



**Treasurer of New South Wales
Australia**

2004-05

Half - Yearly

Budget Review

TABLE OF CONTENTS

	Page
Executive Summary	1
1. Strategic Direction and Environment	3
1.1 Strategic Perspective	3
1.2 Economic Outlook	5
2. Fiscal Position and Outlook	8
2.1 Actual Results for Four Months and Latest Projections	8
2.2 Forward Estimates 2005-06 to 2007-08	16
Appendix A: Uniform Presentation of Government Finance Statistics	18
Appendix B: Guide to the 2004-05 Half-Yearly Budget Review	31

EXECUTIVE SUMMARY

Strengthening State finances to enable the steady growth of public services and the provision of infrastructure in the face of fluctuations in revenue has been the objective of the State's fiscal strategy. The reduction in net debt and other liabilities has been recognised by the credit rating agencies, who continue to award New South Wales with the highest rating (AAA).

The key objective of the General Government Debt Elimination Act has been met with General Government net debt being eliminated saving the Budget over \$1 billion per annum in debt servicing costs.

With the elimination of net debt and the move to international accounting standards, a new fiscal target of reducing net financial liabilities to 5 percent of Gross State Product by 2020 is to be set.¹ In conjunction with this, the GFS net operating result will become the main measure of the budget result in line with the practice in most other States.

The general government budget result for 2004-05 is expected to be a surplus of \$563 million, \$274 million lower than the June 2004 budget estimate.

Since the Budget, the Government has provided for additional operating expenditure in essential areas including:

- \$180 million for public transport to meet increased maintenance and operating costs mainly related to the reliability and operation of train services;
- \$86 million for health expenditure associated with the opening of additional beds, provision of additional clinical services and additional employee related costs due to the Industrial Relations Commission granting nurses qualifications allowances;
- \$47 million for the Department of Ageing, Disability and Home Care to assist Non Government Organisations improve their financial viability and address increased costs associated with the delivery of the Adult Training, Learning and Support program by service providers;
- \$21 million for New South Wales Police due to higher than expected numbers of police officers, additional funding for Operation Gain and funds to buy-out IT equipment leases; and
- An additional \$52 million for costs associated with the drought.

The increase in expenses has been partially offset by an increase in revenues. Payroll tax and Commonwealth grants are expected to be higher than estimated in the 2004-05 Budget. In addition, operating revenues are also expected to be higher. However, revenues from the property market are weaker than anticipated.

Looking forward, the estimated budget result for 2005-06 on a no policy change basis is a surplus of \$695 million, a reduction of \$416 million on the budget time estimate. Surpluses of \$1,252 million in 2006-07 and \$1,413 million in 2007-08 are also projected.

The forward years' results reflect additional government funding, particularly in the areas of health and transport.

¹ This target date may be revised with the introduction of the Australian equivalent of International Accounting Standards.

Projected Budget Results

	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m
Budget Time (June 2004)	837	1,111	1,536	1,832
Half-Yearly Budget Review	563	695	1,252	1,413

Net debt as at June 2005 is expected to be negative \$769 million. This position is expected to continue to improve as further funds accumulate within the General Government Liability Management Ministerial Corporation.

General government net financial liabilities, which also include unfunded superannuation, are expected to rise slightly over the next four years, but continue to decline as a proportion of Gross State Product.

Net worth of the general government sector is projected to rise to more than \$125 billion by June 2005, a \$1,239 million increase on the year before.

1. STRATEGIC DIRECTION AND ENVIRONMENT

1.1 STRATEGIC PERSPECTIVE

The Government's fiscal strategy objective since 1995 has been to strengthen the State's finances so that steady growth in service delivery can be maintained in the face of fluctuations in revenue growth.

This has meant reducing general government sector net debt and other financial liabilities to a sustainable level – a level low enough that the impact of a recession or other temporary fiscal shock can be absorbed. It has also meant constraining the growth in overall expenditure while supporting spending priorities, and maintaining a competitive tax regime that is conducive to business investment and the State's future growth.

The fiscal strategy has encompassed a number of principles and targets, which are set out in the General Government Debt Elimination Act of 1995. Many of the key targets and objectives have been achieved ahead of schedule. For example:

- The short-term target of a sustainable general government surplus by 1998-99 has been achieved, with cash surpluses being recorded since 1996-97.
- The medium-term target of reducing general government net debt to a sustainable level by June 2005 was achieved ahead of schedule. The long-term target of eliminating general government net debt by 2020 has also been achieved. According to the internationally accepted Government Finance Statistics (GFS) definition used by the Australian Bureau of Statistics general government net debt was eliminated in 2003-04.
- The long-term target of eliminating total state sector unfunded superannuation liabilities by 2030 is on track. Under the actuarially determined funding plan, the unfunded liability will remain around its current level until 2013, and then decline until it is eliminated by 2030.
- The goal of maintaining general government net worth in real terms remains on track – with net worth increasing by an average of 7 percent per annum in real terms from June 1997 to June 2004.

Although not specified as a legislative fiscal target, net financial liabilities for the general government sector have also been reduced from \$32.8 billion (20 percent of GSP) at June 1995 to \$24.8 billion (8.8 percent of GSP) at June 2004.

With the key objectives of the 1995 Debt Elimination Act now achieved, the medium-term financial framework will be reset to ensure that New South Wales' strong fiscal position is maintained. The Government is aware that spending pressures will increase in the long term, from the ageing of the population and from increased costs and increased demand for services in general. The appropriate response is to further strengthen the State's balance sheet in the medium term so that service delivery can be maintained when confronted with anticipated future fiscal pressures. To this end, the Treasurer issued a statement on 14th December 2004 outlining the Government's new fiscal strategy.

FISCAL STRATEGY: THE WAY FORWARD

As the long-term target of zero general government sector net debt by 2020 has been achieved, the fiscal strategy will now place more emphasis on the broader concept of net financial liabilities². This measure takes into account the full range of the general government sector's future financial obligations, including debt, and so represents a more complete picture of the sector's financial health.

The new long term fiscal target for New South Wales will be to reduce general government net financial liabilities – presently over 8 percent of Gross State Product – to 5 percent of Gross State Product by 2020. Net financial liabilities of around this level will permit future fiscal pressures, either cyclical or structural, to be addressed without disrupting service delivery.

The 5 percent target by 2020 is based on existing accounting standards and will need to be re-evaluated when the effect of adopting new international accounting standards is known in the first half of 2005. Although there will be no change in the underlying fiscal position, technical accounting adjustments will mean that some liabilities will be recorded at higher levels. This change is expected to significantly increase the level of unfunded superannuation liabilities.

In conjunction with the adoption of a new fiscal target and the move to international accounting standards, the GFS net operating result will become the main measure of the budget result, in line with the practice in most other States. Both the cash and net lending results will nevertheless continue to be reported.

The net operating result measures the difference between each year's revenue and the Government's use of resources in that year, with the use of capital resources being measured by depreciation of the Government's capital stock – its equipment, buildings etc – rather than by its investment in new capital. The net operating surplus is typically larger than the net lending surplus, because depreciation is not as large as new capital expenditure.

The Government will aim for a net operating surplus. The appropriate size of the surplus will always be sensitive to the revenue cycle, but it will be kept large enough, on average, to meet the objectives of keeping net financial liabilities on a downward path towards 5 percent of Gross State Product by 2020. Achieving this will require firm discipline over government spending so that its growth is kept in line with the sustainable growth in revenue.

