Budget Statement

2003-04

New South Wales

Budget Paper No. 2

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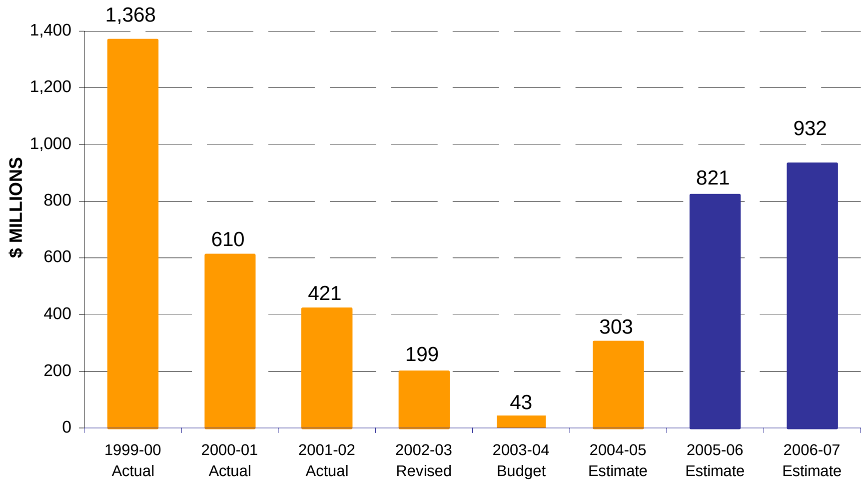
BUDGET OVERVIEW

FISCAL POSITION AND OUTLOOK

The Budget delivers a general government surplus of $43 million in 2003-04, surpluses in each of the forward years, and further reductions in net debt of the general government sector.

The Budget surplus of $43 million in 2003-04, increasing to $932 million by 2006-07, continues the pattern of consecutive surpluses over recent years (Chart 1).

Chart 1: Budget Result (Net Lending of the General Government Sector), 1999-2000 to 2006-07



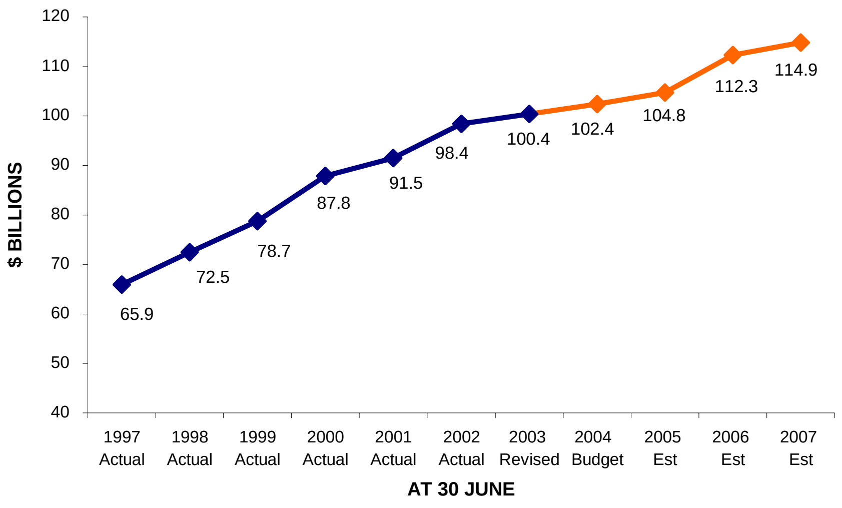
SOURCE: Chapter 1.

Net financial liabilities fall as a percentage of gross state product, and net worth hits $102.4 billion.

The financial strength of the State has improved significantly, with an average annual real increase in general government sector net worth of 5.0 percent from June 1997 to June 2003 (Chart 2).

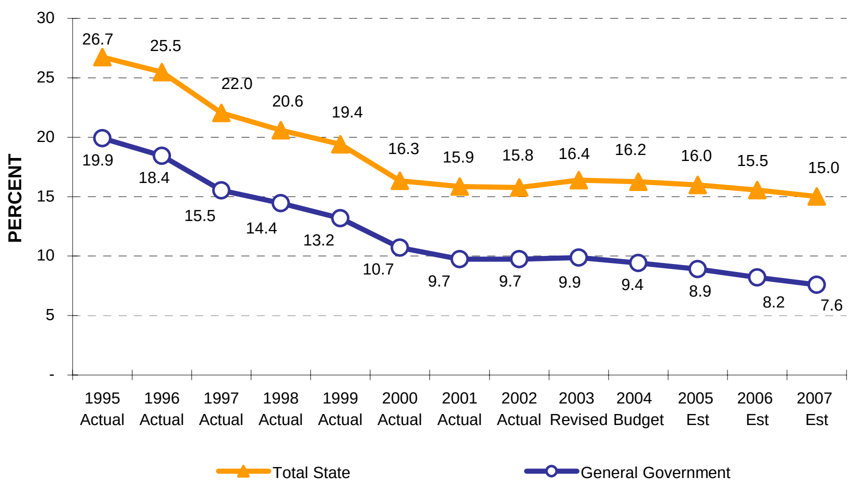
General government net financial liabilities will have declined from $32.8 billion (19.9 percent of GSP) in June 1995 to $25.8 billion (9.9 percent of GSP) in June 2003, and should decline further to $24.9 billion (7.6 percent of GSP) by June 2007 (Chart 3). Underlying net debt has also fallen significantly over the same period, both in dollar terms and as a proportion of GSP (Chart 4).

Chart 2: General Government Sector Net Worth, Nominal Terms



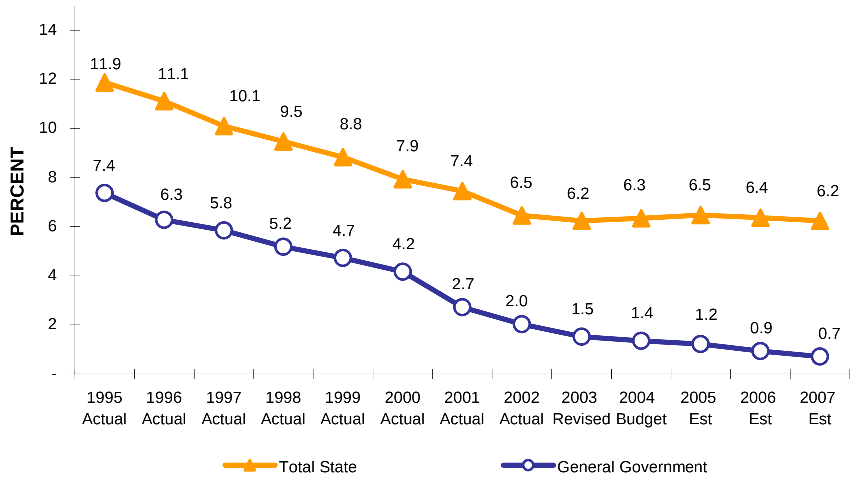
SOURCE: Chapter 4 for data from 1999.

Chart 3: Net Financial Liabilities as a Percentage of Gross State Product at 30 June, 1995 to 2007



SOURCES: Chapter 4 for net financial liabilities from 1999; GSP from ABS (actual) and NSW Treasury (estimates from 2002-03).

Chart 4: Underlying Net Debt* as a Percentage of Gross State Product at 30 June, 1995 to 2007



* *Excluding prepayment/deferral of superannuation contributions.*

SOURCES: Chapter 4 for underlying net debt from 1999; GSP from ABS (actual) and NSW Treasury (estimates from 2002-03).

The revised budget surplus for 2002-03 of $199 million is slightly higher than the budget estimate of $168 million. Above-budget revenue and a strong balance sheet enabled the Government to increase expenditure in priority areas, while delivering a surplus that contributed to a reduction of debt and other financial liabilities.

This Budget is framed within a fiscal strategy that aims to enhance service delivery in key areas; strengthen the State’s balance sheet and maintain a AAA credit rating; and maintain ongoing benefits to business and consumers of the Government’s tax reduction program since 1998-99.

In 2003-04, the expected rural recovery and moderate world growth will boost exports, but a modest housing downturn is expected to slow domestic demand and employment growth. Although aggregate output should improve in 2003-04, growth in domestic demand and employment will likely be slower than in 2002-03, with the balance of economic risks weighted to the downside (details in Chapter 5).

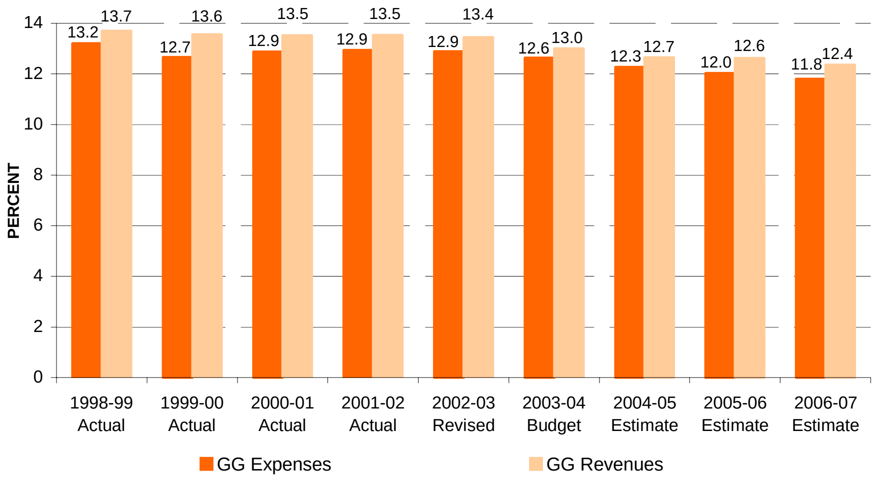
This Budget does not rely on a continuation of past rates of growth in volatile property markets. The smaller surplus in 2003-04 relative to previous years comes mainly from the expected slowdown in revenue growth. Nonetheless, the Government has still planned for additional expenditure growth in health, education, transport and social welfare.

Consistent with the fiscal strategy and the economic outlook, budget surpluses on a 'no policy change' basis will increase after 2003-04.

Fiscal outcomes are on track, with surpluses of $2.6 billion generated in the four years to 2002-03. Estimated surpluses in this Budget total $2.1 billion in the four years to 2006-07. Debt and net financial liability ratios remain low by historical standards.

New South Wales' fiscal fundamentals remain strong, with international credit rating agencies again reaffirming this State's AAA domestic debt rating and upgrading the foreign currency rating to AAA in 2002-03. The State is well positioned for a period of weaker revenue growth anticipated in this Budget. Both revenues and expenses will grow by less than nominal GSP in 2003-04 (Chart 5).

