bureau of Statistics as the public non-financial corporation or PNFC sector. Other chapters in this budget paper use the term "PTE".*

Section 8.2 provides information on the development of the accrual uniform presentation framework (UPF) and the transition to government finance statistics (GFS) accrual reporting. Section 8.3 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 8.4.

Section 8.5 provides a brief commentary on the operations of the PTE sector.

The accrual uniform presentation framework estimates are presented in Section 8.6. They are presented in the sequence of operating statements, balance sheets and cash flow statements that are then grouped into their economic type classifications. This is followed by tables of general government expenses by function and taxes by type. In addition to the UPF minimum disclosure requirements, these reports also include a historical and forward year time series.

Section 8.7 presents estimates of the State's Loan Council allocation (LCA) for 2002-03 and compares this to the original LCA bid. Information is also presented in Section 8.8 on new infrastructure projects for 2001-02 and 2002-03 in accordance with Loan Council reporting requirements.

8.2 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.

8.3 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 revenues[2] and GFS expenses[3]. 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. *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.

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[2] *GFS revenues differs from accounting revenues. GFS revenues include 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 accounting 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;

- 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; and

- the general government sector discloses an equity investment in the public financial enterprise (PFE)[5] and public trading enterprise (PTE) sectors. GFS recognises a holding company model for the general government's ownership of the PFE and PTE 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 and a substitute for debt obligations. 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. Net financial worth 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.

[5] *The PFE sector is also referred to by the Australian Bureau of Statistics as the public financial corporation or PFC sector. Other chapters in this budget paper use the term "PFE".*

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 current expenditure.

For the PTE and PFE 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 PTE and PFE sectors.

In addition to the UPF requirement to report net debt and net financial worth, debt is also reported after adjusting for the impact of a special prepayment of superannuation (1998-99 to 2000-01), and the establishment of the Liability Management Fund (2002-03 to 2005-06). While the financial assets in the Liability Management Fund accrue within the general government sector, they are dedicated to meet superannuation liabilities. 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 trading enterprises), 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 papers 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 and the capitalised interest component of assets 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.

8.4 CLASSIFICATION FRAMEWORK

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 entities (GGEs), public trading enterprises (PTEs)[6] or public financial enterprises (PFEs)[7].

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, e.g. WorkCover Authority, fit into this category.

In contrast, PTEs charge for services provided and hence have a broadly commercial orientation. They do not, however, necessarily operate in competitive markets. While PTEs are not required to be fully self-funding, a substantial portion of their costs must be met by user charges. The PTE sector in New South Wales includes for example Eraring Energy, TransGrid, Sydney Water Corporation and the State Rail Authority.

PFEs 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. PFEs are not included in this chapter as the Uniform Presentation Agreement only requires the publication of PFE data ex-post.

Appendix C lists NSW public sector entities and their sector classifications.

The *non-financial public (NFP) sector* is a consolidation of GGEs and PTEs.

8.5 OPERATIONS OF THE PUBLIC SECTOR

Detailed commentary on the operations of the general government sector is contained in Chapters 1, 2, 3 and 4. Given this, the following analysis is mainly focused on the financial outcomes and projections of the PTE sector.

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[6] *The PTE sector is also known as the public non-financial corporation or PNFC sector.*

[7] *The PFE sector is also known as the public financial corporation or PFC sector.*

Presented in this section is the GFS accrual data that is available for the PTE sector from 1997-98. For the first time, PTE sector forward estimate data and analysis are provided. As Tables 8.9 and 8.15 show, the GFS treatment of the Sydney Organising Committee for the Olympic Games (SOCOG) and the Sydney Paralympic Organising Committee (SPOC) distort the PTE sector aggregates. Therefore, unless otherwise stated the PTE sector analysis below relates to the PTE sector excluding SOCOG and SPOC. The impact of SOCOG and SPOC on PTE sector budget measures was described in detail in section 9.5 of the 2001-02 Budget Paper No. 2.

PUBLIC TRADING ENTERPRISE SECTOR PERFORMANCE

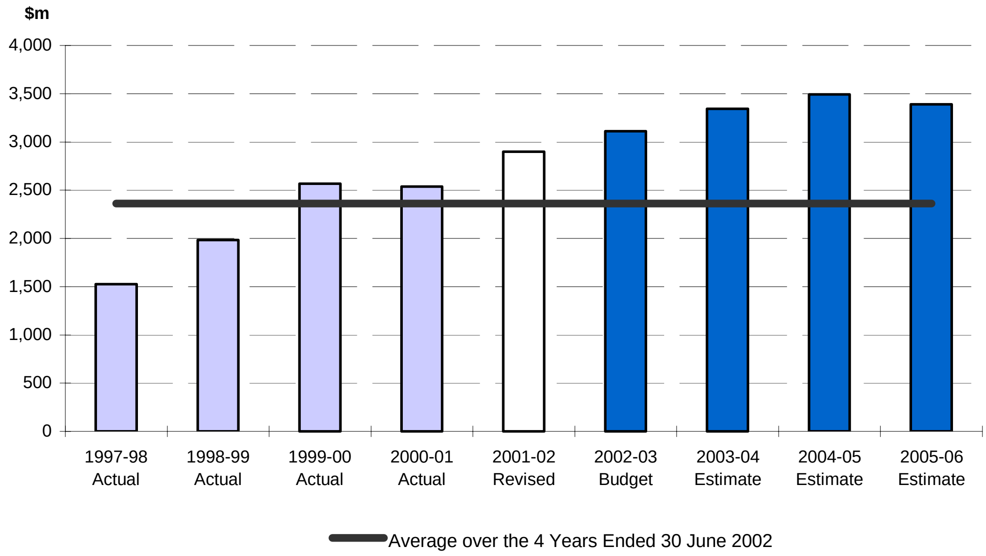
To promote economic development and improve living standards for the people of New South Wales, the Government pursues measures that increase productivity. To this end it is important that the appropriate physical infrastructure for a modern dynamic economy is in place ensuring that New South Wales both continues to attract business investment and at the same time deliver efficient, responsive and high value public services.

The PTE sector plays a significant role in providing the State with vital public energy, transport, ports and water resources related infrastructure. The PTE sector has recently embarked on a major round of capital investment which will help ensure that New South Wales continues to be the engine room of the Australian economy while providing for high quality living standards.

Capital expenditure decisions by PTEs are in general commercially based, and can be expected to generate revenues that provide an adequate return, allowing for risk. It is these revenues that the support the sector's debt levels and return on equity. The PTE sector is in a period of strong investment as shown in Chart 8.1, capital expenditure projected to increase by 7 per cent[8] in 2002-03 to over $3.1 billion. Over the four-years to 2005-06, gross fixed capital formation is projected to total $13.3 billion compared with a $10 billion total over the preceding four years.

[8] *Gross Fixed Capital Formation comprises asset acquisitions less asset sale proceeds.*

Chart 8.1: PTE Sector Gross Fixed Capital Formation



As Table 8.1 shows, the electricity, transport and water sectors account for most PTE capital investment.

Table 8.1: Gross Fixed Capital Formation by Sector

Sector	*2002-03 to 2005-06 Estimates $m*	*2002-03 to 2005-06 Estimates %*
Electricity Distribution	**3,467**	**26**
Transport	**3,200**	**24**
Water	**2,400**	**18**
Other	**4,268**	**32**
- Electricity Transmission	1,200	9
- Housing & Amenities	1,067	8
- Electricity Generation	1,067	8
- Ports	400	3
- Miscellaneous	534	4
Total	**13,335**	**100**

Box 8.1 identifies the benefits and strategic outcomes that will flow from the capital works programs of these three sectors.

Box 8.1 Benefits of PTE Capital Investment

Electricity Sector

The capital expenditure programs being undertaken by the electricity generation businesses will contribute to ensuring that NSW power stations operate with high levels of reliability, ensuring continuity of output. At the same time efficiency is being incrementally improved helping to lower greenhouse related carbon dioxide emissions.

The electricity distribution and transmission businesses are continuing their investment in electricity network infrastructure to ensure the ongoing stability and security of supply. Expenditure is required to:

- replace infrastructure that has reached the end of its economic and technical life;
- augment the supply network to meet the increased demand for electricity in areas of population growth and areas where there is increasing economic activity; and
- improve the reliability of electricity supply in response to increased consumer and business expectations.

Public Transport

Efficient CityRail and State Transit services are essential to Sydney's role as a workplace and a home to four million people. Economic activity within and centred around Sydney feeds the State's economy and helps drive NSW economic growth. The Sydney CBD/North Sydney financial sector is the key financial centre in the region, and an effective reliable public transport system is integral to its health and growth prospects. Capital investments are improving the reliability of CityRail and State Transit services and extending their reach to new communities on the urban fringes. Public transport related investment will also contribute to Sydney's being a livable city.

Transport sector infrastructure investment also supports the State's economy through the railways that carry the State's coal and grain exports. Investments are being undertaken to increase the capacity of the Hunter Valley coal lines and improve the reliability of other freight lines.

Water Sector

A significant capital investment program is being undertaken in the NSW water sector devoted to:

- improving the security of Sydney's water supply, including the construction of the auxiliary spillway at Warragamba Dam;
- safeguard water quality, ensuring water is safe to drink and meets appropriate water quality standards and ensuring an efficient and reliable supply of water. This is to be achieved through the upgrade of treatment systems and replacing or upgrading ageing water related infrastructure (e.g. re-lining pipes);
- serve the growing population of Sydney, the Blue Mountains and Illawarra, through the installation of new water and wastewater distributions systems; and
- contributing to the maintenance of public health and protecting the quality of NSW waterways, harbours and coastlines, through the upgrade of wastewater transport systems and treatment plants and recycling wastewater treatment residuals (e.g. soil improvement and land rehabilitation).

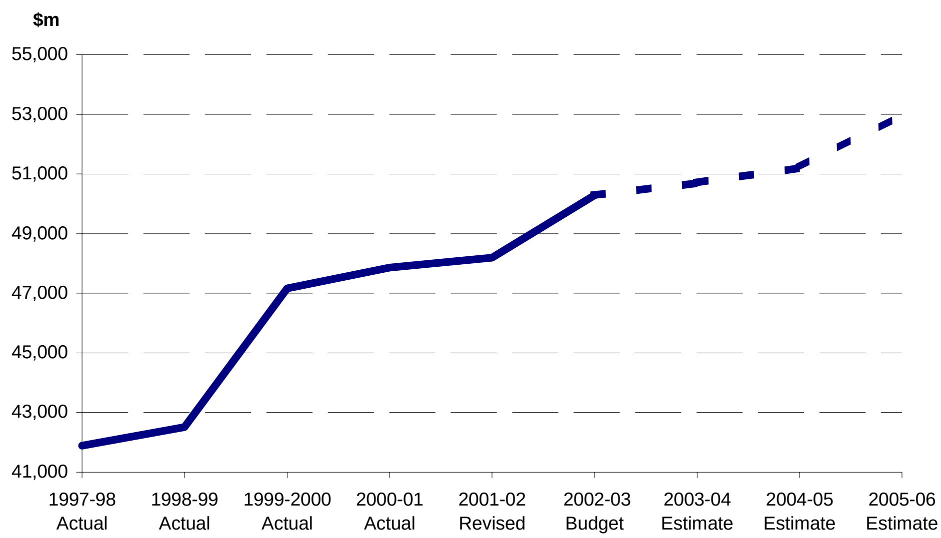
PTE sector investments are determined within the context of a commercial policy framework developed and refined since the early 1990s. The framework consists of a suite of policies aimed at replicating the disciplines and incentives that lead private sector businesses towards efficient commercial practice.

Therefore the performance of individual PTEs and the sector in aggregate should reflect reasonable commercial outcomes, allowing for the constraints under which a number of PTEs operate. One indicator of commercial performance is the value of taxpayers' investment in the PTE sector, represented in the financial statements as general government sector equity.

As Chart 8.2 reveals, general government sector equity in the PTE sector has increased by almost $6.3 billion from 1997-98 to 2001-02, even after a $3.2 billion regearing of electricity entities. This reflects a $9.5 billion increase in total assets during the period, the increase in total liabilities totalling only $3.2 billion.

PTE sector equity is expected to continue growing throughout the forward estimates period, with a projected $4.8 billion total increase. The overall value of taxpayers' investment in the PTE sector since 1997-98 is projected to increase to $11.1 billion by 2005-06.

Chart 8.2: General Government Equity in the PTE Sector [(a)]



(a) Includes the impact of SOCOG and SPOC.

The growth in general government equity reflects that at the aggregate level, the current round of investment is creating value, and is associated with commercially productive operations. One short-term consequence of the higher levels of capital investments is cash deficits and negative accrual net lending results (ie. net borrowing) for the consolidated PTE sector for the duration of the investment phase. These deficits are expected to be reversed in the following period with positive financial returns adding to the broader economic and social benefits.

The consolidated PTE sector's operating and cash flow statements provide insight into the operating trends contributing to the substantial increase in the value of taxpayer investment in the PTE sector. In particular, the maintenance of a positive net operating balance while there are increases in gross fixed capital formation reveal the soundness of current commercial practices at the aggregate level.

Budget Estimates and Revised Outcomes for 2001-02

The 2001-02 Budget estimate of a $776 million net borrowing requirement for the PTE sector in 2000-01 has been revised up to $925 million. The $149 million increase is due to higher than expected acquisitions of non-financial assets, partially offset by a larger than anticipated net operating surplus.

Table 8.2: Public Trading Enterprise Sector 2001-02 Revised Outcomes

			Budget 2001-02 $m	*Revised 2001-02 $m*	*Variation $m*
	GFS Total Revenue		12,059	12,067	+ 8
Less	GFS Total Expenses		11,658	11,543	(-) 115
Equals	**GFS Net Operating Balance**		401	524	+ 123
Less	**Net Acquisition of Non-Financial Assets**				
	Gross Fixed Capital Formation		2,733	2,899	+ 166
	less	Depreciation	(1,608)	(1,552)	+ 56
	plus	Changes in inventories	40	128	+ 88
	plus	Other movements in non-financial assets	12	(26)	(-) 38
	Equals Total Net Acquisition of Non-financial Assets		1,177	1,449	+ 272
Equals	**Net Lending/(Borrowing)**		(776)	(925)	(-) 149
	GFS Cash Flow Surplus/(Deficit)		(575)	(935)	(-) 360

Total revenues are on track to meet original budget estimates. The $8 million improvement reflects higher current grants and subsidies and capital grants received by the housing and community amenities sector. This is offset by slightly weaker sales of goods and services related to the privatisation of FreightCorp and lower miscellaneous revenues particularly in the electricity distribution sector.

PTE total expenses were $115 million below original budget estimates due to a lower than expected dividend payment by the electricity sector and lower depreciation expenses. The greater fall in expenses relative to revenues during 2001-02 is expected to improve the aggregate PTE sector net operating balance by $123 million.

