



**Premier and Treasurer of New South Wales  
Australia**

**2005-06**

**Half – Yearly**

**Budget Review**

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## EXECUTIVE SUMMARY

Since 1995, the Government's fiscal strategy has been to strengthen State finances enabling a steady growth in service delivery to be maintained in the face of fluctuations in the growth in revenues. That strategy has included strengthening the State's balance sheet – focussing on reducing net financial liabilities and net debt.

General government net financial liabilities have declined from 19.2 percent of Gross State Product (GSP) (\$32.8 billion) in June 1995 to 8.1 percent of GSP (\$24.7 billion) in June 2005. General government underlying net debt has fallen from 7.1 percent of GSP (\$12.2 billion) in June 1995 to 0.8 percent (\$2.3 billion) in June 2005. Based on this performance, Standard and Poor's has recently confirmed New South Wales' AAA credit rating.

The principal factors causing the general weakening of the NSW Budget position in recent years include: a reduction in NSW' share of Commonwealth GST grants by more than \$800 million annually; termination of National Competition Policy payments by the Commonwealth Government after 2005-06 (around \$275 million); a cyclical slowing in revenue growth combined with the abolition of Vendor Duty; and decisions by the NSW Industrial Relations Commission to award wage increases above the Government's wages policy.

A strong balance sheet allows the Government to address the weakening in the NSW Budget that has occurred in the last two years, while protecting frontline services.

The general government budget result for 2005-06 is expected to be a surplus of \$21 million, which is \$282 million lower than the budget estimate of \$303 million. This change reflects:

- Revenue in 2005-06 being revised down by \$243 million, largely as a result of lower stamp duties from a greater than expected cooling of the property market and the abolition of Vendor Duty and lower GST revenue. These have been partly offset by higher payroll tax, specific purpose Commonwealth grants and investment earnings; and
- Expenditure is estimated to be around \$39 million higher than at budget time. There is increased expenditure in a range of areas including health, ageing and disabilities, drought relief and pay increases for teachers. This is partially offset by a reduction in superannuation and insurance expenses.

Looking forward, the estimated budget result on a no policy change basis is a deficit of \$533 million in 2006-07 with expenses and revenues increasing by 4.7 percent and 3.4 percent respectively. Thereafter, there is a trend improvement in the budget result with a small surplus of \$69 million projected for 2007-08 and a surplus of \$813 million expected in 2008-09.

### Projected General Government Budget Results

	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
Budget Time (June 2005)	303	481	544	965
Half-Yearly Budget Review	21	-533	69	813

The projected improvement in the budget result after 2006-07, reflects the impact of the strategies the Government is putting in place to address the weakening Budget position. The projections do not include the impact of the recent announcement concerning Snowy Mountain Hydro Limited.

The 2005-06 Budget included global savings amounting to 1 percent of agencies' controllable expenses<sup>1</sup> for 2005-06 and a further 1 percent in 2006-07, which will provide savings of \$285 million in 2005-06 and \$570 million in each of the forward years. Agency strategies to achieve these savings are being monitored through a rigorous expenditure review process.

Since the 2005-06 Budget, the Government has instituted an Audit of Government Expenditure and Assets, which will recommend a range of strategies to be implemented in the lead up to the 2006-07 Budget. In the interim, the Government has incorporated projected savings from a range of reforms already identified.

The Government will reduce expenditure by a further \$300 million in 2007-08 on non-essential services across Government, including achieving greater efficiency in the areas of general procurement, accommodation and recruitment. Further savings will be achieved through better coordinated procurement of information and communications technology (ICT), better management of property assets and constraining the cost of future wage agreements beyond the current round of negotiations to maintenance in real terms.

There will be a temporary weakening of the balance sheet to accommodate the implementation of these savings strategies with net financial liabilities increasing over the next few years but continuing its decline as a share of GSP. Since the Budget, projected net financial liabilities have also been revised upwards due to the impact of lower interest rates on the valuation of superannuation liabilities.

### Projected General Government Net Financial Liabilities

	30 June			
	2006	2007	2008	2009
2005-06 Budget				
- \$m	27,187	27,834	28,457	28,859
- % of GSP	8.4	8.2	7.9	7.6
Mid Year Review				
- \$m	28,461	29,606	31,051	31,736
- % of GSP	8.8	8.7	8.6	8.3

Similarly, underlying net debt is expected to increase over the next few years. The increase in net debt will be used to fund record infrastructure spending.

### Projected General Government Underlying Net Debt

	30 June			
	2006	2007	2008	2009
2005-06 Budget				
- \$m	3,691	3,732	3,675	3,449
- % of GSP	1.1	1.1	1.0	0.9
Mid Year Review				
- \$m	3,873	5,080	5,942	5,887
- % of GSP	1.2	1.5	1.6	1.5

<sup>1</sup> Excludes finance costs and other non-discretionary expenditures.

### Projected General Government Capital Expenditure

	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
2005-06 Budget	3,825	3,950	3,971	4,062
Mid Year Review	3,938	4,212	4,278	4,055

The Government will announce further measures arising out of the final Audit report to enable it to achieve its fiscal targets set out in the *Fiscal Responsibility Act*. These targets include achieving a net financial liabilities to GSP ratio of 7.5 percent by June 2010.

# 1. STRATEGIC DIRECTION AND ENVIRONMENT

## 1.1 STRATEGIC PERSPECTIVE

The Government has operated a medium-term fiscal strategy since 1995. The strategy is to strengthen the State's finances so that steady growth in service delivery can be maintained in the face of fluctuations in revenue growth. That has involved strengthening the State's balance sheet – focussing on total state and general government net debt and net financial liabilities; controlling growth in expenses; and maintaining a tax regime that is conducive to business investment, enabling New South Wales to be competitive with other states and territories.

The fiscal strategy was updated in 2005 with the introduction of the *Fiscal Responsibility Act 2005*. The new legislation, introduced with the 2005-06 Budget, retains many of the key features of the *General Government Debt Elimination Act 1995*, which underpinned the Government's fiscal strategy over the past decade. It contains both medium and long-term fiscal targets aimed at controlling the level of general government liabilities, and a range of fiscal principles to address specific goals such as constraining growth in expenses and ensuring prudent risk management.

The fiscal targets are designed to consolidate the gains that have been made in strengthening the balance sheet since 1995. General government net financial liabilities have declined from 19.2 percent of GSP (\$32.8 billion) in June 1995 to 8.1 percent of GSP (\$24.7 billion) in June 2005. General government underlying net debt has fallen from 7.1 percent of GSP (\$12.2 billion) in June 1995 to 0.8 percent (\$2.3 billion) in June 2005.

The new targets include:

- The level of general government net financial liabilities as a share of GSP being further reduced, to 7.5 percent or less by June 2010, and to 6 percent or less by June 2015, and
- The level of general government underlying net debt being maintained as a share of GSP at or below its level as in June 2005 (0.8 percent).

Full details of the strategy, including recent performance and progress against fiscal targets and principles are contained in 2005-06 Budget Paper No.2, Chapter 1.

The NSW Budget has, however, weakened over the past two years due to a number of cyclical and structural factors: a slowing in revenue growth by around one third compared with the average of the previous 6 years; decisions by the Commonwealth Government to terminate National Competition Policy payments after 2005-06 (\$275 million); reductions in NSW share of GST revenue as recommended by the Commonwealth Grants Commission – the cumulative loss over the past 6 years exceeds \$800 million annually; and decisions by the NSW Industrial Relations Commission to award wage increases above the Government's wages policy have caused a structural deterioration in the budget.

The projected budget result for 2005-06 has deteriorated from an estimated operating surplus of \$303 million at budget time to one that is broadly in balance (surplus of \$21 million). An operating deficit of \$533 million is expected in 2006-07, but with a trend improvement thereafter. A surplus budget is projected for 2007-08, with this surplus increasing to \$813 million in 2008-09. These projections are on a no policy change basis and therefore make no allowance for the introduction by government of new programs or policies.

The change in the projected 2005-06 operating result reflects:

- Revenue in 2005-06 being revised down by \$243 million, largely as a result of lower stamp duties from a greater than expected cooling of the property market and the abolition of Vendor Duty and lower GST revenue. These have been partly offset by higher payroll tax, specific purpose Commonwealth grants and investment earnings; and
- Expenditure is estimated to be around \$39 million higher than at budget time. There is increased expenditure in a range of areas including health, ageing and disabilities, drought relief and pay increases for teachers. This is partially offset by a reduction in superannuation and insurance expenses.

The forward estimates of the budget result have been revised down as a result of ongoing effects from the abolition of Vendor Duty, pay increases awarded to teachers, and increased cost and demand pressures in health and transport.

## **MEDIUM-TERM FISCAL TARGETS**

The Government's medium-term fiscal strategy, in delivering low and sustainable levels of net debt and net financial liabilities, has put New South Wales in a position where the effects of this period of weaker revenues can be absorbed in the short term without interrupting the delivery of important services.

The State's balance sheet will weaken for a few years, with general government net debt and net financial liabilities increasing temporarily. General government net financial liabilities as a share of GSP in June 2006 are expected to be 8.8 percent, above the budget estimate of 8.4 percent, and then to decline over the forward estimates period to 8.3 percent by June 2009. General government underlying net debt is projected to increase over the next three years, from 0.8 percent of GSP in June 2005 and peaking at 1.6 percent of GSP in June 2008, before beginning to decline toward the medium-term fiscal target. The increase in underlying net debt over the next two years should be seen against a backdrop of large reductions in net debt in recent years and against the plans for large increases in Government spending on infrastructure. Capital expenditure is projected to be \$16,483 million over the four years to 2008-09, compared to \$12,935 million over the previous four years.