Chart 5: General Government Revenues and Expenses* as a Percentage of Gross State Product, 1998-99 to 2006-07



* *Exclude Commonwealth payments through the State to third parties.*

SOURCE: Chapter 1 for estimates from 2001-02.

Financial liability management measures are directed at maintaining a sustainable fiscal position, enabling progress towards medium and long-term fiscal targets. These measures include full funding of the Treasury Managed Fund self-insurance scheme by 2003, and periodic review of superannuation employer contribution levels. (See Chapter 4 for details on balance sheet management measures and trends in financial liabilities and net worth).

Chapter 1 of this Budget Paper summarises progress against the principles and targets in the *General Government Debt Elimination Act* and provides detail on the fiscal strategy, fiscal position and outlook for this Budget. Table 1 below summarises key fiscal aggregates for the general government sector.

Table 1: Key Fiscal Aggregates, General Government Sector

	1998-99 Actual	1999-00 Actual	2000-01 Actual	2001-02 Actual	2002-03 Revised	2003-04 Budget	2004-05 Est	2005-06 Est	2006-07 Est
IN $BILLIONS:									
- Revenues	28.9	30.5	32.1	33.8	35.2	35.9	37.0	39.1	40.6
- Expenses	27.9	28.5	30.6	32.3	33.8	34.9	35.9	37.3	38.7
- Budget Result	(-) 0.1	1.4	0.6	0.4	0.2	....[(a)]	0.3	0.8	0.9
- Net Financial Liabilities	27.9	24.1	23.1	24.3	25.8	26.0	26.1	25.4	24.9
- Underlying Net Debt	10.0	9.4	6.5	5.1	4.0	3.7	3.6	2.9	2.4
NOMINAL ANNUAL GROWTH % [(b)]:									
- Revenues	5.8	5.5	5.2	5.1	4.3	2.1	3.1	5.6	3.7
- Expenses	7.2	2.2	7.2	5.5	4.7	3.4	2.9	3.9	3.8
- GSP	5.3	6.6	5.5	5.0	5.0	5.5	5.9	5.9	5.9

(a) A surplus of $43 million.

(b) Table shows nominal growth for consistency with the requirements of the fiscal principle on expenditure constraint in the General Government Debt Elimination Act 1995.

SOURCE: Chapter 1.

SERVICE DELIVERY

The Government has committed $34.9 billion in this Budget for expenses and $3.5 billion for capital investment by the general government sector.

This Budget provides for both new and ongoing measures that meet the Government's strategic objectives. These objectives include responsible fiscal management; improved public transport services; healthier and safer communities; improved student outcomes; and improved environmental and natural resource management.

General government expenses increase in nominal terms by 3.4 percent in 2003-04 and by an annual average 3.5 percent in the four years to 2006-07.

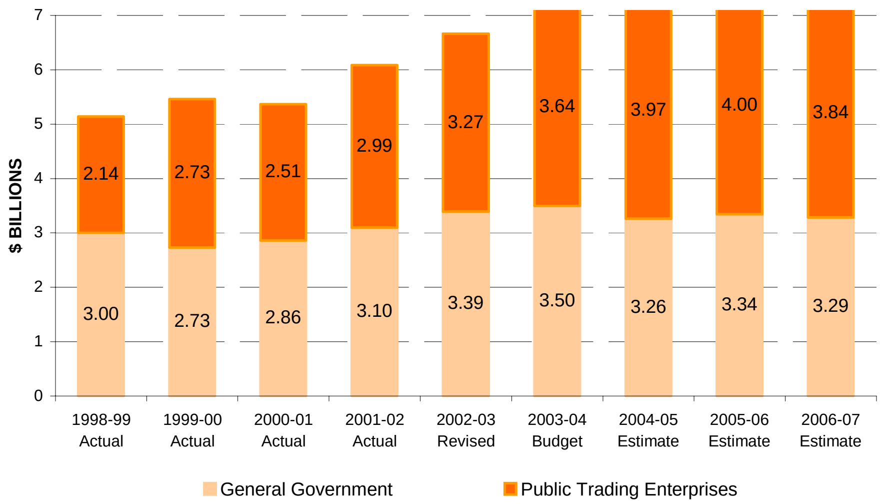
This Budget provides for initiatives affecting general government sector expenses worth $314 million in 2003-04. Savings in non-salary operating expenses of $99.5 million in 2003-04 will partly fund new spending. (See Chapter 2 for more details on general government sector budget initiatives and Budget Paper No.3 for expenses by portfolio and by agency.)

Total State capital spending of $7.1 billion in 2003-04 is 7.2 percent more than in 2002-03 (Chart 6), and includes $1.2 billion of new works commencing in the budget year and with an estimated total cost of $3.4 billion.

General government sector capital investment of $3.5 billion in 2003-04 includes new works worth $380 million in 2003-04 and with a total estimated cost of $1.6 billion.

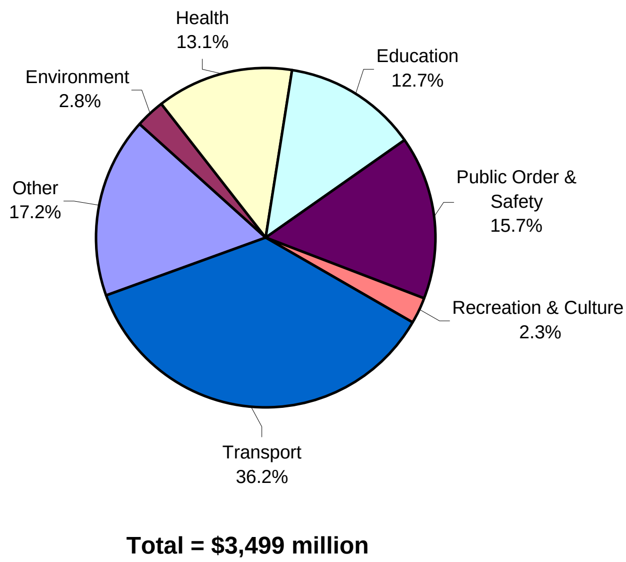
Transport, public order and safety, health and education account for the bulk of general government investment in 2003-04 (Chart 7). Budget Paper No. 4 provides further details of the State asset acquisition program.

Chart 6: State Asset Acquisition Program, 1998-99 to 2006-07



Source: Budget Paper No.4.

Chart 7: General Government Asset Acquisitions by Policy Area, 2003-04



SOURCE: Budget Paper No. 4.

REVENUES

This Budget introduces a number of revenue measures over the next two years.

Closing loopholes and base-broadening will account for most of the estimated impact ($32 million in 2003-04) of new tax measures to be implemented in 2003-04. In addition, club and hotel gaming duty changes to be introduced from the 2004-05 financial year will be phased in over a period of seven years.

These measures reflect the Government's commitment to maintain a sound fiscal position over the course of an economic cycle, while at the same time ensuring predictability and stability of the tax regime.

Notwithstanding these latest measures which increase revenue, all tax policy changes implemented since 1998-99 will result in annual tax revenue being $1.4 billion less in 2003-04 than it would otherwise have been. This includes payroll tax rate reductions (cumulative $638 million), abolition of debits tax ($312 million) and general insurance duty rate reductions ($231 million).

Chapter 3 provides details on State own-source revenue including the impact of tax policy measures, and Chapter 7 discusses Commonwealth payments to New South Wales.

CHAPTER 1: FISCAL STRATEGY, POSITION AND OUTLOOK

- The 2003-04 Budget is based on a medium term fiscal strategy designed to support the Government's priorities for service delivery by:
  - reducing net debt and other financial liabilities to sustainable levels;
  - constraining aggregate expenditure while supporting spending priorities; and
  - maintaining a competitive tax regime that is conducive to business investment.
- Revised estimates for 2002-03, Budget estimates for 2003-04 and forward estimates to 2006-07 represent further progress towards the goals of the medium-term strategy.
- The estimated Budget surplus of $199 million in 2002-03 is slightly higher than the original budget estimate of $168 million. Underlying general government sector net debt has declined further from 2.0 percent of gross state product in June 2002 to 1.5 percent of GSP in June 2003.
- Net financial liabilities of the general government sector have been relatively stable in recent years, standing at 9.9 percent of GSP in June 2003 after falling from 18.4 percent of GSP in June 1996. On a 'no policy change' basis they are expected to decline to 7.6 percent of GSP by June 2007.
- General government sector net worth of $100.4 billion in June 2003 is $2 billion or 2.0 percent above the June 2002 level. Net worth should increase further to $114.9 billion by June 2007, for an annual average increase of about 3 percent in real terms between June 1997 and June 2007.
- This Budget provides for a surplus of $43 million in 2003-04 and surpluses in each of the three years to 2006-07.
- Underlying net debt will decline by $266 million in 2003-04 and by a further $1.4 billion during the subsequent three years.
- Public sector wages policy aims for stability in real rates of pay in new agreements.

1.1 FISCAL STRATEGY STATEMENT

This section summarises the medium-term fiscal strategy; discusses recent progress towards fiscal sustainability; outlines the Government's public sector wages policy; and reports progress against key targets and principles in the *General Government Debt Elimination Act 1995.*

MEDIUM-TERM FISCAL STRATEGY

What the strategy entails

The objective of the fiscal strategy is to ensure that the State has the financial resources to support ongoing service delivery through:

- reducing net debt and other financial liabilities to levels where the State's finances could absorb adverse cyclical economic or short-term fiscal shocks without the need for disruptive expenditure cuts or tax increases[1];

- constraining aggregate expenditure while supporting spending priorities; and

- maintaining a competitive tax regime that is conducive to business investment and the State's future growth.

Implementation of the strategy requires**:**

- reducing and then maintaining *total* financial liabilities at a sustainable level;

- judiciously managing both the *mix* of liabilities (debt, unfunded superannuation and insurance) and the level and composition of financial assets;

- maintaining general government sector budget surpluses during periods of above-trend revenue, but allowing deficits if necessary in cyclical downturns. Revenues are more sensitive to economic conditions than expenditures, necessitating the achievement of a sustainable *level* of net financial liabilities;

[1] *When net financial liabilities are at a sustainably low level, they can be increased to some extent in the event of, for example, a cyclical downturn producing below-trend tax revenues, without threatening the State's AAA credit rating.*

- keeping general government expenditure growth within the underlying growth of the revenue base and anticipating, to the extent possible, short-term budget risks;

- taking into account the financial position of public trading enterprises, as these affect the budget both directly (mainly through financial distributions received and subsidies paid) and indirectly (for example, via guarantees); and

- in the longer term, building up the fiscal capacity to deal with foreseeable long-term budgetary pressures such as demographic trends, technological advances and global competition.