PTE sector net acquisition of non-financial assets is expected to be $272 million higher than budget estimates primarily reflecting:

- an estimated $166 million in additional capital investment being undertaken, especially in the electricity distribution and transmission sectors; and

- a greater than expected build-up of inventory, particularly in the land development sector, estimated at $88 million.

Public Trading Enterprise Sector – Trends and Outlook

Table 8.3 presents the PTE sector operating statement over the four-year period ending 2001-02, at which point SOCOG and SPOC operations ceased. Table 8.9 provides forward estimates to 2005-06.

Table 8.3: Public Trading Enterprise Sector Operating Statement

		Actual 1997-98 $m	*Actual 1998-99 $m*	*Actual 1999-2000 $m*	*Actual 2000-01 $m*	*Budget 2001-02 $m*	*Revised 2001-02 $m*
	Revenue						
	Sales of goods and services	8,567	8,141	8,902	9,238	9,322	9,261
	Current grants and subsidies	1,003	1,077	929	1,084	1,109	1,155
	Capital grants	577	632	596	765	661	868
	Interest income	149	110	97	99	60	70
	Other	898	1,042	1,169	923	907	713
	Total Revenue	**11,194**	**11,002**	**11,693**	**12,109**	**12,059**	**12,067**
less	**Expenses**						
	Gross operating expenses	8,402	8,584	9,156	9,312	9,628	9,607
	Other Interest expenses	865	790	692	825	870	842
	Other property expenses	1,574	1,229	1,215	981	1,092	997
	Current transfers	185	27	70	73	55	86
	Capital transfers	7	185	63	56	13	11
	Total Expenses	**11,033**	**10,815**	**11,196**	**11,247**	**11,658**	**11,543**
equals	**Net Operating Balance**	**161**	**187**	**497**	**862**	**401**	**524**
less	**Net Acquisition of Non-financial Assets**						
	Gross fixed capital formation	1,526	1,984	2,566	2,538	2,733	2,899
	less Depreciation	(1,423)	(1,372)	(1,389)	(1,499)	(1,608)	(1,552)
	plus Change in inventories	89	(25)	(8)	141	40	128
	plus Other movements in non-financial assets	(117)	(32)	(140)	(72)	12	(26)
	equals Total Net Acquisition of Non-financial Assets	**75**	**555**	**1,029**	**1,108**	**1,177**	**1,449**
equals	**Net Lending / (Borrowing)**	**86**	**(368)**	**(532)**	**(246)**	**(776)**	**(925)**

Net Operating Balance - Trends and Outlook

Chart 8.3 illustrates the trend in the net operating balance of the PTE sector from 1997-98 projected to 2005-06. Aggregate PTE sector revenues have exceeded expenses resulting in a positive net operating balance for every year. Net operating surpluses are projected in 2002-03 and over the forward estimates period, indicating that current PTE activities are financially sustainable at the aggregate level.

Chart 8.3: PTE Sector Net Operating Balance

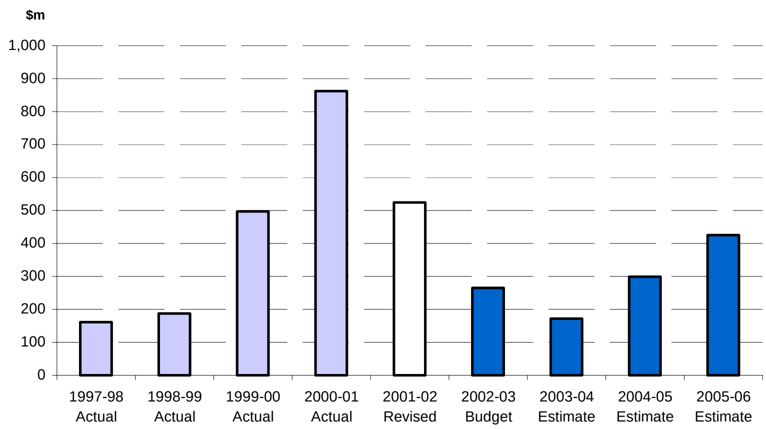


Table 8.4 shows PTE sector revenues in 2002-03 are expected to be about $154 million lower than the previous year largely reflecting a $177 million fall in capital grants mainly to the housing and amenities sector.

Table 8.4: Changes to PTE Sector Net Operating Balance

	Revised 2001-02 $m	*Budget 2002-03 $m*	*Variation $m*
Revenue			
Sales of goods and services	9,261	9,268	7
Current grants and subsidies	1,155	1,224	69
Capital grants	868	691	(-) 177
Interest income	70	58	(-) 12
Other	713	672	(-) 41
Total Revenue	**12,067**	**11,913**	**(-) 154**
Expenses			
Gross operating expenses	9,607	9,467	(-) 140
Other interest expenses	842	889	47
Other property expenses	997	1,171	174
Current transfers	86	110	24
Capital transfers	11	11	…
Total Expenses	**11,543**	**11,648**	**105**
Net Operating Balance	**524**	**265**	**(-) 259**

Conversely, total expenses are projected to rise by $105 million mainly due to higher dividend and tax equivalent payments, which because they relate to owners equity are defined as "Other Property Expenses" in the table. Property expenses are projected to rise by $174 million in 2002-03 with the electricity sector issuing higher dividend payments. The projected $140 million decline in PTE sector gross operating expenses on 2001-02 reflects expected cost savings in the electricity generation sector and the absence of FreightCorp following its privatisation.

The expected decline in revenues together with a rise in expenses during 2002-03 is projected to reduce the net operating surplus by $259 million on the previous year to $265 million.

However, as shown in Table 8.5, PTE sector revenues are expected to grow faster than expenses over the course of the forward estimates period. The net operating surplus is therefore projected to moderately increase to $425 million by 2005-06.

Table 8.5: Percentage Growth in PTE Sector Revenues and Expenses

	4 years to 2001-02 Average	*2002-03 Budget*	*2003-04 Estimate*	*2004-05 Estimate*	*2005-06 Estimate*
Revenue	1.9	(1.3)	2.3	5.2	3.8
Expenses	1.2	0.9	3.1	4.2	2.9
Gross State Product (nominal)	5.6	5.8	5.7	5.7	5.7

Table 8.9 reveals that projected PTE sector revenue growth comes from higher sales. Over the four years to 2005-06, PTE sector sales of goods and services are anticipated to increase by $1.4 billion, the growth attributed to electricity distributors. The importance to the PTE sector of generating sales to lift future revenues is another indication that current operations are commercially focused.

The revenue and profit projections of PTEs have often been conservative in past years. It is therefore quite possible that the result for 2002-03 will be better than the budget estimate.

Net Lending – Trends and Outlook

The net lending/borrowing result includes net capital expenditure, but not the use of capital (i.e. depreciation). It measures the call the sector makes on capital markets and measures the PTE sector's impact on national savings on a National Accounts basis.

As shown in Table 8.9, a net borrowing requirement of $1,296 million is projected in 2002-03. Net borrowing requirements are also projected for each of the three years to 2005-06. The net borrowing requirement is expected to peak at $1,416 million in 2004-05, improving to a deficit of $1,086 million the following year.

These projections reflect the strong capital investment outweighing the expected modest net operating surpluses. These projections are probably conservative given the tendency towards understating expected profits.

As this is the first year that forward projections have been presented beyond the budget year, there is no track record against which to establish bias or otherwise, though clearly the range of uncertainty increases across the forward estimates period.

Cash Flow Position – Trends and Outlook

Given that the primary goal for PTEs is to increase shareholder value through the commercial delivery of services to the public, the aggregate PTE 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 PTE 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 PTE 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 PTE sector does receive attention 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.

Table 8.15 shows that, over the five year period ending 2005-06, on current projections PTE sector cash flow deficits are expected to peak in 2003-04 at $1,008 million. A smaller cash deficit of $619 million is anticipated by 2005-06. Table 8.15 contains no adjustment for a possible conservative bias.

These cash flow projections should be viewed in a longer-term perspective. Over the last forty years, it was only during the 1990s that sustained cash surpluses were recorded by the PTE sector. The establishment of the commercial policy framework has undoubtedly contributed to this turnaround in financial performance.

The commercial policy framework allows PTEs to respond to commercial opportunities, while discouraging the excessive capital expenditure practices of the past. Therefore, after eleven consecutive cash flow surpluses commencing 1988-89, it is not surprising to find the PTE sector enter a period of cash flow deficits corresponding to increased capital investment. However, in comparison to the very large cash deficits made during the early 1980s, the recent short term weakening in the PTE cash flow result is modest.

NON-FINANCIAL PUBLIC SECTOR PERFORMANCE

The non-financial public sector (NFP) is a consolidation of the general government and PTE sectors. The projected outcomes for the NFP sector should therefore be viewed mindful of the historical conservative bias contained in PTE sector projections.

Net Operating Balance – Results and Outlook

Table 8.6 shows that the revised 2001-02 NFP sector net operating surplus will total $2,254 million, a $716 million improvement on budget. A $1,570 million net operating surplus is projected for 2002-03. The net operating balance for the NFP sector is projected to average a surplus of around $1.9 billion annually over the forward estimates period, with the PTE sector contributing fifteen per cent of the projected total.

Table 8.6: Net Operating Balance by Sector

Sector	*2001-02 Budget $m*	*2001-02 Revised $m*	*2002-03 Budget $m*	*2003-04 Estimate $m*	*2004-05 Estimate $m*	*2005-06 Estimate $m*
General Government	1,200	1,807	1,300	1,367	1,546	2,235
PTE	401	524	265	172	299	425
NFP[(a)]	1,538	2,254	1,570	1,543	1,850	2,664

(a) Totals may not add due to inter-sector transactions between the general government and PTE sectors.

Net Lending Result – Results and Outlook

The 2001-02 net borrowing requirement for the NFP sector has been revised down to $331 million. A $1,120 million net borrowing requirement is projected for the NFP sector in 2002-03. Net borrowing requirements are also projected throughout the forward estimates period as shown in Table 8.7, noting however projected reductions in the net borrowing requirement after 2003-04. Since the general government enjoys a net lending position over the four years to 2005-06, NFP sector deficits are attributable to PTE sector net borrowing requirements.

Table 8.7: Net Lending Result by Sector [(a)]

Sector	*2001-02 Budget $m*	*2001-02 Revised $m*	*2002-03 Budget $m*	*2003-04 Estimate $m*	*2004-05 Estimate $m*	*2005-06 Estimate $m*
General Government	368	670	168	101	253	910
PTE	(776)	(925)	(1,296)	(1,385)	(1,416)	(1,086)
NFP[(b)]	(481)	(331)	(1,120)	(1,278)	(1,155)	(169)

(a) A positive number denotes a net lending surplus.

(b) Totals may not add due to inter-sector transactions between the General Government and PTE sectors.

8.6 ACCRUAL UNIFORM PRESENTATION FRAMEWORK TABLES

In accordance with the revised uniform presentation framework agreed by the Australian Loan Council in March 2000, Tables 8.8 through to 8.18 of this Section provide estimates on a comparable basis to those which the ABS will be publishing.

Table 8.8: NSW General Government Sector Operating Statement (ABS Basis)

		Actual 1997-98 $m	Actual 1998-99 $m	Actual 1999-2000 $m	Actual 2000-01 $m	Revised 2001-02 $m	Budget 2002-03 $m	Forward Estimates 2003-04 $m	Forward Estimates 2004-05 $m	Forward Estimates 2005-06 $m
	GFS Revenue									
	Taxation revenue[(a)]	12,903	14,122	15,191	13,343	13,358	12,862	13,380	14,102	14,869
	Current grants and subsidies[(a)]	8,826	9,414	10,098	13,741	15,777	16,056	16,104	16,567	17,425
	Capital grants	972	912	889	869	1,020	941	936	973	920
	Sales of goods and services	2,505	2,633	2,753	2,624	2,555	2,671	2,766	2,843	2,890
	Interest income	424	412	476	471	357	589	705	821	944
	Other	2,820	2,671	2,456	2,587	2,174	2,323	2,373	2,501	2,739
	Total Revenue	**28,450**	**30,164**	**31,863**	**33,635**	**35,241**	**35,442**	**36,264**	**37,807**	**39,787**
less	**GFS Expenses**									
	Gross operating expenses	19,566	21,619	22,548	23,390	24,530	25,698	26,687	27,862	29,035
	Nominal superannuation interest expense	821	691	479	438	507	591	665	744	827
	Other interest expenses	1,472	1,331	1,305	992	867	760	730	691	670
	Other property expenses	...	...	...	...	...	...	...	...	...
	Current transfers	4,121	4,393	4,494	4,962	5,530	5,718	5,597	5,642	5,702
	Capital transfers	1,036	1,056	986	2,308	2,000	1,375	1,218	1,322	1,318
	Total Expenses	**27,016**	**29,090**	**29,812**	**32,090**	**33,434**	**34,142**	**34,897**	**36,261**	**37,552**
equals	**GFS Net Operating Balance**	**1,434**	**1,074**	**2,051**	**1,545**	**1,807**	**1,300**	**1,367**	**1,546**	**2,235**

Table 8.8: NSW General Government Sector Operating Statement (ABS Basis) (cont)

	Actual 1997-98 $m	Actual 1998-99 $m	Actual 1999-2000 $m	Actual 2000-01 $m	Revised 2001-02 $m	Budget 2002-03 $m	Forward Estimates 2003-04 $m	Forward Estimates 2004-05 $m	Forward Estimates 2005-06 $m
less Net Acquisition of Non-financial Assets									
Gross fixed capital formation	2,321	2,060	2,045	2,259	2,519	2,652	2,804	2,928	3,018
less Depreciation	(650)	(1,036)	(1,411)	(1,333)	(1,337)	(1,404)	(1,471)	(1,551)	(1,622)
plus Change in inventories	(11)	13	(3)	11	(7)	2	(3)	(4)	(1)
plus Other movements in non-financial assets	(38)	(133)	28	(56)	(38)	(118)	(64)	(80)	(70)
equals Total Net Acquisition of Non-financial Assets	**1,622**	**904**	**659**	**881**	**1,137**	**1,132**	**1,266**	**1,293**	**1,325**
equals GFS Net Lending / (Borrowing)	**(188)**	**170**	**1,392**	**664**	**670**	**168**	**101**	**253**	**910**

Note:

(a) Impacted by the introduction of the Goods and Services Tax (GST) and the processing arrangements from 2000-01.

