



**Treasurer of New South Wales
Australia**

2001-02

Half - Yearly

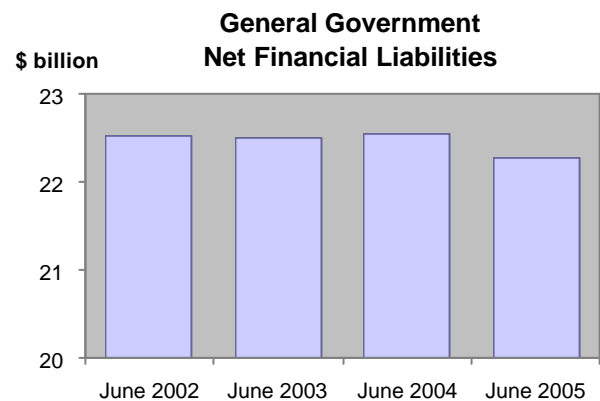
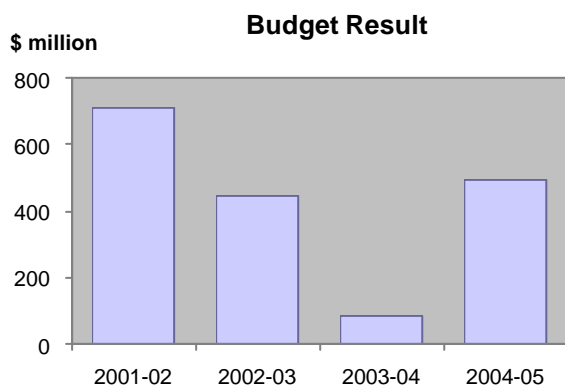
Budget Review

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EXECUTIVE SUMMARY

- The projected General Government Sector Budget result for 2001-02 is \$713 million, \$345 million above the 2001-02 Budget estimate. This is mainly due to an increase in stamp duties, reflecting the strong Sydney property market, which has been affected by the Commonwealth Government's additional \$7,000 New Home Grant and falling interest rates.
- However, the projected result is framed within an uncertain economic environment. In particular, with the New Home Grant to be phased out from 1 January, it is unlikely that contracts and conveyancing stamp duty revenues will maintain their strength.
- In addition, the Government has decided to address the concern of insurance cover in Public Hospitals. It will accept the past claims liability of all Visiting Medical Officer (VMO) specialists treating public patients in public hospitals not covered by existing reinsurance treaties, the ongoing premium charge and the cost of increased salaries for VMOs. This follows on from the Government's acceptance of \$600 million in liabilities following the collapse of HIH insurance.
- As a result, the current year projection and forward estimates must be viewed in light of the potential for greater economic risk and the requirement of the Government to respond.
- The increase in stamp duties along with additional Specific Purpose Payments and Commonwealth Grants have improved Revenue forecasts by 3.6 percent since Budget time. The increase in Commonwealth Grants was largely due to higher compensation for the costs of the First Home Owner grants scheme.
- Expenses are projected to be 2.0 percent higher than at Budget time. Additional spending will occur in the priority areas of Education, Transport, Health, Community Services and Police. Insurance costs and First Home Owners' grants have also increased. Savings will occur in depreciation, superannuation and long service leave costs, partially offsetting the increases outlined above.
- The forward estimates project Budget results for each of the following three years of \$449 million, \$82 million and \$495 million, respectively.
- As at 30 June 2002 General Government Sector net worth is projected to be \$93,483 million, \$1,291 million higher than expected at Budget time.
- NSW state final demand growth is expected to be around 3¼ percent in 2001-02, led by strong dwelling construction. Employment is expected to increase modestly, although the unemployment rate may drift slightly higher. Risks and uncertainties have increased considerably since the Budget given the steep downturn in global economic conditions.



1. STRATEGIC DIRECTION AND ENVIRONMENT

1.1 STRATEGIC PERSPECTIVE

The September quarter National Accounts released on 5 December estimated 1.1 percent GDP growth in the quarter. While this growth rate suggests the Australian economy is holding up well in the face of a weakening global economy, the Reserve Bank announced a further easing of monetary policy on the day of the National Accounts release, recognising that a rosy future for the economy is not assured. This being the case, in reviewing the outlook for NSW finances in the current year, it is necessary to recognise the possibility of a period of significant economic weakness.

In announcing the cut in interest rates on 5 December, the Governor of the Reserve Bank observed:

International economic conditions remain weak, with the US and Japanese economies in recession, growth in Europe stalled and significant contractions over the past year in a number of Australia's East Asian trading partners. On the basis of the most recent set of forecasts available, 2001 and 2002 together will record the weakest growth among the major countries since the early 1980s.

Expectations regarding domestic demand are therefore critical to the outlook for the economy, and it remains to be seen whether reasonable domestic growth can be sustained in the face of such a weak global economy.

The Reserve Bank Governor also noted the instrumental role being played by the dwelling construction sector.

The housing expansion, together with some recovery in non-dwelling construction, will continue to assist growth in the short term. But the dampening impact on other parts of the economy of global events will become increasingly clear during 2002, at a time when the housing upswing will begin to moderate.

The housing expansion has been precipitated by the boost from the Commonwealth Government's additional \$7,000 *New Home Grant* for first home purchasers. This together with other factors such as falling interest rates has buoyed the property market, boosting revenues from contracts and conveyances stamp duty. These revenues are now expected to be \$650 million above the 2001-02 Budget estimate. The projected Budget Result for 2001-02 has been revised up correspondingly.

However, the *New Home Grant* is to be phased down from 1 January, and it is inevitable that "the housing upswing will begin to moderate", as the Reserve Bank Governor noted. Therefore, it is prudent to regard the above-budget contracts and conveyances stamp duty revenues as being temporary, with an element of bring-forward in anticipation of the *New Home Grant* being cut.

This perspective should be maintained as long as the significant downside risk to the economic outlook remains. The larger surplus now estimated for 2001-02 is welcome at this time as it strengthens the State's fiscal defences against a possible economic downturn. The approach of treating the above-budget contracts and conveyances stamp duty revenues as being temporary is consistent with the Government's fiscal strategy designed to ensure that the General Government's net financial liabilities are low enough to allow service delivery to be maintained in the event of an economic downturn.

1.2 ECONOMIC OUTLOOK

The world economic outlook has weakened further since the Budget, with the United States, Japan and several ASEAN economies entering recession, further slowdown in Europe, and increased financial difficulties in Latin America. The events of September 11 further weakened already soft consumer and business sentiment. Earlier expectations of swift recovery in the US economy have been disappointed with growth now appearing unlikely to resume before mid-2002 at the earliest. In November the IMF revised its world growth projections down by 0.2 percentage points to 2.4 percent in 2001 and by 1.1 percentage points to 2.4 percent in 2002. Nonetheless world financial markets have recovered strongly since September, monetary policy in the US and elsewhere remains highly supportive, and the steep decline in the world price of oil is providing additional relief to consumer countries.

The revised forecasts for 2001-02 assume growth in Australia's major trading partners will slow from 3.4 percent in 2000-01 to less than 1 percent in 2001-02. As a consequence, net exports will detract about 1½ percentage points from national output.

The weak outlook for the global economy also will deter investment in new capacity to produce for world markets. Business investment in New South Wales is expected to decline by about 10 percent in 2001-02.

