CHAPTER 1 OVERVIEW OF STRATEGIC DIRECTION AND ENVIRONMENT

1.1 REVIEW OF GOVERNMENT'S POLICY PRIORITIES

The 2000-01 NSW Budget reduces the State's overall tax burden, improves services and strengthens the State's financial position.

The Budget provides for a Net Lending Result surplus of $659 million in 2000-01 and further surpluses in each of the three years to 2003-04.

Consistent with the Government's fiscal strategy, these surpluses will be used to reduce the General Government Sector's Net Financial Liabilities from 11.2 percent of Gross State Product at 30 June 2000 to 7.0 percent by 30 June 2004. By strengthening the balance sheet in this way, the Government is ensuring that the people of New South Wales are able to afford high quality services in 2000-01 and beyond.

Building on the tax reduction initiatives announced in the 1999-2000 Budget, the reduction in payroll tax from 6.4 percent to 6.2 percent is to be brought forward from 1 July 2001 to 1 January 2001, at a cost of $52 million. The rate of payroll tax will be reduced further to 6.0 percent from 1 July 2002 as announced in the 1999-2000 Budget.

This Budget also introduces a new First Home Plus scheme abolishing stamp duty for eligible first home buyers from 1 July 2000 and a reduction in the stamp duty rate on general insurance from 11.5 percent to 10.0 percent for policies commencing on or after 1 October 2000.

Economic growth is expected to remain strong over the forecast period and will see the State's unemployment rate, which is already the lowest of any State, continue to fall.

The strong economy underpins recent and prospective Budget surpluses, although the 2000-01 Budget assumes a significant decline in volatile asset market-related revenues from recent high levels.

GOVERNMENT POLICY PRIORITIES

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

- ensuring that New South Wales remains the engine room of the Australian economy;
- recognising the requirements of rural and regional New South Wales so that these areas may fully realise their potential;
- preparing the children and youth of New South Wales properly for life through the best possible education;
- ensuring that New South Wales leads Australia in the advancement of the public health system;
- supporting families, children and the disadvantaged;
- improving access to public transport within New South Wales;
- protecting the community;
- preserving our environment for current and future generations; and
- ensuring the success of the Sydney 2000 Olympic and Paralympic Games.

FINANCIAL PERFORMANCE

A Budget Surplus of $659 million is expected in 2000-01. Budget surpluses are projected in each of the four years to 2003-04 with the total surpluses over this period expected to be over $3.5 billion.

An Operating Surplus Before Abnormal Items of $1,238 million is expected in 2000-01. Operating surpluses projected in each of the four years to 2003-04 total almost $8 billion.

The projected Budget surpluses will be used to reduce Net Financial Liabilities (which mainly comprise net debt and unfunded superannuation liabilities) which will decrease by $2,586 million in 2000-01 and by $5,172 million over the four year period to 30 June 2004. This follows a reduction of $7.3 billion over the four years to June 2000.

General Government Net Worth (total assets less total liabilities) will increase by $2,821 million in 2000-01 and by $9,649 million over the four-year period to 30 June 2004. These increases result from the reduction in liabilities, noted above, and an increase in assets.

The Budget incorporates major capital investment initiatives in 2000-01 that will increase the General Government Sector's service delivery capacity. Major capital works with a total cost of $3,654 million are expected to start during 2000-01 in the Total State Sector.

A FISCAL STRATEGY THAT BUILDS THE FOUNDATIONS FOR BETTER GOVERNMENT SERVICE DELIVERY

The achievement of the Budget surpluses expected in 2000-01, and in the following three years, is facilitated by the strong performance of the New South Wales economy.

Growth in Gross State Product is forecast to remain strong at 4 percent in 2000-01 and 3½ percent in 2001-02, following an estimated 4¼ percent increase in 1999-2000. New South Wales employment growth is expected to ease from 3¼ percent in 1999-2000 to 2¼ percent in 2000-01, which is still significantly above longer term trends.

The strong economic performance and employment growth will see the unemployment rate, which is already well below the national average, continue to fall. The unemployment rate for 1999-2000 is estimated to average 6 percent and is forecast to fall to 5 ¾ percent in 2000-01 and 5 ½ percent in 2001-02.

Inflation is forecast to increase to 6 percent in 2000-01, primarily because of the one-off impact of the introduction of the GST, before falling to 2¼ percent in 2001-02, the same level as the estimate for 1999-2000.

The NSW Budget is strongly affected by fluctuations in asset markets. Some of its major revenue sources can be subject to extreme volatility whereas the cost of service delivery is not significantly affected by such factors.

Asset markets have been very strong in recent years, generating strongly rising Budget revenues. The 2000-01 Budget prudently allows for some decline in these volatile revenues as rising interest rates have soured the prospects for asset markets. This is the main reason that the 2000-01 Budget surplus is smaller than that projected in the 1999-2000 Budget.

It is imperative to achieve significant Budget surpluses, and hence reductions in net financial liabilities, when the economy is strong because, without this buffer, the capacity to maintain high quality service provision is impaired in periods of cyclical downturn.

The many countries and several Australian states that in the past were fiscally unable to withstand a major economic slowdown attest to the dangers of not pursuing such a strategy. In these jurisdictions there were severe cutbacks in service provision and years of painful adjustment. New South Wales has avoided this experience, although in the early 1990's recession it came close to requiring a significant and sharp financial adjustment.

In addition to the risks arising from the cyclical nature of the economy, there are a number of medium and long term trends which may have a profound effect on the service delivery capacity of governments in the future. These include:

- increasing cost pressures from technological advances creating new sources of demand, such as high technology treatments in the health sector;
- the ageing of the population; and
- electronic commerce such as the internet, where it is more difficult to tax.

There is a risk that such trends can put enormous strain on future Budgets and therefore governments will be unable to provide the same quality of service that is currently enjoyed.

The NSW Government has formulated its Budget within the context of an overall fiscal strategy in order to mitigate the risks associated with the cyclical nature of the economy and long term economic and societal trends. The key principles underpinning New South Wales' financial management policies and fiscal strategy are set out in the *General Government Debt Elimination Act 1995 (GGDEA).*

The GGDEA specifies June 2005 as the medium-term target date for reducing General Government net debt to a *sustainable* level. The debt level can be regarded as *sustainable* if it is low enough that a sharp economic downturn can be weathered without harsh corrective action (spending cuts and/or tax increases) being necessary to avoid an escalation in Government debt.

The Government's fiscal strategy requires that, during periods of strong growth, the additional tax revenue generated by the strong economy should be used to reduce State liabilities rather than fund spending. By reducing liabilities to a sustainable level now the Government is in a better position to maintain, and where necessary expand, service delivery throughout the economic cycle.

Consistent with the Government's fiscal strategy, the expected Budget surpluses will be used to achieve a reduction in Net Financial Liabilities of $5,172 million over the four-year period to 30 June 2004. By this time General Government Sector Net Financial Liabilities will represent only 7.0 percent of NSW Gross State Product (GSP, a measure of the State's economy). General Government Sector Net Debt will be only 1.8 percent of GSP by 30 June 2004.

Strengthening the State's balance sheet will also help maintain New South Wales' triple-A credit rating when economic trends are less favourable.

Taking advantage of the current opportunity to reduce Net Debt will also ensure that a significant proportion of the $1.3 billion annual interest cost on General Government debt can be put to better use in the future, through the provision of frontline Government services.

NEW SOUTH WALES REMAINS THE ENGINE ROOM OF THE AUSTRALIAN ECONOMY

The Government has a number of key strategies to ensure that New South Wales remains the engine room of the Australian economy.

Maintaining a good environment for business

In the 1999-2000 Budget, a comprehensive range of tax reduction initiatives was introduced to help ensure that New South Wales remains an attractive destination for business investment. This Budget sees those tax cuts continue to be implemented but also expanded:

- in the 1999-2000 Budget, it was announced that the payroll tax rate would be reduced from 6.4 percent to 6.2 percent from 1 July 2001. That reduction is now being brought forward by six months to 1 January 2001, at a cost of $52 million in 2000-01. The rate of payroll tax will be reduced further, to 6.0 percent from 1 July 2002, as announced in the 1999-2000 Budget; and

- the stamp duty rate on general insurance is to be reduced from 11.5 percent to 10.0 percent, where the period of insurance begins on or after 1 October 2000.

Promoting New South Wales

The Government is facilitating a number of initiatives to advance economic development while the Olympic spotlight is focussed on New South Wales. The Sydney Olympic and Paralympic Games provide a unique opportunity to maximise business contacts (especially international visitors) and enhance long term business relationships. Already, there is evidence of improved economic outcomes due to the Olympic Games:

- $250 million in Olympic construction and service contracts awarded to regional NSW companies;
- Australian Technology Showcase (ATS) companies in New South Wales have achieved more than $100 million in additional sales, exports and investment from programs leveraging the Olympic profile. The ATS is designed to promote world class, leading edge technologies of Australian origin, as embodied in products, processes, systems or sites;

- over 1.6 million extra international visitors are expected to arrive during 1997-2004, creating over 63,000 jobs; and

- over $9 million will be direct expenditure by tourists alone, in regional New South Wales in September-October 2000.

Creating jobs

In 1999-2000, the Government launched its *Jobs for the Future* plan. The plan will create 200,000 new jobs in its four year life. The Government is well on track to achieve this target. Between March 1999 and April 2000 employment in New South Wales increased by 134,000.

This Budget continues the implementation of that plan. For example, it includes significant capital expenditure projects that enhance the State's service delivery capacity as well as create jobs.

DEVELOPING RURAL AND REGIONAL NEW SOUTH WALES

The NSW Government recognises the strengths, opportunities and difficulties facing rural and regional New South Wales. It understands the contribution made by regional New South Wales to the overall State economy, the significant economic, social and environmental stress being experienced by some communities and their specific needs in relation to access to social and economic infrastructure.

Service Access Initiatives

The Government is undertaking a number of initiatives to improve service access for rural and regional New South Wales. The initiatives generally adopt a whole-of-government approach to service delivery supported by advanced communication technologies. These service access initiatives include:

- the Government Access Program which establishes Government Access Centres, one-stop shops for the provision of local, state and federal services to rural and regional communities;
- Regional Service Delivery Plans which bring together agency managers from a range of government agencies in a particular region to make coordinated decisions about service provision in their region; and
- *connect.nsw* which uses information technology and the internet to improve access to, and delivery of, government services.

Service Delivery Initiatives

The 2000-01 Budget includes a significant number of initiatives that will specifically benefit regional and rural New South Wales including:

- over the next three years progressively fund rural and regional Area Health Services to repair long standing inequities. This means a faster flow of money to high growth areas over the next three years;

- $1.5 million in 2000-01 for the *West 2000 Plus* to assist structural adjustment in the Western Division (this is the first year of a $5.9 million program over three years);

- funding of $3.5 million in 2000-01 ($6.5 million over four years) for Regional Integrated Service initiatives;

- $10 million for the *connect.nsw* project in 2000-01. This builds on the $8.5 million provided in 1999-2000; and

- continued support for programs that attract and protect jobs in regional and rural New South Wales including the Regional Business Development Scheme, the Regional Economic Transition Scheme, the Country Lifestyles Program, the Hunter Advantage Fund and the Illawarra Advantage Fund.

Rural and Regional Infrastructure

The Government is also committed to maintaining and enhancing rural and regional infrastructure. The 2000-01 Budget ensures that regional and rural parts of the State, which represent 42 percent of the population, will get 46 percent of the expenditure on capital works and road maintenance. The Budget includes the following initiatives:

- provision to build and redevelop 20 hospitals in small towns across New South Wales to ensure that health services are delivered in appropriate facilities that meet the special needs of remote communities;

- provision in future years for redevelopment works at other rural hospitals identified in the Report of the Ministerial Advisory Committee on Health Services in Smaller Towns;

- $169.4 million to support rail lines throughout rural New South Wales. The Government will continue to fund the provision of Countrylink train and coach services to rural areas;

- $72.2 million to fund the carriage of freight on rail that would otherwise not be commercially viable, primarily through rural New South Wales; and

- $100 million per year on average, in real terms, between 1998 and 2010 on the Rebuilding Country Roads Program which was initiated as part of *Action for Transport 2010*. This will involve major works including restoring, rebuilding or replacing existing roads and bridges.

PROVIDING THE BEST POSSIBLE EDUCATION OPPORTUNITIES

The NSW Government is committed to preparing children for life and work including giving children a fair start through the best possible school education and ensuring, beyond high school, that students have access to training which will help them to build the essential skills required for the workplace.

Total expenses in the Department of Education and Training in 2000-01 will be $6,856 million. Key initiatives to enhance service delivery in 2000-01 include:

- almost $450 million over four years for the further expansion of the State Literacy and Numeracy Plan with over $106 million to be spent in 2000-01;
- almost $500 million over four years for the Computers in Schools Plan, with the replacement of the existing 90,000 computers through leasing arrangements and provision of an additional 25,000 computers. A total of $113.6 million will be provided in 2000-01 for this program;
- almost $17 million over four years will be spent to expand opportunities for teacher training in using new technology in the classroom, including $4 million allocated this year;
- a further $90 million will be spent on school maintenance, expanding the maintenance program to nearly $550 million over the next four years. Some $145 million will be spent in 2000-01 to maintain public schools; and
- the ongoing development of partnerships between TAFE NSW and industry to deliver flexible training programs specific to the clients needs and at times and locations suitable to the client.

An amount of $298.9 million is to be spent on capital works in 2000-01. This includes expenditure on the Sydney Conservatorium High School and the Conservatorium of Music, the construction of new primary and secondary schools and the redevelopment of the Oatley site incorporating a TAFE and senior high school.

ADVANCING THE PUBLIC HEALTH SYSTEM

Over the next three years, change within the NSW Health system will be driven by the findings of the NSW Health Council and the Ministerial Advisory Council on Health Services in Smaller Towns. These two reports have provided the blueprint for a NSW health system where:

- there is a greater level of equity in the distribution of health resources;
- there is a better capacity to obtain value for money in the provision of health services;

- the community and the people who work in NSW Health have a greater say in the running of the health system; and

- better planning of health services is achieved through the provision of funding certainty for the next three years.

The NSW Health system continues to experience increasing levels of activity due to the growth and ageing of the population, the availability of new treatments and rising community expectations.

In recognition of these pressures, the Government has committed to a three-year recurrent health budget, enabling clinicians and managers to plan for growth in demand and related service delivery and workforce needs. This is the first time in the history of the State that such a commitment has been made.

Budgeted total expenses on health services will be $7,417 million in 2000-01, increasing to $8,100 million in 2002-03, in line with the Government's announced intention to improve health services. Expenses in 2000-01 will be 6.9 percent higher than budgeted in 1999-2000.

Key service delivery initiatives include:

- growth funds equivalent to 6.8 percent over the three years to 2002-03, in real terms, to be allocated to Area Health Services to meet increasing demand for services and to repair longstanding inequities under the Resource Distribution Formula. This will allow a faster flow of money to high growth areas over three years while real funding increases will continue to all Areas;

- $45 million over three years to coordinate care for people with chronic conditions, starting with cardiovascular disease, respiratory illness and cancer;

- $45 million over three years to relieve pressure on emergency departments and intensive care units;
- $15 million over three years to selected Area Health Services to better integrate and coordinate services connecting General Practitioners to hospitals and community health services;

- an increase in mental health funding of $36.5 million in 2000-01, rising to $107.5 million per annum by the year 2002-03, providing an additional 700 direct care staff. By 2002-03, the increased funding will support 12,000 new community service clients, 450,000 new community service contacts each year, 45,000 extra emergency department clients and 190 new acute beds, including 90 in rural areas;

- a significant boost to dental health funding, rising to $20 million per annum from 2002-03. This will enable an additional 200,000 patients to be treated per year, more than double the number treated in 1999-2000;

- over the next two years, funding will almost double for world class medical research work undertaken in New South Wales, rising from approximately $11.8 million per annum in 1999-2000 to $20.5 million by 2001-02;

- better utilisation of hospital facilities through consistent use of best-practice measures such as formal discharge planning to general practitioners and community health providers, pre-admission planning and greater use of day-only surgery and day-of-admission surgery; and

- implementation of episode funding to ensure hospitals are funded for the work they do and to support efforts to promote the quality and appropriateness of treatments.

Capital expenditure of $472.3 million will be incurred to help ensure high quality health services in the future. Major projects include: the continuation of major upgrading and redevelopment works at Calvary, Central Sydney, Coffs Harbour, Lower North Coast, Macarthur Sector, Nepean, Royal North Shore, Sutherland and Wollongong, as well as the ongoing implementation of works for Aboriginal, rural and mental health.

In addition, the Government will commence the following health capital works in 2000-01:

- a $3.7 million refurbishment of the Tamworth Emergency Department;

- provision of a $13.8 million linear accelerator for Campbelltown Hospital;

- a $6.3 million improvement to mental health facilities on the Central Coast;

- a new rehabilitation services building at the Prince of Wales Hospital at a cost of $16 million; and

- a $35.9 million extension of the Government's Information and Technology Strategy to deliver the foundations of an Electronic Health Record for all patients.

There will also be significant investment in health facilities in regional and rural New South Wales. This is highlighted in the section *Developing Rural and Regional New South Wales*, above.

SUPPORTING FAMILIES, CHILDREN AND THE DISADVANTAGED

The Government aims to provide the best possible care and protection, and to promote opportunities, for those in vulnerable positions including families, young people and children, frail older people, people with disabilities and their carers.

In line with this aim, the budget for the Ageing and Disability Department includes an additional:

- $44.9 million ($218.6 million over four years) to enhance the strategic direction for the Disability Services system in New South Wales, including:
  - $25.4 million ($134 million over 4 years) for additional supported accommodation places;
  - $5.5 million ($22 million over 4 years) for an immediate assistance pool providing short term placements for clients in crisis;
  - $3 million ($18 million over 4 years) for local area coordination to meet immediate needs quickly and to help strengthen informal supports in the community;
  - $6 million ($24.6 million over 4 years) for the relocation of residents from large disability residential facilities; and
  - $5 million ($20 million over 4 years) for other flexible disability support services.
- $2 million to non-government organisations to purchase disability accessible vehicles under the Community Transport Program;
- $21.5 million for growth funding in the Home and Community Care program providing an additional 500,000 hours of service to frail older people and people with disabilities who do not receive residential care support, and their carers; and
- $6.1 million for a capital grant to the Home Care Service of NSW to commence an information technology project (estimated total cost - $9.8 million) enabling the establishment of a new Service Delivery Model. Reductions in Home Care Service's administration costs will result in 160,000 additional service delivery hours per annum by 2002-03.

The Budget also provides additional support for children and families, including:

- $60 million (an increase of $20 million over the 1999-2000 Budget) for child support allowances and associated expenses for children in foster care; and

- $110.5 million (an increase of 17.7 percent over the 1999-2000 Budget) towards the protection of children from neglect and abuse.

IMPROVING ACCESS TO PUBLIC TRANSPORT

The Government aims to provide New South Wales with efficient and accessible transport and communication infrastructure and services that support both the growth of the State's economy and the improvement in the quality of life of its residents.

The Government continues to implement reforms that achieve increased patronage of public transport and to make transport services more accessible, reliable and safe.

In particular, it has commenced implementation of *Action for Transport 2010*, a fully funded 10 year construction plan. This plan aims to develop the State's transport links and support the Government's goals for economic development and jobs, social justice, and environmental protection and improved financial performance of Government.

A key challenge for the Government is to encourage people to use cars less and opt for the use of public transport, bicycles, walking and teleworking. *Action for Transport 2010* sets targets for reducing car dependency and sets out strategies to achieve those targets. *Action for Transport 2010* outlines plans for the eight regions in New South Wales, including Sydney. These plans also include a number of major road initiatives to support rural and regional industries.

The plan outlines a construction timetable for the development of new rail, light rail, rapid bus-only transitways and cross regional bus services up to 2010 that will meet the needs of Sydney's growing population. Key areas of development are in Western and North Western Sydney, which is currently relatively poorly serviced in terms of public transport.

The funding provided through *Action for Transport 2010* will help make regional centres more accessible for commuters, interstate visitors and international tourists, stimulating local economies and creating jobs. Key commitments include programs for maintaining rural rail lines and improving freight links to ports.

Key service delivery initiatives in the 2000-01 Budget include:

- the commencement of construction of the Parramatta Rail Link at a cost of $75.4 million in 2000-01. When completed in 2006, the line will represent a major improvement in the CityRail network, providing cross-city access to medical, education and business centres;

- $24.8 million allocated in 2000-01 for the *Action for Transport* program which includes the amplification of the East Hills line, the duplication of the Richmond line, the electrification of the Dapto to Kiama rail line, the Cowra-Blayney rail line reopening and the completion of the Kandos-Gulgong line reopening;

- the provision of rail rolling stock that will improve comfort and reliability. The Millennium trains program will receive $25 million with the first of the new trains coming on line in 2001. The XPT locomotive fleet is being fitted with new, upgraded motors at a cost this year of $10 million;

- major upgrade works at Town Hall, Wynyard and Parramatta with a four-year investment of $75 million. A total of $25.6 million is allocated for Easy Access facilities at stations including Katoomba, Wollongong and Summer Hill. A further $13.4 million is committed to completing the security upgrade of all 301 CityRail stations including the provision of security lighting and closed circuit cameras;

- $37.6 million towards new interchanges and commuter facilities. Interchanges at Wyong, Mascot and Manly will be completed in 2000-01 while major works on commuter car parks at Kogarah, Holsworthy and Gosford will be funded from the proceeds of the Parking Space Levy; and

- the construction, at a total cost of $203 million, of the Parramatta to Liverpool Bus-only transitway ($28.5 million in 2000-01).

PROTECTING THE COMMUNITY

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

Recurrent expenditure in the Public Order and Safety Policy Area will increase in the year 2000-01 by 9.4 percent due principally to significant growth in NSW Police Service expenditure.

Key service delivery initiatives in the 2000-01 Budget include:

- the implementation of the second stage of the plan to increase the frontline strength of the Police Service by 2,110 in accordance with the Government's election commitment. This is being achieved by recruiting an additional 1,000 police officers over the four years to December 2003 and undertaking a range of measures to release existing police resources;

- capturing the full benefits of the Police Assistance Line which will flow through into police operations in 2000-01 following the commencement of the Tuggerah site in 1999-2000, which created 177 jobs for the region. It is estimated that in a full year the equivalent of around 500 officers will be released for operational duties by this initiative;

- funding for the expansion of the Department of Corrective Services' correctional bed capacity to cope with the increase in inmate numbers arising from the increase in frontline police numbers. This is estimated to cost $10.6 million in 2000-01;

- an amount of $4.4 million made available to the Department of Juvenile Justice for various drug action initiatives, including diversionary counselling and group work programs for drug-using young offenders ($600,000), life skills and accredited employment skills training ($400,000) and drug rehabilitation programs in the Central West and on the North Coast ($1 million); and

- $4 million provided to commence a three year program to refit Rural Fire Service vehicles with more sophisticated protection systems and fire protective blankets. In addition, $2.1 million will be provided for the purchase of technologically advanced protective clothing and safety equipment.

PRESERVING THE ENVIRONMENT

The Government has an ongoing commitment to preserving and protecting the natural environment.

For example, a commitment to the environment underpins all planning and construction management for the Sydney 2000 Olympic and Paralympic Games. The Olympic Co-ordination Authority has embraced the principles of ecologically sustainable development in all projects and has undertaken to promote biological diversity, conserve water and energy, avoid waste and minimise pollution.

Similarly, the *Action for Transport 2010* plan outlines key strategies for safeguarding the environment, improving air quality, reducing car dependency and getting more people on public transport.

Key service initiatives in the 2000-01 Budget include:

- $2 million in 2000-01 (this is the first year of a $6 million three-year program) for Stage Two of the Acid Soil Action program of NSW Agriculture to address the serious problem of soil acidity;

- $5 million for the Native Vegetation Management Fund (part of a total program of $15 million) to protect, maintain and rehabilitate native vegetation across New South Wales;

- $8 million funding to investigate and ameliorate the impact of salinity across New South Wales, including $3 million for the Salt Action program;

- $3.9 million for the Rivercare program to ensure the sustainable management of rivers and riparian lands;

- $44.2 million on waste minimisation and management initiatives including an amount of $36.6 million to support the Waste Planning and Management Fund;

- $36.3 million on improving the health and sustainability of NSW waterways;

- $3 million over three years for aquaculture initiatives;

- $13.6 million for the acquisition of land in regional New South Wales for new national parks and reserves and additions to existing parks and reserves;

- $13.8 million over three years for sewerage upgrade programs throughout NSW national parks and reserves; and

- $11.5 million to reduce greenhouse gas emissions by encouraging the commercialisation of sustainable energy generation and improving the energy efficiency of the residential and commercial sectors.

THE SYDNEY 2000 OLYMPIC AND PARALYMPIC GAMES

With less than four months to the Olympic and Paralympic Games, Sydney is well placed to stage these events. All of the permanent venues for the Olympic Games have been completed, well before both Atlanta and Barcelona.

After the Games, world-class venues, such as the Olympic Stadium and the Sydney SuperDome, will remain as legacies of hosting the Games for the people of New South Wales. Already, more than 20 million visits have been made to Olympic venues in the lead up to the Games. The Government has developed strategies that will showcase New South Wales during the Olympic period with the aim of attracting domestic and international investment and encouraging exports.

The 2000-01 Budget fully provides for expenses associated with the provision of essential services needed to support the 2000 Olympics and Paralympics. These services include security, police and emergency services, dedicated rail and bus services, health care and the management of the Sydney harbour and other waterways.

The last payment for venue construction will be made at the end of May 2000, completing the construction program which involved a net cost to the Government of $1,642 million and a total asset acquisition cost of $2,245 million. The NSW Government has ensured that these works have been fully funded each year in the Budget, with no debt left to repay after the Games.

1.2 FISCAL STRATEGY STATEMENT

This section outlines the medium-term fiscal strategy adopted in the 2000-01 Budget, and describes recent developments and progress against fiscal targets and the implementation of key principles underpinning the fiscal strategy.

MEDIUM-TERM FISCAL STRATEGY

The *General Government Debt Elimination Act (GGDEA) 1995* articulates key principles underpinning New South Wales financial management policies and medium-term fiscal strategy. The strategy is consistent with the long-term goal of eliminating General Government net debt by 2020, and the other targets and principles of the GGDEA, as listed in Box 1.1.

Box 1.1: Fiscal Principles and Targets in the General Government Debt Elimination Act

1. Adherence to fiscal targets, consisting of:
   - a ***short-term*** fiscal target (achievement of a sustainable surplus budget, defined in accordance with Government Finance Statistics (GFS) principles, for the General Government Sector by 1998-99);
   - a ***medium-term*** fiscal target (reduce General Government Sector net debt to a sustainable level by 30 June 2005); and
   - a ***long-term*** fiscal target (eliminate General Government Sector net debt by 30 June 2020).
2. Maintaining or increasing General Government Sector net worth in real terms.
3. Funding employer superannuation liabilities.
4. Asset maintenance.
5. Constrained growth in net cost of services and outlays.
6. Prudent risk management.
7. Tax restraint.

In following the principles of the GGDEA, the Government is committed to balancing the Budget (at a minimum) on a cash basis[2] over the course of the business cycle. This will ensure that budget transactions do not add to net debt over the medium-term.

In targeting budget outcomes consistent with the medium-term fiscal strategy, it is necessary to allow for cyclical and other transient influences that for New South Wales go well beyond consideration of the basic business cycle defined by swings in the rate of growth of output (measured by Gross Domestic Product or Gross State Product).

Although at the Commonwealth level, budget outcomes tend to move in tandem with the economic cycle, this is much less true for the States. There are important cyclical influences on State finances. The output cycle is neither the only nor the most important of these. Moreover, because the States do not have primary responsibility for social security, their outlays tend to vary much less than the Commonwealth's over the course of the economic cycle.

Some major State revenue sources, by contrast, can be subject to extreme variability, such as those influenced by asset markets that fluctuate more severely than aggregate output. The NSW Budget is strongly affected by the movements in asset markets. Other major State revenue sources are influenced by factors with cycles out of phase with the output cycle, such as payroll tax that is driven by changes in the rate of growth of employment, which tends to lag changes in the rate of growth of output. The sensitivity of the Budget to economic changes is illustrated in section 2.6.

Economic cycles are very irregular, and their amplitude and duration is only ever clear in retrospect. The unpredictability and asymmetry of cyclical impacts on State revenues strongly favours the case for a conservative approach, particularly to the treatment of prospective surpluses. As a general principle, additional tax revenue enjoyed during the positive phase of the cycle should be used to reduce net debt and other liabilities, and should not be used to fund tax cuts or new spending programs that cannot be sustained through the course of the cycle.

The GGDEA specifies June 2005 as the medium term target date for reducing General Government net debt to a *sustainable* level. The debt level can be regarded as *sustainable* if it is low enough that a sharp economic downturn can be weathered without harsh corrective action (spending cuts and/or tax increases) being required to avoid a debt blow out.

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[1] *While Government Finance Statistics have moved to an accrual basis, the concept of a balanced budget and its counterparts of surpluses and deficits continue to pertain to a cash result defined in the accrual GFS framework. This cash result is derived from the GFS accrual cash-flow statement on a comparable basis to the budget outcome defined under the former GFS cash system. A review of the GGDEA to be undertaken in 2000-01 will include consideration of the definition of the fiscal targets in the Act.*

The purpose of the NSW fiscal strategy, enabling the State to provide services and manage the expenditure side of the Budget on a more sustainable basis, is detailed in Box 1.2.

It is noteworthy that more than half of the OECD countries expect to run surplus budgets this year. NSW has experienced strong growth since 1990-91, and tax revenue growth has consistently outperformed budget forecasts. In the recent words of the US Treasury Secretary, in good times governments should be "reloading the fiscal cannon" – that is, consolidating public finances by reducing net debt and other liabilities. The favourable conditions in New South Wales provide an opportunity to achieve this and be part of the OECD trend.

Although Gross State Product growth in New South Wales is expected to ease somewhat in 2000-01, the economic climate should remain robust through the forward estimates period (section 1.3 details the economic outlook).

Looking to the medium term, while a significant downturn is not in prospect, it is implausible that the economy will retain its current strength indefinitely. Given the uncertainties associated with predicting cyclical impacts and the expected deceleration in economic growth in the near future, the recent growth in asset-related tax revenue cannot be relied on to continue. Moreover, the Commonwealth's introduction of a GST and related tax reforms are not expected to produce any net revenue benefits for New South Wales until late in this decade[3].

Surpluses averaging about $600 million per annum on a GFS cash basis (or around 0.3 percent of GSP) are projected for the Budget year and forward estimates period. These provide for reductions in General Government net debt, which is projected to decline to $5.1 billion or 1.8 percent of GSP by June 2004. At this level, the medium term target will be comfortably achieved.

[3] *The impact of tax reform on the NSW Budget is described in more detail in Chapter 8.*

Box 1.2: How NSW Fiscal Strategy Builds the Foundations for Better Government Service Delivery

The fiscal strategy requires that during periods of strong growth, liabilities should reduce. Reducing liabilities to a sustainable level in the present means that when economic conditions turn less favourable and revenue weakens in future, Government service delivery can be maintained, and where necessary, expanded. Furthermore, by earmarking surpluses for the reduction of liabilities, the current generation is paying its own way, and not imposing an unreasonable burden on future generations.

The many countries and several Australian states that in the past were fiscally unable to withstand a major economic slowdown illustrate the dangers of not pursuing such a strategy. In most cases this resulted in severe cutbacks in service provision and years of painful adjustment. New South Wales has avoided this experience, although in the early 1990s recession it came close to requiring a significant and sharp financial adjustment (see Chart 1.1 below).

Taking advantage of the current opportunity to reduce net debt can put some of the $1.3 billion annual interest cost on General Government debt to better use in the future. Moreover, the fiscal strategy recognises not only the desirability of debt reduction, but also of reducing *all* public liabilities including unfunded superannuation and insurance. By strengthening NSW's balance sheet, the strategy also seeks to make public assets work harder for taxpayers. In short, if more of the surplus is banked now, the potential benefits to be enjoyed in the future will be far greater.

The fiscal strategy must also look to likely economic conditions over the medium to long term. Some apparent trends include globalisation and the internet providing scope for more economic activity to be carried out in "cyberspace", where tax avoidance is easier. Increasing global competition has intensified the pressures on governments to "work with the market" by providing an environment supporting innovation and entrepreneurship. Rapid changes in the economy increasingly require an adaptable workforce who must continually re-skill, at the same time that both capital and highly skilled labour have become more mobile. The role of governments in providing a safety net continues to be important as some groups in the community get left behind. Increasing cost pressures have arisen from technological advances creating new sources of demand (such as high-technology treatments in the health sector) and an ageing population. The declining proportion of the economically active population has reduced the base for work-related taxes while increasing demands for medical and other social services.

These trends can potentially put enormous strain on future budgets, and increase the volatility of the external environment. This reinforces the need to produce a run of budget surpluses in the current favourable economic environment. Strengthening the State's balance sheet through a reduction in liabilities during good times will help ensure maintenance of Government services and New South Wales triple-A credit rating when economic trends turn less favourable.

Tax and Expenditure Restraint

The way in which budget surpluses are achieved is as important as meeting those outcomes. The medium term strategy requires that surpluses be achieved through expenditure restraint. The strategy recognises the benefits of net tax reduction to help provide a better climate for business investment and the creation of jobs in New South Wales.

It is particularly important to restrain growth in the net cost of services and recurrent outlays, as increases in one year have durable impacts on succeeding years. Recurrent outlays have constituted just above 85 percent of total outlays in recent years.

The single most significant recurrent expense relates to employee costs. The Budget allows for the recent public sector wage agreements which entail increases totalling 16 percent over four and a half years, of which a total of 10 percentage points will be Budget funded and the residual funded by agency productivity improvements.

While the planned expenditure restraint will accomplish the desired financial objectives, this will be achieved without compromising the quality of Government services. Service quality, as measured by the Commonwealth Grants Commission's index of service provision, has risen in New South Wales relative to the other States during the late 1990s. A financial management improvement program is being pursued with the express purpose of increasing productivity and enhancing service provision levels without requiring strong growth in expenditure.

Managing the Balance Sheet [4]

The commentary on the fiscal strategy in the 1999-2000 Budget Papers emphasised the benefits of a broader focus that encompasses General Government Sector balance sheet items other than net debt and, more broadly, total State finances. Broadening the focus to the total State requires consideration of the Public Trading Enterprise (PTE) Sector and the Public Financial Enterprise (PFE) Sector (dominated by the NSW Treasury Corporation)[5].

The biggest non-debt liabilities on the General Government balance sheet are employee entitlements (largely the unfunded superannuation liability) and insurance liabilities. Recent trends and the outlook for these liabilities are discussed in detail in Chapter 5.

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[4] *Balance sheets are labelled* Statement of Financial Position *in these Budget Papers.*

[5] *Noting however that the Statement of Financial Position for the General Government Sector, Table 2.4 in Chapter 2, includes the net worth of the PTE and PFE Sectors, defined as "PTE and PFE equity".*

The assets side of the General Government Sector balance sheet is dominated by non-current assets, principally land, buildings, and physical infrastructure. An important part of the Government's overall fiscal strategy is the proper management and maintenance of these physical assets (discussed in more detail further on in this section and also in sections 5.2 and 5.3).

A focus on the broader measure *net financial liabilities* (defined as total liabilities minus financial assets excluding PTE and PFE equity, as shown in Table 2.3) encourages consideration of the trade-offs between the benefits and costs of reducing one category of liability rather than another. This provides for the definition of a broader objective, namely reducing over the medium to long term both aggregate General Government net financial liabilities, and the cost of servicing these liabilities.

As at June 2000, net financial liabilities of the General Government Sector are estimated at $25.1 billion or about 11.2 percent of GSP, and are projected to decline to $19.9 billion or about 7.0 percent of GSP by 30 June 2004 (further details are provided in section 5.4).

For the PTE sector, the primary emphasis is on managing individual PTEs' balance sheets rather than merely reducing their liabilities. This requires careful management of their physical and other assets as well as liabilities.

It is good commercial practice to restructure the balance sheets of PTEs where an imbalance between debt and equity has developed. After consideration of debt and equity balances, the current investment grade ratings and cash positions, it was determined that the electricity distributors and TransGrid should carry more debt. Therefore there will be a return of equity from these businesses to the General Government Sector early in 2000-01, further details of which are provided in section 5.4. It is expected that such re-financing of PTEs will continue to be undertaken from time to time.

The net debt and other liabilities of the total State Sector are unaffected by such debt transfers between the General Government and PTE Sectors. Therefore changes in the measures of total State liabilities are important financial indicators. As shown in Table 1.1, both net financial liabilities and net debt for the total State and General Government Sectors have been falling and are projected to fall further over the forward estimates period.

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

	General Government			Total State		
	Net Financial Liabilities[(a)]	Net Debt [(b)]	Unfunded Superannu-ation	Net Financial Liabilities	Net Debt [(b)]	Unfunded Superannu-ation
Actual:						
1995	32,666	12,027	12,687[(c)]	43,846	19,443	14,691
1996	32,414	10,849	13,654[(c)]	44,641	19,398	15,435
1997	29,365	10,817	12,337	41,493	18,725	12,789
1998	28,888	10,158	12,293	41,143	18,635	12,430
1999	27,576	12,817	7,959	40,554	21,308	8,189
Estimated:						
2000	25,075	11,763	6,671	38,005	20,735	6,557
2001	22,489	9,108	7,314	37,722	20,434	7,321
2002	21,739	6,632	8,332	36,972	18,003	8,462
2003	20,974	5,968	8,076	36,207	17,340	8,336
2004	19,903	5,126	7,759	35,136	16,498	8,140

(a) The calculation of Net Financial Liabilities excludes the equity assets of the PTE and PFE Sectors.

(b) Including the impact of temporary debt associated with prepaid superannuation of $3,264m in 1998-99, $2,250m in 1999-2000 and $1,179m in 2000-01; and the one-off tax reform related Commonwealth advance of $674m in 2000-01.

(c) Refers to the Budget Sector.

RECENT PERFORMANCE AND PROGRESS AGAINST FISCAL TARGETS AND PRINCIPLES

This section provides the *Budget Policy Statement* for the 2000-01 Budget and an assessment of the application of the seven fiscal principles as required under the GGDEA 1995. Section 21 of the Act also requires a statement providing a projection of the ability to achieve fiscal targets in the future and to progress the achievement of fiscal principles; and three year projections of all relevant economic and financial variables. Economic projections are provided in section 1.3 below and Budget forward estimates in Chapter 2.

Given the medium and longer term focus of the GGDEA, it is appropriate that the attainment of the fiscal targets and compliance with the fiscal principles is assessed over several years rather than for any single year. This allows for fiscal outcomes in the short term being affected by the position in the economic cycle and other one-off factors.

1. Adherence to Fiscal Targets

The short, medium and long term targets and other fiscal principles are given in Box 1.1 above. As also noted above, although the 2000-01 Budget is presented on an accrual basis, the fiscal targets in the *GGDEA* relate to a cash result now derived from the GFS accrual cash flow statement on a comparable basis to the GFS cash outcomes defined in the previous system.

The General Government surplus on a GFS cash basis was $583 million in 1998-99. The expected cash result for 1999-2000 is a surplus of $314 million. The underlying surplus would have been larger but for an additional contribution to superannuation liabilities of $510 million.

Cyclical impacts on revenue, as discussed above, have a bearing on the sustainability of Budget surpluses. The fact of recent surpluses being well above Budget means that some over-budget revenues have been applied to reducing net debt, and contributions to fund superannuation liabilities have also been increased above Budget which otherwise would have contributed towards larger surpluses.

Furthermore, the Budget estimates incorporate a fall-off in the main asset market related revenues, given assumptions that output and employment growth will slow and that there will be a softening in asset market activity.

Noting the significant Budget cash surpluses that are projected in Table 1.2 despite both slower tax revenue growth and further tax cuts introduced in this Budget, surplus outcomes will be achievable even in the event of a marked economic slowdown.

Table 1.2: Budget Results, General Government, 1996-97 to 2003-04

	Actuals			*Estimates*				
	1996-97 $m	*1997-98 $m*	*1998-99 $m*	*1999-2000 [(a)] $m*	*2000-01[(a)] $m*	*2001-02[(a)] $m*	*2002-03 $m*	*2003-04 $m*
GFS Net Lending	n.a.	n.a.	252	1,129	659	827	867	1,180
GFS Cash Basis	153	(30)	583	314	393	683	618	747

n.a. - not available.

(a) After adjusting for Commonwealth advances (Budget Balancing Loan) and prepaid superannuation.

The projections show General Government surpluses in the four years to 2003-04 totalling about $2.4 billion on a GFS cash basis and $3.5 billion on a GFS net lending basis. Adding superannuation funding of $510 million in 1999-2000 and $320 million in 2000-01 to the cash surpluses gives the total cash available to reduce liabilities ($824 million in 1999-2000 and $713 million in 2000-01). The fall in this cash level after 1999-2000 mainly reflects the moderation in asset market related revenue growth.

The projected cash outcomes provide the necessary scope for reductions in net debt consistent with the *medium term target*. The medium term target, in turn, represents progress towards the *long term target.* Projections for General Government Sector net debt based on the Budget forward estimates, shown in Table 1.1, demonstrate this progress.

The return of equity from the electricity distributors and TransGrid contributes $2.1 billion at book value, ($2.4 billion at market value) to the reduction of General Government net debt in 2000-01.

Taken in a historical context (see Chart 1.1), Budget outcomes (on a GFS cash basis) in the recent past and forward estimates period show consistent deficit reductions through the late 1990s followed by an unprecedented run of surpluses.

2. General Government Sector Net Worth

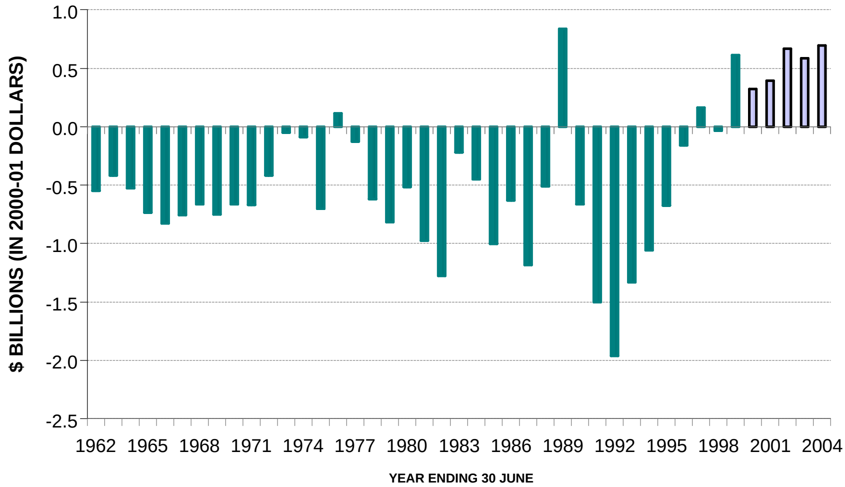
Net Worth is defined as *total assets* less *total liabilities.* The relevant fiscal principle in the Act is to ensure the net worth of the General Government Sector is at least maintained in real terms.

General Government Net Worth was about $78.5 billion in June 1999, and will amount to $85.2 billion in June 2000 (including PTE/PFE equity). The June 1999 figure is $3.7 billion above the 1999 Budget estimate due to the initial recognition of collection assets including library, works of art and archival collections ($2.1 billion), and the revaluation of property, roads and bridges and tunnel infrastructure of the Roads and Traffic Authority ($1.5 billion).

Net Worth increased by 5.8 percent in 1998-99 (excluding the collection assets) and by 8.6 percent in 1999-2000 – well above the 2 percent or so required to maintain Net Worth in real terms in each of those years.

Trends in the net worth of the General Government Sector are set out in Table 1.3. Over the forward estimates period from 2000-01 to 2003-04, net worth increases on average by 0.6 percent per annum in real terms, thereby satisfying fiscal principle 2.

Chart 1.1: NSW Underlying Budget Result, GFS Cash Basis, 1961-62 to 2003-04 (at constant 2000-01 prices)



Source: ABS and NSW Treasury

Table 1.3: Trends in General Government Net Worth*

30 June	*Assets $m*	*Liabilities $m*	*Net Worth $m*
Actual:			
1997	104,287	38,762	65,525
1998	110,295	38,091	72,204
1999	115,770	37,303	78,467
Estimated:			
2000	119,079	33,883	85,196
2001	119,102	31,085	88,017
2002	120,810	30,684	90,126
2003	122,700	30,365	92,335
2004	124,781	29,936	94,845

* *Assets and Net Worth of the General Government Sector defined on an ABS basis include equity investment in the PTE and PFE Sectors as shown in Table 2.3. General Government Net Worth figures reported in the 1999 Budget excluded these equity investments (of the order of $43 billion).*

3. Funding Employer Superannuation Liabilities

Unfunded superannuation liabilities account for the majority of non-debt liabilities for both the General Government Sector and the Total State Sector. The GGDEA 1995 requires that accruing superannuation liabilities of both the General Government Sector and the Public Trading Enterprise Sector be fully funded, and that accrued unfunded employer superannuation liabilities be extinguished over time.

Movements in the level of General Government unfunded liabilities are set out in Table 1.1 and in Chapter 5. In the past four years, unfunded liabilities were reduced in accordance with fiscal principle 3. The increase in each of the three years 2000, 2001 and 2002 is a result of the superannuation prepayment (detailed in section 5.4), wherein contributions for those years were made in a single advance payment in 1999-2000.

However, while the 1999-2000 Budget consequently assumed no contributions would be made in these years, subsequently an additional contribution of $510 million was made in 1999-2000 and $320 million is planned for 2000-01. The ratio of General Government unfunded superannuation to GSP was 7.6 percent in June 1996 and is estimated to decline to 3.0 percent by June 2000, and further to 2.7 percent by June 2004.

The funding that has been achieved is well in excess of that required under the funding plan. This provides scope to reduce the future rate of funding and/or bring forward the dates targeted for extinguishing unfunded liabilities.

At the same time, the full funding of each year's superannuation expense in the First State Super Scheme is continuing. With the exception of the State Rail Authority, most non-Budget dependent agencies are fully funding their accruing superannuation liabilities (further details are provided in section 5.4).

4. Asset Maintenance

Infrastructure and other long-life physical assets comprise about 85 percent of the General Government Sector's total assets as at 30 June 1999. Consistent with the objectives of total asset management, the Government seeks to achieve an appropriate balance in its outlays between the creation of new capital, including public infrastructure, and the efficient utilisation of existing capital stock.

The GGDEA requires proper maintenance of the long-lived physical assets of General Government Sector agencies. In addition, the Act, as qualified by Treasurer's Directions, requires Budget-dependent agencies having a total physical asset base of $5 million or more to develop asset maintenance plans. These plans identify all assets, set out a maintenance program for each asset or grouping of assets, identify any deferred maintenance requirements and establish a funding plan.

Of the 30 General Government agencies required to submit asset maintenance plans, 27 (or 90 percent, compared with 57 percent the previous year) have complied, of which 26 plans have been deemed adequate. Asset maintenance plans for the remaining agencies are expected to be finalised in 2000-01.

Further details regarding asset maintenance in the General Government Sector are given in section 5.2.

5. Constrained Growth in Net Cost of Services and Outlays

Section 15 of the GGDEA specifies that the growth in net cost of services and in budget outlays (both current and capital) should be kept at or below the growth in inflation and population (ie. zero growth in real per capita terms).

In the five years to 1999-2000, total outlays (current and capital, GFS cash basis) grew at an average rate of 2.2 percent in real per capita terms. The accrual measure net cost of services increased by an average rate of 1.5 percent per annum in real per capita terms from 1997-98 to 1999-2000 (the period for which this measure is available). Deviation from the target was due to:

- *Policies to raise standards of service provision in New South Wales*. Commonwealth Grants Commission data from the early 1990s show important areas where the level of service provision in New South Wales was below that of other States, including public health, nursing homes, pre-school education, public safety and emergency services and some economic services.

- *Demand growth*. Given recent and ongoing demographic and social trends, the rate of growth of the cost of maintaining existing policies in the health and community service sectors in particular, has been well in excess of the rate of growth of per capita State product.

- *Restoring wage relativities*. Up to 1996, rates of increase in average weekly earnings in the public sector in New South Wales had fallen relative to those elsewhere. Significant wage increases in the three years to 1998-99 have restored relativities, contributing to the rate of growth of outlays.

The 2000-01 Budget and forward estimates have been framed to meet the principle of constrained growth in net cost of services while providing an allowance for the growth in demand for government services. For the four years to 2003-04, net cost of services is expected to grow at an average annual nominal rate of 2.6 percent on a no policy change basis (a reduction of 0.4 percent in real per capita terms). Chapter 4 provides more detail on the underlying movements in related expenses.

With the unwinding of Olympics-related capital expenditure and unplanned road repairs as a result of flooding, State asset acquisitions will decline slightly in 2000-01, then increase over the next four years. The discretionary component of General Government Sector capital outlays is projected to be maintained in real terms over the forward estimates period. The Total State Asset Acquisition Program will exceed $21.5 billion in the four years to 2003-04. Budget Paper No. 4 describes the asset acquisition program in detail.

6. Prudent Risk Management

Risk management has a broad coverage, including service delivery, asset management, commercial risks for some PTEs, environmental issues, ethics, fraud, organisational culture, all forms of legal liability, and the processes involved in identifying, assessing and managing those risks.

General Government risk management includes the management of sector-wide liabilities, including debt and unfunded superannuation liabilities, and New South Wales' triple-A credit rating bears testimony to the effectiveness of this State's approach to debt management. The insurance risks of all Budget Dependent General Government agencies and a number of Government authorities are covered by the Government's own self-insurance scheme, the Treasury Managed Fund. Chapter 5 provides further details.

General Government debt-related financial risks are largely centralised with NSW Treasury Corporation managing the Government's debt portfolio. The fundamental principle followed is that any financial risk assumed by an agency must contribute materially and directly to its approved objectives and should not be undertaken solely to obtain a market return. Guidelines on the management and reporting of investment and liability management performance are issued or updated periodically, the latest in September 1999.

Statements of Financial Performance for PTEs and Statements of Corporate Intent for State Owned Corporations (SOCs) must include the identification of all financial and operating risks as part of the annual agreement between the Government (as shareholder) and the Government Business. These agreements document the financial performance targets for the period, including the risks associated with the achievement of these targets. Monitoring of performance against the targets is undertaken on a quarterly basis.

The ongoing reform of the energy sector, including the development of the national electricity market, is exposing the Government to some specific risks in its different capacities of shareholder, service provider, regulator and facilitator of economic development. These risks are now being managed through the centralisation of energy policy development in a single unit located within Treasury, the *Market Implementation Group*.

The GGDEA 1995 requires General Government agencies to maintain a risk management plan dealing with financial and other significant risks. To assist agencies to identify and manage risks, the Treasury developed and released in 1997 a *Risk Management and Internal Control Toolkit,* a self-assessment tool to assist General Government agencies to implement best practice risk management strategies, and which complements Treasury's *Statement of Best Practice for Internal Control and Audit*.