Table 8.9: NSW Public Non-financial Corporation Sector Operating Statement [a] (ABS Basis)

		Actual 1997-98 $m	Actual 1998-99 $m	Actual 1999-2000 $m	Actual 2000-01 $m [b]	Revised 2001-02 $m	Budget 2002-03 $m	Forward Estimates 2003-04 $m	Forward Estimates 2004-05 $m	Forward Estimates 2005-06 $m
	GFS Revenue									
	Sales of goods and services	8,703	8,280	9,234	11,564	9,272	9,268	9,677	10,237	10,669
	Current grants and subsidies	1,009	1,083	1,114	1,099	1,162	1,224	1,183	1,165	1,162
	Capital grants	577	632	596	765	868	691	583	640	655
	Interest income	150	110	97	142	70	58	54	58	64
	Other	891	1,036	1,162	915	706	672	684	714	749
	Total Revenue	**11,330**	**11,141**	**12,203**	**14,485**	**12,078**	**11,913**	**12,181**	**12,814**	**13,299**
less	**GFS Expenses**									
	Gross operating expenses	8,536	8,723	9,667	11,520	9,607	9,467	9,757	10,083	10,245
	Interest expenses	865	790	692	825	842	889	912	955	977
	Other property expenses	1,574	1,229	1,215	981	997	1,171	1,218	1,352	1,532
	Current transfers	185	27	70	73	86	110	111	113	108
	Capital transfers	9	185	63	56	11	11	11	12	12
	Total Expenses	**11,169**	**10,954**	**11,707**	**13,455**	**11,543**	**11,648**	**12,009**	**12,515**	**12,874**
equals	**GFS Net Operating Balance**	**161**	**187**	**496**	**1,030**	**535**	**265**	**172**	**299**	**425**

Table 8.9: NSW Public Non-financial Corporation Sector Operating Statement [(a)] (ABS Basis) (cont)

		Actual 1997-98 $m	Actual 1998-99 $m	Actual 1999-2000 $m	Actual 2000-01 $m [(b)]	Revised 2001-02 $m	Budget 2002-03 $m	Forward Estimates 2003-04 $m	Forward Estimates 2004-05 $m	Forward Estimates 2005-06 $m
less	**Net Acquisition of Non-financial Assets**									
	Gross fixed capital formation	1,543	1,989	2,579	2,539	2,899	3,111	3,343	3,491	3,390
	less Depreciation	(1,423)	(1,372)	(1,389)	(1,514)	(1,552)	(1,643)	(1,744)	(1,814)	(1,866)
	plus Change in inventories	202	147	252	(651)	128	42	(24)	5	(47)
	plus Other movements in non-financial assets	(116)	(32)	(141)	(72)	(26)	51	(18)	33	34
	equals Total Net Acquisition of Non-financial Assets	**206**	**732**	**1,301**	**302**	**1,449**	**1,561**	**1,557**	**1,715**	**1,511**
equals	**GFS Net Lending / (Borrowing)**	**(45)**	**(545)**	**(805)**	**728**	**(914)**	**(1,296)**	**(1,385)**	**(1,416)**	**(1,086)**
	GFS Net Lending/(Borrowing) after adjusting to exclude SOCOG and SPOC[(b)]	**86**	**(368)**	**(531)**	**(246)**	**(925)**	**(1,296)**	**(1,385)**	**(1,416)**	**(1,086)**

Notes:

(a) The public non-financial corporation (PNFC) sector is also referred to in these budget papers as the public trading enterprise (PTE) sector.

(b) Refer to commentary earlier in this chapter on the impact of the 2000 Olympic and Paralympic Games on the results.

Table 8.10: NSW Non-financial Public Sector Operating Statement (ABS Basis)

		Actual 1997-98 $m	Actual 1998-99 $m	Actual 1999-2000 $m	Actual 2000-01 $m [a]	Revised 2001-02 $m	Budget 2002-03 $m	Forward Estimates 2003-04 $m	Forward Estimates 2004-05 $m	Forward Estimates 2005-06 $m
	GFS Revenue									
	Taxation revenue(b)	12,068	13,504	14,547	12,656	12,496	12,228	12,736	13,447	14,200
	Current grants and subsidies(b)	8,780	9,399	10,121	13,769	15,687	16,035	16,082	16,545	17,405
	Sales of goods and services	11,109	10,814	11,861	13,972	11,708	11,823	12,323	12,958	13,433
	Capital grants	754	862	833	809	1,016	941	936	973	920
	Interest income	503	457	507	549	371	593	706	828	958
	Other	2,366	2,441	2,371	2,294	1,831	1,809	1,825	1,831	1,945
	Total Revenue	**35,580**	**37,477**	**40,240**	**44,049**	**43,109**	**43,429**	**44,608**	**46,582**	**48,861**
less	**GFS Expenses**									
	Gross operating expenses	26,807	29,611	31,420	33,995	33,155	34,415	35,682	37,167	38,487
	Nominal superannuation interest expense	821	691	479	438	507	591	665	744	827
	Other interest expenses	2,267	2,055	1,932	1,754	1,653	1,595	1,589	1,595	1,596
	Other property expenses	...	...	...	...	...	...	...	...	...
	Current transfers	3,263	3,320	3,607	3,904	4,448	4,595	4,517	4,583	4,644
	Capital transfers	412	533	243	1,587	1,081	663	612	643	643
	Total Expenses	**33,570**	**36,210**	**37,681**	**41,678**	**40,844**	**41,859**	**43,065**	**44,732**	**46,197**
equals	**GFS Net Operating Balance**	**2,010**	**1,267**	**2,559**	**2,371**	**2,265**	**1,570**	**1,543**	**1,850**	**2,664**

Table 8.10: NSW Non-financial Public Sector Operating Statement (ABS Basis) (cont)

	Actual 1997-98 $m	Actual 1998-99 $m	Actual 1999-2000 $m	Actual 2000-01 $m [(a)]	Revised 2001-02 $m	Budget 2002-03 $m	Forward Estimates 2003-04 $m	Forward Estimates 2004-05 $m	Forward Estimates 2005-06 $m
less Net Acquisition of Non-financial Assets									
Gross fixed capital formation	3,882	4,047	4,622	4,795	5,416	5,761	6,145	6,417	6,404
less Depreciation	(2,073)	(2,408)	(2,800)	(2,848)	(2,889)	(3,047)	(3,215)	(3,365)	(3,487)
plus Change in inventories	192	160	249	(641)	121	44	(27)	1	(48)
plus Other movements in non-financial assets	(150)	(159)	(107)	(128)	(64)	(68)	(82)	(48)	(36)
equals Total Net Acquisition of Non-financial Assets	**1,851**	**1,640**	**1,964**	**1,178**	**2,584**	**2,690**	**2,821**	**3,005**	**2,833**
equals GFS Net Lending / (Borrowing)	**159**	**(373)**	**595**	**1,193**	**(319)**	**(1,120)**	**(1,278)**	**(1,155)**	**(169)**
GFS Net Lending/(Borrowing) after adjusting to exclude SOCOG and SPOC[(a)]	**290**	**(197)**	**868**	**218**	**(331)**	**(1,120)**	**(1,278)**	**(1,155)**	**(169)**

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 8.11: NSW General Government Sector Balance Sheet (ABS Basis)

	Actual June 1998 $m	Actual June 1999 $m	Actual June 2000 $m	Actual June 2001 $m	Revised June 2002 $m	Budget June 2003 $m	Forward Estimates June 2004 $m	Forward Estimates June 2005 $m	Forward Estimates June 2006 $m
Assets									
Financial assets									
Cash and deposits	1,184	961	418	1,035	796	1,277	1,209	1,430	1,334
Advances paid	1,670	1,653	1,693	1,439	1,495	1,417	1,355	1,319	1,263
Investments, loans and placements	3,448	3,658	3,859	3,950	4,984	5,535	6,545	7,394	9,423
Other non-equity assets	3,559	3,778	3,700	4,001	3,863	4,092	4,283	4,587	4,968
Equity	41,115	41,500	46,596	47,542	48,254	50,372	50,783	51,282	53,094
Total Financial Assets	**50,976**	**51,550**	**56,266**	**57,967**	**59,392**	**62,693**	**64,175**	**66,012**	**70,082**
Non-financial assets									
Land and fixed assets	59,627	64,066	64,230	65,805	67,170	68,369	69,703	71,067	72,458
Other non-financial assets	548	666	754	848	956	1,071	1,191	1,315	1,443
Total Non-financial Assets	**60,175**	**64,732**	**64,984**	**66,653**	**68,126**	**69,440**	**70,894**	**72,382**	**73,901**
Total Assets	**111,151**	**116,282**	**121,250**	**124,620**	**127,518**	**132,133**	**135,069**	**138,394**	**143,983**

Table 8.11: NSW General Government Sector Balance Sheet (ABS Basis) (cont)

	Actual June 1998 $m	Actual June 1999 $m	Actual June 2000 $m	Actual June 2001 $m	Revised June 2002 $m	Budget June 2003 $m	Forward Estimates June 2004 $m	Forward Estimates June 2005 $m	Forward Estimates June 2006 $m
Liabilities									
Deposits held	56	59	89	61	52	51	52	51	52
Advances received	2,340	2,270	2,142	2,041	1,827	1,789	1,693	1,655	1,517
Borrowing	14,064	16,761	14,961	11,525	10,306	9,748	9,427	9,163	8,848
Superannuation liability [a]	11,852	7,952	5,686	8,127	9,966	11,259	12,617	14,047	15,558
Other employee entitlements and provisions	6,725	7,139	7,440	8,304	8,714	9,052	9,270	9,485	9,885
Other non-equity liabilities	3,417	3,115	2,863	2,778	2,656	2,570	2,502	2,453	2,419
Total Liabilities	**38,454**	**37,296**	**33,181**	**32,836**	**33,521**	**34,469**	**35,561**	**36,854**	**38,279**
NET WORTH	**72,697**	**78,986**	**88,069**	**91,784**	**93,997**	**97,664**	**99,508**	**101,540**	**105,704**
Net Financial Worth [b]	**12,522**	**14,254**	**23,085**	**25,131**	**25,871**	**28,224**	**28,614**	**29,158**	**31,803**
Net Debt [c]	**10,158**	**12,818**	**11,222**	**7,203**	**4,910**	**3,359**	**2,063**	**726**	**(1,603)**
Underlying Net Debt [c] [d]	**10,158**	**9,554**	**8,971**	**6,024**	**4,910**	**4,310**	**4,075**	**3,907**	**2,865**

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, and Crown deposits to the Liability Management Fund and fund earnings in the years 2002-03 to 2005-06 inclusive.*

Table 8.12: NSW Public Non-financial Corporation Sector Balance Sheet [a] (ABS Basis)

	Actual June 1998 $m	Actual June 1999 $m	Actual June 2000 $m	Actual June 2001 $m	Revised June 2002 $m	Budget June 2003 $m	Forward Estimates June 2004 $m	Forward Estimates June 2005 $m	Forward Estimates June 2006 $m
Assets									
Financial assets									
Cash and deposits	920	1,026	1,324	960	901	833	828	846	1,135
Investments, loans and placements	1,559	1,361	875	920	691	486	462	434	442
Other non-equity assets	2,197	2,444	2,701	2,351	2,246	2,230	2,182	2,207	2,228
Equity	27	48	63	139	88	69	64	94	110
Total Financial Assets	**4,703**	**4,879**	**4,963**	**4,370**	**3,926**	**3,618**	**3,536**	**3,581**	**3,915**
Non-financial assets									
Land and fixed assets	53,263	54,434	58,883	61,755	63,300	66,934	68,671	70,513	73,543
Other non-financial assets	37	59	295	304	284	268	263	257	254
Total Non-financial Assets	**53,300**	**54,493**	**59,178**	**62,059**	**63,584**	**67,202**	**68,934**	**70,770**	**73,797**
Total Assets	**58,003**	**59,372**	**64,141**	**66,429**	**67,510**	**70,820**	**72,470**	**74,351**	**77,712**

Table 8.12: NSW Public Non-financial Corporation Sector Balance Sheet [(a)] (ABS Basis) (cont)

	Actual June 1998 $m	Actual June 1999 $m	Actual June 2000 $m	Actual June 2001 $m	Revised June 2002 $m	Budget June 2003 $m	Forward Estimates June 2004 $m	Forward Estimates June 2005 $m	Forward Estimates June 2006 $m
Liabilities									
Deposits held	29	29	40	49	54	61	62	62	63
Advances received	1,434	1,406	1,379	1,155	1,185	1,140	1,112	1,085	1,024
Borrowing	8,672	8,558	8,453	11,508	12,022	13,122	14,200	15,270	16,463
Superannuation liability / (prepaid contributions) [(b)]	136	227	(402)	(150)	263	332	401	469	536
Other employee entitlements and provisions	3,910	3,997	3,990	3,905	3,890	4,054	4,178	4,425	4,765
Other non-equity liabilities	1,932	2,639	3,512	2,102	1,899	1,824	1,815	1,834	1,839
Total Liabilities	**16,113**	**16,856**	**16,972**	**18,569**	**19,313**	**20,533**	**21,768**	**23,145**	**24,690**
Shares and other contributed capital [(c)]	41,890	42,516	47,169	47,860	48,197	50,287	50,702	51,206	53,022
NET WORTH [(c)]	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**...**
Net Financial Worth [(d)]	**(11,410)**	**(11,977)**	**(12,009)**	**(14,199)**	**(15,387)**	**(16,915)**	**(18,232)**	**(19,564)**	**(20,775)**
Net Debt [(e)]	**7,656**	**7,606**	**7,673**	**10,832**	**11,669**	**13,004**	**14,084**	**15,137**	**15,973**

Notes:

(a) The public non-financial corporation (PNFC) sector is also referred to in these budget papers as the public trading enterprise (PTE) sector.

(b) Comprises net unfunded obligations.

(c) 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.

(d) Net financial worth equals total financial assets minus total liabilities.