Despite the sombre international outlook, the domestic economy has performed better than anticipated since the Budget, due primarily to solid private consumption and a very strong recovery in dwelling construction. National economic output increased by 1.2 percent in the June quarter and by a further 1.1 percent in the September quarter.

Private consumption has recovered strongly over the last three quarters from the previous year's difficulties in adjusting to changed tax arrangements. The impact of September 11 and the fallout from the collapses of Ansett, HIH and other high profile corporate entities appears to have been contained. Lower interest costs to households and wealth effects from higher house prices appear to have offset the impact of higher unemployment. In New South Wales, consumption increased by 1.2 percent in March, 1.1 percent in June and 0.7 percent in September. Preliminary indications point to demand remaining robust into the December quarter.

Dwelling construction has recovered much more strongly than anticipated in the Budget. Dwelling activity in New South Wales rose by 18 percent in the September quarter (on a national accounts basis), and is expected to increase by about 15 to 20 percent over the whole of 2001-02. Activity has been boosted by the Commonwealth's additional first home owner grant and by declines in interest rates to their lowest level in four decades. Initial problems in obtaining builder warranty insurance after the collapse of HIH may have delayed some activity, but this may help smooth out the cyclical upswing, pushing more work into the second half of the financial year. But the rate of expansion in dwelling construction activity is probably close to a peak, and its contribution to the economy is likely to taper off from the latter part of 2001-02.

Total state final demand is expected to increase by about ¾ percent, in line with the Budget forecast. Recently released data (see box 1), however, implies that net international and interstate exports are likely to be considerably weaker than last year (when they were boosted by the Olympics), and this will detract from total output. Hence the forecast for gross state product growth in 2001-02 has been revised down to 2 percent from the 2¾ percent estimated in the Budget. Nevertheless, NSW employment growth in 2001-02 is expected to be close to Australia's.

Box 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. The NSW result 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. 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

(percentage points in GSP)

	New South Wales		Australia	
	99-00	00-01	99-00	00-01
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

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 5 December. Those revised estimates are not shown in this table but are relied upon elsewhere in this Review.

Employment growth has not yet responded to the recovery in dwelling sector activity, and leading indicators remain weak. NSW employment increased by 1 percent in the June quarter but was flat in September, while the ANZ job advertisements series for New South Wales recorded declines in five of the seven months ending November. While the pickup in dwelling construction should have a solid direct impact as well as indirectly across a range of other industries, employment will be constrained by weak exports and investment. Hence employment growth as a whole is likely to be around ½ percent in 2001-02, a slightly weaker outcome than anticipated in the Budget. The New South Wales unemployment rate, which has edged gradually higher during the last twelve months, is expected to average around 6½ percent in 2001-02.

Inflation is likely to average fractionally above the rates anticipated in the Budget due to recovery in private consumer demand which has provided opportunities for business to rebuild trading margins. The withdrawal of low cost competitors in a number of markets (such as insurance, aviation and telecommunications) has facilitated that process. The surge in house prices in response to first home owner subsidies and interest rate cuts will feed into consumer inflation. Lower world prices for manufactures and steep falls in petroleum prices due to the global economic downturn, however, will help contain inflationary pressures in 2001-02.

Wages also are expected to average fractionally higher in 2001-02 than anticipated in the Budget, although this upswing is unlikely to be sustained under conditions of rising unemployment.

The Reserve Bank eased cash rates by a total of 2 percentage points during 2001, in parallel with other central banks including the US (by 4.75 percentage points), Canada (by 3.5 percentage points) and the UK (by 2 percentage points). The RBA's December decision brought the cash rate to 4.25 percent, the lowest in four decades. Consistent with the Budget, little if any further adjustment is assumed to occur during 2001-02. Long bond rates have fluctuated in a wide range in response to international market uncertainties since September 11 including shifting expectations about US recovery, Argentina's default and the collapse of Enron. The revised forecasts assume that bond rates will remain fairly steady around current levels during the remainder of the financial year. TCorp bond prices should reflect solid outcomes achieved by the State budget and the reaffirmation of the State's triple-A status by the major credit rating agencies.

The risks and uncertainties described in the Budget have been increased by the tragic events of September 11 and by the slide of the US and Japanese economies into official recession. While the resilience of the Australian economy to date offers encouragement that outcomes in 2001-02 will remain fairly close to those anticipated in the Budget, much weaker outcomes may eventuate.

Table 1.1: Economic Performance and Outlook ^(a)

	<i>Actual</i>	<i>Budget</i>	<i>Revised</i>	<i>Medium</i>
	<i>2000-01</i>	<i>2001-02</i>	<i>2001-02</i>	<i>Term</i>
	<i>Outcome</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Projection</i>
New South Wales				
Gross State Product	2.7	2 ¾	2	3
State Final Demand	-1.1 ^(d)	3 ¼	3 ¼	
Employment	1.9	¾	½	1
Unemployment rate ^(b)	5.6	6 ¼	6 ½	
CPI (Sydney)	6.2	2 ¼	2 ¾	2 ½
Wages ^(c)	3.7	3 ½	3 ¾	4
Australia				
Non-farm GDP deflator	4.5	3	3	
Ten year bond rate	5.8	6	5 ½	5 ¾

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

- Notes: (a) Year average percent change, unless otherwise indicated.
 (b) Year average, percent.
 (c) Wage Cost Index, ordinary time
 (d) The ABS estimate of -1.1 percent growth in state final demand in 2000-01 is from the September quarter national accounts (ABS Cat. 5206) released on 5 December 2001. This revises the previous ABS estimate of -0.7 percent growth in state final demand in the 2000-01 Annual State Accounts (ABS Cat. 5220) released on 14 November (refer to Box 1 for a discussion of those Annual Accounts).

2. FISCAL POSITION AND OUTLOOK

2.1 INTRODUCTION

The 2001-02 Half-Yearly Budget Review reports on the current and projected financial performance of the NSW General Government Sector. The General Government Sector covers all agencies that are generally engaged in the production of goods and services outside the normal market mechanisms.

In practice, this means that entities which operate outside normal market mechanisms (eg Audit Office of New South Wales) and self funded regulatory agencies (eg the WorkCover Authority and the Motor Accidents Authority) are included, as well as agencies which receive an appropriation in the Annual Appropriation Act (eg the Department of Health and the Department of Education and Training).

The *General Government Debt Elimination Act 1995* requires the Treasurer to publicly release a statement by December each year containing:

- The latest economic projections for the current financial year and an explanation of any significant variation from the budget time projections contained in the Budget Papers; and
- Budget projections for the current financial year and an explanation of any significant variation in major aggregates from those Budget time projections.

The Half-Yearly Budget Review for 2001-02 meets this legislative requirement, incorporates the financial statements for the General Government Sector for October 2001 and meets the requirements for uniform reporting of State finances agreed to by the Loan Council.

The Review provides:

- The actual financial performance of the General Government Sector for the four months ended 31 October 2001;
- The projected results for 2001-02 compared with the May 2001 Budget estimates; and
- The latest projection of the financial performance for the three subsequent years to 2004-05.