Just as the previous fiscal strategy was enshrined in the Debt Elimination Act, the updated fiscal strategy will be underpinned with its own legislation. The new fiscal responsibility legislation, to be introduced in the Budget session 2005, will retain many provisions of the Debt Elimination Act, but others will be changed to reflect the emphasis on net financial liabilities as the appropriate long-term balance sheet target and on the net operating result as the preferred indicator of the budget result.

The revisions detailed in this Half-Yearly Budget Review are consistent with the Government's medium-term fiscal strategy. Although the net operating surplus in 2004-05 of \$563 million is expected to be \$274 million weaker than the budget time estimate, net financial liabilities are projected to decline from 8.8 percent of Gross State Product at June 2004 to 7.6 percent at June 2008.

² *Net financial liabilities are the difference between the level of financial assets, such as cash, advances and investments, and total liabilities. Net financial liabilities comprise net debt, unfunded superannuation liabilities, insurance liabilities, and other liabilities (mainly represented by accrued employee entitlements, such as long service leave).*

The projected weaker budget result for 2004-05 compared with the budget time estimate is largely a result of a number of unexpected increases in operating expenses in health and transport, with total revenue broadly in line with budget time projections. The movement in the budget result in 2004-05 reflects the position in the revenue cycle, with transfer duty revenues falling. The budget result is projected to strengthen considerably over the forward estimates period as a result of a return to more normal growth in revenues and moderate growth in expenditures. These stronger budget results will make it possible to maintain the improvement towards sustainable levels of net financial liabilities.

1.2 ECONOMIC OUTLOOK

After a firm recovery in 2003-04 the global economy appears to be slowing back towards trend growth in 2004-05. The Australian economy appears to be mirroring the global economy, with another year of above trend growth in GDP in 2003-04 likely to give way to growth at around trend in 2004-05. The disappointment in Australia in 2003-04 was the performance of export volumes, which barely grew despite the global recovery. In 2004-05, export volumes are expected to recover, while domestic demand growth eases back. The situation in New South Wales should be similar to the national economic outlook, though rural production and exports are expected to be stronger than nationally.

Table 1.1: Economic Performance and Outlook ^(a)

	<i>Actual 2003-04 Outcome</i>	<i>Budget 2004-05 Forecast</i>	<i>Revised 2004-05 Forecast</i>	<i>Medium Term Projection</i>
New South Wales				
Gross State Product	2.0	3 ¼	3	3¼
State Final Demand	4.6	3	3	
Employment	1.4	1 ¼	1 ¼	1¼
Unemployment (rate)	5.6	5 ½	5 ½	
Sydney CPI	2.1	2 ½	2 ¾	2½
Wage Cost Index	3.8	3 ¾	3 ¾	3½
Australia				
Non-farm GDP deflator	3.3	2 ½	3 ½	2 ½
Ten year bond (rate)	5.7	6 ¼	5 ¾	6½

(a) Year average percent change, unless otherwise indicated

World Economy

When the Budget was framed, it appeared likely that the global economic recovery would broaden further in 2004-05, with the balance of uncertainties fairly even. Developments since the Budget, however, have been less favourable than expected. High oil prices (though now receding) have seen some slowing in growth in major economies in the first half of 2004-05 and consensus forecasts for 2005 have been continually revised lower over the last six months (though remaining at around trend growth rates). Imbalances in the US economy have spilt over into foreign exchange markets, pushing the Euro, Yen and Australian dollar higher, and eroding competitiveness. The Japanese economic recovery that seemed well under way at the time of the Budget now appears to be on a less firm footing and European growth has remained weak. In China the authorities are seeking to rein in the pace of growth to prevent overheating of the economy.

The International Monetary Fund, in its September 2004 *Outlook*, projected that world growth would slow from 5 percent this year to 4.3 percent in 2005 – with decelerations most pronounced in Japan, north Asia and the United States. OECD leading indicators are consistent with such a slowdown continuing through 2004-05.

Australian Economy

The national economy continues to be buoyed by a once-in-a-generation lift in Australia's terms of trade. This has boosted real national income and domestic demand as well as increasing demand for imports. Expansionary fiscal policy and neutral monetary policy have also assisted domestic demand in 2003-04 and are continuing to do so in 2004-05.

National economic growth slowed in the first quarter of 2004-05, weighed down by negative net exports and reduced inventory accumulation. Domestic demand growth also eased back with slower growth in private consumption, a small fall in dwelling investment and a sharp drop in non-residential construction. While the September quarter national accounts may have overstated the severity of the slowdown (given the buoyant results from other concurrent surveys of business and consumer confidence), it is clear that national economic growth has begun to ease. The outlook remains for growth to moderate to around trend, with a slowing in domestic demand growth partially offset by a rebound in exports. Given the disappointing performance of exports in 2003-04 and into early 2004-05, however, there is some uncertainty in the outlook.

New South Wales Economy

The performance of the New South Wales economy has been similar to the national economy in recent years in that final demand growth has been strong, while output growth has been held back by net exports. In 2003-04, state final demand grew by a robust 4.6 percent, close to the budget estimate of 4½ percent. The annual state accounts released in November, however, show that New South Wales Gross State Product grew by a modest 2 percent (compared to the budget estimate of 3¼ percent), with net exports dragging growth down.

New South Wales agriculture continues its recovery from the 2002-03 drought, and is likely to make a positive contribution to NSW farm income and state exports in 2004-05. At end-November, ABARE estimated that winter crop production would increase by 8 percent in New South Wales this year, in contrast to a 21 percent decline nationally.

Private consumption (which accounts for about 60 percent of total expenditure) increased by a very robust 4.5 percent in New South Wales in 2003-04, but has slowed into early 2004-05. Firm growth in employment and household income should support consumer spending through 2004-05, though high oil prices and a possible negative impact of declining house prices on consumer confidence may see growth slightly lower than recorded in 2003-04. Partial indicators to date are consistent with this outlook.

The Budget anticipated a 10 percent decline in NSW dwelling investment (activity on new building, alterations and additions) in 2004-05 after three consecutive years of growth. It acknowledged the possibility of a steeper downturn, in line with previous cycles. Signals have been mixed to date: dwelling investment was flat in the September quarter, and New South Wales investment finance remains at 41 percent of national activity although both dwelling approvals and finance commitments have fallen by more than 20 percent through the year to October. The price of established houses in Sydney (ABS measure) declined by 1.4 percent in June and by a further 2.0 percent in the September quarter.

Business investment increased by a strong 9.2 percent in New South Wales in 2003-04. Despite some moderation from high levels in early 2004-05, high business profits, low interest rates and high levels of capacity utilisation should support further strong growth through the year. The latest national capital expenditure survey reports that business expects to increase investment by nearly 5 percent in 2004-05.

NSW employment growth (averaging 1.0 percent higher than a year earlier during the first five months of 2004-05) has been broadly in line with the budget forecast, although the volatility of recent monthly data (partly due to ABS collection problems) has obscured underlying trends. The unemployment rate has generally headed downward, averaging 5.2 percent in the three months to November.

Wages increased by 3.7 percent in the year to September 2004. Outside the construction sector (where labour shortages a year ago have affected wage settlements) and the public sector (where NSW Industrial Relations Commission decisions had an impact) wage growth has generally been modest. Therefore it is reasonable to expect that wage outcomes for 2004-05 as a whole will be in line with Budget expectations.