The 2005-06 Budget included global savings amounting to 1 percent of controllable expenses for 2005-06 and a further 1 percent in 2006-07, which will provide savings of \$285 million in 2005-06 and \$570 million in each of the forward years. The Government recognised that correcting the deterioration in the operating statement since budget time, however, required a further policy response.

Accordingly, in August 2005 the Government instituted an Audit of Government Expenditure and Assets. The Government will consider a range of agency-specific and cross-agency savings from the report of the Audit in the lead up to the 2006-07 Budget. In the interim, however, the Government has incorporated projected savings from a range of reforms into the 2005-06 Half-Yearly Budget Review. These reforms are expected to yield savings of \$460 million in 2008-09.

- The Government will reduce expenditure by a further \$300 million in 2007-08 on non-essential services across Government, including achieving greater efficiency in the areas of general procurement, accommodation and recruitment practices.
- Coordinated procurement of Government information and communications technology is also expected to save \$70 million a year in recurrent costs by 2008-09.
- Establishing a new authority to manage the NSW Government's property assets is expected to reduce costs by over \$50 million annually by 2008-09.

- Further savings will be achieved in 2008-09 by constraining the increase in wage costs in the general government sector beyond the current round of negotiations to maintenance in real terms. Increases in excess of this amount must be paid for through agency productivity savings. This will lock in the significant real wage gains made by general government sector employees since 1995. Over that thirteen year period, real wages for general government sector employees will have increased by 26 percent, whereas real wages in the NSW private sector are estimated to have increased by 18 percent.

Although the economy overall is expected to remain strong in 2005-06, there still remain a number of uncertainties and challenges for the budget outlook over the medium term:

- The share of GST revenue distributed to New South Wales as recommended by the Grants Commission, along with the size of the GST pool;
- The extent and timing of a recovery in the housing cycle; and
- Ongoing cost and demand pressures, particularly in health, disabilities and transport.

Nonetheless, in its most recent credit rating report on New South Wales issued in October 2005, Standard and Poor's noted that "*the government retains ample balance-sheet strength to withstand unexpected fiscal slippage without jeopardising its 'AAA' rating*". The Government is taking action to address the current operating performance weakness, and this will ensure that New South Wales continues to make progress towards its medium-term fiscal sustainability targets.

## 1.2 ECONOMIC OUTLOOK

As expected in the Budget, a strong global economy continues to provide positive support for national economic performance. But domestic factors, notably the aftermath of the housing boom, are restraining growth. State demand growth remains more moderate than the national average due to slow household consumption and dwelling investment, although business investment is stronger than anticipated in the Budget. Boosted by the strong second half in 2004-05, employment growth through the year to November has been slightly faster than anticipated, while the unemployment rate has been in line with forecasts. While wage pressures are a bit stronger than in May, and higher oil prices have added to global inflationary concerns, long bond rates have remained well anchored. Risks to the outlook include global oil prices, the US housing outlook, and Australian monetary policy.

**Table 1.1: Economic Performance and Outlook <sup>(a)</sup>**

	Actual 2004-05 Outcome	Budget 2005-06 Forecast	Revised 2005-06 Forecast	Medium Term Projection
<b>New South Wales</b>				
State final demand	3.5	3½	2½	
Gross state product	1.1	2¾	2	3¼
Employment	1.3	1¼	1¾	1¼
Unemployment rate (year average, percent)	5.3	5¼	5¼	
Sydney CPI	2.5	3	3	2½
Wage price index	3.5	3¾	4¼	3½
<b>Australia</b>				
Non-farm GDP deflator	4	4½	4¼	
Ten year bond rate (year average, percent)	5.4	6	5½	5¾

(a) Percent change, year average, unless otherwise indicated

## **World Economy**

The world outlook has firmed since May, and the base for global expansion has broadened. Despite severe hurricane damage and gradually tightening monetary policy, United States growth accelerated to over 4 percent in September. Consensus forecasts for China's growth have been revised above 9 percent, Japan's recovery has firmed, and Euro zone economic prospects have started to improve.

The stronger and more synchronised global economy has raised inflationary concerns. After a sharp surge in September and October, world oil prices drifted back somewhat during November, but remain far higher than at Budget time. Most countries seemed able to absorb the initial oil shock without appreciable falls in output or lifts in core inflation, but concern over possible secondary effects has increased and world monetary policies have been tightened somewhat. Financial imbalances (particularly between the United States, oil producers and Asia) remain a source of economic risk and policy friction.

## **Australian Economy**

National output growth edged higher in the year to September (although quarter-on-quarter growth was weak). National output continues to be buoyed by strong gains in Australia's terms of trade which are flowing through to higher profits, faster investment growth, and strong demand for skilled labour. Business investment is robust, but dwelling investment and net exports remain disappointingly weak.

## **New South Wales Economy**

State final demand for NSW expanded more slowly than Australia in 2004-05. Two components (household consumption and dwelling construction) accounted for the gap between state final demand growth in New South Wales (3.5 percent) and Australia (4.5 percent). These two factors seem likely to remain more of a constraint on demand in 2005-06 than anticipated in the Budget.

Consumer spending in the first half of 2005-06 has been constrained by higher petrol prices, a weak housing sector and uncertainty over future interest rates. NSW household consumption growth softened to 2.0 percent in the year to September, down from 3.7 percent a year earlier. Given recent strong wage gains and some easing in petrol prices, consumer spending may improve in the remainder of the year, but probably not enough to meet Budget expectations of 3 percent year average growth.

Dwelling construction activity has not yet stabilised as expected in the Budget. Private dwelling construction declined by 15.0 percent in the year to the September quarter, and established house prices fell by 4.7 percent in the year to September. Therefore the recovery in dwelling construction may be held over until 2006-07.

The outlook for business investment, by contrast, has strengthened since the Budget. The upswing in the global economy, along with increased domestic public infrastructure spending, high profits and stable interest rates, have provided a strong stimulus to business spending. NSW business investment increased by 21.4 percent in year to the September quarter, with construction rising by 34.9 percent and equipment investment by 18.5 percent on a year earlier.

NSW exports are making slower than expected progress, registering a modest 2.6 percent volume increase (the same as Australia) through the year to the September quarter. But prospects for agricultural exports have improved since the Budget when much of the State was gripped by drought. At end-November, ABARE lifted their estimate for the 2005-06 winter crop to a 4 percent increase on the previous year, from the 30 percent decrease they had projected as late as September.

Boosted by strong gains late in 2004-05, employment growth averaged 2.2 percent in annual terms (though it was flat on a month-on-month basis) during the first five months of 2005-06. The unemployment rate remained low in historical terms, averaging 5.2 percent from July through November. Employment growth therefore may be slightly higher than expected at Budget time for 2005-06 as a whole. The year average unemployment rate is likely to be around 5¼ percent, unchanged from the Budget.

Given tight labour market conditions during the past year, wage pressures have increased a bit more strongly than assumed in the Budget. The NSW wage price index increased by 4.2 percent in the year to September, compared to 3.4 percent a year earlier. NSW average weekly ordinary time earnings (which are affected by workforce composition changes) increased by 9.1 percent in the year to September – the strongest gain since 1989.

Inflationary pressures, while reasonably well contained at the present time, remain evident. The 2.9 percent increase in the Sydney consumer price index over the year to September 2005 was in line with budget expectations, although it brings inflation to the top of the RBA target range (of 2 to 3 percent over the cycle). High oil prices, heavy demand for construction materials and strong wage growth have affected producer prices and capital investment costs, including those in the State sector infrastructure program.

## **Interest Rates**

While the outlook for monetary policy remains finely balanced, the forecasts assume the RBA will not raise rates further in 2005-06. Although shorter-term inflationary risks have increased, the cooling dwelling sector is assumed to dampen inflationary pressures soon enough without policy intervention. At the long end, world financial markets remain surprisingly accommodative of strong global growth and large US fiscal and payments deficits, and therefore bond rates are assumed to rise only modestly.

## 2. FISCAL POSITION AND OUTLOOK

### 2.1 PROJECTED RESULTS FOR 2005-06

**Table 2.1: General Government Sector 2005-06 Operating Statement**

	2004-05 Actual \$m	2005-06		Variance \$m	4 Months to 31/10/2005 Actual \$m
		Budget \$m	Projection \$m		
<b>State Revenues</b>					
Taxation	15,330	16,269	15,804	(465)	5,134
Commonwealth Grants	16,192	16,796	16,863	67	5,659
Financial Distributions	1,600	1,906	1,893	(13)	566
Fines, Regulatory Fees & Other	1,146	1,082	1,090	8	401
<b>Total State Revenues</b>	<b>34,268</b>	<b>36,053</b>	<b>35,650</b>	<b>(403)</b>	<b>11,760</b>
<b>Operating Revenues</b>					
Sale of Goods and Services	2,803	2,851	2,827	(24)	985
Investment Income	1,047	971	1,033	62	370
Grants and Contributions	668	638	738	100	259
Other	414	347	369	22	108
<b>Total Operating Revenues</b>	<b>4,932</b>	<b>4,807</b>	<b>4,967</b>	<b>160</b>	<b>1,722</b>
<b>TOTAL REVENUES</b>	<b>39,200</b>	<b>40,860</b>	<b>40,617</b>	<b>(243)</b>	<b>13,482</b>
<b>Expenses</b>					
Employee Related					
- Superannuation	2,443	3,044	2,797	(247)	1,004
- Other	16,527	17,150	17,314	164 <sup>(1)</sup>	5,647
Other Operating	9,372	9,346	9,363	17 <sup>(1)</sup>	2,716
Depreciation and Amortisation	2,018	2,087	2,132	45	703
Current Grants and Subsidies	5,946	6,454	6,699	245	2,311
Capital Grants	1,380	1,407	1,415	8	488
Finance	819	894	876	(18)	287
Treasurer's Advance	...	175	...	(175)	80
<b>Total Expenses</b>	<b>38,505</b>	<b>40,557</b>	<b>40,596</b>	<b>39</b>	<b>13,236</b>
<b>BUDGET RESULT</b>	<b>695</b>	<b>303</b>	<b>21</b>	<b>(282)</b>	<b>246</b>
Capital expenditure	3,345	3,825	3,938	113	884

(1) Around \$180 million of RTA maintenance has been reclassified as employee related expenditure.