Box 2: NOTE ON CHANGED PRESENTATION FORMAT

The budget operating statement disclosed in Table 2.1 and 2.4 is based on accrual Government Finance Statistics (GFS) guidelines in accordance with the principles utilised by the Australian Bureau of Statistics (ABS) in compiling its GFS data. This differs from the format used in the 2001-02 Budget papers, which combined accrual accounting presentations with certain disclosures under GFS.

It is considered that the new GFS format provides a better presentation of the Government's underlying financial result. However, both statements arrive at the same Budget result.

Appendix B provides a comparison of the 2001-02 Budget Operating Statement on the previous combined format.

To give a more accurate picture of underlying State finances, the cash flow statement in Table 2.3 of this review is adjusted for the impact of the prepayment of superannuation contributions in 1998-99. Under this arrangement the Government raised short-term borrowings of \$3,261 million to accelerate the payment of contributions to the defined benefit schemes. These borrowings are being repaid over the following three financial years through utilising funds that would have normally been used to meet the cost of superannuation contributions in those years.

The General Government cash flow statement in the Uniform Presentation Tables (Appendix A) does not adjust individual revenue and expenditure line items for the above factors. There is, however, an adjusted result shown to ensure consistency with Table 2.3 in Section 2.2.

The revised forward estimates, like the original estimates, are predicated on a number of assumptions. The key assumption is the continuation of current policies. Thus, the forward estimates are based on existing policies and should not be regarded as projections for the budget outcomes in future years, as these outcomes will reflect future Government policy.

For the capital works program, it is assumed in the forward estimates that the size of the discretionary program including works in progress will be constant in real terms. This means that the forward estimates contain an allowance for new works that has not yet been allocated to specific projects.

2.2 ACTUAL RESULTS FOR FOUR MONTHS ENDED 31 OCTOBER 2001 AND LATEST PROJECTED 2001-2002 BUDGET ESTIMATES

Table 2.1: General Government Sector 2001-02 Operating Statement

	12 Months to 30/06/2001 Actual \$m	12 Months to 30/06/2002 Budget \$m	12 Months to 30/06/2002 Projection \$m	Variance \$m	4 Months to 31/10/2001 Actual \$m
State Revenues					
Taxation	13,333	12,090	12,849	759	4,254
Commonwealth Grants	12,970	14,465	14,886	421	5,275
Financial Distributions	1,240	1,148	1,039	(109)	355
Fines, Regulatory Fees & Other	884	860	814	(46)	289
Total State Revenues	28,427	28,563	29,588	1,025	10,173
Operating Revenues					
Sale of Goods and Services	2,359	2,289	2,293	4	781
Investment Income	484	437	443	6	123
Grants and Contributions	338	295	349	54	170
Other	448	234	270	36	74
Total Operating Revenues	3,629	3,255	3,355	100	1,148
Expenses					
Employee Related - Superannuation	1,690	1,794	1,747	(47)	579
- Other	12,276	12,590	12,676	86	4,207
Other Operating	6,550	6,518	6,972	454	2,201
Maintenance	1,002	1,132	1,158	26	306
Depreciation and Amortisation	1,332	1,493	1,368	(125)	426
Current Grants and Subsidies	4,965	4,815	4,927	112	1,538
Capital Grants	1,547	1,399	1,513	114	439
Finance	992	877	858	(19)	291
Total Expenses	30,354	30,618	31,219	601	9,987
GFS Operating Balance	1,702	1,200	1,724	524	1,334
Less Capital Expenditure	2,536	2,596	2,689	93	723
Plus Depreciation	1,332	1,493	1,368	(125)	426
Asset Sales	214	271	310	39	35
BUDGET RESULT	712	368	713	345	1,072

BUDGET RESULT

Revenues

The projected General Government Budget Result for 2001-02 is \$713 million. This represents a change of \$345 million from the Budget estimate of \$368 million.

Taxation revenue is projected to exceed the Budget by \$759 million, primarily due to the continued buoyancy of the property market. Excluding stamp duty on contracts and conveyances and mortgages, the latest estimate of tax revenue is only \$65 million or 0.7 percent above the original Budget estimate.

The continued strength in both prices and sales volumes of residential property is due to several factors:

- Further falls in interest rates to historically very low levels;
- Investors' reaction to recent share market volatility;
- The impact of the Commonwealth's \$7,000 New Home Grant, the Commonwealth/State first home grant and the State's First Home Plus program; and
- The resilience of consumer confidence to date in the face of adverse shocks from abroad.

The impact of these factors is assumed to weaken in the second half of 2001-02, resulting in a decline in property-related stamp duty revenue.

Commonwealth Grants revenue is projected to exceed the Budget estimate by \$421 million, mainly as a result of a \$220 million increase in the Guaranteed Minimum Amount (GMA) under the Intergovernmental Agreement with the Commonwealth and a \$194 million increase in Specific Purpose Payments (SPP's).

The GMA is higher owing to higher than anticipated First Home Owner Grant spending and higher estimates of grants forgone. There is also an upward adjustment to last year's Budget Balancing Assistance grants, which will be paid this year.

The upward revision in SPP's is concentrated in Education (mainly as a result of delays by the Commonwealth in respect of amounts due in 2000-01) and Roads.

Financial distributions from the Public Trading Enterprises sector for 2001-02 are projected to be \$109 million lower than the Budget time estimate. This is due to lower than anticipated profitability in the electricity sector resulting from lower than expected electricity prices.

Fines and Regulatory Fees are projected to be \$46 million lower than the Budget time estimate due to reduced motor traffic fines.

Operating Revenues are expected to increase by \$100 million mainly as a result of SOCOG repaying \$50 million more than budgeted.

Expenses

Expenses are projected to exceed the Budget estimate by \$601 million. Additional resources have been made available to the following priority areas:

- Department of Transport expenses are projected to increase by \$164 million mainly due to additional resources allocated to freight services subsidies and maintenance on non-metropolitan rail lines.

- Department of Education and Training expenses are projected to increase by \$89 million above Budget, mainly due to the provision of an increase in the number of TAFE places. Additional resources have also been allocated to employment screening, school cleaning and the conveyance of students with disabilities.
- Health expenses are projected to increase by \$57 million above Budget, mainly as a result of the Visiting Medical Officers salary increase and reclassification of items originally budgeted as part of the capital program.
- Department of Community Services expenses are projected to increase by \$29 million, mainly due to increases in the number of children in Out-of-Home Care who require intensive services, increases in the number of children in foster care, and higher than expected demand for the new help line services.
- A cost of approximately \$18 million will be incurred as a result of the Social and Community Services Award granted by the Industrial Relations Commission. This award will increase the costs of non-government organisations that receive grants from the Budget.
- Police expenses are projected to increase by \$24 million largely to maintain operational funding at 2000-01 levels.

Grant payments under the First Home Owners scheme are expected to increase by \$91 million. These payments are offset by an equal increase in Commonwealth Grants revenue.

Insurance costs are expected to increase by \$179 million mainly due to a large increase in Public Liability claims following the introduction of the Health Care Liability Act 2001.

Expenses are also projected to rise by \$265 million in 2001-02 due to the decision by the Government to accept the past claims liability of all Visiting Medical Officer (VMO) specialists treating public patients in public hospitals not covered by existing reinsurance treaties, along with an ongoing premium.

This decision was made in response to the major insurer in this area, United Medical Protection, announcing in mid-December increases in specialist medical indemnity insurance premiums by an average of 52 percent. Acceptance of these liabilities is dependent on VMOs signing up to a risk management program designed to reduce the number of accidents in public hospitals and reduce malpractice claims.