The 2.7 percent increase in the Sydney consumer price index over the year to September 2004 was in line with budget expectations. The main upward pressure to date has been from crude oil prices which averaged 53 percent higher in the first five months of 2004-05 than the same period a year earlier. The threat to prices from a lower exchange rate has receded with a rebound in the currency from around US 68c per A\$ in June to around 75c to 78c during the first half of December.

Interest Rates

Trends for housing sector activity, consumer prices, credit and exchange rates have generally been more favourable to current monetary policy settings than assumed in the Budget. The continued tightening in the labour market has been a counterbalance, but there is little evidence to date of any systemic lift in wage pressures. The short term outlook for interest rates has therefore flattened – although (according to the RBA's November Statement on Monetary Policy) "it continues to appear likely that the economy will require higher interest rates at some stage of the current expansion."

Long bond rates have eased since the Budget, from over 6.0 percent at end April to around 5.2 percent in early December, reflecting concerns over the sustainability of global economic growth, which to date have offset concerns over the large US fiscal deficit funding task.

Uncertainties in the Outlook

The main sources of uncertainty identified in the Budget remain salient:

- The evolution of the dwelling sector cycle;
- Prospects for world oil prices; and
- Whether the US fiscal and payments deficits will be resolved in an orderly or disorderly manner.

2. FISCAL POSITION AND OUTLOOK

2.1 ACTUAL RESULTS FOR FOUR MONTHS ENDED 31 OCTOBER 2004 AND LATEST PROJECTED 2004-2005 BUDGET ESTIMATES

Table 2.1: General Government Sector 2004-05 Operating Statement

	12 Months to 30/06/2004 Actual \$m	12 Months to 30/06/2005 Budget \$m	12 Months to 30/06/2005 Projection \$m	Variance \$m	4 Months to 31/10/2004 Actual \$m
State Revenues					
Taxation	15,010	15,520	15,241	(279)	4,812
Commonwealth Grants	15,494	15,760	16,038	278	5,306
Financial Distributions	1,609	1,670	1,696	26	542
Fines, Regulatory Fees & Other	882	979	1,037	58	352
Total State Revenues	32,995	33,929	34,012	83	11,012
Operating Revenues					
Sale of Goods and Services	2,738	2,729	2,852	123	941
Investment Income	853	778	834	56	312
Grants and Contributions	532	601	578	(23)	230
Other	451	238	375	137	77
Total Operating Revenues	4,574	4,346	4,639	293	1,560
Expenses					
Employee Related					
- Superannuation	2,330	2,450	2,478	28	803
- Other	15,393	16,260	16,334	74	5,156
Other Operating	7,539	7,703	7,954	251	2,416
Maintenance	1,363	1,329	1,358	29	387
Depreciation and Amortisation	1,924	1,861	1,868	7	637
Current Grants and Subsidies	5,885	5,715	5,955	240	1,981
Capital Grants	1,221	1,335	1,332	(3)	385
Finance	788	785	809	24	274
Total Expenses	36,443	37,438	38,088	650	12,039
BUDGET RESULT	1,126	837	563	(274)	533
Asset Acquisitions	3,358	3,614	3,692	78	764

BUDGET RESULT

The projected budget result for 2004-05 is a surplus of \$563 million. This represents a decrease of \$274 million from the budget estimate of \$837 million.

Revenues

After adjusting for the impact of reclassifications³, total revenues are projected to exceed the budget estimate by 0.6 percent, or \$246 million.

Underpinning this outcome is lower taxation revenue (down 1.8 percent or \$276 million), higher Commonwealth grants (up 1.8 percent or \$278 million) and small increases in the estimates of other revenues. Table 2.2 provides details of revised taxation revenue estimates.

Table 2.2: Taxation Revenue

	2003-04	2004-05		2005-06	2006-07	2007-08
	<i>Actual \$m</i>	<i>Budget \$m</i>	<i>Revised \$m</i>	<i>Forward Estimates \$m</i>		
Transfer Duty						
Purchaser Duty	3,916	3,190	3,100	3,321	3,609	3,961
Vendor Duty	2	690	350	367	392	422
Total Transfer Duty	3,918	3,880	3,450	3,688	4,001	4,383
Other Stamp Duties	1,584	1,602	1,562	1,646	1,742	1,850
Payroll Tax	4,356	4,696	4,871	5,131	5,423	5,736
Land Tax	1,355	1,448	1,448	1,484	1,567	1,655
Taxes on Motor Vehicle Ownership and Operation	1,203	1,243	1,244	1,300	1,360	1,420
Gambling and Betting	1,311	1,404	1,432	1,545	1,642	1,612
Other Tax Revenues	1,298	1,248	1,234	1,225	1,242	1,251
Total Tax Revenue	15,025	15,521	15,241	16,019	16,977	17,907

³ Since the Budget a number of transactions have been reclassified resulting in a equal increase of \$130 million in both projected revenues and expenses.

The 2004-05 Budget assumed a weaker property market in 2004-05. That weakness has been evident in the decline in house prices recorded in the June and September quarters and weak sales volumes, particularly in the September quarter. Much of this weakness was anticipated; however, lower than expected collections have led to a reduction in the purchaser transfer duty estimate of 2.8 percent or \$90 million from the 2004-05 Budget estimate.

The softer property market has generally been evident around Australia. The reduction in investor housing finance has been larger than the decline in owner-occupied finance in most States, including New South Wales. New South Wales experienced one of the strongest increases in investor finance over the past few years, and has since experienced a stronger downturn than elsewhere, although investor demand remains high by pre-2002 standards.

Vendor transfer duty has been revised down to \$350 million from a budget estimate of \$690 million reflecting mainly the higher than expected amount of revenue forgone due to exemptions from duty.

The downward revision of transfer duty revenue has been partly offset by a \$175 million upward revision of payroll tax revenue.

Commonwealth grants revenue is projected to exceed the budget estimate by \$278 million, mainly as a result of increases in GST revenue grants and specific purpose payments (SPPs). GST revenue grants have been revised up by \$222 million in line with recent revisions by the Commonwealth, while SPPs are \$82 million higher, mainly due to increases of \$48 million in rural assistance grants and \$18 million in Australian Land Transport Development grants.

Financial distributions are projected to be \$26 million higher than the budget time estimate, predominantly due to the mini budget measures for State Forests.

Fines and fees are projected to be \$59 million higher than the budget time estimate principally from mining royalties resulting from higher international coal prices.

Operating revenues are expected to increase by \$163 million reflecting a number of factors including higher than expected returns on investments and additional funds contributed toward long term investments, in particular superannuation.

Expenses

After adjusting for the impact of reclassifications, expenses are projected to exceed the budget estimate by 1.4 percent, or \$520 million.

Additional resources have been made available to the following priority areas:

- Ministry of Transport expenses are projected to increase by \$180 million. This is mainly funding for rail agencies to meet increased maintenance and operating costs related to reliability and train operations.
- Total health expenses have risen by \$86 million in the current year. This reflects the expenditure associated with the opening of additional beds, provision of additional clinical services and additional employee related costs due to the Industrial Relations Commission granting nurses qualifications allowances.
- The Government will provide the Department of Ageing, Disability and Home Care with a further \$47 million for Non Government Organisations to help their financial viability and increased costs associated with the Adult Training, Learning and Support program.