7. Tax Restraint

The principle of tax restraint requires that the level of taxes should be restrained to the maximum possible extent, and that policies be pursued that are consistent with a reasonable degree of predictability about the level and stability of tax rates for future years.

Tax revenues are influenced by various economic factors. When the economy is strong, higher tax collections are realised (other things being equal). However, to the extent that the economic factors are cyclical, they will not support a permanent reduction in tax rates. It is then appropriate to let the level of tax raised increase, providing scope to reduce liabilities such as net debt. New South Wales property and asset market activity has been strong, contributing to substantial increases in property-related and financial taxes in recent years. Payroll tax revenue has also grown due to strong cyclical employment growth.

Apart from clear cyclical influences, Government policy has contributed to some of the growth in tax revenue in recent years in two respects:

- Firstly, New South Wales was compelled to raise tax rates in response to the Commonwealth's imposition of Fiscal Contribution Payments on the States in 1996-97.

- Secondly, having taken a decision to improve service provision in key areas such as health, welfare and law and order services, limiting the prospect of constraining growth in the net cost of services, the Government also took the fiscally responsible decision to fund these expenditures through taxes rather than debt.

However, policy changes from 1998-99 have significantly reduced the underlying tax burden, as quantified in Table 1.4. In constant 2000-01 terms, by 2003-04 the net effect of all tax policy changes since 1994-95 will be a reduction of $600 million per year.

This $600 million a year reduction does not include State taxes removed as a result of national tax changes.

In 1999 NSW won a fairer share of Commonwealth grants and made the last of three annual Fiscal Contribution Payments to the Commonwealth. This allowed the Government in the 1999 Budget to cut the rate of payroll tax and land tax.

The 1999 Budget forward estimates provided for further reduction in payroll tax on 1 July 2001 and 1 July 2002 as well as a further $150 million of unspecified tax cuts in 2001-02 and $175 million in 2002-03.

The 2000-01 Budget brings forward by six months (from 1 July to 1 January 2001) the cut in the payroll tax rate from 6.4 percent to 6.2 percent and provides for additional tax reductions.

In total, the 2000-01 Budget introduces $127 million worth of new tax reductions in 2000-01. It also contains a net $38 million of previously announced tax reductions that take effect from 1 July 2000.

Aggregate tax receipts, after assuming the retention of taxes to be abolished under national tax reform, would have been expected to remain virtually unchanged between 1999-2000 and 2003-04. More details on trends in tax receipts and new tax initiatives in this Budget are provided in Chapter 3.

Table 1.4: Contribution of Policy Changes to Tax Collections

Year	Policy Induced Tax Changes[(a)] $m
1989-90	200
1990-91	310
1991-92	80
1992-93	240
1993-94	100
1994-95	(-) 40
1995-96	15
1996-97	180
1997-98	295
1998-99	(-) 95
1999-2000	(-) 395
2000-01	(-) 220
2001-02	(-) 250
2002-03	(-) 165
2003-04	(-) 21

n.a. - not available.

(a) *Where the tax change is introduced after the commencement of the fiscal year, and therefore has only a part year effect in that year, the residual is included in the following year. Notes on specific years: (1) from 2000-01, excludes the impact of national tax reform, and includes the impact of measures introduced in the 1999-2000 Budget and foreshadowed in this Budget; (2) 1996-97 to 1998-99 include the tax increases to fund Fiscal Contribution Payments to the Commonwealth; (3) 1997-98 excludes the one-off loss from abolishing business franchise fees and their replacement by Commonwealth Safety Net taxes.*

In the medium to long term, the scope for further tax restraint in New South Wales will be made more difficult by the Commonwealth's tax reforms (which in the medium term will give greater leeway to those other States already having a lower relative tax burden than New South Wales to further cut their remaining State taxes); and by the fact that New South Wales will continue to subsidise other States by $1.7 billion a year (more details are provided in Chapter 8). Competition will also continue to place downward pressure on Budget contributions from PTEs.

Nonetheless, New South Wales' relative tax burden is expected to decline over the forward estimates period as a result of the tax reduction measures in this and last year's budgets. The Government's objective is to close the gap between the New South Wales' tax burden and the national average over the medium term, thereby also reducing the distortions created by taxation and improving allocative efficiency.

1.3 THE ECONOMY

INTRODUCTION

Both revenues and outlays are affected by conditions in the economy. Economic factors are most critical in influencing taxes, interest costs and departmental expenses[1].

This section reviews the performance of the economy compared with expectations in 1999-2000 and discusses the economic forecasts that underlie the 2000-01 Budget.

Helped by a favourable international environment, the NSW economy again performed strongly in 1999-2000, with output and employment growth both above Budget forecasts and a lower than expected rate. The strength of domestic and overseas growth contributed to slightly higher than expected inflation and interest rates.

Growth in output and employment will remain robust during 2000-01 although this will be accompanied by a GST-impacted rise in inflation and further increases in interest rates. Activity in asset markets, to which Budget revenues are particularly sensitive, is expected to soften.

Sources of uncertainty for the Budget year and beyond include the world economic outlook (particularly with respect to financial markets and crude oil prices) as well as the major challenges to the Australian economy as it adjusts to the new Commonwealth tax system.

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[1] *The sensitivity of the Budget to economic variables is analysed in Section 2.6.*

RECENT PERFORMANCE

Overall, economic outcomes in Australia and New South Wales in 1999-2000 are likely to be more favourable than expected in the 1999-2000 Budget due to very strong overseas economic conditions, buoyant asset markets and generally high business and consumer confidence. These foundations weakened somewhat during the second half of the year, however, as economic and financial imbalances in the international economy became more pronounced.

The 1999-2000 Budget observed that the balance of risks to the forecasts was on the up-side, and this proved to be correct. Treasury's economic forecasts for 1999-2000 were upgraded progressively during the year in line with improving economic indicators and rising business and consumer expectations. Inclusion of GST effects (the 1999-2000 Budget had been prepared on an ex-GST basis) caused other modifications to the forecasts. Revisions were published in the Half-Yearly Budget Review in February 2000, and estimates in the 2000-01 Budget reflect further revisions to the outlook.

Table 1.7: Revisions to 1999-2000 Estimates[(a)]

	1999-2000 Budget Time	*Half Yearly Review*	*Current Estimate*
Gross State Product	3 ¼	3 ¾	4 ¼
Employment	1 ¾	2 ¼	3 ¼
Unemployment rate[(b)]	6 ¾	6	6
CPI (Sydney)	2	2 ¼	2 ¼
Wages[(c)]	3 ¾	3 ¾	3 ¾

Notes: (a) Year average percent change, unless otherwise indicated.
(b) Year average, percent.
(c) Average weekly ordinary time earnings of full-time adults in New South Wales.

The increase in the *GSP growth* estimate is largely due to higher than expected *private consumption* reflecting large gains in employment, wealth effects from property and share price appreciation and a rapid expansion of private sector credit. However gains were not even across sectors, with the Australian Bureau of Agricultural and Resource Economics (ABARE) estimating a 1½ percent fall in the net real value of farm production in 1999-2000. Moreover consumer confidence weakened somewhat following increases in interest rates and share market volatility in the second half of the year, and with uncertainty over impending Commonwealth tax changes.

Higher than expected household disposable income and private consumption have had a positive impact on a range of revenue collections. This was particularly noticeable for new motor vehicles registrations, which had undergone a temporary downturn at the start of the financial year in reaction to the new Commonwealth tax legislation foreshadowing the removal of the wholesale sales tax from July 2000. Strong demand conditions along with aggressive pricing by suppliers helped motor vehicle registrations to recover strongly in the second and third quarters. This contributed to upward revisions to Budget estimates for motor vehicle registration stamp duty during the course of the year.

Residential construction growth was slightly less than forecast in the Budget, despite a boost to demand from new home purchasers seeking to avoid the GST. Rising mortgage interest rates are likely to have contributed to this slowdown. However house prices (particularly for established homes) gained strongly in the first half of 1999-2000 and, along with strong real estate turnover, contributed to growth in conveyancing duty.

Business investment was weaker than expected in the Budget. While *machinery and equipment investment* improved against initial predictions, *non-residential construction* was substantially weaker than anticipated in the 1999-2000 Budget.

Public final demand (by all levels of Government) was estimated to be stronger than forecast in the Budget. Public investment increased by 16.5 percent in calendar 1999[6] while Government consumption was 6.1 percent higher than in 1998.

Employment in the first ten months of 1999-2000 averaged 3.0 percent higher than a year earlier, well above the growth rate anticipated in the 1999-2000 Budget, with equal contributions from part-time and full-time employment. Strong labour demand more than offset rising labour force participation (the participation rate increased from 61.7 percent in June 1999 to 62.7 percent in April 2000) leading to a 19,800 reduction in the number of unemployed during the first ten months. The *unemployment* rate declined from an average 7.0 percent in 1998-99 to an average 6.1 percent in the first ten months of 1999-2000, dipping below 6 percent on three occasions during that period including April 2000 when it was 5.6 percent.

The Sydney *consumer price index* during the first three-quarters of 1999-2000 was 2.1 percent higher than a year earlier. For the year as a whole inflation is expected to average ¼ percent higher than the budget forecast due to higher petroleum prices, the addition of GST to long contracts (particularly insurance), higher house prices, and generally stronger than anticipated demand conditions.

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[6] *At Budget preparation, available State Accounts information ended in December 1999.*

Average weekly ordinary time earnings (AWOTE) increased at an annual rate of 4.1 percent in the first two quarters of 1999-2000 and by an estimated 3¾ percent in 1999-2000 as a whole. This was a significant reduction from the 5 percent increase recorded in 1998-99. This performance was back within the Reserve Bank of Australia (RBA) 3½ to 4½ percent “wage corridor” consistent with consumer price inflation of between 2 to 3 percent and labour productivity growth of around 1½ percent. Wage outcomes were even more moderate after adjustment for the upward bias from workforce composition drift from lower to higher paid positions. The ABS *Wage Cost Index*, which was developed to remove such distortions, showed wages growth of a moderate 3.0 percent per annum during the first half of 1999-2000.

The combination of moderate wages and strong employment growth boosted *total compensation of employees* by 5.6 percent per annum in the first two quarters of 1999-2000. Performance of payroll tax receipts was broadly consistent with this trend.

Interest rates were somewhat higher than foreseen in the Budget. Buoyant economic conditions led central banks both in Australia and overseas to tighten monetary policy, with RBA increases in November, February, April and May totalling 1¼ percentage points. Long bond rates rose strongly during the first half of 1999-2000 but declined thereafter as funds shifted back from equities into debt, and the yield curve flattened markedly. Bond rates affect the cost of State debt management.

The *exchange rate* in the first half of May 2000 was about 12 percent lower than a year earlier against the US dollar and the Trade Weighted Index (TWI).

Domestic capital markets recorded strong gains in the first nine months of 1999-2000 with the All-Ordinaries share price index marking new record levels through early March 2000 when it was 11 percent above a year earlier; and share ownership in the community continued to widen. Daily turnover in exchange traded equities was 24.5 percent higher in the first eight months of 1999-2000 than in the same period a year earlier[7]. This boosted receipts from share transfer duty.

In summary, economic conditions in the first three quarters of 1999-2000 proved generally more supportive of a strong Budget performance than had been assumed at the time of the 1999-2000 Budget. However, tighter current and prospective monetary policy, associated turbulence in equity markets, and uncertainty about the smoothness of the transition to the new Commonwealth tax system, dented sentiment toward the close of the financial year.

[7] *Share market trends are from the RBA Bulletin, which reports turnover one month later than prices.*

OUTLOOK

World economic conditions in 2000 are expected to be the strongest since the late 1980s, but this will be accompanied by higher inflation, higher interest rates, and further volatility in asset markets, leading to slower world growth in 2001. The New South Wales and Australian economies will again deliver strong growth during 2000-01 in year average terms, although output and employment growth are expected to soften a little over the course of the year. Somewhat higher interest rates and underlying inflation are anticipated during 2000-01.

While the economy is likely to remain strong in 2000-01, there will be a substantial rebalancing of activity away from domestic demand (consumption and dwelling construction in particular) towards net exports (higher exports and lower imports), reflecting slower growth in household income and wealth offset by strengthening demand in overseas markets.

The New South Wales economy is expected to perform marginally above the national economy. *Output* is forecast to increase by 4 percent in 2000-01 against 4¼ percent in the previous year. Exports of goods and services are expected to rise strongly, although growth in domestic consumption and investment (State Final Demand) will be somewhat more moderate. The Sydney Olympics and the restructuring of the NRMA will add to growth:

- The Olympics in September 2000 are expected to contribute approximately ¼ of a percentage point to NSW output in 2000-01.

- The NRMA's partial demutualisation (and distribution of assets to members, who reside mainly in NSW and ACT) is expected to contribute around ¼ of a percentage point to NSW output in 2000-01.

Table 1.8: Economic Performance and Outlook[a]

	Outcomes	Estimates	Forecasts	
	1998-99	1999-2000	2000-01	2001-02
New South Wales				
Gross State Product	4.3	4 ¼	4	3 ½
State Final Demand	4.4	5 ½	3 ¾	3
Employment	2.4	3 ¼	2 ¼	1 ½
Unemployment rate[b]	7.0	6	5 ¾	5 ½
CPI (Sydney)	1.6	2 ¼	6	2 ¼
CPI ex-GST[c]	(na)	(na)	3	2 ½
Wages[d]	4.9	3 ¾	4	4
Australia				
Non-farm GDP deflator	0.8	1 ¼	3 ½	2
Ten year bond rate[b]	5.4	6 ½	7 ¼	6 ¾

Source: Australian Bureau of Statistics; NSW Treasury.

Notes:
(a) Year average percent change, unless otherwise indicated.
(b) Year average, percent.
(c) The CPI adjusted by Treasury to exclude the estimated impact of changes to Commonwealth indirect taxation (primarily the imposition of the GST and removal of WST).
(d) Average weekly ordinary time earnings of full time adults in New South Wales.

Growth of *private consumption* in New South Wales is expected to slow from 5 percent in 1999-2000 to 4¼ percent in 2000-01. Factors tending to restrain consumption will include slower growth of real wage and salary income, increased mortgage interest costs and more modest appreciation of property and equity assets. The NRMA demutualisation and the Commonwealth income tax cuts however will provide a partially offsetting stimulus. Because consumers did not significantly reduce their motor vehicle purchases in the run-up to the GST, no boost from pent-up demand for vehicles is expected in 2000-01.

Dwelling construction in New South Wales plateaued in 1999-2000 despite boosts from hailstorm remediation and accelerated work ahead of the GST. This was due in part to extremely tight materials and labour supply which resulted in higher costs. Dwelling construction is expected to decline in 2000-01 due to to higher mortgage interest rates and the reversal of the GST bring-forward effect. However a substantial backlog of uncompleted work at year's start plus some reduction in cost pressures during the course of the year should help moderate this decline in activity.

Machinery and equipment investment is expected to strengthen in line with the December 1999 Australian Bureau of Statistics (ABS) capital expenditure survey that reported a 16 percent rise in business expectations for equipment investment in 2000-01 over their corresponding expectations a year earlier. This will tend to offset the somewhat softer conditions expected in non-residential construction. Overall, business investment in New South Wales is expected to be slightly more subdued than in 1999-2000.

New South Wales *employment growth* is expected to ease to 2¼ percent in 2000-01 from 3¼ percent in 1999-2000, as reflected in the levelling off in leading indicators such as the ANZ Job Advertisements series[8]. Even 2¼ percent growth will substantially exceed longer-term trends, implying a fairly tight labour market in 2000-01.

This rate of employment growth should still be sufficient to achieve further reductions in the *unemployment rate* which is forecast to decline from 6 percent in 1999-2000 to 5¾ percent in 2000-01.

Average weekly earnings growth is expected to increase slightly to 4 percent in 2000-01, due as much to compositional shifts as to pay-rate effects. Wage costs growth (netting out compositional effects) is expected to remain about 3 to 3 ½ percent. Award wage increases available under the 1 May 2000 national Safety Net Decision remain reasonably modest, the trend in federal enterprise bargaining agreements has strengthened only slightly, and there has been little pressure for GST-related indexation to date, although that remains a risk.

Sydney *consumer price index* is expected to rise from 2¼ percent in 1999-2000 to 6 percent in 2000-01 with underlying pressures adding to the one-off impact of the GST. Underlying inflation (excluding the impact of indirect tax changes) is projected to increase to 3 percent. Higher crude oil prices will continue to flow through to industrial production and distribution costs. The lower exchange rate during the second half of 1999-2000 will have a lagged impact on import prices during 2000-01; while tariff reductions (which contributed significantly to lower inflation in the 1990s) will no longer provide an offset. The Commonwealth Government's indirect tax package is expected to contribute 3 percentage points to the price level in 2000-01, lifting the total increase in the CPI to 6 percent.

With underlying inflation accelerating to the top of the 2 to 3 percent target range for monetary policy, it is assumed that the RBA will lift its target cash interest rate by an additional ¼ to ½ of a percentage point. Long-term capital markets are driven primarily by overseas developments, and consequently the stronger growth anticipated in the world economy will tend to lift long term bond rates somewhat higher during 2000-01.

Risks to the forecasts in 2000-01 include uncertainty regarding developments in the world economy, the danger of a major share market correction in the United States, and the reactions of business, labour and consumers to the new Commonwealth tax arrangements.

In 2001-02, world economic growth is expected to slow substantially providing a more subdued environment for the Australian and New South Wales economies. Expansion in export markets will be slower; and the lifting of the one-off factors

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[8] *The large number of volunteer and interstate workers who will be assisting with the Sydney Olympics will not influence this result, because Australian Bureau of Statistics classification standards will exclude them from ABS estimates of New South Wales employment.*

boosting growth in 2000-01 (the Sydney Olympics and the NRMA's partial demutualisation) will also moderate the pace of activity in 2001-02. Offsetting these factors will be a strengthening of activity in the dwelling construction sector; implementation of the initiatives foreshadowed in the Government's Beyond 2000 Jobs Program; and the beginnings of a new phase of office block construction driven by tight vacancy rates and rising rental yields. The forecast growth rates of 3½ percent in output and 1½ percent in employment during 2001-02 will equal or exceed historical averages, and should underwrite a further modest reduction in unemployment.

Headline inflation is expected to decline sharply in 2001-02 from the GST-impacted outcome of the preceding year. More moderate growth and lower inflation will be conducive to easier monetary policy, which in turn is expected to impart some further stimulus to recovery in dwelling construction and other interest sensitive sectors.

MEDIUM TERM OUTLOOK

Prospects for the economy throughout the period beyond 2001-02 will remain dominated by trends in world output, the business cycle and domestic policy settings. Because these factors are not predictable more than a short period ahead, the budget projections beyond 2001-02 are based on expectations for average economic performance over a five to ten year period.

Table 1.9: Economic Parameters[(a)]

	Medium Term
Gross State Product	3¼
Population	1
Employment	1¼
CPI (Sydney)	2½
Wages[(b)]	4
Ten year bond rate[(c)]	6

Notes: (a) Year average percent change, unless otherwise indicated.
(b) Average weekly ordinary time earnings of full-time adults in New South Wales.
(c) Year average, percent.

The medium term framework adopts parameters for output, employment and population that are consistent with historical performance. The medium term framework also incorporates assumptions for prices, wages and interest rates as indicated in Table 1.9.

MAJOR RISK FACTORS

Clearly, the NSW economy, together with the rest of Australia, is influenced by events in the world's major economies, in particular the United States, Europe, Japan and the other East Asian economies. Key risks to the forecasts both on the upside and the downside (all of which are *possible* but not *expected*) include:

(a) Developments which might detract from growth:

- The gradual tightening of United States monetary policy in response to an overheated economy may intensify, ultimately leading to a steep correction in financial markets, with consequent sharp fall in economic growth; and
- Adjustment to the new Commonwealth tax arrangements may be more complex and costly than anticipated, leading to a significant slowdown in business activity and in consumer demand; and wage and price pressures following introduction of the new tax system may be larger than anticipated.

(b) Developments which might add to growth:

- The recovery in world growth may prove stronger and more durable than anticipated, as was the case in 1999-2000. This could rekindle growth in asset markets while putting upward pressure on prices and interest rates.
- Reductions in Commonwealth income tax, increased personal benefits and the easing of capital gains tax may provide a larger than anticipated fiscal stimulus to growth.

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

CHAPTER 2: FISCAL POSITION AND OUTLOOK

- A Net Lending Surplus of $659 million in 2000-01.
- An Operating Surplus before Abnormals of $1,238 million in 2000-01.
- A Cash Surplus of $393 million in 2000-01.
- A reduction in Net Financial Liabilities of $2,586 million in 2000-01.
- An increase in Net Worth of $2,821 million in 2000-01.

Prior to the 2000-01 Budget the NSW Budget Papers were prepared on two bases: first, on an accrual basis in accordance with Australian Accounting Standards and Principles; and second, on a cash basis in accordance with Government Finance Statistics (GFS) principles as defined by the Australian Bureau of Statistics.

This year GFS reporting has moved to an accrual presentation. This year's Budget Papers are in accordance with Australian Accounting Standards and the new accrual based principles developed by the Australian Bureau of Statistics. This Chapter summarises key information from the Budget financial statements. Full details of accrual GFS statements in accordance with the Uniform Presentation Framework are contained in Chapter 9, and statements in accordance with Australian Accounting Standard No 31 (AAS31) are contained in Appendix A.

Operating Statement

The 2000-01 Budget Papers include a Budget Operating Statement that combines both the normal accrual presentation in accordance with Australian Accounting Standards and certain disclosures under the new GFS accrual format.

The Net Lending Result in the Budget Operating Statement is the key result for the State's financial position. It represents the balance available to reduce General Government sector liabilities. Consequently, the Net Lending Result broadly approximates the movement in Net Financial Liabilities, underscoring the Government's focus on balance sheet management.

The Budget Operating Statement also discloses the Operating Surplus Before Abnormal Items. This result is on an accrual basis in accordance with AAS31, and reflects the full cost on a consolidated basis of providing the Government services as disclosed in Budget Paper 3. Accordingly, expenses are recorded at the time they are incurred, rather than when they are paid, and revenue is recognised when earned, rather than when received.

The Budget Operating Statement also discloses the Operating Result After Abnormal Items which brings to account the impact of one-off events not necessarily associated with the day-to-day operations of the State, such as the actuarial revaluations of the State's superannuation liabilities and the re-gearing of the Public Trading Enterprise (PTE) sector, discussed later in this chapter. However, the majority of these abnormal items are removed as valuation adjustments to arrive at the GFS Operating Balance.

The principal difference between the above GFS Operating Balance and the GFS Net Lending Result is the treatment of capital. The Operating Result includes a depreciation charge that reflects the cost of wear and tear of agencies' assets arising from the delivery of services. The Net Lending Result excludes depreciation but instead reflects agencies' cash movements in the acquisition and sale of assets.

A GFS cash result broadly consistent with the prior year's GFS cash surplus measure is also disclosed in the Budget Operating Statement. This cash result is fully detailed in the GFS Statement of Cash Flows and is a key result in the assessment of performance against the fiscal targets and principles in the *General Government Debt Elimination Act 1995* (see Chapter 1).

Statement of Financial Position

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

The key difference between the GFS and AAS31 Statement of Financial Position is the inclusion of an equity investment in the Public Trading and Public Financial Enterprise sectors in the GFS statement.

Statement of Cash Flows

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

AAS31 Statements

Financial Statements in accordance with AAS31 are contained in Appendix A.

2.1 GENERAL GOVERNMENT SECTOR OPERATING STATEMENT 2000-01 BUDGET AND FORWARD ESTIMATES.

The GFS Net Lending Result for the year 2000-01 is expected to be a surplus of $659 million, compared with a $1,129 million surplus estimated for 1999-2000 (see Table 2.1 below). This surplus is expected to grow over the following three years to $1,180 million in 2003-04.

The Cash GFS Surplus for the year 2000-01 is expected to be $393 million, compared with $314 million in the prior year.

Included in the Net Lending results are finance and superannuation expenses related to the cost of borrowings and accruing superannuation liabilities. As is the case with General Government debt there is an obligation by the Government to pay superannuation contributions and reduce unfunded superannuation liabilities.

The Government introduced a funding plan that would see the State's superannuation schemes fully funded by 2045. However, the strong surpluses in 1999-2000 and 2000-01 will allow the Government to make contributions of $830 million, over and above this funding plan. While these additional contributions reduce the Cash GFS Surplus they have no impact on the Net Lending outcome.

The Budget results for 1999-2000 and 2000-01 have allowed the Government to reduce superannuation liabilities and apply the remaining surpluses to debt reduction. This has been achieved while increasing expenditure in key service delivery areas and reducing taxes.

Revenue

Taxation revenue is expected to fall by 17.1 percent in 2000-01 (refer Chapter 3) due to:

- the continuation and expansion of the tax reduction program started in last year's Budget at a cost of $611 million in 2000-01. The financial impact of the new tax reduction measures amounts to $127 million, while the impact of previous year measures on the 2000-01 Budget amounts to $484 million;

- a cyclical reduction in stamp duties that is estimated to reduce taxation revenue by $560 million; and

- the Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations which sees the abolition or reduction of State taxes amounting to $2,607.6 million in 2000-01 and more in future years. These taxes are replaced by GST grants and other grants, which account for a 34.6 percent increase in overall Commonwealth Grants.

The taxation reduction measures announced in this Budget include: the reduction of stamp duties on general insurance; the accelerated implementation of the next scheduled payroll tax reduction; and the replacement of the First Home Purchase Scheme by First Home Plus, which effectively abolishes stamp duty for eligible first home buyers (see Chapter 3 for details). These measures add to the tax cuts announced in previous years.

Moderate reductions in financial distributions from the electricity industry are also a factor in the restrained overall revenue growth.

Expenses

Expenses in the Budget and forward estimates period include a number of items that are either outside the normal operating pattern of the General Government sector, such as the Olympic Games, or are offset by equivalent adjustments to revenue, such as the First Home Owners Scheme Grants and GST administration costs. After removing these items from expenses, net underlying expenses will increase by 3.4 percent in 2000-01 and 2.0 percent, 2.1 percent and 2.7 percent respectively, in the forward years. A detailed breakdown of these adjustments is contained in Chapter 4, Table 4.1.

The net underlying increase of 3.4 percent in the budget year is principally due to the cost of additional service delivery within the key areas of Health, Education, Law and Order, and Social Security and Welfare.

A discussion of expenses is contained on a policy area basis in Chapter 4, Budget Paper 2 and on an agency basis in Budget Paper 3.

There is also an increase in superannuation expenses of around $220 million. This mainly reflects the impact of earnings on additional funds available to the superannuation funds in 1999-2000 as a result of the prepayment of superannuation contributions. There are also increases in the superannuation expenses within the RTA and the Department of Public Works and Services due to lower expenses in the prior year as a result of actuarial revaluations. Similarly, the expenses for the Insurance Ministerial Corporation will increase following a downward revaluation of outstanding claims liability in 1999-2000.

The above increases are partially offset by reductions to expenditures within the Department of Gaming and Racing of $68 million due to the one-off payment to clubs in 1999-2000 as part of the transition to the GST.

The 2000-01 Budget year provides for additional expenses associated with the provision of essential services needed to support the 2000 Olympic and Paralympic Games. These services include security, police and emergency services, dedicated rail and bus services, health care and the management of the Sydney Harbour and other waterways. An analysis of this expenditure is dealt with in Chapter 6.

The Budget also provides for Olympic capital expenditure. General Government capital expenditure in total remains relatively constant over the Budget and Forward Estimates period although the total State Asset Acquisition Program will rise significantly. There is a small decrease in 2000-01 due to works required for the Olympic Games and unplanned road repairs as a result of flooding coming to an end. The last payment for venue construction will be made at the end of May 2000, making a total of $1,642 million spent by the Government on Olympic venue construction out of $2,246 million. Expenditure will increase in the forward years to levels consistent with pre Olympic periods.

Operating result

The Budget Operating Surplus reflects an abnormal gain in 2000-01 amounting to $2,400 million. This relates to the income received from the Public Trading Enterprise (PTE) sector as a result of the electricity distributor debt re-gearing. However, this is reversed out as a valuation item in arriving at the GFS Net Lending Result.

In general, the debt-to-equity ratios for the NSW electricity businesses are relatively low compared to private sector firms. In March 2000, the Treasurer (on behalf of the Shareholders) wrote to the five largest NSW distributors and TransGrid advising of a capital restructure which will increase the total debt of the businesses by $2.4 billion.

The rationale for the capital restructure is that it will move the gearing levels of those electricity businesses towards those of private sector firms. This will help to ensure that NSW electricity businesses face the same commercial disciplines as private firms, including raising funds for new projects.

The proceeds of the increased debt from the restructure when returned to the General Government Sector will be applied against General Government debt resulting in reduced finance costs in the Budget and forward estimate years.

The increased PTE debt means that the financial distributions from these businesses is reduced, although this will be more than offset by lower General Government interest costs. However, the re-gearing is principally a Balance Sheet transaction, with negligible impact on the Operating, Net Lending and Cash results.

Table 2.1: General Government Sector Operating Statement

	1998-99 Actual $m	1999-2000 Budget $m	1999-2000 Revised $m	2000-01 Budget $m	2001-02 Estimate $m	2002-03 Estimate $m	2003-04 Estimate $m
State Revenues							
Taxation	14,137	13,945	14,964	12,412	11,487	11,789	12,384
Commonwealth Grants	8,911	9,363	9,498	12,780	14,125	14,513	14,760
Financial Distributions	1,444	1,381	1,334	1,210	1,166	1,185	1,304
Fines, Regulatory Fees & Other	807	782	782	792	736	743	737
Total State Revenues	**25,299**	**25,471**	**26,578**	**27,194**	**27,514**	**28,230**	**29,185**
Operating Revenues							
Sale of Goods and Services	2,448	2,427	2,517	2,171	2,218	2,242	2,285
Investment Income	420	387	386	391	403	412	433
Grants and Contributions	485	400	397	421	315	288	297
Other	302	219	345	280	220	198	172
Total Operating Revenues	**3,655**	**3,433**	**3,645**	**3,263**	**3,156**	**3,140**	**3,187**
Expenses							
Employee Related							
- Superannaution	1,553	1,585	1,320	1,540	1,628	1,726	1,735
- Other	11,542	11,585	11,881	12,157	12,280	12,577	12,973
Other Operating	6,611	6,048	6,080	6,605	6,121	6,175	6,277
Maintenance	1,249	1,091	1,138	1,120	1,114	1,170	1,182
Depreciation and Amortisation	1,036	876	952	995	1,051	1,120	1,196
Current Grants and Subsidies	3,762	3,760	3,827	3,944	3,902	3,920	3,945
Capital Grants	1,105	1,137	1,101	1,397	1,444	1,460	1,599
Finance	1,397	1,325	1,405	1,287	905	888	841
Treasurer's Advance	...	160	...	160	160	160	160
Total Expenses	**28,255**	**27,567**	**27,704**	**29,205**	**28,605**	**29,196**	**29,908**
Gain/(Loss) on Disposal of Non-Current Assets	84	(100)	(86)	(14)	1	5	5
Net Cost of Services	**(24,516)**	**(24,234)**	**(24,145)**	**(25,956)**	**(25,448)**	**(26,051)**	**(26,716)**
OPERATING SURPLUS BEFORE ABNORMAL ITEMS	**783**	**1,237**	**2,433**	**1,238**	**2,066**	**2,179**	**2,469**
Abnormal Items	1,224	860	1,582	2,400	...	...	...
Operating Surplus After Abnormal Items	**2,007**	**2,097**	**4,015**	**3,638**	**2,066**	**2,179**	**2,469**
Valuation Items Adjustments under GFS	(802)	(720)	(1,421)	(1,888)	39	(6)	(11)
GFS Operating Balance	**1,205**	**1,377**	**2,594**	**1,750**	**2,105**	**2,173**	**2,458**
Less Capital Expenditure	2,481	2,684	2,757	2,493	2,579	2,635	2,646
Plus Depreciation	1,036	878	952	995	1,051	1,120	1,196
Asset Sales & Other	492	519	340	407	250	209	172
GFS NET LENDING RESULT	**252**	**90**	**1,129**	**659**	**827**	**867**	**1,180**
Adjusted for accruals	331	136	(815)	(266)	(144)	(249)	(433)
Cash GFS Surplus/(Deficit)	**583**	**226**	**314**	**393**	**683**	**618**	**747**

Forward Estimates

Expenditure growth in the forward years reflects further increases in the key service delivery areas. Within Health the Government has committed to a three-year recurrent Health budget, enabling clinicians and managers to plan for growth in demand and related service delivery and workforce needs. Education expenses will increase in the forward years due partly to the Computers in Schools plan and the expansion of the State Literacy and Numeracy Plan. Expenditure will increase within Transport in accordance with *Action for Transport 2010*.

The Budget and forward years results exclude any impact of members transferring between superannuation funds. Under legislation passed by Parliament, members of two defined Pension benefit schemes are being offered an opportunity to exit these schemes and join First State Superannuation. The offer closes on 31 May 2000 and the final number of acceptances will not be known until after this date.

The forward years see the Net Lending surplus grow to $1,180 million. This is due to the cessation of Olympic expenditure, reduced finance costs as a consequence of the net debt reduction, and moderate revenue growth.

2.2 GENERAL GOVERNMENT SECTOR OPERATING STATEMENT 1999-2000 BUDGET AND REVISED ESTIMATES

The 1999-2000 Budget was presented on both a cash GFS and AAS31 basis. With the move to accrual GFS the format of reporting has been adjusted to integrate both accounting and GFS presentations. These revisions have resulted in some minor adjustments to previous estimates of the GFS surplus. Discussion in this section focuses on the revised Budget format.

The revised Net Lending surplus for 1999-2000 of $1,129 million is $1,039 million higher than the 1999-2000 Budget estimate of $90 million (see Table 2.2).

Revenue

Total State and Operating revenues are expected to be $26,578 million and $3,645 million respectively for the year 1999-2000. This exceeds the Budget estimate by $1,107 million and $212 million respectively.

The main reason for the improvement is an increase in taxation revenue driven by cyclical economic impacts. Revenue from stamp duties is expected to exceed the Budget estimate by $765 million as a result of continued strength in the property and share markets. Some of the increase in stamp duties results from purchases brought forward in anticipation of the GST and therefore the Budget and forward years reflect an equivalent reduction.

Payroll tax is expected to exceed the Budget estimate by $126 million due to the stronger than expected labour market generally and additional employment associated with the implementation of the GST, and Y2K modifications. A stronger than expected property market has resulted in land tax revenues exceeding budget by $59 million. Total land tax revenues will still remain lower than 1998-99.

Expenses

The increased taxation revenue has been offset to some extent by increased expenditure for employee costs, additional depreciation and maintenance. These costs have been incurred in the key service delivery ares of Health, Education, Law and Order and Community Services. Finance costs are also expected to be above budget, however reductions are forecast for superannuation expenditure and other operating costs.

Total Expenses are expected to be $27,704 million for the year ending 1999-2000. Expenses will exceed the Budget Estimates by $137 million.

Health expenses are projected to exceed the Budget Estimate by $205 million, partly due to the implementation of the NSW Drug Summit Government Plan of Action, additional funding for emergency and critical care services flowing from the recommendations of the NSW Health Council and award increases for nurses and other staff.

Education expenses are projected to exceed the Budget estimate by $220 million. This reflects adjustments to employee entitlements for superannuation and long service leave and increased depreciation following the revaluation of the Department's asset holdings. In addition it includes provision for a salary increase to teachers in 1999-2000 consistent with that provided to other public sector unions and additional expenses on school maintenance, per-capita grants to non-Government schools and redundancy payments.

Community services expenses are expected to exceed the Budget estimate by $78 million, partly due to additional costs associated with disability services, foster care and supported accommodation assistance.

Expenditure will exceed the Budget estimate by $52 million in the area of Law and Order due to additional funding for Police and Corrective Services.

Expenditure will also exceed the Budget estimate by $69 million in the Department of Gaming and Racing, reflecting a one-off payment to clubs as part of the transition to the GST.

Finance costs will exceed the Budget estimate by $80 million principally due to the assumption of $50 million in debt from the Department of Housing which is in the PTE sector.

The above increases have been offset by reductions to the Pooled Superannuation Fund and Other Operating Expenses. Superannuation expenses are expected to be lower than the Budget Estimate by $265 million. This is principally due to the impact of earnings on the prepayment of superannuation contributions in 1998-99. Superannuation expenses have also fallen within the RTA and the Department of Public Works and Services due to actuarial revisions of the liability.

The impact of previous reforms to workers compensation legislation, resulting in a decrease in the cost of workers' compensation claims, coupled with higher than expected returns on investments by the Insurance Ministerial Corporation, has contributed toward an estimated reduction in Other Operating Costs of $128 million. This is partly offset by the additional operating costs within Health as discussed above.

Net Cost of Services

The above expenditure variations have been more than offset by the $212 million increase in General Government operating revenues resulting in a 0.4 percent decrease in the Net Cost of Services relative to the Budget estimates.

Abnormal Items

An abnormal gain of $1,582 million occurred in 1999-2000. This relates to the revised actuarial valuation of the closed defined benefits superannuation schemes. However, under GFS guidelines, valuation gains such as these are excluded from the Net Lending Result and have been adjusted accordingly.

Cash GFS Surplus

The GFS cash result for 1999-2000 is a surplus of $314 million. This amount is $815 million lower than the Net Lending Result. This is due principally to the superannuation expense for the closed defined benefits scheme being lower than the level of cash contributions made in the year. This is mostly a result of the additional $510 million in superannuation contributions ($830 million in total for the two years 1999-2000 and 2000-01). These payments are over and above the normal funding plan leading to a reduction in unfunded superannuation liabilities.

Table 2.2: General Government Sector 1999-2000 Estimated Result

	1999-2000			
	Budget $m	Revised $m	Variation $m	Variation %
State Revenues				
Taxation	13,945	14,964	+ 1,019	+ 7.3
Commonwealth Grants	9,363	9,498	+ 135	+ 1.4
Financial Distributions	1,381	1,334	(-) 47	(-) 3.4
Fines, Regulatory Fees & Other	782	782		...
Total State Revenues	**25,471**	**26,578**	**+ 1,107**	**+ 4.3**
Operating Revenues				
Sale of Goods and Services	2,427	2,517	+ 90	+ 3.7
Investment Income	387	386	(-) 1	(-) 0.3
Grants and Contributions	400	397	(-) 3	(-) 0.8
Other	219	345	+ 126	+ 57.5
Total Operating Revenues	**3,433**	**3,645**	**212**	**+ 6.2**
Expenses				
Employee Related - Superannaution	1,585	1,320	(-) 265	(-) 16.7
- Other	11,585	11,881	+ 296	+ 2.6
Other Operating	6,208	6,080	(-) 128	(-) 2.1
Maintenance	1,091	1,138	+ 47	+ 4.3
Depreciation and Amortisation	876	952	+ 76	+ 8.7
Current Grants and Subsidies	3,760	3,827	+ 67	+ 1.8
Capital Grants	1,137	1,101	(-) 36	(-) 3.2
Finance	1,325	1,405	+ 80	+ 6.0
Total Expenses	**27,567**	**27,704**	**+ 137**	**+ 0.5**
Gain/(Loss) on Sale of Non-Current Assets	(100)	(86)	+ 14	(-) 14.0
Net Cost of Services	**(24,234)**	**(24,145)**	**+ 89**	**(-) 0.4**
OPERATING SURPLUS BEFORE ABNORMAL ITEMS	**1,237**	**2,433**	**1,271**	
Abnormal Items	(860)	(1,582)	(-) 722	
Operating Surplus After Abnormal Items	**2,097**	**4,015**	**1,993**	
Valuation Items Adjustments under GFS	(720)	(1,421)	(-) 701	
GFS Operating Balance	**1,377**	**2,594**	**1,217**	
Less Capital Expenditure	2,684	2,757	+ 73	+ 2.7
Plus Depreciation	878	952	+ 74	+ 8.4
Asset Sales	519	340	(-) 179	(-) 34.5
GFS NET LENDING RESULT	**90**	**1,129**	**1,039**	
Adjusted for accruals	136	(815)	(951)	
Cash GFS Surplus/(Deficit)	**226**	**314**	**88**	

2.3 GENERAL GOVERNMENT SECTOR STATEMENT OF FINANCIAL POSITION

The Net Worth for the General Government Sector as at 30 June 2001 is expected to be $88,017 million (Table 2.3). This includes investments in Public Trading and Financial Enterprises valued at $43,137 million. The Net Worth of the General Government Sector is expected to increase by $2,821 million during the Budget year.

The increase in Net Worth is due to the Operating Surplus Before Abnormals Items of $1,238 million in the General Government sector along with a $1,265 million Asset Revaluation and a $238 million operating surplus, in the PTE sector.

The Balance Sheet also accounts for the re-gearing of debt within the electricity sector, as discussed earlier in this chapter. Debt equal to $2,400 million will be raised within the PTE sector and paid to the General Government sector as a capital repayment. These funds have in turn been used to repay borrowings within the General Government Sector, contributing to the reduction in Net Debt.

Excluded from the 2000-01 Budget were Land and Fixed Assets increases of $2,962 million due to the initial recognition of collection assets, including library, works of art and archival records ($2,108 million) and the revaluation of RTA infrastructure ($1,462 million). In 2000-01, Land and Fixed Assets are expected to rise by approximately $1 billion. This reflects $2,493 million in capital expenditure offset by depreciation of $995 million and asset sales of $407 million. The forward estimate years see Land and Fixed Assets rise by approximately $1.3 billion per annum.

Net Financial Liabilities, which excludes Land and Fixed Assets and the impact of the superannuation offer, will decrease by $2,586 million in 2000-01. This is primarily due to the GFS Net Lending Surplus of $659 million along with the net proceeds of the PTE sector debt re-gearing, amounting to $2,122 million book value. Net Debt, after adjustment for the prepayment of superannuation in 1998-99, which represents a narrower view of the Governments' liabilities, will decrease by $2,257 million (excluding the impact of the prepayment of superannuation). This is primarily due to the $393 million GFS cash surplus, along with the net proceeds of the PTE debt restructure.

Net Financial Liabilities are projected to reduce by $5,172 million, and Adjusted Net Debt by $4,386 million over the period from June 2000 to June 2004.

Table 2.3: General Government Sector Statement of Financial Position 1999-2004, as at 30 June (GFS Basis)

	1998-99 Actual $m	1999-2000 Budget $m	1999-2000 Revised $m	2000-01 Budget $m	2001-02 Estimate $m	2002-03 Estimate $m	2003-04 Estimate $m
ASSETS							
Financial Assets							
Cash and Deposits	961	79	175	87	119	157	273
Advances Paid	1,653	1,615	1,668	1,622	1,577	1,514	1,464
Investments, Loans and Placements	3,658	3,730	3,624	3,581	3,805	4,144	4,494
Other Non-Equity Assets	3,354	3,104	3,225	3,192	3,331	3,463	3,689
PTE/PFE Equity	41,306	43,125	43,994	43,137	43,137	43,137	43,137
Other Equity Assets	101	101	116	113	113	113	113
Total Financial Assets	**51,033**	**51,754**	**52,802**	**51,732**	**52,082**	**52,528**	**53,170**
Non-Financial Assets							
Land and Fixed Assets	64,066	62,570	65,532	66,521	67,781	69,121	70,455
Other Non-Financial Assets	671	593	745	849	947	1,051	1,156
Total Non-Financial Assets	**64,737**	**63,163**	**66,277**	**67,370**	**68,728**	**70,172**	**71,611**
TOTAL ASSETS	**115,770**	**114,917**	**119,079**	**119,102**	**120,810**	**122,700**	**124,781**
LIABILITIES							
Deposits Held	59	44	56	55	54	53	53
Advances Received	2,270	2,187	2,145	2,082	1,907	1,833	1,736
Borrowing	16,761	15,170	15,029	11,587	10,172	9,897	9,567
Provisions	11,384	11,763	10,232	11,002	12,126	11,977	11,753
Other Non-Equity Liabilities	6,829	6,744	6,421	6,359	6,425	6,605	6,827
TOTAL LIABILITIES	**37,303**	**35,908**	**33,883**	**31,085**	**30,684**	**30,365**	**29,936**
NET WORTH	**78,467**	**79,009**	**85,196**	**88,017**	**90,126**	**92,335**	**94,845**
Net Debt	**12,817**	**11,977**	**11,763**	**8,434**	**6,632**	**5,968**	**5,126**
Net Debt adjusted for Prepayment of Superannuation	**9,553**	**9,726**	**9,513**	**7,255**	**6,632**	**5,968**	**5,126**
- as a % of GSP	**4.5**	**4.3**	**4.2**	**2.9**	**2.6**	**2.2**	**1.8**
Net Financial Liabilities*	**27,576**	**27,279**	**25,075**	**22,489**	**21,739**	**20,974**	**19,903**
- as a % of GSP	**13.0**	**12.3**	**11.2**	**9.3**	**8.5**	**7.8**	**7.0**

* *Excluding PTE/PFE equity.*

2.4 GENERAL GOVERNMENT SECTOR STATEMENT OF CASH FLOWS

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

Net Cash Flows from Operating Activities will move broadly in line with the Operating and Balance Sheet results already discussed. Net Cash Flows will increase in the current year to $2,735 million principally due to the increase in stamp duties offset by some additional payments in the key service delivery areas.

Cash outflows from investments related to the purchase of New Non-Financial Assets will decrease to $2,493 million in the Budget Year due principally to the completion of the Olympic capital program. Payments for New Non-Financial Assets will increase however, in the forward years.

The cash surplus for 2000-01 is expected to increase to $393 million from $314 million in 1999-2000. Cumulative surpluses of $2,441 million at an average of over $600 million per annum are expected to be generated over the Budget year and forward estimates.

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

	1998-99 Actual $m	1999-2000 Budget $m	1999-2000 Revised $m	2000-01 Budget $m	2001-02 Estimate $m	2002-03 Estimate $m	2003-04 Estimate $m
Cash Receipts from Operating Activities							
Taxes Received	14,214	14,011	15,015	12,465	11,516	11,832	12,424
Receipts from sales of goods & services	2,646	2,693	2,785	2,545	2,385	2,410	2,471
Grants/Subsidies Received	9,078	9,541	9,642	12,926	14,192	14,567	14,806
Other Receipts*	2,626	2,421	2,694	2,822	2,710	2,753	2,812
Total Cash Receipts from Operating Activities	**28,564**	**28,666**	**30,136**	**30,758**	**30,803**	**31,562**	**32,513**
Cash Payments from Operating Activities							
Payments for goods & services*	(20,534)	(21,113)	(22,203)	(22,574)	(22,265)	(23,035)	(23,711)
Grants & Subsidies Paid	(3,781)	(3,778)	(3,800)	(4,114)	(4,025)	(3,999)	(4,113)
Interest Paid*	(1,394)	(1,133)	(1,098)	(858)	(851)	(892)	(893)
Other Payments	(300)	(266)	(300)	(734)	(649)	(599)	(577)
Total Cash Payments from Operating Activities	**(26,009)**	**(26,290)**	**(27,401)**	**(28,280)**	**(27,790)**	**(28,525)**	**(29,294)**
Net Cash Flows from Operating Activities	**2,555**	**2,376**	**2,735**	**2,478**	**3,013**	**3,037**	**3,219**
Cash Flows from Investments in Non-Financial Assets							
Purchases of New Non-Financial Assets	(2,481)	(2,684)	(2,757)	(2,493)	(2,579)	(2,635)	(2,646)
Sale of Non-Financial Assets	509	534	336	408	249	216	174
Total Cash Flows from Investments in Non-Financial Assets	**(1,972)**	**(2,150)**	**(2,421)**	**(2,085)**	**(2,330)**	**(2,419)**	**(2,472)**
Cash Flows from Investments in Financial Assets							
Financial Assets for Policy Purposes	(3)	(71)	(78)	2,342	42	59	42
Financial Assets for Liquidity Purposes	169	(84)	(19)	6	(220)	(330)	(339)
Cash Flows from Financing Activities							
Advances Received (net)	(76)	(167)	(133)	(67)	(174)	(75)	(97)
Borrowing (net)*	2,756	(1,528)	(1,834)	(3,825)	(1,426)	(238)	(237)
Deposits Received (net)	6		1	(1)	(1)	(1)	
Total Cash Flows from Financing Activiites	**2,686**	**(1,696)**	**(1,966)**	**(3,893)**	**(1,601)**	**(314)**	**(334)**
Net Increase/(Decrease) in Cash Held	**3,435**	**(1,625)**	**(1,749)**	**(1,152)**	**(1,096)**	**33**	**116**
Net Cash from Operating Activities & Investments in Non-Financial Assets and Distributions Paid	**583**	**226**	**314**	**393**	**683**	**618**	**747**
Assets acquired under finance leases	**...**	**...**	**...**	**...**	**...**	**...**	**...**
Equals surplus/(deficit)*	**583**	**226**	**314**	**393**	**683**	**618**	**747**

**Note: Adjusted for prepayment of superannuation.*

2.5 STATEMENT OF GOVERNMENT FINANCE STATISTICS AND ACCOUNTING PRINCIPLES AND POLICIES

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

Departures From Australian Accounting Standards

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

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

- lack of reliable information has resulted in undeveloped Crown Land, certain cultural collection assets and school bank accounts not being recognised in the financial statements, or being recognised even though there exists uncertainty with the reliability of the valuations (State Library collection);

- an abnormal income of $704 million has been recorded in the 1998-99 General Government Operating Result. This income is the Government Actuary's estimate of unallocated superannuation reserve balances in the State Superannuation Scheme to be transferred to Crown employer reserve accounts when an allocation process is completed. The Auditor-General is of the opinion that these amounts should not have been recognised until the allocation process has been completed and approved by the SAS Trustee Corporation and the Minister as required by the *Superannuation Act, 1916*;

- contrary to AAS29 *Financial Reporting by Government Departments*, administrative restructures of agencies are recognised as adjustments to equity. This has no effect on the consolidated General Government Budget, but affects the Net Cost of Services of individual agencies for the 1999-2000 year as disclosed in Budget Paper No 3; and

- some assets and liabilities of the FANMAC trusts are not consolidated as it is considered that they are not controlled by the NSW Government. The NSW Auditor-General disagrees with this treatment.

Departures From GFS Principles

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

NSW Treasury considers that the Commonwealth's budget balancing assistance payment (associated with the introduction of the GST) represents a non-reciprocal contribution in accordance with Australian Accounting Standard AAS15 *Revenue*. As a result, the payment has been recognised as revenue for accounting standards purposes. The NSW Auditor-General agrees with Treasury's view. For GFS purposes, the Australian Bureau of Statistics requires state governments to recognise the payment from the Commonwealth as a liability.