(e) 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 8.13: NSW Non-financial Public Sector Balance Sheet (ABS Basis)

	Actual	Actual	Actual	Actual	Revised	Budget	Forward Estimates		
	June 1998	June 1999	June 2000	June 2001	June 2002	June 2003	June 2004	June 2005	June 2006
	$m	$m	$m	$m	$m	$m	$m	$m	$m
Assets									
Financial assets									
Cash and deposits	2,105	1,987	1,741	1,995	1,698	2,110	2,037	2,276	2,468
Advances paid	239	246	312	284	309	278	243	234	239
Investments, loans and placements	5,005	5,011	4,727	4,870	5,675	6,022	7,007	7,827	9,865
Other non-equity assets	3,074	3,531	3,752	3,872	3,428	3,399	3,396	3,470	3,565
Equity	(749)	(968)	(510)	(179)	144	154	145	171	181
Total Financial Assets	**9,674**	**9,807**	**10,022**	**10,842**	**11,254**	**11,963**	**12,828**	**13,978**	**16,318**
Non-financial assets									
Land and fixed assets	112,891	118,501	123,113	127,560	130,470	135,302	138,374	141,581	146,001
Other non-financial assets	597	728	1,053	1,151	1,241	1,339	1,453	1,571	1,697
Total Non-financial Assets	**113,488**	**119,229**	**124,166**	**128,711**	**131,711**	**136,641**	**139,827**	**143,152**	**147,698**
Total Assets	**123,162**	**129,036**	**134,188**	**139,553**	**142,965**	**148,604**	**152,655**	**157,130**	**164,016**

Table 8.13: NSW Non-financial Public Sector Balance Sheet (ABS Basis) (cont)

	Actual June 1998 $m	Actual June 1999 $m	Actual June 2000 $m	Actual June 2001 $m	Revised June 2002 $m	Budget June 2003 $m	Forward Estimates June 2004 $m	Forward Estimates June 2005 $m	Forward Estimates June 2006 $m
Liabilities									
Deposits held	86	88	121	110	107	114	114	113	115
Advances received	2,342	2,270	2,141	2,041	1,827	1,789	1,693	1,655	1,517
Borrowing	22,736	25,310	23,405	23,033	22,327	22,870	23,627	24,433	25,311
Superannuation liability [(a)]	11,988	8,179	5,284	7,978	10,230	11,591	13,018	14,516	16,094
Other employee entitlements and provisions	8,716	9,177	9,459	10,406	10,602	10,867	11,039	11,226	11,639
Other non-equity liabilities	4,597	5,026	5,709	4,201	3,875	3,709	3,656	3,647	3,636
Total Liabilities	**50,465**	**50,050**	**46,119**	**47,769**	**48,968**	**50,940**	**53,147**	**55,590**	**58,312**
Shares and other contributed capital	...	...	...	...	...	...	...	...	...
NET WORTH	**72,697**	**78,986**	**88,069**	**91,784**	**93,997**	**97,664**	**99,508**	**101,540**	**105,704**
Net Financial Worth [(b)]	**(40,791)**	**(40,243)**	**(36,097)**	**(36,927)**	**(37,714)**	**(38,977)**	**(40,319)**	**(41,612)**	**(41,994)**
Net Debt [(c)]	**17,815**	**20,424**	**18,887**	**18,035**	**16,579**	**16,363**	**16,147**	**15,864**	**14,371**
Underlying Net Debt [(c)] [(d)]	**17,815**	**17,160**	**16,636**	**16,856**	**16,579**	**17,314**	**18,159**	**19,045**	**18,839**

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, and Crown deposits to the Liability Management Fund and fund earnings in the years 2002-03 to 2005-06 inclusive.*

Table 8.14: NSW General Government Sector Cash Flow Statement[a] (ABS Basis)

	Actual 1997-98 $m	Actual 1998-99 $m	Actual 1999-2000 $m	Actual 2000-01 $m	Revised 2001-02 $m	Budget 2002-03 $m	Forward Estimates 2003-04 $m	Forward Estimates 2004-05 $m	Forward Estimates 2005-06 $m
Cash Receipts from Operating Activities									
Taxes received[b]	12,902	14,192	15,196	13,202	13,330	12,842	13,375	14,097	14,845
Receipts from sales of goods and services	2,557	2,625	2,806	2,444	2,679	2,687	2,781	2,850	2,888
Grants/subsidies received[b]	9,786	10,345	10,978	14,612	16,794	16,998	17,039	17,540	18,345
Other receipts	2,672	2,672	2,824	4,022	3,500	3,559	3,903	4,039	4,347
Total Receipts	**27,917**	**29,834**	**31,804**	**34,280**	**36,303**	**36,086**	**37,098**	**38,526**	**40,425**
Cash Payments for Operating Activities									
Payment for goods and services	(19,067)	(23,819)	(21,050)	(21,333)	(22,030)	(23,314)	(24,403)	(25,558)	(26,499)
Grants and subsidies paid	(4,908)	(5,031)	(5,273)	(6,016)	(7,031)	(6,784)	(6,462)	(6,550)	(6,605)
Interest paid	(1,535)	(1,423)	(1,246)	(1,044)	(850)	(760)	(723)	(656)	(827)
Other payments	(173)	(261)	(319)	(1,648)	(1,771)	(1,554)	(1,562)	(1,587)	(1,581)
Total Payments	**(25,683)**	**(30,534)**	**(27,888)**	**(30,041)**	**(31,682)**	**(32,412)**	**(33,150)**	**(34,351)**	**(35,512)**
Net Cash Flows from Operating Activities	**2,234**	**(700)**	**3,916**	**4,239**	**4,621**	**3,674**	**3,948**	**4,175**	**4,913**
Net Cash Flows from Investments in Non-financial Assets									
Sales of non-financial assets	327	519	390	144	191	434	252	258	148
Purchases of non-financial assets	(2,548)	(2,494)	(2,450)	(2,569)	(2,792)	(3,022)	(3,038)	(3,057)	(3,123)
Net Cash Flows from Investments in Non-financial Assets	**(2,221)**	**(1,975)**	**(2,060)**	**(2,425)**	**(2,601)**	**(2,588)**	**(2,786)**	**(2,799)**	**(2,975)**
Net Cash Flows from Investments in Financial Assets for Policy Purposes	**1,076**	**3**	**(42)**	**3,228**	**842**	**538**	**188**	**89**	**262**

Table 8.14: NSW General Government Sector Cash Flow Statement[a] (ABS Basis) (cont)

	Actual 1997-98 $m	Actual 1998-99 $m	Actual 1999-2000 $m	Actual 2000-01 $m	Revised 2001-02 $m	Budget 2002-03 $m	Forward Estimates 2003-04 $m	Forward Estimates 2004-05 $m	Forward Estimates 2005-06 $m
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	**(57)**	**(177)**	**(257)**	**(354)**	**(1,112)**	**(538)**	**(1,001)**	**(840)**	**(2,020)**
Net Cash Flows from Financing Activities									
Advances received (net)	(1,568)	(76)	(132)	(85)	(203)	(40)	(97)	(40)	(138)
Borrowing (net)	794	2,756	(1,982)	(4,211)	(1,778)	(561)	(327)	(270)	(149)
Deposits received (net)	(110)	6	28	(25)	(10)	(1)	(1)	(1)	(1)
Other financing (net)	(4)	...	(2)	...	...	(1)	(1)	(1)	(1)
Net Cash Flows from Financing Activities	**(888)**	**2,686**	**(2,088)**	**(4,321)**	**(1,991)**	**(603)**	**(426)**	**(312)**	**(289)**
Net Increase / (Decrease) in Cash Held	**144**	**(163)**	**(531)**	**367**	**(241)**	**483**	**(77)**	**313**	**(109)**
SURPLUS / (DEFICIT)									
Net Cash from Operating Activities and Investments in Non-financial Assets	**13**	**(2,675)**	**1,856**	**1,814**	**2,020**	**1,086**	**1,162**	**1,376**	**1,938**
Finance leases and similar arrangements	...	...	...	...	...	...	...	(93)	...
SURPLUS / (DEFICIT)	**13**	**(2,675)**	**1,856**	**1,814**	**2,020**	**1,086**	**1,162**	**1,283**	**1,938**
Impact of prepayment of superannuation	...	3,266	(1,005)	(1,058)	(1,134)	...	...	...	...
Impact of deposits to the Liability Management Fund [c]	...	...	...	...	...	(951)	(1,061)	(1,169)	(1,287)
SURPLUS / (DEFICIT) (after adjusting for the timing of superannuation contributions)	**13**	**591**	**851**	**756**	**886**	**135**	**101**	**114**	**651**

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.*

(c) *Deposits by the Crown to the Liability Management Fund and the fund's earnings have been set aside to meet future superannuation contributions.*

Table 8.15: NSW Public Non-financial Corporation Sector Cash Flow Statement[a] [b] [c] (ABS Basis)

	Actual 1997-98 $m	Actual 1998-99 $m	Actual 1999-2000 $m	Actual 2000-01 $m	Revised 2001-02 $m	Budget 2002-03 $m	Forward Estimates 2003-04 $m	Forward Estimates 2004-05 $m	Forward Estimates 2005-06 $m
Cash Receipts from Operating Activities									
Receipts from sales of goods and services	9,080	8,680	9,618	10,763	9,597	9,527	10,015	10,584	10,951
Grants/subsidies received	1,612	1,763	1,844	1,953	1,967	1,916	1,768	1,805	1,817
Other receipts	948	1,000	1,253	1,927	1,767	1,707	1,742	1,840	1,911
Total Receipts	**11,640**	**11,443**	**12,715**	**14,643**	**13,331**	**13,150**	**13,525**	**14,229**	**14,679**
Cash Payments for Operating Activities									
Payment for goods and services	(7,374)	(7,445)	(8,351)	(9,361)	(8,507)	(7,900)	(8,007)	(8,303)	(8,378)
Grants and subsidies paid	(406)	(71)	(70)	(144)	(93)	(116)	(117)	(119)	(115)
Interest paid	(860)	(778)	(711)	(722)	(859)	(883)	(921)	(985)	(1,024)
Other payments	(388)	(209)	(384)	(1,751)	(1,458)	(1,426)	(1,455)	(1,502)	(1,519)
Total Payments	**(9,028)**	**(8,503)**	**(9,516)**	**(11,978)**	**(10,917)**	**(10,325)**	**(10,500)**	**(10,909)**	**(11,036)**
Net Cash Flows from Operating Activities	**2,612**	**2,940**	**3,199**	**2,665**	**2,414**	**2,825**	**3,025**	**3,320**	**3,643**
Net Cash Flows from Investments in Non-financial Assets									
Sales of non-financial assets	313	333	391	282	309	263	240	137	139
Purchases of non-financial assets	(1,676)	(2,139)	(2,729)	(2,510)	(3,060)	(3,331)	(3,476)	(3,594)	(3,494)
Net Cash Flows from Investments in Non-financial Assets	**(1,363)**	**(1,806)**	**(2,338)**	**(2,228)**	**(2,751)**	**(3,068)**	**(3,236)**	**(3,457)**	**(3,355)**
Net Cash Flows from Investments in Financial Financial Assets for Policy Purposes	**(76)**	**(5)**	**(1)**	**3**	**...**	**(135)**	**(74)**	**...**	**...**
Net Cash Flows from Investments in Assets for Liquidity Purposes	**(31)**	**125**	**383**	**(78)**	**220**	**210**	**72**	**(3)**	**(24)**

Table 8.15: NSW Public Non-financial Corporation Sector Cash Flow Statement[(a) (b) (c)] (ABS Basis) (cont)

	Actual 1997-98 $m	Actual 1998-99 $m	Actual 1999-2000 $m	Actual 2000-01 $m	Revised 2001-02 $m	Budget 2002-03 $m	Forward Estimates 2003-04 $m	Forward Estimates 2004-05 $m	Forward Estimates 2005-06 $m
Net Cash Flows from Financing Activities									
Advances received (net)	(169)	(27)	(22)	(3,229)	(301)	(446)	(78)	(78)	(260)
Borrowing (net)	(140)	(210)	(110)	3,253	981	1,079	1,053	1,050	1,163
Deposits received (net)	1	1	1	10	9	7	...	...	...
Distributions paid	(1,077)	(894)	(824)	(758)	(666)	(585)	(797)	(822)	(907)
Other financing (net)	(43)	12	(32)	24	(5)	2	4	(11)	...
Net Cash Flows from Financing Activities	**(1,428)**	**(1,118)**	**(987)**	**(700)**	**18**	**57**	**182**	**139**	**(4)**
Net Increase / (Decrease) in Cash Held	**(286)**	**136**	**256**	**(338)**	**(99)**	**(111)**	**(31)**	**(1)**	**260**
SURPLUS / (DEFICIT)									
Net Cash from Operating Activities and Investments in Non-financial Assets	**1,249**	**1,134**	**861**	**437**	**(337)**	**(243)**	**(211)**	**(137)**	**288**
Distribution paid	(1,077)	(894)	(824)	(758)	(666)	(585)	(797)	(822)	(907)
Finance leases and similar arrangements	...	(2)	...	...	...	...	...	...	...
SURPLUS / (DEFICIT)	**172**	**238**	**37**	**(321)**	**(1,003)**	**(828)**	**(1,008)**	**(959)**	**(619)**
Reversing the impact of SOCOG and SPOC operations	259	(146)	(343)	340	68	...	...	...	...
SURPLUS / (DEFICIT) adjusted to exclude SOCOG & SPOC	**431**	**92**	**(306)**	**19**	**(935)**	**(828)**	**(1,008)**	**(959)**	**(619)**

Notes:

(a) *The public non-financial corporation (PNFC) sector is also referred to in these budget papers as the public trading enterprise (PTE) sector.*

(b) *A positive number denotes a cash inflow, a negative (i.e. bracketed) sign denotes a cash outflow.*

(c) *Refer to commentary earlier in this chapter on the impact of the 2000 Olympic and Paralympic Games on the results.*

Table 8.16: NSW Non-financial Public Sector Cash Flow Statement[a] [b] (ABS Basis)

	Actual 1997-98 $m	Actual 1998-99 $m	Actual 1999-2000 $m	Actual 2000-01 $m	Revised 2001-02 $m	Budget 2002-03 $m	Forward Estimates 2003-04 $m	Forward Estimates 2004-05 $m	Forward Estimates 2005-06 $m
Cash Receipts from Operating Activities									
Taxes received [c]	12,066	13,575	14,545	12,568	12,509	12,234	12,729	13,438	14,173
Receipts from sales of goods and services	11,522	11,179	12,261	13,037	12,110	12,074	12,653	13,290	13,695
Grants/subsidies received [c]	9,535	10,330	11,027	14,606	16,701	16,977	17,018	17,517	18,325
Other receipts	2,338	2,375	2,963	4,708	4,306	4,434	4,566	4,761	5,014
Total Receipts	**35,461**	**37,459**	**40,796**	**44,919**	**45,626**	**45,719**	**46,966**	**49,006**	**51,207**
Cash Payments for Operating Activities									
Payment for goods and services	(25,565)	(30,597)	(28,652)	(29,899)	(29,624)	(30,520)	(31,674)	(33,109)	(34,108)
Grants and subsidies paid	(3,405)	(3,308)	(3,494)	(4,203)	(5,034)	(4,964)	(4,790)	(4,829)	(4,871)
Interest paid	(2,311)	(2,091)	(1,892)	(1,700)	(1,653)	(1,588)	(1,592)	(1,589)	(1,800)
Other payments	(386)	(113)	(471)	(3,008)	(2,948)	(2,736)	(2,738)	(2,810)	(2,781)
Total Payments	**(31,667)**	**(36,109)**	**(34,509)**	**(38,810)**	**(39,259)**	**(39,808)**	**(40,794)**	**(42,337)**	**(43,560)**
Net Cash Flows from Operating Activities	**3,794**	**1,350**	**6,287**	**6,109**	**6,367**	**5,911**	**6,172**	**6,669**	**7,647**
Net Cash Flows from Investments in Non-financial Assets									
Sales of non-financial assets	635	847	775	426	501	697	493	396	287
Purchases of non-financial assets	(4,242)	(4,632)	(5,177)	(5,076)	(5,850)	(6,350)	(6,511)	(6,649)	(6,615)
Net Cash Flows from Investments in Non-financial Assets	**(3,607)**	**(3,785)**	**(4,402)**	**(4,650)**	**(5,349)**	**(5,653)**	**(6,018)**	**(6,253)**	**(6,328)**
Net Cash Flows from Investments in Financial Assets for Policy Purposes	**870**	**(19)**	**(88)**	**2**	**541**	**(43)**	**37**	**12**	**1**
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	**(88)**	**(52)**	**126**	**(432)**	**(893)**	**(329)**	**(929)**	**(843)**	**(2,043)**