- NSW Police will incur additional expenditure in 2004-05 of \$21 million. This includes funding for higher than expected numbers of police officers, additional funding for Operation Gain and funds to buy-out IT equipment leases.
- The drought is projected to increase expenditure by \$52 million in the Department of Agriculture and the Rural Assistance Authority. Commonwealth grants will meet \$48 million of this additional expenditure.
- Other increases in expenditure include funding for the establishment of the Growth Centres Infrastructure and Planning Commission to coordinate the rollout of land release and infrastructure in the North West and South West sectors.

Expenditure increases within the Crown Finance Entity include long service leave, superannuation, and finance costs.

Long service leave expenses have increased \$45 million reflecting the financial impact of public sector wage increases, particularly the teachers award increases. Superannuation expense has increased \$11 million, based on revised membership numbers and assets data.

Lower cash holdings have increased finance costs by \$50 million over the budget time estimate. This increase is partly offset by revised motor vehicle financing costs and the favourable investment returns mentioned above.

Some of the above increases in expenses have been offset by calling on the Treasurer's Advance of \$240 million.

ASSET ACQUISITIONS

Asset acquisitions are projected to be \$78 million higher than budget mainly due to national highway upgrades within the Roads and Traffic Authority and additional expenditure on the Integrated Ticketing project. Expenditure has been incurred on the Integrated Ticketing project, within the general government sector, pending the establishment of the Integrated Ticketing Authority.

Table 2.3: 2004-05 Statement of Financial Position

	30-Jun-2004 Actual \$m	30-Jun-2005 Budget \$m	30-Jun-2005 Projection \$m	Variance \$m	31-Oct-2004 Actual \$m
ASSETS					
Financial Assets					
Cash and Deposits	1,820	739	1,630	891	1,156
Advances Paid	1,352	1,374	1,315	(59)	1,313
Investments, Loans and Placements	9,578	10,332	11,640	1,308	10,876
Other Non-Equity Assets	5,870	5,837	6,074	237	5,802
PTE/PFE Equity	67,496	68,743	67,837	(906)	67,675
Other Equity Assets	571	590	599	9	572
Total Financial Assets	86,687	87,615	89,095	1,480	87,394
Non-Financial Assets					
Land and Fixed Assets	80,384	79,341	81,822	2,481	80,216
Other Non-Financial Assets	1,174	1,200	1,216	16	988
Total Non-Financial Assets	81,558	80,541	83,038	2,497	81,204
TOTAL ASSETS	168,245	168,156	172,133	3,977	168,598
LIABILITIES					
Deposits Held	69	57	75	18	49
Advances Received	1,677	1,631	1,632	1	1,676
Borrowing	10,795	10,026	12,108	2,082	10,108
Provisions	27,613	28,915	29,324	409	28,424
Other Non-Equity Liabilities	3,809	3,073	3,473	400	3,677
TOTAL LIABILITIES	43,963	43,702	46,612	2,910	43,934
NET WORTH	124,282	124,454	125,521	1,067	124,664
Net Debt	(209)	(731)	(769)	(38)	(1,512)
Net Financial Liabilities^(a)	24,772	24,830	25,354	524	24,215

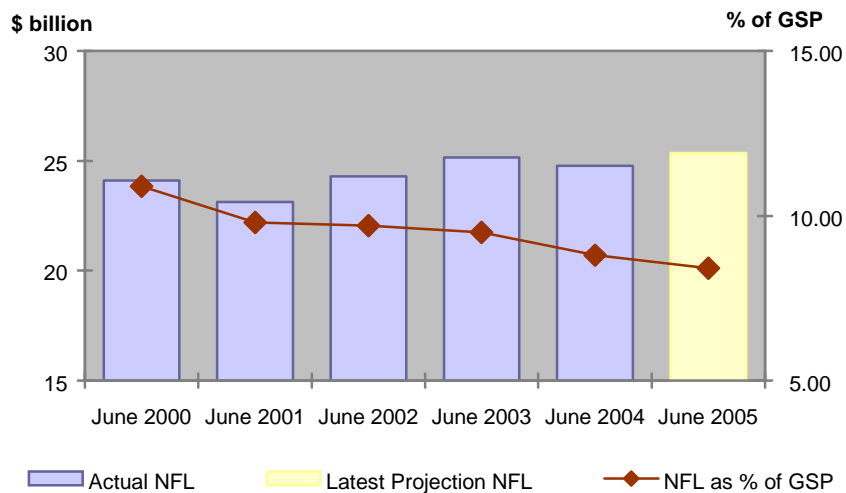
(a) Excludes PTE/PFE Equity

NET FINANCIAL LIABILITIES

Net financial liabilities as at June 2005 are projected to be \$524 million higher than the budget time estimate. This is predominantly due to transactions that occurred between the budget time projection and the actual June 2004 result. Net financial liabilities increased \$598 million over this period, the main components being increases in unfunded superannuation liability of \$367 million, the initial recognition of the prudential margin (increased Treasury Management Fund liability in respect of self insured liabilities) of \$139 million and a \$50 million increase in the doubtful debts provision.

In 2004-05, projected improved investment earnings in the superannuation defined benefit Pooled Fund are expected to exceed the impact of the revised budget result.

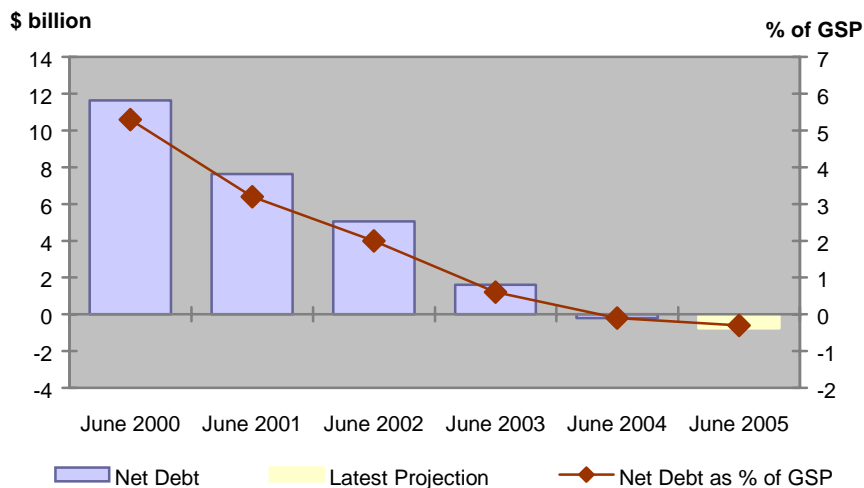
Figure 2.1: General Government Net Financial Liabilities (NFL)



NET DEBT

Net debt as at June 2005 is projected to be \$38 million lower than the budget time estimate. This is due to the decrease in net debt of \$202 million between the Budget and the actual June 2004 result, mainly from a better than expected cash result. This has been offset by the projected decrease in the cash result for 2004-05 amounting to \$194 million.

Figure 2.2: General Government Net Debt



NET WORTH

General government sector net worth is projected to be \$125,521 million as at June 2005. This is \$1,067 million higher than the budgeted figure of \$124,454 million.

The majority of the improvement in net worth occurred between the June 2004 budget time projection and the actual 30 June 2004 result.

Assets increased from revaluations in the Public Trading Enterprise sector of \$3,338 million (Housing, State Forests, Electricity sector) and \$3,069 million in the general government sector (Roads and Traffic Authority, Health, Department of Environment and Conservation). These were offset by the transfer of assets from the Rail Infrastructure Corporation to the Australian Rail Track Corporation and the write down of State Water assets by the Department of Energy Utilities and Sustainability. In addition, factors outlined above impacting on net financial liabilities also affect net worth for the same period.