The above increases in expenses have been offset by the calling on \$170 million from the Treasurer's Advance Account and reductions in superannuation, long service leave and finance costs. The current year superannuation expense is lower than Budget due to a post Budget actuarial review of the pooled superannuation fund.

Capital Expenditure is forecast to exceed Budget by \$93 million including \$70 million allocated to Roads (partly funded from additional Commonwealth grants). The increased level of capital expenditure is partially offset by a \$39 million increase in asset sales.

OPERATING SURPLUS

The projected GFS Operating Surplus for 2001-02 is \$1,724 million, an increase of \$524 million on the Budget time estimate. The improvement in the Operating surplus is \$179 million higher than the improvement in the Budget Result. This is explained by the \$125 million reduction in depreciation expense and the \$54 million increase in capital expenditure net of asset sales.

Table 2.2: 2001-02 Statement of Financial Position

	30-Jun-2001 Actual \$m	30-Jun-2002 Budget \$m	30-Jun-2002 Projection \$m	Variance \$m	31-Oct-2001 Actual \$m
ASSETS					
Financial Assets					
Cash and Deposits	1,035	360	1,553	1,193	1,836
Advances Paid	1,440	1,353	1,467	114	1,489
Investments, Loans and Placements	3,951	3,915	3,832	(83)	4,358
Other Non-Equity Assets	3,997	3,629	4,096	467	3,732
PTE/PFE Equity	47,397	47,750	48,281	531	47,721
Other Equity Assets	21	415	369	(46)	72
Total Financial Assets	57,841	57,422	59,598	2,176	59,208
Non-Financial Assets					
Land and Fixed Assets	65,796	65,417	66,776	1,359	66,021
Other Non-Financial Assets	846	969	957	(12)	871
Total Non-Financial Assets	66,642	66,386	67,733	1,347	66,892
TOTAL ASSETS	124,483	123,808	127,331	3,523	126,100
LIABILITIES					
Deposits Held	61	53	41	(12)	44
Advances Received	2,041	1,852	1,832	(20)	2,061
Borrowing	11,526	9,899	10,281	382	11,274
Provisions	16,422	17,472	19,119	1,647	17,255
Other Non-Equity Liabilities	2,769	2,340	2,575	235	2,495
TOTAL LIABILITIES	32,819	31,616	33,848	2,232	33,129
NET WORTH	91,664	92,192	93,483	1,291	92,971
Net Debt	7,202	6,176	5,301	(875)	
Net Debt adjusted for prepayment of superannuation	6,023	6,176	5,301	(875)	
Net Financial Liabilities*	22,375	21,944	22,531	587	

* Excludes PTE/PFE Equity

NET WORTH

Net worth provides a comprehensive picture of the General Government Sector's overall financial position. It is calculated as total assets less total liabilities.

General Government Sector net worth was \$92,971 million at 31 October 2001. The projected result for 30 June 2002 is \$93,483 million, which is \$1,291 million higher than the budgeted figure of \$92,192 million.

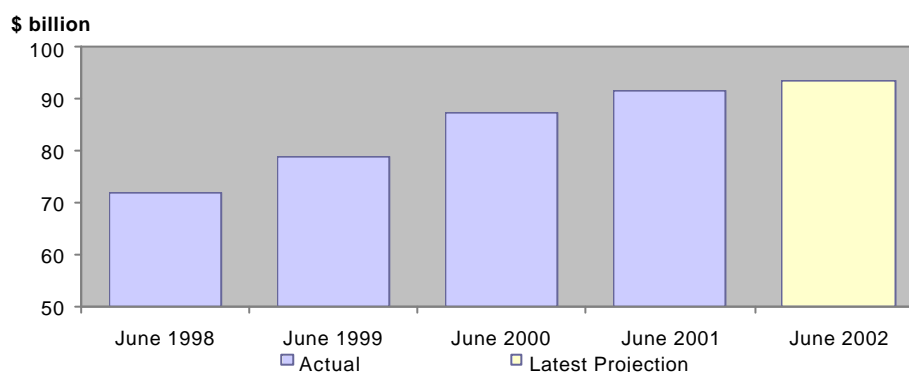
The increase of \$1,291 million is primarily due to the improvement in net worth of \$2,112 million between the 2001-02 Budget time projection in May and the actual 30 June 2001 result, and the \$524 million improvement in the operating surplus offset by the \$1,225 million increase in unfunded superannuation liabilities resulting from a lower level of investment earnings.

The 2001-02 Budget incorporated the Scheme Actuary's long term assumption that investment earnings on the defined benefit Superannuation Schemes would equate to 7 percent per annum. Having reviewed the actual experience in the first four months of this financial year, it has been determined that the projected level of unfunded Superannuation liabilities at 30 June 2002 should be recalculated on the basis that investment earnings will equal zero during 2001-02.

For indicative purposes, the average annual return for the Pooled Fund for the 3-year period to 30 June 2001 was 9.5 percent. In comparison, the return for the average growth fund manager was 8.8 percent.

The \$2,112 million improvement in net worth in 2000-01 was primarily due a \$842 million increase in the value of equity held in the Public Trading Enterprise sector, following revaluations in EnergyAustralia and Integral Energy, and a \$775 million revaluation by the Roads and Traffic Authority.

Figure 2.1: Net Worth of the General Government Sector



NET FINANCIAL LIABILITIES

Net Financial Liabilities for 2001-02 are projected to be \$587 million higher than the Budget time estimate. This is principally due to the affect of a nil investment return on superannuation assets during 2001-02 offset by the \$345 million improvement in the Budget Result.

Figure 2.2: General Government Net Financial Liabilities (NFL)