Table 8.16: NSW Non-financial Public Sector Cash Flow Statement[a] [b] (ABS Basis) (cont)

	Actual 1997-98 $m	Actual 1998-99 $m	Actual 1999-2000 $m	Actual 2000-01 $m	Revised 2001-02 $m	Budget 2002-03 $m	Forward Estimates 2003-04 $m	Forward Estimates 2004-05 $m	Forward Estimates 2005-06 $m
Net Cash Flows from Financing Activities									
Advances received (net)	(1,564)	(92)	(110)	(85)	(204)	(40)	(98)	(41)	(139)
Borrowing (net)	611	2,553	(2,091)	(959)	(797)	518	726	780	1,014
Deposits received (net)	(109)	7	29	(14)	...	6	(1)	(1)	(1)
Distributions paid	...	...	...	...	...	...	...	...	...
Other financing (net)	(34)	6	(32)	25	(4)	2	3	(11)	1
Net Cash Flows from Financing Activities	**(1,096)**	**2,474**	**(2,204)**	**(1,033)**	**(1,005)**	**486**	**630**	**727**	**875**
Net Increase / (Decrease) in Cash Held	**(127)**	**(32)**	**(281)**	**(4)**	**(339)**	**372**	**(108)**	**312**	**152**
SURPLUS / (DEFICIT)									
Net Cash from Operating Activities and Investments in Non-financial Assets	**187**	**(2,435)**	**1,885**	**1,459**	**1,018**	**258**	**154**	**416**	**1,319**
Distribution paid	...	(2)	...	...	...	...	...	...	...
Finance leases and similar arrangements	...	...	...	...	...	...	...	(93)	...
SURPLUS / (DEFICIT)	**187**	**(2,437)**	**1,885**	**1,459**	**1,018**	**258**	**154**	**323**	**1,319**
Impact of prepayment of superannuation	...	3,266	(1,005)	(1,058)	(1,134)	...	...	...	...
Impact of deposits to the Liability Management Fund [d]	...	...	...	...	...	(951)	(1,061)	(1,169)	(1,287)
Impact of SOCOG and SPOC operations	262	(141)	(200)	389	(12)	...	...	...	...
SURPLUS / (DEFICIT) (after adjusting for the timing of superannuation contributions and excluding SOCOG and SPOC operations)	**449**	**688**	**680**	**790**	**(128)**	**(693)**	**(907)**	**(846)**	**32**

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.
(d) Deposits by the Crown to the Liability Management Fund and the fund's earnings have been set aside to meet future superannuation contributions.

Table 8.17: NSW General Government Sector Expenses by Function (ABS Basis)

	Revised 2001-02 $m	*Budget 2002-03 $m*
General public services	1,082	1,166
Defence	...	...
Public order and safety	3,152	3,330
Education	8,553	8,979
Health	7,591	8,137
Social security and welfare	2,414	2,456
Housing and community amenities	1,786	1,495
Recreation and culture	958	789
Fuel and energy	142	78
Agriculture, forestry, fishing and hunting	536	551
Mining, manufacturing and construction	93	94
Transport and communications	3,181	3,200
Other economic affairs	2,070	1,837
Other purposes	1,876	2,030
Total GFS Expenses	**33,434**	**34,142**

Table 8.18: NSW General Government Sector Taxes (ABS Basis)

	Revised 2001-02 $m	*Budget 2002-03 $m*
Taxes on employers' payroll and labour force	**4,019**	**4,246**
Taxes on property		
Land taxes	999	1,047
Stamp duties on financial and capital transactions	3,613	3,295
Financial institutions' transaction taxes	248	...
Other	51	50
Total taxes on property	**4,911**	**4,392**
Taxes on the provision of goods and services		
Excises and levies	...	...
Taxes on gambling	1,218	1,270
Taxes on insurance	1,225	1,175
Total taxes on the provision of goods and services	**2,443**	**2,445**
Taxes on use of goods and performance of activities		
Motor vehicle taxes	1,539	1,617
Franchise taxes	8	8
Other	438	154
Total taxes on use of goods and performance of activities	**1,985**	**1,779**
Total GFS Taxation Revenue	**13,358**	**12,862**

8.7 LOAN COUNCIL REPORTING REQUIREMENTS

Table 8.19 presents estimates of the State's Loan Council allocation (LCA) for 2002-03.

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 2002-03 NSW estimated Loan Council allocation is a deficit of $301 million, compared to an original deficit allocation of $216 million.

Table 8.19: 2002-03 Loan Council Allocation Estimates, NSW

		Loan Council Allocation 2002-03 $m	*Budget-time Estimate 2002-03 $m*
General government sector cash deficit / (surplus)		(366)	(1,086)
Public Non-financial Corporations sector cash deficit / (surplus)		813	828
Non-financial public sector cash deficit / (surplus) [(a)]		**448**	**(258)**
Minus	Net cash flows from investments in financial assets for policy purposes [(b)]	(52)	(5)
Plus	Memorandum items [(c)]	(180)	564
Loan Council Allocation		**216**	**301**

Notes:

(a) *Does not directly equate to the sum of the general government and PTE 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.*

8.8 PRIVATE SECTOR INFRASTRUCTURE PROJECTS

CONTRACTS TO BE ENTERED INTO IN 2001-02

M5 - Moorebank Avenue Intersection

The Roads and Traffic Authority intends to enter into an agreement with the owner of the M5 Motorway, Interlink Roads Limited, to:

- develop the intersection of the M5 Motorway with Moorebank Avenue as a grade separated interchange; and

- provide additional lanes on the M5 Motorway between Moorebank Avenue and Heathcote Roads.

The works would relieve the significant traffic congestion that is frequently experienced at this intersection during peak periods.

The works, which are estimated to cost around $31 million, would be wholly financed by Interlink Roads, and would be funded from:

- increased toll revenues during the existing M5 Motorway concession term, expected to result from improved traffic conditions at the interchange; and

- an extension (expected to be just over one year) to the M5 Motorway concession term.

Contractual arrangements are currently being finalised.

It expected that the works would be completed and opened to traffic during the second half of 2003.

Government Contingent Liability	Nil

CONTRACTS TO BE ENTERED INTO IN 2002-03

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 was provided in October 2001.

Three proponents submitted detailed proposals on 24 October 2001. The proponents were:

- Cross City Motorway Consortium - Baulderstone-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.

Cross City Motorway Consortium has been selected as the Preferred Proponent and detailed negotiations are currently in progress.

The estimated cost of the project is $640 million. The final cost of the project will depend on current negotiations to finalise the proposal to design, construct and operate and maintain the tollway. The project will be funded by toll revenues.

Government Contingent Liability	To Be Determined

Western Sydney Orbital Road

Project Description:

A 39km Western Sydney Orbital road is proposed linking the Hume Highway / M5 at Prestons with the M2 at West Baulkham Hills. On completion in 2007, the route will form part of the National Highway system. The route will consist of two travel lanes in each direction and a wide central median which will allow for the possible construction of extra traffic lanes or public transport facilities in the future. The Western Sydney Orbital is intended to be operated as a toll road and the toll is expected to be 25c/km with a cap of $5 per trip.

The Environmental Impact Statement was placed on display in February and March 2001. The Minister for Planning approved the project with conditions on 28 February 2002.

Three Proponents submitted detailed Proposals on 19 March 2002. The Proponents were:

- *Orbital Parkway Alliance (Thiess Pty Ltd, Baulderstone Hornibrook and Deutsche Bank)*;
- *Western Link Joint Venture (Transfield Pty Ltd and Bouygues Travaux Publics)*; and
- *Westlink Motorway Limited (Leighton Contractors Pty Ltd and Abigroup Contractors Pty Ltd).*

Assessment of proposals is in progress. A contract should be awarded in 2002 with completion of the road in 2007.

The estimated cost of the project is $1.2 billion. The final cost of the project will depend on the details of the successful proposal for the design, construct, operate and maintain contract. The Federal Government has provided $117 million to date for planning and land acquisition, and will provide a further $239 million. The balance of the project cost will be funded by toll revenue.

Government Contingent Liability	To Be Determined

Lane Cove Tunnel

Project Description:

The Lane Cove Tunnel would link the M2 Motorway at East Ryde and the Gore Hill Freeway at Artarmon. The proposed 3.4 kilometre twin tunnels have been designed to run under Epping Road as much as practical.

The Project also includes:

- modification to Epping Road / Longueville Road to provide bus lanes in each direction, additional right turn lanes, a continuous bicycle path from Wicks Road, Ryde to Naremburn, and other improvement to the urban environment;
- an extra westbound lane on Epping Road from Lane Cove River to Wicks Road;
- widening the Gore Hill Freeway to include a transit lane in each direction between the Pacific Highway and Warringah Freeway; and.
- adding new north facing ramps between Falcon Street and the Warringah Freeway to provide access between the Warringah Freeway and Falcon Street/Military Road.

Four Applications for Registration of Interest were received on 24 April 2002. The Applicants are:

- Lane Cove Expressway *(Baulderstone Hornibrook Pty Ltd, Bilfinger Berger Aktiengesellschaft, Commonwealth Bank of Australia, Transurban Infrastructure Developments Limited)*;
- Lane Cove Motorway Consortium *(Leighton Contractors Pty Limited, Deutsche Bank AG)*;
- Lane Cove Tunnel Consortium *(Thiess Pty Ltd, Transfield Pty Ltd, ABN AMRO Australia Limited)*; and
- TunnelLink Limited *(The Hills Motorway Limited, Macquarie Bank Limited, Abigroup Limited, Obayashi Corporation).*

Assessment of applications is in progress. It is expected that the Applicants will be shortlisted mid year and those shortlisted invited to submit detailed proposals.

The estimate of cost for the project is $815 million. The project is to be funded by toll revenue.

Government Contingent Liability	To Be Determined

Royal Prince Alfred Hospital Car Park

Project Description:

It is proposed to invite the private sector to fund and build a new 1,000 space car park on the Royal Prince Alfred Hospital campus. The anticipated total construction cost for the project is $13.5 million. The successful proponent will, under a 20 or 25 year licence, operate and collect user charges from the 1,300 campus car park spaces, including the 1,000 new spaces.

The form of the arrangement is expected to be similar to that for the Randwick and St George Hospital car parks. The expected contract execution date is March 2003. At this time no government liability is anticipated under the proposed termination provisions of the contract to be negotiated.

Government Contingent Liability	To Be Determined

Project Newport

Project Description:

"Project Newport" will involve a private sector party financing and undertaking capital and maintenance dredging within the Port of Newcastle. The purpose of the capital dredging is to:

- widen the port's steelworks channel by a nominal 40 metres; and
- deepen the port's steelworks and entrance channels by a nominal 1.3 metres.

Maintenance of the port will include both the area of capital dredging and remaining areas of the port presently maintained by Newcastle Port Corporation.

Currently, large ships using the Port of Newcastle cannot be loaded to capacity due to the restricted depth of the port's main channels. In addition, the narrow width of the channel restricts the operational flexibility of the port. "Project Newport" will allow these constraints to be lifted, improving the port's operating flexibility and safety, increasing the port's capacity and enhancing the port's ability to retain existing trades and attract new trades.

The capital dredging works are estimated to cost between $90 million and $125 million. Total maintenance dredging is estimated to cost approximately $2.4 million per annum. It is proposed to recover the cost of the project through a charge on those vessels that derive economic benefit from the use of the deepened and widened channels. Private sector participation costs will be funded though a concession deed over a term of 20 to 25 years.

A preferred proponent to undertake the works will be nominated after a competitive tender process and, pending environmental approvals, dredging works are expected to commence in late 2004.

Government Contingent Liability	To Be Determined

APPENDIX A: GENERAL GOVERNMENT SECTOR ACCOUNTING FINANCIAL STATEMENTS

Refer to Chapter 8 (Section 8.3) 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 8 which follow the government finance statistics convention.

Table A.1: General Government Sector Statement of Financial Performance

	2000-01 Actual	2001-02 Budget	2001-02 Revised	2002-03 Budget	2003-04	2004-05 Estimate	2005-06
	$m	$m	$m	$m	$m	$m	$m
State Revenues							
Taxation	13,327	12,084	13,352	12,856	13,373	14,095	14,862
Commonwealth Grants	12,967	14,413	14,931	15,053	15,203	15,702	16,510
Financial Distributions	1,245	1,129	1,166	1,204	1,317	1,377	1,556
Fines, Regulatory Fees & Other	918	861	779	799	816	871	865
Total State Revenues	28,457	28,487	30,228	29,912	30,709	32,045	33,793
Operating Revenues							
Sale of Goods and Services	2,282	2,323	2,376	2,479	2,414	2,438	2,494
Investment Income	484	457	360	612	742	848	1,012
Grants and Contributions	366	325	330	376	280	276	278
Other	418	578	681	261	262	264	270
Total Operating Revenues	3,550	3,683	3,747	3,728	3,698	3,826	4,054
Expenses							
Employee Related							
- Superannuation	3,187	1,741	2,463	2,049	2,186	2,312	2,463
- Other	12,268	12,583	12,829	13,464	14,089	14,653	15,365
Other Operating	7,513	6,788	6,729	7,215	7,289	7,690	7,951
Maintenance	1,035	1,160	1,220	1,175	1,154	1,212	1,248
Depreciation and Amortisation	1,332	1,493	1,337	1,404	1,471	1,551	1,622
Current Grants and Subsidies	4,997	4,647	4,963	5,075	4,998	5,071	5,165
Capital Grants	1,546	1,399	1,883	1,333	1,176	1,280	1,276
Borrowing Costs	1,317	885	951	751	721	681	660
Total Expenses	33,195	30,696	32,375	32,466	33,084	34,450	35,750
Gain/(Loss) on Disposal of Assets	(9)	(20)	(156)	(25)	26	26	17
Net Cost of Services	(29,654)	(27,033)	(28,784)	(28,763)	(29,360)	(30,598)	(31,679)
Surplus/(Deficit) for the Year	(1,197)	1,454	1,444	1,149	1,349	1,447	2,114

Table A.1: General Government Sector Statement of Financial Performance (cont)

	2000-01 Actual	2001-02 Budget	2001-02 Revised	2002-03 Budget	2003-04	2004-05 Estimate	2005-06
	$m	$m	$m	$m	$m	$m	$m
OTHER MOVEMENTS IN EQUITY							
Net Asset Valuation Increments	1,483	12	342	30	33	37	38
Other	...	...	(25)	...	...	...	...
Total Revenues, Expenses and Valuation Adjustments Recognised Directly in Equity	**1,483**	**12**	**317**	**30**	**33**	**37**	**38**
Changes in Equity Resulting From Other Transactions							
Contributions by Owners Made to Wholly Owned Public Sector Agencies (Urgent Issues Group UIG 38)							
- Equity Restructure payments from Public Trading Enterprises	3,203	…	270	400	50	50	200
- Other	(865)	…	149	...	...	...	...
Total Other Movements in Equity	**3,821**	**12**	**736**	**430**	**83**	**87**	**238**
Opening Balance Equity	**41,204**	**42,522**	**43,828**	**46,008**	**47,587**	**49,019**	**50,553**
Operating Surplus/ (Deficit)	(1,197)	1,454	1,444	1,149	1,349	1,447	2,114
Other Movements in Equity	3,821	12	736	430	83	87	238
Closing Balance Equity	**43,828**	**43,988**	**46,008**	**47,587**	**49,019**	**50,553**	**52,905**