## BUDGET RESULT

### Revenues

Total revenue is projected to be \$40,617 million. This is \$243 million, or 0.6 percent, lower than at budget time.

There are some offsetting changes that underpin this outlook. Taxation revenue is expected to be lower (down 2.9 percent or \$465 million), largely on account of reduced transfer duty revenue partly offset by higher operating revenues (up 3.2 percent or \$160 million) and Commonwealth grants (up 0.4 percent or \$67 million). Table 2.2 provides details of the revised taxation revenue estimates.

**Table 2.2: Taxation Revenue**

	2004-05	2005-06		2006-07	2007-08	2008-09
	<i>Actual \$m</i>	<i>Budget \$m</i>	<i>Revised \$m</i>	<i>Forward Estimates \$m</i>		
<b>Stamp Duties</b>						
Purchaser Transfer Duty	2,911	3,250	3,080	3,365	3,620	3,890
Vendor Transfer Duty	371	358	107	...	...	...
Total Transfer Duty	3,282	3,608	3,187	3,365	3,620	3,890
Other Stamp Duties	1,524	1,724	1,605	1,749	1,838	1,921
<b>Payroll Tax</b>	4,837	5,114	5,147	5,560	5,896	6,264
<b>Land Tax</b>	1,646	1,633	1,658	1,679	1,767	1,857
<b>Taxes on Motor Vehicle Ownership and Operation</b>	1,272	1,325	1,329	1,394	1,465	1,539
<b>Gambling and Betting</b>	1,429	1,550	1,541	1,674	1,664	1,776
<b>Other Tax Revenues</b>	1,340	1,315	1,337	1,409	1,481	1,558
<b>Total Tax Revenue</b>	<b>15,330</b>	<b>16,269</b>	<b>15,804</b>	<b>16,830</b>	<b>17,731</b>	<b>18,805</b>

Purchaser transfer duty has been revised down due to weakness in the property market particularly in the middle of 2005. However, signs of some recovery are now evident in stronger housing finance approvals and an increase in the volume of property transactions. Stronger sales volumes will support transfer duty revenue and offset the impact of lower house prices.

The abolition of vendor transfer duty for all transactions entered into on or after 2 August 2005 is expected to result in a reduction in revenue of \$251 million from the budget estimate for 2005-06.

In 2005-06, Commonwealth grants are projected to exceed the budget estimate by \$67 million as shown in Table 2.3.

**Table 2.3: Variation in Commonwealth Grants since 2005-06 Budget**

	\$ million
<b>General Purpose Grants:</b>	
GST revenue grants	-165
Budget Balancing Assistance	+77
National Competition Policy Payments	+26
<b>Specific Purpose Payments:</b>	
Rural assistance grants	+72
Health	+28
Land Transport Development grants	+22
Other	+7
<b>Total increase (decrease) since budget</b>	<b>+67</b>

Financial distributions and fines and fees revenue are close to their 2005-06 Budget estimates.

Operating revenues are expected to be \$160 million higher than budgeted, reflecting a number of factors including the establishment of the Water and Energy Savings Funds and higher than expected returns on investments.

## Expenses

Expenses are projected to exceed the budget estimate by 0.1 percent, or \$39 million. Additional resources have been made available to the following priority areas:

- Total health expenses have risen by \$134 million in the current year. This mainly reflects the transfer of capital expenditures to recurrent expenses (\$60 million). Other factors include expenditure associated with Commonwealth immunisation program funds received late in 2004-05 and carried forward into 2005-06 and additional spending on elective surgery.
- The continuation of the drought is projected to increase expenditure by \$87 million, mostly in the Rural Assistance Authority and the Department of Primary Industries. Commonwealth grants will meet \$72 million of this additional expenditure.
- The Ministry of Transport expenses are projected to increase by \$55 million. This mainly reflects the projected additional funding requirements for the restructure of rail agencies and maintenance of restricted rail lines.
- The Government will provide the Department of Ageing, Disability and Home Care (DADHC) with a further \$41 million to address service needs and the viability of Non Government service providers.
- The settlement of the teacher's pay claim, involving an average increase of 4 percent per annum over the next three years, has cost the budget \$30 million in 2005-06, rising to \$180 million in 2008-09, in excess of 2005-06 Budget provisions.
- The total cost of NSW Police's new Death and Disability Benefits Scheme is estimated at \$28 million for 2005-06.

- Recognition of Local Utility water contributions and associated expenditure to the Country Towns Water and Sewerage Supply Scheme (\$37 million).
- Establishment of the Energy and Water Savings Funds matched by additional revenue (\$70 million).

The more significant reductions in expenditure offsetting the above increases are:

- The Crown Finance Entity is projected to reduce expenses by \$303 million, mainly as a result of lower than expected interest rates reducing superannuation expenses.
- The NSW Self Insurance Corporation is projecting \$33 million in net savings, due mainly to downward revision of outstanding claims liabilities and reduced claims paid as a result of the Government's tort reform legislation.

Some of the above increases in expenses have been offset by calling on the Treasurer's Advance to the extent of \$80 million.

## **CAPITAL EXPENDITURE**

Capital expenditure is projected to be \$113 million higher than budget mainly due to national highway upgrades within the Roads and Traffic Authority and commencement of work on the National Technology and Communications Australia building as part of the Australian Technology Park.

**Table 2.4: 2005-06 Statement of Financial Position**

	June 2005 Actual \$m	June 2006 Budget      Projection \$m          \$m		Variance \$m	31/10/2005 Actual \$m
<b>ASSETS</b>					
<b>Financial Assets</b>					
Cash and Deposits	1,477	953	1,647	694	1,714
Advances Paid	1,320	1,289	1,283	(6)	1,325
Investments, Loans and Placements	12,020	12,614	12,310	(304)	13,122
Other Non-Equity Assets	6,223	10,219	9,703	(516)	9,490
PTE/PFE Equity	67,955	62,949	62,852	(97)	63,935
Other Equity Assets	589	639	662	23	588
<b>Total Financial Assets</b>	<b>89,584</b>	<b>88,663</b>	<b>88,457</b>	<b>(206)</b>	<b>90,174</b>
<b>Non-Financial Assets</b>					
Land and Fixed Assets	84,189	82,335	86,312	3,977	84,376
Other Non-Financial Assets	1,252	1,577	1,478	(99)	1,409
<b>Total Non-Financial Assets</b>	<b>85,441</b>	<b>83,912</b>	<b>87,790</b>	<b>3,878</b>	<b>85,785</b>
<b>TOTAL ASSETS</b>	<b>175,025</b>	<b>172,575</b>	<b>176,247</b>	<b>3,672</b>	<b>175,959</b>
<b>LIABILITIES</b>					
Deposits Held	90	67	89	22	65
Advances Received	1,641	1,499	1,507	8	1,551
Borrowing	11,388	11,754	11,862	108	11,934
Provisions	29,501	35,878	36,712	834	39,314
Other Non-Equity Liabilities	3,715	3,703	3,896	193	4,212
<b>TOTAL LIABILITIES</b>	<b>46,335</b>	<b>52,901</b>	<b>54,066</b>	<b>1,165</b>	<b>57,076</b>
<b>NET WORTH</b>	<b>128,690</b>	<b>119,674</b>	<b>122,181</b>	<b>2,507</b>	<b>118,883</b>
<b>Adjusted Net Debt <sup>(a)</sup></b>	<b>2,303</b>	<b>3,691</b>	<b>3,873</b>	<b>182</b>	<b>1,781</b>
<b>Net Financial Liabilities <sup>(b)</sup></b>	<b>24,706</b>	<b>27,187</b>	<b>28,461</b>	<b>1,274</b>	<b>30,837</b>

(a) Adjusted Net Debt excludes financial assets held by the Liability Management Fund.

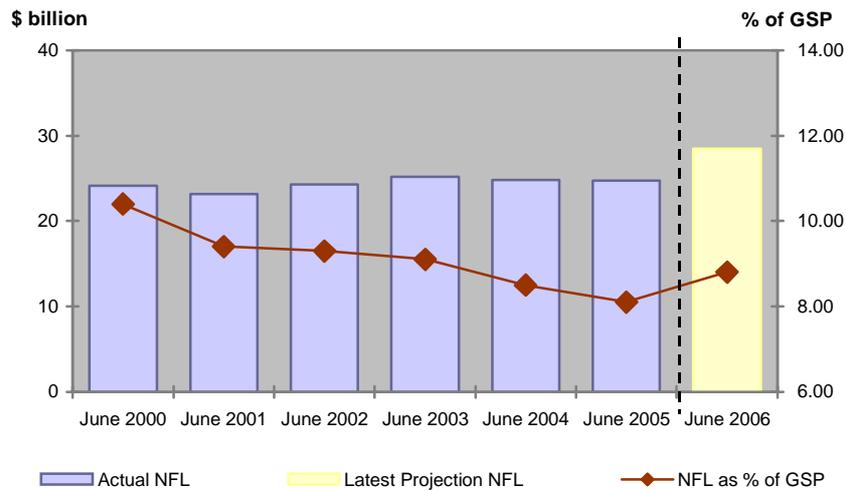
(b) Excludes PTE/PFE Equity.