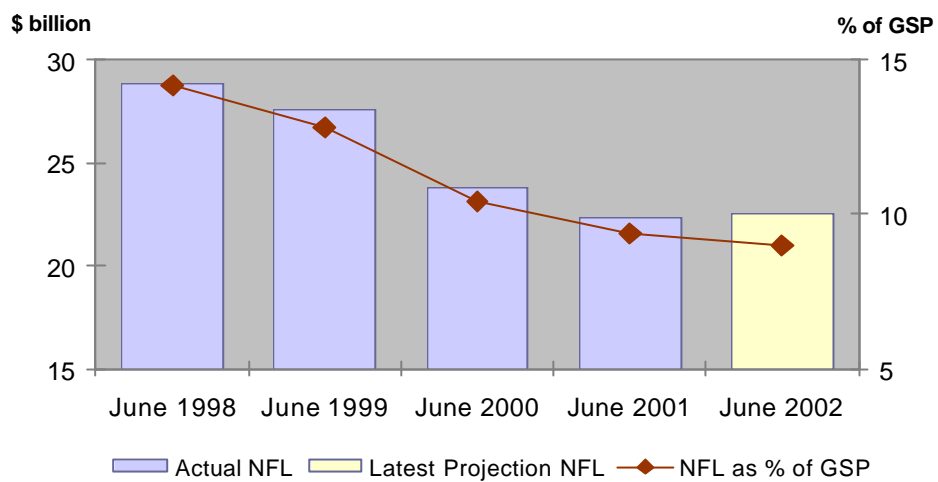


Table 2.3: 2001-02 GFS Cash Results

	12 Months to 30/06/2001 Actual \$m	12 Months to 30/06/2002 Budget \$m	12 Months to 30/06/2002 Projection \$m	Variance \$m	4 Months to 31/10/2001 Actual \$m
Cash Receipts from Operating Activities					
Taxes Received	13,202	12,095	12,832	737	4,335
Receipts from sales of goods & services	2,467	2,460	2,475	15	896
Grants/Subsidies Received	13,057	14,515	14,994	479	5,363
Other Receipts	3,920	3,117	3,539	422	1,218
Total Cash Receipts from Operating Activities	32,646	32,187	33,840	1,653	11,812
Cash Payments from Operating Activities					
Payments for goods & services*	(22,467)	(22,840)	(22,935)	(95)	(7,575)
Grants & Subsidies Paid	(4,460)	(4,854)	(5,108)	(254)	(1,594)
Interest Paid*	(952)	(829)	(834)	(5)	(223)
Other Payments	(1,601)	(975)	(1,602)	(627)	(473)
Total Cash Payments from Operating Activities	(29,480)	(29,498)	(30,479)	(981)	(9,865)
Net Cash Flows from Operating Activities	3,166	2,689	3,361	672	1,947
Cash Flows from Investments in Non-Financial Assets					
Purchases of New Non-Financial Assets	(2,544)	(2,596)	(2,689)	(93)	(723)
Sale of Non-Financial Assets	143	228	246	18	33
Total Cash Flows from Investments in Non-Financial Assets	(2,401)	(2,368)	(2,443)	(75)	(690)
Cash Flows from Investments in Financial Assets					
Financial Assets for Policy Purposes	3,213	11	134	123	149
Financial Assets for Liquidity Purposes	(354)	61	(83)	(144)	(496)
Cash Flows from Financing Activities					
Advances Received (net)	(85)	(223)	(222)	1	19
Borrowing (net)	(4,206)	(1,500)	(1,450)	50	(482)
Deposits Received (net)	(25)	(21)	(20)	1	(7)
Total Cash Flows from Financing Activities	(4,316)	(1,744)	(1,692)	52	(470)
Net Increase/(Decrease) in Cash Held	(692)	(1,351)	(723)	628	440
Net Cash from Operating Activities & Investments in Non-Financial Assets	765	321	918	597	1,257

* Adjusted for the impact of the prepayment of superannuation contributions in 1998-99.

The projected cash result for 2001-02 of \$918 million is \$597 million higher than the Budget estimate of \$321 million. This is due to the factors impacting the Budget Result, and a \$250 million movement in accruals, mainly relating to the Insurance arrangements for Visiting Medical Officers.

The projected cash result is \$205 million higher than the projected Budget Result due principally to the variation between cash and accrual figures for insurance liabilities.

2.3 FORWARD ESTIMATES 2002-03 TO 2004-05

Table 2.4: General Government Sector Operating Statement - Forward Estimates 2002-03 to 2004-05

	2001-02 Latest Projection \$m	2002-03 Estimate \$m	2003-04 Estimate \$m	2004-05 Estimate \$m
State Revenues				
Taxation	12,849	12,588	13,044	13,692
Commonwealth Grants	14,886	15,001	15,254	15,732
Financial Distributions	1,039	1,234	1,408	1,566
Fines, Regulatory Fees & Other	814	857	901	969
Total State Revenues	29,588	29,680	30,607	31,959
Operating Revenues				
Sale of Goods and Services	2,293	2,383	2,429	2,475
Investment Income	443	456	474	497
Grants and Contributions	349	267	260	258
Other	270	267	270	268
Total Operating Revenues	3,355	3,373	3,433	3,498
Expenses				
Employee Related				
- Superannuation	1,211	1,351	1,407	1,448
- Notional Superannuation Interest	536	613	644	675
- Other	12,676	13,299	13,914	14,361
Other Operating				
Maintenance	6,972	6,864	7,166	7,518
Depreciation and Amortisation	1,158	1,142	1,131	1,178
Current Grants and Subsidies	1,368	1,407	1,448	1,510
Capital Grants	4,927	4,809	4,836	4,870
Finance	1,513	1,506	1,612	1,546
Finance	858	781	753	706
Total Expenses	31,219	31,772	32,911	33,812
GFS Operating Balance	1,724	1,281	1,129	1,645
Less Capital Expenditure	2,689	2,599	2,665	2,823
Plus Depreciation	1,368	1,407	1,448	1,510
Asset Sales & Other	310	360	170	163
BUDGET RESULT	713	449	82	495
Adjusted for accruals	205	(83)	(68)	(219)
Cash GFS Surplus/(Deficit)	918	366	14	276
Net Debt	5,301	4,956	4,682	4,212
Net Financial Liabilities*	22,531	22,506	22,557	22,268

* Exclude PTE/PFE Equity

Forward Estimates

The projected GFS operating statement of the General Government Sector for the four years to 2004-05 shows a series of positive Budget results, totalling \$1,739 million over the period.

Strong Budget results are an important requirement of the Government's medium term fiscal strategy. These results will allow the State's net financial liabilities to be steadily reduced to a sustainable level. This has the dual effect of reducing the cost of servicing these liabilities (interest and superannuation expense) and allowing resources to be diverted to direct service delivery.

The Budget results are higher compared to Budget estimates for 2001-02 and 2002-03, with some deterioration in 2003-04 and 2004-05. The 2001-02 projections are fully discussed in section 2.2 of this Review. The revised results for 2002-03 onwards are driven by a number of post Budget developments, the most significant of which are:

- Higher taxation revenue forecasts largely driven by the strength of the Sydney property market;
- Higher Commonwealth grants;
- Lower than budgeted financial distributions; and
- Higher expenses in a number of agencies including the Department of Community Services, Health, Education, Transport, Corrective Services, National Parks, NSW Insurance Ministerial Corporation and WorkCover.

Table 2.5: Budget Results

	2001-02 \$m	2002-03 \$m	2003-04 \$m	2004-05 \$m
Budget Time	368	334	171	639
Half-Yearly Budget Review	713	449	82	495

GFS CASH RESULT

The General Government Sector is projected to have a surplus over all years of the forward estimates data. The GFS cash results over the forward estimates period are lower than the accrual Budget results largely because of the differential impact of superannuation and financial distributions on cash and accrual results.

NET FINANCIAL LIABILITIES

Net financial liabilities are expected to decline from \$22.5 billion in 2001-02 to \$22.3 billion in 2004-05. This reduction reflects the impact of the positive Budget results expected over the forward estimates period, offset by significant superannuation valuation adjustments.

APPENDIX A: UNIFORM PRESENTATION OF GOVERNMENT FINANCE STATISTICS

The Uniform Presentation Framework (UPF) agreed between the Commonwealth, State and Territory Governments was revised at the March 2000 Loan Council meeting to reflect the Governments' shift from cash to accrual reporting and the adoption by the Australian Bureau of Statistics of accrual based Government Finance Statistic reporting.