Table A.2: General Government Sector Statement of Financial Position as at 30 June, 2001-2006

	2001 Actual $m	2002 Budget $m	2002 Revised $m	2003 Budget $m	2004 Estimate $m	2005 Estimate $m	2006 Estimate $m
Current Assets							
Cash Assets	1,035	360	796	1,277	1,209	1,430	1,334
Receivables	2,403	1,822	2,396	2,502	2,508	2,652	2,779
Other Financial Assets	767	731	584	689	861	955	1,085
Inventories	154	149	133	130	137	131	130
Other	61	90	63	63	65	66	71
Total Current Assets	**4,420**	**3,152**	**3,972**	**4,661**	**4,780**	**5,234**	**5,399**
Non-Current Assets							
Receivables	2,480	2,566	2,740	2,786	2,904	3,023	3,213
Other Financial Assets	3,258	3,648	4,823	5,300	6,141	6,899	8,800
Inventories	42	38	14	18	9	11	11
Property, Plant and Equipment							
Land and Buildings	32,165	31,893	32,738	32,866	33,065	33,230	33,312
Plant and Equipment	4,182	4,203	4,321	4,498	4,478	4,382	4,167
Infrastructure Systems	29,246	29,129	29,959	30,849	32,008	33,307	34,831
Other	854	975	962	1,078	1,196	1,320	1,450
Total Non-Current Assets	**72,227**	**72,452**	**75,557**	**77,395**	**79,801**	**82,172**	**85,784**
Total Assets	**76,647**	**75,604**	**79,529**	**82,056**	**84,581**	**87,406**	**91,183**
Current Liabilities							
Payables	1,480	1,192	1,426	1,397	1,370	1,366	1,373
Interest Bearing	2,066	2,643	2,181	2,041	499	2,198	471
Employee Entitlements and Other Provisions	2,101	2,688	3,501	3,739	3,858	3,849	4,097
Other	345	245	301	284	283	282	281
Total Current Liabilities	**5,992**	**6,768**	**7,409**	**7,461**	**6,010**	**7,695**	**6,222**
Non-Current Liabilities							
Interest Bearing	11,501	9,109	9,952	9,496	10,621	8,619	9,893
Employee Entitlements and Other Provisions	14,321	14,901	15,180	16,572	18,029	19,682	21,345
Other	1,005	838	980	940	902	857	818
Total Non-Current Liabilities	**26,827**	**24,848**	**26,112**	**27,008**	**29,552**	**29,158**	**32,056**
Total Liabilities	**32,819**	**31,616**	**33,521**	**34,469**	**35,562**	**36,853**	**38,278**
NET ASSETS	**43,828**	**43,988**	**46,008**	**47,587**	**49,019**	**50,553**	**52,905**
Equity							
Asset Revaluation Reserves	16,345	15,067	16,494	16,523	16,554	16,589	16,626
Accumulated Funds	27,483	28,921	29,514	31,064	32,465	33,964	36,279
TOTAL EQUITY	**43,828**	**43,988**	**46,008**	**47,587**	**49,019**	**50,553**	**52,905**

Table A.3: General Government Sector Statement of Cash Flows

	2000-01 Actual $m	2001-02 Budget $m	2001-02 Revised $m	2002-03 Budget $m	2003-04 Estimate $m	2004-05 Estimate $m	2005-06 Estimate $m
Cash Flows from Operating Activities							
Receipts							
Taxation	13,181	12,088	13,322	12,834	13,366	14,088	14,836
Commonwealth Grants	12,967	14,413	14,931	15,053	15,203	15,702	16,510
Financial Distributions	1,222	1,073	1,000	1,246	1,146	1,099	1,227
Sale of Goods and Services	2,224	2,258	2,405	2,496	2,556	2,578	2,630
Investment Income	272	234	239	301	308	295	332
Other	2,609	1,893	2,510	2,159	2,348	2,399	2,408
Total Receipts	**32,475**	**31,959**	**34,407**	**34,089**	**34,927**	**36,161**	**37,943**
Payments							
Employee Related	(12,932)	(13,037)	(13,312)	(14,029)	(14,745)	(15,506)	(16,164)
Grants and Subsidies	(6,275)	(5,991)	(6,548)	(6,191)	(5,998)	(6,182)	(6,298)
Finance	(1,009)	(853)	(850)	(750)	(708)	(655)	(650)
Other	(8,151)	(8,472)	(9,175)	(9,601)	(9,869)	(10,189)	(10,407)
Total Payments	**(28,367)**	**(28,353)**	**(29,885)**	**(30,571)**	**(31,320)**	**(32,532)**	**(33,519)**
Net Cash Flows from Operating Activities	**4,108**	**3,606**	**4,522**	**3,518**	**3,607**	**3,629**	**4,424**
Cash Flows from Investing Activities							
Proceeds from Sale of Property, Plant and Equipment	109	218	187	434	252	258	148
Proceeds from Sale of Investments	1,197	353	1,460	1,133	840	1,043	214
Equity restructure	3,203	...	270	400	50	50	200
Advance Repayments Received	109	71	107	104	104	78	97
Purchases of Property, Plant & Equipment	(2,576)	(2,596)	(2,817)	(3,030)	(3,037)	(3,058)	(3,125)
Purchase of Investments	(1,317)	(118)	(1,886)	(1,367)	(1,416)	(1,340)	(1,565)
Advances Made	(95)	(14)	(101)	(81)	(37)	(36)	(37)
Other	(21)	...	37	(17)	...	...	1
Net Cash Flows from Investing Activities	**609**	**(2,086)**	**(2,743)**	**(2,424)**	**(3,244)**	**(3,005)**	**(4,067)**
Cash Flows from Financing Activities							
Proceeds from Borrowings and Advances	253	22	53	35	46	27	203
Repayments of Borrowings and Advances	(4,589)	(1,760)	(2,036)	(647)	(486)	(431)	(668)
Net Cash Flows From Financing Activities	**(4,336)**	**(1,738)**	**(1,983)**	**(612)**	**(440)**	**(404)**	**(465)**
Net Increase/(Decrease) in Cash	**381**	**(218)**	**(204)**	**482**	**(77)**	**220**	**(108)**
Opening Cash and Cash Equivalents	384	561	995	791	1,273	1,196	1,416
Reclassification of Cash Equivalents	230	...	...	...	...	...	...
CLOSING CASH AND CASH EQUIVALENTS BALANCE	**995**	**343**	**791**	**1,273**	**1,196**	**1,416**	**1,308**

Table A.4: Reconciliation between the Accounting Based Operating Result and the GFS Based Budget Result

	2001-02 Budget $m	*2001-02 Projection $m*	*2002-03 Budget $m*
Accounting Based Operating Surplus	**1,454**	**1,444**	**1,149**
Accounting items not in the GFS Budget Result			
Depreciation	1,493	1,337	1,404
Valuation items - (gains)/losses [a]	(254)	362	151
GFS items not in the Accounting Result			
Gross fixed capital formation	(2,601)	(2,519)	(2,652)
Change in inventories	5	7	(2)
Other movements in non-financial assets	271	39	118
GFS Based Budget Result	**368**	**670**	**168**

Note:

(a) *Valuation items primarily comprise actuarial adjustments for superannuation and insurance obligations, adjustments to fixed asset values and non cash gains/losses on debt management.*

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

Major Tax Expenditures	*2000-01 $m*	*2001-02 $m*	*2002-03 $m*
First Home Plus			
Under the First Home Plus scheme all first home buyers receive a full exemption from contracts and conveyances stamp duty where the property is valued up to $200,000 ($95,000 for vacant land) in the metropolitan area and up to $175,000 ($80,000 for vacant land) elsewhere in NSW. The exemption phases out as property value increases. Group self-build schemes are also eligible.	123	162	147
Transfer of residences between spouses			
An exemption is granted for property conveyed between spouses or de facto partners, subject to the property being jointly held after transfer.	11	13	11
Transfers of matrimonial property consequent upon divorce			
An exemption is granted for conveyances between parties under the *Family Law Act 1975* (Cth) or partnership property under the *Property (Relationships) Act 1984.*	29	35	35
Intergenerational rural transfers			
An exemption is granted for transfers of rural land used for primary production between generations, and between siblings, to facilitate young family members taking over family farms.	8	9	8

Table B.1: Contracts and Conveyances Duty (cont)

Major Tax Expenditures	*2000-01 $m*	*2001-02 $m*	*2002-03 $m*
Property conveyed to benevolent institutions	5	9	8
Corporate reconstructions			
An exemption is given for corporate reconstructions provided certain qualifying criteria are satisfied.	562	485	432
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.	19	16	14
Property conveyed for poverty relief or education	n.a.	n.a.	n.a.
'Off the plan' purchases			
Duty may be deferred for purchases of real estate until completion of the sale or 12 months after the contract.	n.a.	n.a.	n.a.

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 chose to pay the remaining instalments as a lump sum.

- 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 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*, not connected with a trading undertaking;
- 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 DUTY

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 5 percent of premium paid for contracts or renewals that take effect on or after 1 August 2002; 10 percent of premium paid for contracts or renewals that took effect between 1 October 2000 and 31 July 2002; and 11.5 percent for contracts that took effect before 1 October 2000.

Table B.2: General Insurance Duty

Major Tax Expenditures	*2000-01 $m*	*2001-02 $m*	*2002-03 $m*
Concessional rates for motor vehicle, aviation, disability income, occupational indemnity, crop and livestock			
Before 1 August 2002, a concessional rate of 5 percent applies to certain 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.	138	149	27
Exemption for third party motor vehicle personal injury insurance as per the *Motor Vehicle Act 1988*			
Third party motor vehicle personal injury insurance (the ‘green slip’) is exempt from stamp duty.	147	165	107

Table B.2: General Insurance Duty (cont)

Major Tax Expenditures	*2000-01 $m*	*2001-02 $m*	*2002-03 $m*
Marine and cargo insurance			
Exemption for marine insurance covering hulls of commercial ships and the cargo carried by land, sea or by air.	11	12	8
Exemption for Workcover premiums	206	206	127
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 DUTY

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 or part thereof where the sum assured is greater than $2,000.

Table B.3: Life Insurance Duty

Major Tax Expenditures	*2000-01 $m*	*2001-02 $m*	*2002-03 $m*
Superannuation			
An exemption is granted to all superannuation other than that offered by life companies to an individual.	44	48	52
Annuities			
An exemption is provided to annuities.	11	12	13

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 per $1,000 or part thereof on the excess.

Table B.4: Mortgage Duty

Major Tax Expenditures	*2000-01 $m*	*2001-02 $m*	*2002-03 $m*
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.	39	50	63
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.	8	10	9
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	1	1
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.

Table B.4 Mortgage Duty (cont)

Major Tax Expenditures	*2000-01 $m*	*2001-02 $m*	*2002-03 $m*
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.
Consumer credit contract			
Mortgages securing amounts under a consumer credit contract, where the amount financed is $35,000 or less are exempt from duty.	n.a.	n.a.	n.a.
Mortgage-backed securities			
An instrument executed for the purpose of creating, issuing or marketing mortgage-backed securities are exempt from duty.	n.a.	n.a.	n.a.

Minor Tax Expenditures (< $1 million)

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;
- 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 mortgage made or given to the WorkCover Authority;
- mortgages given by a council or county council under the *Local Government Act 1993*;
- mortgages given by institutions for the relief of poverty and promotion of education;

- mortgages 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;

- mortgages given by tenants of the Department of Housing, the Aboriginal Housing Office or from the Community Housing Program who, in purchasing 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;

- mortgages 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;

- mortgages by clearing houses of the Sydney Futures Exchange and Australian Options Market that do not secure an advance.

MARKETABLE SECURITIES DUTY

For 2000-01, the benchmark is defined as the turnover (sale price *x* 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 was abolished as part of national tax reform.

Table B.5: Marketable Securities Duty

Major Tax Expenditures	*2000-01 $m*	*2001-02 $m*	*2002-03 $m*
Principal trading			
A concessional rate of duty of 0.25 cents per $100 or part thereof applies to traders trading on their own behalf.	367	7	…
Papua New Guinea and New Zealand companies			
A 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.	6	<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; and
- certain transfers of shares by superannuation funds to a Pooled Superannuation Fund.

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 for vehicles valued to $45,000 and $1,350 plus $5 per $100 or part thereof for passenger vehicles valued above $45,000.

Table B.6: Motor Vehicle Registration Duty

Major Tax Expenditures	*2000-01 $m*	*2001-02 $m*	*2002-03 $m*
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	6	6
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	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 the estate.	3	3	3
New demonstrator motor vehicle			
An exemption is granted for the registration of a motor vehicle to a licensed motor dealer or wholesaler under the *Motor Dealers Act 1974 (NSW).*	41	44	47
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, 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.	4	4	4

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

Financial institutions duty (FID) was abolished from 1 July 2001 as part of national tax reform. For 2000-01 and 2001-02, when some revenue was received related to transactions that occurred before FID was abolished, 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 was 0.06 percent, subject to a cap of $1,200 per transaction.

Table B.7: Financial Institutions Duty

Major Tax Expenditures	*2000-01 $m*	*2001-02 $m*	*2002-03 $m*
Non business activities of government departments			
Departments of Commonwealth, State and Territory and Local Governments, other than those whose sole or principal function is to carry on an activity in the nature of a business, are exempt.	25-50	2-4	…
Direct crediting of social security and veteran affairs pensions			
The direct crediting of pensions from the Department of Social Security and the Department of Veteran Affairs are exempt.	11	…	…
Charitable, educational and religious bodies are exempt	3	…	…
Public and non-profit hospitals are exempt	5	…	…
Offshore Banking Units			
An exemption is provided in relation to offshore banking activity within the meaning of Section 121D of the *Income Tax Assessment Act 1936 (Cth)*.	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.

HIRE OF GOODS DUTY

The benchmark for 2000-01 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. From 1 July 2001, the monthly duty free threshold for the hire of ordinary goods was increased to $14,000. 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.

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;
- 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

For 2000-01, the benchmark is defined as any lease of real property and franchise agreements with a total rental cost greater than $3,000 a year in New South Wales. From 1 July 2001, the threshold was increased to $20,000 a year, and franchise agreements were excluded from the duty base. (The exclusion of franchise agreements has been taken as a redefinition of the tax base, rather than the addition of a new tax expenditure.) The benchmark tax rate is 35 cents per $100 of total rent.

Table B.8: Lease Duty

Major Tax Expenditures	*2000-01 $m*	*2001-02 $m*	*2002-03 $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.	6	0	0

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, 6.2 percent from 1 January 2001 to 30 June 2002 and 6 percent from 1 July 2002. From 1 July 2002, payroll tax concessions relating to fringe benefits and certain termination payments will be removed.