The treatment of the monies throughout the Budget Papers is in accordance with the accounting standards, and a departure from the ABS prescribed GFS treatment:

- The Australian Bureau of Statistics requires that selected payments that pass through the state's accounts e.g. transfer payments for non-government schools from the Commonwealth, be included in the Operating Statement and Statement of Cash Flows. Reports in the Budget Papers exclude these receipts and payments as the NSW Government has no control over them.

- For conservatism, the General Government's "Net Financial Liabilities" has been adjusted to exclude the equity in Public Trading and Financial Enterprises as it presents a truer picture of the General Government's overall financial obligations.

- Current GFS principles as followed by the ABS statistical standards require a premium on a loan to be classified as a negative interest payment in the year the loan is raised. New South Wales disagrees with this approach since it results in an asymmetric treatment with discounts on loans that are treated as a balloon interest payment on the maturity of the loan.

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

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

Table 2.5: General Government Results - Cash

Year	Current Outlays $m	Current Receipts $m	Current Result $m	Capital Outlays** $m	Capital Receipts $m	Capital Result $m	Cash Flows from Operating Activities Payments $m	Cash Flows from Operating Activities Receipts $m	Cash Flows from Operating Activities Result $m	Capital Expenditure $m	Asset Sales & Other $m	**Surplus/ (Deficit) $m**
1988-89	12,005	13,149	**1,144**	1,421	879	**(542)**						**602**
1989-90	13,803	14,522	**719**	2,419	1,185	**(1,234)**						**(515)**
1990-91	14,773	15,245	**472**	2,921	1,226	**(1,695)**						**(1,223)**
1991-92	16,080	16,101	**21**	2,692	1,047	**(1,645)**						**(1,624)**
1992-93	16,748	16,749	**1**	2,892	1,776	**(1,116)**						**(1,115)**
1993-94	17,069	18,178	**1,109**	3,315	1,310	**(2,005)**						**(896)**
1994-95	17,819	19,122	**1,303**	2,941	1,048	**(1,893)**						**(590)**
1995-96	18,325	20,417	**2,092**	3,175	936	**(2,239)**						**(147)**
1996-97	19,717	22,100	**2,383**	3,316	1,086	**(2,230)**						**153**
1997-98	20,968	23,157	**2,189**	3,185	966	**(2,219)**						**(30)**
1998-99*							26,009	28,564	**2,555**	(2,481)	509	**583**
1999-2000*							27,400	30,136	**2,736**	(2,757)	335	**314**
2000-01*							28,280	30,758	**2,478**	(2,493)	408	**393**
2001-02*							27,790	30,803	**3,013**	(2,579)	249	**683**
2002-03							28,525	31,562	**3,037**	(2,635)	216	**618**
2003-04							29,294	32,513	**3,219**	(2,646)	174	**747**

* Adjusted for prepayment of superannuation – ($3,266m) in 1998-99, $1,005m in 1999-2000, $1,058m in 2000-01 and $1,134m in 2001-02. The unadjusted results would be a deficit of $2,683m in 1998-99, and surpluses of $1,288m in 1999-2000, $1483 m in 2000-01 and $1727m in 2001-02.

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

2.6 KEY FACTORS AFFECTING BUDGET OUTCOMES

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

The 2000-01 Budget estimates are predicated on assumptions and judgements influenced by the information available at the time of their preparation. In practice, both revenues and expenses will be subject to change from budget, and the size of changes will inevitably increase over the forward estimates period.

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

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

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

ECONOMIC PARAMETERS

There are two sources of uncertainty associated with the economic parameters and their bearing on the Budget. First, the parameters will be subject to forecasting errors. Second, the relationship between some revenue and expense items and economic factors can be unpredictable. Therefore even if economic outcomes were identical to those assumed for budgeting purposes, total revenues and expenses may vary from the Budget, all other factors being unchanged.

While the overall Budget estimates do not have a consistent bias, variations between Budget estimates and actual outcomes from time to time are unavoidable. Revenues from contracts and conveyance duty and share transfer duty are particularly volatile and difficult to forecast. Some revenue items appear to have had an inadvertent bias in past Budgets. Most notably there has been a conservative bias in the profit estimates for PTEs, which flows through to the Budget via dividend and tax equivalent payments.[1]

The best way to illustrate the scope for Budget outcomes to be affected by changes in the economic environment is by considering the consequences for the Budget of different economic scenarios.

Alternative Economic Scenarios

Revenue items such as payroll tax and stamp duty can be quite sensitive to economic factors. Both employment levels and wage rates affect payroll tax. Stamp duties from contracts and conveyances and share transfers are affected by changes in trading volumes and confidence. In the short term, many expenditure quantities are 'locked in'.

The three scenarios explored for the purposes of illustrating the potential for outcomes to vary from budget are: a *higher growth* scenario, a *lower growth* scenario, and a *US equity market (significant) correction* scenario. The scenarios should not be interpreted as the upper or lower limits of the economy.

Table 2.6: Alternative Economic Scenarios

		Alternative Scenarios		
	Budget Economic Forecasts %	*Higher Growth %*	*Lower Growth %*	*US equity correction %*
Gross State Product	4	5	3	2
Employment (NSW)	2¼	3¼	1½	1
Wages	4	4½	3 ¾	3
CPI (Sydney – including GST)	6	7	5½	5
10-year bond rate	7¼	7¾	7	6½

Note: Figures have been rounded to the nearest quarter

Under the *higher growth* scenario stronger employment accompanies output growth of 5 percent, putting upward pressure on prices, interest rates and property prices. Confidence and investor sentiment is assumed to remain high.

[1] *Section 10.3 of 1998-99 Budget Paper No. 2 provides details.*

Under the *lower growth* scenario, output and employment undergo modest growth of 3 percent and 1.5 percent respectively, but wages and prices are only slightly lower. Business and consumer confidence is assumed to be lower.

The *US equity market (significant) correction* scenario is the most extreme scenario. A significant correction in the US equity markets is assumed to have a flow on to the Australian market which reduces growth, thereby constraining inflationary pressures. This reduces the need for interest rate increases. The reduced growth also leads to lower employment and wages growth.

The scenarios are defined in terms of key economic parameters that influence the Budget, with the base forecast and alternative scenarios given in Table 2.6. The alternative Budget outcomes in Table 2.7 show the deviations from the base case Budget (on a GFS cash basis) assuming *no* explicit response to changed economic conditions by the Government. Variations to the (accrual) operating result will be of similar orders of magnitude.

Transaction-based taxes such as contracts and conveyances and share transfer duties can vary significantly due to changes in investor confidence without visible changes in economic conditions. Transaction-based revenues currently appear to be at a cyclical peak and are expected to decrease in the budget year. The timing of this downturn, if different from that assumed, could influence the Budget outcome considerably.

Table 2.7: Alternative Budget Outcomes, 2000-01

	Change on Budget Estimate		
	Higher Growth $m	*Lower Growth $m*	*US equity correction $m*
Current Financial Result	**308**	**(-) 389**	**(-) 649**
Outlays	69	(-) 8	(-) 22
Receipts	377	(-) 397	(-) 671
Tax	339	(-) 354	(-) 595
Non-tax	38	(-) 43	(-) 76
Capital Financial Result	**(-) 10**	**5**	**16**
Outlays	10	(-) 5	(-) 16
Receipts	0	0	0
Total Variation	**298**	**(-) 384**	**(-) 633**

The expected Budget outcome is for a cash flow surplus of $393 million. However, under the higher growth scenario the Budget outcome could be a $691 million cash flow surplus (an improvement of $298 million), while under the lower growth scenario the Budget outcome could be a cash surplus of approximately $9 million. These are not confidence limits or alternative forecasts, but indicate two possible deviations from the base case.

In the higher growth scenario there is a modest increase in outlays but this is more than offset by a significant increase in revenue. The expected downturn in contracts and conveyances revenue (from its cyclical peak) is assumed to be delayed, which improves the Budget position. In the lower growth scenario a loss of confidence causes transaction-based revenues to decline. Despite a small decrease in outlays, the Budget cash surplus reduces by approximately $384 million.

Under the more extreme US equity correction scenario the Budget outcome deteriorates by over $600 million, and with no policy adjustment a cash flow deficit of $240 million results.

TECHNOLOGICAL DEVELOPMENTS

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

- New technology and the associated increased mobility of capital and greater exploitation of tax loopholes have the potential to erode NSW tax revenue.

- There is the potential to improve the quality of service delivery and/or reduce the cost per unit of service delivery, as new technologies are applied in key service areas such as education and health. However, new technologies could also produce unanticipated changes in service demand patterns, which have the potential to affect expenses.

CHANGES IN THE POLICY ENVIRONMENT

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

- The cost of implementing a new policy or maintaining an existing policy may be different from that assumed in the Budget estimates – for example, due to different take-up rates or subsequent refinements to cost estimates.

- Delays in implementation or the need for additional government funding may arise, such as weather-related delays to capital works, or the occurrence of natural disasters.

- Policies will be fine-tuned or changed and new policies will inevitably be introduced over the forward estimates period.

- Changes in the regulatory environment can affect the prices and costs of government provided services such as transport, electricity and water.

Policy Delivery Assumptions

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

Demographic and social changes and other external factors can have a substantial impact on demand and hence the cost of maintaining existing policies, in particular in the health, community services, criminal justice and education sectors. The forward estimates make allowances for such costs where possible, and to a greater extent than in previous Budgets.

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

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

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

Capital Works

In past years, budgeted capital outlays have tended to exceed actual capital outlays. In part this was a natural consequence of agencies providing for uncertainties associated with the tendering process (ie, actual bids could come in below budget).

In other cases the over-optimistic forecasts by agencies were due to unavoidable circumstances such as bad weather and other factors which delayed spending. While every effort is made to account for these effects, the impact of such factors cannot be accurately forecast.

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

Pricing and Regulation of Utilities

Potential adjustments to the Budget (adverse or favourable) could arise from price determinations by the Independent Pricing and Regulatory Tribunal (IPART). IPART is expected to provide pricing determinations with effect in 2000-01 in respect of public transport fares (affecting the State Rail Authority and State Transit Authority) and a medium term price path for Sydney Water.

These determinations are expected to affect the Budget outcome. For example, transport fare adjustments could affect the level of Budget subsidies; and determinations for electricity distributors and Sydney Water may have an impact on the capacity of these entities to pay financial distributions.

Policy Changes in Other Jurisdictions

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

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

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

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

Commonwealth Tax Reforms

Not all costs and foregone revenues have been recognised in the Commonwealth’s compensation payments to the States for the GST. Furthermore, the costs agencies are incurring to set up and comply with the GST on an ongoing basis may vary from those provided for in the forward estimates.

Amendments to business taxation arising from the Ralph Review could also ultimately affect the Budget via the Commonwealth tax treatment of leasing arrangements and trusts. These impacts cannot be predicted with confidence at this time.

CONTINGENT LIABILITIES

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

- litigation currently before the courts;
- State guarantees under statute; and
- other guarantees provided to facilitate the provision of certain services and the construction of infrastructure assets.

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

Note 19 in the 1998-99 Statements identifies $570 million worth of quantifiable contingent liabilities in the General Government Sector as at 30 June 1999, as well as a number of other unquantifiable contingent liabilities.

The Government may also face contingent liabilities associated with private sector infrastructure projects that by convention are not included in the statement of financial position in the *Consolidated Financial Statements of the New South Wales Total State Sector*. Such liabilities are, however, detailed in Chapter 9 of this Budget Paper to satisfy Loan Council reporting requirements.

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

CHAPTER 3: GENERAL GOVERNMENT SECTOR REVENUES

- Tax cuts implemented in 1999 and 2000 will reduce revenue by a total of $611 million in 2000-01, comprising $127 million in new measures announced in the 2000-01 Budget and $484 million in previously announced measures. These cuts are additional to the taxes removed as part of national taxation reform.

- The 2000-01 Budget measures comprise: bringing forward by six months to 1 January 2001 the payroll tax rate cut to 6.2 percent; cutting the stamp duty rate on general insurance from 11.5 percent to 10.0 percent; and replacing the First Home Purchase Scheme with First Home Plus, which effectively abolishes conveyance duty for eligible first home buyers.

- Changed funding arrangements associated with national taxation reform will have no net effect on the NSW Budget in 2000-01 and the forward estimates years. According to current estimates, the New Tax System will not produce net financial gains for New South Wales until 2007-08.

- Implementation of the Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations (IGA) will result in a large decline in tax revenue in 2000-01 matched by a large increase in Commonwealth grants. Abstracting from these changes, tax revenue is projected to be virtually unchanged and Commonwealth grants to increase by 3.5 percent.

- In 2000-01, total revenue, excluding the one-off increase in financial distributions arising from the capital restructure of some electricity enterprises, is projected to increase by 0.8 percent.

3.1 INTRODUCTION

In last year's Budget, the Government embarked on a medium-term tax reduction plan with the objective of enhancing the climate for business investment and employment growth in New South Wales. The first step in that plan included payroll tax reductions and provision for further tax reductions in the forward estimates.

Tax reductions announced in the 2000-01 Budget represent another step in that plan. Together with the measures introduced last year, revenue will be reduced by $611 million in 2000-01 (see Table 3.1).

Table 3.1: Tax Reduction Measures

Initiative	Revenue Impact*				
	1999-2000	2000-01	2001-02	2002-03	2003-04
	$m	$m	$m	$m	$m
Previously announced measures					
Decrease land tax rate from 1.85% to 1.7%, effective 31.12.99	(-) 67	(-) 81	(-) 84	(-) 86	(-) 88
Payroll tax rate reductions:					
From 6.85% to 6.7%, effective 1.7.99	(-) 80	(-) 93	(-) 101	(-) 106	(-) 113
From 6.7% to 6.4%, effective 1.7.99	(-) 161	(-) 187	(-) 201	(-) 213	(-) 225
From 6.4% to 6.2%, effective 1.7.01			(-) 123	(-) 142	(-) 150
From 6.2% to 6.0%, effective 1.7.02				(-) 130	(-) 150
Provision for future tax reductions from 2001-02			(-) 150	(-) 175	(-) 185
Phase out of $43 third-party motor vehicle registration levy, completed 1.7.00	(-) 85	(-) 112	(-) 112	(-) 112	(-) 112
Parking Space Levy changes, effective 1.7.00		25	25	25	26
Remove surcharge on motor vehicle registration fees and transfer fees, effective 1.7.00		(-) 36	(-) 36	(-) 36	(-) 36
Total - previously announced measures	**(-) 393**	**(-) 484**	**(-) 782**	**(-) 975**	**(-) 1,033**
New Initiatives					
Bring forward payroll tax reduction to 6.2% to 1 January 2001		(-) 52	(-) 11		
First Home Plus, effective 1.7.00		(-) 52	(-) 56	(-) 59	(-) 63
Insurance stamp duty rate decrease from 11.5% to 10.0%, effective 1.10.00		(-) 23	(-) 38	(-) 40	(-) 42
Total - new initiatives		**(-) 127**	**(-) 105**	**(-) 99**	**(-) 105**
Total - Tax changes since 1 July 1999	**(-) 393**	**(-) 611**	**(-) 887**	**(-) 1,074**	**(-) 1,138**

**Revenue impacts expressed in nominal dollars.*

The new Commonwealth-State financial arrangements (see Chapter 8, *Financial Arrangements with the Commonwealth)* will significantly alter the composition of total revenue from 2000-01. The main changes are:

- A number of State taxes will be abolished or reduced. The Accommodation Levy, and Safety Net Revenue Payments in respect of tobacco, alcohol and petrol (classified as State taxes by the ABS, although for constitutional reasons collected by the Commonwealth), will be abolished from 1 July 2000. Financial Institutions Duty and stamp duty on quoted marketable securities will be abolished from 1 July 2001. State gambling taxes will be reduced from 1 July 2000 to take account of the impact of the GST on gambling operators.

- Commonwealth GST Revenue Grants will replace Financial Assistance Grants (FAGs) and revenue from abolished State taxes, as well as providing funds for a number of expenditure programs connected with the introduction of the GST. The Commonwealth also will provide Budget Balancing Assistance Payments to meet its guarantee that in the transition to the GST each State's budget will be no worse off than if the GST and related reforms had not been implemented.

Movements in the major revenue components in 2000-01 compared with previous years should therefore be treated with caution. With that caveat in mind, in 2000-01:

- Taxation revenue is expected to fall by 17.1 percent, chiefly as a result of the abolition and reduction of some State taxes, tax rate reductions over and above those associated with national tax reform, and an expected decline in stamp duties from conveyances and share transactions. Abstracting from national taxation changes, NSW taxation revenue is estimated to remain virtually unchanged.

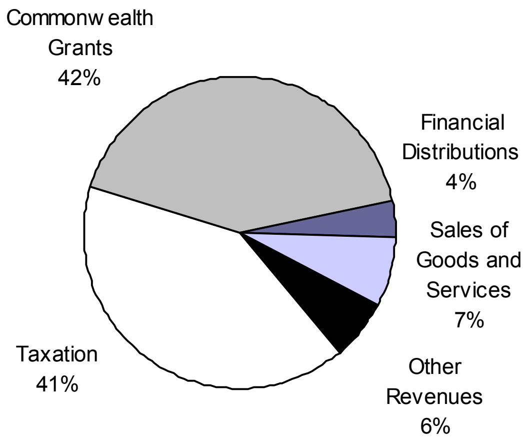
- Commonwealth grants are expected to increase by 34.6 percent mainly reflecting the substitution of Commonwealth GST Revenue Grants for FAGs and abolished State taxes. Again abstracting from these changes, Commonwealth grants would increase by around 3.5 percent.

- Following last year’s practice, Budget revenues are presented on an accrual basis. While there are few differences between cash and accrual estimates for most revenues, financial distributions from Public Trading and Financial Enterprises are significantly affected, requiring caution when comparing these estimates with those published before 1998-99.

Table 3.2: Summary of Revenues

	1998-99	1999-00		2000-01	2001-02	2002-03	2003-04
	Actual	*Budget*	*Revised*	*Budget*	*Forward Estimates*		
	$m	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*
State Revenues							
Taxation	14,137	13,945	14,964	12,412	11,487	11,789	12,384
Commonwealth Grants	8,911	9,363	9,498	12,780	14,125	14,513	14,760
Financial Distributions	1,444	1,381	1,331	1,208	1,164	1,183	1,302
Other	807	782	782	793	736	743	737
	25,299	**25,471**	**26,575**	**27,193**	**27,512**	**28,228**	**29,183**
Operating Revenues							
Sale of Goods and Services	2,448	2,427	2,517	2,171	2,217	2,242	2,285
Investment Income	420	387	386	391	403	412	433
Grants and Contributions	485	401	397	421	315	288	297
Other	302	219	346	280	221	197	172
	3,655	**3,434**	**3,645**	**3,263**	**3,157**	**3,140**	**3,187**
Total Revenues Excluding Capital Restructure	**28,954**	**28,905**	**30,220**	**30,456**	**30,669**	**31,368**	**32,370**
Capital Restructure	…	…	…	2,400	…	…	…

Chart 3.1: Summary of Total Revenues, 2000-01



Total = $30,456 m

3.2 TAXATION MEASURES

MEASURES INTRODUCED SINCE THE 1999-2000 BUDGET

A number of taxation measures have been announced since the 1999-2000 Budget.

New Tax System Changes

Under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (IGA):

- the Accommodation Levy will be abolished from 1 July 2000;
- Wholesale Sales Tax Equivalents (levied on state enterprises for reasons of competitive neutrality) will be abolished from 1 July 2000;
- the Safety Net Revenue arrangements in respect of tobacco, alcohol and petrol (under which revenue is collected by the Commonwealth and passed to the States) will cease from 1 July 2000;
- Financial Institutions Duty will be abolished from 1 July 2001; and
- stamp duty on the transfer of shares and securities quoted on exchanges will be abolished from 1 July 2001.

GST Revenue Grants and Budget Balancing Assistance Payments from the Commonwealth will offset revenue foregone through the abolition of these taxes.

For the future, Debits Tax is scheduled to be abolished by 1 July 2005, subject to review by the joint Commonwealth-State Ministerial Council established to oversee operation of the IGA. The Ministerial Council also will review, by 2005, the need for States to retain certain other stamp duties, including those on non-residential conveyances, leases, hirings, loan securities, and shares and securities not quoted on exchanges.

In addition, the States and Territories are required to "adjust their gambling tax arrangements to take account of the impact of the GST on gambling operators". The GST will be levied on gambling revenues as one-eleventh of the difference between the total amount wagered and total monetary prizes.

To comply with the IGA, NSW gambling tax arrangements will be changed either by reducing existing tax rates or by reimbursing operators the amount of GST paid where tax rate adjustments are not possible. GST Revenue Grants and Budget Balancing Assistance Payments from the Commonwealth will offset revenue foregone through these adjustments in gambling taxation.

Racing/Sports Betting

- The tax rate on off-course and on-course totalisators and fractions will be reduced from 28.2 percent to 19.11 percent.

- The tax rate on TAB fixed odds sports betting will be reduced from 20.0 percent to 10.91 percent.

- Bookmakers will be reimbursed the amount of GST paid on their fixed odds betting operations (both racing and sports betting). Reimbursement will not exceed State tax payments by bookmakers. A tax rate adjustment was not possible because bookmakers are currently taxed on a turnover basis and there is no reliable data available to make a reasonably accurate adjustment to the tax rate to take account of the GST.

- For domestic (non-TAB) totalisators that currently receive a full rebate of State tax, the Government will provide GST transitional assistance in the form of a single payment representing the present value of GST tax liabilities to 30 June 2004 based on totalisator gross profits for the year to 30 June 1999. A discount rate of 8.2 percent will be used. It is estimated that these payments will total $0.1 million.

Casino Gaming Operations

- The tax rate on gaming machines will be reduced from 22.5 percent to 13.41 percent.

- The marginal tax rates on tables will be reduced such that the minimum tax rate is reduced from 20.0 percent to 10.91 percent and the maximum tax rate is reduced from 45 percent to 35.91 percent.

- The amount of GST paid on the casino's international highroller program will be reimbursed. A tax rate adjustment was not possible in this case due to the fact that the Casino pays a fixed non-refundable amount of $6 million per annum on the first $60 million in revenue. In addition, the GST legislation allows the potential for the GST base to vary from the State tax base.

Hotel and Club Gaming Operations

- For hotel gaming operations the marginal tax rates will be reduced as shown in Table 3.3.

Table 3.3: Hotel Gaming Machine Tax Rates

Profit	*Current Marginal Rates*	*Marginal Rates from 1 July 2000*
$	*%*	*%*
Up to 25,000	15.0	5.91
25,001 – 400,000	25.0	15.91
400,001 – 1 million	35.0	25.91
In excess of 1 million	40.0	30.91

♦ For club gaming machine operations the marginal tax rates will be reduced as shown in Table 3.4.

Table 3.4: Annual Club Gaming Machine Tax Rates

Profit	*Current Marginal Rates*	*Marginal Rates from 1 July 2000*
$	*%*	*%*
Up to 100,000	0.00	0.00
100,001 – 200,000	1.00	0.00
200,001 – 1 million	20.00	10.91
In excess of 1 million	26.25	17.16

- Because it is not possible to effect a full GST offset by adjusting State tax rates, registered clubs still will pay more in total tax (including the GST) under the revised State tax structure than they do currently. While the State Government is not obliged under the IGA to provide additional assistance to clubs to offset this increased tax burden, the Government recognises that this burden could cause financial difficulties for a number of clubs in the short-to-medium term.

- The Government will therefore provide registered clubs with transitional assistance payments. To avoid ongoing administrative costs, these payments will take the form of a single payment to each club representing the estimated present value of additional tax liabilities to 30 June 2004 based on each club's gaming profits for the assessment year to 30 November 1999. A discount rate of 8.2 percent will be used. It is estimated that these payments will total $68.3 million.

- The payment will be included in New South Wales' Guaranteed Minimum Amount for purposes of calculating the Budget Balancing Assistance payments from the Commonwealth.

Other Gambling and Betting

- For Keno operations the basis of taxation will be changed from subscriptions to player loss (total amount wagered less return to player) and tax rates reduced to offset the GST. This will result in marginal tax rates as shown in Table 3.5.

Table 3.5: Keno Tax Rates

Profit	*Current Rates General Games* (subscription basis)*	*Current Rates Heads or Tails# (subscription basis)*	*Equivalent Current Rates All Games (profit basis)*	*Rates from 1 July 2000*
$	*%*	*%*	*%*	*%*
Up to 86.5 million	4.5	3.6	18.0	8.91
Above 86.5 million	6.0	4.8	24.0	14.91

* *Player return is minimum of 75%*
\# *Player return is minimum of 80%*

- For NSW Lotteries operations, the general duty rate on all licensed products will be reduced from 15 percent to 10.95 percent.

Parking Space Levy

On 2 May 2000, the Minister for Transport announced that the Parking Space Levy will be increased with effect from 1 July 2000 from $400 to $800 per off-street, non-residential parking space in the Sydney, North Sydney and Milsons Point business districts.

In addition, the Minister announced that the parking space levy will be extended to the business areas of St Leonards, Chatswood, Parramatta and Bondi Junction at a rate of $400 per space. The levy in these areas will apply only to parking stations and office spaces and will exempt retail, hotel, motel, club, restaurant and medical centre spaces. The measures are estimated to increase revenue by $24.7 million in 2000-01, and the same in a full year. The legislation imposing the levy allocates revenue from the Parking Space Levy to the Department of Transport for the provision of new public transport infrastructure, such as rail, bus and ferry interchanges, commuter car parks and ferry wharves.

Motor Vehicle Stamp Duty Concession for War Veterans

In January 1998 the Government provided a stamp duty exemption to Totally and Permanently Incapacitated (TPI) war veterans on the purchase of a new or second-hand motor vehicle.

On 11 November 1999, the Premier announced an extension of this exemption to all war veterans receiving Extreme Disablement Adjustment (EDA) pensions, Intermediate Service pensions, and 70 percent or higher of the disability pension from the Department of Veterans Affairs. The concession is estimated to cost $1.2 million in 1999-2000, and $2 million in a full year.

2000-01 BUDGET TAX MEASURES

The tax measures for the 2000-01 Budget are summarised in Table 3.6.

Table 3.6: 2000-01 Budget Tax Measures

Initiative	*Revenue Impact*	
	2000-01	*Full Year**
	$m	*$m*
Bring forward the payroll tax rate reduction from 6.4% to 6.2% by six months to 1 January 2001	(-) 52	..
Reduce the stamp duty rate on general insurance from 11.5% to 10.0%, where the period of insurance begins on or after 1 October 2000	(-) 23	(-) 36
First Home Plus	(-) 52#	(-) 56#

* *Full year impacts are expressed in 2000-01 dollars.*
\# *Revenue impact compared with existing First Home Purchase Scheme.*

Reduction in Payroll Tax

In the 1999-2000 Budget, it was announced that the payroll tax rate would be reduced from 6.4 percent to 6.2 percent from 1 July 2001. That reduction is now being brought forward by six months to 1 January 2001, at a cost of $52 million in 2000-01. As also announced in the 1999-2000 Budget, from 1 July 2002 the rate of payroll tax will be reduced further, to 6.0 percent, at a full year cost of $142 million. The total cost of committed payroll tax reductions in 2000-01 is $332 million, rising to $638 million by 2003-04.

Stamp Duty on General Insurance

The stamp duty rate on certain types of general insurance will be reduced from 11.5 percent to 10.0 percent where the period of insurance begins on or after 1 October 2000. This will decrease the cost of insurance on household and certain types of commercial insurance. The reduction will, for instance, cut the premium on a typical home building and contents policy by around $10. The estimated cost to revenue is $23 million in 2000-01 and $36 million in a full year.

First Home Plus

Under the current NSW First Home Purchase Scheme, first home purchasers are currently eligible for a 50 percent discount on contracts and conveyances stamp duty, and a total exemption from mortgage stamp duty. The concessions are subject to income thresholds of $57,000 for families and $39,000 for individuals and property thresholds of $170,000 in the metropolitan area and $150,000 elsewhere in New South Wales (and vacant land thresholds of $80,000 in the metropolitan area and $70,000 elsewhere in New South Wales).

This scheme will be abolished from 30 June and replaced with a new assistance package called First Home Plus.

First Home Plus will apply to contracts signed on or after 1 July 2000. All first home buyers will receive a total exemption from contracts and conveyances and mortgage stamp duties for metropolitan property values up to $200,000 and for property values elsewhere in New South Wales up to $175,000. The contracts and conveyances and mortgage stamp duty exemptions will phase out between $200,000 and $300,000 for metropolitan property values, and between $175,000 and $250,000 for property values elsewhere in New South Wales. For vacant land, the threshold value will increase to $95,000 in the metropolitan area, with the exemptions phasing out between $95,000 and $140,000, and to $80,000 elsewhere in New South Wales, phasing out between $80,000 and $110,000.

The income test will be abolished. With the property value threshold and phasing-out arrangements targeting assistance to those most in need, the income test unnecessarily complicates administration of the scheme. Combined, the measures are estimated to cost $52 million in 2000-01.

Assistance to first home buyers under First Home Plus is additional to assistance being provided under the joint Commonwealth-State First Home Owners Scheme (FHOS) being introduced as part of national taxation reform (see Chapter 4, *General Government Sector Service Delivery*).

Under the IGA, to offset the impact of the GST on home buyers, all States and Territories have agreed to fund and administer a new uniform FHOS. Eligible applicants will be entitled to a $7,000 grant on the purchase of a new or established dwelling on entering binding contracts, or the commencement of building in the case of owner builders, on or after 1 July 2000. The additional outlays required of the States will be included in the determination of budget guarantee payments under the IGA.

The combined effect of these two measures for eligible first home buyers will be to provide assistance of around $13,070 for the purchase of a new home valued at $200,000 in the metropolitan area, and around $12,100 for the purchase of a new home valued at $175,000 anywhere in New South Wales.

3.3 DETAILED REVENUE ESTIMATES

3.3.1 STATE REVENUES

Taxation

Taxation revenues are projected to be 5.8 percent greater in 1999-2000 than 1998-99. They are expected to exceed the 1999-2000 Budget estimate by more than 7 percent as a result of stronger than expected asset and labour markets. Contracts and Conveyances Duty, Payroll Tax and Marketable Securities Duty contributed just under 75 percent of the variance.

Economic and employment growth in 1999-2000 were substantially stronger than expected at Budget time, having a significant positive impact on revenues. In addition, economic parameters in the 1999-2000 Budget were predicated on unchanged policy, and therefore excluded the possible impacts of the Commonwealth's then-proposed tax reforms. It was suggested that if the New Tax System legislation were passed by the Commonwealth Parliament, the likely impact on 1999-2000 outcomes would be modest, with the possible exception of a few sectors such as motor vehicle sales and dwelling construction. In the event, the impending introduction of the GST has significantly lifted some revenue items, particularly contracts and conveyancing duty, with the bringing forward of transactions into 1999-2000.

Table 3.7 provides detailed estimates of revenue from taxation for the period to 2003-04. The largest single source of taxation revenue continues to be payroll tax followed by stamp duty from contracts and conveyances. The large fall in revenue from "other taxes" in 2001-02 reflects the unallocated provision for future tax cuts contained in the 1999-2000 Budget, at a full year cost of $175 million.

Table 3.7: Taxation Revenue

	1998-99	1999-2000		2000-01	2001-02	2002-03	2003-04
	Actual	Budget	Revised	Budget	Forward Estimates		
	$m	$m	$m	$m	$m	$m	$m
Stamp Duties							
Contracts and Conveyances	1,916	1,747	2,249	1,746	1,686	1,756	1,904
Insurance	340	358	380	384	393	415	437
Mortgage	177	171	220	201	207	223	246
Marketable Securities	395	360	485	425	49	45	48
Motor Vehicle Registration Certificates	444	411	455	449	473	500	529
Financial Institutions Duty	557	580	595	634	54	...	...
Hire of Goods	65	70	73	76	80	84	89
Leases	37	39	45	47	48	51	54
Adhesive Stamps	3	4	2	2	3	3	3
Other Stamp Duties	9	6	8	7	7	8	8
	3,942	**3,747**	**4,512**	**3,971**	**3,000**	**3,084**	**3,318**
Payroll Tax	3,605	3,616	3,742	3,931	4,146	4,258	4,503
Land Tax	948	830	889	921	948	971	991
Debits Tax	322	325	323	331	332	334	336
Taxes on Motor Vehicle Ownership and Operation							
Weight Tax	698	709	724	756	785	815	844
Vehicle Registration and Transfer Fees	218	217	222	194	203	210	219
Other Motor Vehicle Taxes	132	44	44	19	19	20	21
	1,048	**970**	**991**	**969**	**1,007**	**1,046**	**1,084**
Gambling and Betting							
Racing	191	197	197	137	143	148	153
Club Gaming Devices	557	590	600	409	427	458	487
Hotel Gaming Devices	255	324	359	323	320	342	362
Lotteries and Lotto	278	290	278	246	245	245	245
Casino	120	138	125	86	94	103	113
Other Gambling & Betting	17	19	19	11	12	13	14
	1,419	**1,558**	**1,578**	**1,212**	**1,241**	**1,309**	**1,374**
Safety Net Revenues (Net of Subsidies)							
Alcohol	310	332	317	31	...	...	...
Petroleum	619	636	615	66	...	...	...
Tobacco	1,046	1,021	1,083	21	...	...	...
	1,975	**1,989**	**2,015**	**118**	**...**	**...**	**...**

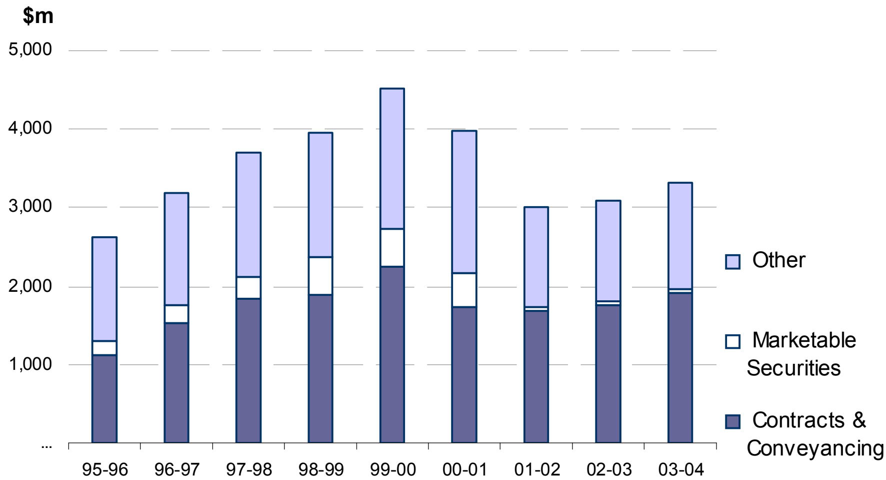
Table 3.7: Taxation Revenue (cont.)

	1998-99	1999-2000		2000-01	2001-02	2002-03	2003-04
	Actual	Budget	Revised	Budget	Forward Estimates		
	$m	$m	$m	$m	$m	$m	$m
Other Revenues							
Accommodation Levy	57	65	70	6	...	...	...
Health Insurance Levy	54	55	60	63	66	69	73
Parking Space Levy	15	17	17	42	43	43	44
Fire Brigades Levy	217	224	224	231	233	229	224
Waste Disposal Levy	72	69	79	76	73	68	63
Bush Fire Services Levy	52	59	59	67	66	67	62
Electricity Distribution Levy	98	100	100	100	100	100	100
Government Guarantee of Debt	32	35	41	73	76	76	77
Port Cargo Access Charges	11	11	11	11	12	12	12
Private Transport Operators Levy	8	7	7	7	8	8	8
Pollution Control Licences	33	29	30	29	44	38	42
Other Taxes	230	238	217	254	95	76	73
	878	**910**	**914**	**959**	**814**	**787**	**777**
Total Tax Revenue	**14,137**	**13,945**	**14,964**	**12,412**	**11,487**	**11,789**	**12,384**

Contracts and Conveyances Duty

Stamp duty on contracts and conveyances represents the largest single component of stamp duty revenues. Conveyancing duty, and marketable securities duty, represent the most volatile revenue sources available to the State. Chart 3.2 shows the contribution of these revenues to the movement in total stamp duty revenues (with the decline in marketable securities duty revenue from 2001-02 reflecting abolition of stamp duty on transfers of quoted marketable securities from 1 July 2001).

Chart 3.2: Stamp Duty Revenues



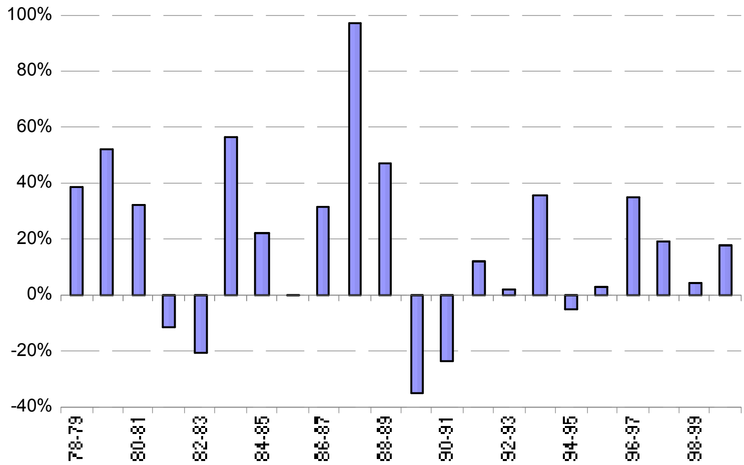
Contracts and conveyance revenue in 1999-2000 is expected to be around $500 million or nearly 30 percent above the original Budget estimate. (In Table 3.7, contracts and conveyances duty includes revenue from the First Home Purchase Scheme (and from 2000-01 First Home Plus), identified separately in previous Budget Papers.)

In the 1999-2000 Budget, revenues were forecast to decrease at a relatively moderate rate over the course of the year. This view was based on the plateauing of revenue in the first half of calendar 1999, an expected easing in economic activity generally through 1999-2000, and the assumption of no change in the national taxation system. The passing of the Commonwealth's tax reform package, which encouraged home buyers to bring forward purchases, contributed to a resurgence in the property market in the second half of 1999 and into 2000, reinforced by a significantly stronger than expected economy and labour market.

For 2000-01, contracts and conveyances revenue is forecast to decline by 22.4 percent, to $1,746 million (a decline of 20.2 percent excluding the cost of First Home Plus).

This forecast is based on the assumption that the property market will be more subdued in 2000-01. Interest rates have risen and are assumed to increase a little further, which should curb consumer confidence and erode housing affordability. The bringing forward of transactions due to uncertainty associated with the introduction of the GST will reinforce the decline in revenue next year.

Chart 3.3: Contracts and Conveyances Duty - Annual Revenue, percentage Change on Previous Year



Historically, downturns in the property market tend to be very sharp with monthly revenues typically declining by up to 50 percent within 12 months of the peak. Chart 3.3 shows the year-to-year volatility of revenue from contracts and conveyances duty.

The weakening in activity assumed for 2000-01 is expected to be of lesser severity than experienced in the late-1980s. On this occasion, economic activity is expected to continue to be relatively strong in 2000-01, and unemployment is expected to continue to decline, remaining a positive influence on consumer sentiment. The growth of revenue in the latest property market cycle has been less marked than in earlier cycles, and any decline in revenue should be correspondingly less severe. Monthly revenues are expected to decline by around 30 percent from recent high levels, bottoming in mid-2001.

Further out, the full impact of the decline in monthly revenues will flow through to revenues in 2001-02. Later in the forecast period, revenues are assumed to increase moderately and move back towards trend. Replacing the First Home Purchase Scheme with First Home Plus, effective from 1 July 2000, is estimated to decrease contracts and conveyances revenue by around $60 million by 2003-04.

Other Stamp Duties

Collections for 1999-2000 are anticipated to be around $260 million, or 13.2 percent, above the level predicted at Budget time, due mainly to stronger revenues for marketable securities, mortgage and motor vehicle registration duty.

Marketable securities duty was boosted by much higher than expected share market activity, stemming principally from the boom in IT company floats and technology-related shares, the Telstra 2 float, and Commonwealth capital gains tax reforms which encouraged the realisation of share market gains. Growth in mortgage duty revenue was linked to strong property market activity and credit growth. Motor vehicle duty exceeded estimates notwithstanding the impending introduction of the GST. Car dealers met fears of a "buyers' strike" in anticipation of cheaper prices after the GST with heavy price discounting and attractive package deals, keeping market activity relatively high in a generally buoyant economy.

For 2000-01, other stamp duty revenue is expected to be slightly lower than in 1999-2000. The main contributors will be lower marketable securities duty, reflecting a more subdued share market; lower mortgage duty, reflecting a less robust property market; and flat insurance duty, reflecting the reduced tax rate. Financial institutions duty is expected to grow as economic growth continues to be relatively strong, but will not be sufficient to offset the revenue declines in other areas.

The main factor behind sharp falls in other stamp duty revenue in the forward years is the abolition of financial institutions duty and marketable securities duty on quoted securities from 1 July 2001. The full-year effects of the reduced insurance duty rate also will moderate growth. With those exceptions, other stamp duties are expected to grow broadly in line with economic activity for the forward years, with mortgage duty reflecting the growth in contracts and conveyance duty and credit.

Payroll Tax

Collections for 1999-2000 are expected to be $126 million, or 3.5 percent, higher than forecast at Budget time. The higher than anticipated outcome is chiefly due to a stronger than anticipated labour market and one-off factors, such as extra spending on Y2K and GST implementation.

Despite continued employment growth and a boost to revenue from a rise in the Superannuation Guarantee Levy, revenue growth in 2000-01 will be moderated by the bringing forward of the payroll tax rate reduction from 6.4 percent to 6.2 percent by six months to 1 January 2001, and the absence of the one-off factors that increased revenue in 1999-2000. Annual growth in revenue will be constrained over the rest of the forecast period due to the full year effect of the payroll tax rate cut to 6.2 percent in 2001-02 and a further reduction in the rate of tax to 6.0 percent on 1 July 2002.

Land Tax

Land Tax revenues in 1999-2000 were revised upwards due to stronger than expected property markets. Nevertheless, revenue is expected to be lower than in 1998-99 following the reduction in the tax rate from 1.85 percent to 1.7 percent on 31 December 1999. Indexation of both the investor and premium property tax thresholds reduced 1999-2000 revenue by an estimated $28 million.

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

It should be noted that Land Tax revenue is the only taxation item for which the accrual-based estimates differ significantly from the cash-based estimates.

Taxes on Motor Vehicle Ownership and Operation

Motor vehicle weight tax and vehicle registration fees are the largest two components of this category, representing over 90 percent of revenue in 1999-2000. Also included are motor vehicle registration transfer fees and miscellaneous taxes.

Collections for 1999-2000 are expected to be slightly higher than estimated at Budget time, mainly due to higher than expected weight tax revenue associated with the growth in the stock of motor vehicles.

Revenue for this category will decline slightly in 2000-01. The decline reflects the total abolition of the $43 third-party motor vehicle registration levy from 1 July 2000 (completing a phasing out commenced on 1 July 1998) and the conclusion of the temporary surcharges on registration and transfer fees (imposed from 1 February 1998 to 1 July 2000). These measures combined will reduce revenue by $63 million in 2000-01.

Accommodation Levy

Collections for 1999-2000 are likely to be slightly above last year's Budget forecast due to stronger than expected occupancy levels, including conventions, New Year's celebrations and pre-Olympics tourism. The accommodation levy will be abolished from 1 July 2000 as part of national tax reform.

Gambling Taxes

Revenue from gambling taxes in 1999-2000 is expected to be slightly above the budget estimate. Gambling revenues will decline in 2000-01, mainly reflecting the adjustment to gambling taxation arrangements required of the States to take into account the impact of the GST on gambling operators.

Safety Net Revenues

In 1999-2000, revenue replacement payments for tobacco were above expectations because of higher than expected wholesale price increases and a change in the way this item was paid to the States. Since the introduction of the Commonwealth's "per stick" tobacco excise regime in November 1999, tobacco revenue replacement payments have been based on long-term trends in consumption and real price movements. Under the IGA, the safety net arrangements will cease from 1 July 2000.

The cost of subsidies associated with the safety net arrangements has been included in previous Budget papers as an offset to safety net revenues. With the cessation of the safety net arrangements, in 2000-01 and forward years any remaining subsidies now appear as an expenditure item.

Commonwealth Grants[1]

In 1999-2000 Commonwealth payments in aggregate will be above Budget time estimates by about $135 million or 1.4 percent, due largely to increased specific purpose payments. Table 3.8 provides estimates of Commonwealth payments (capital and recurrent) for the period to 2003-04.

Under tax reform arrangements, Commonwealth payments in 2000-01 will reflect the abolition of a number of State taxes and FAGs and their replacement with GST Revenue Grants and Budget Balancing Assistance from the Commonwealth. General purpose payments in 1999-2000 ($5,173 million) and 2000-01 ($7,644 million, excluding $674 million designated by the Commonwealth as a loan) cannot therefore be directly compared since they reflect different policy environments.

Growth in specific purpose payments of about 3.2 percent in 2000-01 reflects increased funding for both recurrent and capital purposes. In the forward years, growth in Commonwealth specific purpose payments in aggregate is expected to roughly approximate the inflation rate.

[1] *Growth rates may differ from those in Chapter 8 because of differences in scope and timing of receipt of Commonwealth monies between the Commonwealth and the States.*

Table 3.8: Commonwealth Grants

	1998-99	1999-00		2000-01	2001-02	2002-03	2003-04
	Actual	*Budget*	*Revised*	*Budget*	*Forward Estimates*		
	$m	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*
General Revenue Grants	4,806	5,162	5,173	152	233	238	243
Budget Balancing Assistance payments	...	...	...	986	669	659	391
GST Revenue Grants	...	...	...	7,180	8,618	8,892	9,372
Less:							
State Fiscal Contribution	**102**	**...**	**...**	**...**	**...**	**...**	**...**
Net General Purpose Payments	4,705	5,162	5,173	8,318	9,520	9,789	10,006
Specific Purpose Payments							
Companies Regulation	44	45	45	46	47	49	50
Technical and Further Education	275	306	302	313	322	332	343
Schools	603	534	580	590	600	607	622
Highly Specialised Drugs	83	97	87	102	105	108	112
Australian Health Care Grant	1,905	1,969	1,999	2,104	2,219	2,342	2,412
Home and Community Care	156	160	160	173	176	178	181
Supported Accommodation Assistance	44	45	45	45	46	47	47
Assistance to Disabled	110	116	118	124	131	132	134
Pensioner Concessions	53	54	54	56	57	58	58
Debt Redemption Assistance	64	10	10	10	9	9	9
Blood Transfusion Services	19	22	20	23	24	24	25
National Land Care	50	44	50	51	39	39	39
Public Housing	256	253	253	269	266	262	243
Australian Land Transport Development	319	301	318	323	367	332	301
Housing	37	37	37	40	40	40	37
Other	186	208	246	195	158	165	142
	4,204	**4,201**	**4,324**	**4,464**	**4,606**	**4,724**	**4,755**
Total Grants	**8,911**	**9,363**	**9,498**	**12,780**	**14,125**	**14,513**	**14,760**

The large step up in total Commonwealth grants in 2000-01 stems largely from increased General Purpose Payments. The increased General Purpose Payments merely compensate New South Wales for taxes abolished under the IGA and extra spending required by the IGA. It therefore does not provide scope for increased spending beyond that already included in the forward estimates.

Financial Distributions

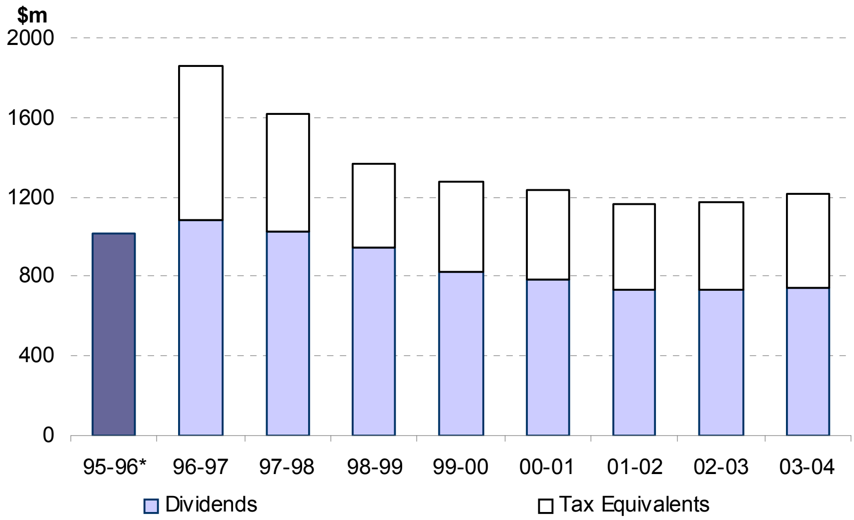
Dividends represent a return on equity invested by taxpayers in business enterprises while tax equivalent payments are intended to mirror as closely as possible tax liabilities that would be incurred if the entity concerned was owned by the private sector.

Table 3.9 provides estimates of financial distributions for the period to 2003-04. Consistent with practice for other revenues, income from Public Trading and Financial Enterprises is presented on an accruals basis. For most taxes and grants, differences between cash and accruals estimates are not very significant. However, an accruals basis for reporting income from public enterprises significantly affects the timing of receipts, resulting in significant differences from revenues reported on a cash basis.

Table 3.9: Financial Distributions from Public Trading and Financial Enterprises (accruals basis)

	1998-99	*1999-00*		*2000-01*	*2001-02*	*2002-03*	*2003-04*
	Actual	*Budget*	*Revised*	*Budget*	*Forward Estimates*		
	$m	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*
Dividends							
Electricity	409	488	422	365	372	412	478
Water and Waste Services	139	153	143	128	143	135	149
Property and Resources	56	72	69	88	57	40	35
Financial Services	184	14	16	18	18	16	15
Ports	32	24	33	31	32	32	31
Transport	105	55	87	95	97	92	104
Other	17	20	15	13	14	13	13
	941	**826**	**784**	**738**	**732**	**740**	**824**
Income Tax Equivalents							
Electricity	238	294	233	205	203	223	252
Water and Waste Services	101	109	111	151	136	145	150
Property and Resources	18	28	43	38	36	26	22
Financial Services	12	6	8	8	6	6	5
Ports	25	19	23	18	18	18	19
Transport	22	21	24	25	21	19	21
Other	12	11	11	8	7	7	7
	427	**488**	**453**	**453**	**428**	**443**	**476**
Dividend and Income Tax Equivalents	1,368	1,314	1,237	1,191	1,160	1,183	1,300
Sales Tax Equivalents	69	57	65	5	…	…	…
Capital Restructure	…	…	…	2,400	…	…	…
Other Income	6	10	29	11	4	…	2
Total	**1,444**	**1,381**	**1,331**	**3,608**	**1,164**	**1,183**	**1,302**

Chart 3.4: Financial Distributions from Public Trading and Financial Enterprises



** The break-up between Dividend and Tax Equivalents is not available for 1995-96.*
 # Excludes $2.46 capital restructure proceeds

Chart 3.4 shows a declining trend for financial distributions since 1997-98 mainly due to the impact of greater competition in the electricity generation sector.