As part of the Framework, each jurisdiction is to publish a mid year report, ie a Half-Yearly Budget Review by the end of February each year. The financial data in this report is consistent with the Australian Bureau of Statistics (ABS) Government Finance Statistics (GFS). This UPF report is prepared on an accrual basis and includes operating statements, balance sheets and cash flow statements for NSW general government sector, public non-financial corporation sector and total non-financial public sector. In the GFS classification scheme each state public sector body is categorised into one of three sectors:

- General Government (GG), which covers all agencies that are generally engaged in the production of goods and services outside the normal market mechanisms;
- Public Non-financial Corporations (PNFC)^(a) which are largely self-funded from user charges and have been given a specific charter to run their businesses on commercial lines, including the achievement of a commercial rate of return on the resources employed (PNFCs are responsible for supplying public infrastructure services, including electricity, ports, water and public transport); and
- Public Financial Corporations (PFC)^(b) which may accept demand time or savings deposits and/or have the authority to incur liabilities and acquire financial assets in the market on their own account (an example of a PFC is NSW Treasury Corporation).

The Half-Yearly Budget Review presents revised fiscal estimates for the current Budget year and the three following years for the GG Sector. In addition, revised estimates are presented for the PNFC Sector and the Total Non-financial Public Sector (ie a consolidation of the GG Sector and the PNFC Sector). These revised estimates take into account fiscal and economic developments since the commencement of the budget year.

The Half-Yearly Budget Review also includes a revised estimate of the Loan Council Allocation (LCA).

TREATMENT OF CERTAIN COMMONWEALTH PAYMENTS

The estimates in this appendix differ from those contained in the main body of the Review because of the treatment of certain Commonwealth payments.

For certain Commonwealth payments (eg non-government schools and local government tax sharing and road funding) the State essentially acts as an agent of the Commonwealth. Despite the fact that the State has no control over these payments and is not involved in any negotiations concerning them, GFS conventions require their inclusion in the State sector.

While the inclusion of these payments does not distort the underlying financial position, the growth in expenditure in these areas can be significantly different than for the remainder of the State sector. In light of these considerations, certain Commonwealth grants classified as passing through (rather than to) the State in the Commonwealth Budget are excluded from the tables in the main body of this review.

Notes:

(a) The PNFC sector was formerly known as the Public Trading Enterprise or PTE sector.

(b) The PFC sector was formerly known as the Public Financial Enterprise or PFE sector.

PUBLIC NON-FINANCIAL CORPORATIONS SECTOR PERFORMANCE

The commercial policy framework that applies to the Public Non-financial Corporation (PNFC) sector is designed to promote the appropriate management of financial risk and shareholder value. Therefore it is to be expected that the performance of the sector in aggregate will reflect reasonable commercial outcomes, while being mindful of the constraints under which a number of New South Wales PNFCs operate.

As shown in Table A-5, the equity of the PNFC sector is expected to increase to \$48,612 million in June 2002, or \$552 million above budget. The primary reason for this is an upward revision to the valuation of some electricity infrastructure assets since the original budget was established.

The \$3.2 billion regearing of the electricity sector in 2000-01 together with a further (unbudgeted) capital repatriation of \$150 million in 2001-02 has resulted in the growth in PNFC Net Debt to a projected \$11,897 million in June 2002. This action was taken to ensure that PNFCs face the same commercial disciplines as private sector firms.

The PNFC Net Borrowing result reported in Table A-2 is projected to be \$1,121 million for 2001-02 compared to a budgeted \$806 million. The \$315 million revision reflects higher than budgeted acquisitions of non-financial assets (\$202 million) and a slightly lower than budgeted Net Operating Balance (\$113 million). The major activities resulting in the above revision are the deferral of some asset sales, the increased capital expenditure in many industry groups, particularly the electricity distributors, water, and property management entities, and lower than anticipated electricity prices reducing projected revenues.

Table A-1: NSW General Government Sector Operating Statement (ABS Basis)

	Budget	Revised	Forward Estimates		
	2001-02	2001-02	2002-03	2003-04	2004-05
	\$m	\$m	\$m	\$m	\$m
GFS Revenue					
Taxation revenue	12,091	12,849	12,588	13,044	13,691
Current grants and subsidies	15,400	15,809	15,697	15,943	16,385
Capital grants	828	899	903	910	947
Sales of goods and services	2,501	2,488	2,574	2,659	2,762
Interest income	437	443	456	474	497
Other	2,269	2,168	2,408	2,583	2,748
Total revenue	33,526	34,656	34,626	35,613	37,030
less GFS Expenses					
Gross operating expenses	23,984	24,319	25,081	26,104	27,071
Nominal superannuation interest expense	509	536	613	644	675
Other interest expenses	877	858	781	753	706
Other property expenses	...	...	...	...	...
Current transfers	5,485	5,633	5,276	5,283	5,299
Capital transfers	1,471	1,586	1,594	1,700	1,634
Total expenses	32,326	32,932	33,345	34,484	35,385
equals GFS net operating balance	1,200	1,724	1,281	1,129	1,645
less Net acquisition of non-financial assets					
Gross fixed capital formation	2,420	2,483	2,335	2,553	2,705
less Depreciation	(1,493)	(1,368)	(1,407)	(1,448)	(1,510)
plus Change in inventories	5	(2)	...	2	1
plus Other movements in non-financial assets	(100)	(102)	(96)	(60)	(46)
equals Total net acquisition of non-financial assets	832	1,011	832	1,047	1,150
equals GFS Net lending / (Borrowing)^(a)	368	713	449	82	495

Notes:

(a) Also known as Fiscal Balance.

**Table A-2: NSW Public Non-financial Corporation Sector Operating Statement
(ABS Basis)**

	<i>Budget 2001-02 \$m</i>	<i>Revised Estimate 2001-02 \$m</i>
GFS Revenue		
Sales of goods and services	9,322	9,178
Current grants and subsidies	1,079	1,160
Capital grants	661	665
Interest income	60	54
Other	907	663
Total revenue	12,029	11,720
less GFS Expenses		
Gross operating expenses	9,628	9,557
Property expenses	1,962	1,878
Current transfers	55	12
Capital transfers	13	15
Total expenses	11,658	11,462
equals GFS net operating balance	371	258
less Net acquisition of non-financial assets		
Gross fixed capital formation	2,733	2,932
less Depreciation	(1,608)	(1,583)
plus Change in inventories	40	98
plus Other movements in non-financial assets	12	(68)
equals Total net acquisition of non-financial assets	1,177	1,379
equals GFS Net lending / (Borrowing) ^(a)	(806)	(1,121)

Notes:

(a) Also known as Fiscal Balance.

Table A-3: NSW Non-financial Public Sector Operating Statement (ABS Basis)

	<i>Budget</i> 2001-02 \$m	<i>Revised</i> <i>Estimate</i> 2001-02 \$m
GFS Revenue		
Taxation revenue	11,453	12,202
Current grants and subsidies	15,325	15,626
Sales of goods and services	11,705	11,564
Capital grants	826	897
Interest income	442	442
Other	2,032	1,808
Total revenue	41,783	42,539
less GFS Expenses		
Gross operating expenses	32,849	33,129
Nominal superannuation interest expense	509	536
Property expenses	1,692	1,675
Current transfers	4,397	4,395
Capital transfers	787	895
Total expenses	40,234	40,630
equals GFS net operating balance	1,549	1,909
less Net acquisition of non-financial assets		
Gross fixed capital formation	5,153	5,433
less Depreciation	(3,101)	(2,952)
plus Change in inventories	50	96
plus Other movements in non-financial assets	(72)	(169)
equals Total net acquisition of non-financial assets	2,030	2,408
equals GFS Net lending / (Borrowing) ^(a)	(481)	(499)

Notes:

(a) Also known as Fiscal Balance.