In 2004-05 there is an expected decrease in the unfunded superannuation liability from favourable investment returns and further revaluation increments in the general government sector. These increases in net worth will be offset by the projected decrease in the budget result.

Figure 2.3: Net Worth of the General Government Sector

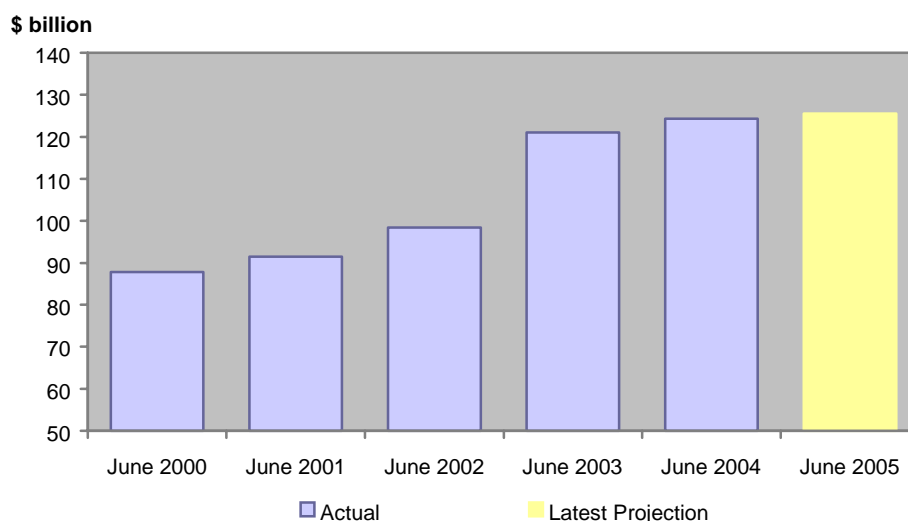


Table 2.4: 2004-05 GFS Cash Results

	12 Months to 30/06/2004 Actual \$m	12 Months to 30/06/2005 Budget \$m	12 Months to 30/06/2005 Projection \$m	Variance \$m	4 Months to 31/10/2004 Actual \$m
Cash Receipts from Operating Activities					
Taxes Received	14,980	15,542	15,246	(296)	4,918
Receipts from sales of goods & services	2,842	3,026	3,091	65	1,071
Grants/Subsidies Received	17,813	15,796	16,086	290	5,421
Other Receipts	4,873	4,489	4,786	297	1,803
Total Cash Receipts from Operating Activities	40,508	38,853	39,209	356	13,213
Cash Payments from Operating Activities					
Payments for goods & services	(25,618)	(27,154)	(27,246)	(92)	(8,706)
Grants & Subsidies Paid	(7,507)	(5,547)	(5,796)	(249)	(1,875)
Interest Paid	(862)	(747)	(782)	(35)	(152)
Other Payments	(2,168)	(1,612)	(1,730)	(118)	(441)
Total Cash Payments from Operating Activities	(36,155)	(35,060)	(35,554)	(494)	(11,174)
Net Cash Flows from Operating Activities	4,353	3,793	3,655	(138)	2,039
Cash Flows from Investments in Non-Financial Assets					
Purchases of New Non-Financial Assets	(2,934)	(3,474)	(3,523)	(49)	(849)
Sale of Non-Financial Assets	451	615	618	3	124
Total Cash Flows from Investments in Non-Financial Assets	(2,483)	(2,859)	(2,905)	(46)	(725)
Cash Flows from Investments in Financial Assets					
Financial Assets for Policy Purposes	183	1	50	49	39
Financial Assets for Liquidity Purposes	(1,545)	(781)	(1,595)	(814)	(864)
Cash Flows from Financing Activities					
Advances Received (net)	(140)	(28)	1	29	11
Borrowing (net)	374	(150)	1,066	1,216	(47)
Deposits Received (net)	6	(1)	6	7	8
Other Financing (net)		(21)	...	21	...
Total Cash Flows from Financing Activities	240	(200)	1,073	1,273	(28)
Net Increase/(Decrease) in Cash Held	748	(46)	278	324	461
Net Cash from Operating Activities, Investments in Non-Financial Assets and Distributions Paid	1,870	934	750	(184)	1,314
Assets acquired under finance leases	(312)	(159)	(169)	(10)	(51)
Equals Surplus/(Deficit)	1,558	775	581	(194)	1,263

The projected cash surplus for 2004-05 of \$581 million is a \$194 million deterioration compared with budget. This is due to the same factors impacting the operating result and a \$100 million movement in accruals, mainly relating to superannuation and insurance liabilities and financial distributions.

2.2 FORWARD ESTIMATES 2005-06 TO 2007-08

Table 2.5: General Government Sector Operating Statement - Forward Estimates 2005-06 to 2007-08

	2004-05 Latest Projection \$m	2005-06 Estimate \$m	2006-07 Estimate \$m	2007-08 Estimate \$m
State Revenues				
Taxation	15,241	16,019	16,977	17,907
Commonwealth Grants	16,038	16,799	17,618	18,351
Financial Distributions	1,696	1,837	1,949	2,004
Fines, Regulatory Fees & Other	1,037	1,032	987	939
Total State Revenues	34,012	35,687	37,531	39,201
Operating Revenues				
Sale of Goods and Services	2,852	2,974	3,067	3,159
Investment Income	834	947	1,062	1,225
Grants and Contributions	578	587	609	599
Other	375	232	233	280
Total Operating Revenues	4,639	4,740	4,971	5,263
Expenses				
Employee Related				
- Superannuation	2,478	2,617	2,786	2,969
- Other	16,334	17,190	17,960	18,866
Other Operating	7,954	8,294	8,760	9,402
Maintenance	1,358	1,305	1,339	1,379
Depreciation and Amortisation	1,868	1,941	2,002	2,002
Current Grants and Subsidies	5,955	6,134	6,331	6,540
Capital Grants	1,332	1,421	1,287	1,119
Finance	809	830	783	775
Total Expenses	38,088	39,732	41,248	43,053
BUDGET RESULT	563	695	1,252	1,413
Asset Acquisitions	3,692	3,747	3,968	3,946
Cash Surplus/(Deficit)	581	691	1,426	1,930
Net Debt	(769)	(1,757)	(3,297)	(5,292)
Net Financial Liabilities ^(a)	25,354	26,242	26,818	27,267

(a) Excludes PTE/PFE Equity

Forward Estimates

The projected budget surplus for the general government sector for the four years to 2007-08 totals \$3,923 million.

The budget surplus is projected to strengthen considerably over the forward estimates as a result of a return to more normal growth in revenues and moderate growth in expenditures. These stronger budget results will make it possible to maintain the improvement towards sustainable levels of net financial liabilities.

The 2004-05 projections are discussed in section 2.1 of this Review. The revised results for 2005-06 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 Departments of Health and Transport;
- Lower vendor and purchaser transfer duties reflecting a slowing in the property market in 2004-05. These are offset by higher payroll tax estimates and higher GST grants due to revised Commonwealth estimates.
- Higher finance costs due to lower cash balances.

Table 2.6: Budget Results

	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m
Budget Time	837	1,111	1,536	1,832
Half-Yearly Budget Review	563	695	1,252	1,413

GFS CASH RESULT

The general government sector is projected to be in surplus in all years. The cash results are higher 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 \$25.4 billion in 2004-05 to \$27.3 billion in 2007-08. However, as a proportion of GSP this is set to decline from 8.4 percent in 2004-05 to 7.6 percent in 2007-08.