In 1999-2000, dividends and income tax equivalents are expected to be around $77 million lower than estimated. This mainly reflects lower than expected distributions from the Electricity and Water and Waste sectors. The reduced contribution from the Electricity sector is largely due to lower returns from the distribution sector. A reduction in Sydney Water's profitability, due to the introduction of a voluntary redundancy program, is the main factor behind the lower than expected outcome for the Water and Waste sector. The voluntary redundancy program and other efficiency initiatives being pursued by Sydney Water are expected to reduce future operating costs.

In 2000-01, dividends and income tax equivalents are expected to decrease by 3.7 percent, excluding the impact of capital restructure proceeds. The sharp decline in Sales Tax Equivalent revenue reflects the abolition of the Wholesale Sales Tax Equivalent regime under the new national taxation arrangements.

The $2.4 billion from capital restructure in 2000-01 results from a restructuring of the balance sheets of electricity transmission and distribution enterprises (see Chapter 1). Accrual accounting conventions require the capital restructure transaction to be entered as revenue in the general government accounts. It is treated as an abnormal item in the General Government Sector Operating Statement (see Chapter 2). Proceeds will be used to retire General Government Sector debt.

Other Revenues

Table 3.10: Other State Revenues

	1998-99 Actual $m	1999-00 Budget $m	1999-00 Revised $m	2000-01 Budget $m	2001-02 Forward Estimates $m	2002-03 Forward Estimates $m	2003-04 Forward Estimates $m
Licences	91	125	139	119	72	70	94
Fees	101	101	96	102	103	103	91
Fines	238	218	186	226	230	231	205
Royalties	202	212	212	208	215	224	231
Fire Brigades Levy on Local Government	35	37	37	39	39	38	37
Other State Revenues	140	89	110	98	76	77	78
Total Other Revenue	**807**	**782**	**782**	**793**	**736**	**743**	**737**

Licences

This item mainly consists of drivers' and riders' licences. Revenue is volatile (see Table 3.10) because it is heavily influenced by the renewal pattern of three and five year drivers' licences.

Fines

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

The lower than expected revenue in 1999-2000 reflected reduced parking fines collected as a result of industrial action taken by Parking Patrol Officers from November 1999 to January 2000 and a decline in numbers of officers.

Royalties

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

3.3.2 OPERATING REVENUES

Operating revenues represent revenues earned by Public Sector agencies in the normal course of their operations. The primary source is user charges largely levied to recover costs. Table 3.11 provides estimates of operating revenues for the period to 2003-04.

Table 3.11: Operating Revenues

	1998-99	1999-00		2000-01	2001-02	2002-03	2003-04
	Actual	Budget	Revised	Budget	Forward Estimates		
	$m	$m	$m	$m	$m	$m	$m
Sales of Goods and Services							
Rents and leases	134	120	125	123	128	126	127
Fees for Service	102	104	105	78	81	70	72
Entry Fees	15	18	17	19	18	19	19
Patient Fees	448	435	433	440	443	445	457
Department of Veterans Affairs -Concord Hospital	196	194	223	209	214	219	224
Court Fees	101	101	89	94	100	102	105
Road Tolls	56	56	56	57	57	58	59
Operating Revenue	71	72	92	90	93	95	99
Income from Milk Agents	317	333	317	...	...	...	...
Commercial Land Sales	24	27	46	15	32	28	10
Other Sales of Goods and Services	982	968	1,014	1,047	1,053	1,081	1,113
	2,448	**2,427**	**2,517**	**2,171**	**2,217**	**2,242**	**2,285**
Investment Income	420	387	386	391	403	412	433
Grants and Contributions	485	401	397	421	315	288	297
Other Operating Revenues	302	219	346	280	221	197	172
Total Operating Revenue	**3,655**	**3,434**	**3,645**	**3,263**	**3,157**	**3,140**	**3,187**

Sales of Goods and Services

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

The major sources of revenue in this category in 1999-2000 were private patient fees in public hospitals, reimbursements from the Commonwealth for treating veterans and milk agent fees, which represent income on milk sales. The decline in revenue in 2000-01 mainly reflects the planned abolition of milk supply and price controls from 1 July 2000. The Government will no longer act as an agent for the collection and payment of milk receipts. This change has no net Budget impact, as there is a matching reduction in expenses.

Investment Income

Revenue from investment income includes interest on advances to Public Trading Enterprises, interest on T-Corp deposits and interest on private sector deposits. In 1999-2000, revenues returned to more normal levels, having been boosted in 1998-99 from monies borrowed and invested following the pre-payment in 1998-99 of three years of normal superannuation contributions.

Grants and Contributions

This item mainly consists of contributions from Public Trading Enterprises and the private sector. Receipts are expected to increase by 6.0 percent in 2000-01, mainly because of reimbursements by the Sydney Organising Committee for the Olympic Games (SOCOG) to the Olympic Roads and Transport Authority and the NSW Police Service for Olympics-related transport and police and security services being provided by the Government on behalf of SOCOG.

CHAPTER 4: GENERAL GOVERNMENT SECTOR SERVICE DELIVERY

An underlying increase of 3.4 percent in expenses in 2000-01 and an average increase of 2.5 percent over the five years to 2003-04.

Major service delivery initiatives in:

- Education;
- Health;
- Natural Resources and Community Amenities;
- Public Order and Safety;
- Social Security and Welfare;
- Transport and Communication, and
- Drug Summit

4.1 INTRODUCTION

The Government undertakes expenditure in order to achieve its key objective of delivering services needed by the community. Agencies provide these services by incurring both expenses (e.g. wage costs for nurses) or by spending on asset acquisition programs (e.g. building new hospitals).

This Chapter outlines the key service delivery initiatives in the 2000-01 Budget as well as an analysis of the longer-term trend in total expenses over the forward estimates period.

The policy area categories used in this chapter are based on Australian Bureau of Statistics (ABS) standards. The adoption of ABS classification standards ensures consistency of treatment of government expenditure over time, regardless of agency restructures. Nevertheless, some inconsistencies do arise.

Policy area expenditure classifications are not directly comparable with agency expenditure as detailed in Budget Paper No. 3. It is often the case that agency expenditure is classified to a number of different policy areas. For instance the Department of Agriculture conducts animal education programs which are classified as education expenditure. Similarly, superannuation and interest expenses for all agencies are classified to General Public Services and Other Purposes respectively.

Savings from the removal of embedded indirect taxes

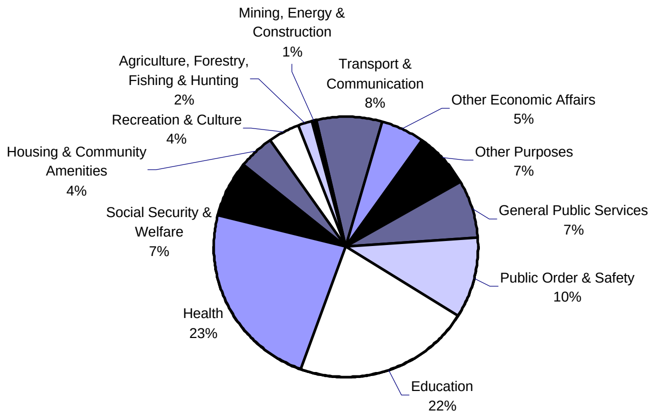
The 2000-01 budget and forward estimates of agencies' expenses contain a normal cost escalation factor, but are also reduced to take account of reductions in costs to agencies resulting from indirect tax reform. This adjustment does not reduce agencies' purchasing power as it merely reflects a reduction in their input costs.

Under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* the Commonwealth guarantees that no State's budget will be worse off as a result of tax reform. In formulating the guarantee, the Commonwealth took into account estimates of the benefits accruing to the General Government sector from the abolition of Wholesale Sales Tax and other changes to indirect taxes. In effect, these benefits reduce the transitional assistance provided by the Commonwealth.

As a consequence of this approach, the budget would be financially disadvantaged if agencies failed to identify and realise these reduced operating costs.

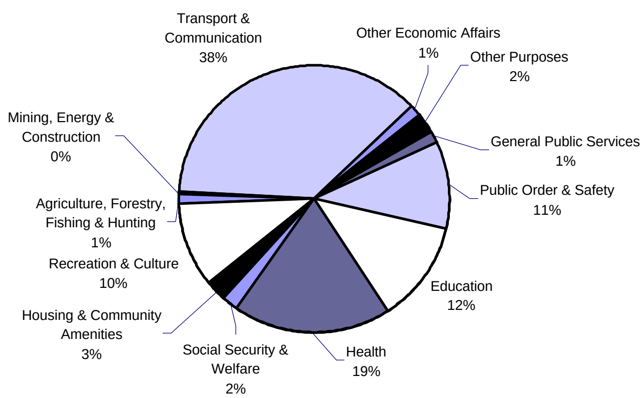
Estimates of the savings take account of the fact that not all savings will flow through immediately. Short term savings are estimated to flow through fully to agencies from 2001-02 (80 percent in 2000-01). Long term savings are estimated to increase from 20 percent in 2000-01 to 100 percent by 2004-05.

Chart 4.1: General Government Expenses by Policy Area



Total Expenses = $29,205 million

Chart 4.2: General Government Asset Acquisitions by Policy Area



Total Asset Acquisitions = $2,493 million

4.2: TOTAL EXPENSES

Unadjusted total expenses in 2000-01 are expected to be $29,205 million. This represents an increase of $1,501 million or 5.4 percent over the 1999-2000 level of expenses. Expenses are expected to decline by 2.1 percent in 2001-02 and increase by 2.1 percent and 2.4 percent in 2002-3 and 2003-04 respectively.

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

- Significant one-off expenses such as the Olympics. Olympics related expenses (excluding depreciation) peak at $650 million in 2000-01. Included in this total is a non-cash accounting adjustment that recognises that certain Olympic assets (eg Ryde Aquatic Leisure Centre, Penrith Whitewater Stadium, media centre and Blacktown Olympic Centre) will be transferred at zero cost to third parties. This non cash accounting adjustment generates in part the difference between the accounting expense recognised in the operating statement and the cash outflows referred to in Chapter 6.

- Expense impacts of the GST package as outlined in the "Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations". Changes in expenses related to the agreement are offset by equivalent changes in Commonwealth grants.

- Major structural shifts in expenses. The most significant example is the impact of the dairy industry restructure on Safe Food Production NSW. Milk purchases and sales previously made by the agency will discontinue in 2000-01. The impact on the operating result is minimal but results in large reductions in expenses and revenues in the Budget year.

- Major non discretionary expenses such as superannuation, depreciation, finance costs and insurance claims.

Table 4.1 shows the underlying level of General Government expenses between 1998-99 and 2003-04 and details the specific adjustments made to the unadjusted expense totals.

The growth in underlying expenses over the forward estimates period reflects continued fiscal restraint and is the foundation for the State's strong financial performance, as evidenced by positive net lending results and continuing declines in net debt and net financial liabilities.

In nominal terms underlying expenses are expected to increase by 3.4 percent in 2000-01 and by an average of 2.5 percent over the five-year period between 1998-99 and 2003-04. In real terms this represents a growth of 0.3 percent in the Budget year and an average growth of 0.1 percent over the five year period.

Table 4.1: Total Expenses

	1998-99 Actual $m	1999-2000 Revised $m	2000-01 Budget $m	2001-02 Estimate $m	2002-03 Estimate $m	2003-04 Estimate $m
Total Expenses (as per Chapter 2)	**28,256**	**27,704**	**29,205**	**28,605**	**29,196**	**29,907**
Less material one-off items:						
Olympics and ancilliary services (net of SOCOG contributions)	79	218	372			
Transfer of Olympic facilities to Third Parties	53		168	71		
Olympics expenses funded by SOCOG contributions	3	28	110			
Y2k costs	99					
State election costs (approx)	30					
Reimbursement of Backlog sewer grants			(42)			
GST transitional payments to Clubs		68				
RTA land under roads adjustment	191					
Asset decrements (mainly RTA)	272					
Sydney Harbour Foreshore Auth. accounting adjustment	(90)					
Transfer of Entertainment Centre to Darling Harbour Authority	50					
T Corp Indemnity payment	164					
Less items related to GST package (offset by Commonwealth grants):						
First Home Buyers scheme			219	223	227	232
GST Administration Costs			274	127	126	124
Imbedded Wholesale Sales Tax savings			(99)	(160)	(199)	(240)
Less structural shifts in expenses:						
Coal Compensation payments	59	6				
Change in Budget Scope	80	79	105			
Reclassification of Section 90 subsidies			52	41	43	44
Reduction in costs associated with the de-regulation of the NSW Dairy Industry	323	322				
Less major non discretionary expenses						
Superannuation	1,553	1,320	1,540	1,628	1,726	1,735
Finance costs	1,397	1,405	1,287	905	888	841
Depreciation	1,036	952	995	1,051	1,120	1,196
Insurance Claims expense	796	653	807	839	887	946
NET UNDERLYING EXPENSES	**22,160**	**22,654**	**23,418**	**23,880**	**24,377**	**25,030**
Increase in Net Underlying Expenses		+ 2.2%	+ 3.4%	+ 2.0%	+ 2.1%	+ 2.7%

4.3: POLICY AREA ANALYSIS

EDUCATION

Overall Objective

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

Scope of Policy Area

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

Services Delivered

The Education policy area incorporates:

- Primary and Secondary Education services for 762,000 students at some 2,220 schools, as well as the provision of significant financial assistance to non-Government schools;
- Tertiary and Vocational Education services for over 600,000 students at 130 TAFE campuses;
- Pre-school Education services for 2,235 students;
- the School Student Transport Scheme which encompasses payments for student conveyance to various Government and non-Government service providers; and
- training and educational policy activities.

Government Initiatives

Key initiatives for 2000-01 include:

Schools:

- almost $450 million over 4 years for the further expansion of the State Literacy and Numeracy Plan with over $106 million to be spent in 2000-01;

- almost $500 million over 4 years for the Computers in Schools Plan, with the replacement of the existing 90,000 computers through leasing arrangements and provision of an additional 25,000 computers. A total of $113.6 million will be provided in 2000-01 for this program;

- $10.2 million over 4 years to enable all Government schools to be cabled with local network infrastructure;

- almost $17 million over 4 years will be spent to expand opportunities for teacher training in using new technology in the classroom, including $4 million allocated this year;

- some $15 million over 4 years ($3.5 million in 2000-01) will be provided to prepare young people for work through the development of individual school to work plans for all students in Years 9 to 12; and

- a further $90 million will be spent on school maintenance, expanding the maintenance program to nearly $550 million over the next four years. Some $145 million will be spent in 2000-01 to maintain public schools.

TAFE:

- almost $15 million over 4 years to support TAFE scholarships and students at risk programs, with some $4 million being allocated this year;

- the number of first year apprentices eligible for payroll tax concessions will increase by 250 in each year. This rebate will amount to $16 million over 4 years;

- the development of strategies to ensure the appropriate and timely provision of industry training for the Sydney 2000 Olympic and Paralympic Games. TAFE NSW is the Official Training Services Supporter of the Games;

- the ongoing development of partnerships between TAFE NSW and industry to deliver flexible training programs specific to the clients needs and at times and locations suitable to the client;

- $1.5 million in 2000-01, for a joint TAFE and schools initiative through TAFE Outreach and school substitute care, to target youth and to expand their access to vocational education and training. The Department will also provide an additional 100 TAFE places for students in Juvenile Justice Centres; and

- $2.2 million in assistance to students from rural and low socio-economic areas who have successfully completed vocational education training courses as part of the Higher School Certificate to continue full-time study at TAFE NSW.

Asset Acquisition

- Capital Expenditure on the education program totals $298.9 million in 2000-01. The program includes an increase in the construction of new primary and secondary schools and redevelopment of the Oatley site incorporating a TAFE and senior high school.

HEALTH

Overall Objective

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

Scope of Policy Area

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

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

Services Delivered

Services delivered in this policy area include:

- an estimated 1.33 million hospital admissions including 438,000 admissions through emergency departments and 535,000 patients who will be admitted and discharged on the same day through 210 general public hospitals;

- an estimated 510,000 emergency transport cases by ambulance, 2,200 by aircraft and 2,900 by helicopter; and

- over 23 million occasions of service.

Government Initiatives

The Government will undertake a range of significant health care reforms over the next three years, building on the recommendations of the NSW Health Council and the Ministerial Advisory Council on Health Services in Smaller Towns. The Government's program will see overall health expenditure in NSW reach $8.1 billion by 2002-03 including:

- $45 million over three years to coordinate care for people with complex and chronic conditions through individualised health care plans, targeting cardiovascular disease, respiratory illness and cancer, as priority areas;

- $45 million over three years to improve services provided by emergency departments and intensive care units, with particular attention to mental health care, networking of services, bed management practices and collocation of general practitioner and emergency services;

- $15 million over three years to establish demonstration projects in selected areas to link key reforms including the implementation of care plans in priority health areas, changes to clinical practice such as day only admissions and the use of case managers and the fast-tracking of new information technologies;

- better utilisation of hospital facilities through consistent use of best-practice measures such as formal discharge planning to general practitioners and community health providers, pre-admission planning and greater use of day-only surgery and day-of-admission surgery;

- implementation of episode funding to ensure hospitals are funded for the work they do and to support efforts to promote the quality and appropriateness of treatments; and

- improving hospital services in metropolitan New South Wales by adopting a more coordinated approach to planning services and involving local communities in this process.

In recognition of the increasing demand pressures on the health system, the Government has made a three-year commitment to provide growth funding to the Department of Health and to achieve an equitable distribution of resources across Area Health Services. Significant health spending initiatives in 2000-01 include:

- a $36.5 million increase in mental health services, particularly in growth and rural areas, rising to an increase of $107.5 million per annum by 2002-03;

- additional funding of $4 million in 2000-01 rising to an additional $20 million by 2002-03 for dental health services, to treat additional patients and reduce waiting times for dental care. This will allow the number of persons assisted to double to 400,000 per annum; and

- a $5 million increase in grants for medical research, rising to an additional $9 million in 2001-02.

In addition, the Government will commence the following health capital works in 2000-01:

- a $5.8 million expansion of the Rural Health Program which involves redevelopment of 20 hospitals in small towns; with planning to be undertaken for the remaining 14 as identified by the Sinclair Report;
- a $3.7 million refurbishment of the Tamworth Emergency Department;
- provision of a $13.8 million linear accelerator for Campbelltown Hospital;
- a $6.3 million improvement to mental health facilities on the Central Coast;
- a new rehabilitation services building at the Prince of Wales Hospital at a cost of $16 million; and
- a $35.9 million extension of the Government’s Information and Technology Strategy to deliver the foundations of an Electronic Health Record for all patients.

NATURAL RESOURCES AND COMMUNITY AMENITIES

Overall Objectives

The objectives of this area are to:

- assist the agriculture, forestry and fishing sectors to be economically and environmentally sustainable;
- provide a range of national and recreational parks, sporting venues, amenities and cultural facilities;
- support the mining, energy and manufacturing sectors;
- meet community needs for housing, water, sewage and protection of the environment while advancing sustainable economic development; and
- ensure the proper conduct and balanced development of the gaming, racing, charity and liquor industries.

Scope of Policy Area

This area incorporates the four policy areas of housing and community amenities; recreation and culture; agriculture, forestry and fishing; mining, energy and construction.

The natural resources aspects of this policy area are carried out primarily by the Department of Land and Water Conservation, the National Parks and Wildlife Service, NSW Agriculture, NSW Fisheries, the Environment Protection Authority the Department of Mineral Resources, the Sustainable Energy Development Authority, Ministry of Energy and Utilities and the Forestry Policy and Reforms program of the Department of Information Technology and Management.

The community amenities aspect includes the major functions of the Olympic Co-ordination Authority (OCA), the Department of Sport and Recreation, the Department of Gaming and Racing, the Casino Control Authority, the Royal Botanic Gardens and Domain Trust, Centennial Park and Moore Park Trust, the Ministry for the Arts and the State’s cultural institutions including the Art Gallery of New South Wales, the State Library and the Australian Museum.

In addition, the policy area covers payments to other government bodies for housing and water and sewage assistance, Aboriginal housing, land development funds, Sydney Harbour Foreshore Authority and the First Home Owners Grant Scheme.

Services Delivered

- The natural resources and community amenities area provides the following services:

- the strategic policy framework and programs for the sustainable management of the State’s natural resources - land, vegetation, minerals, fisheries, forests and water;

- the means to regulate and control pollution and protect the environment and foster investment in the sustainable energy industry;

- research, advice, education and regulation for landholders and industry to improve land use planning and agricultural systems management.

- conservation, protection and management of the State’s natural and cultural heritage and recreational opportunities through the network of national and regional parks;

- programs to support the development of sport and recreation, the arts and culture;

- housing and financial assistance to those with priority housing needs, including housing and amenity services for Aboriginal people;

- activities to improve the social and physical amenity of housing estates and older housing stock;

- consumer protection associated with the manufacturing and construction industries; and

- oversighting of the operations of the liquor, gaming, racing and charity industries, ensuring the minimisation of harm from liquor and gambling activities and undertaking review and administration of the relevant Acts.

Government Initiatives

In delivering the above services, the Government will undertake the following key initiatives in the 2000-01 Budget year:

- provide $220.2 million in financial support to first time homebuyers. The national scheme has been designed to offset the impact of the GST and will be administered in New South Wales by the Office of State Revenue;

- provide $136.5 million funding for flood mitigation and improved water supply and sewage systems for river catchment, coastal and floodplain communities;

- carry out waste minimisation and management programs costing $36.8 million, such as kerbside recycling and promoting alternative waste technologies and practices;

- spend $6 million to encourage the up-take of energy efficiency technologies and practices in the commercial and residential sectors as well as the commercialisation of sustainable energy supply technologies. In addition over $3 million in grants will be directed towards residential energy efficiency and sustainable energy supply.

- allocate an additional $5 million in 200-01 towards salinity programs;

- proceed with stage 2 of the Acid Soil Action program of NSW Agriculture to address the serious problem of soil acidity (first year of a $6 million three year program);

- commence the first year of the $5.9 million West 2000 Plus program to assist structural adjustment in the Western Division;

- encourage the expansion of aquaculture through a $3 million three year program;

- provide $2.8 million of funding for the establishment of new national parks in southern New South Wales;

- begin a major new exploration initiative "Exploration NSW: Mining Beyond 2000" involving expenditure of $30 million over seven years to produce geological and geophysical maps and digital data to provide improved information for exploration. In 2000-01, $3.8 million will be spent mainly in the Far West of the State for mineral exploration and in the South West of the State for petroleum;

- improve some 36,000 dwellings at a cost of $214.1 million. This includes improvements ranging from painting and decorating to major upgrading;

- provide 2,321 additional dwellings across public, community and Aboriginal housing, with the commencement of construction of an estimated 1,105 dwellings and the leasing of 1,216 dwellings from the private market for public and community housing tenants;

- deliver the facilities for the 2000 Olympic and Paralympic games, including the Homebush Bay Precinct. These facilities will remain as legacies for sport and for the community;

- provide $1.3 million in additional funding to the New South Wales Institute of Sport for entry fees of Institute athletes to Olympic facilities post Olympics and to increase its capacity to deliver services off-site;

- provide $3 million for the building of accommodation facilities at Broken Bay, Milson Island, Myuna Bay and Lake Ainsworth Sport and Recreation Centres;

- extend the Art Gallery of New South Wales to maintain the Gallery's position as the pre-eminent gallery of Asian art and culture;

- provide additional funding of $1.9 million in 2000-01 and $2.6 million per annum thereafter for the major performing arts sector in response to the Nugent Inquiry into the sector's finances, in order to stabilise and reposition the sector to take advantage of changes in the national and global economies;

- provide additional funding of $300,000 for 2000-01 and 2001-02 and $500,000 thereafter to promote Regional Arts initiatives;

- provide funding of $400,000 per annum for 2000-01 and 2001-02 and $500,000 thereafter to implement sections of "A Strategy for the Arts in Western Sydney" paper; and

- initiate a new Regional Film Fund to assist filmmakers shooting outside Sydney.

Full details of the various initiatives are given in Budget Papers 3 and 4.

PUBLIC ORDER AND SAFETY

Overall Objective

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

Scope of Policy Area

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

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

Services Delivered

Services delivered within this policy area include:

- the provision of police officers serving and protecting the community from criminal activity;
- provision of accommodation for around 7,700 prisoners daily;
- dealing with over 250,000 criminal and over 32,000 civil cases annually through the courts;
- responding to over 100,000 fire incidents in metropolitan areas; and
- support for 6,600 State Emergency Service volunteers responding to around 20,000 incidents each year.

Government Initiatives

In delivering the above services, the Government will undertake the following initiatives in the 2000-01 Budget year.

- The second stage of the plan to increase the frontline strength of the Police Service by 2,110 in accordance with the Government's election commitment.

This will be achieved by recruiting an additional 1,000 police officers over the four years to December 2003 and undertaking a range of measures to release existing police resources.

In 2000-01 the full benefits of the Police Assistance Line will flow through into police operations following the commencement of operations at Tuggerah. It is estimated that the equivalent of around 500 police officers will be released for operation duties by this initiative.

Civilianisation of a range of duties currently performed by sworn police will continue in 2000-01. For example, twenty Intelligence Officer positions will be civilianised and the restructure of the human resources area is expected to reduce the number of sworn police in the community from approximately 66 in 1999-2000 to less than 20 in 2000-01.

The transfer of responsibility for prisoner escorts from the NSW Police Service to the Department of Corrective Services will continue. Under this 2-year program the equivalent of 120 police officers will be freed for other duties.

- $495,000 will be provided to introduce electronic capture of digitised images of suspects allowing on-line dissemination of information to all police officers.

- An additional $1.9 million will be provided to the Department of Juvenile Justice to improve training to assist staff dealing with difficult clients.

- $4.4 million will be available to the Department of Juvenile Justice for various drug action initiatives, including diversionary counselling and group work programs for drug-using young offenders ($600,000), life skills and accredited employment skills training ($400,000) and drug rehabilitation programs in the Central West and on the North Coast ($1 million).

- Following the success of the Court Delay Reduction Program in 1999-2000, funding of $4 million per annum to the Legal Aid Commission will continue to be made available to meet the anticipated impact of an increase of matters heard in the District Court.

- $385,000 has been provided to the Legal Aid Commission for the establishment of a legal tele-service centre in conjunction with other Government agencies and the private sector. The centre is designed primarily to provide legal information and referral services to people throughout New South Wales.

- An additional $500,000 will be provided to the New South Wales Crime Commission to expand its operations involving the Special Crimes Unit.

In recent years proceeds from confiscations initiated by the Commission have increased greatly.

- An additional $5.5 million will be provided to the Office of the Director of Public Prosecutions to meet increased workload.

- $1.3 million for increased security in Local Courts throughout the State.

- Refurbishment of the King Street Courts Complex to conserve and upgrade the site ($2.7 million).

- Extension of the Attorney General's Department's video conferencing capability as part of a justice agencies' project totalling $4.3 million. Recurrent funding of $2.1 million has also been provided to meet expenses associated with video conferencing.

- $500,000 to expand the Safer Communities Development Program assisting local councils and community groups undertake crime prevention activities. This brings the total program to $1.7 million per annum.

- $400,000 will be provided through the Attorney-General’s Department, to local councils to purchase graffiti blasting machines and to meet the cost of graffiti prevention traineeships. (This is in addition to the $900,000 previously announced for graffiti initiatives).

- Funding of $10.8 million has been provided in 2000-01 for the continued development of the Police Complaints Case Management System (PCCM). This project is being jointly undertaken by the Police Service, the Police Integrity Commission and the Ombudsman, under the management of the Premier's Department, at a total cost of $12.9 million. The PCCM will provide a system of oversight of complaints made against police officers in accordance with Royal Commission recommendations.

- The State Debt Recovery Office will be provided with an additional $8 million in 2000-01 to help address both the 650,000 new matters received each year and the backlog of outstanding fines.

- An amount of $3 million has been provided to the Department of Corrective Services to meet costs of training additional staff to fill current vacancies.

- Approximately thirty additional probation and parole officers will be employed by the Department of Corrective Services to meet the increasing caseload in respect of offenders under supervision in the community and pre-sentence reports required by the judiciary.

- Expenditure of almost $48 million will occur in respect of the three new gaols that will be constructed at Kempsey, Parklea and South Windsor.

- An additional $1.4 million per annum will be provided to the State Emergency Service for competency based training and $1 million per annum for the acquisition of protective clothing and safety equipment.

- $4 million will be provided to commence a 3-year program to refit Rural Fire Service vehicles with more sophisticated protection systems and fireproof blankets. In addition, $2.1 million will be provided for the purchase of technologically advanced protective clothing and safety equipment.

Full details of various initiatives are shown in Budget Papers 3 and 4.

SOCIAL SECURITY AND WELFARE

Overall Objective

Expenditure within the social security and welfare policy area is applied towards the:

- provision of the best possible care and protection and the promotion of opportunities for those in vulnerable positions including families, young people and children, frail older people, people with disabilities and their carers;

- promotion of opportunities for Women, Aboriginal and Torres Strait Islander people and people from non-English speaking backgrounds; and

- provision of assistance to those experiencing financial difficulty.

Scope of Policy Area

The policy area includes expenses and asset acquisitions of the Department of Community Services, the Ageing and Disability Department, the Community Services Commission, the Commission for Children and Young People, the Home Care Service, the Ethnic Affairs Commission and the Department for Women as well as:

- services provided by the Department of Aboriginal Affairs;

- compensation to victims of crime (administered by the Attorney-General’s Department); and

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

Services Delivered

The Government's Social Security and Welfare policy area in NSW continues to deliver services to people with special needs or requiring a particular commitment, including:

- ♦ investigation of over 76,000 reports and notifications of potential abuse and neglect of children;
- ♦ protection for an estimated 31,800 children, substitute care for an estimated 13,400 children, and associated care and support for children, young people and families;
- ♦ support and services to older people, people with disabilities and their carers aimed at helping them achieve greater independence and community involvement. This includes accommodation, nursing home care, food services, transport and personal care with;
  - over 300,000 hours of respite care; and
  - over 3.5 million hours of service provided by the Home Care Service of NSW;
- ♦ an estimated 4,800 awards made by the Victims Compensation Tribunal;
- ♦ assistance, including accommodation, to people affected by crisis and natural disasters; and
- ♦ promotion of social, economic and cultural opportunities for Women, Aboriginal and Torres Strait Islanders and Ethnic communities.

Government Initiatives

Social Security and Welfare initiatives to be undertaken by the Government in 2000-01 include:

- ♦ proclamation and implementation of the Children and Young Persons (Care and Protection) Act 1998;
- ♦ $149.5 million to continue out-of-home care and foster care support in the Department of Community Services. This includes:
  - an additional $5 million ($50 million over the next four years) for growth in foster care; and
  - $3.2 million for the GST on foster care payments to maintain the purchasing power of carers;

- $10.9 million (estimated total cost - $12.6 million) to start a major upgrade of information technology in the Department of Community Services including the Service 2000 projects - a Client Database System, the Community Partners System and the TeleService intake centre providing 24 hour / seven days a week Statewide initial assessment service for child protection notifications ($7.1 million);

- The budget for the Ageing and Disability Department includes an additional:

  - $44.9 million ($218.6 million over four years) to enhance the strategic direction for the Disability Services system in New South Wales, including:

    - ◊ $25.4 million ($134 million over 4 years) for additional supported accommodation places;

    - ◊ $5.5 million ($22 million over 4 years) for an immediate assistance pool providing short term placements for clients in crisis;

    - ◊ $3 million ($18 million over 4 years) for local area coordination to meet immediate needs quickly and to help strengthen informal supports in the community;

    - ◊ $6 million ($24.6 million over 4 years) for the relocation of residents from large disability residential facilities; and

    - ◊ $5 million ($20 million over 4 years) for other disability support services;

  - $2 million to non-government organisations to purchase disability accessible vehicles under the Community Transport Program;

  - $21.5 million for growth funding in the Home and Community Care program providing an additional 500,000 hours of service to frail older people and people with disabilities who do not receive residential care support, and their carers; and

  - $6.1 million for a capital grant to the Home Care Service of NSW to commence an information technology project (estimated total cost - $9.8 million) enabling the establishment of a new Service Delivery Model. Reductions in Home Care Service's administration costs will result in 160,000 additional service delivery hours per annum by 2002-03;

- $2.2 million to continue a number of initiatives in the Ageing and Disability Department for aged people including the development of a NSW Action Plan on Dementia;

- $800,000 for the Assistance to Aborigines Grants Program;
- $298 million for transport concessions on CityRail, Countrylink and State Transit services;
- $206.8 million for local council rate rebates and electricity, water and sewerage rate concessions; and
- $92.2 million for compensation to victims of crime.

TRANSPORT AND COMMUNICATION

Overall Objective

Expenditure within the transport and communications policy area involves provision of efficient, accessible and integrated transport infrastructure and services, and effective Government communication technologies, that in turn supports both the growth of the State's economy and the improvement in the quality of life of its residents.

Scope of Policy Area

The major components of the transport and communications policy area are:

- the management of the State's road and traffic systems;
- the operation of public transport, including passenger rail services and Sydney Ferries and Buses;
- the management of deep water ports at Sydney, Newcastle and Port Kembla;
- the provision of rail freight services; and
- implementation of communication technologies across Government which improve service delivery to the community.

The policy area predominantly includes expenses and capital acquisitions of the Department of Transport, Waterways Authority, Department of Information Technology and Management and the Roads and Traffic Authority and the Marine Ministerial Holding Corporation.

Services Delivered

The Government's Transport and Communications policy will deliver:

- implementation of a long term, fully funded plan for the growth of the State's Public Transport and Road Infrastructure – *Action for Transport 2010*;

- an integrated road network of around 20,600 kilometres for around 4 million vehicles that is continually improved to deliver both increased safety and reduced congestion;

- safe, reliable and convenient public transport services, including State operated services that will carry in excess of 500 million passenger journeys annually;

- four major ports that collectively will export in excess of 70 million tonnes of coal and 2 million tonnes of grain, delivered to port predominantly by a State operated rail freight business;

- a single Government radio network, allowing direct communication between all emergency and administrative agencies whenever required; and

- the full benefits to New South Wales Government agencies and their clients of new technologies including the Internet.

GOVERNMENT INITIATIVES

In delivering the above services the Government will undertake the following initiatives in the 2000-01 Budget year.

- *connect.nsw* – a whole of Government program to improve access to services and the delivery of these services through the use of information technology and the Internet ($10.5 million in 2000-01);

- Construction of the M5 East facilitating an uninterrupted road link between South Western Sydney, Sydney Airport and the city ($237 million in 2000-01);

- The construction, at a total cost of $203 million, of the Parramatta to Liverpool Bus only transit way ($28.5 million in 2000-01);

- The commencement of construction of the Parramatta to Chatswood Rail Link ($75.4 million in 2000-01);

- $25.6 million in 2000-01 to continue the program to provide easy access to railway stations, including Wollongong, Summer Hill and Katoomba;

- A further $13.4 million in 2000-01 to complete the security upgrade of all 301 CityRail stations including the provision of security lighting and closed circuit cameras;

- A major station upgrade program across the rail network, with funding of $45.1 million in 2000-01;

- The provision of $25 million for new Millennium Trains with the first 8 cars being delivered during the Budget year;
- Upgrading of the XPT fleet at a cost of $10 million in 2000-01;
- Spending of $19 million for the electrification of the Dapto to Kiama rail line;
- $19 million for the Road Blackspot program in 2000-01 with work being undertaken on the Alpine Way, at Ewingsdale near Byron Bay and between Bega and Tathra;
- Major new upgrades for commuter parking and inter-change facilities, including at Kogarah, Holsworthy and Gosford, at a total cost of $37.6 million; and
- $160 million for upgrading works on the Pacific Highway including duplication of the road between Raymond Terrace and Karuah and jointly with the Commonwealth for duplication of the road between Coolongolook and Wang Wauk.

Full details of various initiatives are shown in Budget Papers 3 and 4.

DRUG SUMMIT

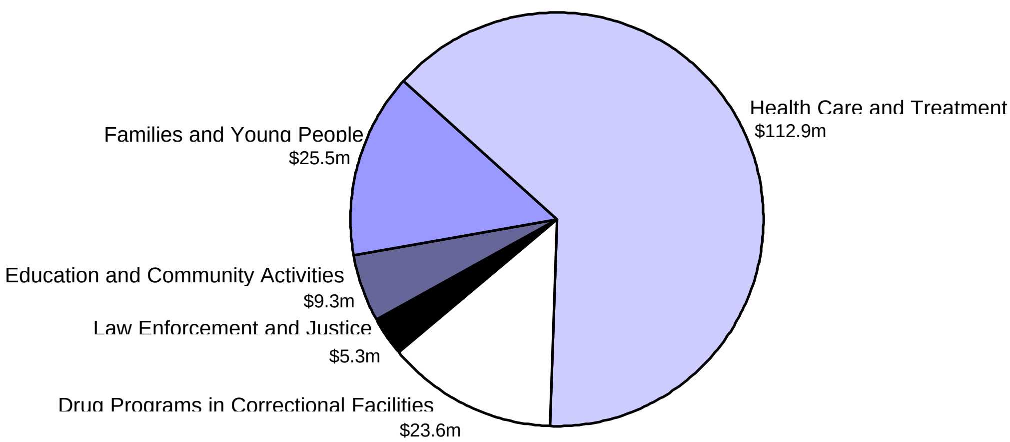
- In May 1999 the Government brought together various groups in the community to assist in formulating a sound policy approach to the issue of drugs in the community. Flowing from the Drug Summit, the Government announced a Plan of Action in July 1999 providing budget funding (recurrent and capital) of $176 million over the 4 years from 1999-2000 to 2002-03.

- The Government's Plan of Action is a comprehensive response to the 172 recommendations of the Drug Summit that translates into over 400 separate projects involving nine government agencies.

- In 2000-01 implementation of the Plan of Action enters full swing following the initial 12 month developmental phase. Drug Summit Plan of Action capital funding totals approximately $16 million over four years. It is anticipated that the bulk of capital works will occur in 2000-01 as the process of developing project plans, gaining construction approval and tendering is implemented.

- Overall drug related expenditure, including Drug Summit funding, for the period 1999-2000 to 2002-03 is estimated at approximately $500 million.

Table 4.3: Drug Summit Expenditure



CHAPTER 5: ASSET AND LIABILITY MANAGEMENT

- A reduction in net financial liabilities of the General Government Sector of $7,339 million over the four years to June 2000 and a further $5,172 million by June 2004.
- General Government net debt more than halved over eight years to June 2004.
- In 2000-01, reductions in General Government net financial liabilities of $2,586 million and net debt of $3,329 million.
- Interest costs to fall from 8.1 percent of Budget Receipts to 3.0 percent over eight years to June 2004.
- Total State net financial liabilities to fall by $6,919 million between June 1996 and June 2001.

5.1 INTRODUCTION

This chapter outlines the Government's asset and liability management policies and the financial outcomes arising therefrom. These policies are important in achieving the Government's priorities in meeting community service delivery needs and achieving its fiscal targets, primarily the reduction of General Government net financial liabilities and net debt and maintaining or increasing General Government net worth.

Balance sheet management includes the management of both assets and liabilities. Such management focuses on management of the net financial liabilities (financial liabilities less financial assets), management of the non-financial assets (assets excluding financial assets), and management of equity investments, principally equity in the Public Trading Enterprise (PTE) and Public Financial Enterprise (PFE) Sectors.

The non-financial assets in the Balance Sheet of the General Government Sector are dominated by fixed assets, principally land, buildings and physical infrastructure. Sound management of these assets is required to ensure that public services are delivered in the most efficient and effective manner. This chapter examines the Government's fixed asset management strategies that focus on both increasing the capacity to deliver services to the community and minimising the cost of an agency's broad capital investment, maintenance and asset disposal decisions.

Net financial liabilities are principally borrowings (net of financial assets), unfunded superannuation and insurance liabilities. The focus of the various liability management strategies outlined in this chapter is to reduce these net liabilities and the costs of servicing them so that funding can be redirected to core services.

Financial assets of the General Government Sector (on a GFS basis) include equity in the Public Trading Enterprise (PTE) Sector and the Public Financial Enterprise (PFE) Sector, estimated to be $44.0 billion at 30 June 2000. However, this equity is excluded from the General Government balance sheet prepared under Australian Accounting Standard AAS31. This is budgeted to reduce to $43.2 billion at 30 June 2001 largely due to an equity restructure offset by revaluations and new asset acquisitions. The equity restructure involves a payment to the General Government Sector of $2.4 billion, recorded as abnormal income, and allows the equivalent market value redemption of General Government debt.

In the General Government Sector, assets and liabilities are subject to close oversight and management by central Government agencies, including the NSW Treasury. The equity investment in the PTE and PFE Sectors is subject to the NSW Commercial Policy framework whereby the Boards and Chief Executives are accountable to Shareholding and/or Portfolio Ministers.

5.2: FIXED ASSET MANAGEMENT IN THE GENERAL GOVERNMENT SECTOR

The non-financial assets of the General Government Sector include land, buildings and infrastructure assets, inventories and other assets (including the emerging right to receive assets such as the Sydney Harbour Tunnel in the future).

Land, building and infrastructure assets are commonly termed fixed assets. These include assets as diverse as hospitals, schools and prisons, national parks and botanical gardens, sporting venues such as the Olympic facilities, and the collections of museums and other cultural institutions.

Around 99 percent of General Government total non-financial assets as at 30 June 2000 are fixed assets. These fixed assets (as shown in Table 5.1) are projected to increase by 1.5 percent ($1.0 billion) from $65.5 billion as at 30 June 2000 to $66.5 billion as at 30 June 2001.

Table 5.1: General Government Sector Non-Financial Assets

As at 30 June	*1997 Actual $m*	*1998 Actual $m*	*1999 Actual $m*	*2000 Estimate $m*	*2001 Budget $m*
Non Financial Assets					
Property, Infrastructure, Plant and inventory	53,631	59,627	64,066	65,532	66,521
Other	556	549	671	745	849
Total Non Financial Assets	**54,187**	**60,176**	**64,737**	**66,277**	**67,370**

The Asset Acquisition Program for 2000-01 is $2.5 billion. However, with budgeted depreciation of $1.0 billion and asset disposals, net fixed assets will increase by $1.0 billion for the Budget year.

This investment plays a key role in the growth and development of the State economy by providing the source of physical infrastructure required by industry and for urban and rural development throughout New South Wales, and is important in maintaining the State's economic performance. In addition, it provides essential social, cultural and recreational facilities and simultaneously creates employment.

The key priorities of the State's capital investment strategy for 2000-01 and future years (as detailed in Budget Paper No. 3 and No. 4) are:

- ongoing investment in the State's infrastructure with particular emphasis on regional and rural New South Wales;
- improvement of the State's road network;
- transformation of the State's public transport network for the next century; and
- improvement to the health system, including the continuation of major upgrading and redevelopment projects at Central Sydney, Coffs Harbour, Royal North Shore, Sutherland and Wollongong as well as significant investment in health facilities in regional and rural New South Wales.

Sound management of the existing asset base and newly acquired assets is required to ensure that public services are delivered in the most efficient and effective manner. This is necessary to achieve the priorities and objectives of the Government in meeting current and future community needs and to achieve the Government's fiscal targets, which include the reduction of Government net financial liabilities and maintaining or increasing General Government net worth.

Fixed assets are held by the Government to ensure that it has the capacity to deliver the services needed by the community over the long term. An excess level of fixed assets however, unnecessarily increases the overall cost of the delivery of community services, reducing efficiency. The Government therefore seeks to achieve an appropriate balance between the acquisition of new fixed asset capacity to meet community needs and the efficient utilisation of the existing fixed asset stock.

This balance is achieved through the implementation of the Government's Total Asset Management (TAM) strategies. TAM strategies require agencies to take a holistic and strategic approach to fixed asset management, by developing long-term plans that focus on the agency's broad capital investment, maintenance and asset disposal decisions. The TAM strategies aim to minimise the "whole-of-life" costs of strategic asset management decisions, as discussed below.

First, to ensure that Government agencies can deliver the services needed by the community requires strategic investment in fixed assets to create the capacity to deliver services over the long term.

Strategic capital investment involves reviewing service delivery options, including breaking the nexus between service delivery and asset acquisition. This helps to remove the past bias towards the acquisition of new capital assets at the expense of proper asset maintenance. Opportunities for reducing asset dependency by non-asset or less asset-intensive solutions, including inter-agency solutions, and more efficient use of existing assets, should also be explored. Alternatives to asset acquisition can include leasing, strategic demand management and private sector ownership, such as Build, Own, Operate and Transfer (BOOT) or Build, Own and Operate (BOO) arrangements.

Second, fixed assets are held to ensure that an agency has the capacity to deliver the services needed by the community over the long term. Therefore, in evaluating capital investment options long-term demand drivers, financial and economic appraisals, and risks need to be assessed.

Third, all existing assets (as well as new acquisitions) need to be appropriately maintained to ensure that they can continue to provide services efficiently and effectively during the asset's estimated useful life. An appropriate level of maintenance at the optimum time can be significant in reducing the whole-of-life cost of an asset.

Agencies are therefore required to implement asset maintenance plans to properly maintain all physical assets to ensure that the assets can continue to deliver the services over the life of the asset.

Budget dependent General Government agencies with a total non-current physical asset base of $5 million or more are required to develop asset maintenance plans which identify all assets, set out a maintenance program for each asset or grouping of assets, identify any deferred maintenance requirements and establish a long term maintenance plan.

Among the 30 General Government agencies required to submit asset maintenance plans, 27 (or 90 percent) complied in 1999-2000 (compared with 57 percent in the previous year), of which 26 plans have been deemed satisfactory. Asset maintenance plans for the remaining agencies are expected to be finalised in 2000-01.

The outcome of this process is the endorsement of an asset maintenance program and the broad commitment by government to provide sufficient funding for this within the context of the annual budgeting process. This does not preclude major periodic maintenance proposals being reviewed in light of the Government's budget priorities, in the same way as major new capital works.

Fourth, asset disposal strategies are needed to ensure the best utilisation of scarce capital resources, including disposing of unnecessary and non-performing assets. Proceeds from the disposal of these assets can be applied to a more valuable use.

It is important that the assets in the State's balance sheet are recorded at values that are relevant to decision-making. Therefore, fixed assets of the General Government Sector (and Total State Sector) are recognised in the respective balance sheets at current values. This provides meaningful information for pricing, investment and ownership decisions.

To ensure that this information is up to date, all agencies are required to revalue their physical non-current assets at least every five years. This is particularly important for infrastructure assets that have very long lives.

5.3: ASSET MANAGEMENT IN THE PUBLIC FINANCIAL ENTERPRISE AND PUBLIC TRADING ENTERPRISE SECTORS

The Government has strategic investments in the Public Trading Enterprise (PTE) and Public Financial Enterprise (PFE) Sectors of the NSW Public Sector.

The Government's major objective in terms of asset management of these commercial enterprises is to ensure that the assets and liabilities are managed efficiently and effectively to add value to the Government as shareholder. By ensuring that their fixed asset investments earn a rate of return greater than the enterprises' cost of capital, the Government seeks an appropriate return on its equity in these enterprises.

To effect this, the Government negotiates performance agreements with each of these enterprises, which are signed by the Chief Executive, Board Chair, the Portfolio/Shareholding Minister and the Treasurer. These agreements specify, amongst other things, expected rates of return on capital and the expected level of financial distribution payments (dividends and tax equivalents) payable to the Government. The commercial performance of these enterprises is then monitored against these agreements and advice provided to both the Treasurer and Portfolio/Shareholding Minister of progress through regular reports.

In regard to asset management, investment decisions undertaken by these enterprises are required to be consistent with the principles underlying the Government's Total Asset Management (TAM) strategies. This includes ensuring that financial appraisal analyses are conducted on any new assets acquisitions or major refurbishment proposals and that any proposed acquisitions meet the benchmark rate of return for that enterprise.

In addition, given the Government's role as shareholder in these enterprises, Public Trading Enterprises and Public Financial Enterprises are required to submit any projects classified as Projects of State Significance for Budget Committee approval. Projects in this category include: Olympics projects; any joint public/private sector infrastructure projects; any projects with an estimated total cost in excess of $100 million or any projects of substantial risk with estimated total cost of over $20 million.

The following table shows the trend in the level of non-financial assets for the General Government Sector and the PTE and PFE as well as for the Total State Sector. For 2000-01, non-financial assets will increase for the General Government Sector by $1.1 billion and for the combined PTE and PFE Sectors by $1.4 billion.

Table 5.2: State Non-Financial Assets

	1997 Actual $m	1998 Actual $m	1999 Actual $m	2000 Estimate $m	2001 Budget $m
Non Financial Assets					
General Government Sector	54,187	60,176	64,737	66,277	67,370
PTE and PFE Sectors	52,582	52,867	53,801	56,924	58,370
State Non Financial Assets	**106,769**	**113,043**	**118,538**	**123,201**	**125,740**

5.4 GENERAL GOVERNMENT NET FINANCIAL LIABILITIES

The General Government Sector primarily comprises Budget Dependent agencies which are reliant on the Crown for over 50 percent of their funding requirements. As detailed in Table 5.3, the $7.3 billion decrease in net financial liabilities to approximately $25 billion for the four year period ending 30 June 2000 reflects the Government's continuing commitment to reducing General Government net financial liabilities as part of its fiscal strategy.

Table 5.3: General Government Net Financial Liabilities

As at 30 June	1996 Actual $m	1997 Actual $m	1998 Actual $m	1999 Actual $m	2000 Revised Estimate $m
Gross Debt					
Borrowings	18,192	18,314	18,046	15,816	14,980
	18,192	18,314	18,046	15,816	14,980
Financial Assets					
Cash	2,192	2,169	2,898	1,665	175
Investments**	3,326	3,649	3,349	2,944	3,624
Advances	1,825	1,679	1,641	1,654	1,668
	7,343	7,497	7,888	6,263	5,467
Underlying Net Debt	10,849	10,817	10,158	9,553	9,513
Prepayment of Superannuation Contributions	...	...	...	3,264	2,250
Total Net Debt	10,849	10,817	10,158	12,817	11,763
Unfunded Superannuation	13,654*	12,337	12,293	7,959	6,671
Net Debt and Superannuation Liabilities	24,503	23,154	22,451	17,512	16,184
Other Net Financial Liabilities***	7,911	6,211	6,437	6,800	6,641
Net Financial Liabilities	**32,414**	**29,365**	**28,888**	**27,576**	**25,075**

* *Represents Budget Sector liability. No General Government Sector comparative available.*

** *Equity investment in the Public Financial and Non-Financial Corporation sectors is excluded. This equity investment is discussed at section 5.1 above. The equity in Public Trading and Financial Enterprises is excluded to give a truer picture of the General Government overall financial obligations.*

*** *Other Net Financial Liabilities include other employee entitlements, insurance, payables, receivables and prepayments.*

Government initiatives aimed at reducing the various categories of liability (net debt, unfunded superannuation and insurance liabilities) and the cost of servicing these liabilities include:

- generating Budget cash surpluses which are dedicated to debt reduction in accordance with the medium term fiscal target of lowering General Government net debt to a sustainable level;

- adjusting the capital structure of Public Trading Enterprises to establish commercially based gearing ratios, with capital repayments applied to the reduction of General Government debt;

- implementing a plan to reduce unfunded superannuation liabilities in accordance with the *General Government Debt Elimination Act, 1995*;

- increasing Crown employer contributions above the required funding plan levels to accelerate the move towards full funding of superannuation debts and also to allow for future Budget flexibility;
- offering members of defined benefit superannuation schemes the opportunity to transfer to the First State Superannuation scheme with the aim of winding down the closed schemes and associated liabilities more quickly; and
- reviewing investment practices in order to generate better returns from financial assets over the long term within prudent risk parameters.