## NET FINANCIAL LIABILITIES

Net financial liabilities as in June 2006 are projected to be \$1,274 million higher than the budget time estimate. This is partly due to the deterioration in the budget result but also as a result of the adoption of the *Australian Equivalents to International Financial Reporting Standards* (AEIFRS). Under AEIFRS the discount rate used in valuing the unfunded superannuation liability is based on the long term government bond rate. At the date of this review, the projected year end long term bond rate is lower than that expected at budget time, thereby increasing the liability and worsening net financial liabilities.

Further variances include lower capital repatriations and a \$20 million increase in the doubtful debts provision.

**Figure 2.1: General Government Net Financial Liabilities (NFL) <sup>(a)</sup>**



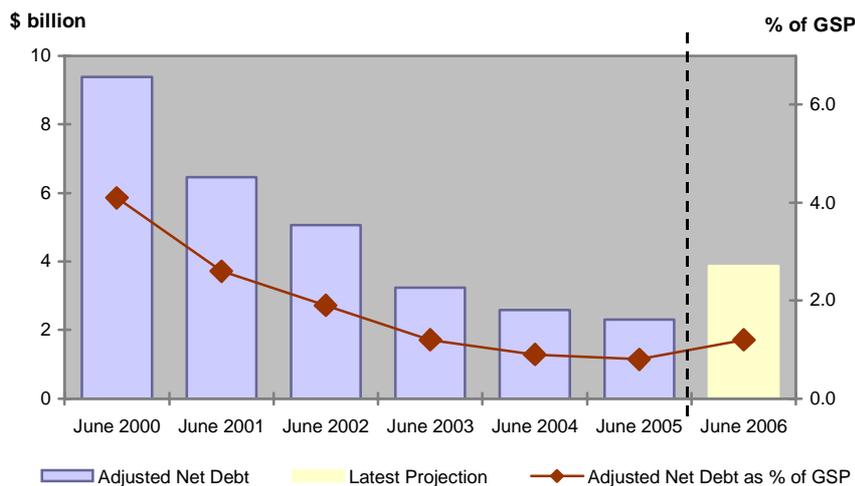
(a) Statements have been prepared assuming existing Australian Accounting Standards (AGAAP) for all years up to and including 2004-05 and AEIFRS for 2005-06 and all forward years.

## UNDERLYING NET DEBT

Underlying net debt as in June 2006 is projected to be \$182 million higher than the budget time estimate. This is largely due to lower capital repatriations and the deterioration in the budget result.

A better than expected cash result for 2004-05 of \$210 million, resulted from an unexpected build up in accrued expenses. This contributed to a reduction in underlying net debt of \$898 million, compared with the revised budget estimates. However, this favourable variation is expected to unwind during 2005-06 with the projected worsening in the cash result for 2005-06 of \$944 million.

**Figure 2.2: General Government Underlying Net Debt <sup>(a)</sup>**



(a) Statements have been prepared assuming existing Australian Accounting Standards (AGAAP) for all years up to and including 2004-05 and AEIFRS for 2005-06 and all forward years.

## NET WORTH

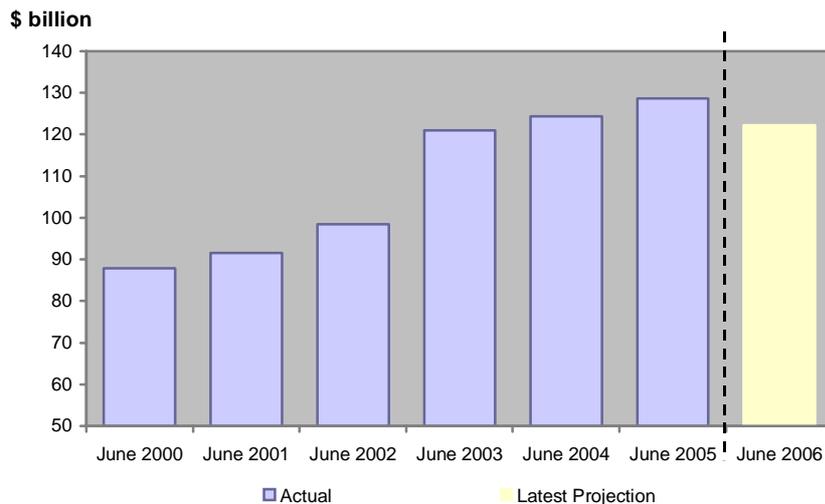
General government sector net worth is projected to be \$122,181 million as in June 2006. This is \$2,507 million higher than the budgeted figure of \$119,674 million.

The majority of the improvement in net worth occurred between the June 2005 budget time projection and the actual June 2005 result (\$3,210 million).

Assets increased from revaluations in the Public Trading Enterprise sector of \$560 million (Sydney Opera House, Ports and Water Authorities and the Electricity sector) and \$3,825 million in the general government sector (Roads and Traffic Authority, Health, State Library). These were offset by the write down of \$815 million in the Housing and Rail sectors. Further, the Sydney Olympic Park Authority (SOPA) recognised the disposal of facilities valued at \$398 million that were previously recognised as a lease to the Royal Agricultural Society. In addition, SOPA wrote back a previously recognised emerging interest in privately financed infrastructure assets (\$211 million).

Factors outlined above impacting on net financial liabilities, mainly the lower discount rate on unfunded superannuation, the deterioration in the budget result, lower capital repatriations and increase in the doubtful debts provision, also affect net worth for the same period.

**Figure 2.3: Net Worth of the General Government Sector <sup>(a)</sup>**



(a) Statements have been prepared assuming existing Australian Accounting Standards (GAAP) for all years up to and including 2004-05 and AEIFRS for 2005-06 and all forward years.

**Table 2.5: 2005-06 GFS Cash Results**

	2004-05	2005-06		Variance \$m	4 Months to
	Actual \$m	Budget \$m	Projection \$m		31/10/2005 Actual \$m
<b>Cash Receipts from Operating Activities</b>					
Taxes Received	15,041	16,245	15,813	(432)	5,184
Receipts from sales of goods & services	3,232	3,097	3,126	29	1,088
Grants/Subsidies Received	18,535	17,121	17,291	170	5,800
Other Receipts	5,611	5,181	5,664	483	1,872
<b>Total Cash Receipts from Operating Activities</b>	<b>42,419</b>	<b>41,644</b>	<b>41,894</b>	<b>250</b>	<b>13,944</b>
<b>Cash Payments from Operating Activities</b>					
Payments for goods & services	(27,011)	(28,748)	(28,510)	238	(8,902)
Grants & Subsidies Paid	(7,972)	(6,188)	(6,601)	(413)	(2,354)
Interest Paid	(778)	(1,070)	(1,036)	34	(197)
Other Payments	(2,572)	(1,978)	(2,443)	(465)	(554)
<b>Total Cash Payments from Operating Activities</b>	<b>(38,333)</b>	<b>(37,984)</b>	<b>(38,590)</b>	<b>(606)</b>	<b>(12,007)</b>
<b>Net Cash Flows from Operating Activities</b>	<b>4,086</b>	<b>3,660</b>	<b>3,304</b>	<b>(356)</b>	<b>1,937</b>
<b>Cash Flows from Investments in Non-Financial Assets</b>					
Purchases of New Non-Financial Assets	(3,026)	(3,713)	(3,944)	(231)	(972)
Sale of Non-Financial Assets	487	563	622	59	164
<b>Total Cash Flows from Investments in Non-Financial Assets</b>	<b>(2,539)</b>	<b>(3,150)</b>	<b>(3,322)</b>	<b>(172)</b>	<b>(808)</b>
<b>Cash Flows from Investments in Financial Assets</b>					
Financial Assets for Policy Purposes	129	142	75	(67)	119
Financial Assets for Liquidity Purposes	(2,380)	(836)	(280)	556	(1,229)
<b>Cash Flows from Financing Activities</b>					
Advances Received (net)	(28)	(136)	(132)	4	(96)
Borrowing (net)	415	(141)	582	723	416
Deposits Received (net)	12	...	(2)	(2)	3
Other Financing (net)	(1)	...	...	...	(16)
<b>Total Cash Flows from Financing Activities</b>	<b>398</b>	<b>(277)</b>	<b>448</b>	<b>725</b>	<b>307</b>
<b>Net Increase/(Decrease) in Cash Held</b>	<b>(306)</b>	<b>(461)</b>	<b>225</b>	<b>686</b>	<b>326</b>
<b>Net Cash from Operating Activities, Investments in Non-Financial Assets and Distributions Paid</b>					
Assets acquired under finance leases	(187)	(95)	(96)	(1)	(30)
<b>Surplus/(Deficit)</b>	<b>1,360</b>	<b>415</b>	<b>(114)</b>	<b>(529)</b>	<b>1,099</b>
<b>Impact of prepaid superannuation contributions</b>					
Liability Management Fund	(1,150)	(1,239)	(1,654)	(415)	(336)
<b>Adjusted Surplus/(Deficit)</b>	<b>210</b>	<b>(824)</b>	<b>(1,768)</b>	<b>(944)</b>	<b>763</b>

The projected underlying cash deficit for 2005-06 of \$1,768 million is a \$944 million deterioration compared with budget. This is due to the same factors impacting the operating result and the differential impact of superannuation, insurance and financial distributions on cash and accrual results.