Table A-4: NSW General Government Sector Balance Sheet (ABS Basis)

	Budget	Revised	Forward Estimates		
	June 2002	June 2002	June 2003	June 2004	June 2005
	\$m	\$m	\$m	\$m	\$m
Assets					
Financial assets					
Cash and deposits	360	1,553	1,294	876	706
Advances paid	1,353	1,467	1,383	1,310	1,270
Investments, loans and placements	3,915	3,832	4,086	4,386	4,705
Other non-equity assets	3,629	4,096	4,375	4,714	5,084
Equity	48,165	48,650	51,630	52,135	52,686
Total financial assets	57,422	59,598	62,768	63,421	64,451
Non-financial assets					
Land and fixed assets	65,417	66,776	67,761	68,870	70,076
Other non-financial assets	969	957	1,072	1,192	1,315
Total non-financial assets	66,386	67,733	68,833	70,062	71,391
Total assets	123,808	127,331	131,601	133,483	135,842
Liabilities					
Deposits held	52	41	41	32	32
Advances received	1,853	1,831	1,772	1,666	1,622
Borrowing	9,899	10,281	9,906	9,556	9,239
Superannuation liability ^(a)	8,990	10,212	10,680	11,156	11,632
Other employee entitlements and provisions	8,482	8,908	9,100	9,326	9,432
Other non-equity liabilities	2,340	2,575	2,513	2,476	2,445
Total liabilities	31,616	33,848	34,012	34,212	34,402
NET WORTH	92,192	93,483	97,589	99,271	101,440
Net Financial Worth ^(b)	25,806	25,750	28,756	29,209	30,049
Net debt ^(c)	6,176	5,301	4,956	4,682	4,212

*Notes:**(a) Comprises 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.*

**Table A-5: NSW Public Non-financial Corporation Sector Balance Sheet
(ABS Basis)**

	<i>Budget June 2002 \$m</i>	<i>Revised Estimate June 2002 \$m</i>
Assets		
Financial assets		
Cash and deposits	990	816
Investments, loans and placements	792	605
Other non-equity assets	2,083	2,480
Equity	59	117
Total financial assets	3,924	4,018
Non-financial assets		
Land and fixed assets	62,991	63,619
Other non-financial assets	358	306
Total non-financial assets	63,349	63,925
Total assets	67,273	67,943
Liabilities		
Deposits held	33	51
Advances received	1,125	1,185
Borrowing	12,446	12,082
Superannuation liability / (prepaid contributions) ^(a)	(118)	(85)
Other employee entitlements and provisions	3,608	3,757
Other non-equity liabilities	2,119	2,341
Total liabilities	19,213	19,331
Shares and other contributed capital	48,060	48,612
NET WORTH	...	...
Net financial worth ^(b)	(15,289)	(15,313)
Net debt ^(c)	11,822	11,897

Notes:

(a) Comprises 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.

Table A-6: NSW Non-financial Public Sector Balance Sheet (ABS Basis)

	<i>Budget June 2002 \$m</i>	<i>Revised Estimate June 2002 \$m</i>
Assets		
Financial assets		
Cash and deposits	1,350	2,369
Advances paid	276	282
Investments, loans and placements	4,649	4,438
Other non-equity assets	3,267	4,127
Equity	164	154
Total financial assets	9,706	11,370
Non-financial assets		
Land and fixed assets	128,408	130,395
Other non-financial assets	1,341	1,263
Total non-financial assets	129,749	131,658
Total assets	139,455	143,028
Liabilities		
Deposits held	86	92
Advances received	1,851	1,833
Borrowing	22,336	22,362
Superannuation liability ^(a)	8,872	10,127
Other employee entitlements and provisions	10,199	10,834
Other non-equity liabilities	3,919	4,297
Total liabilities	47,263	49,545
Shares and other contributed capital	...	...
NET WORTH	92,192	93,483
Net financial worth ^(b)	(37,557)	(38,175)
Net debt ^(c)	17,998	17,198

*Notes:**(a) Comprises 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.*

Table A-7: NSW General Government Sector Cash Flow Statement^(a) (ABS Basis)

CASH FLOW	Budget	Revised	Forward Estimates		
	2001-02	2001-02	2002-03	2003-04	2004-05
	\$m	\$m	\$m	\$m	\$m
Cash receipts from operating activities					
Taxes received	12,096	12,832	12,590	13,045	13,690
Receipts from sales of goods and services	2,460	2,475	2,528	2,605	2,701
Grants/subsidies received	16,228	16,706	16,601	16,853	17,332
Other receipts	3,116	3,539	3,473	3,670	3,826
Total receipts	33,900	35,552	35,192	36,173	37,549
Cash payments for operating activities					
Payment for goods and services	(21,672)	(21,764)	(23,783)	(24,802)	(25,906)
Grants and subsidies paid	(6,566)	(6,820)	(6,507)	(6,575)	(6,459)
Interest paid	(863)	(869)	(774)	(755)	(672)
Other payments	(976)	(1,602)	(1,472)	(1,490)	(1,533)
Total payments	(30,077)	(31,055)	(32,536)	(33,622)	(34,570)
Net cash flows from operating activities	3,823	4,497	2,656	2,551	2,979
Net cash flows from investments in non-financial assets					
Sales of non-financial assets	228	247	309	129	121
Purchases of non-financial assets	(2,596)	(2,692)	(2,599)	(2,666)	(2,824)
Net cash flows from investments in non-financial assets	(2,368)	(2,445)	(2,290)	(2,537)	(2,703)
Net cash flows from investments in financial assets for policy purposes	11	134	75	330	238
Net cash flows from investments in financial assets for liquidity purposes	61	83	(275)	(317)	(334)
Net cash flows from financing activities					
Advances received (net)	(223)	(222)	(51)	(104)	(43)
Borrowing (net)	(1,501)	(1,450)	(392)	(360)	(345)
Deposits received (net)	(19)	(20)	(1)	(9)	(1)
Other financing (net)	(2)	1	...	...	1
Net cash flows from financing activities	(1,745)	(1,691)	(444)	(473)	(388)
Net increase (decrease) in cash held	(218)	578	(278)	(446)	(208)
SURPLUS / (DEFICIT)					
Net cash from operating activities and investments in non-financial assets	1,455	2,052	366	14	276
Finance leases and similar arrangements	...	...	...	...	...
SURPLUS / (DEFICIT)	1,455	2,052	366	14	276
Impact of prepayment of superannuation ^(b)	(1,134)	(1,134)	...	...	...
SURPLUS / (DEFICIT) after adjusting for the prepayment of superannuation	321	918	366	14	276

Notes:

(a) A positive number denotes a cash inflow, a negative (i.e. bracketed) sign denotes a cash outflow.

(b) Adjusted for effects of a special prepayment of superannuation.