Further, General Government cash balances are being actively utilised to reduce gross debt. Short term seasonal funding requirements will be met by the provision of overdraft facilities by NSW Treasury Corporation.

Over the forward estimates period, it is projected that General Government net financial liabilities will be further reduced by over $5 billion to under $20 billion as shown in Table 5.4. Over the eight year period ending 30 June 2004, General Government net financial liabilities are expected to fall by around $12.5 billion or 39 percent.

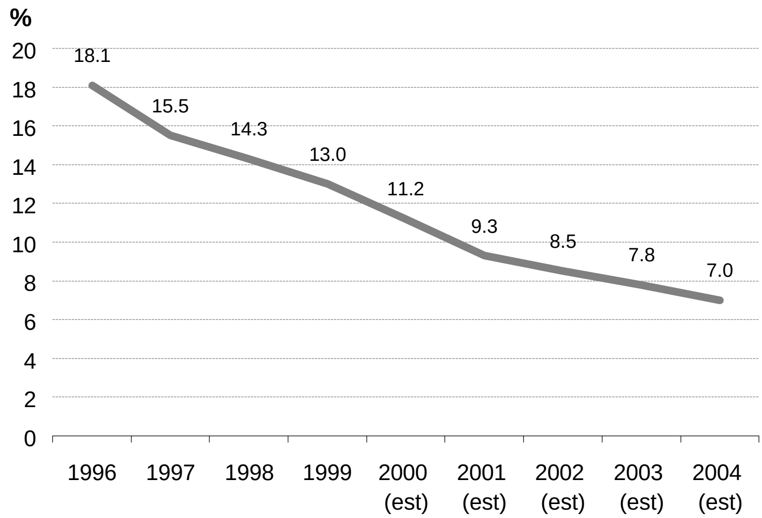
Table 5.4: Forecast General Government Net Financial Liabilities

As at 30 June	*2000 Revised Estimates $m*	*2001 Budget $m*	*2002 Forecast $m*	*2003 Forecast $m*	*2004 Forecast $m*
Underlying Net Debt	9,513	7,255	6,631	5,968	5,126
Prepayment of Superannuation Contributions	2,250	1,179	…	…	…
Unfunded Superannuation	6,671	7,314	8,332	8,076	7,759
Other	6,641	6,741	6,776	6,930	7,018
Net Financial Liabilities	**25,075**	**22,489**	**21,739**	**20,974**	**19,903**

The Government borrowed an additional $3.26 billion in 1998-99 in order to pre-pay three years Crown superannuation contributions to the defined benefit superannuation schemes. These borrowings are being repaid over a three-year period to 30 June 2002.

It is projected that General Government sector net financial liabilities will fall by more than sixty percent as a percentage of GSP for the eight year period ending 30 June 2004, as shown in Chart 5.1.

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



GENERAL GOVERNMENT NET DEBT

General Government net debt, excluding borrowings to prepay superannuation contributions, is estimated to have fallen by approximately $1.3 billion for the four-year period ending 30 June 2000. The ratio of General Government net debt to GSP is expected to fall from 6.1 percent to 4.2 percent.

The reduction in net debt since 1996 was achieved by the utilisation of budget surpluses, equity restructure receipts from the electricity distribution industry and other agencies and TAB sales proceeds.

Net debt would be $420 million lower had the opportunity not been taken to lock in historically low interest rate levels by buying back bonds with high coupon rates and reissuing at lower coupon rates for the four year period ended 30 June 2000. This initiative has made a major contribution to reducing General Government cash interest costs. By 30 June 2002, cash interest costs are forecast to be approximately one-half the levels prevailing in 1996. A further factor impacting the movement in net debt was the assumption of $230 million of debt from various Public Trading Enterprises.

Another major distortion to the underlying debt trend has been the prevalence of State Bank post-sale costs which are forecast to total over $250 million. In accordance with Government Finance Statistics methodology the initial sale proceeds were not taken into account in the 1994-95 Budget result and thus the resultant post-sale costs are not incorporated in the actual and forecast Budget results for the period. The cash outlays to Colonial State Bank, however, does result in an increase in net debt.

Taking these three factors into account, the reduction in General Government net debt for the four year period ended 30 June 2000 would approximate $2.2 billion.

Over the four-year period to 30 June 2004, General Government net debt is expected to continue to decline as a result of the repayment of borrowings resulting from forecast cash surpluses totalling $2.4 billion throughout the period and the utilisation of $2.4 billion electricity industry capital receipts in 2000-01. The net debt to GSP ratio is expected to fall to 1.8 percent by 2004.

In general, the debt to equity ratios for the NSW electricity distributors are relatively low compared to equivalent private sector firms. In March 2000 the Treasurer announced a capital restructure which will increase the total debt of some of the businesses by $2.4 billion and allow the equivalent market value redemption of General Government debt.

The General Government loans selected for prepayment have high interest rates, generally exceeding 10 percent, and in order to repurchase them in the market an additional amount or premium has to be paid to the existing bondholders. Thus the reduction in book value borrowings is expected to be $270 million less than the market value.

The capital restructure is designed to move the gearing levels of the NSW Government-owned electricity businesses back towards those of comparable private sector organisations. This will help to ensure that the NSW electricity agencies continue to face the same sorts of commercial disciplines as private firms, including the raising of funds for new projects.

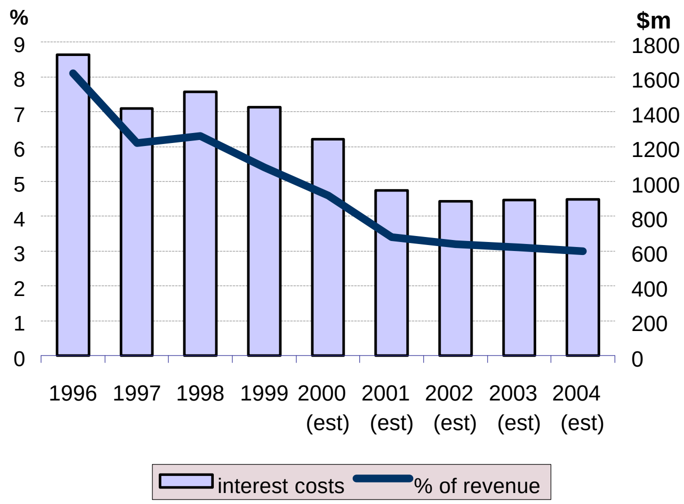
The increased debt means that the electricity agencies dividends will be reduced. However, paying down high coupon rate General Government sector debt results in significantly reduced interest costs. The resultant interest savings are greater than the decline in distributions.

GENERAL GOVERNMENT CASH INTEREST COST TRENDS

Ongoing reductions in net debt through the utilisation of budget surpluses, the receipt of electricity industry equity restructure payments and the sale of the TAB have been key factors in reducing interest costs since 1996 from approximately $1.7 billion to an estimated $1.2 billion for 1999-2000. The lower level of interest rates compared with 1996 has a lagged effect on debt servicing costs, reducing interest costs as existing debt matures. Interest costs are expected to decline further, to approximately $900 million per annum by 2003-04.

As shown in Chart 5.2, the ratio of interest costs to State Budget receipts is projected to fall from 8.1 percent to 3.0 percent over the eight-year period ending 30 June 2004.

Chart 5.2: General Government Cash Interest Costs and as percentage of State Budget Receipts as at 30 June



GENERAL GOVERNMENT SUPERANNUATION LIABILITIES

General Government sector net superannuation liabilities are estimated to be $7 billion lower for the four year period ending 30 June 2000. Table 5.5 includes the liabilities and assets of both employers and employees. The proportion of accrued liabilities that is funded will have increased significantly from well below one-half at 30 June 1996 to about three quarters at 30 June 2000.

Table 5.5: Total General Government Sector Unfunded Superannuation Liabilities

As at 30 June	1996 Actual $m	1997 Actual $m	1998 Actual $m	1999 Actual $m	2000 Revised Estimate $m
General Government Sector					
Past service liabilities	22,936	24,248	26,034	26,242	26,291
Financial assets	9,282	11,911	13,741	18,283	19,620
Net liabilities	**13,654**	**12,337**	**12,293**	**7,959**	**6,671**
Assets as proportion of accrued liabilities (%)	**40.4**	**52.7**	**55.1**	**69.7**	**74.6**

The large increase in financial assets over the period is a result of an ongoing high level of Government employer contributions, higher portfolio investment returns and the accelerated payment of Crown contributions in 1998-99.

In addition, a number of one-off adjustments to employer asset reserves were made in 1996-97, reflecting recalculation of interest and tax credits for the previous ten years.

The reduction in gross liabilities in 1999-2000 partly reflects a change in the actuarial valuation basis used for 30 June 2000 liability estimates by the Superannuation Trustee Corporation's actuary, W M Mercer. The actuarial valuation basis used is now comparable with the bases used by other States for estimating their superannuation liabilities.

ESTIMATED GENERAL GOVERNMENT UNFUNDED SUPERANNUATION LIABILITIES

The estimated unfunded superannuation liabilities shown in Table 5.6 do not include the effects of acceptances of conversion offers by State and Police Superannuation Scheme contributors. This reflects the uncertainty about the final acceptance level, which will not be known until after the offer closes on 31 May 2000.

Table 5.6: Total General Government Sector Unfunded Superannuation Scheme Liabilities

As at 30 June	Actual				Revised Estimate	Budget	Forecasts		
	1996 $m	1997 $m	1998 $m	1999 $m	2000 $m	2001 $m	2002 $m	2003 $m	2004 $m
General Government									
STC schemes	13,442	12,073	12,080	7,711	6,438	7,079	8,088	7,823	7,496
Judges	147	194	195	221	229	236	252	268	285
Parliamentary	65	70	18	27	4	(1)	(8)	(15)	(22)
TOTAL	**13,654**	**12,337**	**12,293**	**7,959**	**6,671**	**7,314**	**8,332**	**8,076**	**7,759**

The forecast rises in General Government sector unfunded liabilities in 2001 and 2002 result primarily from having brought forward to 1999 accelerated Crown funding plan contributions from those years.

SUPERANNUATION FUNDING PLAN CONTRIBUTIONS

Table 5.7: Crown Superannuation Annual Cash Contributions

to 30 June	Actual				Revised Estimate	Budget	Forecasts		
	1996 $m	1997 $m	1998 $m	1999 $m	2000 $m	2001 $m	2002 $m	2003 $m	2004 $m
Defined Benefit									
Closed schemes	866	1,021	1,145	4,301	510	320	…	1,293	1,325
Open schemes	17	18	23	23	25	25	28	29	30
Accumulation									
First State Super	194	238	273	348	387	472	510	618	666
TOTAL	**1,077**	**1,277**	**1,441**	**4,672**	**922**	**817**	**538**	**1,940**	**2,021**

The high and rising level of actual Government employer contributions made over the period shown, after allowance for the accelerated payment of Crown contributions, reflects the Government's fiscal strategy objective of moving towards full funding of superannuation liabilities.

The planned defined benefit closed scheme contributions in 2000 and 2001, totalling $830 million, are in excess of funding plan requirements and thus shorten the timeframe for full funding and/or allow additional budget flexibility.

First State Superannuation contributions will grow rapidly in the short term because of the increase in employer contributions from the current 7 percent of salary to 8 percent of salary from 1 July 2000, and then to 9 percent of salary from 1 July 2002. These increases are required in order to reflect the rise in minimum contributions required for the Superannuation Guarantee Charge.

There is also a longer term labour turnover influence from the gradual replacement of retiring public sector employees who are members of the closed defined benefit schemes by new recruits who join accumulation schemes, generally First State Superannuation.

GENERAL GOVERNMENT INSURANCE

The Insurance Ministerial Corporation (IMC) holds the insurance liabilities and financial assets of the Treasury Managed Fund (TMF), the Governmental Workers' Compensation Account and the Transport Accidents Compensation Fund.

The TMF holds the ongoing insurance liabilities and assets for General Government Budget dependent agencies. The TMF provides a comprehensive risk management and self insurance arrangement across the five basic classes of risk, which are workers' compensation, motor vehicle, property, public liability and miscellaneous.

The Governmental Workers' Compensation Account and the Transport Accidents Compensation Fund relate primarily to workers compensation and third party motor vehicle claims respectively, incurred before 1 July 1989.

As Table 5.8 shows, the growth in assets has exceeded the growth of liabilities, resulting in a gradual decline in the net insurance deficit.

Table 5.8: Insurance Net Financial Liabilities (Insurance Ministerial Corporation)

As at 30 June	1996 Actual $m	1997 Actual $m	1998 Actual $m	1999 Actual $m	2000 Revised Estimate $m
Financial Liabilities					
Outstanding Claims	2,110	2,374	2,509	2,604	2,580
Accounts Payable	9	9	9	23	22
Total Financial Liabilities	**2,119**	**2,383**	**2,518**	**2,627**	**2,602**
Financial Assets					
Cash	251	161	114	47	52
Investments	805	1,173	1,374	1,563	1,655
Other	45	42	42	69	75
Total Financial Assets	**1,101**	**1,376**	**1,530**	**1,679**	**1,782**
Net Insurance Deficit	**1,018**	**1,007**	**988**	**948**	**820**
Assets as proportion of liabilities (%)	52.0	57.7	60.8	63.9	68.5
Rate of change (%)					
Insurance liabilities	n/a	12.5	5.7	4.3	(1.0)
Financial assets	n/a	25.0	11.2	9.7	6.1
Net insurance deficit	**n/a**	**(1.1)**	**(1.9)**	**(4.0)**	**(13.5)**

The management of insurance claims is outsourced. GIO Australia has been re-appointed in this role for a further three year term from July 2000.

The Treasury Managed Fund insurance liabilities stabilised in 2000 due in part to the 1998 amendments to the Workers' Compensation Act, resulting in greater focus on early injury management and improved return to work rates, and a higher rate of commutation of weekly benefit payments to lump sums.

As Table 5.9 shows, the trend for the growth of assets to exceed the growth of liabilities is expected to continue.

Table 5.9: Forecast Insurance Net Financial Liabilities (Insurance Ministerial Corporation)

As at 30 June	2001 Budget	2002 Forecasts	2003	2004
	$m	$m	$m	$m
Financial Liabilities	2,654	2,755	2,894	3,054
Financial Assets	1,902	2,098	2,329	2,550
Net Insurance Deficit	**752**	**657**	**565**	**504**
Assets as proportion of liabilities (%)	**71.7**	**76.2**	**80.5**	**83.5**

5.5 TOTAL STATE NET FINANCIAL LIABILITIES

For the five-year period ended 30 June 2001 the estimated reduction of approximately $6.9 billion in State net financial liabilities will result in the State Sector ratio of net financial liabilities to Gross State Product falling from 25 percent to 15.5 percent.

TOTAL STATE NET FINANCIAL LIABILITIES

Table 5.10: Total State Net Financial Liabilities

As at 30 June	1996 Actual $m	1997 Actual $m	1998 Actual $m	1999 Actual $m	2000 Revised Estimate $m	2001 Budget $m
GENERAL GOVERNMENT SECTOR						
Gross Debt	18,192	18,314	18,046	15,816	14,980	12,518
Financial Assets	7,343	7,497	7,888	6,263	5,467	5,263
Underlying Net Debt	10,849	10,817	10,158	9,553	9,513	7,255
Prepayment of superannuation contributions	…	…	…	3,264	2,250	1,179
Total Debt	10,849	10,817	10,158	12,817	11,763	8,434
Unfunded Superannuation	13,654	12,337	12,293	7,959	6,671	7,314
Other Financial Liabilities	7,911	6,211	6,437	6,800	6,641	6,741
Net Financial Liabilities	32,414	29,365	28,888	27,576	25,075	22,489
PUBLIC TRADING ENTERPRISE SECTOR						
Gross Debt	11,113	10,375	10,029	9,995	9,914	12,757
Financial Assets	2,619	3,110	2,593	2,568	1,883	1,698
Net Debt	8,494	7,265	7,436	7,427	8,031	11,059
Unfunded Superannuation	1,780	452	137	230	(114)	7
Other Financial Liabilities	…*	3,815	3,765	4,178	4,380	3,544
Net Financial Liabilities	…*	11,532	11,338	11,835	12,297	14,610
PUBLIC FINANCIAL ENTERPRISE SECTOR						
Gross Debt	26,906	28,446	29,981	33,428	26,745	...
Financial Assets	26,851	27,803	28,940	32,364	25,804	...
Net Debt	55	643	1,041	1,064	941	941**
Unfunded Superannuation	1	…	…	…	…	…
Other Financial Liabilities/(Assets)	…*	(47)	(124)	79	(308)	(318)
Net Financial Liabilities	…*	596	917	1,143	633	623
TOTAL STATE SECTOR						
Total Net Financial Liabilities	**44,641**	**41,493**	**41,143**	**40,554**	**38,005**	**37,722**

* *No actual sector net financial liability figures are available.*

** *No Estimate available. Nil movement assumed*

The increase in the 1999-2000 Public Trading Enterprise sector net debt estimate primarily reflects the utilisation of financial assets by Sydney Water Corporation and Sydney Catchment Authority to fund capital works. The forecast increase in 2000-01 is mainly due to the equity restructure payments to the Crown by electricity industry distribution agencies made in order to establish appropriate debt/equity ratios and cash levels. Other major factors include the utilisation of cash and raising of new borrowings by water and electricity agencies to fund various capital works projects.

Projected 1999-2000 net debt reduction for the Public Financial Enterprise sector results from NSW Treasury Corporation (TCorp) being required to repurchase securities in the financial markets in order to ensure the liquidity of TCorp stocks. This activity in the current rising interest rate environment involves the redemption of bonds with lower interest rates but higher bond book capital values.

STATE SUPERANNUATION LIABILITIES

Total State sector net superannuation liabilities are forecast to have reduced by approximately $9 billion in the four years to 30 June 2000.

Table 5.11: State Sector Superannuation Liabilities

As at 30 June	1996 Actual $m	1997 Actual $m	1998 Actual $m	1999 Actual $m	2000 Revised Estimate $m
General Government Sector					
Past service liabilities	22,936	24,248	26,034	26,242	26,291
Financial assets	9,282	11,911	13,741	18,283	19,620
Net liabilities	**13,654**	**12,337**	**12,293**	**7,959**	**6,671**
Public Trading Enterprise Sector					
Past service liabilities	4,950	5,369	5,116	4,970	4,543
Financial assets	3,170	4,917	4,979	4,740	4,657
Net liabilities (surplus)	**1,780**	**452**	**137**	**230**	**(114)**
Public Financial Enterprise Sector					
Past service liabilities	1	1	1	1	1
Financial assets	...	1	1	1	1
Net liabilities (surplus)	**1**	**...**	**...**	**...**	**...**
Total State Public Sector					
Past service liabilities	27,887	29,618	31,151	31,213	30,835
Financial assets	12,452	16,829	18,721	23,024	24,278
Net liabilities	**15,435**	**12,789**	**12,430**	**8,189**	**6,557**
Assets as proportion of past service accrued liabilities (%)	**44.6**	**56.8**	**60.0**	**73.8**	**78.7**
Rate of change (%)					
Past service liabilities	n/a	6.2	5.1	…	(1.2)
Financial assets	n/a	35.2	11.2	23.0	5.4
Net liabilities	**n/a**	**(17.1)**	**(2.8)**	**(34.1)**	**(19.9)**

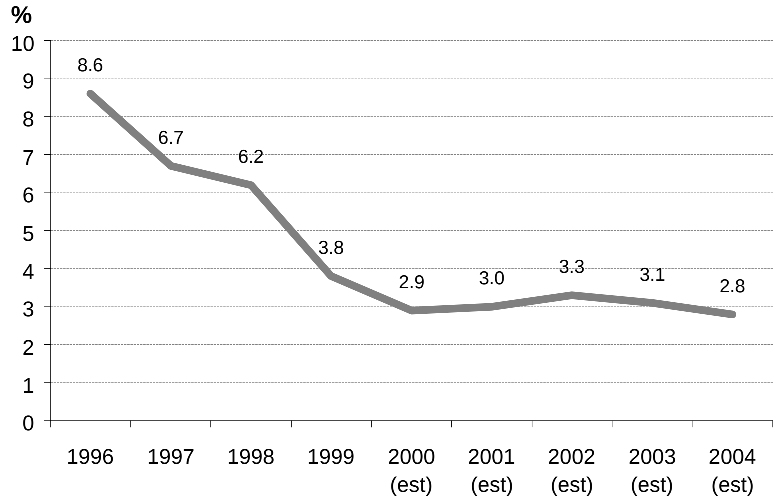
Table 5.12: Forecast Total State Sector Superannuation Liabilities

As at 30 June	Actual				Revised Estimate	Budget	Forecasts		
	1996 *$m*	*1997* *$m*	*1998* *$m*	*1999* *$m*	*2000* *$m*	*2001* *$m*	*2002* *$m*	*2003* *$m*	*2004* *$m*
General Government									
As per Table 5.6	13,654	12,337	12,293	7,959	6,671	7,314	8,332	8,076	7,759
Public Trading and Financial Enterprises									
STC schemes	1,781	452	289	411	54	128	206	291	381
Electricity Industry Scheme (surplus)	...	...	(152)	(181)	(168)	(121)	(76)	(31)	...
TOTAL	**15,435**	**12,789**	**12,430**	**8,189**	**6,557**	**7,321**	**8,462**	**8,336**	**8,140**

The unfunded liabilities for Public Trading and Financial Enterprises in the Superannuation Trustee Corporation schemes are dominated by the State Rail Authority, with over $400 million in unfunded liabilities. Options for funding these liabilities are under consideration. The surplus for the Electricity Industry Superannuation Scheme is expected to continue to decline as a result of current employer funding holidays. Contributions will resume when the surplus is extinguished.

As shown in Chart 5.3, State Sector unfunded superannuation liabilities as a proportion of Gross State Product in 2000 and forward years will be less than one third the level of 1996.

Chart 5.3: Total State Net Superannuation Liabilities, as percentage of Gross State Product as at 30 June



5.6 LIABILITY MANAGEMENT

SUPERANNUATION LIABILITY MANAGEMENT INITIATIVES

Review of actuarial valuation basis

Gross liabilities are estimates based on actuarial calculation of the present value of the obligations to meet defined benefits. Estimation is based on numerous assumptions, including salary growth rate, scheme exit rates, type of benefit payable, longevity of beneficiaries and the consumer price index. Future cash flows are discounted to a present value by the assumed rate of investment return.

These assumptions will be reviewed during the forthcoming triennial actuarial valuation of the major defined benefit schemes.

Pending the triennial valuation, the gross liabilities have been estimated using the relevant economic parameters provided in section 1.3, which are consistent with recent actuarial advice.

Closure of defined benefit schemes

Almost all of the liabilities for the Total State sector have been capped in real terms by the closure to new members of the major defined benefit schemes.

These scheme closures were as follows:

- State Superannuation Scheme: 1985;
- Police Superannuation Scheme: 1988; and
- State Authorities Superannuation Scheme and State Authorities Non-contributory Superannuation Scheme: 1992.

From 1989 to February 2000, Senior Executive Service officers were able to join their own accumulation scheme, the Public Sector Executives' Superannuation Scheme. This scheme was closed on 1 March 2000 and most members transferred to First State Superannuation. Since 1992, all new public sector employees have joined an accumulation scheme, generally First State Superannuation.

FUNDING PLAN

The State's net unfunded superannuation liabilities represent the difference between the present value of estimated future benefits accrued to date (gross liabilities) and the market value of the superannuation funds' financial assets.

In accordance with the Government's fiscal strategy and the *General Government Debt Elimination Act, 1995* the Government has established target dates by which the unfunded liabilities will be eliminated and the Government's superannuation obligations fully funded.

Under this approach, the level of future employer contributions required depends on the actuarial estimation of the value of gross liabilities and the proportion of gross liabilities matched by the pool of financial assets.

The value of unfunded liabilities is volatile on an annual basis, because it depends on the value of financial assets, which in turn depends on returns from volatile equity markets. Over recent years the actual investment return has exceeded the assumed rate of return in ex ante actuarial estimates.

When returns of capital from Public Trading Enterprises, proceeds of asset sales or surplus cash in the Treasury banking system are available, they will be used to reduce debt or superannuation liabilities, or a combination of both. A comparative financial analysis is undertaken on a case by case basis.

The target dates for financial assets to equal liabilities are 2022 for Public Trading and Financial Enterprises and 2045 for defined pension benefit schemes for the General Government sector. For the State Authorities Superannuation Scheme that provides lump sum benefits, liabilities and assets will both reduce towards zero by about 2030, which is when the scheme's last contributors are expected to claim their retirement benefits.

Based on current trends, full funding will occur earlier than these target dates. The target dates and the level of future employer contributions required to meet them will therefore be reviewed after the 30 June 2000 triennial actuarial valuation, which is scheduled for completion by 31 December 2000.

STRATEGIC ASSET ALLOCATION

The Schemes' trustee reviews the strategic asset allocation annually. The asset allocation to bonds and cash is generally around one quarter of investments, with three quarters in growth assets, namely equities and property. About a quarter of the fund assets is with market index investment managers, the remainder with active investment managers.

SUPERANNUATION CONVERSION OFFERS

Offers were made in January 2000 to most members of the closed pension benefit schemes (State Superannuation Scheme and Police Superannuation Scheme) to crystallise and transfer their accrued benefit to the First State Superannuation scheme.

The offer was made on a purely voluntary basis and members have been provided with subsidised access to professional financial advice to enable them to assess the offer, taking into account their individual circumstances.

From a liability management perspective the offer provided the opportunity of crystallising benefits earlier and winding down membership of the closed defined benefit schemes more rapidly. It would also reduce the present value of future pension benefits accruing under these schemes.

The offer is open until 31 May 2000 and at this stage the number of acceptances and the financial impact on the schemes are uncertain. Accordingly, there has been no allowance made for the impact of acceptances on the unfunded superannuation liabilities in the foregoing commentary.

The favourable impact on unfunded liabilities of the utilisation of contribution tax credits and forecast investment returns on borrowed funds exceeding their cost of debt has been incorporated in the liability estimates.

DEBT PORTFOLIO MANAGEMENT

NSW Treasury Corporation (TCorp) manages the Crown portfolio and the primary debt management objective is to minimise the market value based cost of debt subject to specified risk constraints over the longer term. This cost is derived from the change in market value of the debt portfolio, adjusted for cash flows to and from the portfolio.

TCorp employs an active management style, characterised by positioning the portfolio according to an interest rate view, with an expectation of adding value relative to the benchmark portfolio. Positioning of the Crown debt portfolio is achieved by:

- Changing the composition of loans in the Treasury portfolio; and
- Using derivative instruments, including (but not limited to) futures, forward rate agreements, swaps, and over the counter and exchange traded options.

TCorp's views on medium term interest rate movements in consultation with Treasury are formed through its:

- Assessments of economic fundamentals;
- Market intelligence; and
- Technical analysis.

Constraints on the management of the portfolio are detailed in a memorandum of understanding between TCorp and Treasury. They include the following:

- At all times the portfolio is to maintain an average bond maturity range of 3.25 years to 3.65 years as the basis of its benchmark portfolio. The manager is able to vary the range +/- 0.5 years relative to the benchmark.
- The portfolio is not permitted to exceed a maximum exposure of 20 percent to floating rates. The floating rate exposure is defined as an interest rate reset of 12 months or less, with the proportion defined on a face value basis.
- Prior to the commencement of each financial year, Treasury and TCorp are required to set an agreed debt cost servicing target calculated in accordance with GFS principles as applied in the NSW General Government Sector. This target is not to be breached materially by TCorp without prior permission from Treasury.

INSURANCE PORTFOLIO MANAGEMENT

Following a review of Insurance Ministerial Corporation investments by actuarial consultants Tillinghast - Towers Perrin, the strategic asset allocation was revised, with the allocation to bonds being reduced to an average of 60 percent of investments and the average duration of the bond portfolio being lengthened to around 5 years.

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

CHAPTER 6: SYDNEY 2000 OLYMPIC AND PARALYMPIC GAMES

- Planning is well underway for Sydney to host the Olympic and Paralympic Games. All Olympic venues are complete and the cost fully provided for in the Budget. Olympic overlay and temporary works will continue over the next 4 months.

- The transport system has been tested and extensive plans developed to assist commuters, businesses, spectators and sightseers.

- The estimated cost to Government of the Olympic and Paralympic Games is $1,367.2 million, an increase of $97.3 million over the $1,269.9 million indicated in the 1999-2000 Budget.

6.1 INTRODUCTION

In September 1993, the International Olympic Committee awarded Sydney the right to host the Olympic Games in the year 2000. The Olympic Games will be held between 15 September and 1 October 2000. The Paralympic Games will be held between 18 and 29 October.

With less than four months until the Olympic and Paralympic Games, Sydney is well placed to stage these events. All of the permanent venues for the Olympic Games have been completed, well before both Atlanta and Barcelona.

Over the past year, Olympic and transport organisers have been put to the test in a series of major events designed to perfect venues, systems and operations well in advance of Games time. In the months ahead, there will be further refinement of operational planning and venues so that Sydney is prepared for the Games and can function as effectively as possible during the Games.

After the Games, world-class venues, such as Stadium Australia and the Sydney SuperDome, will remain as legacies of hosting the Games for the people of New South Wales. Already, more than 20 million visits have been made to Olympic venues in the lead-up to the Games. The NSW Government has ensured that these works have been funded each year in the Budget, with no debt left to repay after the Games.

6.2 GAMES' ORGANISATION

Planning is now well underway to ensure the successful staging of the Games in September and October. As the Olympic and Paralympic Games approach, Olympic agencies have refocused their activities towards Games time readiness through an increasing integration between the four core organisations responsible for delivering Sydney's Olympic and Paralympic Games.

The four organisations are: the Olympic Co-ordination Authority (OCA); the Sydney Organising Committee for the Olympic Games (SOCOG); the Olympic Roads and Transport Authority (ORTA); and the Sydney Paralympic Organising Committee (SPOC).

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

At Games time, OCA has responsibility for managing the public spaces at Sydney Olympic Park and for managing and controlling Olympic related activities and events in the Sydney CBD.

During January 2000, the OCA also assumed responsibility from SOCOG for non-sport venue-based operational functions such as environmental operations, spectator services, Games presentation, catering, cleaning and waste management.

SOCOG is now responsible for the important Games areas of ticketing, sponsor servicing, technology, ceremonies, licensed products, the torch relay and the athletes' and media villages. SOCOG is also responsible for the sport operations aspects of the Games.

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

It will look after the specific transport needs of Olympic and Paralympic athletes, officials and accredited media as well as ensuring that the Sydney public and private transport networks continue to function smoothly and efficiently.

SPOC is organising the staging of the Paralympics. As far as possible, Sydney's Games organisers are treating the Olympic and Paralympic Games as a seamless event over a sixty-day period. Many of the tasks being undertaken by staff in preparing for the Olympic Games are also being done for the Paralympic Games.

6.3 SYDNEY 2000 OLYMPIC GAMES

OLYMPIC CO-ORDINATION AUTHORITY

During 1999-2000, construction of all permanent venues was completed. This timing is well ahead of the preparation for the Atlanta and Barcelona Games at the corresponding stage.

A number of new Olympic venues were opened during 1999-2000, including:

- Sydney SuperDome – venue for basketball finals, artistic gymnastics and trampolining finals;
- Dunc Gray Velodrome at Bankstown;
- Sydney International Equestrian Centre at Horsley Park;
- Sydney International Shooting Centre at Liverpool;
- NSW Tennis Centre at Homebush Bay;
- Penrith Whitewater Stadium;
- Blacktown Olympic Centre – Olympic softball venue, second baseball venue and training facility for athletes; and
- Ryde Aquatic Leisure Centre – the second water polo venue.

Many of these have now been used for international events. Stadium Australia continued to be used for major events and attracted world record attendances, exceeding 107,000 for both the Bledisloe Cup and the Australian Rugby League Grand Final. These events have been used to test the preparations of Olympic organisers and enable adjustments to be made to improve preparations for the Games.

Other significant works undertaken during the year include infrastructure, a water reclamation system and elements of the public art program. As many as twelve innovative public arts projects are planned for Sydney's Olympic precincts at Homebush Bay and Western Sydney. The private sector funded Novotel and Hotel Ibis development at Homebush Bay was also completed during the year.

A significant building program will continue over the next 4 months to complete temporary works and the Olympic Overlay - which includes the fit-out of Olympic venues in their Olympic configuration and the facilities and amenities to accommodate Olympic spectators in the city. Some of the overlay projects currently underway include:

- construction of the temporary Beach Volleyball Stadium at Bondi Beach, which will be dismantled after the Games;
- temporarily increasing the seating capacity of the Sydney International Aquatic Centre to 17,500;
- fit-out of the International Broadcast Centre at Homebush Bay, which will house the central production and technical facilities of the Sydney Olympic Broadcasting Organisation (SOBO) and accredited broadcasters; and
- refurbishment of pavilions in the Sydney Showground to house the Main Press Centre, from which 5,500 print journalists and photographers will work.

After the Games, a small program of works will remain including reconfiguration of venues into their post-Olympic layouts and environmental works. The major project will be the reconfiguration of Stadium Australia to allow the staging of both rectangular and oval pitched football codes to be played and to reduce the seating to 80,000, from its temporary Olympic capacity of 110,000. This work includes the removal of the temporary end stands, adding end roofs and providing retractable lower tier seating.

Environment

A commitment to the environment underpins all planning and construction management for the Sydney 2000 Olympic and Paralympic Games. OCA has embraced the principles of ecologically sustainable development in all projects and has undertaken to promote biological diversity, conserve water and energy, avoid waste and minimise pollution.

During the year, the SuperDome won the construction practices category in the Banksia Foundation Environmental Award for best practice in innovative and environmental sensitivity for all aspects of design, construction and operation of a significant building. OCA was also nominated as a finalist in the communications category of the Banksia awards for raising public awareness and understanding of environmental issues at Olympic development sites.

The third Earth Council Review of OCA’s ongoing environmental management of Olympic developments was conducted in February 2000. The review focused on facilities and infrastructure completed or started in 1999, with particular attention paid to remediation work, ecological studies, energy conservation and water reclamation. The Earth Council will undertake a final review after the Games.

During 1999-2000, stage one of the Millennium Parklands will be completed. The parklands will ultimately comprise 450 hectares of diverse landscape, with a network of up to 40 kilometres of pedestrian and cycle trails. The first stage surrounds the Olympic facilities and the Sydney Showground, providing a unique landscape for recreation, conservation and environmental education.

The first stage of the Water Reclamation and Management Scheme (WRAMS) is due to be commissioned in July. The system will be operational during the period of the Games, with recycled water from the WRAMS system used for toilet flushing and irrigation. The system will be fully developed after the Games.

Urban Domain

A significant role of OCA is to co-ordinate planning and management of the city during the Games to ensure that Sydney's services and amenities operate as smoothly as possible. This involves co-ordination of Government agencies, local government, businesses and the community.

With an extra 400,000 people expected to come to the city during a typical day, throughout the Games period, crowd management is an essential issue. Detailed plans are in place for crowd management, including the provision of entertainment and the establishment of six "Olympics Live" sites across the city, where there will be giant screens to display Games events and information.

The Olympics Live sites are essential to draw the public to locations where they can be catered for and to disperse people throughout the city. These sites will inform the public of major events during the Games, while at the same time enjoying the benefits of the city's heart. They will also assist in avoiding overcrowding at Homebush Bay. OCA is also contributing toward the closing ceremony celebrations in the city and regional celebrations across the State.

The co-ordination of waste management, street cleaning and the provision of basic amenities are also integral to this role. The OCA is upgrading services for waste, power and water, temporary toilets and improving pedestrian routes and access not only in the city centre, but in precincts surrounding all venues. Of particular importance are the servicing of road events, such as cycling and the marathon.

Essential Public Services Provided by Other Government Agencies

The Host City Contract (signed by the City of Sydney, the International Olympic Committee and the Australian Olympic Committee) and the Endorsement Contract (signed by the State Government and the Australian Olympic Committee) committed the State Government to the provision of certain services. In addition, the Government has recognised that, for efficient operation of the Olympic and Paralympic Games, other government services will need to be provided.

Such services include security provided by the NSW police and emergency support, dedicated rail and bus services and access to health facilities. As Sydney Harbour will be a major sporting venue and up to 10 cruise ships will be visiting Sydney during the Games, support services from the Waterways Authority and Sydney Ports Corporation are essential.

OCA has the statutory responsibility for co-ordinating the initiatives on Olympic and Paralympic Games matters of other government agencies.

SYDNEY ORGANISING COMMITTEE FOR THE OLYMPIC GAMES (SOCOG)

Over the past year, Games organisers have continued to refine Games readiness plans and have progressively moved from planning to implementation in a number of key areas, including:

- staging test events;
- recruitment of volunteers;
- torch relay;
- ticket sales; and
- arts festivals.

During 1999-2000, SOCOG held 40 test events of a final total of 42. This included a cluster of test events in September and October 1999. When the test event program is complete, competitions will have been held for 27 of 28 sports and in all but one of 34 venues, including such important new venues as the Sydney SuperDome and the Dunc Gray Velodrome.

By mid-April, SOCOG had made offers to 42,000 volunteers and obtained the services of over 35,000 volunteers. The target for Olympic and Paralympic volunteers is approximately 47,000. Over the coming months, recruitment of volunteers will continue and training of the Games Workforce of volunteers and contractors will be completed.

The torch relay commenced on 10 May 2000, with the lighting of the torch in Olympia in Greece. The torch will visit the 13 Pacific Island countries, which are the member States of the Olympic movement in Oceania. The torch will arrive at Uluru on 8 June 2000 and commence its Australian journey, which will be the longest torch relay in Olympic history, covering approximately 27,000 kilometres over 100 days.

Eleven thousand torchbearers, including 6,000 Community Torchbearers selected by 105 regional judging panels will carry the Olympic Flame during the relay. In February, the names of 2,500 Torch Relay escort runners from schools across the country were announced. A successful torch relay test event was held on the New South Wales South Coast in April.

SOCOG successfully organised its third Olympic arts festival, *Reaching the World*, in which 70 separate Australian artistic events were held in 150 cities in 50 countries on the five continents represented by the Olympic rings. The Sydney 2000 Olympic Arts Festival will crown the cultural program for the Games during 2000.

Despite significant difficulties in its ticketing process, SOCOG implemented the biggest ticketing exercise in Australian history, selling nearly two million tickets to the Australian public in its public ticket offer in 1999. Olympic Opportunity tickets were offered to school children and sporting groups in March/April 2000. Ticket sales will continue right up to the Games.

Budget and Finance

SOCOG is funded from revenues from broadcasting rights, sponsorship, licensing of merchandise and ticket sales.

During January 2000, the SOCOG Budget was revised to reduce budgeted expenditure to match budgeted revenues. The revised budget incorporates a package of measures designed to rebalance the SOCOG Budget and ensure that Sydney delivers a high quality Olympic Games.

The major elements of the package are as follows:

- net expenditure program savings of $39.2 million by SOCOG;
- removal of the $11.06 million payment contractually guaranteed to the International Olympic Committee (IOC);
- removal of $11.06 million from the payments contractually guaranteed to the Australian Olympic Committee from television rights revenue;
- removal of the $30 million surplus the New South Wales Government was budgeted to receive, on the basis that SOCOG operates within a balanced budget; and
- outsourcing of SOCOG's venue operational programs and Budgets to the OCA. The functions to be outsourced include venue acquisition, Games presentation, environment, spectator services, catering, cleaning and waste management and venue overlay.

SOCOG's net revenue estimate has been reduced by $173 million to $2.374 billion. The SOCOG Budget provides for a contingency of $50 million.

At the time of preparation of the State Budget, SOCOG was in the process of seeking the approval of the Minister for the Olympics and the concurrence of the Treasurer to the revised Games budget.

6.4 SYDNEY PARALYMPIC GAMES

The Paralympic Games will be held just over two weeks after the Olympic Games, with the majority of sports to be held at Sydney Olympic Park, Homebush Bay.

The Paralympic Games is the elite competition for the world's top athletes with a disability. Sydney is expecting 4,000 athletes from 125 countries to compete in 18 sports.

Throughout 1999, the process of operational integration with SOCOG continued in order to improve communication and remove duplication in the planning process. SPOC is working in tandem with SOCOG in a number of areas, including: recruitment of volunteers; sponsorship; village operations; venue overlay; ticket operations; workforce training; accreditation and sports related programs.

In July 1999, the route of the Paralympic Torch Relay and torch design were launched. The torch relay will commence on 5 October 2000 in Canberra, from where it will fly to all capital cities in Australia and then, on 12 October, commence a 7 day tour in New South Wales finishing at the Olympic Stadium on 18 October 2000.

Ticket sales for the Paralympics commenced in October 1999. Two main types of tickets are available for the Paralympic Games: event specific tickets, for the most popular events, and a day pass for access to any event at Homebush Bay, subject to seat availability. These day pass tickets are priced at $15. Since Sydney Olympic Park is the venue for 14 of the 18 sports, the Day Pass will encourage people to experience as many sports as possible.

During 1999-2000, SPOC obtained International Paralympic Committee (IPC) approval for the sports competition schedule. SPOC also negotiated its broadcaster arrangements during the year. ABC TV was appointed as the free to air domestic rights holder, Global TV as the Host Broadcaster and Media Content to sell international television rights.

Overlay and fit-out plans have been developed for all Paralympic venues, with particular emphasis on minimising any transitional works to be undertaken between the Olympic and Paralympic Games.

BUDGET AND FINANCE

In April 2000, SPOC submitted a revised Budget to the Minister for the Olympics for approval. The Budget approval requires the concurrence of the NSW Treasurer.

The revised estimated cost of staging the Paralympic Games is $158 million. The New South Wales and Commonwealth Governments are contributing $25 million each to the cost of the Games, with SOCOG contributing $18 million in line with the Olympic bid commitments. Other major revenue sources are sponsorship and ticket sales.

There is no budgeted profit from the Paralympic Games. However, if a profit eventuates, the first call on the profit is the repayment of financial contributions made by the Federal and State Governments.

6.5 OLYMPIC TRANSPORT SERVICES

In liaison with SOCOG, OCA, SPOC and public and private transport service providers, ORTA is co-ordinating the planning and delivery of integrated transport services for the Sydney 2000 Olympic and Paralympic Games.

During the year, ORTA made significant progress towards Olympic readiness. The Bus 2000 contract was signed, which provides for the provision of up to 3,800 buses and 5,000 drivers for the Games. ORTA also completed the recruitment of 9,000 transport volunteers, including 6,000 car drivers.

A range of detailed transport plans were released during 1999-2000. These followed the release of the Olympic routes in May 1999.

- In July 1999, ORTA released a draft *Central Sydney Roads and Transport Plan for the 2000 Games.* The plan outlined the basis of the special measures necessary to manage the huge level of public transport and pedestrian activity that will occur in the city during the Games. After an extensive program of business and community consultation, this was followed in April 2000 by a further package, including details of a free city bus loop and special taxi ranks in the city during the Games.

- The *Olympic Transport Action Plan for Business* was also launched in July 1999. The plan provides information and strategies to enable businesses and other local activities to continue to operate as smoothly as possible during the Games. A major program of industry forums and workshops has been undertaken in conjunction with the plan.

- In December 1999, a package of Olympic venue transport plans was released to provide information on road and transport arrangements around each Olympic competition site. The package included the location of spectator bus ranks, special taxi ranks and a network of Olympic Residential Parking Schemes to protect local streets. An extensive community consultation process was undertaken with local businesses and residents on the plans.

- Information on the operation of the CityRail network during the Games was also released in December. With the rail system set to be the primary form of public transport for spectators and sightseers, the material included information on likely passenger numbers and initiatives to operate the network at unprecedented levels 24 hours a day during the Games.

- In April 2000, the Olympic spectator park and ride strategy was officially launched. The package included a network of at least 26 sites across Sydney to assist spectators to connect with the Olympic transport system.

In addition to these initiatives, the program of Olympic transport test events was expanded. ORTA co-ordinated a number of public transport services, including the Bledisloe Cup Rugby Union, the NRL Grand Final and the 2000 Royal Easter Show. ORTA also provided services for a series of SOCOG Olympic sport test events, including the International Triathlon Union World Cup and the Host City Marathon.

In the lead-up to the Games, ORTA will complete planning and training in all areas of Olympic transport and move into its operation phase to deliver transport services for the Olympic and Paralympic Games.

6.6 BUDGET IMPACT OF THE GAMES

While both SOCOG and SPOC have been provided with Government funding, the day-to-day operations of both organisations do not impact on the Budget result.

The major areas of Government support are for construction and infrastructure projects, the provision of transport and security services and other Government services required for the effective operation of the Olympic and Paralympic Games.

Expenditure in the current and ensuing financial years has been fully provided for in framing the Budget and Forward Estimates. This is in accordance with the Government's policy that the costs associated with the year 2000 Games should be funded within the Budget so that a debt is not left to be met by future taxpayers.

The total construction program for OCA is estimated at $2,245.5 million (escalated to 2000-01 dollar values) which is broadly the same as the 1999-2000 Budget (also escalated to 2000-01 dollar values). The variation represents additional project costs of $19.9 million, offset by a reduction in the construction program of $20 million.

The total cost of Olympic projects is offset by grants from the Commonwealth of $175 million, contributions from SOCOG of $312.3 million, contributions from other organisations of $36.3 million and interest received from investments, sale of property and other minor revenue of approximately $79.7 million. The net cost to Government of OCA's Olympic capital program to 2000-01 is estimated at $1,642.2 million in 2000-01 dollar values. A summary of the provisions made in the 2000-01 Budget and the Forward Estimates for Olympic projects is provided in Budget Paper No. 4 State Asset Acquisition Program 2000-01.

In relation to the long-term operational costs of the site, OCA will further develop commercial strategies to promote the ongoing viability of the Homebush Bay site and other venues. A key part of OCA's planning has been to ensure that the post-Games management of venues is in place. OCA has entered into commercial agreements whereby many venues are operated prior to and/or following the Games by an appropriate sporting body or other independent operator at minimal cost to the Government.

OCA is also seeking to develop other marketing and operational strategies for Homebush Bay that will assist in achieving the financial viability of the Olympic site. The success of these strategies will have a positive impact on the State Budget in future years through the reduction in government support required to operate the venues and the site.

ORTA's role in relation to transport services for the Olympic and Paralympic Games and related events is to plan, procure and manage delivery of the required services. In this respect, ORTA will not generally be the provider of services but will contract both private and government operators to meet the essential requirements. ORTA does not have any major capital commitments.

The total cost for the provision of essential services to support the Games is estimated at $491.1 million, an increase of $29.5 million over the $461.6 million estimated at the time of the 1998-99 Budget. The increase reflects a range of factors representing both increases and decreases in costs, across the majority of agencies providing Olympics-related services. The services-related operating cost is estimated at $407.3 million, while $83.8 million will be spent on Olympics-related capital projects.

Details of OCA's and ORTA's finances appear in Budget Paper No. 3.

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

Over the period 1991-92 to 2001-02, the net impact of the cost of the Olympic and Paralympic Games is estimated at $1,367.2 million. This is an increase of $97.3 million on the estimated cost of $1,269.9 million indicated in the 1999-2000 Budget. The main components of the variation are:

- escalation of the venue and infrastructure construction program to 2000-01 dollars ($4.4 million);
- an increase in service provision and operational costs of $78 million;
- the State agreeing to assist SOCOG's budget position by foregoing its $30 million profit;
- various cash inflow variations totalling $15 million.

Over the period 1994-95 to 2005-06 it is estimated that $764 million will be collected in additional Olympics-related taxation revenue. However, only revenue collected during the Olympic period ($653 million) has been included in Table 6.1 as a reduction to the gross cost of the Olympic and Paralympic Games.

The cash outflows relate to:

- venue and infrastructure costs of $1,857.3 million;
- agency service provision and operation costs of $748.5 million; and
- a repayable advance ($28.6 million) and Commonwealth funding ($30.8 million) to SOCOG and grants to SPOC of $25.3 million.

Cash inflows relate to:

- Commonwealth receipts of $180.8 million representing $150 million toward the cost of venues and infrastructure and $30.8 million to enable SOCOG to purchase Commonwealth Government services;
- SOCOG's contribution to the cost of construction of venues of $312.3 million and the repayment of the SOCOG advance ($28.6 million);
- the post Olympic sale of the Media Officials' Village ($35 million), other minor sales ($4 million) and other contributions to the cost of the venue and construction program of $37.8 million;
- interest on investments; and
- Olympics-related taxation revenue of $653 million over the Olympic period.