## 2.2 FORWARD ESTIMATES 2006-07 TO 2008-09

**Table 2.6: General Government Sector Operating Statement - 2005-06 to 2008-09**

	2005-06 Latest Projection \$m	2006-07 Estimate \$m	2007-08 Estimate \$m	2008-09 Estimate \$m
<b>State Revenues</b>				
Taxation	15,804	16,830	17,731	18,805
Commonwealth Grants	16,863	17,286	18,006	18,742
Financial Distributions	1,893	1,883	1,902	2,076
Fines, Regulatory Fees & Other	1,090	1,013	1,004	1,053
<b>Total State Revenues</b>	<b>35,650</b>	<b>37,012</b>	<b>38,643</b>	<b>40,676</b>
<b>Operating Revenues</b>				
Sale of Goods and Services	2,827	2,985	3,103	3,202
Investment Income	1,033	931	766	821
Grants and Contributions	738	738	735	759
Other	369	321	347	354
<b>Total Operating Revenues</b>	<b>4,967</b>	<b>4,975</b>	<b>4,951</b>	<b>5,136</b>
<b>TOTAL REVENUES</b>	<b>40,617</b>	<b>41,987</b>	<b>43,594</b>	<b>45,812</b>
<b>Expenses</b>				
Employee Related				
- Superannuation	2,797	2,773	2,582	2,641
- Other	17,314	18,129	18,888	19,756
Other Operating	9,363	9,988	10,207	10,715
Depreciation and Amortisation	2,132	2,228	2,331	2,433
Current Grants and Subsidies	6,699	6,902	7,197	7,318
Capital Grants	1,415	1,610	1,392	1,145
Finance	876	890	928	991
<b>Total Expenses</b>	<b>40,596</b>	<b>42,520</b>	<b>43,525</b>	<b>44,999</b>
<b>BUDGET RESULT</b>	<b>21</b>	<b>(533)</b>	<b>69</b>	<b>813</b>
Capital expenditure	3,938	4,212	4,278	4,055
<b>Adjusted Cash Surplus/(Deficit) <sup>(a)</sup></b>	<b>(1,768)</b>	<b>(1,294)</b>	<b>(875)</b>	<b>(48)</b>
<b>Adjusted Net Debt <sup>(b)</sup></b>	<b>3,873</b>	<b>5,080</b>	<b>5,942</b>	<b>5,887</b>
<b>Net Financial Liabilities <sup>(c)</sup></b>	<b>28,461</b>	<b>29,606</b>	<b>31,051</b>	<b>31,736</b>

(a) The Adjusted Surplus/(Deficit) includes the cash flows associated with transfers to the Liability Management Fund.

(b) Adjusted Net Debt excludes financial assets held by the Liability Management Fund.

(c) Excludes PTE/PFE Equity.

## FORWARD ESTIMATES

The 2005-06 projections are discussed in section 2.1 of this Review. The revised results for 2006-07 onwards are driven by a number of post budget developments, the most significant of which are:

- Increased expenditure in a number of agencies including the Department of Health, the Department of Education and Training as well as Transport agencies;
- Additional structural savings;
- A return to moderate growth in the property market with minor changes to payroll tax and land tax estimates;
- The first full-year cost of abolishing vendor transfer duty;
- Lower insurance claims based on recent tort law reforms;
- Lower superannuation expense due to lower than expected interest rates; and
- Higher finance costs due to increased borrowings.

The projected budget results for the general government sector is a deficit in 2006-07 followed by a broadly balanced budget in 2007-08 and a return to surplus in 2008-09. The property market is expected to return to moderate growth rates in the forward years. However structural savings measures are in place to contain expenditure and ensure frontline services are protected.

**Table 2.7: Budget Results**

	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
Budget Time	303	481	544	965
Half-Yearly Budget Review	21	-533	69	813

## GFS CASH RESULT

The general government sector is projected to be in deficit in all years. The cash results are lower than the accrual budget results mainly because of the differential impact of superannuation, insurance and financial distributions on cash and accrual results.

## NET FINANCIAL LIABILITIES

Net financial liabilities are expected to increase from \$28.5 billion as in June 2006 to \$31.7 billion as in June 2009. However, as a proportion of GSP, net financial liabilities will decline from 8.8 percent to 8.3 percent.

## APPENDIX A: UNIFORM PRESENTATION OF GOVERNMENT FINANCE STATISTICS

A Uniform Presentation Framework (UPF) for financial aggregates has been agreed between the Commonwealth, State and Territory Governments.

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)<sup>(a)</sup> 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)<sup>(b)</sup> 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.

### 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.

The considerations influencing the management of financial liabilities of PNFCs 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 PNFCs 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 the PNFC Sector 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.

Over recent years the PNFC Sector was regeared to ensure that government commercial authorities face the same commercial discipline as the private sector.

The PNFC Operating Statement is reported in Table A-2. The 2005-06 Net Operating Balance is projected to be negative \$93 million compared to the budget of negative \$46 million. This movement of \$47 million represents a variance of less than 0.4 percent compared to budgeted total expenses.

During 2005-06 PNFCs will be investing approximately \$4.7 billion in transport, power, water and other infrastructure. This includes an investment of \$154 million for the acquisition of land and pilot plants related to the construction of a water desalination plant which was not included in the original budget. Also the energy sector is investing an additional \$58 million in new electricity generation infrastructure.

The Sector's Net Borrowing result for the year is projected to be \$2,787 million compared to the budget of \$2,389 million. This is a result of the revised Net Operating Balance and the increase in spending on infrastructure. The projected increase in Net Borrowing is also affected by changes in inventory levels. Revised projections include higher inventory levels held by Landcom due to property acquisitions that have become available as a result of current market opportunities.

The equity of the PNFC Sector, reported in Table A-5, is expected to be \$63,185 million by June 2006, which is slightly less than budget.

Table A-8 reports a projected cash deficit for the PNFC Sector of \$2,386 million compared to the budgeted deficit of \$1,964 million. This is primarily explained by the factors outlined above for the Net Borrowing result.

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

	Budget 2005-06 \$m	Revised Estimates 2005-06 \$m	Forward Estimates		
			2006-07 \$m	2007-08 \$m	2008-09 \$m
<b>GFS Revenue</b>					
Taxation revenue	16,269	15,804	16,830	17,731	18,805
Current grants and subsidies	18,379	18,477	18,850	19,646	20,378
Capital grants	1,068	1,143	1,167	1,085	1,084
Sales of goods and services	3,134	3,114	3,212	3,330	3,464
Interest income	971	1,033	931	766	821
Other	3,365	3,373	3,323	3,363	3,587
<b>Total revenue</b>	<b>43,186</b>	<b>42,944</b>	<b>44,313</b>	<b>45,921</b>	<b>48,139</b>
<b>less GFS Expenses</b>					
Employee expenses	18,762	18,940	19,813	20,624	21,519
Depreciation	2,087	2,132	2,228	2,331	2,433
Other operating expenses	10,907	10,659	11,269	11,520	12,053
Nominal superannuation interest expense	1,224	934	913	668	693
Other interest expenses	894	877	890	928	992
Other property expenses	...	...	...	...	...
Current transfers	7,523	7,888	8,045	8,311	8,413
Capital transfers	1,486	1,493	1,688	1,470	1,223
<b>Total expenses</b>	<b>42,883</b>	<b>42,923</b>	<b>44,846</b>	<b>45,852</b>	<b>47,326</b>
<b>equals GFS net operating balance</b>	<b>303</b>	<b>21</b>	<b>(533)</b>	<b>69</b>	<b>813</b>
<b>less Net acquisition of non-financial assets</b>					
Purchases of non-financial assets	3,730	3,842	4,092	4,165	4,018
less Sales of non-financial assets	(547)	(560)	(531)	(553)	(560)
less Depreciation	(2,087)	(2,132)	(2,228)	(2,331)	(2,433)
plus Change in inventories	(2)	(1)	(4)	(9)	(1)
plus Other movements in non-financial assets					
- finance leases <sup>(a)</sup>	95	96	120	113	37
- other	93	88	88	121	122
<b>equals Total net acquisition of non-financial assets</b>	<b>1,282</b>	<b>1,333</b>	<b>1,537</b>	<b>1,506</b>	<b>1,183</b>
<b>equals GFS Net lending / (Borrowing)<sup>(b)</sup></b>	<b>(979)</b>	<b>(1,312)</b>	<b>(2,070)</b>	<b>(1,437)</b>	<b>(370)</b>

Notes:

(a) Elsewhere in the 2005-06 Half-Yearly Budget Review references are made to Capital Expenditure which comprise purchases of non-financial assets and assets acquired under finance lease arrangements.

(b) Also known as Fiscal Balance.