Table B.9: Payroll Tax

Major Tax Expenditures	*2000-01 $m*	*2001-02 $m*	*2002-03 $m*
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.	286	296	306
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.	61	65	69
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.	7	8	8
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.	22	23	24
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.	102	106	110

Table B.9: Payroll Tax (cont)

Major Tax Expenditures	*2000-01 $m*	*2001-02 $m*	*2002-03 $m*
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.	10	10	10
Home Care Service			
From July 1998 an exemption has been provided for the salaries paid to employees of the Home Care Service.	9	9	9
Apprentices			
From 1 July 2002, wages paid to apprentices are exempt from payroll tax. Before that, an exemption was provided for employees under the group apprenticeship scheme or a group traineeship scheme approved by the Department of Industrial Relations; and employers of apprentices were 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.	6	6	15
Certain Termination Payments			
Termination payments made in relation to leave accrued prior to 1 January 1990 are exempt from payroll tax.	<5	<5	<5
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.	85	85	7
Redundancy payments			
Redundancy payments that do not represent accrued benefits, lump sum superannuation and ex-gratia payments are not subject to payroll tax.	32	32	3

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 Project 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 a 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.

Table B.10: Land Tax

Major Tax Expenditures	*2000-01 $m*	*2001-02 $m*	*2002-03 $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.	3	3	3
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.	229	245	250
State-owned corporations and public trading enterprises			
Certain public trading enterprises are exempt from land tax.	50	58	61
Racing clubs			
An exemption is granted for land owned by or held in trust for any club for promoting or controlling horse racing, trotting or greyhound racing which is used primarily for the purposes of the meetings of the above.	4	4	5
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.	2	2	2
Cooperatives			
An exemption is granted for land owned by a co-operative whose objectives are listed under the *Co-operatives Act 1992 (NSW)* and whose objectives are listed in Section 7 of that Act.	6	6	6
Public cemeteries and crematoriums			
An exemption is granted for any land used as a public cemetery or crematorium.	7	8	8
Retirement villages			
An exemption is given for land owned and used by retirement villages.	53	56	58

Table B.10: Land Tax (cont)

Major Tax Expenditures	*2000-01 $m*	*2001-02 $m*	*2002-03 $m*
Child care centres			
An exemption is granted for land used as a residential child care centre licensed under the *Children (Care and Protection) Act 1987 (NSW)* or a school registered under the *Education Reform Act 1900 (NSW).*	2	2	2
Public hospitals and Area Health Services			
An exemption is granted for land used by a public hospital (including nursing homes) or Area Health Service.	11	12	13
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.	6	7	8
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 *Friendly Societies Act 1989 (NSW).*	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.
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.

Table B.10: Land Tax (cont)

Major Tax Expenditures	*2000-01 $m*	*2001-02 $m*	*2002-03 $m*
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;
- Marketing and Pastures Protection Boards;
- Aboriginal Land Councils;
- new rental residential accommodation for five years;
- victims of fire, storm, earthquakes, accidents or malicious damage;
- community land development;
- unoccupied flood-liable 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

Debits tax was abolished in New South Wales from 1 January 2002. For 2000-01 and 2001-02, the benchmark is defined as all accounts with cheque drawing facilities. The benchmark rate of tax varies from 30 cents to $4.00 depending on the value of the debit.

Table B.11: Debits Tax

Major Tax Expenditures	*2000-01 $m*	*2001-02 $m*	*2002-03 $m*
Non-business activities of government departments			
The non-business activities of departments of Commonwealth, State and Territory and Local Governments are exempt.	10-20	6-12	…
Public benevolent and religious bodies			
Debits from cheque linked accounts of public, religious and non-profit organisations having as one of their objects a charitable, benevolent, philanthropic or patriotic purpose are exempt.	2-4	1-2	…
Schools, colleges and non-profit making universities			
Debits from the cheque linked accounts of schools, colleges and non-profit universities are exempt.	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

Major Tax Expenditures	*2000-01 $m*	*2001-02 $m*	*2002-03 $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. Those pensioners must use the vehicle substantially for non-business purposes.	96	101	106
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	17	18
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 *Local Government Act 1993* 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.	5	5	5

Table B.12: Vehicle Weight Tax (cont)

Major Tax Expenditures	*2000-01 $m*	*2001-02 $m*	*2002-03 $m*
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	1	2
General purpose plant			
Concessions are provided for machines that cannot carry any load other than tools and accessories necessary for the operation of the vehicle.	5	5	5

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 that 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 2001-02 were $36 for a one-year licence, $87 for a three-year licence and $117 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

Major Tax Expenditures	*2000-01 $m*	*2001-02 $m*	*2002-03 $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.	23	17	15

VEHICLE TRANSFER FEES

The benchmark is considered to be all transfers of previously registered vehicles. From 1 July 2000 the benchmark rate is $21 for individuals and motor dealers.

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; and
- 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 2001-02 was $43 for most motor vehicles, $155 for trucks with a mass of 5 tonnes or more and $267 for articulated trucks.

Table B.14: Motor Vehicle Registration Fees

Major Tax Expenditures	*2000-01 $m*	*2001-02 $m*	*2002-03 $m*
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.	25	26	28

Minor Tax Expenditures (< $1 million)

- Exemption for Mobile Disability Conveyance.

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, which vary from 5.91 percent to 30.91 percent (annual rates) depending on the level of annual profits from gaming machines.

The benchmark for totalisators is a tax rate of 19.11 percent of player loss.

Table B.15: Gambling and Betting Taxes

Major Tax Expenditures	*2000-01 $m*	*2001-02 $m*	*2002-03 $m*
Club gaming machines			
Poker machines installed in clubs registered under the *Registered Clubs Act 1976* are taxed at lower rates than poker machines installed in hotels.	441	421	446

Minor Tax Expenditures (< $1 million)

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

PARKING SPACE LEVY

The benchmark levy is defined as $800 per off-street, non-residential parking space in the Sydney, North Sydney and Milsons Point business districts, and $400 per space in the business areas of Chatswood, Parramatta, St Leonards and Bondi Junction.

Table B.16: Parking Space Levy

Major Tax Expenditures	*2000-01 $m*	*2001-02 $m*	*2002-03 $m*
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.	7	6	6
Exempt parking spaces in Chatswood, Parramatta, St Leonards and Bondi Junction.			
Parking spaces for customers attached to retail outlets, hotels, motels, clubs, restaurants and medical centres are exempt from the $400 per space levy.	1	1	1

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.17: Education

Major Concessions	*2000-01 $m*	*2001-02 $m*	*2002-03 $m*
TAFE concession for needy students			
Fees for TAFE courses are waived for students considered to be in need of financial assistance.	27	30	31
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.)	58	58	61

Table B.18: Health

Major Concessions	*2000-01 $m*	*2001-02 $m*	*2002-03 $m*
Ambulance service for pensioners			
Free transport by ambulance is provided for holders of pensioner health benefit cards.	68	76	78
Outpatient Pharmaceutical Scheme for Pensioners			
Free pharmaceuticals are provided for holders of pensioner health benefit cards.	2	2	2
Life Support Energy Rebates Scheme			
The Ministry of Energy and Utilities funds a rebate for users of certain life support systems. Administration of this program was transferred from the Department of Community Services to the Ministry from 1 January 2002. From 1 January 2002, the Ministry agreed to reimburse retailers for administering the Scheme on a monthly rather than six monthly basis. This means additional one-off expenditure will be incurred in 2001-02. In 2001-02 enhancements to the Scheme were implemented that also require additional funding from 2001-02 and beyond.	2	3	2

Table B.19: Social Security and Welfare

Major Concessions	*2000-01 $m*	*2001-02 $m*	*2002-03 $m*
Pensioner Public Transport Concession Scheme			
Pensioners and Seniors travel for less than full fare on public transport.	234	259	270
Community Transport Scheme			
Subsidises transport to address special needs caused by location, isolation, age, disability or factors relating to the time and/or cost of travel.	14	15	15
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	4	4

Table B.20: Housing and Associated Amenities

Major Concessions	*2000-01 $m*	*2001-02 $m*	*2002-03 $m*
Local council rates concession			
Local council rates are reduced by up to $250 for holders of Pensioner Concession Cards.	72	74	76
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.	62	64	66
Sydney Water Corporation Exempt Properties Concession			
Owners of properties that are used to provide non-profitable community services and amenities (principally local councils and charities) are exempt from the payment of water charges.	11	9	9
Hunter Water Corporation Water Rate Concession			
Holders of Pensioner Concession Cards receive a 50 percent discount on water rates.	8	8	8

Table B.20: Housing and Associated Amenities (cont.)

Major Concessions	*2000-01 $m*	*2001-02 $m*	*2002-03 $m*
Energy Accounts Payment Assistance scheme			
The Department of Community Services funds a rebate for consumers in crisis and financial need.	7	8	8
Pensioner Energy Subsidy Scheme			
The Ministry of Energy and Utilities funds an energy rebate for eligible pensioners. From 1 January 2002, the Ministry agreed to reimburse retailers for administering this Scheme on a monthly rather than six monthly basis. This means additional one-off expenditure will be incurred in 2001-02. The rate of the rebate was also increased from 1 January 2002.	56	92	78

Minor Concessions (< $1 million)

- Blue Mountains septic pump-out service for households not connected to the sewerage network.
- Australian Inland Energy Water Infrastructure– 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, disadvantaged 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.21: Agriculture, Forestry and Fishing

Major Concessions	*2000-01 $m*	*2001-02 $m*	*2002-03 $m*
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.	2	4	4

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[4]	
	General Government[2]	Public Trading Enterprise[3]	Budget Dependent	Non Budget Dependent
Aboriginal Affairs, Department of	•		•	
Aboriginal Housing Office	•			•
Ageing, Disability and Home Care, Department of	•		•	
Agriculture, Department of	•		•	
Art Gallery of New South Wales	•		•	
Arts, Ministry for the	•		•	
Attorney General's Department	•		•	
Australian Inland Energy Water Infrastructure		•		•
Australian Museum	•		•	
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	•		•	
Country Energy		•		•
Crime Commission, New South Wales	•		•	
Crown Land Development		•		•
Crown Land Homesites		•		•
Crown Leaseholds	•		•	

1 *Australian Bureau of Statistics*
2 *Equates to the scope of the Budget in New South Wales.*
3 *The Public Trading Enterprise or PTE sector is also referred to by the ABS as the Public Non Financial Corporations (PNFC) Sector.*
4 *Based on reliance on Consolidated Fund allocations.*

Agency/Activity	ABS[1] Category		Funding Category[4]	
	General Government[2]	Public Trading Enterprise[3]	Budget Dependent	Non Budget Dependent
Crown Property Portfolio	•			•
Crown Finance	•		•	
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	•		•	
Health Care Complaints Commission	•		•	
Health, Department of (including Area Health Services, Ambulance Service of NSW, Corrections Health Service and Westmead 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 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] *Equates to the scope of the Budget in New South Wales.*

[3] *The Public Trading Enterprise or PTE sector is also referred to by the ABS as the Public Non Financial Corporations (PNFC) Sector.*

[4] *Based on reliance on Consolidated Fund allocations.*

Agency/Activity	ABS[1] Category		Funding Category[4]	
	General Government[2]	Public Trading Enterprise[3]	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	•		•	
Liability Management Ministerial Corporation	•			•
Local Government, Department of	•		•	
Lotteries Corporation, New South Wales		•		•
Luna Park Reserve Trust	•			•
Macquarie Generation		•		•
Mineral Resources, Department of	•		•	
Motor Accidents Authority	•			•
Museum of Applied Arts and Sciences	•		•	
National Parks and Wildlife Service	•		•	
Newcastle Port Corporation		•		•
Office of the Children's Guardian	•		•	
Office of the Co-ordinator General of Rail	•		•	
Olympic Co-ordination Authority	•		•	
Ombudsman's Office	•		•	
Pacific Power		•		•
Parliamentary Counsel's Office	•		•	
Parramatta Rail Link		•		•
Parramatta Stadium Trust		•		•
Planning, Department of	•		•	
Police Integrity Commission	•		•	

[1] *Australian Bureau of Statistics*

[2] *Equates to the scope of the Budget in New South Wales.*

[3] *The Public Trading Enterprise or PTE sector is also referred to by the ABS as the Public Non Financial Corporations (PNFC) Sector.*

[4] *Based on reliance on Consolidated Fund allocations.*

Agency/Activity	ABS[1] Category		Funding Category[4]	
	General Government[2]	Public Trading Enterprise[3]	Budget Dependent	Non Budget Dependent
Police, Ministry for	•		•	
Police Service, New South Wales	•		•	
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	•			•
Resource New South Wales	•			•
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	•		•	

[1] *Australian Bureau of Statistics*

[2] *Equates to the scope of the Budget in New South Wales.*

[3] *The Public Trading Enterprise or PTE sector is also referred to by the ABS as the Public Non Financial Corporations (PNFC) Sector.*

[4] *Based on reliance on Consolidated Fund allocations.*

Agency/Activity	ABS[1] Category		Funding Category[4]	
	General Government[2]	Public Trading Enterprise[3]	Budget Dependent	Non Budget Dependent
Sydney Catchment Authority		•		•
Sydney Cricket and Sports Ground Trust		•		•
Sydney Harbour Foreshore Authority		•		•
Sydney Olympic Park Authority	•		•	
Sydney Opera House		•		•
Sydney Organising Committee for the Olympic Games		•		•
Sydney Ports Corporation		•		•
Sydney Water Corporation		•		•
Teacher Housing Authority of NSW		•		•
Tourism New South Wales	•		•	
TransGrid		•		•
Transport, Department of	•		•	
Treasury	•		•	
Waste Fund	•			•
Waste Recycling and Processing Corporation		•		•
Waterways Authority	•		•	
Wollongong Sports Ground Trust		•		•
Women, Department for	•		•	
WorkCover Authority	•			•
Workers' Compensation (Dust Diseases) Board	•			•
Zoological Parks Board of NSW		•		•

Notes:

(a) 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.

(b) 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.

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[1] *Australian Bureau of Statistics*

[2] *Equates to the scope of the Budget in New South Wales.*

[3] *The Public Trading Enterprise or PTE sector is also referred to by the ABS as the Public Non Financial Corporations (PNFC) Sector.*

[4] *Based on reliance on Consolidated Fund allocations.*

APPENDIX D: 2001-02 BUDGET - SUMMARY OF VARIATIONS

Category/Agency	Budget	Revised	Variation	Comment on Major Variations
	$m	*$m*	*$m*	
Taxation				
Stamp Duty -				
Contracts and conveyances	2,150	3,050	900	Residential property prices and sales volumes rose, primarily reflecting low interest rates.
Insurance	441	480	39	Premiums higher than expected.
Motor Vehicle registration	453	500	47	Strong sales in both the higher value and used car markets.
Mortgage Duty	226	295	69	Buoyant property market.
Other duties	244	232	(12)	Minor variations.
Payroll Tax	4,125	4,019	(106)	Compositional changes in employment.
Land Tax	965	999	34	Due to changes in notifying new taxpayers when they become liable for land tax.
Electricity Tariff Equalisation revenue	20	262	242	Impact of lower than expected prices in the National electricity market.
Other taxes	3,466	3,521	55	Minor variations.
Total, Taxation	**12,090**	**13,358**	**1,268**	
Commonwealth Grants				
First Home Owners grant (FHOG)	312	438	126	Increase represents higher than anticipated take up of offer, and the introduction of the extra $7000 offered by the Commonwealth for newly constructed homes.
Guaranteed Minimum Amount (other than FHOG)	9,115	9,211	96	Parameter changes.
Education and Training	936	1,084	148	Mainly $95 million delayed from 2000-01.
Roads	345	381	36	Increased funds for blackspots, interstate vehicle registration and Federation funds.