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)^(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.

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 2004-05 Net Operating Balance is projected to be negative \$283 million compared to the budget of negative \$213 million. The \$70 million reduction is mainly due to increased operating costs for the rail sector. This is partly offset by an improvement in Sydney Water Corporation's projected revenues.

During 2004-05 PNFCs will be investing approximately \$4.0 billion in transport, power, water and other infrastructure. This includes an investment of \$64 million for purchase of assets related to the creation of the Public Transport and Ticketing Corporation which was not included in the original budget and an additional \$23 million being invested by Sydney Catchment Authority aimed at the construction and renewal of assets used to collect, store and deliver bulk water.

The Sector's Net Borrowing result for the year is projected to be \$2,305 million compared to the budget of \$1,915 million. In addition to the above factors impacting the Net Operating Balance, the projected increase in Net Borrowing is affected by changes in inventory levels. Revised projections include higher inventory levels held by Landcom as a result of a market slow down on purchases and increased operating costs, particularly land tax.

The equity of the PNFC Sector, reported in Table A-5, is expected to be \$68,145 million by June 2005, which is slightly lower than the budgeted amount. The primary reasons for the decrease were the following:

- a write back of infrastructure assets related to the leasing of interstate and Hunter Valley networks to the Australian Rail and Track Corporation; and
- the revaluation of State Water assets to reflect fair value.

Table A-8 reports a projected cash deficit for the PNFC Sector of \$1,956 million compared to the budgeted deficit of \$1,404 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	Revised	Forward Estimates		
	2004-05	2004-05	2005-06	2006-07	2007-08
	\$m	\$m	\$m	\$m	\$m
GFS Revenue					
Taxation revenue	15,521	15,241	16,019	16,977	17,907
Current grants and subsidies	17,148	17,391	18,196	18,989	19,807
Capital grants	1,005	1,031	981	1,008	925
Sales of goods and services	3,028	3,144	3,253	3,291	3,377
Interest income	778	834	947	1,062	1,225
Other	2,881	3,095	3,116	3,260	3,310
Total revenue	40,361	40,736	42,512	44,587	46,551
less GFS Expenses					
Employee expenses	17,603	17,674	18,627	19,457	20,430
Depreciation	1,861	1,868	1,941	2,002	2,002
Other operating expenses	10,367	10,595	10,842	11,361	12,069
Nominal superannuation interest expense	913	925	1,017	1,123	1,234
Other interest expenses	785	809	830	783	775
Other property expenses	...	...	...	...	...
Current transfers	6,613	6,923	7,093	7,276	7,462
Capital transfers	1,382	1,379	1,467	1,333	1,166
Total expenses	39,524	40,173	41,817	43,335	45,138
equals GFS net operating balance	837	563	695	1,252	1,413
less Net acquisition of non-financial assets					
Purchases of non-financial assets	3,455	3,523	3,553	3,773	3,789
less Sales of non-financial assets	(586)	(591)	(483)	(412)	(332)
less Depreciation	(1,861)	(1,868)	(1,941)	(2,002)	(2,002)
plus Change in inventories	(1)	(21)	(2)	(5)	(2)
plus Other movements in non-financial assets					
- finance leases ^(a)	159	169	194	195	157
- other	49	35	73	79	108
equals Total net acquisition of non-financial assets	1,215	1,247	1,394	1,628	1,718
equals GFS Net lending / (Borrowing)^(b)	(378)	(684)	(699)	(376)	(305)

Notes:

(a) Elsewhere in the 2004-05 Half-Yearly Budget Review references are made to Asset Acquisitions 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)**

	Budget	Revised	Forward Estimates		
	2004-05	2004-05	2005-06	2006-07	2007-08
	\$m	\$m	\$m	\$m	\$m
GFS Revenue					
Sales of goods and services	10,058	10,194	10,845	11,435	11,995
Current grants and subsidies	1,518	1,591	1,784	1,692	1,691
Capital grants	763	748	702	654	551
Interest income	62	62	48	46	46
Other	835	652	778	746	726
Total revenue	13,236	13,247	14,157	14,573	15,009
less GFS Expenses					
Employee expenses	3,035	3,213	3,218	3,067	3,176
Depreciation	2,170	2,151	2,161	2,260	2,287
Other operating expenses	5,654	5,557	5,943	6,278	6,504
Interest expenses	885	857	978	1,123	1,289
Other property expenses	1,573	1,605	1,750	1,852	1,913
Current transfers	132	136	103	105	108
Capital transfers	...	11	...	...	...
Total expenses	13,449	13,530	14,153	14,685	15,277
equals GFS net operating balance	(213)	(283)	4	(112)	(268)
less Net acquisition of non-financial assets					
Purchase of non-financial assets	3,852	4,076	4,382	4,821	4,965
Sales of non-financial assets	(213)	(264)	(160)	(230)	(169)
less Depreciation	(2,170)	(2,151)	(2,161)	(2,260)	(2,287)
plus Change in inventories	101	235	26	97	115
plus Other movements in non-financial assets					
- finance leases ^(a)	...	...	...	...	...
- other	132	126	269	207	189
equals Total net acquisition of non-financial assets	1,702	2,022	2,356	2,635	2,813
equals GFS Net lending / (Borrowing) ^(b)	(1,915)	(2,305)	(2,352)	(2,747)	(3,081)

Notes:

(a) Elsewhere in the 2004-05 Half-Yearly Budget Review references are made to Asset Acquisitions 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)

	<i>Budget</i>	<i>Revised</i> <i>Estimates</i>	<i>Forward Estimates</i>			
			<i>2004-05</i>	<i>2005-06</i>	<i>2006-07</i>	<i>2007-08</i>
			<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	$m
GFS Revenue						
Taxation revenue	14,841	14,562	15,327	16,264	17,166	
Current grants and subsidies	17,118	17,366	18,178	18,975	19,794	
Sales of goods and services	12,940	13,176	13,936	14,560	15,202	
Capital grants	1,003	1,029	980	1,007	923	
Interest income	788	844	942	1,056	1,220	
Other	2,239	2,127	2,047	2,118	2,093	
Total revenue	48,929	49,104	51,410	53,980	56,398	
less GFS Expenses						
Employee expenses	20,625	20,885	21,744	22,521	23,603	
Depreciation	4,031	4,020	4,103	4,263	4,289	
Other operating expenses	15,186	15,297	15,898	16,714	17,644	
Nominal superannuation interest expense	913	925	1,017	1,123	1,234	
Other interest expenses	1,618	1,615	1,755	1,854	2,013	
Other Property expenses	...	...	...	...	...
Current transfers	5,333	5,470	5,516	5,733	5,888	
Capital transfers	599	611	678	631	582	
Total expenses	48,305	48,823	50,711	52,839	55,253	
equals GFS net operating balance	624	281	699	1,141	1,145	
less Net acquisition of non-financial assets						
Purchase of non-financial assets	7,304	7,597	7,933	8,593	8,752	
Sales of non-financial assets	(799)	(855)	(643)	(642)	(501)	
less Depreciation	(4,031)	(4,020)	(4,103)	(4,263)	(4,289)	
plus Change in inventories	101	214	24	92	113	
plus Other movements in non-financial assets						
- finance leases ^(a)	159	169	194	195	157	
- other	181	163	344	287	298	
equals Total net acquisition of non-financial assets	2,915	3,268	3,749	4,262	4,530	
equals GFS Net lending / (Borrowing) ^(b)	(2,291)	(2,987)	(3,050)	(3,121)	(3,385)	