**Table A-8: NSW Public Non-financial Corporation Sector Cash Flow Statement^(a)
(ABS Basis)**

CASH FLOW	<i>Budget 2001-02 \$m</i>	<i>Revised Estimate 2001-02 \$m</i>
Cash receipts from operating activities		
Receipts from sales of goods and services	9,573	9,274
Grants/subsidies received	1,740	1,847
Other receipts	2,084	1,707
Total receipts	13,397	12,828
Cash payments for operating activities		
Payment for goods and services	(8,088)	(8,191)
Grants and subsidies paid	(42)	(7)
Interest paid	(832)	(877)
Other payments	(1,603)	(1,344)
Total payments	(10,565)	(10,419)
Net cash flows from operating activities	2,832	2,409
Net cash flows from investments in non-financial assets		
Sales of non-financial assets	230	311
Purchases of non-financial assets	(2,937)	(3,096)
Net cash flows from investments in non-financial assets	(2,707)	(2,785)
Net cash flows from investments in financial assets for policy purposes	8	72
Net cash flows from investments in financial assets for liquidity purposes	118	279
Net cash flows from financing activities		
Advances received (net)	(27)	(207)
Borrowing (net)	428	747
Deposits received (net)	1	10
Distributions Paid	(730)	(664)
Other financing (net)	...	(25)
Net cash flows from financing activities	(328)	(139)
Net increase (decrease) in cash held	(77)	(164)
SURPLUS / (DEFICIT)		
Net cash from operating activities and investments in non-financial assets	125	(376)
Distributions Paid	(730)	(664)
Finance leases and similar arrangements	...	...
SURPLUS / (DEFICIT)	(605)	(1,040)

Notes:

(a) A positive number denotes a cash inflow, a negative (i.e. bracketed) sign denotes a cash outflow.

Table A-9: NSW Non-financial Public Sector Cash Flow Statement^(a) (ABS Basis)

CASH FLOW	<i>Budget 2001-02 \$m</i>	<i>Revised Estimate 2001-02 \$m</i>
Cash receipts from operating activities		
Taxes received	11,458	12,198
Receipts from sales of goods and services	11,897	11,603
Grants/subsidies received	16,182	16,603
Other receipts	4,108	4,246
Total receipts	43,645	44,650
Cash payments for operating activities		
Payment for goods and services	(29,027)	(29,250)
Grants and subsidies paid	(4,820)	(4,879)
Interest paid	(1,641)	(1,690)
Other payments	(2,218)	(2,582)
Total payments	(37,706)	(38,401)
Net cash flows from operating activities	5,939	6,249
Net cash flows from investments in non-financial assets		
Sales of non-financial assets	442	558
Purchases of non-financial assets	(5,533)	(5,785)
Net cash flows from investments in non-financial assets	(5,091)	(5,227)
Net cash flows from investments in financial assets for policy purposes	(20)	16
Net cash flows from investments in financial assets for liquidity purposes	179	362
Net cash flows from financing activities		
Advances received (net)	(224)	(239)
Borrowing (net)	(1,059)	(703)
Deposits received (net)	(18)	(10)
Distributions Paid	...	...
Other financing (net)	(13)	(36)
Net cash flows from financing activities	(1,314)	(988)
Net increase (decrease) in cash held	(307)	412
SURPLUS / (DEFICIT)		
Net cash from operating activities and investments in non-financial assets	848	1,022
Distributions Paid	...	...
Finance leases and similar arrangements	...	...
SURPLUS / (DEFICIT)	848	1,022
Impact of prepayment of superannuation ^(b)	(1,134)	(1,134)
SURPLUS / (DEFICIT) after adjusting for the prepayment of superannuation	(286)	(112)

Notes:

(a) A positive number denotes a cash inflow, a negative (i.e. bracketed) sign denotes a cash outflow.

(b) Adjusted for effects of a special prepayment of superannuation.

LOAN COUNCIL REPORTING REQUIREMENTS

Table A-10 presents the Budget time estimates of the State's Loan Council Allocation (LCA) for 2001-02 and a revised estimate taking into account fiscal and economic developments since the commencement of the budget year.

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.

Overall, the negative Loan Council Allocation requirement of \$429 million for New South Wales for 2001-02 has been revised to positive \$362 million. The projected result reflects lower superannuation investment returns affecting the memorandum items, partly offset by an improved non-financial public sector cash surplus.

Table A-10: 2001-02 Loan Council Allocation Estimates

	<i>Budget-time Estimate 2001-02 \$m</i>	<i>Loan Council Revised Estimate 2001-02 \$m</i>
General government sector cash deficit / (surplus)	(1,455)	(2,052)
PNFC sector cash deficit / (surplus)	605	1,040
Non-financial public sector cash deficit / (surplus) ^(a)	(848)	(1,022)
Minus Net cash flows from investments in financial assets for policy purposes ^(b)	20	(16)
Plus Memorandum items ^(c)	399	1,400
Loan Council Allocation	(429)	362

Notes:

- (a) Does not directly equate to the sum of the General Government and PNFC cash deficits due to intersectoral transfers which are netted out.
- (b) This item is the negative of net advances paid under a cash accounting framework
- (c) Memorandum items are used to adjust the ABS deficit to include in LCAs certain transactions – such as operating leases that have many of the characteristics of public sector borrowings but do not constitute formal borrowings. They are also used, where appropriate, to deduct from the ABS deficit certain transactions that Loan Council has agreed should not be included in LCAs – for example, the funding of more than employers' emerging costs under public sector superannuation schemes, or borrowings by entities such as statutory marketing authorities.

APPENDIX B: GENERAL GOVERNMENT SECTOR OPERATING STATEMENT PREPARED IN ACCORD WITH ACCOUNTING STANDARDS AND RECONCILED TO GFS RESULTS

	12 Months to 30/06/2002 Budget \$m	12 Months to 30/06/2002 Projection \$m	Variance \$m	4 Months to 31/10/2001 Actual \$m
State Revenues				
Taxation	12,084	12,842	758	4,254
Commonwealth Grants	14,413	14,886	473	5,275
Financial Distributions	1,129	1,041	(88)	355
Fines, Regulatory Fees & Other	861	815	(46)	289
Total State Revenues	28,487	29,584	1,097	10,173
Operating Revenues				
Sale of Goods and Services	2,323	2,178	(145)	743
Investment Income	457	443	(14)	123
Grants and Contributions	325	329	4	172
Equity Investment received	328	328	...	
Other	250	288	38	72
Total Operating Revenues	3,683	3,566	(117)	1,110
Expenses				
Employee Related				
- Superannuation	1,741	2,712	971	916
- Other	12,583	12,667	84	4,204
Other Operating	6,788	6,906	118	2,169
Maintenance	1,160	1,174	14	311
Depreciation and Amortisation	1,493	1,369	(124)	426
Current Grants and Subsidies	4,647	4,974	327	1,538
Capital Grants	1,399	1,513	114	439
Finance	885	938	53	323
Total Expenses	30,696	32,253	1,557	10,326
Gain/(Loss) on Sale of Non-Current Assets	(20)	(20)	...	(8)
Net Cost of Services	(27,033)	(28,707)	(1,674)	(9,224)
OPERATING SURPLUS	1,454	877	(577)	949
Valuation Items Adjustments under GFS	(254)	847	1,101	385
GFS Operating Balance	1,200	1,724	524	1,334
Less Capital Expenditure	2,596	2,689	93	723
Plus Depreciation	1,493	1,369	(124)	426
Asset Sales and other movements in in non-financial	271	309	38	35
BUDGET RESULT	368	713	345	1,072