Maintaining Fiscal Sustainability

Reductions in net debt and other financial liabilities in recent years have considerably strengthened the State's financial position, providing increasing flexibility to manage the State's balance sheet according to evolving economic and fiscal circumstances.

The *General Government Debt Elimination Act* (GGDEA) sets June 2005 as the target date for the general government sector net debt to reach a sustainable level, and June 2020 as the target date to eliminate general government sector net debt[2].

Section 3 of the Act acknowledges that "sustainability" is defined not by a fixed set of criteria or by absolute thresholds, but by the combination of fiscal and economic circumstances prevailing at any given point in time.

Section 7 of the Act names some of the factors relevant to assessing the sustainability of the State's debt position. These include:

- the strength and outlook for the economy;

- the structure of expenditure and revenue of the budget;

- the outlook for the State's credit rating, and aiming for the highest rating possible as judged by internationally recognised credit rating authorities;

- exposure to budget risks faced by the Government at any given time; and

- demographic, social and other long-term trends that may affect the budget.

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[2] *Net debt is the value of gross debt less the value of financial assets held. The Act does not require that the Government no longer hold any debt by June 2020, but that its financial assets by that time should be sufficient to cover its gross debt.*

The 2002-03 Budget Papers stated that based on estimates at that time, the medium-term target of a sustainable level of general government sector net debt could be achieved by June 2005 or earlier. Since then, the further decline in net debt has established sustainability in respect of net debt, but net financial liabilities have increased.

The following provides the status of key fiscal aggregates to date. Except where no comparable data is available for earlier years, the discussion covers the period from the year 1995-96 onwards, as the *General Government Debt Elimination Act* came into effect in December 1995[3].

- General government cash surpluses totalled about $3.7 billion in the seven years to 2002-03. Average annual growth of total expenses (excluding finance costs) of the general government sector broadly kept pace with that of total revenue during the same period.

- Revenue growth and a strong balance sheet have enabled the funding of government responses to one-off shocks (eg, the collapse of HIH, the drought) and increased spending in priority areas (eg, health, social welfare, public order and safety, transport and education).

- Surpluses have been applied towards reducing net debt, unfunded superannuation and other financial liabilities. As a result, underlying general government sector net debt stands at $4 billion (1.5 percent of gross state product) in June 2003, down from $11.1 billion (6.3 percent of GSP) in June 1996. This represents an average annual reduction of 13.5 percent during the period.

- Consequently, the ratio of general government net interest to revenue progressively fell from 8.1 percent in 1995-96 to 2.2 percent in 2002-03. Finance expenses in 2002-03 were in the order of $800 million - less than half the level in 1995-96 – and should fall to around $700 million in 2006-07.

- Total state sector underlying net debt stood at $16.3 billion or 6.2 percent of GSP in June 2003, down from $19.6 billion or 11.1 percent of GSP in June 1996.

[3] *However, the first Budget to fully take into account the requirements and principles of the Act was the 1996-97 Budget, as the 1995-96 Budget had been issued before the Act came into effect.*

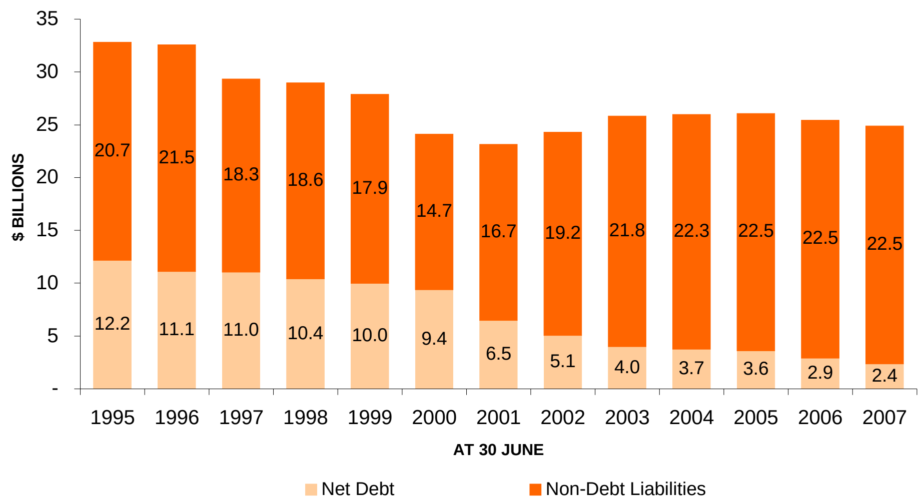
- Net financial liabilities of the general government sector amount to $25.8 billion (9.9 percent of GSP) at June 2003, down from $32.6 billion (18.4 percent of GSP) in June 1996. Corresponding numbers for the total State sector are $42.9 billion (16.4 percent of GSP) at June 2003, down from $45 billion (25.5 percent of GSP) seven years earlier.

- The total state sector underlying net unfunded superannuation liability is $14.1 billion (5.4 percent of GSP) at June 2003, about $700 million lower than the $14.8 billion (8.3 percent of GSP) in June 1996. Although the unfunded liability has increased following a sharp decline in superannuation fund investment returns and actuarial revaluations over the past two years, the unfunded liability was reduced significantly in the five years to 2000-01.

The record demonstrates that the overall financial position of the New South Wales Government has improved substantially over the last seven years. This is most clearly shown by reduced general government net debt, which has reached low levels and would appear to be sustainable. In the last two years, however, net unfunded superannuation liabilities have risen, principally reflecting consecutive years of declining global equity markets.

As a consequence, general government net financial liabilities have increased in dollar terms (see Chart 1.1). This underscores the need for continuing to focus on improving the overall financial position of New South Wales notwithstanding the low level of net debt.

Chart 1.1: Debt and Non-Debt Liabilities of the General Government Sector at 30 June, 1995 to 2007



Source: Section 1.3, Chapter 1.

The low level of net debt permits increasing flexibility in the management of the State's balance sheet. Future surpluses will be directed more towards increasing superannuation assets, rather than further reductions in net debt. This permits the twin targets of eliminating general government net debt by 2020 and total state sector unfunded superannuation liabilities by 2030 to remain on schedule.

Despite the negative pooled fund investment returns in the last two years and the demographic changes that have increased gross liabilities since the revised 1995 funding plan, New South Wales' superannuation liability position has improved substantially. The 1995 funding plan projected 2003 unfunded liabilities to be $14,736 million, or $1,555 million more than the estimated liability at June 2003. On current estimates, unfunded superannuation liabilities by June 2007 will be about $2.1 billion below the level previously estimated in the 1995 funding plan.

For the 2003-04 year, transfer duty (formerly contracts and conveyancing duty) revenue is expected to decline by about 5 percent as a result of weaker property market activity and slower growth in state final demand. In that context, targeting a small surplus is consistent with the Government's fiscal strategy.

Higher surpluses projected beyond 2003-04, as revenue growth returns to around trend rates, will continue to improve the fiscal position and provide some capacity to meet fiscal demands (either expenditure enhancements or tax reductions) over this period.

Adherence to the expenditure growth cap in the *GGDEA* is important in achieving sustainable budget outcomes. This Budget provides for total expense growth in real terms of 1.3 percent in 2003-04 and 1.1 percent as an annual average in the four years to 2006-07 under existing policies – below the 2.1 percent annual average during the four years ending in 2002-03.

As required by the *GGDEA*, nominal growth in total expenses provided in this Budget, averaging 3.5 percent for the four years to 2006-07, is below the 5.8 percent projected average annual growth in nominal GSP for the same period. Savings measures introduced in this Budget will aid adherence to the expenditure cap.

Consistent with a sustainable general government sector fiscal position and progress towards long-term fiscal targets, this Budget projects that general government sector underlying net debt will decline from $4 billion (1.5 percent of GSP) in June 2003 to $3.6 billion (1.2 percent of GSP) by June 2005, and then to $2.4 billion (0.7 percent of GSP) by June 2007. General government net financial liabilities will decline from $25.8 billion (9.9 percent of GSP) to $24.9 billion (7.6 percent of GSP) over the same period.

The Government's overall fiscal strategy takes into account the financial position of the state sector as a whole, including public trading enterprises (PTEs).

Since the financial position of these enterprises affects the budget, judgements about the State's fiscal sustainability need to consider the net debt and net financial liabilities of the total state sector, while being cognisant of the commercial criteria applying to most PTE debt. Unlike general government sector debt, PTE debt supports assets that can generally earn a financial return and therefore generate revenues to cover expenses associated with the debt[4].

In this Budget, PTE capital programs and the maintenance of commercially comparable gearing levels will result in PTE net debt increasing over the four years to 2006-07. In the next four years a $15.5 billion investment by government businesses to upgrade electricity and water networks and improve the freight rail track in the Hunter Valley, among other things, will be partly funded by $5.8 billion of PTE net debt.

These new income-earning investments will contribute to the $6.3 billion in dividends and other payments that government businesses are expected to provide to the Budget in the next four years.

As government businesses invest in new income-earning infrastructure, the value of taxpayers' equity in those businesses rises. Between 1998 and 2003 the value of taxpayers' investment in government businesses rose by $8.4 billion to $50.3 billion, while the net debt carried by these businesses rose by $4.4 billion.

[4] *Management of the financial liabilities of the public trading enterprise (PTE) sector differs fundamentally from that of the general government sector in that the latter's assets that are at least partially purchased with debt do not earn a financial return, and revenues to service GG debt is funded by taxation revenue. Therefore, for any given taxation policy regime, debt servicing by the general government sector diverts resources from service delivery.*

General government equity in the PTE sector should increase to $51.2 billion by June 2004 and then to $59.2 billion by June 2007. This reflects the fact that increases in PTE debt partly fund PTE capital expenditure and an increase in PTE assets to meet growing demand. General government equity in the PTE sector will have increased by $8.9 billion between June 2003 and June 2007, while PTE net debt will have risen by only $5.8 billion in the same period.

Notwithstanding the increase in PTE debt, this Budget provides for total state sector underlying net debt as a proportion of GSP to remain stable at about 6 percent. Interest expense as a proportion of total revenues of the non-financial public sector[5] will likewise remain stable at about 3.5 percent between June 2003 and June 2007, after having declined from 6.4 percent five years earlier.