Notes:

(a) Elsewhere in the 2004-05 Half-Yearly Budget Review references are made to Asset Acquisitions 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)

	<i>Budget</i>	<i>Revised</i>	<i>Forward Estimates</i>		
	<i>June 2005</i>	<i>June 2005</i>	<i>June 2006</i>	<i>June 2007</i>	<i>June 2008</i>
	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>
Assets					
Financial assets					
Cash and deposits	739	1,630	1,258	1,398	1,324
Advances paid	1,374	1,315	1,301	1,256	1,246
Investments, loans and placements	10,332	11,640	12,137	13,444	15,499
Other non-equity assets	5,837	6,074	6,285	6,574	6,780
Equity	69,333	68,436	70,115	70,167	69,953
Total financial assets	87,615	89,095	91,096	92,839	94,802
Non-financial assets					
Land and fixed assets	79,341	81,822	82,628	84,309	85,969
Other non-financial assets	1,200	1,216	1,285	1,371	1,485
Total non-financial assets	80,541	83,038	83,913	85,680	87,454
Total assets	168,156	172,133	175,009	178,519	182,256
Liabilities					
Deposits held	57	75	68	69	70
Advances received	1,631	1,632	1,489	1,444	1,397
Borrowing	10,026	12,109	11,382	11,288	11,310
Superannuation liability ^(a)	16,778	16,726	18,522	20,391	22,379
Other employee entitlements and provisions	12,137	12,597	13,022	13,613	14,318
Other non-equity liabilities	3,073	3,473	3,380	3,373	3,373
Total liabilities	43,702	46,612	47,863	50,178	52,847
NET WORTH	124,454	125,521	127,146	128,341	129,409
Net Financial Worth ^(b)	43,913	42,483	43,233	42,661	41,955
Net debt ^(c)	(731)	(769)	(1,757)	(3,297)	(5,292)

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)**

	Budget	Revised	Forward Estimates		
	June 2005	June 2005	June 2006	June 2007	June 2008
	\$m	\$m	\$m	\$m	\$m
Assets					
Financial assets					
Cash and deposits	924	812	694	657	674
Investments, loans and placements	371	368	320	343	411
Other non-equity assets	2,243	2,460	2,562	2,688	2,752
Equity	48	30	41	38	46
Total financial assets	3,586	3,670	3,617	3,726	3,883
Non-financial assets					
Land and fixed assets	88,983	87,213	91,251	93,972	96,838
Other non-financial assets	343	89	90	95	69
Total non-financial assets	89,326	87,302	91,341	94,067	96,907
Total assets	92,912	90,972	94,958	97,793	100,790
Liabilities					
Deposits held	92	194	197	199	201
Advances received	1,064	1,051	1,024	998	971
Borrowing	14,785	14,089	16,150	18,395	21,122
Superannuation liability ^(a)	765	397	425	450	472
Other employee entitlements and provisions	5,021	4,983	5,210	5,467	5,662
Other non-equity liabilities	2,057	2,113	2,178	2,511	2,846
Total liabilities	23,784	22,827	25,184	28,020	31,274
Shares and other contributed capital ^(b)	69,128	68,145	69,774	69,773	69,516
NET WORTH	...	...	...	...	...
Net financial worth ^(c)	(89,326)	(87,302)	(91,341)	(94,067)	(96,907)
Net debt ^(d)	14,646	14,154	16,357	18,592	21,209

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 PFE 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	Revised	Forward Estimates		
	June 2005	June 2005	June 2006	June 2007	June 2008
	\$m	\$m	\$m	\$m	\$m
Assets					
Financial assets					
Cash and deposits	1,664	2,441	1,951	2,055	1,999
Advances paid	309	264	277	258	274
Investments, loans and placements	10,701	12,007	12,456	13,786	15,910
Other non-equity assets	4,522	4,788	4,900	5,083	5,181
Equity	253	320	381	431	485
Total financial assets	17,449	19,820	19,965	21,613	23,849
Non-financial assets					
Land and fixed assets	168,324	169,035	173,879	178,281	182,807
Other non-financial assets	1,539	1,306	1,374	1,461	1,547
Total non-financial assets	169,863	170,341	175,253	179,742	184,354
Total assets	187,312	190,161	195,218	201,355	208,203
Liabilities					
Deposits held	149	270	265	268	271
Advances received	1,631	1,632	1,489	1,444	1,397
Borrowing	24,809	26,194	27,530	29,682	32,433
Superannuation liability ^(a)	17,543	17,123	18,947	20,841	22,851
Other employee entitlements and provisions	14,241	14,597	15,038	15,643	16,372
Other non-equity liabilities	4,485	4,824	4,803	5,136	5,470
Total liabilities	62,858	64,640	68,072	73,014	78,794
Shares and other contributed capital	...	...	...	...	...
NET WORTH	124,454	125,521	127,146	128,341	129,409
Net financial worth ^(b)	(45,409)	(44,820)	(48,107)	(51,401)	(54,945)
Net debt ^(c)	13,915	13,384	14,600	15,295	15,918

*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		
	2004-05	2004-05	2005-06	2006-07	2007-08
	\$m	\$m	\$m	\$m	\$m
Cash receipts from operating activities					
Taxes received	15,542	15,246	16,015	16,958	17,902
Receipts from sales of goods and services	3,027	3,091	3,248	3,279	3,364
Grants/subsidies received	17,882	18,173	19,177	19,997	20,732
Other receipts	4,488	4,785	4,896	5,110	5,369
Total receipts	40,939	41,295	43,336	45,344	47,367
Cash payments for operating activities					
Payment for goods and services	(27,154)	(27,246)	(28,657)	(29,846)	(31,396)
Grants and subsidies paid	(7,633)	(7,882)	(8,094)	(8,132)	(8,118)
Interest paid	(747)	(782)	(1,003)	(777)	(682)
Other payments	(1,612)	(1,730)	(1,641)	(1,621)	(1,642)
Total payments	(37,146)	(37,640)	(39,395)	(40,376)	(41,838)
Net cash flows from operating activities	3,793	3,655	3,941	4,968	5,529
Net cash flows from investments in non-financial assets					
Sales of non-financial assets	615	618	499	429	350
Purchases of non-financial assets	(3,474)	(3,523)	(3,555)	(3,776)	(3,792)
Net cash flows from investments in non-financial assets	(2,859)	(2,905)	(3,056)	(3,347)	(3,442)
Net cash flows from investments in financial assets for policy purposes	1	50	136	145	191
Net cash flows from investments in financial assets for liquidity purposes	(781)	(1,595)	(523)	(1,325)	(2,079)
Net cash flows from financing activities					
Advances received (net)	(28)	1	(132)	(36)	(46)
Borrowing (net)	(150)	1,066	(744)	(207)	(233)
Deposits received (net)	(1)	6	(7)	...	...
Other financing (net)	(21)	...	...	1	...
Net cash flows from financing activities	(200)	1,073	(883)	(242)	(279)
Net increase (decrease) in cash held	(46)	278	(385)	199	(80)
SURPLUS / (DEFICIT)					
Net cash from operating activities and investments in non-financial assets	934	750	885	1,621	2,087
Finance leases and similar arrangements	(159)	(169)	(194)	(195)	(157)
SURPLUS / (DEFICIT)	775	581	691	1,426	1,930