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

	1991-92 $m	1992-93 $m	1993-94 $m	1994-95 $m	1995-96 $m	1996-97 $m	1997-98 $m	1998-99 $m	1999-2000 $m	2000-01 $m	2001-02 $m	Total $m
Outflows												
Olympic Stadium	...	...	...	...	...	26.6	46.9	21.6	4.7	13.7	19.8	**133.3**
Olympic Villages	...	...	...	...	...	0.2	36.3	66.3	77.3	19.6	…	**199.7**
Sydney SuperDome	...	...	...	...	...	...	51.6	89.8	0.2	...	...	**141.6**
Other venue costs	10.2	1.3	5.7	8.0	12.1	17.0	56.2	132.6	98.4	29.3	1.3	**372.1**
Transport infrastructure	…	1.6	5.5	2.8	5.1	159.4	122.1	122.1	20.2	5.0	...	**443.8**
Services infrastructure	…	2.9	0.5	1.1	11.4	28.0	18.5	13.9	18.1	1.3	...	**95.7**
Sydney Athletic and Aquatic Centres	…	101.9	98.2	14.7	0.7	0.4	(2.8)	2.6	0.7	0.5	...	**216.9**
Other infrastructure	12.8	15.0	15.0	13.8	12.3	20.8	34.5	41.4	54.4	30.2	4.0	**254.2**
OCA and ORTA - operating costs	...	...	...	11.1	10.5	17.7	38.5	37.4	68.5	87.6	...	**271.3**
Common domain - Homebush Bay	...	...	...	...	...	...	...	...	20.0	...	...	**20.0**
Other Olympic costs - recurrent	...	...	...	...	...	0.4	3.3	17.0	102.5	250.2	...	**373.4**
Other Olympic costs - capital	...	...	...	...	...	...	0.8	19.8	56.2	7.0	...	**83.8**
Advance/Grants to SOCOG	...	...	3.1	6.0	19.5	...	...	...	7.5	23.3	...	**59.4**
Grant to SPOC	...	...	...	0.4	0.8	2.7	4.0	6.0	6.0	5.4	...	**25.3**
Total Outflows	**23.0**	**122.7**	**128.0**	**57.9**	**72.4**	**273.2**	**409.9**	**570.5**	**534.7**	**473.1**	**25.1**	**2,690.5**
Inflows												
Commonwealth Government	...	...	50.0	50.0	50.0	...	...	...	7.5	23.3	...	**180.8**
Interest on investments	...	...	...	...	9.6	18.6	17.8	14.5	8.7	1.7	0.9	**71.8**
Sale of assets	...	...	...	...	...	...	...	4.0	...	35.0	...	**39.0**
SOCOG capital contributions	...	...	...	...	...	4.1	218.8	3.2	51.1	35.1	...	**312.3**
SOCOG advance repayment	...	...	...	...	...	28.6	...	...	...	...	...	**28.6**
Other contributions	...	...	...	...	1.5	…	1.5	13.2	19.6	1.1	0.9	**37.8**
Total Inflows	**...**	**...**	**50.0**	**50.0**	**61.1**	**51.3**	**238.1**	**34.9**	**86.9**	**96.2**	**1.8**	**670.3**
GROSS COST TO GOVERNMENT	**23.0**	**122.7**	**78.0**	**7.9**	**11.3**	**221.9**	**171.8**	**535.6**	**447.8**	**376.9**	**23.3**	**2,020.2**
Less: Additional taxation revenue	...	...	...	20.0	32.0	46.0	72.0	105.0	135.0	192.0	51.0	653.0
NET COST TO GOVERNMENT	**23.0**	**122.7**	**78.0**	**(12.1)**	**(20.7)**	**175.9**	**99.8**	**430.6**	**312.8**	**184.9**	**(27.7)**	**1,367.2**

CHAPTER 7: TAX EXPENDITURE AND CONCESSIONS STATEMENT

- Tax expenditures in 2000-01 total $2,598 million (compared with $2,540 million in 1999-2000) and concessions total $995 million ($961 million in 1999-2000).
- The major policy changes contributing to the increase in tax expenditures are:
  - Abolition of the NSW First Home Purchase Scheme and its replacement with a new State Government assistance package, First Home Plus, at a net cost of $52 million;
  - increased exemptions associated with the extended parking space levy, at a cost of $9.5 million; and offsetting these; and
  - removal of the tax expenditure associated with the accommodation levy, which is to be abolished from 1 July 2000.

7.1 INTRODUCTION

Direct outlays are examined and subject to public scrutiny through the annual budget process. An equally stringent approach needs to apply to tax expenditures and concessional charges. A tax expenditure refers to the cost of granting certain activities or assets favourable tax treatment, and has the equivalent budgetary and welfare effects of an outlay. Concessions on user charges are also equivalent to outlays.

Tax expenditures or concessional charges are often included in the relevant legislation. However, it is often the case that these provisions are not subject to regular review, even where explicitly funded by the Budget. This makes the control of total government expenditure (including tax expenditures and concessional charges) more difficult on an ongoing basis. Unless reviewed regularly, it is likely that tax expenditures and concessional charges may outlive their original justification, resulting in some loss of overall community wellbeing.

This chapter provides a summary of tax expenditures and concessional charges. A comprehensive listing and costing of each tax expenditure and concession is shown in Appendix E.

The purpose of the information in this chapter and Appendix E is to improve transparency and better inform policy choices and public understanding of the Budget.

Both tax expenditures and concessions have been valued on the basis of revenue foregone. A full discussion of the conceptual issues in the measurement of tax expenditures is given in the 1998-99 Budget Papers.

Tax expenditures may take the form of:

- an exemption of certain classes of goods or taxpayers from a tax;
- the imposition of a lower rate of tax, the provision of a rebate or deduction; or
- deferral of the time for payment of a tax liability.

A concession involves the sale by the Government of goods and services at a price that is lower than generally available to the rest of the community. Some agencies providing goods or services for free or at concessional prices to some sections of the community receive compensation from the Consolidated Fund for the revenue foregone. These payments are known as Social Program Policy Payments (SPPPs). Concessions funded by the payment of SPPPs to the agency providing the good or service are included in the estimates of concessions.

7.2 OVERVIEW OF TAX EXPENDITURES AND CONCESSIONS

TAX EXPENDITURES

The estimates of tax expenditures in this statement are for the years 1998-99, 1999-2000 and 2000-01 except for the estimates for land tax, which are for the 1999, 2000 and 2001 land tax years.

From 1 July 2000, the national goods and services tax will commence. As a consequence, the accommodation levy will cease from 1 July 2000 and therefore tax expenditures associated with the levy will also cease.

Table 7.1 provides a summary of major (i.e. $1 million or greater) tax expenditures for each type of tax.

Table 7.1: Major Tax Expenditures by Type of Tax

Tax	1998-99		1999-2000		2000-01	
	$m	% of tax revenue	$m	% of tax revenue	$m	% of tax revenue
Contracts and Conveyances Duty	190.0	9.9	214.5	9.5	273.0	15.6
General and Life Insurance Duty	367.7	108.1	403.7	106.2	374.0	97.4
Mortgage Duty	45.3	25.6	45.3	20.6	49.7	24.7
Marketable Securities Duty	289.5	73.3	355.7	73.3	315.2	74.2
Financial Institutions Duty	55.1	9.9	57.2	9.6	59.7	9.4
Lease Duty	4.8	13.0	5.1	11.3	5.2	11.1
Payroll Tax	492.8	13.7	496.7	13.3	520.2	13.3
Land Tax	378.0	39.9	342.7	38.5	338.5	36.8
Debits Tax	18.5	5.7	19.5	6.0	19.5	5.9
Taxes on Motor Vehicles	185.7	12.4	210.5	14.6	212.4	15.0
Accommodation Levy	6.0	10.5	1.2	1.7	...	...
Parking Space Levy	3.4	22.7	3.5	20.6	13.0	31.0
Gambling and Betting Taxes	360.0	25.4	384.1	24.3	417.9	34.5
Total	**2,396.8**	**19.7**	**2,539.7**	**19.6**	**2,598.3**	**21.1**

On the basis of revenue forgone, quantifiable tax expenditures are estimated to total $2,540 million in 1999-2000, representing 19.6 percent of total tax revenue. Tax expenditures are expected to increase slightly as a same proportion of tax revenue in 2000-01, to a total of $2,598 million.

Tax expenditures are spread across all tax bases, but the amounts are concentrated in insurance duties, payroll tax and land tax, which accounted for about 54 percent of total measurable expenditures in each of the years covered by this statement. Over the three years tax expenditures as a percentage of revenue are largest for insurance duty, marketable securities duty and land tax.

Table 7.2 provides a functional classification of tax expenditures and compares this with direct expenses.

Table 7.2: Tax Expenditures and Direct Expenses by Function

Function	1998-99		1999-2000		2000-01	
	$m	*% of Expenses*	*$m*	*% of Expense*	*$m*	*% of Expenses*
General Public Services	171.9	8.4	173.1	9.1	178.1	8.4
Public Order and Safety	1.3	0.1	1.3	0.0	1.3	0.0
Education	52.0	0.8	53.1	0.8	56.7	0.9
Health	317.8	4.9	315.4	4.8	329.2	4.9
Social Security and Welfare	164.4	9.0	187.8	9.8	190.7	9.3
Housing and Community Amenities	82.8	8.7	78.5	7.6	120.6	9.2
Recreation and Culture	364.4	46.5	388.4	47.2	422.3	38.5
Fuel and Energy	...	...	...	...	...	...
Agriculture, Forestry, Fishing and Hunting	274.1	31.3	248.8	29.3	244.7	46.7
Mining, Manufacturing and Construction	...	...	...	...	...	...
Transport and Communication	14.6	0.6	16.0	0.7	14.9	0.6
Other Economic Affairs	909.1	67.4	1,030.4	76.8	979.9	66.3
Other Purposes	44.4	1.9	46.9	2.7	59.9	2.9
Total	**2,396.8**	**8.5**	**2,539.7**	**9.2**	**2,598.3**	**8.9**

Tax expenditures are primarily directed toward ‘Other’ Economic Affairs (as they may constitute assistance to industry generally rather than to a particular type of economic activity), Agriculture, Forestry and Fishing, Recreation and Culture and Health. The distribution of tax expenditures by function is broadly similar over the three years covered by this statement.

CONCESSIONS

Table 7.3 classifies the major concessions provided by the NSW Government by function. The total value of major concessions in 1999-2000 was $947 million, representing 3.4 percent of expenses. Concessions are expected to amount to approximately the same proportion of expenses in 2000-01.

Table 7.3: Concessions and Expenses by Function

Function	*1998-99*		*1999-2000*		*2000-01*	
	$m	*% of Expenses*	*$m*	*% of Expenses*	*$m*	*% of Expenses*
General Public Services	...	...	...	...	...	...
Public Order and Safety	...	...	...	...	...	...
Education	376.6	6.0	411.1	6.5	424.8	6.6
Health	45.3	0.7	46.2	0.7	47.9	0.7
Social Security and Welfare	278.3	15.2	291.8	15.2	303.9	14.8
Housing and Community Amenities	135.7	14.3	149.9	14.6	155.4	11.9
Recreation and Culture	...	...	...	...	...	...
Fuel and Energy	58.6	40.1	61.5	66.1	63.0	142.9
Agriculture, Forestry, Fishing and Hunting	...	...	...	...	...	...
Mining, Manufacturing and Construction	...	...	...	...	...	...
Transport and Communication	...	...	...	...	...	...
Other Economic Affairs	...	...	...	...	...	...
Other Purposes	...	...	...	...	...	...
Total	**894.5**	3.2	**960.5**	3.5	**995.0**	3.4

CHAPTER 8: FINANCIAL ARRANGEMENTS WITH THE COMMONWEALTH

- Gross payments from the Commonwealth to New South Wales will increase from \$9,557 million in 1999-2000 to \$12,888 million in 2000-01.
- Specific Purpose Payments will increase by 4.6 percent to \$4,569 million, and General Purpose Payments by 60.3 percent to \$8,319 million.
- The increase in General Purpose Payments is not a structural improvement. It reflects (1) the substitution of the GST revenue pool (\$24.1 billion for all States) for the current Financial Assistance Grants pool (\$17.3 billion), and (2) compensation to New South Wales for taxes abolished under tax reform and for additional State expenditure responsibilities under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*.
- In fact, according to current estimates, New South Wales will not begin to see the net revenue benefits of a GST until late in this decade.
- New South Wales will receive \$7,180.3 million in GST revenue grants (out of a total of \$24.1 billion for all States) and \$982.1 million in Budget Balancing Assistance (out of a total of \$2,692.6 million for all States).
- The new Commonwealth-State funding arrangements leave in place the NSW cross-subsidy to other States under horizontal fiscal equalisation. The new arrangements also considerably aggravate the problem of vertical fiscal imbalance because the GST is a Commonwealth tax.

8.1 INTRODUCTION

Commonwealth-State[1] financial relations in Australia have traditionally been characterised by the following:

- A high degree of *vertical fiscal imbalance* (VFI), referring to the mismatch between tax powers and expenditure responsibilities of the Commonwealth and State Governments. The Commonwealth collects significantly more tax revenue than it requires for its own purposes. Consequently, it transfers funds to the States in the form of general purpose payments (GPPs)[2] and specific purpose payments (SPPs)[3]; and

- An extensive system of *horizontal fiscal equalisation* (HFE) which governs the interstate distribution of GPPs (the largest component of which is Financial Assistance Grants (FAGs) in 1999-2000 and GST Revenue Grants in 2000-01), and which is overseen by the Commonwealth Grants Commission (CGC). This has historically resulted in the transfer of over $2 billion annually from donor States (New South Wales, Victoria, Western Australia and the ACT) to other States.

New South Wales, along with all other States, signed the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (the IGA) in June 1999. Although all States signed the IGA, some States including New South Wales had indicated at the outset that this did not imply their endorsement of a GST, and that their participation in the discussions was for the purpose of safeguarding the interests of their citizens.

The budget year 2000-01 will be the first year of implementation of major changes in Commonwealth-State finance under national tax reform. Key elements include the introduction of a Goods and Services Tax (GST) from 1 July 2000 and the abolition of a number of State indirect taxes and the Commonwealth's wholesale sales tax; the passing-on by the Commonwealth of GST revenues to States to replace FAGs and abolished State taxes; and the provision by the Commonwealth of guarantee payments to ensure that no State is worse off financially during the transition to a GST regime.

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1 *All references to 'States' in this chapter should be interpreted as referring to States and Territories.*

2 *GPPs are unconditional grants originally intended to compensate the States for losses on tariff revenue at Federation and the Commonwealth's takeover of income taxing powers after 1942. GPPs have traditionally consisted of financial assistance grants (FAGs) and special revenue assistance. With the introduction of national tax reform, FAGs will be abolished and replaced with GST Revenue Grants. During the transition period, GPPs (for purposes of this chapter) also include Budget Balancing Assistance (these are transitional payments from the Commonwealth to ensure that States are no worse off financially under the new arrangements).*

3 *SPPs are grants contingent on the States' compliance with certain conditions - for example, the purposes for which the funds may be used; specific monitoring and review arrangements; annual increases in funding; and/or maintenance of expenditure requirements. SPPs generally have a duration of one to five years depending on the terms of the individual SPP agreements, which are separately negotiated between the Commonwealth and States.*

Although the new arrangements give States access to revenue from a broad-based tax, the fundamental structure of Commonwealth-State finance has effectively changed little. The GST is a Commonwealth tax, and the pass-on of GST revenue is a revenue sharing rather than a tax base sharing arrangement.

On current estimates, New South Wales will not begin to see the revenue benefits of the reforms until 2007-08. That date could be brought forward if GST revenue were higher than projected, but in the first instance any higher-than-expected GST revenue will benefit the Commonwealth (through a reduction in guarantee payments) rather than the States.

The distribution of GST revenues on a fiscal equalisation basis ensures that the substantial cross-subsidies from donor to recipient States will continue in the foreseeable future.

General purpose grant shares on the new GST basis in 2000-01 cannot be compared with the old FAG shares of the previous year because the two reflect different policy environments. The increase in NSW total GPPs from $5,189.9 million in 1999-2000 to $8,318.9 million in 2000-01 is not a structural improvement, but a ‘pool size’ effect reflecting the substitution of the GST revenue pool (totalling $24.1 billion for all States) for the current FAGs pool ($17.3 billion).

The increase in general purpose payments merely compensates New South Wales for taxes abolished under tax reform, and for additional State expenditure responsibilities under the IGA. If FAGs had been retained in 2000-01, New South Wales' increase in GPPs would have been 3.5 percent in nominal terms (or about 0.9 percent in real terms).

NSW GPPs in 2000-01 will consist of GST revenue grants ($7,180.3 million), Budget Balancing Assistance ($982.1 million) and competition payments ($156.5 million). Specific Purpose Payments (excluding the Gun Buyback Scheme in 1999-2000) for New South Wales' own purposes are expected to grow by 4.6 percent in nominal terms (or about 1.9 percent in real terms).

Data on 2000-01 Commonwealth payments to New South Wales and measures of VFI and HFE are provided in the tables at the end of this chapter. The remainder of the chapter describes developments during the past year, and canvasses issues in intergovernmental financial relations which are likely to remain of concern in the immediate future.

8.2 RECENT DEVELOPMENTS

NATIONAL TAX REFORM

The IGA, including amendments as a result of negotiations between the Commonwealth and the Australian Democrats, was signed by all States in June 1999. The IGA outlines major changes to Commonwealth-State financial arrangements.

Key features of the final agreement which will affect State budgets are summarised below, while progress in implementing IGA commitments is reported later in this chapter.

- A 10 percent GST, with the proceeds to be distributed to States. GST revenue grants to replace: (1) Commonwealth FAGs and Revenue Replacement Payments[4] (RRPs) to States, which will cease on 1 July 2000; and (2) a number of State taxes to be abolished (bed taxes from 1 July 2000; Financial Institutions Duty from 1 July 2001; stamp duty on quoted marketable securities from 1 July 2001; and Debits Tax by 1 July 2005, subject to review by the Ministerial Council).

- Adjustments to gambling tax arrangements taking into account the impact of the GST to apply from 1 July 2000.

- The removal of a number of remaining State taxes (stamp duty on non-residential conveyances; leases; mortgages, debentures, bonds and other loan securities; credit arrangements, instalment purchase arrangements and rental arrangements; cheques, bills of exchange, promissory notes; and unquoted marketable securities) to be reviewed by the Ministerial Council in light of State fiscal circumstances by 2005.

- The Commonwealth to make transitional assistance payments to States where necessary so that no State will be worse off. The IGA provides for an initial transition period to 30 June 2003, to be extended by regulation should the States require transitional assistance payments beyond that date.

- From 1 July 2000, States will fund and administer a new First Home Owners' Scheme to mitigate the impact of the GST on the price of homes for first home owners, entailing a lump sum payment to eligible home owners of $7,000.

- States to finance the Australian Taxation Office's costs of GST administration.

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[4] *Revenue Replacement Payments are payments which are made by the Commonwealth to States under the temporary safety net arrangements agreed between governments following the August 1997 High Court decision invalidating State business franchise fees.*

- The Commonwealth amended the *Trade Practices Act 1974* to enable the Australian Competition and Consumer Commission (ACCC) to ensure no overpricing due to the introduction of a GST. States are applying mirror legislation and extending the coverage of the ACCC to those areas outside the Commonwealth's constitutional power.

- Government entities to be subject to a GST, except for specified government taxes and charges determined to be GST-free by the Commonwealth Treasurer.

- A Ministerial Council, comprising Treasurers of the Commonwealth, States and Territories, was established from 1 July 1999 to oversee the operation of the IGA. The Council has a wide-ranging brief which includes "ongoing reform of Commonwealth-State financial relations".

Outcomes of First Ministerial Council Meeting

The inaugural meeting of the Council was held on 17 March 2000. The meeting covered a number of administrative and financial issues associated with the introduction of the GST and the commencement of GST Revenue Grants to the States. The Council endorsed a Statement of Estimated Payments specifying the amounts that each State will receive in 2000-01 under the new arrangements. The Statement of Estimated Payments was updated by estimates in the Commonwealth Budget issued on 9 May 2000, which sets out:

- The ***Guaranteed Minimum Amount (GMA***) to States in 2000-01 to ensure that each State is no worse off than under existing arrangements. The GMA for New South Wales is estimated at $8,162.4 million. The GMA is the sum of:

  - State revenues foregone from: the abolition of FAGs, bed taxes, RRPs and wholesale sales tax equivalent payments from public trading enterprises and the reduction in gambling taxes; and

  - Additional expenditure responsibilities for funding the new First Home Owners' Scheme and GST administration costs to be incurred by the Australian Taxation Office (ATO); and reduced State expenditures associated with off-road diesel subsidies and savings from the reduction in indirect taxes embedded in government purchases.

- The amount of ***GST Revenue Grants***. New South Wales will receive $7,180.3 million out of a total pool of $24.1 billion.

- Transitional payments by the Commonwealth to States, called ***Budget Balancing Assistance*** (BBA). This is calculated as the difference between the GMA and GST revenue grants.

  BBA in 2000-01 will consist of an interest-free loan component of $674.3 million (repayable the following year from the proceeds of that year's BBA) and a grant component of $307.8 million. Notwithstanding the fact that the Commonwealth 2000-01 Budget treats the loan component as an advance to States, for purposes of this chapter both components are treated as general purpose payments. Of the aggregate BBA to all States of $2,692.6 million, New South Wales will receive $982.1 million. BBA will be paid to States on 4 July 2000.

Impact of the New Arrangements on New South Wales

Contrary to some claims, the GST does not constitute a 'windfall' for States and Territories including New South Wales. Box 8.1 indicates the reasons for this, while Table 8.1 provides estimates of New South Wales' need for transitional payments. These are based on assumptions agreed between the Commonwealth and States for the calculation of GMAs and BBA.

The losses from tax reform arise from abolished FAGs and taxes and net additional expenditure responsibilities. The estimates assume for working purposes that debits tax is removed from 1 July 2005, but that States retain business stamp duties beyond 2005. The estimates are only broadly indicative, and will be subject to further revision.

Table 8.1: Estimated Financial Impact of National Tax Reform on New South Wales: 2000-01 to 2007-08 [(a)]

Year	*GST revenue*	*Losses*	*Net Impact = Need for Transitional Assistance*
	$m	*$m*	*$m*
2000-01	7,180	(8,162)	(982)
2001-02	8,594	(9,352) [(b)]	(759) [(b)]
2002-03	8,863	(9,671)	(808)
2003-04	9,320	(9,913)	(594)
2004-05	9,937	(10,287)	(350)
2005-06	10,565	(10,948)	(383)
2006-07	11,159	(11,321)	(162)
2007-08	11,783	(11,669)	114

(a) Estimates for 2000-01 to 2003-04 are from the Commonwealth 2000-01 Budget issued 9 May 2000. Estimates thereafter are those presented to the Ministerial Council meeting on 17 March 2000.

(b) Excludes $674m to repay the Budget Balancing loan the previous year.

Box 8.1: Why the GST does not represent a revenue windfall for New South Wales

Contrary to some claims, States will not gain from tax reform a revenue windfall which they can immediately apply towards reducing their reliance on gambling taxes and other State revenue sources or to increase outlays.

Current projections suggest that net revenue benefits to New South Wales will not occur until 2007-08, assuming no reduction to the GST rate or erosion of the GST base in the meantime. (See details in Table 8.1.) This is despite the fact that the Commonwealth will meet the State's losses due to tax reform via guarantee payments during a transitional period.

In the absence of Commonwealth transitional assistance, the NSW Budget would be worse off by about $4 billion in total over the next seven years. On current estimates, only Queensland is expected to begin to benefit from the new arrangements within the first three years.

The estimates are premised on real economic growth of the order of 3.5 percent per annum after 2003-04, yielding an expected increase in GST revenues from $24 billion in 2000-01 to $39 billion in 2007-08. Benefits from the new arrangements would be pushed further back in the event that this growth does not occur.

To the extent that GST revenues exceed the estimates underlying the guarantee calculations, and that gain is not offset by unanticipated costs to States not covered by the guarantee arrangements, there is a possibility that States could begin to benefit earlier.

In order for New South Wales not to require Budget Balancing Assistance, GST revenues would have to be larger than estimated by about 13.7 percent in 2000-01, 8.8 percent in 2001-02, 9.1 percent in 2002-03 and 6.4 percent in 2003-04.

GST revenue above the current estimates but within these margins will not benefit New South Wales because the surplus GST revenues will be offset by a reduction in Commonwealth transitional assistance, thereby leaving the NSW Budget no better off on a net basis.

For the NSW Budget to obtain any net gain, GST revenue would need to exceed current estimates by even wider margins than indicated above. GST revenue is unlikely to have been underestimated to such an extent, at least in the early years.

Progress in NSW Implementation of IGA Commitments

In most cases, State legislation is required to implement NSW commitments under the IGA. The following provides an overview of progress to date on New South Wales' implementation of its obligations.

Legislation has been passed in respect of the following:

- Abolishing bed taxes from 1 July 2000. This was accomplished in Sec. 3 of the *State Revenue Legislation Further Amendment Act 1999*, which amended the *Accommodation Levy Act 1997 No 32*. The former Act was assented to on 24 November 1999.

- Extending the coverage of the ACCC to those areas outside the Commonwealth's constitutional power. The *Price Exploitation Code (New South Wales) Act 1999* was passed by the Parliament and given assent on 22 November 1999. It commenced on 10 December 1999.

Appropriate legislation on the remaining matters requiring State legislation will be introduced in the Budget Session 2000 which began in April. It is intended that the package will include legislation to effect the following:

- Appending the IGA to appropriate State legislation, mirroring the approach of the Commonwealth;

- Abolition of FID and stamp duty on quoted marketable securities from 1 July 2001;

- Adjusting gambling tax arrangements to take account of the application of the GST to gambling (see Chapter 3 for further details); and

- Allowing State and Territory entities and local governments to pay GST or make voluntary payments where necessary.

In regard to establishing a First Home Owners Scheme, States have agreed to a framework for its operation, and separate legislation (the *First Home Owner Grant Bill 2000*) has been introduced in the NSW Parliament.

In regard to Ministerial determinations, the Commonwealth and States and Territories including New South Wales have developed an initial list of taxes and charges to be excluded from the GST via a Commonwealth Treasurer's Determination. The Commonwealth Treasurer made the initial determination on 1 March 2000. It is intended to update the list on an ongoing basis.

COMMONWEALTH GRANTS COMMISSION 2000 UPDATE

Apart from the quantum of payments to States for 2000-01, the inaugural Ministerial Council meeting also dealt with other issues previously handled by the annual Premiers Conference, including the 2000 Update Report by the Commonwealth Grants Commission on the distribution of untied grants.

The CGC has historically recommended, for each financial year, the appropriate distribution of FAGs between the States on the basis of horizontal fiscal equalisation (HFE). This principle is intended to ensure that Commonwealth general purpose payments are distributed among States so as to allow each State to provide government services at a level not appreciably different from that of other States, without having to impose taxes and charges at levels appreciably different from those in other States.

The CGC uses a complex revenue and expenditure model to determine how to distribute untied grants in accordance with the HFE principle. The CGC revises its methodology for calculating interstate relativities every five years (the last Review was completed in 1999) and updates its relativities every year on the basis of a five-year rolling average of data.

GST revenue grants, which will replace FAGs and abolished State taxes from 1 July 2000, will continue to be distributed among States on the basis of HFE. The CGC's most recent Update Report was released in February 2000, and its recommendations were endorsed at the inaugural Ministerial Council meeting.

Highlights of the 2000 Update include:

- The calculation of two sets of relativities for 2000-01: one GST based, the other FAGs based. The two sets of relativities were necessary for the calculation of the GMAs and BBA payments.

- The FAG relativities calculate the shares that States would have received in the absence of national tax reform. On this basis, FAGS would have risen for New South Wales in absolute dollar terms due to the normal expansion in the FAG pool (due to inflation and population growth). However, on a system-neutral basis (i.e., based on changes in the relativities alone), New South Wales would have lost $22.8 million. This mainly reflects the above-average level of revenue growth in New South Wales relative to other States in the five years to 1998-99.

- The GST relativities reflect the abolition of some State taxes and additional State expenditure responsibilities under the new arrangements. The shift from FAG relativities to GST relativities will yield a loss to New South Wales of the order of $90 million due mainly to two factors - the abolition of safety net payments for tobacco and petroleum (negative $59.2 million), on which New South Wales currently makes gains; and the introduction of the First Home Owners Scheme (negative $38.7 million), since New South Wales has a lower proportion of first home buyers to total population relative to other States.

NSW GST revenue grant receipts will be about $2 billion greater as compared with the old FAG-based arrangements, solely due to an increase in the size of the grants pool (by about $6 billion) arising from tax reform arrangements.

GENERAL PURPOSE PAYMENTS AND LOAN COUNCIL ALLOCATIONS

General purpose grant shares on a GST basis for 2000-01 and the old FAG basis for 1999-2000 are not comparable because they reflect different Commonwealth-State financial environments. For this reason, this section merely reports the amounts which New South Wales expects to receive in 2000-01 without reference to growth from the preceding year.

The Commonwealth Statement of Estimated Payments, which was endorsed by the Ministerial Council, was subsequently updated. More recently, the Commonwealth Budget 2000-01 provided for funding to all States of $27,222.0 million in general purpose payments in 2000-01, of which the NSW share is $8,318.9 million.

GST Revenue Grants are the single largest component of total general purpose payments. GST Revenue Grants in 2000-01 will amount to $24,052.6 million for all States and $7,180.3 million for New South Wales. The remainder of general purpose payments to New South Wales consists of Budget Balancing assistance of $982.1 million and competition payments totalling $156.5 million.

In the three years to 1999-2000, New South Wales received its full competition payment. In its second tranche assessment as at 30 June 1999, the National Competition Council - which assesses compliance with the *Agreement to Implement National Competition Policy and Related Reforms* signed by Heads of Government in April 1995 – acknowledged New South Wales' accomplishments particularly in respect of energy reforms, reform of government businesses and comprehensive legislative review. New South Wales expects no constraints to receiving its full competition payment in 2000-01.

The NCC has indicated that continuing payments to States will be subject to supplementary assessments. The National Competition Policy agreements of April 1995 are subject to five-yearly reviews, the first due to be completed in May 2000.

At the 139th meeting of the Australian Loan Council held on 17 March 2000, the Council endorsed the Loan Council Allocation (LCA) nominations for 2000-01. The 2000-01 LCA of New South Wales[5] endorsed at the meeting was negative $329 million. The negative LCA bid of New South Wales indicates that the State expects to contribute to (rather than make demands on) national savings in 2000-01. Chapter 9 of this budget paper provides an estimate of the NSW LCA at Budget time.

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[5] *Consistent with the current Commonwealth treatment of LCAs, the LCA for New South Wales is expressed in ABS "headline" terms, whereby advances paid are treated as part of capital outlays rather than as a financing transaction.*

DEVELOPMENTS IN SPECIFIC PURPOSE PAYMENTS

The IGA commits the Commonwealth to not reducing SPPs as part of the tax reform process. Total SPPs to New South Wales are expected to increase by 4.6 percent in 2000-01 following an increase of 4.3 percent the previous year.

Indexation arrangements under the Australian Health Care Agreements (AHCA) remain an issue of contention between the Commonwealth and States. The AHCA provided for a default indexation rate of 0.5 percent per annum. However, failure to reach agreement on an appropriate index led to the Commonwealth nominating three possible independent arbiters.

The Commonwealth and States agreed to a terms of reference and selection of one arbiter in accordance with Clause 41 of the Agreement. The arbiter's advice suggested that a more appropriate index would be the sum of the increase in the CPI (in the range of 2 to 3 percent) and an additional 0.5 percent to account for the rise in the real cost of providing public hospital services.

The Commonwealth did not accept the arbiter's recommendation, and subsequently offered the States a compromise indexation rate of 1.5 percent, which is reflected in health funding levels in the Commonwealth 2000-01 Budget. Over the remaining life of the AHCA, adopting the Commonwealth alternative offer of 1.5 percent would yield a loss to New South Wales of the order of $200 million relative to the option recommended by the arbiter.

During the past year, New South Wales reached agreement with the Commonwealth over bilateral arrangements for the Commonwealth-State Housing Agreement (CSHA), a new four-year Supported Accommodation Assistance Program (SAAP), and a five-year Public Health Outcomes Funding Agreement (PHOFA). The SAAP arrangements incorporate an additional $15 million per annum in SAAP funding for all States (carrying no State matching requirements) as part of the tax reform package negotiated between the Prime Minister and the Australian Democrats in May 1999.

While these SPP agreements represent some improvement over previous agreements in respect to flexibility in the use of program funds, the agreements continue to require States to report to the Commonwealth against a large number of performance indicators.

New South Wales believes that there is room for further streamlining of SPP reporting requirements. More broadly, the issue of reform of SPPs remains a continuing concern to New South Wales and other States. In July 1999, States presented to the Commonwealth a discussion paper on SPPs outlining difficulties with the current system and suggesting areas for improvement.

In the wake of this development, and with the endorsement of Heads of Treasuries, an SPP Working Party was set up in October 1999. The Working Party consists of all States and the Commonwealth and is aimed at improving information exchange between all parties and facilitating the process of future SPP reform. Initial activities of the Working Group include the development of a comprehensive database of SPP information and the formulation of a set of guiding principles and desirable features of SPPs, including a possible template agreement to guide future SPP negotiations.

8.3 THE TASKS AHEAD

NATIONAL TAX REFORM

In New South Wales, the immediate priority for tax reform in the next year will be to introduce remaining required legislation and to complete and fine tune the operations of State public sector agencies following the implementation of the GST and business tax reforms.

In the longer term, the main task will be to review the need for Debits Tax and the other State taxes that were to be abolished under the original Commonwealth tax reform proposals.

Key tasks in the near term include the following:

- *Preparations for GST implementation*. NSW government agencies (including Public Trading Enterprises) have been preparing for the GST consistent with Treasury's *GST Compliance Plan for Public Sector Agencies*, which was issued in June 1999. The Plan sets out a phased approach to GST compliance, providing agencies with a series of key activities and target dates. Agencies have been reporting periodically to the Treasury on progress with their GST preparations.

- *Development of a GST Administration Performance Agreement with the ATO* to ensure accountability of the ATO to the States in the administration of the GST. It is currently envisaged that work on this agreement will commence at the beginning of 2001, taking advantage of the operational results and experience from 2000-01.

- *Initiating work on the implementation of a National Tax Equivalent Regime (NTER).* The Ministerial Council approved the deferment of implementation of the NTER by one year, to 1 July 2001, in view of the magnitude of work in preparing for GST implementation. The NTER will entail the imposition of income tax on State and Territory owned businesses, and will be administered by the ATO. Progress on the NTER will critically depend on the Commonwealth amending its income tax legislation to ensure that businesses established by local government bodies receive the same protection from the scope of income tax legislation as is provided to PTEs.

VERTICAL FISCAL IMBALANCE

The degree of imbalance between the Commonwealth and State Governments remains excessive compared with other federations.

VFI is not costless.

It undermines governmental accountability for taxing and spending decisions because governments responsible for providing services are not necessarily responsible for raising the revenue to finance those services. This encourages cost shifting between levels of government and results in costly duplication and overlap of services.

VFI hampers States' ability to respond to community needs in a timely and effective manner. Some Commonwealth conditions on tied grants introduce rigidities in service delivery (e.g., the form of service provision, purchasing arrangements, pricing or other restrictions on the use of Commonwealth grants). This can send the wrong market signals or incentives and can lead to implicit rationing and under- or over-utilisation of some services, thereby reducing allocative efficiency.

Where the Commonwealth imposes fund matching requirements on its payments to States, VFI produces a bias towards over-expenditure, distorts States' spending priorities, and serves as a disincentive for States to exercise fiscal discipline.

Reporting requirements for Commonwealth tied grants tend to be structured to meet the Commonwealth's need for information rather than to measure the efficiency or effectiveness of service delivery. Administrative changes at the Commonwealth level, such as changes to cash management procedures, may impose minimal cost at the Commonwealth level, but can lead to discontinuities and real disruptions in service delivery at the State level.

Historically, VFI has also been a disincentive to the pursuit of microeconomic reform, since States must bear most of the implementation costs but cannot directly access the major increase in Commonwealth revenue resulting from these reforms.

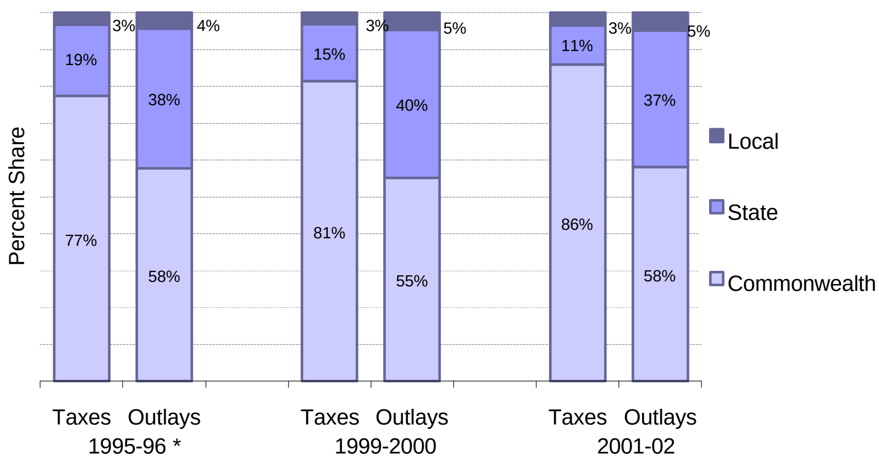
The reforms to Commonwealth-State financial relations leave in place, and in fact aggravate, the problem of VFI. Prior to tax reform, Commonwealth grants accounted for slightly over a third of total State revenues for all States in aggregate. Following the implementation of the GST, this proportion is expected to increase to close to 40 percent with the replacement of abolished State taxes by GST revenue grants.

The new arrangements considerably erode State revenue autonomy (i.e., the degree of State control over the tax rate and/or base), since the States will give up key revenue sources in exchange for a GST whose rate and base the States will not control. Irrespective of the commitment by the Commonwealth to turn over GST revenue to States, the GST clearly remains a Commonwealth tax. The Commonwealth has the constitutional power to unilaterally change GST revenue-sharing arrangements, including changes which could narrow the tax base and thereby erode GST revenue.

The chart below provides an indication of how VFI is expected to widen between 1999-2000 and 2001-02 (the first full year of GST implementation).

The VFI problem may be remedied through a redistribution of either taxation powers or expenditure responsibilities. New South Wales remains open to pursuing such options in future in cooperation with the Commonwealth and other States.

Chart 8.1: Vertical Fiscal Imbalance, Pre- and Post-Tax Reform (Percentage of Total General Government)



* Prior to the introduction of safety net taxes.

HORIZONTAL FISCAL EQUALISATION

NSW GST Revenue Grant in 2000-01 will be $1,101 per capita or about 26 percent less than the average of the six smallest States. The average for New South Wales and Victoria (traditional HFE donor States) is $1,079 per head compared with an average of $1,483 for the other jurisdictions.

The estimated GST Revenue Grant per capita by State for 2000-01 is given in the table below. Based on the 2000-01 GST equalisation relativities calculated by the CGC, New South Wales, Victoria, Western Australia and the ACT are net donors.

Table 8.2: GST Revenue Grants Per Capita, By State, 2000-01

State/Territory	*GST Revenue Grants (In $ Per Capita)*
New South Wales	1,101
Victoria	1,049
Queensland	1,280
Western Australia	1,226
South Australia	1,495
Tasmania	2,071
Northern Territory	6,148
Australian Capital Territory	1,497
Average, six smallest States	**1,483**
AUSTRALIAN AVERAGE	**1,246**

The level of transfers from donor States to recipient States can be measured in a number of ways.

One approach is to measure the difference between actual GST Revenue Grants and an equal per capita distribution of funding. This is called "CGC equalisation". On this basis, New South Wales will be transferring to other States $944 million or $145 per capita in 2000-01. The combined transfer from New South Wales, Victoria and Western Australia is estimated at about $1.9 billion[6].

Another approach is to compare the GST revenue grant distribution with a benchmark based on State shares of a particular tax or tax base. Two possible benchmarks are personal income tax shares and personal consumption shares.

[6] *The estimated cross-subsidies in this chapter may differ from those in Commonwealth Budget papers because the latter calculates the cross-subsidy based on the sum of FAGS (or GST revenue grants) and unquarantined Health Care Grants. The estimates in this chapter are based solely on FAGs (or GST revenue grants).*

The Commonwealth originally intended FAGs as compensation to States for their loss of income taxing powers. Therefore the cross-subsidy is measured by calculating the difference between FAGs paid to each State and the level of Commonwealth ***personal income tax*** raised in that State. This is called "tax equalisation".

While GST Revenue Grants will replace FAGs in 2000-01, this should not be taken to imply an abrogation of States' historic claims to a fair share of income tax revenues. The use of personal income tax shares therefore provides a consistent benchmark against which one can measure the current distribution against the original intent to compensate States for the loss of income tax powers.

On this measure, the transfer from donor States (New South Wales, Victoria, Western Australia and the ACT)[7] is of the order of $2.8 billion in 2000-01, of which New South Wales will be contributing over half ($1.7 billion). This equates to a total cross-subsidy by New South Wales of $261 per head in 2000-01.

An alternative measure of cross-subsidy would be the difference between the GST revenues collected in a given State and the GST revenue grants returned to that State.

Since GST revenues have yet to be collected, State ***household final consumption expenditure*** has been used as a rough proxy[8] of interstate shares of GST revenue. On this basis, the total transfer from donor States (New South Wales and Victoria) is about $2.4 billion, of which New South Wales will contribute $1.3 billion or $202 per capita.

By any measure, the cross-subsidy from New South Wales to other States remains substantial. Over the long run, such sizeable cross-subsidies are not sustainable. The table at the end of this chapter indicates the amounts expected to be transferred from donor States to recipient States in 2000-01 based on CGC redistribution and the benchmark of personal income tax shares.

In relation to interstate competition, some jurisdictions which have historically been recipients of HFE transfers are in a position to offer incentives to private business or to build up fiscal surpluses, which they may not otherwise have been able to do in the absence of HFE. In this respect, the current HFE process remains an obstruction to the design of efficient State tax regimes and overall allocative efficiency.

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[7] *The ACT is a donor in terms of tax equalisation but a recipient in terms of CGC equalisation. Once these two opposing effects are taken into account, the ACT is a donor jurisdiction in net terms.*

[8] *Personal consumption is used as a benchmark here only for indicative purposes, on the premise that the GST is intended to be a tax on consumption and not on investment, production or transfers. Another option would be to use shares of State final demand (i.e., the sum of expenditure on final consumption and investment by both the public and private sectors). However, given that some components of public sector consumption expenditure constitute transfers to the household sector, the use of State final demand may distort the measure of cross-subsidy, particularly for small jurisdictions.*

New South Wales believes that with national tax reform now in place, attention should turn to the issue of fundamental changes to the system of fiscal equalisation in the future, including a re-examination of the rationale and mechanisms for HFE in light of the particular fiscal and economic circumstances of individual jurisdictions.

Cross-subsidies should be made only where justified, and fiscally strong and economically healthy States should not gratuitously derive benefits on the basis of the extreme disabilities suffered by the truly disadvantaged jurisdictions. Among other things, a revisiting and restructuring of the HFE process would allow States to engage in beneficial interstate tax competition without compensation for policy-driven inefficiencies being provided through the CGC process.

Thus, irrespective of the implementation of tax reform, New South Wales will continue to seek basic changes to HFE and remains committed to reformed arrangements. Ideally, these would put the fiscally stronger States (New South Wales, Victoria, the Australian Capital Territory, Queensland and Western Australia) on equal ground while preserving equalisation transfers to the three fiscally weakest jurisdictions.

Table 8.3: Inter-governmental Financial Relations, Selected Indicators, 1995-96 to 2000-01

Item	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01
COMMONWEALTH PAYMENTS TO NEW SOUTH WALES						
Million $, Nominal						
General Purpose(1)	4,517	4,464	4,591	4,705	5,189	8,319(3)
General Purpose (excluding Competition Payments)(1)	4,517	4,464	4,519	4,632	5,041	8,162(3)
Specific Purpose(2)	3,480	3,478	3,519	4,187	4,367	4,569
Gross Payments(1)	7,997	7,941	8,111	8,892	9,557	12,888(3)
Percentage Annual Change, Real (2000-01) Terms (2)						
General Purpose(1)	3.0	(-) 3.1	1.6	1.6	9.0	-- (8)
General Purpose (excluding Competition Payments)(1)	3.0	(-) 3.1	0.0	1.6	7.6	-- (8)
Of which: FAGs (excl FCPs) or GST Revenue Grants	2.7	(-) 3.4	2.8	6.0	7.6	--(3), (8)
Specific Purpose(2)	(-) 1.3	(-) 2.1	0.0	17.9(4)	3.1	1.9
Gross Payments(1)	1.0	(-) 2.6	0.9	8.7	6.2	-- (8)

Item	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01
Real Per Capita (2000-01 dollars)[2]						
General Purpose[1]	794	759	763	765	826	1,276
General Purpose (excluding Competition Payments)[1]	794	759	751	754	803	1,252
Of which: FAGs (excl FCPs) or GST Revenue Grants	742	707	719	754	803	1,101[3]
Specific Purpose[2]	611	591	585	681[4]	695	701
Gross Payments[1]	1,405	1,350	1,348	1,447	1,522	1,977
VERTICAL FINANCIAL RELATIONS						
Ratio of % share of own-source tax revenue to % share of own-purpose outlays [5], [6], [7]						
Commonwealth	1.34	1.36	1.39	1.45	1.41	1.44
States	0.51	0.50	0.48	0.41	0.42	0.32
Local Government	0.76	0.68	0.79	0.69	0.68	0.66

Sources: Commonwealth Budget Papers, various years; ABS Cat 5501.0; NSW Treasury estimates.

Notes to Table 8.3:

1. *General purpose payments and total gross payments are after deducting Fiscal Contribution Payments to the Commonwealth in the three years to 1998-99. Identified Roads Grants to States were subsumed into FAGs as from 1997-98.*

2. *Specific and general purpose payments are adjusted for letterbox, extraordinary or reclassified items (listed below, this footnote). In the calculation of real growth rates, nominal amounts are deflated using the Gross Non Farm Product deflator adjusted for embedded wholesale sales tax. The following adjustments are made to the nominal amounts published in the Commonwealth Budget Papers in order to enable comparison across years:*

   (a) *exclusion of the recurrent/capital payments "through" States to third parties - Higher Education; Non Government Schools including cost escalation; Research at Universities; Financial Assistance to Local Government; and Local Government Identified Roads;*

   (b) *reclassification of Building Better Cities funding as a specific purpose payment rather than a general purpose capital payment;*

   (c) *exclusion of the Gun Buyback Scheme in specific purpose payments in the four years to 1999-2000; and*

   (d) *conversion of Higher Education and Research at Universities into a Commonwealth own-purpose payment from 1997-98.*

3. *Budget Balancing Assistance (BBA) from the Commonwealth to New South Wales in 2000-01 consists of two components: an interest-free "loan" of $674 million and a grant of $308 million. Notwithstanding the ABS decision to treat the loan component as an advance by the Commonwealth, for purposes of this chapter the Budget Balancing loan is accounted for as a revenue (grant) item. All references to BBA and total (gross or net) Commonwealth payments to New South Wales in the table above include both the loan and grant component as part of general purpose payments in 2000-01.*

4. *The unusually large increase in SPPs in 1998-99 is due to funding under the Australian Health Care Agreement.*

5. *Own purpose expenditures include payments to public trading enterprises.*

6. *The ABS classifies safety net revenues as State own-source revenue. Since the High Court decision invalidating State business franchise fees occurred in August 1997, for purposes of this table safety net revenues are attributed to the Commonwealth from 1998-99. Prior to this year, we adopt the ABS approach.*

7. *Data are on GFS cash basis up to 1998-99 and accrual basis for 1999-2000 and 2000-01.*

8. *Growth rates are not calculated for these items because general purpose payments in 1999-2000 and 2000-01 reflect different intergovernmental funding regimes.*

Table 8.4: Estimates of Cross-subsidies between States, 2000-01 (1), (2)

	RECIPIENT STATES				
DONOR STATES	*QLD*	*SA*	*TAS*	*NT*	*Total* (5)
	$m	*$m*	*$m*	*$m*	*$m*
CGC Redistribution					
NSW	62	192	198	493	944
VIC (3)	62	193	198	495	948
WA	3	8	8	20	38
TOTAL CGC EQUALISATION(5)	**127**	**390**	**404**	**1,008**	**1,929**
Tax Equalisation					
NSW	556	353	285	506	1,700
VIC (3)	62	192	198	495	938
ACT (4)	21	20	19	38	97
WA	40	20	15	21	95
TOTAL TAX EQUALISATION(5)	**679**	**585**	**516**	**1,060**	**2,841**
NSW PER CAPITA CONTRIBUTION (in $)					
CGC Redistribution	10	29	30	76	145
Tax Equalisation	85	54	44	78	261

SOURCE: NSW Treasury estimates

Notes to Table 8.4:

1. *This Table measures the amounts redistributed due to -*

   (a) *Commonwealth Grants Commission (CGC) equalisation; and*

   (b) *Tax equalisation.*

   CGC equalisation consists of revenue equalisation (i.e., taking into account the underlying revenue raising capacity of each State) and expenditure equalisation (ie., taking into account differential demand and supply factors which affect expenditure levels). 'Tax equalisation' in this table is defined as the difference between GST Revenue Grants paid to each State and the level of Commonwealth personal income tax raised in that State. As suggested in the text, a similar calculation can be done using State shares of Final Personal Consumption Expenditure.

2. *The following examples illustrate how to interpret the numbers in the Table. New South Wales contributes a total of $1,700 million to other States through tax equalisation, of which Queensland receives $556 million, South Australia receives $353 million and so on. On the part of recipient States, the Table shows that the Northern Territory receives a total of $1,060 million from all States through tax equalisation, of which New South Wales contributes $506 million.*

3. *The amounts of CGC Equalisation and Tax Equalisation are the same for Victoria for purposes of this table. A comparison of Victoria's estimated GST revenue with its personal income tax share suggests that this State is very marginally a recipient.*

4. *The ACT is a minor recipient in terms of CGC redistribution, but a net donor in terms of the total redistribution. To avoid showing the ACT as being simultaneously a donor and a recipient, there is no ACT column and no ACT row in the section of the table dealing with CGC redistribution. (The ACT's small share of CGC redistribution receipts has been proportionately allocated to the other four recipient jurisdictions.) The total redistribution reports only the ACT's net subsidy to other jurisdictions.*

5. *Some subtotals may not add up to totals due to rounding.*

CHAPTER 9: GOVERNMENT FINANCE STATISTICS AND UNIFORM REPORTING FRAMEWORK

- Financial Aggregates prepared in accordance with the Uniform Presentation Framework (UPF).
- Accrual uniform reporting framework adopted by the Australian Loan Council in March 2000.
- First time presentation of New South Wales UPF aggregates on an accrual basis.
- Loan Council Estimate for 2000-01 is a negative $82 million (ie surplus).

9.1 INTRODUCTION

This chapter presents financial aggregates for the General Government and Public Non-financial Corporation (PNFC)[1] Sectors according to internationally recognised statistical standards and in accordance with a revised uniform reporting framework agreed to by the Australian Loan Council in March 2000. The new, enhanced reporting arrangements are the result of a review prompted by Governments' shift from cash to accrual reporting. It follows the adoption by the Australian Bureau of Statistics of accrual-based Government Finance Statistics reporting.

The financial aggregates presented in this Budget Paper serve a number of purposes including:

- allowing interstate comparisons on a consistent basis;
- facilitating time series comparisons (to be available in the future as the series evolve) since they are relatively unaffected by changes in public sector administrative structures; and

[1] *The PNFC sector was formerly known as the Public Trading Enterprise or PTE sector.*

♦ permitting an assessment of the impact of NSW Public Sector transactions on the economy by providing data classified by economic type.

Section 9.2 provides information on the development of the Accrual Uniform Presentation Framework (UPF) and the transition to Government Finance Statistics (GFS) accrual reporting. Section 9.3 outlines the format of the accrual UPF statements, comparing and contrasting them to their equivalent accrual accounting reports. It also describes the main fiscal measures in the new accrual GFS reports.

The classification of Public Sector Entities is outlined in Section 9.4.

The Accrual Uniform Presentation Framework tables of estimates are presented in Section 9.5. They are presented in the sequence of Operating Statements, Balance Sheets and Cash Flow Statements which are then grouped into their economic type classifications. This is followed by tables of General Government Expenses by Function and Taxes by Type.