PUBLIC SECTOR WAGES POLICY

The most important single factor in the future growth of expenses, and therefore the budget result, will be the general government sector's employee costs. Employee expenses comprise almost 50 percent of total expenses.

Each one percent increase in employee expenses – either from increases in rates of pay or numbers of staff – weakens the budget result by $150 million.

Public sector wage costs are largely fixed for 2003-04, as most employees are covered by wage agreements that run until June 2004. As these agreements expire, wage costs become more uncertain.

The Government will adopt the same policy for all new wage agreements, beginning with teachers from January 2004.

In each case, the Government will seek to maintain the real value of wages. This implies wage rises of around 3 percent a year.

The Government's wages policy will maintain the value of the substantial real wage increases provided to public sector employees since 1996, which are in the range of 15-20 percent, or an average of about 17 percent over that period.

The Government will not tie these wage increases to any improvements in productivity or efficiency. Public sector reforms will be pursued outside wage agreements.

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[5] *The non-financial public sector is the sum of the general government sector and the public trading enterprise sector. These two sectors comprise the bulk of the total State sector, which also includes public financial enterprises.*

The Government's wages policy reflects what the public sector can afford at a time when the budget projects large increases in spending on health, education, community services and other government services, and only modest increases in revenue.

RECENT PERFORMANCE AND PROGRESS AGAINST FISCAL TARGETS AND PRINCIPLES

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

The *Public Finance and Audit Amendment (Budgeting and Financial Reporting) Act 2002 No 62* retained the objectives and terms of the *General Government Debt Elimination Act 1995*, but introduced amendments to:

- streamline legislative financial reporting requirements;
- clarify some of the fiscal principles;
- distinguish between broad principles and implementation instruments; and
- require another review of the Act in five years.

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

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

The first two matters are summarised in Table 1.1 below, with references to the appropriate parts of these Budget Papers for further details. The rest of Chapter 1 details the budget projections to 2006-07, while Chapter 5 provides projections for economic variables.

The Act also requires the Treasurer to present a statement that discusses the nature of, and the reasons for, any departure from Australian Accounting Standards and principles, and from Government Finance Statistics principles. Appendix G of Budget Paper No. 2 provides this statement.

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

Fiscal Principle	Progress Indicator	Legislative Requirement/ Target	Actual/Status
1. Adherence to fiscal targets:			
- Short term	Budget outcome	Sustainable general government (GG) sector surplus by 1998-99 (See Chapter 8 for a definition of the scope of the GG sector.)	***Achieved.*** A cash surplus of $408 million in 1998-99. Cash surpluses in each of the four years to 2002-03 (totalling over $3 billion) and projected for the four years ending 2006-07 (totalling $1 billion) demonstrate the sustainability of the surplus. (See section 1.4 of this chapter for details on the cash flow statement.)
- Medium term	GG sector net debt	Sustainable level by June 2005	***Achieved.*** GG sector underlying net debt ($4.0 billion or 1.5 percent of GSP by June 2003) now about a third of its June 1995 level ($12.2 billion or 7.4 percent of GSP). GG sector underlying net debt - excluding the Liability Management Fund, which further improves net debt – will be $3.6 billion (1.2 percent of GSP) by June 2005 and $2.4 billion (0.7 percent of GSP) by June 2007. (See section 1.3 of this chapter for details on the GG balance sheet and chapter 4 on net financial liabilities).
- Long term	GG sector net debt	Eliminated by 30 June 2020	***On target.*** Achievable given current level and projections.
	Total state sector unfunded superannu-ation liabilities	Eliminated by 30 June 2030	Employer contributions being assessed periodically to ensure full funding by 2030. Long-term funding plan recognises that gross liabilities will continue to increase to 2013, and then decline subsequently due to the retirement of active members. Total state underlying net unfunded liabilities reduced by $702m between June 1996 and June 2003. Total state underlying net unfunded superannuation liabilities of $14.1 billion (5.4 percent of GSP) in June 2003; and $14.8 billion (4.5 percent of GSP) by June 2007. (See Chapter 4 for developments regarding superannuation and other financial liabilities.)

Fiscal Principle	Progress Indicator	Legislative Requirement/ Target	Actual/Status
2. GG net worth	GG sector net worth	At least maintain in real terms	***On target.*** GG net worth increased by an average 5 percent per annum in real terms from June 1997 to June 2003. (Net worth data on a comparable basis is not available for periods prior to June 1997). GG net worth to be maintained in real terms in 2003-04 and increase by an average 1 percent per annum in real terms in the 4 years to June 2007. (See section 1.3 of this chapter for balance sheet details.)
3. Superannuation liabilities	Unfunded super liability of GG sector and PTE sector	Manage and fund the liability to meet the long-term target, subject to periodic review	(See Principle 1 on long-term targets above.)
4. Asset maintenance and asset management	Best practice asset maintenance or management policies	Progress reporting in budget papers on measures to implement this principle	***On target*.** 94 percent of monitored GG agencies have updated asset maintenance plans in place as at 30 April 2003. First edition of the *State Infrastructure Strategic Plan* published in December 2002, containing infrastructure priorities over the next 10 years. To be updated annually. Both as an asset management and risk management measure, new initiatives were introduced to strengthen the management and supervision of large information and communications technology (ICT) projects. (See Budget Paper No. 4 for more details on asset management.)
5. Constrained expenditure growth	Growth in net cost of services (NCOS) and expenses	4-year average annual growth (1) ending with the budget year; and (2) for budget year and forward estimates period, not to exceed growth in nominal GSP for the same periods	Average annual growth of the following variables for the 4-year period ending 2003-04 and the 4-year period ending 2006-07, respectively, are: • Total expenses 5.2 percent and 3.5 percent; • NCOS 5.7 percent and 3.6 percent; • Nominal GSP 5.2 percent and 5.8 percent. (See section 1.2 of this chapter for details on the operating statement; and Chapter 2 and Budget Paper No. 3 for details on expenses by portfolio and by agency.)

Fiscal Principle	Progress Indicator	Legislative Requirement/ Target	Actual/Status
6. Prudent risk management	Financial risk management comprising total state sector net financial liabilities; contingent liabilities; and total state debt and financial assets	Progress reporting in budget papers on measures to implement this principle	***On target*.** Aggregate risk is managed by Treasury, TCorp and Insurance Ministerial Corporation. Includes, among other things, ongoing review of asset allocation and risk management policies and procedures of authorities listed in the *Public Authorities (Financial Arrangements) Act 1987.* Agency and project level risk identification procedures and strategies are in place or being developed through the Financial Management Framework; the Commercial Policy Framework; and Total Asset Management guidelines. The latter incorporates *Working with Government: Policy and Guidelines for Privately Financed Projects* (Nov 2001) dealing with private sector participation in the provision of public infrastructure. (See Chapter 4 for details on aggregate financial risk management, and Budget Paper No. 3 on the Financial Management Framework and agency-level risk management.)
7. Tax restraint	Impact of tax policy measures	Adjustments to legislated tax rates, thresholds and bases to be made with maximum possible restraint; policies should enable predictability and stability of tax regime.	***On target.*** Net effect of all tax policy changes since 1998-99 is to reduce the NSW tax burden in 2003-04 by $1.4 billion p.a. (See Chapter 3 for details on tax revenue, measures introduced in this Budget, and the cumulative impact of past tax measures.)

1.2 GENERAL GOVERNMENT SECTOR OPERATING STATEMENT

2002-03 RESULT

The budget surplus for 2002-03 is estimated to be $199 million, compared with the 2001-02 Budget result of $421 million in 2001-02. Revenues are expected to be 4.3 percent or $1,448 million higher than in 2001-02 and expenses are expected to be 4.7 percent or $1,512 million higher. Asset acquisitions are projected to exceed 2001-02 by 9.6 percent or $297 million. Asset sales and other movements in non-financial assets are expected to be $60 million higher.

The budget surplus for 2002-03 is estimated to be $31 million higher than the 2002-03 Budget. Revenues are expected to be 4.6 percent or $1,564 million above budget, and expenses are expected to be 4.5 percent or $1,439 million higher than budget. Asset acquisitions are projected to exceed budget by 12.3 percent or $371 million, whereas asset sales and other movements in non-financial assets are expected to be $36 million lower than budget.

Further details of variations in 2002-03 are found in Section 1.5 and Appendix D.

2003-04 BUDGET

The budget result for the year 2003-04 is expected to be a surplus of $43 million (see Table 1.2). This result reflects slower growth in stamp duty collections and additional costs associated with the provision of better services in health, education, transport and social welfare. Results are expected to improve in the forward estimates due to a return to normal growth in taxation revenue and modest increases in expenses to be achieved through annual savings in operating costs.

The Government is committed to reducing debt and other financial liabilities. Underlying net debt is projected to fall by $266 million to $3.7 billion during 2003-04 and to less than $2.4 billion by June 2007. Over the same four years, net financial liabilities are projected to fall from $25.8 billion to $24.9 billion.

Revenue

Total state revenue is estimated to be $32,033 million, an increase of 2.9 percent or $893 million in 2003-04. Full details of revenue estimates are provided in Chapter 3.

Taxation revenue is expected to be $14,198 million, an increase of 2.0 percent or $280 million in 2003-04. Stamp duty revenue is expected to recede from its 2002-03 peak, and is budgeted to decrease by 3.5 percent or $179 million in 2003-04.

Payroll tax is expected to increase by 5.9 percent or $280 million due to increased employment and wages growth. Land tax is expected to increase by 10.3 percent or $117 million as a result of increased land values, offset by indexation of the tax-free threshold.

Taxes on motor vehicle ownership and operation are expected to increase by 4.4 percent or $49 million and gambling and betting taxes are expected to increase 4.8 percent or $36 million.

Commonwealth grants are expected to be $15,497 million, a 1.7 percent or $261 million increase in 2003-04.

Financial distributions are expected to be $1,496 million, representing a 25.5 percent or $304 million increase. The estimate provides for higher distributions from the electricity and water sectors and the first direct payment from Snowy Hydro. Further details of these distributions are contained in Chapter 3 of this Budget Paper.

Fines and regulatory fees are forecast to be $842 million, a 6.2 percent or $49 million increase, mainly due to drivers and riders licenses issued by the Roads and Traffic Authority.

Operating revenues are expected to be $3,903 million, a decrease of 3.8 percent or $156 million in 2003-04. The fall is mainly due to the receipt of one-off revenues in 2002-03 by the Roads and Traffic Authority. These revenues relate to upfront payments (partly a reimbursement of development costs) associated with the Cross City Tunnel ($97 million) and the Western Sydney Orbital Motorway ($193 million). The 2002-03 financial year also includes $80 million of land donated by the State Rail Authority to the Department of Transport.