Notes:

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

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

CASH FLOW	Budget	Revised	Forward Estimates		
	2004-05	2004-05	2005-06	2006-07	2007-08
	\$m	\$m	\$m	\$m	\$m
Cash receipts from operating activities					
Receipts from sales of goods and services	10,540	10,731	11,307	12,030	12,591
Grants/subsidies received	2,280	2,346	2,494	2,355	2,249
Other receipts	2,093	1,778	1,791	1,896	1,915
Total receipts	14,913	14,855	15,592	16,281	16,755
Cash payments for operating activities					
Payment for goods and services	(9,026)	(9,422)	(9,566)	(9,703)	(10,133)
Grants and subsidies paid	(131)	(135)	(101)	(104)	(107)
Interest paid	(878)	(848)	(968)	(1,117)	(1,284)
Other payments	(1,732)	(1,691)	(1,784)	(1,825)	(1,747)
Total payments	(11,767)	(12,096)	(12,419)	(12,749)	(13,271)
Net cash flows from operating activities	3,146	2,759	3,173	3,532	3,484
Net cash flows from investments in non-financial assets					
Sales of non-financial assets	218	268	166	231	176
Purchases of non-financial assets	(3,838)	(4,047)	(4,379)	(4,839)	(4,994)
Net cash flows from investments in non-financial assets	(3,620)	(3,779)	(4,213)	(4,608)	(4,818)
Net cash flows from investments in financial assets for policy purposes	(7)	(14)	(12)	(8)	(10)
Net cash flows from investments in financial assets for liquidity purposes	14	151	47	(23)	(69)
Net cash flows from financing activities					
Advances received (net)	(42)	(116)	(155)	(122)	(199)
Borrowing (net)	1,450	1,544	2,055	2,217	2,676
Deposits received (net)	1	10	2	2	2
Distributions Paid	(930)	(936)	(1,020)	(1,057)	(1,103)
Other financing (net)	...	(13)	(1)	...	(1)
Net cash flows from financing activities	479	489	881	1,040	1,375
Net increase (decrease) in cash held	12	(394)	(124)	(67)	(38)
SURPLUS / (DEFICIT)					
Net cash from operating activities and investments in non-financial assets	(474)	(1,020)	(1,040)	(1,076)	(1,334)
Distributions Paid	(930)	(936)	(1,020)	(1,057)	(1,103)
Finance leases and similar arrangements	...	...	...	...	...
SURPLUS / (DEFICIT)	(1,404)	(1,956)	(2,060)	(2,133)	(2,437)

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	Budget	Revised	Forward Estimates		
	2004-05	2004-05	2005-06	2006-07	2007-08
	\$m	\$m	\$m	\$m	\$m
Cash receipts from operating activities					
Taxes received	14,859	14,539	15,324	16,246	17,164
Receipts from sales of goods and services	13,413	13,663	14,384	15,138	15,780
Grants/subsidies received	17,851	18,148	19,158	19,982	20,717
Other receipts	5,374	5,161	5,001	5,313	5,467
Total receipts	51,497	51,511	53,867	56,679	59,128
Cash payments for operating activities					
Payment for goods and services	(35,355)	(35,826)	(37,253)	(38,639)	(40,617)
Grants and subsidies paid	(5,554)	(5,587)	(5,631)	(5,707)	(5,753)
Interest paid	(1,574)	(1,577)	(1,917)	(1,842)	(1,916)
Other payments	(3,003)	(3,038)	(2,973)	(3,051)	(2,933)
Total payments	(45,486)	(46,028)	(47,774)	(49,239)	(51,219)
Net cash flows from operating activities	6,011	5,483	6,093	7,440	7,909
Net cash flows from investments in non-financial assets					
Sales of non-financial assets	832	886	665	661	526
Purchases of non-financial assets	(7,310)	(7,567)	(7,934)	(8,613)	(8,785)
Net cash flows from investments in non-financial assets	(6,478)	(6,681)	(7,269)	(7,952)	(8,259)
Net cash flows from investments in financial assets for policy purposes	(55)	(69)	(46)	(1)	(20)
Net cash flows from investments in financial assets for liquidity purposes	(767)	(1,444)	(475)	(1,348)	(2,149)
Net cash flows from financing activities					
Advances received (net)	(28)	...	(132)	(36)	(46)
Borrowing (net)	1,307	2,599	1,326	2,027	2,446
Deposits received (net)	...	16	(5)	2	2
Distributions Paid	...	...	...	...	...
Other financing (net)	(22)	(16)	(1)	...	(1)
Net cash flows from financing activities	1,257	2,599	1,188	1,993	2,401
Net increase (decrease) in cash held	(32)	(112)	(509)	132	(118)
SURPLUS / (DEFICIT)					
Net cash from operating activities and investments in non-financial assets	(467)	(1,198)	(1,176)	(512)	(350)
Distributions Paid	...	...	...	...	...
Finance leases and similar arrangements	(159)	(169)	(194)	(195)	(157)
SURPLUS / (DEFICIT)	(626)	(1,367)	(1,370)	(707)	(507)

Notes:

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

LOAN COUNCIL REPORTING REQUIREMENTS

Table A-10 presents the Budget time estimates of the State's Loan Council Allocation (LCA) for 2004-05 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 2004-05 in accordance with Loan Council Reporting requirements.

Overall, the positive Loan Council Allocation requirement of \$1,353 million for New South Wales for 2004-05 has been revised to positive \$1,908 million. The variance of \$555 million is within the tolerance limit (\$1,033 million for 2004-05) calculated as 2 percent of cash receipts from operating activities for the Non-Financial Public Sector.

Table A-10: 2004-05 Loan Council Allocation Estimates for NSW

	<i>Budget-time Estimate 2004-05 \$m</i>	<i>Loan Council Revised Estimate 2004-05 \$m</i>
General government sector cash deficit / (surplus)	(775)	(581)
PNFC sector cash deficit / (surplus)	1,404	1,956
Non-financial public sector cash deficit / (surplus) ^(a)	626	1,367
Net cash flows from investments in financial assets for policy purposes ^(b)	55	69
Memorandum items ^(c)	672	472
Loan Council Allocation	1,353	1,908

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 2004-05

CHATSWOOD TRANSPORT INTERCHANGE

Project Description

A new public transport interchange at Chatswood is to be developed, incorporating:

- elevated twin “island” platforms for the North Shore and Epping-Chatswood lines;
- a rail concourse beneath the platforms; and
- a new bus and taxi interchange.

The concept design for the new interchange also incorporates adjacent retail and over-rail residential development opportunities.

A short list of pre-qualified construction contractors has been established. Detailed Proposals from consortia to deliver the interchange and associated development have been invited. Closing date for the Detailed Proposals was 19 July 2004. It is expected that contracts should be signed by the end of December 2004.

The Government contribution to the project is limited to around \$40 million. At this stage no contingent liability is expected under the draft contract term sheet.



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 2004-05 HALF-YEARLY BUDGET REVIEW

The 2004-05 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 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 NSW Budget is compiled in accordance with the Government Finance Statistics (GFS) standards.

The Half-Yearly Budget Review for 2004-05 meets this legislative requirement, incorporates the financial statements for the General Government Sector for October 2004 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 2004.
- The projected results for 2004-05 compared with the June 2004 budget estimates; and
- The latest projection of the financial performance for the three subsequent years to 2007-08.

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.