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

	<i>Budget</i> 2005-06 \$m	<i>Revised</i> <i>Estimates</i> 2005-06 \$m	<i>Forward Estimates</i>		
			2006-07	2007-08	2008-09
			\$m	\$m	\$m
<b>GFS Revenue</b>					
Sales of goods and services	10,804	10,387	11,166	11,630	12,258
Current grants and subsidies	1,817	1,968	2,034	2,181	2,207
Capital grants	768	769	918	771	587
Interest income	48	68	62	59	65
Other	848	936	939	955	684
<b>Total revenue</b>	<b>14,285</b>	<b>14,128</b>	<b>15,119</b>	<b>15,596</b>	<b>15,801</b>
<b>less GFS Expenses</b>					
Employee expenses	3,351	3,463	3,328	3,390	3,468
Depreciation	2,123	2,090	2,184	2,287	2,417
Other operating expenses	5,999	5,769	6,287	6,553	6,454
Interest expenses	919	919	1,080	1,230	1,365
Other property expenses	1,820	1,794	1,766	1,777	1,953
Current transfers	119	186	172	173	175
Capital transfers	...	...	...	8	...
<b>Total expenses</b>	<b>14,331</b>	<b>14,221</b>	<b>14,817</b>	<b>15,418</b>	<b>15,832</b>
<b>equals GFS net operating balance</b>	<b>(46)</b>	<b>(93)</b>	<b>302</b>	<b>178</b>	<b>(31)</b>
<b>less Net acquisition of non-financial assets</b>					
Purchase of non-financial assets	4,425	4,679	5,988	5,759	4,880
less Sales of non-financial assets	(211)	(277)	(390)	(363)	(405)
less Depreciation	(2,123)	(2,090)	(2,184)	(2,287)	(2,417)
plus Change in inventories	46	181	73	25	113
plus Other movements in non-financial assets					
- finance leases <sup>(a)</sup>	...	...	...	...	...
- other	206	201	179	176	151
<b>equals Total net acquisition of non-financial assets</b>	<b>2,343</b>	<b>2,694</b>	<b>3,666</b>	<b>3,310</b>	<b>2,322</b>
<b>equals GFS Net lending / (Borrowing) <sup>(b)</sup></b>	<b>(2,389)</b>	<b>(2,787)</b>	<b>(3,364)</b>	<b>(3,132)</b>	<b>(2,353)</b>

*Notes:*

(a) Elsewhere in the 2005-06 Half-Yearly Budget Review references are made to Capital Expenditure which comprise purchases of non-financial assets and assets acquired under finance lease arrangements.

(b) Also known as Fiscal Balance.

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

	Budget 2005-06 \$m	Revised Estimates 2005-06 \$m	Forward Estimates		
			2006-07 \$m	2007-08 \$m	2008-09 \$m
<b>GFS Revenue</b>					
Taxation revenue	15,570	15,126	16,133	16,988	18,031
Current grants and subsidies	18,348	18,388	18,760	19,556	20,292
Sales of goods and services	13,789	1,141	1,166	1,085	1,084
Capital grants	1,066	13,343	14,216	14,794	15,551
Interest income	963	1,049	939	769	831
Other	2,375	2,471	2,438	2,470	2,272
<b>Total revenue</b>	<b>52,111</b>	<b>51,518</b>	<b>53,652</b>	<b>55,662</b>	<b>58,061</b>
<b>less GFS Expenses</b>					
Employee expenses	22,111	22,399	23,135	24,010	24,983
Depreciation	4,210	4,222	4,412	4,618	4,850
Other operating expenses	16,037	15,590	16,656	17,122	17,553
Nominal superannuation interest expense	1,224	934	913	668	693
Other interest expenses	1,756	1,743	1,916	2,103	2,302
Other Property expenses	...	...	...	...	...
Current transfers	5,822	5,999	6,104	6,220	6,300
Capital transfers	695	703	746	674	599
<b>Total expenses</b>	<b>51,855</b>	<b>51,590</b>	<b>53,882</b>	<b>55,415</b>	<b>57,280</b>
<b>equals GFS net operating balance</b>	<b>256</b>	<b>(72)</b>	<b>(230)</b>	<b>247</b>	<b>781</b>
<b>less Net acquisition of non-financial assets</b>					
Purchase of non-financial assets	8,152	8,516	10,075	9,919	8,893
less Sales of non-financial assets	(758)	(837)	(921)	(915)	(966)
less Depreciation	(4,210)	(4,222)	(4,412)	(4,618)	(4,850)
plus Change in inventories	44	180	69	16	112
plus Other movements in non-financial assets					
- finance leases <sup>(a)</sup>	95	96	120	113	37
- other	299	289	268	295	273
<b>equals Total net acquisition of non-financial assets</b>	<b>3,622</b>	<b>4,022</b>	<b>5,199</b>	<b>4,810</b>	<b>3,499</b>
<b>equals GFS Net lending / (Borrowing) <sup>(b)</sup></b>	<b>(3,366)</b>	<b>(4,094)</b>	<b>(5,429)</b>	<b>(4,563)</b>	<b>(2,718)</b>

*Notes:*

(a) Elsewhere in the 2005-06 Half-Yearly Budget Review references are made to Capital Expenditure which comprise purchases of non-financial assets and assets acquired under finance lease arrangements.

(b) Also known as Fiscal Balance.

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

	Budget	Revised	Forward Estimates				
			June 2006	June 2006	June 2007	June 2008	June 2009
			\$m	\$m	\$m	\$m	\$m
<b>Assets</b>							
Financial assets							
Cash and deposits	953	1,647	1,682	1,668	1,664		
Advances paid	1,289	1,283	1,241	1,187	1,158		
Investments, loans and placements	12,614	12,310	5,508	6,008	7,255		
Other non-equity assets	10,219	9,703	10,044	10,205	10,206		
Equity	63,588	63,514	63,930	63,885	64,142		
<b>Total financial assets</b>	<b>88,663</b>	<b>88,457</b>	<b>82,405</b>	<b>82,953</b>	<b>84,425</b>		
Non-financial assets							
Land and fixed assets	82,335	86,312	88,637	91,101	93,156		
Other non-financial assets	1,577	1,478	1,597	1,745	1,901		
<b>Total non-financial assets</b>	<b>83,912</b>	<b>87,790</b>	<b>90,234</b>	<b>92,846</b>	<b>95,057</b>		
<b>Total assets</b>	<b>172,575</b>	<b>176,247</b>	<b>172,639</b>	<b>175,799</b>	<b>179,482</b>		
<b>Liabilities</b>							
Deposits held	67	89	90	91	91		
Advances received	1,499	1,507	1,468	1,420	1,370		
Borrowing	11,754	11,862	11,953	13,294	14,503		
Superannuation liability <sup>(a)</sup>	23,209	23,300	17,809	18,126	18,390		
Other employee entitlements and provisions	12,669	13,413	13,596	14,096	14,621		
Other non-equity liabilities	3,703	3,895	3,869	3,833	3,849		
<b>Total liabilities</b>	<b>52,901</b>	<b>54,066</b>	<b>48,785</b>	<b>50,860</b>	<b>52,824</b>		
<b>NET WORTH</b>	<b>119,674</b>	<b>122,181</b>	<b>123,854</b>	<b>124,939</b>	<b>126,658</b>		
<b>Net Financial Worth <sup>(b)</sup></b>	<b>35,762</b>	<b>34,391</b>	<b>33,620</b>	<b>32,093</b>	<b>31,601</b>		
<b>Net debt <sup>(c)</sup></b>	<b>(1,536)</b>	<b>(1,782)</b>	<b>5,080</b>	<b>5,942</b>	<b>5,887</b>		
<i>Notes:</i>							
<i>(a) Comprises unfunded obligations.</i>							
<i>(b) Net financial worth equals total financial assets minus total liabilities.</i>							
<i>(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.</i>							
<i>(d) Adjusted for Crown deposits to the Liability Management Fund.</i>							
<b>GFS net debt</b>	<b>(1,536)</b>	<b>(1,782)</b>	<b>5,080</b>	<b>5,942</b>	<b>5,887</b>		
<i>Impact of deposits to the Liability Management Fund</i>	5,227	5,655	...	...	...		
<b>Underlying net debt <sup>(c) (d)</sup></b>	<b>3,691</b>	<b>3,873</b>	<b>5,080</b>	<b>5,942</b>	<b>5,887</b>		

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

	Budget June 2006 \$m	Revised Estimate June 2006 \$m	Forward Estimates		
			June 2007	June 2008	June 2009
			\$m	\$m	\$m
<b>Assets</b>					
Financial assets					
Cash and deposits	963	1,204	1,057	782	725
Investments, loans and placements	321	342	330	399	478
Other non-equity assets	2,642	2,914	3,004	2,978	3,024
Equity	33	43	74	90	106
<b>Total financial assets</b>	<b>3,959</b>	<b>4,503</b>	<b>4,465</b>	<b>4,249</b>	<b>4,333</b>
Non-financial assets					
Land and fixed assets	87,939	87,450	91,239	94,272	96,867
Other non-financial assets	891	624	618	605	604
<b>Total non-financial assets</b>	<b>88,830</b>	<b>88,074</b>	<b>91,857</b>	<b>94,877</b>	<b>97,471</b>
<b>Total assets</b>	<b>92,789</b>	<b>92,577</b>	<b>96,322</b>	<b>99,126</b>	<b>101,804</b>
<b>Liabilities</b>					
Deposits held	175	145	147	146	147
Advances received	1,009	1,023	997	970	943
Borrowing	15,843	15,845	18,987	21,879	24,098
Superannuation liability <sup>(a)</sup>	1,039	1,176	1,154	1,139	1,127
Other employee entitlements and provisions	8,914	8,525	8,624	8,686	8,995
Other non-equity liabilities	2,572	2,678	2,856	2,832	2,824
<b>Total liabilities</b>	<b>29,552</b>	<b>29,392</b>	<b>32,765</b>	<b>35,652</b>	<b>38,134</b>
Shares and other contributed capital <sup>(b)</sup>	63,237	63,185	63,557	63,474	63,670
<b>NET WORTH</b>	...	...	...	...	...
<b>Net financial worth <sup>(c)</sup></b>	<b>(88,830)</b>	<b>(88,074)</b>	<b>(91,857)</b>	<b>(94,877)</b>	<b>(97,471)</b>
<b>Net debt <sup>(d)</sup></b>	<b>15,743</b>	<b>15,467</b>	<b>18,744</b>	<b>21,814</b>	<b>23,985</b>

Notes:

(a) Comprises unfunded obligations.