These transactions are partially offset by a projected increase in investment revenue of $283 million due to a return to long term average investment returns, compared with the lower returns experienced in 2002-03.

Table 1.2: General Government Sector Operating Statement

	2001-02 Actual	2002-03 Budget	2002-03 Revised	2003-04 Budget	2004-05	2005-06 Estimate	2006-07
	$m	$m	$m	$m	$m	$m	$m
State Revenues							
Taxation	13,216	12,862	13,919	14,198	14,892	15,753	16,673
Commonwealth Grants	15,033	15,053	15,236	15,497	15,785	16,563	16,814
Financial Distributions	1,228	1,215	1,192	1,496	1,421	1,634	1,726
Fines, Regulatory Fees & Other	792	799	793	842	893	886	855
Total State Revenues	**30,269**	**29,929**	**31,140**	**32,033**	**32,991**	**34,836**	**36,068**
Operating Revenues							
Sale of Goods and Services	2,502	2,479	2,555	2,656	2,708	2,788	2,857
Investment Income	282	589	354	637	747	877	1,011
Grants and Contributions	316	382	429	346	319	324	328
Other	382	256	721	264	272	302	322
Total Operating Revenues	**3,482**	**3,706**	**4,059**	**3,903**	**4,046**	**4,291**	**4,518**
Expenses							
Employee Related							
- Superannuation	1,792	1,959	2,132	2,320	2,447	2,595	2,760
- Other	12,948	13,473	13,851	14,745	15,468	16,180	16,987
Other Operating	7,117	7,230	7,271	7,355	7,413	7,771	8,101
Maintenance	1,242	1,147	1,204	1,207	1,197	1,179	1,228
Depreciation and Amortisation	1,638	1,404	1,717	1,791	1,828	1,854	1,903
Current Grants and Subsidies	4,825	5,022	5,441	5,516	5,428	5,612	5,770
Capital Grants	1,832	1,340	1,381	1,182	1,365	1,365	1,279
Finance	868	760	777	796	764	760	712
Total Expenses	**32,262**	**32,335**	**33,774**	**34,912**	**35,910**	**37,316**	**38,740**
Net Cost of Services	**(28,780)**	**(28,629)**	**(29,715)**	**(31,009)**	**(31,864)**	**(33,025)**	**(34,222)**
Net Operating Surplus	**1,489**	**1,300**	**1,425**	**1,024**	**1,127**	**1,811**	**1,846**
Less: Asset Acquisitions *	3,096	3,022	3,393	3,499	3,262	3,342	3,286
Plus: Depreciation	1,638	1,404	1,717	1,791	1,828	1,854	1,903
Asset Sales & Other movements in Non-Financial Assets	390	486	450	727	610	498	469
BUDGET RESULT	**421**	**168**	**199**	**43**	**303**	**821**	**932**

* *Includes assets controlled under finance leases.*

Expenses

In 2003-04, expenses are estimated to be $34,912 million, an increase of 8.0 percent or $2,577 million over the 2002-03 budgeted expense.

Superannuation expenses are $361 million or 18.4 percent higher in 2003-04 compared to the 2002-03 budget. Crown superannuation contributions have been redirected to the General Government Liability Management Fund (GGLMF). This entity has been established as a non superannuation fund to accumulate Crown employer superannuation contributions. This is designed to manage superannuation liabilities more efficiently. As a result, the average unfunded liability balance of the superannuation scheme will increase resulting in an additional expense of $120 million. This increase will be mostly offset by increased investment income earned within the GGLMF.

Superannuation expenses have also risen due to demographic changes. The cost of superannuation pension benefits has increased by $29 million due to a steady improvement in pensioner longevity over the last five years. There has also been a reduction in the proportion of scheme members converting their pension benefits to lump sums at a cost of $12 million.

In addition, superannuation expenses have increased as a result of the assets held by the Schemes achieving investment returns in 2002-03 lower than the long term projected return of 7 percent per annum. Actual returns in 2002-03 are expected to be minus 3 percent, resulting in additional superannuation expense of $80 million.

Other Employee Related Expenses have increased 9.4 percent or $1.3 billion over the 2002-03 budgeted expense. This is largely due to public sector pay rises, the nurses' December 2002 interim decision and additional budget measures as detailed in Budget Paper 2, Chapter 2.

Other Operating Expenses covers a broad range of items including insurance claims, cleaning costs, rentals, telecommunication costs, stationery, training and development expenses and supplies.

Other operating expenses are 1.7 percent or $125 million higher than the 2002-03 Budget. This increase is below CPI indexation, due to savings of around $100 million, to be achieved across public sector agencies generally through efficiencies in service delivery. Health operating expenses are expected to rise by $128 million due to additional expenditure from private practice trust funds and general increases covered by increased health system revenues. Cleaning costs in education are expected to rise by $15 million, and within the Roads and Traffic Authority expenditure associated with Motor Registry Offices and road safety programs is expected to rise by $78 million.

These increases are partly offset by the $100 million one-off cost in 2002-03, for the remediation of land in Newcastle.

Maintenance is budgeted to be 5.2 percent or $60 million higher in 2003-04 than at the 2002-03 Budget. Maintenance of health system assets and minor equipment purchases is expected to increase by $33 million, while Roads and Traffic Authority maintenance will increase by $23 million largely as a result of a reclassification from capital projects.

The increase in the *Depreciation* expense of $387 million in 2003-04 is attributable to the Roads and Traffic Authority's change in accounting treatment and the incorporation of finance lease arrangements for motor vehicles.

Recurrent Grants are expected to be $494 million or 9.8 percent higher in 2003-04 compared to the 2002-03 Budget. Additional funding is being provided to State Rail Authority and State Transit Authority. Grants to the State Rail Authority have been increased by $150 million over the 2002-03 Budget to $959 million in total. State Transit Authority's grants have been increased by $27 million to a total of $242 million in 2003-04. The additional funding for rail will help improve safety, security and reliability.

Grants have also increased in 2003-04 due to a $63 million reclassification of Department of Housing works from capital to maintenance. Higher grants for community services programs of $54 million and home and community care services of $83 million are also expected in 2003-04.

Capital Grants are expected to be $158 million or 11.8 percent lower in 2003-04 compared to the 2002-03 Budget, due to the reclassification of Department of Housing works as maintenance and lower demand for First Home Owner grants.

Finance costs are budgeted to be $36 million or 4.7 percent higher in 2003-04 than in the 2002-03 Budget, due to the reclassification of the motor vehicle leasing facility from an operating lease to a finance lease. However, there will be an offsetting reduction in operating lease payments. Underlying finance costs are expected to remain constant in 2003-04, however they are expected to fall in the forward years due to ongoing reductions in gross debt. Refer to Chapter 4 for further detail.

In 2003-04, higher than average expenditure increases are expected in the key areas of health, education, transport, social welfare and roads.

A review of agency initiatives is provided in Chapter 2 and a more comprehensive expenditure analysis on an agency basis is contained in Budget Paper No. 3.

Appendix E contains a comparison of the 2003-04 Budget and the previous forward estimates of expenses for 2003-04, shown in the 2002-03 Budget Papers.

Asset Acquisitions

In 2002-03, general government asset acquisitions are projected to exceed budget by 12.3 percent or $371 million. In 2003-04, asset acquisitions are projected to reach $3,499 million, a further increase of 3.1 percent or $106 million.

In 2003-04, policing, health, corrective services and education all have capital expenditure programs in excess of $100 million and, in the case of roads, the program exceeds $1.2 billion.

The Department of Health's asset acquisition program in 2003-04 includes the upgrade of its ambulance service, the improvement of mental health care facilities, and the further development of rural health care services.

Education will continue the Schools Improvement Package, focusing on upgrades of school accommodation and internet services.

NSW Police's program includes a new corporate headquarters at Parramatta and an upgrade to a number of existing facilities.

Further details of the asset acquisition program are contained in Budget Paper No.4.

Asset acquisitions are expected to total nearly $13.4 billion in the four years to 30 June 2007, an increase of 10.8 percent or $1.3 billion over the four year period to 30 June 2003. When added to asset acquisitions in the PTE sector, the total state sector four-year capital acquisitions program is more than $28.8 billion, an increase of 22.3 percent or $5.3 billion, compared to the previous four-year period.

FORWARD ESTIMATES

The projected GFS operating statement of the general government sector for the four years to 2006-07 shows a series of surpluses.

Revenue

Total revenue is estimated to rise by an average 3.6 percent per annum over the four years to 2006-07. These increases are below the projected nominal rate of growth in gross state product (GSP) of 5.8 percent per annum.

Taxation revenue is expected to increase by an average 4.6 percent per annum. The forward years see a return to the long-term pattern whereby the growth in taxation revenue each year is less than the increase in nominal GSP.

Commonwealth grants are projected to increase by an average 2.5 percent per annum. Fines and regulatory fees are projected to increase by 1.9 percent per annum. Details of these trends are contained in Chapter 3.

Financial distributions in the forward years are projected to increase due to the growth in the electricity network businesses. The businesses are planning substantial investments in the network in response to increasing demand. Increasing numbers of new customer connections and increasing demand from existing customers are driving new levels of demand in peak periods. The increasingly widespread use of air-conditioners is a substantial cause of this new level of peak demand. This customer driven demand and requisite investment are increasing the size of the businesses and consequently their forecast distributions.

Higher distributions in forward years are also expected from the NSW generation sector, due also to the increase in customer demand.

Investment income is projected to increase significantly in the budget and forward estimate years. This is due to the redirection of superannuation contributions to the GGLMF. Further increases in investment revenue are due to a return to long term earning assumptions compared with below average investment returns in 2002-03. Further details of the GGLMF appear in Chapter 4 of this Budget Paper.

Operating revenues, apart from investment income, are expected to increase by an average 2.7 percent per annum.

Expenses

Expenses are expected to increase by an average of 3.5 percent per annum over the four years to 2006-07. These increases are below the projected nominal rate of growth in GSP, and compare with an average increase of 4.9 percent in the four years to 2002-03.

Over the forward estimates period expenditures are expected to increase across a broad area of government with particular focus in the areas of health, education, social welfare, transport, policing and roads. Agency initiatives impacting the forward estimates are detailed in Chapter 2.