Category/Agency	*Budget*	*Revised*	*Variation*	*Comment on Major Variations*
	$m	*$m*	*$m*	
Supplementary FHOG	25	62	37	Increase represents higher than anticipated take up of offer, and the introduction of the extra $7000 offered by the Commonwealth for newly constructed homes.
Other	3,732	3,755	23	Minor variations.
Total Commonwealth grants	**14,465**	**14,931**	**466**	
Financial distributions	**1,148**	**1,034**	**(114)**	Mainly decreased revenue from the electricity sector, and Freight Rail Corporation.
Fines, Regulatory Fees and Other				
Traffic and Parking Fines	231	190	(41)	Mainly lower revenue from fixed digital speed cameras.
State Debt Recovery Office	71	14	(57)	Fines now recorded net of provision for doubtful debts (matching reduction in expenses)
Other	558	575	17	Minor variations.
Total Fines, Regulatory Fees and Other	**860**	**779**	**(81)**	
TOTAL STATE REVENUES	**28,563**	**30,102**	**1,539**	
Sales of Goods and Services				
Health	789	821	32	Mainly increased hospital charges.
Education and Training	173	190	17	Mainly increases in TAFE fees and fees collected from overseas students.
Roads and Traffic Authority	162	185	23	Mainly increased road tolls and plate fees.
Other	1,165	1,167	2	Minor variations.
Total Sales of Goods and Services	**2,289**	**2,363**	**74**	

Category/Agency	Budget	Revised	Variation	Comment on Major Variations
	$m	$m	$m	
Investment Income				
NSW Insurance Ministerial Corporation	170	97	(73)	Poor returns in bond and equities markets.
Other	267	260	(7)	Minor variations.
Total Investment Income	**437**	**357**	**(80)**	
Grants and Contributions				
SOCOG repayment	30	80	50	Repayment of unused contingency.
Other	265	273	8	Minor variations.
Total Grants and Contributions	**295**	**353**	**58**	
Other Operating revenue				
Transport	5	48	43	Recognition of asset previously expensed, reclassification from grants
Other	229	255	26	Minor variations.
Total Other Operating revenue	**234**	**303**	**69**	
TOTAL OPERATING REVENUES	**3,255**	**3,376**	**121**	

Category/Agency	Budget	Revised	Variation	Comment on Major Variations
	$m	$m	$m	
Expenses				
Roads and Traffic Authority	1,617	1,488	(129)	Lower depreciation on roads, and capitalisation of works originally budgeted as maintenance and road safety expenses, partially offset by increased natural disasters expenses.
Crown Transactions Entity	2,625	2,428	(197)	Lower superannuation, long service leave, grants and netting of State Debt Recovery Office fines (see revenue above).
Department of Transport	2,128	2,277	149	Additional maintenance on non-metropolitan lines, integrated ticketing project, and compensation to Transport bodies for the impact of decisions by the Independent Pricing and Regulatory Tribunal.
Department of Education and Training	6,302	6,583	281	Additional maintenance, additional per capita grants to non-government schools, additional salary costs resulting from various industial decisions, growth in TAFE, teacher supply initiatives, and other costs met from increased Commonwealth funding.
Treasury	434	599	165	Mainly higher First Home Owner Scheme grants.
NSW Insurance Ministerial Corporation	914	1,254	340	Mainly increased public liability claims, including additional medical indemnity.
Payments to other bodies	429	557	128	Increased grants to the Department of Housing.
Rural Fire Service	112	180	68	December 2001 bush fires.
Department of Health	7,322	7,389	67	Increased remuneration for visiting medical officers, works originally budgeted as capital reclassified to expenses, additional expenses funded from Commonwealth revenue and internal revenue, partially offset by reduced depreciation.
Olympic Co-ordination Authority	18	87	69	Mainly non-cash grant of Olympic facilities to local councils.
Coal Compensation Board	3	60	57	Increased compensation expense.
NSW Police Service	1,277	1,331	54	Additional parking patrol expenses, following delays in transferring the function to local councils, as well as additional funding for Police and Community Youth Clubs and police recruitment activities.
Other	7,437	7,438	1	Minor variations.
Total Expenses	**30,618**	**31,671**	**1,053**	
Net Operating Surplus	**1,200**	**1,807**	**607**	

Category/Agency	Budget	Revised	Variation	Comment on Major Variations
	$m	$m	$m	
Asset Acquisitions				
Roads and Traffic Authority	954	1,099	145	Mainly related to capitalisation of works previously classified as maintenance expenses and road safety expenses, and additional works funded by increased road tolls and other user charges.
Other	1,642	1,693	51	Minor variations.
Total Asset Acquisitions	**2,596**	**2,792**	**196**	
Depreciation				
Roads and Traffic Authority	442	312	(130)	Lower depreciation on roads.
Other	1,051	1,026	(25)	Minor variations.
Total Depreciation	**1,493**	**1,338**	**(155)**	
Asset Sales and other movements in non-financial assets				
Olympic Co-ordination Authority	35	72	37	Deferral of asset sales, and non-cash grant of olympic facilities to local councils.
Other	236	246	10	Minor variations.
Total Asset Sales and other movements in non-financial assets	**271**	**318**	**47**	
BUDGET RESULT	**368**	**670**	**302**	

APPENDIX E: RECONCILIATION OF BUDGET AND PREVIOUS FORWARD ESTIMATES OF EXPENSES FOR 2002-03

	$m
FORWARD ESTIMATE TOTAL 2002-03 EXPENSES AS SHOWN IN 2001-02 BUDGET	**31,734**
Less valuation expenses	**-131**
FORWARD ESTIMATE TOTAL 2002-03 GFS EXPENSES AS SHOWN IN 2001-02 BUDGET	**31,603**
Insurance expenses	90
Superannuation	84
Transport subsidies	77
Finance expenses	-62
Payment to Australian Tax Office for GST administration	62
Education and Training:	
♦ Information & communication technology projects	55
♦ Quality teaching initiatives	15
♦ School resourcing	15
♦ Additional Commonwealth funding	50
♦ Other	9
Health:	
♦ Visiting medical officer remuneration	30
♦ Additional user charges	26
♦ Additional Commonwealth funding	19
♦ Health service initiatives	9
♦ Rural initiatives	9
♦ Intensive care beds	9
♦ Ambulance Service of NSW	8
♦ Deafness screening for newborns	8
♦ Biotechnology	7
♦ Oral health and podiatry	7
♦ Social and Community Services Award	5
♦ Other	16
Police Service:	
♦ Base funding adjustment	20
♦ Other	28

	$m
Department of Information Technology and Management:	
♦ Forest Industry Structural Adjustment Package	26
♦ Government Radio Network	6
♦ Other	6
Department of Community Services and Department of Ageing, Disability and Home Care:	
♦ Social and Community Services Award	36
♦ Adult Training, Learning and Support program	17
Roads and Traffic Authority:	
♦ Depreciation	-130
♦ Capitalisation of items previously expensed	-87
NSW Fire Brigades	29
Rural Fire Service	17
National Parks and Wildlife Service	16
Department of Public Works and Services	26
Premier's Department	22
State Library	15
Planning NSW	15
Land and Property Information NSW	11
Department of Land and Water Conservation	10
Payments for Water and Sewerage	10
Legislature	10
Agriculture	9
State and Regional Development	9
Local Government	6
Ministry of Energy and Utilities	6
State Electoral Office (2003 State Election)	6
Other expenses	45
TOTAL EXPENSES 2002-03 BUDGET	**32,335**

APPENDIX F: GLOSSARY

ACCRUAL ACCOUNTING STATEMENTS

Consist of a Statement of Financial Performance, a Statement of Cash Flows and a Statement of Financial Position.

ADJUSTMENT FOR NET CAPITAL ACQUISITIONS

This adjustment adds the depreciation charge back into the operating result and then adjusts for the financial impact of capital expenditure and asset sales.

APPROPRIATIONS

The process by which monies are allocated by Parliament to Ministers for the purposes of funding agencies to provide goods and services to the public.

ASSETS

Are controlled and provide future economic benefits.

AVERAGE STAFFING

Represents the number of staff engaged on outputs produced by the program.

BUDGET-DEPENDENT AGENCIES

Agencies that are predominantly funded from the Consolidated Fund, rather than user charges.

BUDGET RESULT

This is the Budget Result for the current year and broadly represents the Government's capacity to reduce the State's Net Financial Liabilities.

CASH FLOWS FROM FINANCING ACTIVITIES

Shows all payments and receipts relating to changing the size or composition of an organisation's financial structure. Changes to borrowings are shown in this section.

CASH FLOWS FROM INVESTMENTS IN FINANCIAL ASSETS

Shows payments and receipts relating to financial assets.

CONSOLIDATED FUND

The main banking account of the Government. It records:

- Taxes, fines, fees collected;
- Commonwealth grants;
- Financial distributions from non-General Government agencies; and
- Recurrent and capital appropriations to agencies.

EQUIVALENT FULL-TIME (EFT)

Standard measure of staffing which measures an agency's labour force in terms of an equivalent number of full-time positions.

EXPENSES - EMPLOYEE RELATED

Expenses include salaries and wages and employee entitlements such as superannuation and long service leave.

EXPENSES - OPERATING, DEPRECIATION AND GRANTS

Includes all other operating expenses, maintenance of fixed assets, interest, depreciation and other expenses. Does not include expenditure on the purchase of assets.

GENERAL GOVERNMENT DEBT ELIMINATION ACT 1995

The Act contains a number of provisions dealing with the coverage of the Budget and the standards to be used in presenting Budget data. Sets targets over time for the sound financial management of the State.

GENERAL GOVERNMENT NON BUDGET-DEPENDENT AGENCIES

Agencies that do not rely on the Consolidated Fund for ongoing financial support, but which are not commercial agencies.

GENERAL GOVERNMENT SECTOR

Consists of those public sector entities, which provide, in the main, goods and services outside the market mechanism as well as providing for the transfer of income for public policy purposes, in accordance with ABS definitions.

GFS CASH SURPLUS/(DEFICIT)

Measures the direct financial impact of Government activity on the economy. In simple terms the surplus/(deficit) is equal to the net cash flows from operating activities and investing in non-financial assets.

GOVERNMENT FINANCE STATISTICS (GFS)

A system developed by the International Monetary Fund and used by the Australian Bureau of Statistics to classify the financial transactions of governments and measure their impact on the rest of the economy.

LIABILITIES

Are amounts owed to other parties. They are, by their nature, financial, and include debt obligations, unfunded superannuation, other employee entitlements and amounts payable to suppliers.

NET CASH FLOWS FROM OPERATING ACTIVITIES

Shows all payments and receipts relating to normal business operations. Please note that payments and receipts are not the same as accrued expenses and revenue because the receipt or payment may relate to transactions, which occur in the previous or in the next financial year.

NET COST OF SERVICES

Measures the net cost of providing Government services. It equals Operating Expenses less Operating Revenues, and excludes State Revenues.

NET DEBT

Is broadly equal to gross borrowings less cash and investments.

NET FINANCIAL LIABILITIES

Is broader in concept than Net Debt and best represents the financial position of the Government. It includes all liabilities (such as unfunded superannuation and insurance liabilities) less all financial assets (with the exception of the Government's equity in the PTE/PFE sectors).

NET INCREASE/(DECREASE) IN CASH HELD

Shows the net result of all cash receipts and payments for the current financial year.

NET WORTH

Represents total assets less total liabilities.

OPERATING REVENUES

Includes revenue earned in the period, even if not yet received. Includes revenues from sale of goods and services, investment income and grants at individual agency level.

OPERATING STATEMENT/STATEMENT OF FINANCIAL PERFORMANCE

Details the major categories of expenses and revenues of agencies and includes non-cash items such as depreciation and accruing superannuation entitlements. Also, the Statement reflects movements in accrued items such as accounts receivable and accounts payable.

OPERATING SURPLUS

This is the accounting result for the current financial year, which corresponds to profit or loss in private sector reports. It equals State Revenues less the Net Cost of Services. The surplus includes all abnormal transactions.

OUTCOMES

The results for the community, which the Government is seeking to influence.

OUTPUTS

Goods and services provided by agencies to assist in the achievement of the Government's desired outcomes.

PROGRAM DESCRIPTION

Explains the activities, which are grouped together within each program of an agency.

PROGRAM OBJECTIVES

Statements about the broad aims of the program.

PROGRAM STATEMENTS

Each program statement includes narrative material - program objectives and program description - as well as staffing and detailed financial information.

PUBLIC FINANCIAL ENTERPRISE (PFE)

Agencies which have one, or more, of the following functions:

- that of a central bank;
- the acceptance of demand, time or savings deposits; or
- the authority to incur liabilities and acquire financial assets in the market of their own account.

PUBLIC TRADING ENTERPRISE (PTE)

Agencies which charge for services provided and hence have a broadly commercial orientation.

SOCIAL PROGRAMS

Non-commercial requirements imposed on Public Trading Enterprises by the Government.

STATE REVENUES

Includes taxes, fines and fees, financial distributions from Government businesses and Commonwealth grants.

STATEMENT OF CASH FLOWS

Contains cash inflows and outflows from the agency's main operations, together with cash flows derived from both investing and financing activities.

STATEMENT OF FINANCIAL POSITION

Shows assets, liabilities and equity and is prepared for each agency and at a consolidated sector level.

STATE OWNED CORPORATION

PTEs which have been established with a governance structure which mirrors as far as possible that of a publicly-listed company

TOTAL CASH FLOWS FROM INVESTMENTS IN NON-FINANCIAL ASSETS

Shows payments and receipts relating to the purchase or sale of non-financial assets such as land, buildings and infrastructure assets.

TOTAL EXPENSES

The total amount incurred in the provision of goods and services, regardless of whether a cash payment is made to meet the expense in the same year.

TOTAL STATE SECTOR

Comprises the General Government Sector, the Public Financial Enterprise Sector and the Public Trading Enterprise Sector (also referred to as the Public Non Financial Corporations Sector).

VALUATIONS ADJUSTMENT UNDER GFS

Revenues or expenses included in the Operating Surplus which are related to the revaluation of assets or liabilities are reversed out to derive the Budget Result, e.g. superannuation actuarial assessments.

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