(b) The Australian Bureau of Statistics treats 'shares and other contributed capital' as a liability to the general government sector and deducts it to calculate a zero GFS net worth and negative net financial worth. However, these shares and other contributed capital reflect the value of the government's equity and cumulative earnings over time for the PTE sector.

(c) Net financial worth equals total financial assets minus total liabilities and minus shares and other contributed capital.

(d) Net debt equals the sum of deposits held, advances received and borrowing, minus the sum of cash and deposits, advances paid, and investments, loans and placements.

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

	Budget June 2006 \$m	Revised Estimate June 2006 \$m	Forward Estimates		
			June 2007	June 2008	June 2009
			\$m	\$m	\$m
<b>Assets</b>					
Financial assets					
Cash and deposits	1,915	2,851	2,739	2,451	2,390
Advances paid	280	260	244	217	215
Investments, loans and placements	12,934	12,652	5,839	6,407	7,733
Other non-equity assets	5,030	5,070	5,243	5,209	5,280
Equity	385	373	447	502	578
<b>Total financial assets</b>	<b>20,544</b>	<b>21,206</b>	<b>14,512</b>	<b>14,786</b>	<b>16,196</b>
Non-financial assets					
Land and fixed assets	170,274	173,762	179,876	185,373	190,023
Other non-financial assets	2,484	2,113	2,224	2,359	2,514
<b>Total non-financial assets</b>	<b>172,758</b>	<b>175,875</b>	<b>182,100</b>	<b>187,732</b>	<b>192,537</b>
<b>Total assets</b>	<b>193,302</b>	<b>197,081</b>	<b>196,612</b>	<b>202,518</b>	<b>208,733</b>
<b>Liabilities</b>					
Deposits held	243	234	237	237	238
Advances received	1,499	1,507	1,468	1,420	1,370
Borrowing	27,593	27,707	30,941	35,175	38,602
Superannuation liability <sup>(a)</sup>	24,247	24,476	18,963	19,265	19,517
Other employee entitlements and provisions	14,572	15,438	15,466	15,876	16,733
Other non-equity liabilities	5,474	5,538	5,683	5,606	5,615
<b>Total liabilities</b>	<b>73,628</b>	<b>74,900</b>	<b>72,758</b>	<b>77,579</b>	<b>82,075</b>
Shares and other contributed capital	...	...	...	...	...
<b>NET WORTH</b>	<b>119,674</b>	<b>122,181</b>	<b>123,854</b>	<b>124,939</b>	<b>126,658</b>
<b>Net financial worth <sup>(b)</sup></b>	<b>(53,084)</b>	<b>(53,694)</b>	<b>(58,246)</b>	<b>(62,793)</b>	<b>(65,879)</b>
<b>Net debt <sup>(c)</sup></b>	<b>14,206</b>	<b>13,685</b>	<b>23,824</b>	<b>27,757</b>	<b>29,872</b>
<i>Notes:</i>					
(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.					
(d) Adjusted for Crown deposits to the Liability Management Fund.					
<b>GFS net debt</b>	<b>14,206</b>	<b>13,685</b>	<b>23,824</b>	<b>27,757</b>	<b>29,872</b>
Impact of deposits to the Liability Management Fund	5,227	5,655	...	...	...
<b>Underlying net debt <sup>(c) (d)</sup></b>	<b>19,433</b>	<b>19,340</b>	<b>23,824</b>	<b>27,757</b>	<b>29,872</b>

**Table A-7: NSW General Government Sector Cash Flow Statement<sup>(a)</sup> (ABS Basis)**

CASH FLOW	Budget 2005-06 \$m	Revised Estimate 2005-06 \$m	Forward Estimates		
			2006-07	2007-08	2008-09
			\$m	\$m	\$m
<b>Cash receipts from operating activities</b>					
Taxes received	16,245	15,813	16,679	17,692	18,764
Receipts from sales of goods and services	3,097	3,126	3,224	3,328	3,464
Grants/subsidies received	19,447	19,618	20,017	20,731	21,463
Other receipts	5,181	5,664	6,015	5,779	5,967
<b>Total receipts</b>	<b>43,970</b>	<b>44,221</b>	<b>45,935</b>	<b>47,530</b>	<b>49,658</b>
<b>Cash payments for operating activities</b>					
Payment for goods and services <sup>(b)</sup>	(28,748)	(28,509)	(36,711)	(32,221)	(33,728)
Grants and subsidies paid	(8,514)	(8,928)	(9,209)	(9,231)	(9,064)
Interest paid	(1,070)	(1,036)	(877)	(803)	(943)
Other payments	(1,978)	(2,443)	(2,446)	(2,442)	(2,477)
<b>Total payments</b>	<b>(40,310)</b>	<b>(40,916)</b>	<b>(49,243)</b>	<b>(44,697)</b>	<b>(46,212)</b>
<b>Net cash flows from operating activities</b>	<b>3,660</b>	<b>3,305</b>	<b>(3,308)</b>	<b>2,833</b>	<b>3,446</b>
<b>Net cash flows from investments in non-financial assets</b>					
Sales of non-financial assets	563	621	548	571	560
Purchases of non-financial assets	(3,713)	(3,944)	(4,069)	(4,166)	(4,017)
<b>Net cash flows from investments in non-financial assets</b>	<b>(3,150)</b>	<b>(3,323)</b>	<b>(3,521)</b>	<b>(3,595)</b>	<b>(3,457)</b>
<b>Net cash flows from investments in financial assets for policy purposes</b>	<b>142</b>	<b>75</b>	<b>127</b>	<b>213</b>	<b>159</b>
<b>Net cash flows from investments in financial assets for liquidity purposes <sup>(b)</sup></b>	<b>(836)</b>	<b>(280)</b>	<b>6,850</b>	<b>(526)</b>	<b>(1,271)</b>
<b>Net cash flows from financing activities</b>					
Advances received (net)	(136)	(132)	(31)	(43)	(48)
Borrowing (net)	(141)	582	(32)	1,113	1,160
Deposits received (net)	...	(2)	...	...	(2)
Other financing (net)	...	...	...	...	...
<b>Net cash flows from financing activities</b>	<b>(277)</b>	<b>448</b>	<b>(63)</b>	<b>1,070</b>	<b>1,110</b>
<b>Net increase (decrease) in cash held</b>	<b>(461)</b>	<b>225</b>	<b>85</b>	<b>(5)</b>	<b>(13)</b>
<b>SURPLUS / (DEFICIT)</b>					
<b>Net cash from operating activities and investments in non-financial assets</b>	<b>510</b>	<b>(18)</b>	<b>(6,829)</b>	<b>(762)</b>	<b>(11)</b>
Finance leases and similar arrangements	(95)	(96)	(120)	(113)	(37)
<b>SURPLUS / (DEFICIT)</b>	<b>415</b>	<b>(114)</b>	<b>(6,949)</b>	<b>(875)</b>	<b>(48)</b>
<i>Notes:</i>					
(a) A positive number denotes a cash inflow, a negative (i.e. bracketed) sign denotes a cash outflow.					
(b) In 2006-07 the government will be contributing \$8,000 million from the Liability Management Fund to reduce its superannuation liabilities.					
(c) Deposits by the Crown to the Liability Management Fund have been set aside to meet future superannuation contributions.					
<b>GFS SURPLUS/ (DEFICIT)</b>	<b>415</b>	<b>(114)</b>	<b>(6,949)</b>	<b>(875)</b>	<b>(48)</b>
Impact of deposits to the Liability Management Fund <sup>(c)</sup>	(1,239)	(1,654)	5,655	...	...
<b>UNDERLYING CASH SURPLUS/(DEFICIT)</b>	<b>(824)</b>	<b>(1,768)</b>	<b>(1,294)</b>	<b>(875)</b>	<b>(48)</b>