1.3 GENERAL GOVERNMENT SECTOR STATEMENT OF FINANCIAL POSITION

Net worth

Net worth is estimated to be $100.4 billion by 30 June 2003, an increase of $2 billion compared with June 2002. Net worth is expected to further increase to $102.4 billion, by 30 June 2004. Net worth includes investments in the public trading enterprise (PTE) and public financial enterprise (PFE) sectors valued at over $50 billion.

The estimated increase in net worth of $2 billion during 2002-03 is due to an operating surplus of $1.4 billion, a $2 billion revaluation of assets in the PTE sector, and increases in land and fixed asset of $1.3 billion.

The increase in net worth of $2 billion in 2003-04 is due to an expected operating surplus of $1 billion, increased equity in the PTE sector of $0.9 billion and increases in land and fixed assets amounting to $1.1 billion.

The above increases have been partly offset by projected increases in superannuation liabilities. This is due to lower than expected investment returns, the increased life expectancy of defined benefit scheme members, and an increased preference for indexed pensions.

In 2002-03 PTE equity is expected to increase because of the revaluation of assets within the Department of Housing, Macquarie Generation and Delta Electricity along with an expected operating surplus of $293 million in the PTE sector. In 2003-04 PTE sector equity is expected to increase due to a $0.9 billion revaluation of Sydney Water assets and an expected $223 million operating surplus in the PTE sector. Further expected asset revaluations and surpluses of over $1.1 billion in this sector will see PTE and PFE equity grow to $59 billion by 30 June 2007.

In 2003-04 the asset acquisition program of the PTE sector is estimated to be $3,640 million, which is 9.3 percent or $309 million higher than the 2002-03 budget.

The expected increase in asset acquisitions are mainly in the Electricity and Transport sectors. The program for the electricity sector in 2003-04 is estimated at $1,370 million. This is driven by the requirement to replace ageing infrastructure and an increase in customer connections and electricity demand.

The transport portfolio's asset acquisition program in 2003-04 totals $1,130.7 million, which includes spending associated with the Government's rail improvement package. The program includes ongoing funding of both additional and replacement rolling stock, enhancements to rail infrastructure to improve service reliability and capacity, station upgrading to improve access, security and the provision of information to passengers.

By 2005-06 capital expenditure in the PTE sector is expected to increase to $4 billion. On-going capital investment will continue, particularly in the areas of electricity, transport and water

A review of the PTE and general government asset acquisition programs is contained in Budget Paper No.4.

Net financial liabilities

Net financial liabilities are projected to be $25.8 billion at June 2003, an increase of $1.6 billion since June 2002, mainly due to higher superannuation liabilities offset by the budget result and PTE capital returns. Net financial liabilities are projected to remain stable in 2003-04 and decrease over the forward years as a result of continuing surpluses and an expected improvement in investment returns. Chapter 4 provides a detailed analysis of net financial liabilities.

Underlying net debt

Net debt adjusted for the impact of the General Government Liability Management Fund (GGLMF) is projected to be $4 billion as at 30 June 2003. This is a $1.1 billion decrease since June 2002, attributable to budget cash surpluses in 2002-03, receipts from capital repatriations from the PTE sector and the Powercoal sale. Except for the Powercoal sale, similar factors are expected to cause net debt to fall by $266 million to $3.7 billion by 30 June 2004. Refer to Chapter 4 for further analysis of net debt.

Forward years

Land and fixed assets should rise by nearly $3 billion over the forward estimates period. This is broadly consistent with the Government's asset acquisition program, which exceeds depreciation by more than $1.1 billion per annum, while asset sales will average about $574 million per annum. This increase is consistent with fiscal principle No.2 in the *General Government Debt Elimination Act 1995.*

Investments and other non-equity assets (largely GGLMF) are expected to increase by nearly $7.4 billion offsetting the projected $7 billion increase in provisions, mainly related to unfunded superannuation liabilities.

As a percentage of GSP, net financial liabilities are projected to fall from 9.9 percent to 7.6 percent and underlying net debt is projected to fall from 1.5 percent to 0.7 percent, over the period from 30 June 2003 to 30 June 2007.

The projected increase in financial assets over this period will provide the Government with flexibility to re-set its funding plan to ensure unfunded superannuation liabilities are eliminated by the target date of 2030, while still achieving its objective of eliminating net debt by 2020.

Table 1.3: General Government Sector Statement of Financial Position, 2002 to 2007, as at 30 June (GFS Basis)

	2002 Actual	2003 Revised	2004 Budget	2005	2006 Estimate	2007
	$m	$m	$m	$m	$m	$m
ASSETS						
Financial Assets						
Cash and Deposits	1,719	1,104	866	887	662	568
Advances Paid	1,521	1,506	1,438	1,391	1,369	1,364
Investments, Loans and Placements	4,409	7,115	8,410	10,091	12,485	15,283
Other Non-Equity Assets	5,155	5,236	5,617	5,683	5,965	6,125
PTE/PFE Equity	47,855	50,016	50,942	52,368	58,133	58,980
Other Equity Assets	482	486	487	487	487	487
Total Financial Assets	**61,141**	**65,463**	**67,760**	**70,907**	**79,101**	**82,807**
Non-Financial Assets						
Land and Fixed Assets	73,916	75,229	76,321	77,233	78,296	79,289
Other Non-Financial Assets	952	1,021	1,122	1,226	1,346	1,485
Total Non-Financial Assets	**74,868**	**76,250**	**77,443**	**78,459**	**79,642**	**80,774**
TOTAL ASSETS	**136,009**	**141,713**	**145,203**	**149,366**	**158,743**	**163,581**
LIABILITIES						
Deposits Held	65	68	67	67	67	67
Advances Received	1,826	1,788	1,694	1,652	1,510	1,437
Borrowing	10,814	10,221	10,192	10,113	9,733	9,590
Provisions	21,363	25,480	27,461	29,605	31,936	34,429
Other Non-Equity Liabilities	3,511	3,733	3,402	3,165	3,167	3,204
TOTAL LIABILITIES	**37,579**	**41,290**	**42,816**	**44,602**	**46,413**	**48,727**
NET WORTH	**98,430**	**100,423**	**102,387**	**104,764**	**112,330**	**114,854**
Underlying Net Debt[(a)]	**5,056**	**4,003**	**3,737**	**3,590**	**2,909**	**2,358**
- as a % of GSP	**2.0**	**1.5**	**1.4**	**1.2**	**0.9**	**0.7**
Net Financial Liabilities[(b)]	**24,293**	**25,843**	**25,998**	**26,063**	**25,445**	**24,900**
- as a % of GSP	**9.7**	**9.9**	**9.4**	**8.9**	**8.2**	**7.6**

(a) Adjusted for prepayment of superannuation contributions in June 1999 and deferral of superannuation contributions for the period 1 July 1999 to 30 June 2007. As from 1 July 2002 contributions dedicated to superannuation will be made to the General Government Liability Management Fund, reducing unadjusted net debt.

(b) Excluding PTE/PFE equity.

1.4 GENERAL GOVERNMENT SECTOR STATEMENT OF CASH FLOWS

Table 1.4 shows the net cash flows of the general government sector from operating, investing and financing activities.

Net cash flows from operating activities will move broadly in line with the operating and balance sheet results. Net cash flows in 2002-03 are $1.1 billion more favourable than budget as the increase in receipts offsets the increase in payments.

Net cash flows for investments in non-financial assets in 2002-03 are $27 million below budget. This is attributable to higher asset sales offset by a minor increase in capital expenditure.

Cash surpluses are forecast in 2003-04, and in each of the forward years.

Table 1.5 shows GFS cash results from 1991-92 to 2006-07. The general government sector has been in surplus since 1996-97.

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

	2001-02 Actual	2002-03 Budget	2002-03 Revised	2003-04 Budget	2004-05	2005-06 Estimate	2006-07
	$m	$m	$m	$m	$m	$m	$m
Cash Receipts from Operating Activities							
Taxes Received	13,341	12,842	13,860	14,183	14,885	15,755	16,677
Receipts from sales of goods & services	2,637	2,686	2,792	2,875	3,003	3,069	3,099
Grants/Subsidies Received	15,073	15,191	15,600	15,329	15,819	16,598	16,849
Other Receipts	3,664	3,559	3,977	4,181	4,508	4,662	5,050
Total Cash Receipts from Operating Activities	**34,715**	**34,278**	**36,229**	**36,568**	**38,215**	**40,084**	**41,675**
Cash Payments from Operating Activities							
Payments for goods & services	(21,798)	(23,314)	(23,723)	(24,918)	(26,014)	(26,877)	(28,101)
Grants & Subsidies Paid	(5,119)	(4,977)	(5,232)	(5,227)	(5,246)	(5,365)	(5,388)
Interest Paid	(848)	(760)	(797)	(873)	(731)	(926)	(692)
Other Payments	(1,879)	(1,554)	(1,685)	(1,810)	(1,730)	(1,756)	(1,797)
Total Cash Payments from Operating Activities	**(29,644)**	**(30,605)**	**(31,437)**	**(32,828)**	**(33,721)**	**(34,924)**	**(35,978)**
Net Cash Flows from Operating Activities	**5,071**	**3,673**	**4,792**	**3,740**	**4,494**	**5,160**	**5,697**
Cash Flows from Investments in Non-Financial Assets							
Purchases of New Non-Financial Assets	(2,745)	(3,022)	(3,046)	(3,152)	(3,089)	(3,217)	(3,161)
Sale of Non-Financial Assets	424	435	486	684	566	473	442
Total Cash Flows from Investments in Non-Financial Assets	**(2,321)**	**(2,587)**	**(2,560)**	**(2,468)**	**(2,523)**	**(2,744)**	**(2,719)**
Cash Flows from Investments in Financial Assets							
Financial Assets for Policy Purposes	756	538	854	188	44	228	54
Financial Assets for Liquidity Purposes	(575)	(538)	(2,703)	(1,299)	(1,683)	(2,394)	(2,796)
Cash Flows from Financing Activities							
Advances Received (net)	(220)	(40)	(38)	(95)	(41)	(142)	(73)
Borrowing (net)	(2,122)	(562)	(939)	(305)	(268)	(331)	(256)
Deposits Received (net)	(5)	(1)	2	(1)	(1)	(1)	(1)
Total Cash Flows from Financing Activites	**(2,347)**	**(603)**	**(975)**	**(401)**	**(310)**	**(474)**	**(330)**
Net Increase/(Decrease) in Cash held	**584**	**483**	**(592)**	**(240)**	**22**	**(224)**	**(94)**
Net Cash from Operating Activities Investments in Non-Financial Assets and Distributions Paid	**2,750**	**1,086**	**2,232**	**1,272**	**1,971**	**2,416**	**2,978**
Assets acquired under finance leases	**(351)**	**...**	**(347)**	**(347)**	**(173)**	**(125)**	**(125)**
Surplus/(Deficit)	**2,399**	**1,086**	**1,885**	**925**	**1,798**	**2,291**	**2,853**
Impact of prepaid superannuation contributions	(1,134)						
Liability Management Fund		(951)	(1,651)	(847)	(1,629)	(1,988)	(2,364)
Adjusted Surplus/(Deficit)	1,265	135	234	78	169	303	489