Section 9.6 presents estimates of the State's Loan Council Allocation (LCA) for 2000-01 and compares this to the original LCA bid. Information is also presented in Section 9.7 on new infrastructure projects for 1999-2000 and 2000-01 in accordance with Loan Council reporting requirements.

9.2 THE UNIFORM PRESENTATION FRAMEWORK

The May 1991 Premiers' Conference agreed to the introduction of the Uniform Presentation Framework (UPF).

The primary objective of the UPF was to ensure that Commonwealth, State and Territory Governments provide a common 'core' of financial information in their Budget papers. It was recognised that a more uniform approach to the presentation of financial data would facilitate a better understanding of individual Governments' Budget papers and provide for more meaningful comparisons of each Government's financial results and projections.

The format of the UPF is based on the reporting standards of the Australian Bureau of Statistics (ABS) Government Finance Statistics (GFS) framework.This ensures a high degree of consistency in the preparation and presentation of financial data.

In 1997 all jurisdictions agreed to a revised Uniform Presentation Framework which simplified, rationalised and enhanced reporting requirements, while maintaining consistency with the ABS cash-based GFS. The revised framework also previewed the shift from a cash to an accrual reporting framework.

In line with international trends, the ABS has adopted an accrual framework for GFS. The information presented in this chapter is consistent with the revised framework for the presentation of accrual budget data adopted by Commonwealth, State and Territory Governments and agreed to by the Loan Council in March 2000.

THE TRANSITION TO ACCRUAL REPORTING

The adoption of accrual reporting by Australian Governments represents the major development in public sector financial management and reporting of recent years. Accrual measures provide a more comprehensive picture than cash measures of the total activity of government and the long-term effects of current policy, thereby enhancing Governments' fiscal transparency and accountability.

Sustainability and sound fiscal management are emphasised under the accrual framework, providing policy makers with information to assist them in making decisions that have regard to the financial effects on future generations. Accrual information also allows markets, business and consumers to more effectively assess governments' fiscal performance over time.

Cash measures remain advantageous for tracking expenditures in a fiscal year and help to identify the short-term effect of fiscal policy on the economy. The cash surplus, the main indicator for this purpose, will continue to be available in the cash flow statement under accrual financial statistics.

9.3 ACCRUAL GFS REPORTING

This section outlines the key features of the accrual GFS reporting framework.

THE ACCRUAL GFS PRESENTATION

GFS gives details of the expenses, revenue, payments, receipts, and assets and liabilities of the public sector in Australia. GFS includes only those transactions over which a government exercises control under its legislative or policy framework. This means that, unlike the accounting viewpoint, the GFS excludes from the calculation of net operating balance both revaluations (holding gains or losses) arising from a change in market prices, and other changes in the volume of assets that result from discoveries, depletion and destruction of assets. This means that differences arise between the GFS and accounting frameworks, particularly within the operating statement.

Details of public sector estimates and outcomes are presented within the accrual GFS in three primary statements: operating statement, balance sheet, and cash flow statement. These statements form the core of the accrual UPF.

Operating Statement

The operating statement presents information on GFS revenue[2] and GFS expenses[3]. This statement is designed to capture the composition of expenses and revenues and the net cost of a government's activities within a fiscal year. It shows the full cost of resources consumed by the government in achieving its objectives, and how these costs are met from various revenue sources.

Unlike a standard accounting operating statement, the GFS operating statement reports two major fiscal measures – the GFS net operating balance, and GFS net lending. **The GFS net operating balance** is calculated as GFS revenue minus GFS expenses, while **GFS net lending** (also known as fiscal balance) includes net capital expenditure but excludes depreciation, thereby giving a better measure of a jurisdiction's call on financial markets.

Balance Sheet

The balance sheet records the government's stocks of financial and non-financial assets and liabilities. This statement, also referred to as a 'statement of assets and liabilities' or a 'statement of financial position', discloses the resources over which the government maintains control. The balance sheet is a financial snapshot of a government, taken at the end of each financial year. By providing information on the type of assets and liabilities held by a government, the statement gives an indication of the government's financial liquidity.

The balance sheet includes data on the composition of a government's financial assets, on their holdings of fixed assets, and on the extent of liabilities such as borrowing and unfunded superannuation. This allows for intertemporal and interjurisdictional comparisons of asset and liability levels.

[2] *GFS revenue differs from AAS31 revenue. GFS revenue includes all (mutually agreed) transactions that increase net worth. Revaluations, included in Australian Accounting Standard 31 revenue, are not considered mutually agreed transactions, and so are excluded from GFS revenue. Included in this revaluations category are asset write-offs. Asset sales, which involve a transfer of a non-financial for a financial asset, are also excluded.*

[3] *GFS expenses differ from AAS31 expenses. GFS expenses encompasses all transactions that decrease net worth, including dividend and tax equivalent payments, and abnormal and extraordinary items (where relevant).*

The GFS balance sheet differs from the standard accounting presentation in that it provides information on financial and non-financial assets, and does not distinguish between current and non-current assets and liabilities. Further, the GFS balance sheet for the General Government Sector discloses an equity investment in the Public Financial Corporation (PFC) and Public Non-financial Corporation (PNFC) Sectors as GFS recognises a holding company model for the General Government's ownership of the PFC and PNFC Sectors.

Balance sheet indicators include net debt, net financial worth and net worth.

The concept of net debt is the same under cash and accrual-based financial reporting.

Net debt comprises the stock of selected gross financial liabilities less selected financial assets.

The net debt measure is limited in that it does not include employee liabilities such as superannuation or insurance claim obligations, which can be substantial. In addition net debt does not provide information on whether this debt has been incurred to finance capital expenditure or operations.

Net financial worth (NFW) measures a government's net holdings of financial assets. It is calculated from the balance sheet as financial assets minus total liabilities. It is also commonly referred to as Net Financial Liabilities or Net Financial Assets. NFW excludes physical assets such as property and infrastructure which can be subject to significant valuation movements. It is a useful indicator for examining the soundness of a government's fiscal position, particularly as a benchmark against itself over the medium-to-long term.

Net worth, also known as net assets, provides a comprehensive picture of a government's financial position, as it is measured by total assets less total liabilities. Net worth shows the impact of asset acquisitions over time, giving an indication of the extent to which borrowings are used to finance asset purchases, rather than only current expenditure.

In addition to the UPF requirement to report net debt and net financial worth, debt after adjusting for the impact of a special prepayment of superannuation is also reported. Net debt is published after adjustment to avoid the distortionary impact of the events, which are basically temporary and reversing.

Cash Flow Statement

The cash flow statement records the government's cash receipts and payments, revealing how a government obtains and expends cash.

This statement requires cash flows to be categorised into operating, investing and financing activities. Operating activities are those which relate to the collection of taxes, the distribution of grants, and the provision of goods and services. Investing activities are those which relate to the acquisition and disposal of financial and non-financial assets. Financing activities are those which relate to the changing size and composition of a government's financial structure.

The signing convention within the cash flow statement is that all inflows carry a positive sign and all outflows carry a negative sign (regardless of whether they are gross or net cash flows).

The GFS cash flow statement reports two major fiscal measures – net increase in cash held, and cash surplus. **Net increase in cash held** is the sum of net cash flows from all operating, investing and financing activities. **The cash surplus** comprises only net cash received from operating activities, and from sales and purchases of non-financial assets, minus distributions paid (in the case of public non-financial corporations), minus finance leases and similar arrangements.

The cash surplus measure is broadly comparable with the old cash-GFS surplus measure, allowing for comparisons between the two frameworks.

COMPARISON TO ACCRUAL BASED ACCOUNTING REPORTS

Information reported in the accrual UPF tables is generally consistent with that reported elsewhere in Budget Paper No.2. However, differences in treatment and disclosure can occur because the Australian Bureau of Statistics requires that:

- Selected payments that pass through the State's accounts e.g. for non-government schools, be included in the UPF tables. Reports in other chapters of the Budget Paper exclude these receipts and payments as the NSW Government has no control over them.

- The General Government Sector balance sheet in the UPF table reports an equity investment in the Public Financial and Non-Financial Corporation Sectors. This is treated differently in the AAS31 accounting based General Government Sector balance sheet, which does not record the equity investment in the PFC and PNFC Sectors as a residual entity model of the Crown is considered more appropriate than a holding company model.

- The General Government Sector records an advance (borrowing) from the Commonwealth for monies received in the 2000-01 year for Budget Balancing Assistance payments associated with the introduction of the GST ("advance" component), and reports an equivalent advance repayment and revenue in the 2001-02 year. The AAS31 accounting treatment is to record a revenue in the 2000-01 year as the substance of the "advance" is akin to a non-reciprocal contribution in accordance with Australian Accounting Standard AAS15 "Revenue".

APPLICATION OF GFS PRINCIPLES

The standards applied to produce the Uniform Presentation tables in this chapter are the same as those used by the ABS in its Government Financial Estimates publication (Catalogue No. 5501.0) except for the treatment of premiums on loans.

Current ABS statistical standards require a premium on a loan to be classified as a negative interest payment in the year the loan is raised. New South Wales disagrees with this approach since it results in an asymmetric treatment with discounts on loans which are treated as a balloon interest payment on the maturity of the loan.

The position put by New South Wales can be illustrated by considering a par loan to be made up of two loans, one at a discount and one at a premium. Under the ABS approach the transactions recorded under GFS result in a difference in the timing of interest payments between the par loan and the combined premium-discount loan. To avoid this problem, New South Wales has proposed recording the premium as a negative interest payment in the final year of the loan.

Whilst strict accordance with GFS standards requires the ABS approach to be adopted for the estimates in this chapter, the ABS has recognised the accounting difficulties of this approach. Given this, a compromise has been reached on this issue which involves all jurisdictions and the ABS departing from GFS principles on this matter.

9.4 CLASSIFICATION FRAMEWORK

INTRODUCTION

The economic type classification adopted in this Budget Paper closely follows international conventions as outlined in the ABS publication, "*Government Finance Statistics Australia - Concepts, Sources and Methods, 1994*", Catalogue Number 5514.0.

Classification of Public Sector Entities

Public sector entities in New South Wales can be classified as General Government Enterprises (GGEs), Public Non Financial Corporations (PNFCs)[4] or Public Financial Corporations (PFCs)[5].

GGEs consist of those public sector entities which provide, in the main, goods and services outside the market mechanism as well as providing for the transfer of income for public policy purposes. The major form of financing of these goods and services is by taxation, imposed by the State or by the Commonwealth and subsequently on-passed to the State. In New South Wales, most Government departments and a number of statutory authorities (for example Sydney Harbour Foreshore Authority) fit into this category.

In contrast, PNFCs charge for services provided and hence have a broadly commercial orientation. They do not, however, necessarily operate in competitive markets. While PNFCs are not required to be fully self-funding, a substantial portion of their costs must be met by user charges. The PNFC sector in New South Wales includes Pacific Power, Sydney Water Corporation and the State Rail Authority.

PFCs are the third category of authorities in the ABS framework. NSW Treasury Corporation is the major entity in New South Wales operating in this sector. PFCs are not included in this chapter as the Uniform Presentation Agreement only requires the publication of PFC data ex-post.

9.5 ACCRUAL UNIFORM PRESENTATION FRAMEWORK TABLES

In accordance with the revised Uniform Reporting Framework agreed by the Australian Loan Council in March 2000, Tables 9.2 through to 9.12 of this Section provide estimates on a comparable basis to those which the ABS will be publishing.

Detailed commentary on the operations of the General Government Sector is contained elsewhere in Budget Paper No.2. Given this, the commentary below is restricted to the Public Non-Financial Corporations Sector.

OPERATIONS OF THE PUBLIC NON-FINANCIAL CORPORATION SECTOR

The PNFC Sector principally supply public infrastructure services including electricity, ports, water, public transport, public housing and recreational facilities.

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[4] *The PNFC sector was formerly known as the Public Trading Enterprise or PTE sector.*

[5] *The PFC sector was formerly known as the Public Financial Enterprise or PFE sector.*

In the past decade the State's businesses have undergone considerable reform which has produced significant benefits to the State by way of increased productivity, decreased financial risk and reduced prices to consumers.

The GFS Net Operating Balance of the PNFC Sector is a projected $274 million surplus for 2000-01 compared to a $324 million surplus for 1999-2000.

GFS Net Lending for the PNFC Sector is projected at $174 million for 2000-01 compared to a Net Borrowing of $809 million for 1999-2000.

THE GFS TREATMENT OF SOCOG/SPOC OPERATIONS

The above results have been impacted by the GFS treatment of the Sydney Organising Committee for the Olympic Games (SOCOG) and Sydney Paralympic Organising Committee (SPOC) revenues and expenses. The difference between expenses and income (excluding TV rights and ticketing income) in the years prior to 2000-01 are capitalised as a build up of "inventory stock". TV rights and ticketing income are deferred on the Balance Sheet until the Olympic/Paralympics are held in 2000-01 when it is recognised in the GFS Operating Statement. In 2000-01 the net deferred expenditure in the form of "inventories" is written back against the operations.

The GFS impact of SOCOG and SPOC on the PNFC sector operating statement is shown in the following table:

Table 9.1: GFS Impact of SOCOG and SPOC on the Non-Financial Corporations Sector Operating Statement

	Revised June 2000 $m	Budget June 2001 $m
GFS Revenue		
Sale of goods and services	228	1,462
Current grants and subsidies	6	45
Other	(6)	(6)
Total Revenue	**228**	**1,501**
GFS Expenses		
Gross operating expenses	228	1,501
Total Expenses	**228**	**1,501**
GFS NET OPERATING BALANCE	**...**	**...**
Less: Net acquisition of non-financial assets		
Depreciation	...	(86)
Changes in inventories	110	(596)
Total net acquisition of non-financial assets	**110**	**(682)**
GFS NET LENDING / (BORROWING)	**(110)**	**682**

GENERAL OPERATIONS OF THE PNFC SECTOR (EXCLUDING SOCOG/SPOC)

Excluding the impact of SOCOG and SPOC, the adjusted Net Borrowings of the PNFC Sector is a projected $508 million for 2000-01 compared to a Net Borrowing of $699 million in 1999-2000. Unlike the Net Lending/Borrowings, the GFS treatment for SOCOG/SPOC has zero net impact on the Net Operating Balance in both years.

Other factors (excluding GFS SOCOG/SPOC transactions) that are projected to impact the results of the PNFC sector include:

- ongoing competition and resultant efficiencies in the PNFC Sector will dampen projected movements in operating revenues and expenses;

- current grants and subsidies revenues of the transport sector are projected to fall by $115 million in 2000-01. This reduction, primarily in The State Rail Authority operating subsidies, does not represent a change in the level of service provision. Rail operating costs are expected to be lower as a result of embedded tax savings and revenues will be higher than in 1999-2000 because of fare increases and higher patronage as well as the one-off impact of the Olympics. Further, there is expected to be fewer voluntary redundancies in the rail corporations. Together, these result in a lower projected call on the Budget for operational support;
- the proposed electricity distributor equity restructure for 2000-01, which has no direct impact on the GFS Net Operating Balance nor Net Lending except for the interest expense on additional borrowings and any resultant impact on income tax equivalents expenses.

Table 9.2: NSW General Government Sector Operating Statement (ABS Basis)

		Revised 1999-2000 $m	Budget 2000-01 $m	Forward Estimates 2001-02 $m	2002-03 $m	2003-04 $m
	GFS Revenue					
	Taxation revenue	14,971	12,418	11,493	11,795	12,390
	Current grants and subsidies	10,109	12,816	15,502	15,305	15,599
	Capital grants	896	874	873	835	781
	Sales of goods and services	2,729	2,443	2,344	2,366	2,437
	Interest income	380	391	403	412	433
	Other	2,362	2,194	2,185	2,208	2,317
	Total revenue	**31,447**	**31,136**	**32,800**	**32,921**	**33,957**
less	**GFS Expenses**					
	Gross operating expenses	21,909	22,737	22,716	23,427	24,090
	Nominal superannuation interest expense	257	412	488	517	502
	Other interest expenses	1,260	1,010	911	858	816
	Other property expenses	...	...	...	...	...
	Current transfers	4,298	4,477	4,432	4,456	4,461
	Capital transfers	1,130	1,426	1,474	1,490	1,630
	Total expenses	**28,854**	**30,062**	**30,021**	**30,748**	**31,499**
equals	**GFS net operating balance**	**2,593**	**1,074**	**2,779**	**2,173**	**2,458**
less	**Net acquisition of non-financial assets**					
	Gross fixed capital formation	2,424	2,305	2,397	2,455	2,471
	less Depreciation	(952)	(995)	(1,051)	(1,120)	(1,196)
	plus Change in inventories	(5)	(1)	(1)	7	2
	plus Other movements in non-financial assets	(3)	(220)	(67)	(36)	1
	equals Total net acquisition of non-financial assets	**1,464**	**1,089**	**1,278**	**1,306**	**1,278**
equals	**GFS Net lending / (Borrowing)[(a)]**	**1,129**	**(15)**	**1,501**	**867**	**1,180**
	adjusted for budget balancing assistance advance [(b)]	...	674	(674)	...	...
	Adjusted GFS Net lending / (Borrowing)[(b)]	**1,129**	**659**	**827**	**867**	**1,180**

Notes:

(a) also known as Fiscal Balance.

(b) adjusted for effects of the budget balancing assistance advance from the Commonwealth.

Table 9.3: NSW Public Non-financial Corporation Sector Operating Statement (ABS Basis)

		Revised 1999-2000 $m	Budget 2000-01 $m
	GFS Revenue		
	Sales of goods and services	8,756	10,061
	Current grants and subsidies	848	769
	Capital grants	751	749
	Interest income	79	75
	Other	1,195	1,112
	Total revenue	**11,629**	**12,766**
less	**GFS Expenses**		
	Gross operating expenses	8,610	9,901
	Property expenses	2,019	2,011
	Current transfers	609	580
	Capital transfers	67	...
	Total expenses	**11,305**	**12,492**
equals	**GFS net operating balance**	**324**	**274**
less	**Net acquisition of non-financial assets**		
	Gross fixed capital formation	2,536	2,443
	less Depreciation	(1,425)	(1,616)
	plus Change in inventories	175	(629)
	plus Other movements in non-financial assets	(153)	(98)
	equals Total net acquisition of non-financial assets	**1,133**	**100**
equals	**GFS Net lending / (Borrowing) [(a)]**	**(809)**	**174**

Note:

(a) Also known as Fiscal Balance.

Table 9.4: NSW Non-financial Public Sector Operating Statement (ABS Basis)

		Revised 1999-2000 $m	Budget 2000-01 $m
	GFS Revenue		
	Taxation revenue	14,619	12,066
	Current grants and subsidies	10,102	12,776
	Sales of goods and services	11,187	12,150
	Capital grants	845	839
	Interest income	395	403
	Other	2,266	2,161
	Total revenue	**39,414**	**40,395**
less	**GFS Expenses**		
	Gross operating expenses	29,907	31,967
	Nominal superannuation interest expense	256	412
	Property expenses	1,924	1,777
	Current transfers	4,006	4,263
	Capital transfers	403	628
	Total expenses	**36,496**	**39,047**
equals	**GFS net operating balance**	**2,918**	**1,348**
less	**Net acquisition of non-financial assets**		
	Gross fixed capital formation	4,949	4,748
	less Depreciation	(2,377)	(2,611)
	plus Change in inventories	170	(624)
	plus Other movements in non-financial assets	(149)	(315)
	equals Total net acquisition of non-financial assets	**2,593**	**1,198**
equals	**GFS Net lending / (Borrowing)** [(a)]	**325**	**150**
	adjusted for budget balancing assistance advance [(b)]	...	674
	Adjusted GFS Net lending / (Borrowing) [(b)]	**325**	**824**

Notes:

(a) Also known as Fiscal Balance.

(b) Adjusted for effects of the budget balancing assistance advance from the Commonwealth.

Table 9.5: NSW General Government Sector Balance Sheet (ABS Basis)

	Revised	Budget	Forward Estimates		
	June 2000	June 2001	June 2002	June 2003	June 2004
	$m	$m	$m	$m	$m
Assets					
Financial assets					
Cash and deposits	175	87	120	157	273
Advances paid	1,668	1,622	1,577	1,514	1,464
Investments, loans and placements	3,624	3,581	3,805	4,144	4,494
Other non-equity assets	3,225	3,192	3,331	3,463	3,689
Equity	44,110	43,251	43,250	43,250	43,250
Total financial assets	**52,802**	**51,733**	**52,083**	**52,528**	**53,170**
Non-financial assets					
Land and fixed assets	65,532	66,521	67,781	69,121	70,455
Other non-financial assets	745	849	947	1,051	1,156
Total non-financial assets	**66,277**	**67,370**	**68,728**	**70,172**	**71,611**
Total assets	**119,079**	**119,103**	**120,811**	**122,700**	**124,781**
Liabilities					
Deposits held	56	55	54	53	54
Advances received	2,145	2,756	1,907	1,833	1,736
Borrowing	15,029	11,587	10,172	9,897	9,567
Superannuation liability (a)	6,671	7,314	8,332	8,076	7,759
Other employee entitlements and provisions	3,561	3,688	3,794	3,901	3,993
Other non-equity liabilities	6,421	6,359	6,426	6,605	6,827
Total liabilities	**33,883**	**31,759**	**30,685**	**30,365**	**29,936**
NET WORTH	**85,196**	**87,344**	**90,126**	**92,335**	**94,845**
Net Financial Worth (b)	**18,919**	**19,974**	**21,398**	**22,163**	**23,234**
Net Financial Worth adjusted for budget balancing assistance advance (b)(d)	**18,919**	**20,648**	**21,398**	**22,163**	**23,234**
Net debt (d)	**11,763**	**9,108**	**6,631**	**5,968**	**5,126**
Net debt adjusted for prepayment of superannuation and budget balancing assistance advance (c) (d)	**9,512**	**7,255**	**6,631**	**5,968**	**5,126**

Notes:

(a) *Comprises unfunded obligations.*

(b) *Net financial worth equals total financial assets minus total liabilities.*

(c) *Adjusted for the effect of borrowings to fund a special prepayment of superannuation.*

(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 effects of the budget balancing assistance advance from the Commonwealth.*

Table 9.6: NSW Public Non-financial Corporation Sector Balance Sheet (ABS Basis)

	Revised June 2000 $m	*Budget June 2001 $m*
Assets		
Financial assets		
Cash and deposits	1,048	819
Investments, loans and placements	835	879
Other non-equity assets	2,584	2,272
Equity	27	27
Total financial assets	**4,494**	**3,997**
Non-financial assets		
Land and fixed assets	56,803	58,263
Other non-financial assets	110	107
Total non-financial assets	**56,913**	**58,370**
Total assets	**61,407**	**62,367**
Liabilities		
Deposits held	27	27
Advances received	1,378	1,350
Borrowing	8,509	11,380
Superannuation liability / (prepaid contributions) [a]	(113)	8
Other employee entitlements and provisions	3,876	3,781
Other non-equity liabilities	3,114	2,061
Total liabilities	**16,791**	**18,607**
Shares and other contributed capital	...	...
NET WORTH	**44,616**	**43,760**
Net financial worth [b]	**(12,297)**	**(14,610)**
Net debt [c]	**8,031**	**11,059**

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 9.7: NSW Non-financial Public Sector Balance Sheet (ABS Basis)

	Revised June 2000 $m	Budget June 2001 $m
Assets		
Financial assets		
Cash and deposits	1,223	906
Advances paid	288	270
Investments, loans and placements	4,461	4,462
Other non-equity assets	3,078	2,735
Equity	(480)	(481)
Total financial assets	**8,570**	**7,892**
Non-financial assets		
Land and fixed assets	122,335	124,784
Other non-financial assets	866	956
Total non-financial assets	**123,201**	**125,740**
Total assets	**131,771**	**133,632**
Liabilities		
Deposits held	83	82
Advances received	2,145	2,756
Borrowing	23,538	22,968
Superannuation liability [(a)]	6,558	7,322
Other employee entitlements and provisions	5,363	5,339
Other non-equity liabilities	8,888	7,821
Total liabilities	**46,575**	**46,288**
Shares and other contributed capital	...	...
NET WORTH	**85,196**	**87,344**
Net financial worth [(b)]	**(38,005)**	**(38,396)**
Net financial worth adjusted for budget balancing assistance advance [(e)]	**(38,005)**	**(37,722)**
Net debt [(d)]	**19,794**	**20,168**
Net debt adjusted for prepayment of superannuation and budget balancing assistance advance [(c) (e)]	**17,543**	**18,315**

Notes:

(a) Comprises unfunded obligations.

(b) Net financial worth equals total financial assets minus total liabilities.

(c) Adjusted for effect of borrowings to fund a special prepayment of superannuation.

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

(e) Adjusted for effects of the budget balancing assistance advance from the Commonwealth.

Table 9.8: NSW General Government Sector Cash Flow Statement[(a)] (ABS Basis)

CASH FLOW	Revised 1999-2000 $m	Budget 2000-01 $m	Forward Estimates 2001-02 $m	Forward Estimates 2002-03 $m	Forward Estimates 2003-04 $m
Cash receipts from operating activities					
Taxes received	15,015	12,465	11,516	11,832	12,424
Receipts from sales of goods and services	2,785	2,545	2,386	2,410	2,471
Grants/subsidies received	11,005	13,690	16,375	16,140	16,380
Other receipts	2,695	2,821	2,710	2,753	2,812
Total receipts	**31,500**	**31,521**	**32,987**	**33,135**	**34,087**
Cash payments for operating activities					
Payment for goods and services	(21,055)	(21,424)	(21,097)	(23,035)	(23,711)
Grants and subsidies paid	(5,164)	(5,552)	(5,534)	(5,573)	(5,686)
Interest paid	(1,241)	(950)	(885)	(892)	(894)
Other payments	(300)	(733)	(650)	(598)	(577)
Total payments	**(27,760)**	**(28,659)**	**(28,166)**	**(30,098)**	**(30,868)**
Net cash flows from operating activities	**3,740**	**2,862**	**4,821**	**3,037**	**3,219**
Net cash flows from investments in non-financial assets					
Sales of non-financial assets	336	408	249	216	174
Purchases of non-financial assets	(2,757)	(2,493)	(2,579)	(2,635)	(2,646)
Net cash flows from investments in non-financial assets	**(2,421)**	**(2,085)**	**(2,330)**	**(2,419)**	**(2,472)**
Net cash flows from investments in financial assets for policy purposes	**(78)**	**2,342**	**42**	**59**	**42**
Net cash flows from investments in financial assets for liquidity purposes	**(19)**	**6**	**(220)**	**(330)**	**(339)**
Net cash flows from financing activities					
Advances received (net)	(132)	607	(849)	(74)	(97)
Borrowing (net)	(1,834)	(3,825)	(1,425)	(239)	(237)
Deposits received (net)	1	(1)	(1)	(1)	...
Other financing (net)	...	...	...	...	...
Net cash flows from financing activities	**(1,965)**	**(3,219)**	**(2,275)**	**(314)**	**(334)**
Net increase (decrease) in cash held	**(743)**	**(94)**	**38**	**33**	**116**
SURPLUS / (DEFICIT)					
Net cash from operating activities and investments in non-financial assets	**1,319**	**777**	**2,491**	**618**	**747**
Finance leases and similar arrangements	...	...	...	...	...
SURPLUS / (DEFICIT)	**1,319**	**777**	**2,491**	**618**	**747**
Impact of prepayment of superannuation [(b)]	(1,005)	(1,058)	(1,134)	...	...
Budget balancing assistance advance [(c)]	...	674	(674)	...	...
SURPLUS / (DEFICIT) after adjusting for the prepayment of superannuation and the budget balancing assistance advance	**314**	**393**	**683**	**618**	**747**

Notes:

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

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

(c) Adjusted for effects of the budget balancing assistance advance from the Commonwealth.

Table 9.9: NSW Public Non-financial Corporation Sector Cash Flow Statement[a] (ABS Basis)

CASH FLOW	Revised 1999-2000 $m	Budget 2000-01 $m
Cash receipts from operating activities		
Receipts from sales of goods and services	8,291	9,111
Grants/subsidies received	1,707	1,495
Other receipts	1,198	1,699
Total receipts	**11,196**	**12,305**
Cash payments for operating activities		
Payment for goods and services	(7,224)	(8,105)
Grants and subsidies paid	(24)	(21)
Interest paid	(784)	(838)
Other payments	(532)	(863)
Total payments	**(8,564)**	**(9,827)**
Net cash flows from operating activities	**2,632**	**2,478**
Net cash flows from investments in non-financial assets		
Sales of non-financial assets	431	260
Purchases of non-financial assets	(2,814)	(2,605)
Net cash flows from investments in non-financial assets	**(2,383)**	**(2,345)**
Net cash flows from investments in financial assets for policy purposes	**15**	**(2,394)**
Net cash flows from investments in financial assets for liquidity purposes	**614**	**(78)**
Net cash flows from financing activities		
Advances received (net)	(28)	(29)
Borrowing (net)	4	2,880
Deposits received (net)	...	...
Distributions Paid	(837)	(758)
Other financing (net)	(34)	...
Net cash flows from financing activities	**(895)**	**2,093**
Net increase (decrease) in cash held	**(17)**	**(246)**
SURPLUS / (DEFICIT)		
Net cash from operating activities and investments in in non-financial assets	**249**	**133**
Distribution Paid	(837)	(758)
Finance leases and similar arrangements	...	...
SURPLUS / (DEFICIT)	**(588)**	**(625)**

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

Table 9.10: NSW Non-financial Public Sector Cash Flow Statement[a] (ABS Basis)

CASH FLOW	*Revised 1999-2000 $m*	*Budget 2000-01 $m*
Cash receipts from operating activities		
Taxes received	14,658	12,112
Receipts from sales of goods and services	10,763	11,286
Grants/subsidies received	11,014	13,616
Other receipts	2,664	3,378
Total receipts	**39,099**	**40,392**
Cash payments for operating activities		
Payment for goods and services	(27,638)	(28,869)
Grants and subsidies paid	(3,488)	(4,001)
Interest paid	(1,959)	(1,725)
Other payments	(508)	(1,211)
Total payments	**(33,593)**	**(35,806)**
Net cash flows from operating activities	**5,506**	**4,586**
Net cash flows from investments in non-financial assets		
Sales of non-financial assets	761	664
Purchases of non-financial assets	(5,561)	(5,098)
Net cash flows from investments in non-financial assets	**(4,800)**	**(4,434)**
Net cash flows from investments in financial assets for policy purposes	**(91)**	**(81)**
Net cash flows from investments in financial assets for liquidity purposes	**596**	**(72)**
Net cash flows from financing activities		
Advances received (net)	(133)	607
Borrowing (net)	(1,831)	(945)
Deposits received (net)	1	(1)
Distributions Paid	...	...
Other financing (net)	(17)	...
Net cash flows from financing activities	**(1,980)**	**(339)**
Net increase (decrease) in cash held	**(769)**	**(340)**
SURPLUS / (DEFICIT)		
Net cash from operating activities and investments in non-financial assets	**706**	**152**
Distributions Paid	...	...
Finance leases and similar arrangements	...	...
SURPLUS / (DEFICIT)	**706**	**152**
Impact of prepayment of superannuation [b]	(1,005)	(1,058)
Budget balancing assistance advance [c]	...	674
SURPLUS / (DEFICIT) after adjusting for the prepayment of superannuation and budget balancing assistance advance	**(299)**	**(232)**

Notes:

(a) *A positive number denotes a cash inflow, a negative (i.e. bracketed) sign denotes a cash outflow.*
(b) *Adjusted for effects of a special prepayment of superannuation.*
(c) *Adjusted for effects of the budget balancing assistance advance from the Commonwealth.*

Table 9.11: NSW General Government Sector Expenses by Function (ABS Basis)

	Revised 1999-2000 $m	*Budget 2000-01 $m*
General public services	1,877	2,099
Defence	...	...
Public order and safety	2,623	2,871
Education	7,324	7,409
Health	6,558	6,780
Social security and welfare	1,915	2,052
Housing and community amenities	1,003	1,302
Recreation and culture	823	927
Fuel and energy	93	44
Agriculture, forestry, fishing and hunting	847	523
Mining, manufacturing and construction	90	107
Transport and communications	2,498	2,482
Other economic affairs	1,292	1,477
Other purposes	1,911	1,989
Total GFS Expenses	**28,854**	**30,062**

Table 9.12: NSW General Government Sector Taxes (ABS Basis)

	Revised 1999-2000 $m	*Budget 2000-01 $m*
Taxes on employers' payroll and labour force	**3,742**	**3,931**
Taxes on property		
Land taxes	889	921
Stamp duties on financial and capital transactions	3,122	2,577
Financial institutions' transaction taxes	918	965
Other	27	52
Total taxes on property	**4,956**	**4,515**
Taxes on the provision of goods and services		
Excises and levies	...	...
Taxes on gambling	1,578	1,212
Taxes on insurance	889	948
Total taxes on the provision of goods and services	**2,467**	**2,160**
Taxes on use of goods and performance of activities		
Motor vehicle taxes	1,453	1,425
Franchise taxes	2,019	122
Other	334	265
Total taxes on use of goods and performance of activities	**3,806**	**1,812**
Total GFS taxation revenue	**14,971**	**12,418**

9.6 LOAN COUNCIL REPORTING REQUIREMENTS

Table 9.13 presents estimates of the State's Loan Council Allocation (LCA) for 2000-01.

As confirmed at the 1997 Loan Council meeting, States are to report their full contingent exposure to infrastructure projects with private sector involvement. Exposure is to be measured by the Government's termination liabilities and disclosed as a footnote to, rather than a component, of LCAs.

Overall, there is a negative Loan Council Allocation requirement of $82 million for New South Wales for 2000-01.

Table 9.13: 2000-01 Loan Council Allocation Estimates

	Loan Council Allocation Bid 2000-01 $m	*Budget-time Estimate 2000-01 $m*
General government sector cash deficit / (surplus)	(1,015)	(777)
PNFC sector cash deficit / (surplus)	243	625
Non-financial public sector cash deficit / (surplus) [(a)]	**(770)**	**(152)**
Minus Net cash flows from investments in financial assets for policy purposes [(b)]	38	81
Plus Memorandum items [(c)]	403	(11)
Loan Council Allocation	**(329)**	**(82)**

Notes:

(a) *Does not directly equate to the sum of the General Government and PNFC cash deficits due to intersectoral transfers which are netted out.*

(b) *This item is the negative of net advances paid under a cash accounting framework*

(c) *Memorandum items are used to adjust the ABS deficit to include in LCAs certain transactions — such as operating leases — that have many of the characteristics of public sector borrowings but do not constitute formal borrowings. They are also used, where appropriate, to deduct from the ABS deficit certain transactions that Loan Council has agreed should not be included in LCAs — for example, the funding of more than employers' emerging costs under public sector superannuation schemes, or borrowings by entities such as statutory marketing authorities.*

9.7 PRIVATE SECTOR INFRASTRUCTURE PROJECTS

CONTRACTS ENTERED INTO IN 1999-2000

Inner West Light Rail Extension

Project Description:

The Inner West Light Rail Extension is a 3km extension of the Metro Light Rail system (formerly known as the Ultimo Pyrmont Light Rail (UPLRT) system), which commenced services between Central Railway Station and Wentworth Park on 30 August 1997. The Inner West extension is expected to commence operations between Wentworth Park and Lilyfield in August 2000 and will have four stops Glebe, Jubilee Park, Rozelle Bay and Lilyfield.

The Inner West extension is a joint financing arrangement between the NSW Government, Pyrmont Light Rail Company Pty Limited (PLRC) and Sydney Light Rail Company Limited (SLRC). On 30 November 1999, a contract was signed by all parties for the design, construction and operation of the extension. The concession term for the extension and the UPLRT project terminates on 11 February 2028.

The anticipated total construction cost of the extension including project management costs is $21 million. The NSW Government's capital contribution is $16 million.

In the event of operator default by PLRC, the financier, Dresdner Australia Limited, has the right under the mortgage of lease to step in and take possession of the leased and secured assets (provided that Dresdner remedies the default and takes over compliance with all lease conditions). The financier's powers allow, amongst other things, the sale, management of or carrying out of the business. The Director General of Transport may terminate the Concession Agreement for unremediated operator default (or where Dresdner fails to step in). In the event of termination, SLRC is paid a termination sum calculated as the fair market value of SLRC's shareholding plus 15 percent of the value less any reasonable costs and expenses incurred by the Government taking over the project.

Government Contingent Liability	Nil

Gerringong/Gerroa Sewerage Treatment Plants

Project Description:

Gerringong and Gerroa are to be provided with a reticulated sewerage scheme and a new sewerage treatment plant which will provide advanced tertiary level treatment and reuse of treated effluent in adjacent agricultural areas. Unused treated effluent will be released to sand dunes and artificial wetlands on site.

An Environmental Impact Statement has been exhibited and a contract is expected to be signed with CGE Australia, a subsidiary of the Vivendi Company, before July 2000.

The contractor will finance, design and construct a system, which it will then operate and maintain for 20 years. The estimated cost for the scheme is $42 million.

Government Contingent Liability	To Be Determined

CONTRACTS TO BE ENTERED INTO IN 2000-01

Royal North Shore Hospital Car Park

Project Description:

An extension to the existing multi level car park on the Royal North Shore Hospital campus is under consideration. Car parking services will be contracted for a 10 year licence period to a private sector consortium which will also construct an additional 400 spaces.

The total value of the additional car parks is estimated to be $7 million. It is expected that the project will be funded from debt funding raised by the private sector consortium.

The proposed licence term is to be 10 years, with the option for a longer period to be considered in the bid process.

Under the proposed termination arrangements, in the event of operator default, the Area Health Service will sell and assign the car park operator's interest in the contract and the purchaser obtain the rights and assume the liabilities and obligations existing under the contract. There will be no contingent liabilities incurred by the Area Health Service under the proposed arrangements.

Government Contingent Liability	Nil

South Eastern Sydney Area Health Service – Delivered Energy Project for the Randwick and St George Campuses

Project Description

Health service delivery at the Randwick and St George Hospital campuses requires the continued upgrading of engineering and energy infrastructure and plant to achieve potential energy efficiencies. A proposal for the delivered energy and maintenance services at these campuses is under consideration. Under the proposed arrangements:

- a private contractor will make an up front payment for savings available from efficiencies made from improving work practices and the use of energy over the contract term;
- the contractor will upgrade, manage, operate and maintain energy plant and infrastructure and provide other maintenance services; and
- in return for these services the private contractor will receive an annual fee equivalent to the recurrent cost of providing these services.

The final financial structure will be subject to the successful completion of negotiations with the preferred proponent and final agreement between the Department of Health and NSW Treasury.

The total value of asset upgrades is estimated to be $7.1 million. The extent to which the capital upgradings will involve any liability for the State will depend on the finally negotiated position. It is understood that the asset upgrades will be funded from arrangements negotiated by the preferred proponent. The term of the project is to be 20 years.

Government Contingent Liability	To Be Determined

APPENDIX A: GENERAL GOVERNMENT SECTOR AAS31 FINANCIAL STATEMENTS

Refer Chapter 9 (Section 9.4) for an explanation of the differences in treatment and disclosure between the following financial statements which are prepared in accordance with Australian Accounting Standards, and the Accrual Uniform Presentation tables reported in Chapter 9 which follow the Government Finance Statistics convention.

Table A.1: General Government Budget Sector Operating Statement

	1998-99 Actual	1999-2000 Budget	1999-2000 Revised	2000-01 Budget	2001-02	2002-03 Estimate	2003-04
	$m	$m	$m	$m	$m	$m	$m
State Revenues							
Taxation	14,137	13,945	14,964	12,412	11,487	11,789	12,384
Commonwealth Grants	8,911	9,363	9,498	12,780	14,125	14,513	14,760
Financial Distributions	1,444	1,381	1,334	1,210	1,166	1,185	1,304
Fines, Regulatory Fees & Other	807	782	782	792	736	743	737
Total State Revenues	**25,299**	**25,471**	**26,578**	**27,194**	**27,514**	**28,230**	**29,185**
Operating Revenues							
Sale of Goods and Services	2,448	2,427	2,517	2,171	2,218	2,242	2,285
Investment Income	420	387	386	391	403	412	433
Grants and Contributions	485	400	397	421	315	288	297
Other	302	219	345	280	220	198	172
Total Operating Revenues	**3,655**	**3,433**	**3,645**	**3,263**	**3,156**	**3,140**	**3,187**
Expenses							
Employee Related							
- Superannaution	1,553	1,585	1,320	1,540	1,628	1,726	1,735
- Other	11,542	11,585	11,881	12,157	12,280	12,577	12,973
Other Operating	6,611	6,048	6,080	6,605	6,121	6,175	6,277
Maintenance	1,249	1,091	1,138	1,120	1,114	1,170	1,182
Depreciation and Amortisation	1,036	876	952	995	1,051	1,120	1,196
Current Grants and Subsidies	3,762	3,760	3,827	3,944	3,902	3,920	3,945
Capital Grants	1,105	1,137	1,101	1,397	1,444	1,460	1,599
Finance	1,397	1,325	1,405	1,287	905	888	841
Treasurer's Advance	...	160	...	160	160	160	160
Total Expenses	**28,255**	**27,567**	**27,704**	**29,205**	**28,605**	**29,196**	**29,908**
Gain/(Loss) on Disposal of Non-Current Assets	84	(100)	(86)	(14)	1	5	5
Net Cost of Services	**(24,516)**	**(24,234)**	**(24,145)**	**(25,956)**	**(25,448)**	**(26,051)**	**(26,716)**
OPERATING SURPLUS BEFORE ABNORMAL ITEMS	**783**	**1,237**	**2,433**	**1,238**	**2,066**	**2,179**	**2,469**
Abnormal Items	1,224	860	1,582	2,400	...	...	...
Operating Surplus After Abnormal Items	**2,007**	**2,097**	**4,015**	**3,638**	**2,066**	**2,179**	**2,469**

Table A.2: General Government Sector Statement of Financial Position 1999-2004, as at 30 June

	1998-99 Actual $m	1999-2000 Budget $m	1999-2000 Revised $m	2000-01 Budget $m	2001-02 Estimate $m	2002-03 Estimate $m	2003-04 Estimate $m
ASSETS							
Current Assets							
Cash	960	672	174	87	119	157	273
Investments	1,345	1,028	1,205	1,275	1,390	1,572	1,729
Receivables	2,052	1,700	1,797	1,657	1,685	1,696	1,792
Inventories	219	149	136	144	160	160	168
Other	77	56	82	85	85	88	88
Total Current Assets	**4,653**	**3,605**	**3,394**	**3,248**	**3,439**	**3,673**	**4,050**
Non-Current Assets							
Property, plant and equipment	63,782	62,309	65,351	66,343	67,588	68,921	70,245
Investments	2,458	2,803	2,580	2,467	2,579	2,738	2,933
Receivables	2,842	2,956	2,967	3,032	3,095	3,150	3,228
Inventories	68	117	46	34	33	41	43
Other	664	599	747	842	939	1,040	1,144
Total Non-Current Assets	**69,814**	**68,784**	**71,691**	**72,718**	**74,234**	**75,890**	**77,593**
Total Assets	**74,467**	**72,389**	**75,085**	**75,966**	**77,673**	**79,563**	**81,643**
LIABILITIES							
Current Liabilities							
Payables	1,932	1,586	1,692	1,612	1,597	1,643	1,689
Borrowings	4,708	3,667	2,115	2,868	2,796	2,791	776
Employee Entitlements	885	849	1,168	957	2,293	2,366	2,398
Other	1,039	391	924	917	909	928	942
Total Current Liabilities	**8,564**	**6,493**	**5,899**	**6,354**	**7,595**	**7,728**	**5,805**
Non-Current Liabilities							
Borrowings	14,323	14,283	15,060	10,801	9,283	8,939	10,526
Employee Entitlements	10,466	10,883	9,031	10,017	9,808	9,588	9,333
Other	3,950	4,841	3,893	3,913	3,999	4,111	4,271
Total Non-Current Liabilities	**28,739**	**30,007**	**27,984**	**24,731**	**23,090**	**22,638**	**24,130**
Total Liabilities	**37,303**	**36,500**	**33,883**	**31,085**	**30,685**	**30,366**	**29,935**
NET WORTH	**37,164**	**35,889**	**41,202**	**44,881**	**46,988**	**49,197**	**51,708**
Equity							
Asset Revaluation Reserves	10,987	9,770	10,991	11,022	11,055	11,077	11,112
Accumulated Funds	26,177	26,119	30,211	33,859	35,933	38,120	40,596
TOTAL EQUITY	**37,164**	**35,889**	**41,202**	**44,881**	**46,988**	**49,197**	**51,708**

Table A.3: General Government Statement of Cash Flows

	1998-99 Actual $m	1999-2000 Budget $m	1999-2000 Revised $m	2000-01 Budget $m	2001-02 Estimate $m	2002-03 Estimate $m	2003-04 Estimate $m
Cash Flows from Operating Activities							
Receipts							
Taxation	14,194	13,977	15,009	12,456	11,509	11,824	12,417
Commonwealth Grants	8,911	9,363	9,498	12,780	14,125	14,513	14,760
Financial Distributions	1,292	1,145	1,359	1,112	962	995	1,034
Sale of Goods and Services	2,383	2,441	2,494	2,212	2,212	2,240	2,287
Investment Income	288	200	216	215	206	201	200
Other	1,344	1,437	1,400	1,810	1,577	1,528	1,513
Total Receipts	**28,412**	**28,563**	**29,976**	**30,585**	**30,591**	**31,301**	**32,211**
Payments							
Employee Related	(12,707)	(11,879)	(12,760)	(12,950)	(12,871)	(14,572)	(15,073)
Prepayment of Superannuation	(3,261)	...	...	...	...	...	...
Grants and Subsidies	(4,808)	(4,940)	(4,918)	(5,324)	(5,328)	(5,364)	(5,522)
Finance	(1,423)	(1,301)	(1,300)	(1,285)	(872)	(804)	(781)
Other	(7,061)	(7,417)	(7,475)	(7,996)	(7,548)	(7,637)	(7,729)
Total Payments	**(29,260)**	**(25,537)**	**(26,453)**	**(27,555)**	**(26,619)**	**(28,377)**	**(29,105)**
Net Cash Flows from Operating Activities	**(848)**	**3,026**	**3,523**	**3,030**	**3,972**	**2,924**	**3,106**
Cash Flows from Investing Activities							
Proceeds from Sale of Property, Plant and Equipment	393	491	289	408	250	216	174
Proceeds from Sale of Investments	456	352	484	315	279	134	156
Equity restructure	...	...	...	2,400	...	...	...
Advance Repayments Received	53	63	65	77	88	95	80
Purchases of Property, Plant & Equipment	(2,472)	(2,643)	(2,757)	(2,493)	(2,577)	(2,634)	(2,646)
Purchase of Investments	(524)	(218)	(360)	(198)	(316)	(255)	(262)
Advances Made	(37)	(17)	(80)	(38)	(38)	(34)	(34)
Other	108	...	(9)	(16)	...	...	...
Net Cash Flows from Investing Activities	**(2,023)**	**(1,972)**	**(2,368)**	**455**	**(2,314)**	**(2,478)**	**(2,532)**
Cash Flows from Financing Activities							
Proceeds from Borrowings and Advances	3,443	154	161	66	40	103	119
Repayments of Borrowings and Advances	(762)	(1,840)	(2,069)	(3,644)	(1,659)	(514)	(576)
Net Cash Flows From Financing Activities	**2,681**	**(1,686)**	**(1,908)**	**(3,578)**	**(1,619)**	**(411)**	**(457)**
Net Increase/(Decrease) in Cash	**(190)**	**(632)**	**(753)**	**(93)**	**39**	**35**	**117**
Opening Cash and Cash Equivalents	1,142	637	915	162	69	108	143
Reclassification of Cash Equivalents	(37)	...	...	...	...	...	...
CLOSING CASH AND CASH EQUIVALENTS BALANCE	**915**	**5**	**162**	**69**	**108**	**143**	**260**

APPENDIX B: GENERAL GOVERNMENT SECTOR RESULTS ON THE PREVIOUS CASH GFS[1] BASIS 1999-2000

	Budget $m	Latest Projection $m	Change $m	Change %
Current Receipts				
Stamp Duties	3,747	4,512	+ 764.9	+ 20.4
Payroll Tax	3,637	3,725	+ 87.9	+ 2.4
Land Tax	859	910	+ 51.2	+ 6.0
Motor Vehicle Taxes	977	998	+ 21.0	+ 2.1
Gaming & Betting	1,558	1,578	+ 20.2	+ 1.3
Commonwealth Safety Net Taxes	1,989	2,015	+ 26.0	+ 1.3
Other Taxes	1,245	1,277	+ 32.3	+ 2.6
Commonwealth General Purpose Grants	5,162	5,173	+ 11.0	+ 0.2
Commonwealth Specific Purpose Grants	3,449	3,559	+ 110.5	+ 3.2
Dividends/Tax Equivalents	1,173	1,359	+ 186.2	+ 15.9
Other Current Receipts	1,256	1,308	+ 52.3	+ 4.2
Total Current Receipts	**25,052**	**26,415**	**+ 1,363.3**	**+ 5.4**
Current Outlays				
Interest Payments	1,124	1,101	(-) 22.6	(-) 2.0
Superannuation	1,640	2,181	+ 540.8	+ 33.0
Subsidies to Non-General Government Sector	926	871	(-) 55.1	(-) 5.9
Payments for General Government Services	20,707	21,508	+ 801.1	+ 3.9
Treasurer's Advance	160	...	(-) 160.0	(-) 100.0
Less: User Charges	2,110	2,180	+ 69.8	+ 3.3
Total Current Outlays	**22,447**	**23,481**	**+ 1,034.4**	**+ 4.6**
Current Result Surplus/(Deficit)	**2,605**	**2,934**	**+ 328.9**	**+ 12.6**
Capital Receipts				
C'wealth Specific Purpose Grants	784	803	+ 18.6	+ 2.4
Other Capital Receipts	151	112	(-) 38.5	(-) 25.5
Total Capital Receipts	**935**	**915**	**(-) 19.9**	**(-) 2.1**
Capital Outlays				
Gross Fixed Capital Payments	2,798	2,831	+ 33.2	+ 1.2
Capital Grants	1,104	1,128	+ 23.5	+ 2.1
Less: Asset Sales	576	407	(-) 169.1	(-) 29.4
Total Capital Outlays	**3,326**	**3,552**	**+ 225.8**	**+ 6.8**
Capital Result Surplus/(Deficit)	**(2,391)**	**(2,637)**	**(-) 245.8**	**+ 10.3**
Budget Result Surplus/(Deficit)*	**214**	**297**	**+ 83.1**	**+ 38.9**
Prepayment of Superannuation*	**979**	**1,005**	**+ 26.0**	**+ 2.7**
Unadjusted Budget Result Surplus/(Deficit)*	**1,193**	**1,302**	**+ 109.1**	**+ 9.1**

* *To give a more meaningful picture of the state's financial performance, the Budget result adjusts for the impact of the special prepayment of superannuation in 1998-99 (and associated impacts in the following three years).*

[1] *Government Finance Statistics (GFS).*

APPENDIX C: TAX EXPENDITURE AND CONCESSIONS STATEMENT

C.1: DETAILED ESTIMATES OF TAX EXPENDITURES

CONTRACTS AND CONVEYANCES DUTY

The benchmark is defined as the conveyance of property (whether residential or commercial) where a real change in beneficial ownership occurs. The benchmark tax rate is defined against marginal rates of tax varying from 1.25 to 5.5 percent.