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

CASH FLOW	Budget	Revised	Forward Estimates		
	2005-06 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
<b>Cash receipts from operating activities</b>					
Receipts from sales of goods and services	11,040	10,662	11,569	12,200	12,812
Grants/subsidies received	2,593	2,741	2,957	2,958	2,800
Other receipts	2,075	2,292	2,371	2,444	2,219
<b>Total receipts</b>	<b>15,708</b>	<b>15,695</b>	<b>16,897</b>	<b>17,602</b>	<b>17,831</b>
<b>Cash payments for operating activities</b>					
Payment for goods and services	(9,756)	(9,707)	(9,838)	(10,345)	(10,311)
Grants and subsidies paid	(118)	(185)	(171)	(173)	(175)
Interest paid	(913)	(932)	(1,082)	(1,235)	(1,370)
Other payments	(1,874)	(1,997)	(2,260)	(2,218)	(2,336)
<b>Total payments</b>	<b>(12,661)</b>	<b>(12,821)</b>	<b>(13,351)</b>	<b>(13,971)</b>	<b>(14,192)</b>
<b>Net cash flows from operating activities</b>	<b>3,047</b>	<b>2,874</b>	<b>3,546</b>	<b>3,631</b>	<b>3,639</b>
<b>Net cash flows from investments in non-financial assets</b>					
Sales of non-financial assets	242	318	393	367	412
Purchases of non-financial assets	(4,309)	(4,661)	(5,932)	(5,797)	(4,973)
<b>Net cash flows from investments in non-financial assets</b>	<b>(4,067)</b>	<b>(4,343)</b>	<b>(5,539)</b>	<b>(5,430)</b>	<b>(4,561)</b>
<b>Net cash flows from investments in financial assets for policy purposes</b>	<b>(5)</b>	<b>...</b>	<b>(20)</b>	<b>(6)</b>	<b>(3)</b>
<b>Net cash flows from investments in financial assets for liquidity purposes</b>	<b>(18)</b>	<b>57</b>	<b>10</b>	<b>(69)</b>	<b>(80)</b>
<b>Net cash flows from financing activities</b>					
Advances received (net)	(196)	(100)	(127)	(201)	(166)
Borrowing (net)	2,134	2,200	3,171	2,917	2,246
Deposits received (net)	2	5	14	2	1
Distributions Paid	(944)	(917)	(1,203)	(1,122)	(1,132)
Other financing (net)	...	...	...	...	...
<b>Net cash flows from financing activities</b>	<b>996</b>	<b>1,188</b>	<b>1,855</b>	<b>1,596</b>	<b>949</b>
<b>Net increase (decrease) in cash held</b>	<b>(47)</b>	<b>(224)</b>	<b>(148)</b>	<b>(278)</b>	<b>(56)</b>
<b>SURPLUS / (DEFICIT)</b>					
<b>Net cash from operating activities and investments in non-financial assets</b>	<b>(1,020)</b>	<b>(1,469)</b>	<b>(1,993)</b>	<b>(1,799)</b>	<b>(922)</b>
Distributions Paid	(944)	(917)	(1,203)	(1,122)	(1,132)
Finance leases and similar arrangements	...	...	...	...	...
<b>SURPLUS / (DEFICIT)</b>	<b>(1,964)</b>	<b>(2,386)</b>	<b>(3,196)</b>	<b>(2,921)</b>	<b>(2,054)</b>

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<sup>(a)</sup> (ABS Basis)**

CASH FLOW	Budget 2005-06 \$m	Revised Estimate 2005-06 \$m	Forward Estimates		
			2006-07	2007-08	2008-09
			\$m	\$m	\$m
<b>Cash receipts from operating activities</b>					
Taxes received	15,543	15,109	15,981	16,968	17,990
Receipts from sales of goods and services	13,986	13,660	14,621	15,357	16,103
Grants/subsidies received	19,415	19,530	19,927	20,641	21,376
Other receipts	5,797	6,494	6,523	6,411	6,327
<b>Total receipts</b>	<b>54,741</b>	<b>54,793</b>	<b>57,052</b>	<b>59,377</b>	<b>61,796</b>
<b>Cash payments for operating activities</b>					
Payment for goods and services <sup>(b)</sup>	(37,643)	(37,393)	(45,662)	(41,666)	(43,109)
Grants and subsidies paid	(6,027)	(6,226)	(6,324)	(6,331)	(6,321)
Interest paid	(1,927)	(1,916)	(1,904)	(1,983)	(2,258)
Other payments	(3,381)	(4,008)	(4,129)	(4,061)	(4,163)
<b>Total payments</b>	<b>(48,978)</b>	<b>(49,543)</b>	<b>(58,019)</b>	<b>(54,041)</b>	<b>(55,851)</b>
<b>Net cash flows from operating activities</b>	<b>5,763</b>	<b>5,250</b>	<b>(967)</b>	<b>5,336</b>	<b>5,945</b>
<b>Net cash flows from investments in non-financial assets</b>					
Sales of non-financial assets	806	940	941	939	972
Purchases of non-financial assets	(8,022)	(8,601)	(9,999)	(9,957)	(8,982)
<b>Net cash flows from investments in non-financial assets</b>	<b>(7,216)</b>	<b>(7,661)</b>	<b>(9,058)</b>	<b>(9,018)</b>	<b>(8,010)</b>
<b>Net cash flows from investments in financial assets for policy purposes</b>	<b>(57)</b>	<b>(3)</b>	<b>(28)</b>	<b>11</b>	<b>(2)</b>
<b>Net cash flows from investments in financial assets for liquidity purposes<sup>(b)</sup></b>	<b>(854)</b>	<b>(223)</b>	<b>6,860</b>	<b>(595)</b>	<b>(1,351)</b>
<b>Net cash flows from financing activities</b>					
Advances received (net)	(136)	(124)	(31)	(43)	(48)
Borrowing (net)	1,991	2,752	3,146	4,024	3,398
Deposits received (net)	1	4	14	1	...
Distributions Paid	...	...	...	...	...
Other financing (net)	...	...	...	...	...
<b>Net cash flows from financing activities</b>	<b>1,856</b>	<b>2,632</b>	<b>3,129</b>	<b>3,982</b>	<b>3,350</b>
<b>Net increase (decrease) in cash held</b>	<b>(508)</b>	<b>(5)</b>	<b>(64)</b>	<b>(284)</b>	<b>(68)</b>
<b>SURPLUS / (DEFICIT)</b>					
<b>Net cash from operating activities and investments in non-financial assets</b>	<b>(1,453)</b>	<b>(2,411)</b>	<b>(10,025)</b>	<b>(3,682)</b>	<b>(2,065)</b>
Distributions Paid	...	...	...	...	...
Finance leases and similar arrangements	(95)	(96)	(120)	(113)	(37)
<b>SURPLUS / (DEFICIT)</b>	<b>(1,548)</b>	<b>(2,507)</b>	<b>(10,145)</b>	<b>(3,795)</b>	<b>(2,102)</b>
<i>Notes:</i>					
<i>(a) A positive number denotes a cash inflow, a negative (i.e. bracketed) sign denotes a cash outflow.</i>					
<i>(b) In 2006-07 the government will be contributing \$8,000 million from the Liability Management Fund to reduce its superannuation liabilities.</i>					
<i>(c) Deposits by the Crown to the Liability Management Fund have been set aside to meet future superannuation contributions.</i>					
<b>GFS SURPLUS/ (DEFICIT)</b>	<b>(1,548)</b>	<b>(2,507)</b>	<b>(10,145)</b>	<b>(3,795)</b>	<b>(2,102)</b>
<i>Impact of deposits to the Liability Management Fund<sup>(c)</sup></i>	<i>(1,239)</i>	<i>(1,654)</i>	<i>5,655</i>	<i>...</i>	<i>...</i>
<b>UNDERLYING CASH SURPLUS/(DEFICIT)</b>	<b>(2,787)</b>	<b>(4,161)</b>	<b>(4,490)</b>	<b>(3,795)</b>	<b>(2,102)</b>

## LOAN COUNCIL REPORTING REQUIREMENTS

Table A-10 presents the Budget time estimates of the State's Loan Council Allocation (LCA) for 2005-06 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. Information is also presented over the page on new infrastructure projects for 2005-06 in accordance with Loan Council Reporting requirements.

Overall, the positive Loan Council Allocation requirement of \$2,282 million for New South Wales for 2005-06 has been revised to positive \$3,400 million. The variance of \$1,118 million exceeds the tolerance limit by \$41 million. The tolerance limit for 2005-06 is \$1,077 million and is calculated as 2 percent of cash receipts from operating activities for the Non-Financial Public Sector. The increase in the Loan Council Allocation requirement has occurred primarily due to lower than budgeted general government cash flows from operations affected by lower tax receipts and higher capital investment by the Public Non-Financial Sector.

**Table A-10: 2005-06 Loan Council Allocation Estimates for NSW**

	<i>Budget-time Estimate 2005-06 \$m</i>	<i>Loan Council Revised Estimate 2005-06 \$m</i>
General government sector cash deficit / (surplus)	(415)	114
PNFC sector cash deficit / (surplus)	1,964	2,386
Non-financial public sector cash deficit / (surplus) <sup>(a)</sup>	<b>1,548</b>	<b>2,507</b>
Net cash flows from investments in financial assets for policy purposes <sup>(b)</sup>	57	3
Memorandum items <sup>(c)</sup>	677	890
<b>Loan Council Allocation</b>	<b>2,282</b>	<b>3,400</b>

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.

## PRIVATE SECTOR INFRASTRUCTURE

### CONTRACTS EXPECTED TO BE ENTERED INTO IN 2005-06

#### ROYAL PRINCE ALFRED HOSPITAL CAR PARK

***PROJECT DESCRIPTION:***

Detailed proposals have been submitted by the private sector to finance and build a new 1,000 space car park on the Royal Prince Alfred Hospital campus. The total construction cost for the project is estimated to be \$13.5 million. The successful proponent will, under a 20 or 25 year licence, operate and collect user charges from around 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. At this time no government liability is anticipated based on the termination provisions of the draft contract.



## APPENDIX B: GUIDE TO THE 2005-06 HALF-YEARLY BUDGET REVIEW

The 2005-06 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 *Public Finance and Audit Act 1983* requires the Treasurer to publicly release a statement by 31 December each year containing:

- The latest economic projections for the current financial year and an explanation of any significant variation from the 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 NSW Budget is compiled in accordance with the Government Finance Statistics (GFS) standards.

The Half-Yearly Budget Review for 2005-06 meets this legislative requirement, incorporates the financial statements for the General Government Sector for October 2005 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 2005.
- The projected results for 2005-06 compared with the budget estimates; and
- The latest projection of the financial performance for the three subsequent years to 2008-09.

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 forecasts 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 per capita terms. This means that the forward estimates contain an allowance for new works that has not yet been allocated to specific projects.