Table 1.5: General Government Cash Results (GFS basis), 1991-92 to 2006-07[c]

Year	Current			Capital			Cash Flows from Operating Activities			Asset Acquisitions[d]	Asset Sales $m	Superannuation adjustments[a]	**Uderlying Surplus/ (Deficit) $m**
	Outlays $m	Receipts $m	Result $m	Outlays[b] $m	Receipts $m	Result $m	Payments $m	Receipts $m	Result $m				
1991-92	16,060	16,101	**41**	2,692	1,047	**(1,645)**							**(1,604)**
1992-93	16,748	16,749	**1**	2,988	1,776	**(1,212)**							**(1,211)**
1993-94	17,069	18,178	**1,109**	3,326	1,310	**(2,016)**							**(907)**
1994-95	17,819	19,122	**1,303**	2,962	1,048	**(1,914)**							**(611)**
1995-96	18,325	20,417	**2,092**	3,290	936	**(2,354)**							**(262)**
1996-97	19,717	22,100	**2,383**	3,359	1,086	**(2,273)**							**110**
1997-98							24,576	26,820	**2,244**	(2,760)	522		**6**
1998-99							29,236	28,596	**(640)**	(3,002)	784	3,266	**408**
1999-2000							26,485	30,471	**3,986**	(2,734)	626	(1,005)	**874**
2000-01							28,453	32,758	**4,306**	(2,859)	344	(1,058)	**733**
2001-02							29,644	34,715	**5,071**	(3,096)	424	(1,134)	**1,265**
2002-03							31,437	36,229	**4,792**	(3,393)	486	(1,651)	**234**
2003-04							32,828	36,568	**3,740**	(3,499)	684	(847)	**78**
2004-05							33,721	38,215	**4,494**	(3,262)	566	(1,629)	**169**
2005-06							34,924	40,084	**5,160**	(3,342)	473	(1,988)	**303**
2006-07							35,978	41,675	**5,697**	(3,286)	442	(2,364)	**489**

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

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

(c) Aggregates in prior years may vary from those previously published because of changes in classifications and backcasting for consistency.

(d) Includes assets controlled under finance lease.

1.5 GENERAL GOVERNMENT SECTOR OPERATING STATEMENT- 2002-03 RESULT

The revised budget result for 2002-03 is a surplus of $199 million (see Table 1.6). This compares to a budget time estimate of $168 million.

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

Revenue

Total State Revenues in 2002-03 are expected to be 4.0 percent or $1,210 million higher than budget. Full details are provided in Chapter 3.

Taxation revenue is expected to be 8.2 percent or $1,057 million higher than budget. Most of this variation is attributable to transfer duty, which is expected to exceed budget by $1,013 million, due to the continued high level of activity and prices in the property market.

Payroll tax revenue of $4,740 million will be $122 million below budget due to compositional changes in employment. Land tax revenue of $1,135 million will be $87 million higher than budget, due to land values rising faster than forecast.

Commonwealth grants are expected to exceed the budget estimate by $183 million. General purpose grants are expected to be $54 million higher than budget. Specific purpose payments are expected to be $129 million higher than budget, mainly in the areas of education and health.

Financial distributions are expected to be $23 million lower than the budget estimate.

Operating revenues are expected to be $4,059 million for 2002-03. This exceeds the budget estimate by $353 million. Full details are provided in Chapter 3.

Revenues from the s*ale of goods and services* are expected to exceed the budget estimate by $76 million or 3.1 percent.

Investment income is expected to be $235 million or 39.9 percent below the budget estimate due to the poor performance of equity markets.

Grants and contributions revenue is expected to exceed the budget estimate by $47 million mainly within health due to an increase in private donations and within transport, in relation to car park constructions.

Other revenue is expected to exceed the budget estimate by $465 million primarily due to revenue from two main RTA projects: the Cross City Tunnel and the Western Sydney Orbital Motorway.

Expenses

Increased revenue has been used to provide grants to the transport sector and improve services in the key areas of health, education, public order and safety, and community services. A summary of estimated expenses is contained in Appendix D and a detailed review of estimated expenses on an agency basis is contained in Budget Paper No.3.

Superannuation expenses in 2002-03 are expected to exceed the budget estimate by $173 million. This is due to lower than expected investment returns and the result of actuarial reviews which have projected longer life expectancies for defined benefit scheme members.

In 2002-03, there were increases in employee related expenses and other operating expenses over the budget estimate of 2.8 percent and 0.6 percent respectively. These were primarily in the areas of health and education.

In 2002-03, maintenance expenses are expected to be $57 million or 4.9 percent higher than the budget estimate. Health and roads are the main components of this increase.

Depreciation is expected to be $313 million or 22.2 percent higher than the budget estimate for 2002-03. This is largely attributable to the Roads and Traffic Authority's revised accounting treatment. Depreciation has no impact on the budget result.

In 2002-03, recurrent and capital grants are expected to exceed the budget estimate by $459 million or 6.7 percent. An additional $217 million has been paid to transport authorities and an additional $41 million was paid for community service refuges and residential care programs. Actuarial revisions to the HIH liability for third party motor vehicle claims and builders warranty claims, have increased this expense over the budget estimate by $50 million. Natural disasters expenses are expected to be $112 million higher than the budget estimate, mainly as a result of the summer bushfires and First Home Owner's Scheme grants are expected to be $9 million higher than the budget estimate.

Asset acquisitions in 2002-03 are projected to be $371 million or 12.3 percent higher than the budget estimate, primarily across the areas of transport, community welfare, roads and policing. Details of this variance are explained in Budget Paper No. 4.

Table 1.6: General Government Sector 2002-03 Operating Statement - Estimated Result

	2002-03		
	Budget	*Revised* *$m*	*Variation* *$m*
State Revenues			
Taxation	12,862	13,919	1,057
Commonwealth Grants	15,053	15,236	183
Financial Distributions	1,215	1,192	(23)
Fines, Regulatory Fees & Other	799	793	(6)
Total State Revenues	**29,929**	**31,140**	**1,211**
Operating Revenues			
Sale of Goods and Services	2,479	2,555	76
Investment Income	589	354	(235)
Grants and Contributions	382	429	47
Other	256	721	465
Total Operating Revenues	**3,706**	**4,059**	**353**
Expenses			
Employee Related - Superannuation	1,959	2,132	173
- Other	13,473	13,851	378
Other Operating	7,230	7,271	41
Maintenance	1,147	1,204	57
Depreciation and Amortisation	1,404	1,717	313
Current Grants and Subsidies	5,022	5,441	419
Capital Grants	1,340	1,381	41
Finance	760	777	17
Total Expenses	**32,335**	**33,774**	**1,439**
Net Cost of Services	**(28,629)**	**(29,715)**	**(1,086)**
GFS Operating Balance	**1,300**	**1,425**	**125**
Less Asset acquistions	3,022	3,393	371
Plus Depreciation	1,404	1,717	313
Asset Sales	486	450	(36)
BUDGET RESULT	**168**	**199**	**31**

CHAPTER 2: SERVICE DELIVERY

2.1 INTRODUCTION

An objective of the Government's fiscal strategy is to constrain aggregate expenditure while supporting spending priorities.

Section 2.2 of this chapter shows that while overall expenditure on spending priorities will increase in the budget and forward estimate years, expenditure as a percentage of GSP declines.

Section 2.3 illustrates how new spending initiatives in the budget and forward estimate years meet the priorities of government.

The Budget provides for new and significant ongoing initiatives that meet the Government's strategic objectives. The overarching theme is an improvement in the quantity and quality of service delivery. This will be achieved by investing in a well educated, healthy and safe community, improving natural resources management and modernising the State's infrastructure. For the most part, the initiatives in this Budget build on progress already achieved in these areas.

In each case this chapter shows the increase between the estimate of spending in 2003-04 contained in the 2002-03 Budget and the expenditure now budgeted for in 2003-04. As a result it includes items that were contained within the revised forward estimates published in the 2002-03 mid-year review. For example, more than $780 million of expenditure over four years in Community Services was decided upon after the 2002-03 Budget was delivered, but included in the mid-year review.

2.2 OVERVIEW: EXPENSES AND ASSET ACQUISITIONS

Total expenses of the general government sector on a Government Finance Statistics (GFS) basis increased in nominal terms by an annual average 4.9 percent in the four years to 2002-03. Increased spending on health, education, public order and safety, social welfare, transport and environmental protection accounted for the bulk of the growth in that period. Under policies announced in this Budget, total expenses will increase in nominal terms by 3.4 percent in 2003-04 and an average 3.5 percent per annum in the four years to 2006-07. The latter is below the average annual growth in total expenses during the four years to 2002-03.

Asset acquisitions of the general government sector will average $3.3 billion annually (including assets controlled under finance leases) in the four years to 2006-07. Fluctuations in annual nominal growth in asset acquisitions may be expected, given the traditionally lumpy nature of capital spending. The sum of capital investment in the four years to 2006-07 ($13.4 billion) is 10.8 percent higher than for the four years ending 2002-03.

Table 2.1: Expenses and Asset Acquisitions, 2001-02 to 2006-07

	2001-02 Actual	*2002-03 Revised*	*2003-04 Budget*	*2004-05 Estimate*	*2005-06 Estimate*	*2006-07 Estimate*
Total Expenses ($B) [(a)]	**32.3**	**33.8**	**34.9**	**35.9**	**37.3**	**38.7**
- % growth annual	5.5	4.7	3.4	2.9	3.9	3.8
- % growth, annual average for 4 years ending in [(b)]	5.5	4.9	5.2	4.1	3.7	3.5
- % of GSP	12.9	12.9	12.6	12.3	12.0	11.8
Asset acquisitions ($B) [(c)]	**3.1**	**3.4**	**3.5**	**3.3**	**3.3**	**3.3**
- % growth annual	8.3	9.6	3.1	-6.8	2.5	-1.7
- % growth, annual average for 4 years ending in [(b)]	2.9	3.1	6.4	3.4	1.9	-0.8
- % of GSP	1.2	1.3	1.3	1.1	1.1	1.0

(a) Differs from expenses shown in Table 8.8 of Chapter 8, which include expenses funded by Commonwealth payments through the State to third parties.