Table C.1: Contracts and Conveyances Duty

Major Tax Expenditures	*1998-99 $m*	*1999-2000 $m*	*2000-01 $m*
First Home Purchase Scheme and First Home Plus			
Up to 1999-2000, first home buyers meeting certain (income and house price) eligibility criteria received a discount of 50 percent. From 1 July 2000, the new First Home Plus scheme abolishes the income criteria and introduces a full exemption up to certain property values, phasing out as the value increases (see Chapter 3 for details). Group self-build schemes are also eligible.	16.5	15.0	52.7
Transfer of residences between spouses			
An exemption is granted for property conveyed between spouses or de facto partners, subject to the property being jointly held after transfer.	4.5	5.1	5.1
Transfers of matrimonial property consequent upon divorce			
An exemption is granted for conveyances between parties under the *Family Law Act 1975* (Cth) or partnership property under the *Property (Relationships) Act 1984.*	6.5	7.3	7.3

Table C.1: Contracts and Conveyances Duty (cont)

Major Tax Expenditures	*1998-99 $m*	*1999-2000 $m*	*2000-01 $m*
Intergenerational rural transfers			
An exemption is granted for transfers of rural land used for primary production between generations to facilitate young family members taking over family farms. From 7 May 1997 the concession was extended to transfers between siblings.	11.7	14.1	10.9
Property conveyed on behalf of benevolent institutions	4.3	6.3	7.0
Corporate reconstructions			
An exemption is given for corporate reconstructions provided certain qualifying criteria are satisfied. These criteria were relaxed from 11 November 1998.	145.0	164.9	170.0
Transfer of property from companies and trusts to individuals			
Exemption for conveyances of a principal place of residence from a corporation or a special trust to certain individuals or conveyance of any land owned as at 31 December 1986 by a special trust from the trust to certain persons.	1.5	1.8	2.0
Property conveyed for poverty relief or education	n.a.	n.a.	n.a.
Reconveyance by way of discharge for old system titled properties	n.a.	n.a.	n.a.
Public purpose dedication of land			
Conveyances for land dedicated for public use exempted from duty.	n.a.	n.a.	n.a.

Minor Tax Expenditures (< $1 million)

- A person who has sold his or her property to a local government council because the home was built on flood-prone land and has then purchased another home may pay duty on the contract by instalments over a five-year period.

- From 23 June 1999 a discount of 50 percent is offered to those eligible for the (discontinued) first home purchase instalment option if they choose to pay the remaining instalments as a lump sum.

- Duty may be deferred for ‘off the plan’ purchases of real estate until completion of the sale or 12 months after the contract.

- Concessional duty of $10 is payable for transfers of property within a managed investment scheme which falls within Chapter 5C of the Corporations Law.

- A credit of duty previously paid is applied to amalgamation of certain Western Lands leases.

- Concessional duty of $10 is payable for transfers of poker machine permits where there is no change in beneficial ownership.

The following are exempt:

- conveyances back to a former bankrupt by trustee of his or her estate;

- conveyances relating to the property of the 'notional estate' of a deceased person;

- certain purchases of manufactured relocatable homes (caravans);

- land resumed by operation of a Commonwealth Act where the Crown in right of the Commonwealth is the person upon whom liability of duty would otherwise be imposed. If land is subsequently transferred back to the person who was entitled to the land immediately before the resumption, the instrument of transfer is also exempted from duty provided that no compensation has been paid in respect of the resumption;

- conveyances where public hospitals are the liable party;

- instruments executed by or on behalf of a council or county council under the *Local Government Act 1993*;

- conveyances executed for the purpose of amalgamation or dissolution of clubs or the formation of a new club under Section 17A of the *Registered Clubs Act 1976*;

- any instrument executed by or on behalf of the Board of Commissioners or the Commissioners in relation to the *Nauru Island Agreement Act 1919 (Cth)*;

- instruments executed by or on behalf of agencies within the meaning of the Convention on the Privileges and Immunities of the Specialised Agencies approved by the General Assembly of the United Nations in 1947;

- conveyances between associations of employees or employers registered under the *Industrial Relations Act 1988 (Cth)* for the purpose of amalgamation;

- NSW Aboriginal Land Council (ALC), Regional ALC, and Local ALC;

- conveyance of property between licensed insurers, and between the WorkCover Authority and licensed insurers, under the *Workers Compensation Acts of 1926 and 1987 (NSW);*

- purchase of their principal place of residence by tenants of the Department of Housing, the Community Housing Program administered by the Department of Housing and the Aboriginal Housing Office;

- transfers of property made for the purpose of complying with the Commonwealth regulatory regime for managed investments, and other transfers by or as a consequence of a statute;

- transfers of property in a statutory trust as a result of an order under Section 66G of the *Conveyancing Act 1919*; and

- transfer of a liquor licence in certain circumstances under Sections 41, 42 or 61 of the *Liquor Act 1982.*

GENERAL INSURANCE

The benchmark is defined as all premiums for general insurance policies, except those for reinsurance (which is exempt because taxing reinsurance would amount to taxing the same risk twice). The benchmark tax rate is 11.5 percent of premium paid in 1998-99 and 1999-2000 and, from 1 October 2000, 10 percent of premium paid.

Table C.2: General Insurance

Major Tax Expenditures	*1998-99 $m*	*1999-2000 $m*	*2000-01 $m*
Concessional rates for motor vehicle, aviation, disability income, occupational indemnity and crop and livestock insurance			
A concessional rate of 5 percent applied to a number of categories of insurance including motor vehicle (excluding compulsory third party (the 'green slip')), aviation, disability income and occupational indemnity. Crop and livestock insurance is taxed at 2.5 percent.	135.6	149.1	128.8
Exemption for third party motor vehicle personal injury insurance as per the *Motor Vehicle Act 1988*			
Third party motor vehicle personal injury insurance (the 'green slip') is exempt from stamp duty.	170.9	187.9	175.2
Marine and cargo insurance			
Exemption for marine insurance covering hulls of commercial ships and the cargo carried by land, sea or by air.	14.6	16.0	14.9

Minor Tax Expenditures (< $1 million)

The following are exempt:

- insurance by non-profit charities, benevolent, philanthropic and patriotic organisations;
- insurance by Aboriginal Land Councils and non-commercial ventures of local councils;
- insurance covering mortgages acquired for issuing mortgage backed securities;
- separate policies covering loss by fire of labourer's tools;
- redundancy insurance in respect of housing that does not exceed $124,000; and
- insurance covering only property of the Crown.

LIFE INSURANCE

The benchmark is defined as all products (or part thereof) where the sum assured offered by life insurance companies provides for a payment in the event of death or injury from natural causes of the person insured or upon survival to a specified age. The benchmark tax rate is 10 cents per $200 where the sum assured is less than $2,000 and $1 plus 20 cents per $200 where the sum assured is greater than $2,000.

Table C.3: Life Insurance

Major Tax Expenditures	*1998-99 $m*	*1999-2000 $m*	*2000-01 $m*
Superannuation			
An exemption is granted to all superannuation other than that offered by life companies to an individual.	37.6	40.7	44.1
Annuities			
An exemption is provided to annuities.	9.0	10.0	11.0

MORTGAGE DUTY

The benchmark is defined as all secured loans of greater than $500 that affect property in New South Wales. The benchmark tax rate is $5 for $500 to $16,000 plus 40 cents per $100 or part thereof on excess. Prior to 1 July 1998 Mortgage Duty was known as Loan Security Duty.

Table C.4: Mortgage Duty

Major Tax Expenditures	1998-99 $m	1999-2000 $m	2000-01 $m
Refinanced loans where the borrower and the security for the loan remain the same			
A loan security that secures the amount of the balance outstanding under an earlier loan security granted for the same borrower over the same or substantially the same property is exempt. Any additional amount above the previously secured amount is liable for duty.	39.5	39.7	40.4
First home purchase mortgage covered by First Home Purchase Scheme and First Home Plus			
Mortgages given to assist the financing of a purchase under a contract, which is eligible under the First Home Purchase Scheme, are exempt from duty. The Scheme is replaced by First Home Plus from 1 July 2000 (see Chapter 3).	4.8	4.6	8.3
Additional advances up to $10,000 in any 12 month period			
This is a concession given for small loans not exceeding the prescribed amount provided that the additional loan is not made within 12 months after the initial loan.	1.0	1.0	1.0
Mortgage-backed securities			
An exemption is given for financial institutions using pooled mortgages from their lending assets as security for borrowing funds.	n.a.	n.a.	n.a.
Loan-backed securities			
Securities issued backed by cash flow from loans (secured and unsecured) are exempted from duty.	n.a.	n.a.	n.a.
Fund raisings by finance companies through debenture issues			
A concession is given to companies whose sole or principal business is to provide finance to the public. Debentures issued, trust deeds and mortgages executed by "financial corporations" as defined in the legislation are not liable to duty. However, the trust deed is stamped as a Declaration of a Trust.	n.a.	n.a.	n.a.

Minor Tax Expenditures (< $1 million)

A concession is provided for mortgages given by a custodian under a managed investment scheme.

The following are exempt:

- mortgages created solely for the purpose of providing security in accordance with a condition imposed on the grant of bail in criminal proceedings;
- mortgages securing amounts under a consumer credit contract, where the amount financed is $35,000 or less;
- primary producers who refinance their borrowings, or revise their security arrangements, to become eligible for subsidies from the Rural Assistance Authority. This concession is limited to refinancing (i.e. it excludes loans from redraw facilities) and is limited to the same or substantially the same land (i.e. it excludes any changes in boundaries of improvement made to the land);
- the refinancing of a loan following divorce or the break up of a de facto relationship;
- mortgages given by Federal or State/Territory governments or public statutory body;
- loans given by councils or county councils under *Local Government Act 1993*;
- any loan security made or given to the WorkCover Authority;
- instruments executed by or on behalf of a council or county council under the *Local Government Act 1993*;
- Board of Commissioners or the Commissioners in relation to the agreement approved by the *Nauru Island Agreement Act 1919 (Cth)*;
- loan security given for the relief of poverty and promotion of education;
- loan security given to institutions of charitable or benevolent nature, or for the promotion of the interest of Aborigines;
- NSW Aboriginal Land Council (ALC), Regional ALC and Local ALC;
- offshore banking units (as defined in the *Income Tax Assessment Act 1936 (Cth)*) where a loan is executed for offshore parties;
- tenants of the Department of Housing, the Aboriginal Housing Office or from the Community Housing Program who, in mortgaging the real property, obtain not less than 25 percent of the beneficial ownership of land and who intend to use the land as their principal place of residence;

- mortgages granted by a non-profit organisation in conjunction with a lease not subject to duty, the purpose of which is to provide accommodation to an aged or disabled person;

- mortgages by public hospitals;

- mortgage of liens under the *Liens on Crops and Wool and Stock Mortgage Act 1898*, or a special lien under the *Cooperation Community Settlement and Credit Act 1923*;

- agencies within the meaning of the Convention on the Privileges and Immunities of the Specialised Agencies approved by the General Assembly of the United Nations in 1947;

- instrument executed for the purpose of creating, issuing or marketing mortgage-backed securities;

- the amalgamation, dissolution of clubs or the formation of a new registered club; and

- mortgages by clearing houses of the Sydney Futures Exchange and Australian Options Market that do not secure an advance.

MARKETABLE SECURITIES DUTY

The benchmark is defined as the turnover (sale price *x* quantity traded) of shares traded on the Sydney operations of the Australian Stock Exchange (listed) or of shares of a company registered in New South Wales, with the exception of lending of shares, American Depository Shares (ADS) and American Depository Receipts (relating to ADS). The benchmark tax rate is 15 cents per $100 or part thereof for both buyer and seller for on-market transactions and 30 cents per $100 or part thereof for off-market transactions in listed companies and 60 cents per $100 or part thereof otherwise, with the purchaser paying all of the duty.

Table C.5: Marketable Securities Duty

Major Tax Expenditures	1998-99 $m	1999-2000 $m	2000-01 $m
Principal trading			
A concessional rate of duty of 0.25 cents per $100 or part thereof applies to traders trading on their own behalf.	284.7	349.9	306.6
Papua New Guinea and New Zealand companies			
From 1 July 1998 concessional rate of duty of 0.25 cents per $100 or part thereof applies to trading in securities of companies incorporated in Papua New Guinea or New Zealand.	4.8	5.8	6.4
Newcastle Stock Exchange			
As the Newcastle Stock Exchange is not an ASX exchange, transactions on this exchange were taxed at 60 cents per $100. From 1 January 1999 marketable securities traded on the Newcastle Stock Exchange are taxed at the rate of 30 cents per $100 or part thereof.	n.a.	n.a.	2.2

Minor Tax Expenditures (< $1 million)

The following transfers are exempt:

- share buy-backs by NSW companies;
- mining companies whose operations relate solely to New South Wales;
- transfers to parties outside a marriage where the transfer is pursuant to an order of the Family Court of Australia;
- certain transfers of shares by superannuation funds to a Pooled Superannuation Fund;
- transfers to and from the benchmark Australian All Ordinaries Trust; and
- transfers of stocks to and from Stock Exchange Index Trusts.

MOTOR VEHICLE REGISTRATION DUTY

The benchmark taxable activity is defined as the purchase of a new vehicle and the subsequent transfer of the vehicle. The benchmark tax rate is $3 per $100 or part thereof of the value of the vehicle for vehicles valued to $45,000. For vehicles valued at above this amount a marginal rate of tax of $5 per $100 or part thereof is applied to the value above $45,000.

Table C.6: Motor Vehicle Registration Duty

Major Tax Expenditures	*1998-99 $m*	*1999-2000 $m*	*2000-01 $m*
Local councils			
An exemption is granted for the transfer of registration into the name of a local council.	10-15	10-15	10-15
Transfer of ownership after divorce or a breakdown of a defacto relationship			
An exemption is granted for the transfer of registration into the name of one of the parties to a divorce or separation in a de facto relationship.	1.1	1.1	1.2
Transfer of ownership of a deceased registered owner			
An exemption is granted for the transfer of registration to the legal personal representative of a deceased registered owner or the person beneficially entitled to the vehicle in his estate.	2.5	2.6	2.6
New demonstrator motor vehicle			
An exemption is granted for the registration of a motor vehicle to a licensed motor dealer or wholesaler under the *Motor Dealers Act 1974 (NSW).*	17.1	17.5	17.3
Extreme Disablement Adjustment and other Disabled War Veterans			
An exemption is provided to war veterans in receipt of a totally and permanently incapacitated (TPI) pension. In November 1999 this was extended to veterans in receipt of an extreme disablement adjustment pension, an intermediate service pension or 70 percent or higher of the disability pension from the Department of Veterans Affairs.	1.0	2.2	3.0

Minor Tax Expenditures (< $1 million)

The following are exempt:

- all vehicles registered by non-profit charitable, benevolent, philanthropic or patriotic organisations;
- vehicles specially constructed for ambulance or mine rescue work;
- conveyances weighing less than 255 kg used for transporting invalids;
- rural lands protection boards; and
- Aboriginal Land Councils within the meaning of the *Aboriginal Land Rights Act 1983 (NSW).*

FINANCIAL INSTITUTIONS DUTY

The benchmark is defined as all receipts to financial institutions except for receipts to internal and working accounts, clearing and settlement accounts. The benchmark tax rate is 0.06 percent.

Table C.7: Financial Institutions Duty

Major Tax Expenditures	*1998-99 $m*	*1999-2000 $m*	*2000-01 $m*
Non business activities of government departments			
These bodies are exempt from FID under Section 98A(1)(m) of the *Stamp Duties Act 1920*. This section allows an exemption for Departments of Commonwealth, State and Territory and Local Governments other than those departments whose sole or principal function is to carry on an activity in the nature of a business.	25-50	25-50	25-50
Direct crediting of social security and veteran affairs pensions			
The direct crediting of pensions from the Department of Social Security and the Department of Veteran Affairs are exempt from FID under Regulation 9A(1) of the Stamp Duties (Financial Institutions Duty) Regulation.	8.7	9.2	9.7
Charitable, educational and religious bodies			
These bodies are exempt from FID under Section 98A(1)(z) of the *Stamp Duties Act 1920*.	4.9	6.3	8.0
Public and non-profit hospitals			
These bodies are exempt from FID under Section 98A(1)(z) of the *Stamp Duties Act 1920*.	4.0	4.2	4.5
Offshore Banking Units			
An exemption is provided in relation to offshore banking activity within the meaning of Section 121D of the *Income Tax Assessment Act 1936 (Cth)*.	n.a.	n.a.	n.a.

Minor Tax Expenditures (< $1 million)

The following are exempt:

- payments to a farm management account as a result of the transfer by the Commonwealth Department of Agriculture, Forestry and Fisheries of an amount held in an income equalisation account or a farm management bond;
- centralised data processing operations of companies;

- receipts from the sale of goods other than under a credit contract, hiring arrangement or lease;
- initial receipt by a trustee company of the assets of a deceased person;
- licensed foreign exchange dealers;
- the initial issue of mortgage-backed securities;
- Association of Credit Unions Ltd, Association of Central Credit Unions Ltd and Co-operative Federation of NSW Ltd;
- duty paid under corresponding Act from another State;
- Aboriginal Land Councils;
- building society transfer of engagements and amalgamation;
- bill rollovers (reimbursement by a customer);
- home loan repayments by veterans;
- accounts of banks with other banks;
- transfers of receipts of workers compensation insurers;
- transfers between exempt accounts;
- deposits of trust money with the Australian Stock Exchange Ltd by members;
- Flemington Markets Commercial Services Co-operative Ltd (farm produce) and Newcastle Markets;
- scrip lending;
- account of Combined Financial Processing Pty Ltd;
- Australian Olympic Committee Incorporated and the New South Wales Olympic Council Incorporated in relation to the Sydney 2000 Games from 1 January 1996;
- Sydney Organising Committee for the Olympic Games and the Sydney Paralympic Organising Committee Ltd;
- amalgamation of credit unions, with effect from 20 November 1996;
- private charitable trusts from 29 March 1996;

- certain public trading enterprises and government businesses;
- direct credits of First Home Owner Scheme grants; and
- clearing or market settlement accounts of Transgrid, the International Air Transport Association, the ASX and ASX Clearing House Electronic Subregister System.

Hiring Arrangements Duty

The benchmark is defined as all short-term consumer hiring and other non-finance rentals greater than $6,000 per month and equipment financing arrangements, including hire purchase arrangements. The benchmark tax rate is 0.75 percent with a maximum of $10,000 tax payable for any single arrangement.

There are no major tax expenditures.

Minor Tax Expenditures (< $1 million)

The following are exempt:

- prosthetic items;
- wet hires;
- gas, water and electricity meters;
- on-site caravans;
- arrangements between related bodies corporate;
- certain arrangements in relation to aircraft, ships and vessels;
- hire of goods as part of a franchise arrangement; and
- where the use of goods is incidental and ancillary to the provision of a service.

Lease Duty

The benchmark is defined as any lease of property valued at greater than $3,000 in New South Wales. The benchmark tax rate is 35 cents per $100 of total rent. From 1 July 1998 the base has been restricted to leases of real property and franchise arrangements.

Table C.8: Lease Duty

Major Tax Expenditures	*1998-99 $m*	*1999-2000 $m*	*2000-01 $m*
Exemption for residential leases			
A residential lease under which a person has a right to occupy any premise as a place of residence for a term not exceeding five years is exempt.	4.8	5.1	5.2

Minor Tax Expenditures (< $1 million)

The following are exempt:

- leases on a movable dwelling site (essentially referring to sites in caravan parks and relocatable home parks);
- leases of accommodation for aged and disabled persons;
- leases executed by a public hospital;
- leases executed by an Aboriginal Land Council; and
- leases of premises to the Home Care Service of New South Wales.

PAYROLL TAX

The tax benchmark is defined as aggregate annual gross remuneration paid by a single or group taxpayer in excess of a threshold of $600,000. The benchmark tax rate is 6.85 percent for 1998-99, 6.4 percent from 1 July 1999 to 31 December 2000 and 6.2 percent from 1 January 2001 to 1 July 2002.

Table C.9: Payroll Tax

Major Tax Expenditures	*1998-99 $m*	*1999-2000 $m*	*2000-01 $m*
Public hospitals and Area Health Services			
An exemption is granted for remuneration paid by a public hospital or an area health service to a person while engaged in work of a kind ordinarily performed in connection with the conduct of these organisations.	295	292	305
Schools and colleges			
An exemption is granted for remuneration paid by a school or college (other than a technical school or a technical college) that is not for profit and which provides education at or below, but not above, the secondary level of education to a person while engaged in work of a kind ordinarily performed in connection with the conduct of these organisations.	46.7	48.7	52.8
Religious institutions			
An exemption is granted for remuneration paid by a religious institution to a person while engaged in work of a kind ordinarily performed in the conduct of these institution.	6.8	6.9	7.3
Charitable institutions			
An exemption is granted for remuneration paid by a charitable, benevolent, philanthropic or patriotic institution (other than an instrumentality of the State) to a person while engaged in work of a charitable, benevolent, philanthropic or patriotic nature.	20.0	20.2	21.3
Local councils			
An exemption is granted for remuneration paid by a council or county council, except in connection with a number of trading undertakings including the operation of an abattoir or a public food market, parking station, cemetery, crematorium, hostel, the operation of a coal mine, the supply and distribution of coal, the operation of a transport service and the supply of building materials.	101.6	101.6	106.4
Private hospitals and nursing homes			
An exemption is granted for a hospital which is carried on by a society or association otherwise than for the purpose of profit or gain to the individual members of the society or association to a person in respect of time when the person is engaged in work of a kind ordinarily performed in connection with the conduct of hospitals.	9.3	9.3	9.7

Table C.9: Payroll Tax (cont)

Major Tax Expenditures	*1998-99 $m*	*1999-2000 $m*	*2000-01 $m*
Home Care Service			
From July 1998 an exemption has been provided for the salaries paid to employees of the Home Care Service.	8.4	8.0	7.7
Apprentices			
An exemption is provided for employees under the group apprenticeship scheme or a group traineeship scheme approved by the Department of Industrial Relations and Employment.	1.0	1.0	1.0
From 1 July 1999 employers of apprentices are only required to include in their calculations of 'taxable wages' 25 percent of wages paid to first year apprentices, 50 percent of the wages paid to second year apprentices and 75 percent of the wages paid to third year apprentices.	n.a.	4.0	4.0
Certain Termination Payments			
Termination payments made in relation to leave accrued prior to 1 January 1990 are exempt from payroll tax.	<$5m	<$5m	<$5m

Minor Tax Expenditures (< $1 million)

The following are exempt:

- wages paid to an employee who is on leave from employment by reason of service in the Defence Forces;
- wages paid to persons employed under the Community Development Employment Program administered by the Aboriginal and Torres Strait Islander Commission;
- wages paid by the Australian-American Educational Foundation;
- wages paid to members of the official staff by a consular or other non-diplomatic representative of another country or by a Trade Commissioner representing in Australia any other part of Her Majesty's dominions;
- wages paid by the Governor of the State;
- wages paid to employees while the employees are providing assistance to the State Emergency Services; and

- wages that are exempt from income tax under Section 23(z) of the *Income Tax Assessment Act 1936 (Cth)* being income derived by way of scholarship or other educational assistance received by a full-time student at a tertiary educational institution.

LAND TAX

The benchmark tax base for land tax is defined as the unimproved capital value of all land owned (as defined in the *Land Tax Management Act 1956 (NSW))* at 31 December by a person or organisation other than the Commonwealth or NSW Governments which: (I) for owner-occupied residences, is above the threshold for principal places of residences for that year; (ii) for non-concessional companies and special trusts, the total aggregate land values; and (iii) for any other land owners, the aggregate land owned has an unimproved capital value above the threshold for that year. The benchmark tax rate is 1.85 percent for the 1999 land tax year and 1.7 percent for the 2000 and 2001 land tax years.

Table C.10: Land Tax

Major Tax Expenditures	*1998-99 $m*	*1999-2000 $m*	*2000-01 $m*
Boarding houses for low-income persons			
An exemption is granted for land used by boarding houses which meet approved guidelines, principally that the rent charged is less than the amount prescribed by the Office of State Revenue.	2.7	2.5	2.6
Land used for primary production			
An exemption is granted for land used for primary production. Hobby farms do not meet the requirement for land used for primary production and therefore do not fall within this exemption.	260.9	233.0	231.4
State-owned corporations and public trading enterprises			
Certain public trading enterprises are exempt from land tax.	27.2	25.1	24.8
Racing clubs			
An exemption is granted for land owned by or held in trust for any club for promoting or controlling horse-racing, trotting-racing or greyhound-racing which is used primarily for the purposes of the meetings of the above.	4.4	4.3	4.5

Table C.10: Land Tax (cont)

Major Tax Expenditures	*1998-99 $m*	*1999-2000 $m*	*2000-01 $m*
Employer and employee organisations			
An exemption is granted for land owned by or held in trust for employer and employee organisations for that part that it is not used for a commercial activity open to members of the public.	1.5	1.4	1.5
Cooperatives			
An exemption is granted for land owned by a co-operative whose objectives are listed under the *Co-operatives Act 1992 (NSW)* and whose objectives are listed in Section 7 of that Act.	5.7	5.3	5.5
Public cemeteries and crematoriums			
An exemption is granted for any land used as a public cemetery or crematorium.	7.3	7.0	7.4
Retirement villages			
An exemption is given for land owned and used by retirement villages.	54.0	51.3	51.8
Child care centres			
An exemption is granted for land used as a residential child care centre licensed under the *Children (Care and Protection) Act 1987 (NSW)* or a school registered under the *Education Reform Act 1900 (NSW).*	3.8	2.9	2.4
Public hospitals and Area Health Services			
An exemption is granted for land used by a public hospital or Area Health Service.	10.5	9.9	10.0
Agricultural showgrounds			
An exemption is granted for land used and occupied for the purpose of holding agricultural shows, or shows of a like nature and owned by, or held in trust for, a society which is established for the purpose of holding such shows not for the pecuniary profit of its members and primarily uses its funds for the holding of such shows.	n.a.	n.a.	n.a.
Friendly societies			
An exemption is granted for any society registered under the *Friendly Societies Act 1989 (NSW).*	n.a.	n.a.	n.a.
Religious societies			
An exemption is provided for land owned by or in a trust for a religious society if the society is carried on solely for religious, charitable or educational purposes.	n.a.	n.a.	n.a.

Table C.10: Land Tax (cont)

Major Tax Expenditures	*1998-99 $m*	*1999-2000 $m*	*2000-01 $m*
Non-profit societies, clubs and associations			
An exemption is provided where a building (or part thereof) is occupied by a society, club or association not carried on for pecuniary profit.	n.a.	n.a.	n.a.
Charitable and educational institutions			
An exemption is provided for land owned by or in a trust for a charitable or educational institution if the institution is carried on solely for charitable or educational purposes and not for pecuniary profit.	n.a.	n.a.	n.a.
Public gardens, recreation grounds and reserves			
An exemption is provided for land used as a public garden, public recreation ground or public reserve.	n.a.	n.a.	n.a.
Sporting clubs			
An exemption is provided for land owned by or in a trust for any club or body of persons where the land is used primarily for the purpose of a game or sport and not used for pecuniary profit of the members of that club or body.	n.a.	n.a.	n.a.
Sydney Light Rail			
An exemption is provided in respect of the land occupied by the Sydney Light Railway.	n.a.	n.a.	n.a.
Land owned and used by a local council	n.a.	n.a.	n.a.

Minor Tax Expenditures (< $1 million)

- Concessions for land subject to heritage orders.
- A discount of 1.5 percent on land tax payable is available where the taxpayer pays the whole amount within 30 days after issue of the notice of assessment.

The following are exempt:

- low cost accommodation within 5 km of GPO;
- nursing homes;
- Marketing and Pastures Protection Boards;
- Aboriginal Land Councils;

- new rental residential accommodation for five years;
- bush fire victims;
- community land development;
- unoccupied flood-liable land;
- land used for maintaining endangered animals;
- land leased for use as a fire brigade, police, ambulance or mines rescue station; and
- land owned by RSL (NSW Branch), Anzac House.

DEBITS TAX

The benchmark is defined as all accounts with cheque drawing facilities. The benchmark rate of tax varies from 30 cents to $4.00 per debit.

Table C.11: Debits Tax

Major Tax Expenditures	*1998-99 $m*	*1999-2000 $m*	*2000-01 $m*
Non-business activities of government departments			
The non-business activities of NSW government departments are exempt from Debits Tax.	10-20	10-20	10-20
Public benevolent and religious bodies			
The debits from cheque linked accounts of public benevolent, religious and non-profit bodies with a charitable purpose as defined under the Act are granted an exemption from Debits Tax. From February 2000 this exemption was extended to non-profit organisations having as one of their objects a charitable, benevolent, philanthropic or patriotic purpose.	1-3	2-4	2-4
Schools, colleges and non-profit making universities			
The debits from the cheque linked accounts of schools, colleges and non-profit universities as defined under the Act are granted an exemption from Debits Tax.	1-2	1-2	1-2

Minor Tax Expenditures (< $1 million)

The following are exempt:

- public and private hospitals as defined under the Act;
- named public trading enterprises and government businesses;
- foreign governments;
- Governor and Governor-General;
- debits for the payment of income tax on natural resources for non-residents (Section 221 YHZC(1A) of the *Income Tax Act (1936) (Cth));*
- debits of Sydney Organising Committee for the Olympic Games and the Sydney Paralympic Organising Committee Ltd;
- the market settlements fund operated by Transgrid; and
- offshore banking units within the meaning of Section 121D of the *Income Tax Assessment Act 1936 (Cth).*

VEHICLE WEIGHT TAX

The benchmark is defined as all vehicles intended for on-road use with the exception of Commonwealth Government vehicles, which for constitutional reasons cannot form part of the tax base. The benchmark tax rate is as defined in the *Motor Vehicles Taxation Act 1988 (NSW)* for private and business vehicles.

Table C.12: Vehicle Weight Tax

Major Tax Expenditures	*1998-99 $m*	*1999-2000 $m*	*2000-01 $m*
Selected social security recipients			
An exemption is granted in respect to any motor vehicle owned by holders of pensioner concession card, Department of Veteran Affairs (DVA), TPI cards and DVA Gold War Widow's card. The vehicle must be used by those pensioners substantially for social, domestic or pleasure purposes.	87.7	89.0	91.2
Primary producers			
Primary producer concessions include, for motor vehicles not greater than 4.5 tonnes of gross vehicle mass, private rates rather than business rates for cars and station wagons and 55 percent of business rates for trucks, tractors and trailers.	13.2	15.8	16.3
Roadwork equipment – including local government			
An exemption is granted to any motor vehicle or plough, bulldozer, mechanical scoop or shovel, road grader, road roller or similar machinery that is owned by a local council within the meaning of the *Local Government Act 1993* and which is used for the purposes of road construction, road maintenance, road repair, removal of garbage or night soil, bush fire fighting, civil defence work or to any roller, lawn mower or similar machinery used solely or principally for the rolling or maintenance of tennis courts, cricket pitches, lawns or pathways.	5.3	6.5	6.7
Bush fire or civil defence work			
Any motor vehicle (other than Government owned) that is used for or in connection with civil defence work or in connection with fire fighting work is exempt from weight tax.	1.3	1.3	1.3
General purpose plant			
Concessions are provided for machines which cannot carry any load other than tools and accessories necessary for the operation of the vehicle.	4.3	5.0	5.2

Minor Tax Expenditures (< $1 million)

- A concessional rate of 55 percent of business rates (or 30 percent if outside the Sydney metropolitan area, Newcastle or Wollongong districts) is applied to any motor vehicle which is used solely or principally as a tow truck.
- A concession is provided for mobile cranes.

- A concessional rate of tax is applied to any motor vehicle that is owned by a rural land protection board and is used solely for the carrying out of the functions of the board.

The following are exempt:

- all vehicles registered by non-profit charitable, benevolent, philanthropic or patriotic organisations;
- any motor vehicle that is used principally as an ambulance;
- motor vehicles that are designed for people with disabilities;
- motor vehicles used by the State Emergency Services; and
- any motor vehicle on which a trader's plate is being used in accordance with the *Traffic Act 1909 (NSW)* or the regulations under that Act.

DRIVERS' LICENCES

The benchmark is considered to be the licensing of all persons to drive a vehicle in New South Wales on public roads. The benchmark tax rates in 1999-2000 were $35 for a one-year licence, $84 for a three-year licence and $113 for a five-year licence.

Table C.13: Drivers' Licences

Major Tax Expenditures	*1998-99 $m*	*1999-2000 $m*	*2000-01 $m*
Selected social security recipients			
An exemption is granted to any licence holder who also holds a pensioner concession card, Department of Veteran Affairs (DVA) TPI cards, DVA Gold War Widows Card and who can provide evidence that their income is below a certain level or can provide a DVA letter regarding their disability rate. The vehicle owned by the licence holder must be used by those pensioners substantially for social or domestic purposes.	14.0	31.3	28.6

VEHICLE TRANSFER FEES

The benchmark is considered to be all transfers of previously registered vehicles. The benchmark tax rate was $20 per vehicle until 31 January 1998. From 1 February 1998 until 30 June 2000 the rate is increased to $40 for individuals and to $25 for motor dealers.

Minor Tax Expenditures (< $1 million)

The following are exempt:

- consignees;
- beneficiaries under wills;
- executors and administrators of deceased estates;
- vehicles awarded in court decisions;
- representatives of unincorporated organisations;
- adding/removing a trading name.

MOTOR VEHICLE REGISTRATION FEES

The benchmark is defined to be all vehicles intended for on-road use. The benchmark tax rate in 1997-98 was $41 for most motor vehicles, $139 for lorries with mass of 5 tonnes or more and $198 for articulated trucks. From 1 February 1998 to 30 June 2000 the $41 fee is increased to $46.

Table C.14: Motor Vehicle Registration Fees

Major Tax Expenditures	*1998-99 $m*	*1999-2000 $m*	*2000-01 $m*
Selected Social Security Recipients			
Holders of pensioner concession cards, Department of Veteran Affairs (DVA) TPI Card, DVA Gold War Widows Card (based on income or based on disability pension rate) are exempt from the fee.	25.7	25.6	26.6

Minor Tax Expenditures (< $1 million)

- Exemption for Mobile Disability Conveyance.

ACCOMMODATION LEVY

The benchmark is defined to be a levy equal to 10 percent of the value of accommodation provided by all commercial premises in the areas of the Sydney and North Sydney Central Business Districts described in the *Accommodation Levy Act 1997*. The tax commenced on 1 September 1997. From 1 July 2000 the tax will cease as part of national tax reform.

Table C.15: Accommodation Levy

Major Tax Expenditures	*1998-99 $m*	*1999-2000 $m*	*2000-01 $m*
Backpackers and Youth Hostel exemption			
Backpacker hostels and youth hostels are exempt from the levy	1	1.2	n.a.
Contracts signed with SOCOG by 31 December 1997			
Establishments signing contracts with SOCOG by 31 December 1997 to provide rooms over the period of the Olympics pay only 5 percent from 1 September 1997, 7 percent from 1 April 1998 and 10 percent from 1 September 1998.	5	n.a.	n.a.

Minor Tax Expenditures (< $1 million)

- Exemption for accommodation provided by cruise ships while in Port Jackson.

GAMBLING AND BETTING TAXES

The only areas where a different tax treatment is provided to essentially the same activity are in respect of gaming machines in hotels and registered clubs and the taxation of totalisators operated by racing clubs. The benchmark for gaming machines in hotels and registered clubs is defined to be the rates of taxation applying to hotels. Changes arising from national tax reform are outlined in Chapter 3.

The benchmark for totalisators to 28 February 1998 was the various tax rates applying to different types of bets placed with the TAB. From 1 March 1998 these rates were replaced with an average tax of 28.2 percent of player loss. From 1 July 2000 this will be reduced to a rate of 19.1 percent as part of the national tax reform package, as outlined in Chapter 3.

Table C.16: Gambling and Betting Taxes

Major Tax Expenditures	*1998-99 $m*	*1999-2000 $m*	*2000-01 $m*
Club gaming machines			
From 1 April 1997 hotels have been permitted to operate poker machines. Poker machines installed in clubs registered under the *Registered Clubs Act 1976* are taxed at lower rates than poker machines installed in hotels.	360.0	384.1	417.9
Central monitoring system fee concession From 1 January 2001 all gaming machines in hotels and clubs are required to connect to a central monitoring system. Small and less profitable clubs are to be provided with a concession on the fees which are payable to the licensee of the central monitoring system.	n.a.	n.a.	1.3

Minor Tax Expenditures (< $1 million)

- A full rebate of tax is provided to racing clubs operating non-TAB Ltd pools.

PARKING SPACE LEVY

In 1998-99 and 1999-2000 the benchmark levy is defined as $400 per space in the areas of Sydney CBD, North Sydney and Milsons Point.

Effective from 1 July 2000, the benchmark is increased to $800 per space in these areas.

Additionally, a levy of $400 is placed on parking spaces in the areas of Chatswood, Parramatta, St Leonards and Bondi Junction.

Table C.16: Parking Space Levy

Major Tax Expenditures	*1998-99 $m*	*1999-2000 $m*	*2000-01 $m*
Exempt spaces in the Sydney CBD, Milsons Point and North Sydney region			
An exemption from the levy is granted to parking spaces for bicycles or motor bikes, parking of a motor vehicle by a person resident on the same premises, parking of a motor vehicle for the purpose of loading or unloading goods or passengers, parking of a vehicle by a person who is providing services on a casual basis, parking of a vehicle while a disabled person's parking authority is displayed, parking without charge of a motor vehicle on premises owned or occupied by the council of the local government area, parking without charge of a motor vehicle on premises owned or occupied by a religious body or religious organisation and the parking without charge of a motor vehicle on premises owned or occupied by a public charity or public benevolent institution.	3.4	3.5	7.0
Exempt parking spaces in the four new areas Effective form 1 July 2000, parking spaces for customers attached to retail outlets, hotels, motels, clubs, restaurants and medical centres are exempt from the $400 per space levy	n.a.	n.a.	6.0

C.2: DETAILED ESTIMATES OF CONCESSIONS

Details of concessions by function are shown below. Each concession is classified by type and a distinction is drawn between major concessions ($1 million or more) and minor concessions (less than $1 million).

Table C.17: Education

Major Concessions	*1998-99 $m*	*1999-2000 $m*	*2000-01 $m*
TAFE Concession for needy students			
Fees for TAFE courses are waived for students considered to be in need of financial assistance.	21.7	21.8	21.9
School transport subsidy scheme			
Private transport operators, the State Rail Authority and State Transit Authority provide eligible students with free transport to and from school.	354.9	389.3	402.9

Table C.18: Health

Major Concessions	1998-99 $m	1999-2000 $m	2000-01 $m
Ambulance service for pensioners			
Free transport by ambulance is provided for holders of pensioner health benefit cards.	43.2	44.1	45.7
Outpatient Pharmaceutical Scheme for Pensioners			
Free pharmaceuticals are provided for holders of pensioner health benefit cards.	2.1	2.1	2.2

Table C.19: Social Security and Welfare

Major Concessions	1998-99 $m	1999-2000 $m	2000-01 $m
Spectacles program			
The Department of Community Services covers the cost of vision aids to eligible pensioners/allowees and people on low incomes.	3.5	3.6	3.7
Charitable Goods Transport Scheme			
The Department of Community Services funds the costs incurred by charities in transporting clothing for recycling and certain other goods.	3.0	3.0	2.0
Pensioner Public Transport Concession Scheme			
Pensioners travel for less than full fare on public transport.	248.5	261.9	273.2
Taxi Transport Subsidy Scheme			
People with disabilities receive a concession on the cost of taxi travel.	9.4	9.9	11.0
Community Transport Scheme			
This Scheme addresses transport needs caused by location, isolation, passengers age, disability or factors relating to the time and/or cost of travel.	13.9	13.4	14.0

Table C.20: Housing and Community Amenities

Major Concessions	*1998-99 $m*	*1999-2000 $m*	*2000-01 $m*
Local council rates concession			
Local council rates are reduced by up to $250 for holders of Pensioner Concession Cards.	70.6	71.3	71.3
Sydney Water Corporation Pensioner Rate Concession			
Holders of Pensioner Concession Cards receive a 50 percent discount on water rates.	46.3	46.1	50.0
Sydney Water Corporation Exempt Properties concession			
Owners of properties which are used to provide non-profitable community services and amenities (principally local councils and charities) are exempt from the payment of water charges.	11.3	10.9	11.7
Transitional Water Rebates			
An additional special rate reduction for holders of Pensioner Concession Cards to reduce the hardship associated with the move to greater reliance on usage pricing.	14.5	14.1	14.7
Hunter Water Corporation Water Rate Concession			
Holders of Pensioner Concession Cards receive a 50 percent discount on water rates.	7.5	7.5	7.7

Minor Tax Expenditures (< $1 million)

- Blue Mountains septic pump-out service.

Table C.21: Recreation and Culture

Minor Tax Expenditures (< $1 million)

- Waterways Authority – concessional boat licence, registration and mooring fees for pensioners.
- Royal Botanic Gardens – concessional admission charges for pensioners and Seniors Cardholders for entry to the Tropical Centre, Mount Annan and Mount Tomah Botanic Gardens.
- National Parks and Wildlife Service – free day entry and 20 percent discount on annual passes for people holding pension concession and TPI cards.

- Historic Houses Trust – concessional admission charges for children and holders of seniors cards.

- Australian Museum – concessional admission charges for entry to special exhibitions for students, the unemployed and holders of pensioner health care cards, free general admission to seniors card holders, disadvantage school students, accompanying adults with school groups, Museum Society members and children under five years old.

- Powerhouse Museum – free entry for holders of Seniors cards and group supervisors, concessional membership fees for students, pensioners and the unemployed, free admission and reduced membership fee for schools for the disadvantaged, discount of $30 on household membership for country residents and free or reduced charges for public program activities and free use of venue for meetings for community and charitable groups.

Table C.22: Fuel and Energy

Major Concessions	*1998-99 $m*	*1999-2000 $m*	*2000-01 $m*
Electricity concession			
The Department of Community Services funds an electricity rebate to eligible pensioners, a rebate for users of certain life support equipment and in emergencies to consumers in financial need.	58.6	61.5	63.1

Minor Tax Expenditures (< $1 million)

- Sustainable Energy Development Authority rebates to purchasers of certain hot water systems.

Table C.23: Agriculture Forestry and Fishing

Minor Tax Expenditures (< $1 million)

- State Forests provides pensioner discounts on firewood permits for the collection of firewood and discounts to charitable organisations on the purchase of Christmas trees.

APPENDIX D: CLASSIFICATION OF AGENCIES

Agency/Activity	ABS[1] Category		Funding Category	
	General Government	Public Trading Enterprise[2]	Budget Dependent	Non Budget Dependent
Aboriginal Affairs, Department of	•		•	
Aboriginal Housing Office	•			•
Advance Energy		•		•
Ageing and Disability Department	•		•	
Agriculture, Department of	•		•	
Art Gallery of New South Wales	•		•	
Arts, Ministry for the	•		•	
Attorney General's Department	•		•	
Audit Office of NSW, The	•			•
Australian Inland Energy		•		•
Australian Museum	•		•	
Bicentennial Park Trust	•		•	
Board of Studies, Office of the	•		•	
Broken Hill Water Board		•		•
Building and Construction Industry Long Service Leave Payments Corporation	•			•
Cabinet Office	•		•	
Casino Control Authority	•		•	
Centennial Park and Moore Park Trust	•		•	
City West Housing Pty Ltd		•		•
Coal Compensation Board	•		•	
Cobar Water Board		•		•
Coleambally Irrigation Area		•		•
Commission for Children and Young People	•		•	
Community Services Commission	•		•	
Community Services, Department of	•		•	
Corrective Services, Department of	•		•	
Crime Commission, New South Wales	•		•	
Crown Land Development		•		•
Crown Land Homesites		•		•
Crown Leaseholds	•		•	

[1] *Australian Bureau of Statistics*

[2] *The Public Trading Enterprise or PTE sector is also referred to by the ABS as the Public Non Financial Corporations (PNFC) Sector.*

Agency/Activity	*ABS[1] Category*		*Funding Category*	
	General Government	*Public Trading Enterprise[2]*	*Budget Dependent*	*Non Budget Dependent*
Crown Transactions	•		•	
Darling Harbour Authority		•		•
Delta Electricity		•		•
Eastern Creek Raceway	•			•
Education and Training, Department of	•		•	
Energy and Utilities, Ministry of	•		•	
energyAustralia		•		•
Environment Protection Authority	•		•	
Environmental Planning and Assessment Act	•			•
Environmental Trust	•		•	
Ethnic Affairs Commission	•		•	
Fair Trading, Department of	•		•	
Film and Television Office, New South Wales	•		•	
Fire Brigades, New South Wales	•		•	
Fisheries, New South Wales	•		•	
Fish River Water Supply Authority		•		•
Freight Rail Corporation		•		•
Gaming and Racing, Department of	•		•	
Great Southern Energy		•		•
Health Care Complaints Commission	•		•	
Health, Department of (including Area Health Services, Ambulance Service of NSW, Corrections Health Service)	•		•	
Heritage Office (including Heritage Conservation Fund)	•		•	
Historic Houses Trust of New South Wales	•		•	
Home Care Service of New South Wales	•		•	
Home Purchase Assistance Authority	•			•
Home Purchase Assistance Fund	•			•
Honeysuckle Development Corporation	•			•
Housing, Department of		•		•
Hunter Water Corporation		•		•
Independent Commission Against Corruption	•		•	
Independent Pricing and Regulatory Tribunal	•		•	
Industrial Relations, Department of	•		•	
Information Technology and Management, Department of	•		•	

[1] *Australian Bureau of Statistics*

[2] *The Public Trading Enterprise or PTE sector is also referred to by the ABS as the Public Non Financial Corporations (PNFC) Sector.*

Agency/Activity	ABS[1] Category: General Government	ABS[1] Category: Public Trading Enterprise[2]	Funding Category: Budget Dependent	Funding Category: Non Budget Dependent
Insurance Ministerial Corporation, New South Wales	•			•
Integral Energy		•		•
Judicial Commission of New South Wales	•		•	
Juvenile Justice, Department of	•		•	
Land and Property Information New South Wales	•			•
Land and Water Conservation, Department of	•		•	
Land Titles Office	•			•
Landcom		•		•
Legal Aid Commission of New South Wales	•		•	
Legislature, The	•		•	
Local Government, Department of	•		•	
Lotteries, New South Wales State		•		•
Luna Park Reserve Trust	•			•
Macquarie Generation		•		•
Marine Ministerial Holding Corporation	•			•
Mineral Resources, Department of	•		•	
Ministerial Development Corporation	•			•
Motor Accidents Authority	•			•
Museum of Applied Arts and Sciences	•		•	
National Parks and Wildlife Service	•		•	
Newcastle Port Corporation		•		•
NorthPower		•		•
Olympic Co-ordination Authority	•		•	
Olympic Roads and Transport Authority	•		•	
Ombudsman's Office	•		•	
Pacific Power		•		•
Parliamentary Counsel's Office	•		•	
Parramatta Stadium Trust		•		•
Police Integrity Commission	•		•	
Police, Ministry for	•		•	
Police Service, New South Wales	•		•	
Port Kembla Port Corporation		•		•
Premier's Department	•		•	
Public Trustee	•			•
Public Prosecutions, Office of the Director of	•		•	

[1] *Australian Bureau of Statistics*

[2] *The Public Trading Enterprise or PTE sector is also referred to by the ABS as the Public Non Financial Corporations (PNFC) Sector.*

Agency/Activity	*ABS[1] Category*		*Funding Category*	
	General Government	*Public Trading Enterprise[2]*	*Budget Dependent*	*Non Budget Dependent*
Public Works and Services, Office of the Minister for	•		•	
Public Works and Services, Department of	•			•
Rail Access Corporation		•		•
Rail Services Australia		•		•
Registry of Births, Deaths and Marriages	•			•
Rental Bond Board	•			•
Roads and Traffic Authority	•		•	
Royal Botanic Gardens and Domain Trust	•		•	
Rural Assistance Authority	•		•	
Rural Fire Service, Department of	•		•	
Safe Food Production NSW	•			•
Sport and Recreation, Department of	•		•	
State and Regional Development, Department of	•		•	
State Electoral Office (includes Election Funding Authority of NSW)	•		•	
State Emergency Service	•		•	
State Forests of New South Wales		•		•
State Library of New South Wales	•		•	
State Rail Authority		•		•
State Records Authority	•		•	
State Sports Centre Trust	•			•
State Transit Authority		•		•
State Valuation Office	•			•
Stormwater Trust	•			•
Superannuation Administration Corporation	•			•
Sustainable Energy Development Authority	•		•	
Sydney Catchment Authority		•		•
Sydney Cricket and Sports Ground Trust		•		•
Sydney Harbour Foreshore Authority	•			•
Sydney Opera House Trust		•		•
Sydney Organising Committee for the Olympic Games		•		•
Sydney Paralympic Organising Committee Ltd		•		•
Sydney Ports Corporation		•		•
Sydney Water Corporation		•		•
Teacher Housing Authority of NSW		•		•
Tourism New South Wales	•		•	

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[2] *The Public Trading Enterprise or PTE sector is also referred to by the ABS as the Public Non Financial Corporations (PNFC) Sector.*

Agency/Activity	ABS[1] Category		Funding Category	
	General Government	Public Trading Enterprise[2]	Budget Dependent	Non Budget Dependent
TransGrid		•		•
Transport, Department of	•		•	
Treasury	•		•	
Urban Affairs and Planning, Department of	•		•	
Waste Planning and Management Fund	•			•
Waste Service NSW		•		•
Waterways Authority	•		•	
Wollongong Sports Ground Trust		•		•
Women, Department for	•		•	
WorkCover Authority (includes Sporting Injuries Committee)	•			•
Workers Compensation (Dust Diseases) Board	•			•
Zoological Parks Board		•		•

Note 1: This table only includes those agencies which have had information collected directly from them for the Budget Papers. Other agencies not specifically listed may be incorporated within other agencies.

Note 2: The NSW Treasury Corporation, the Fair Trading Administration Corporation and the controlled FANMAC Trusts, all Public Financial Enterprises, provide data that is included in these Budget Papers.

[1] *Australian Bureau of Statistics*

[2] *The Public Trading Enterprise or PTE sector is also referred to by the ABS as the Public Non Financial Corporations (PNFC) Sector.*