(b) A 4-year period is used for consistency with progress reporting requirements of the General Government Debt Elimination Act 1995 in relation to the fiscal principle on expenditure constraint. See Fiscal Strategy Statement in Chapter 1.

(c) Includes assets controlled under finance leases.

Source: Section 1.2, Chapter 1.

Section 2.3 provides more details on strategic objectives and major spending measures in this Budget. Budget Paper No. 3 provides details of expenses and asset acquisitions by portfolio and by agency.

2.3 STRATEGIC OBJECTIVES AND MAJOR BUDGET INITIATIVES

OVERVIEW OF BUDGET INITIATIVES

The Budget provides for new and significant ongoing initiatives that meet the Government's strategic objectives. The overarching theme is an improvement in the quantity and quality of service delivery. This will be achieved by investing in a well educated, healthy and safe community, improving natural resource management and modernising the State's infrastructure. For the most part, the initiatives in this Budget build on progress already achieved in these areas.

This Budget provides for the following:

- Initiatives affecting expenses total $313.5 million in 2003-04, increasing to $836.3 million in 2006-07. This excludes new activities funded by an internal reallocation of existing agency or portfolio resources and other funding.

- New asset acquisitions worth $333.4 million are scheduled to commence in 2003-04.

- Constraining increases to funding for other operating expenses (items such as travel, telecommunications, cleaning, and other non-labour costs) will save around $100 million and help fund spending increases in health, education, police and other agencies.

  Other Operating Expenses are 1.7 percent higher than the 2002-03 Budget. This increase is below CPI indexation of 2.5 percent due to the above mentioned savings.

Table 2.2 below summarises the impact of budget initiatives by major policy theme. The remainder of section 2.3 provides further details of budget initiatives. Budget Paper No. 3 provides more detail by agency, for those agencies not affected by the recent departmental restructure. Further information on agency asset acquisition programs can be found in Budget Paper No. 4.

Table 2.2: Summary of Major Budget Initiatives

	2003-04 Budget	2004-05 Estimate	2005-06 Estimate	2006-07 Estimate
Initiatives affecting expenses ($ millions):				
Support for children and families				
- Community Services	112.6	143.0	218.6	308.4
- Ageing, Disability and Home Care	4.6	11.2	12.2	15.2
Improving rail transport	40.4	68.5	73.6	55.9
Teacher Quality and Student Outcomes	13.0	46.5	91.0	119.0
Building Healthier Communities	61.3	104.7	143.0	191.4
Public order and safety				
- Police	10.3	18.1	28.0	36.9
- Corrective Services	0.5	6.3	12.1	22.1
- Rural Fire Service	17.9	13.2	13.2	13.2
- Attorney-General's	2.0	7.0	7.5	11.7
- other	1.6	4.4	4.9	5.7
Natural Resource Management				
- Mineral Resources	5.6	7.7	2.1	2.1
- Infrastructure, Planning and Natural Resources	7.8	12.5	7.5	7.0
- National Parks & Wildlife Service	0.5	5.1	9.1	12.5
- other	1.6	1.6	1.6	1.6
Other	33.8	33.4	33.0	33.6
Total new initiatives affecting expenses	**313.5**	**483.2**	**657.4**	**836.3**
Initiatives affecting asset acquisitions ($ millions):				
Support for children and families				
- Department of Community Services	5.8	4.5	3.8	2.7
- Ageing, Disability and Home Care	6.0	5.3	...	...
Improving road transport	102.2	142.1	100.9	73.2
Teacher Quality and Student Outcomes	103.0	207.2	54.7	29.7
Building Healthier Communities	11.1	33.0	83.2	53.2
Public Order and Safety				
- Police	21.4	22.8	4.9	…
- Corrective Services	23.6	32.5	31.4	25.0
- Rural Fire Service	5.1	...	...	...
- Attorney General's	6.2	16.3	15.8	18.0
- other	4.0	1.2	0.2	0.2
Natural Resource Management				
- Mineral Resources	7.1	10.8	...	...
- National Parks & Wildlife Service	6.1	3.3	4.6	7.1
Other	31.8	23.3	4.7	5.3
Total new asset acquisitions	**333.4**	**502.3**	**304.2**	**214.4**
IMPACT OF BUDGET INITIATIVES	**646.9**	**985.5**	**961.6**	**1,050.7**

Support for children and families

Increasing community concern and awareness of child abuse, legislative change and wider social concerns has led to increased demand for child protection services. The Government has responded with a $1.2 billion, five-year package for the Department of Community Services ($112.6 million in 2003-04). This package will improve and expand services that promote and enhance the welfare and development of children in need.

By 2007-08, there will be 875 additional 'frontline' caseworkers and increased referral support services, to help children and families at risk.

In out-of-home care, more than 9,000 children will benefit from extra support services tailored to specific needs, including caseworker support, specialist counselling and advice, clinical services, tutoring, respite care, specialist carer training and therapeutic services.

Most of the additional services will target early intervention and will improve the wellbeing and potential of children in out-of-home care. Intensive services will be provided to 500 children whose needs are critical or becoming critical.

The package also gives greater support to 'frontline' staff through enhanced policy and procedure development, training and expert advice and assistance.

Older people and people with a disability and their carers will have better opportunities to participate in community life. Commencing in 2003-04, the Department of Ageing, Disability and Homecare will introduce initiatives that emphasise prevention and early intervention and provide support services. These initiatives are:

- personal care services for an additional 100 people with a disability to help them manage everyday affairs better and, in most cases, in their own home;
- increased flexible respite care for people with a disability and their carers;
- early intervention family support services that provide better support to school aged children with a disability and their families;
- extension of behaviour intervention support programs to non-metropolitan areas; and
- a pilot transitional rehabilitation model for people with spinal injuries to assist the transition from rehabilitation centres to the community.

Table 2.3: Budget Initiatives Supporting Children and Families

	2003-04 Budget	2004-05 Estimate	2005-06 Estimate	2006-07 Estimate
Initiatives affecting expenses ($ millions):				
Department of Community Services				
Child protection caseworkers	16.4	29.9	46.0	70.3
Support services for families and children in need	9.3	17.8	31.8	48.8
Out-of-home care services	47.1	56.8	102.3	154.5
Support of front-line staff and services	39.7	38.5	38.5	34.7
Department of Ageing Disability and Home Care				
Additional personal care services	2.0	7.0	7.0	7.0
Additional flexible respite care services	1.6	3.2	3.2	3.2
Early intervention family support services	…	…	1.2	3.0
Behaviour intervention support programs	…	…	0.8	2.0
Pilot transitional rehabilitation model for people with spinal injuries	1.0	1.0	…	…
Total new initiatives affecting expenses	**117.2**	**154.2**	**230.8**	**323.6**
Initiatives affecting asset acquisitions ($ millions):				
Department of Community Services				
Out-of-home care services project	3.8	2.7	3.8	2.7
Corporate information system	2.0	1.8	…	…
Department of Ageing Disability and Home Care				
Client Information System	6.0	5.3	…	…
Total new asset acquisitions	**11.8**	**9.8**	**3.8**	**2.7**

Improving Road and Rail Transport

Improving the performance of the rail system is a priority, with emphasis on a safe, secure, reliable and clean rail service. In 2003-04, an additional $40.4 million in capital grants is provided for a range of improvements and $165 million for operational improvements, which focus on:

- *safety:* accelerated maintenance of rail infrastructure, including an additional $50 million per annum from 2002-03, to improve routine maintenance of metropolitan track infrastructure through new technology and more efficient asset management procedures. In addition, stations will be upgraded to provide for better passenger safety and enhanced driver training will be undertaken;

- *security:* a further 200 transit officers will be employed by December 2004, bringing the total up to 500. Work is continuing in other areas of security, including enhancements to the CCTV monitoring function, formalised risk assessments to identify and categorise critical infrastructure and improvements to the intelligence gathering and analysis function. Public awareness relating to the role of transit officers and the rail regulations in general is being addressed through a marketing campaign;

- *reliability:* the replacement of passenger fleet, including the on-going delivery of new Millennium carriages, 41 new outer suburban carriages, 14 new Hunter fleet rail cars and infrastructure improvements to the Eastern Suburbs Railway at Bondi Junction. Funding will also provide for continuation of a range of access improvements at stations, train signalling and additional track for storing and turning around trains; and

- *cleanliness:* rostering of train cleaning crew and flying squads to ensure litter is removed from trains quickly as well as introducing a reporting system to enable heavy soiling of trains to be attended to as soon as possible.

Managing and developing the State road network in a way that balances the needs of public transport passengers, bicycle riders, pedestrians, motorists and commercial operators is a priority for the Government.

The Government continues to implement reforms to develop and maintain road infrastructure that will meet economic and social needs, promote and improve road safety, minimise impacts on the natural and built environment and provide the best value for money in the delivery of service.

Key projects to be undertaken include:

- Spit Bridge and approaches - widening ($2 million in 2003-04);

- Great Western Highway - widening to four lanes at Wentworth Falls West ($4 million in 2003-04);

- Morisset to Wallsend Road - duplication from Booragul Roundabout to Speers Point Roundabout ($4.8 million in 2003-04);

- Pacific Highway - Ballina Bypass ($12 million in 2003-04);

- Pacific Highway - Karuah to Bulahdelah, dual carriageways ($5 million in 2003-04); and

- Newell Highway - Moree Bypass ($10 million in 2003-04).

Table 2.4: Budget Initiatives in Road and Rail Transport

	2003-04 Budget	*2004-05 Estimate*	*2005-06 Estimate*	*2006-07 Estimate*
Initiatives affecting expenses ($ millions):				
Ministry of Transport				
Rail network enhancements	40.4	68.5	73.6	55.9
Total new initiatives affecting expenses	**40.4**	**68.5**	**73.6**	**55.9**
Initiatives affecting asset acquisitions ($ millions):				
Spit Bridge and approaches, widening	2.0	17.0	10.0	…
Great Western Highway - Woodford to Hazelbrook widening	4.0	2.0	9.0	20.0
Duplication from Booragul roundabout to Speers Point roundabout	4.8	8.4	9.0	2.3
Pacific Highway, Ballina Bypass	12.0	16.0	12. 0	20.0
Pacific Highway, Karuah to Bulahdelah, dual carriageways	5.0	25.0	37.8	18.0
Newell Highway, Moree Bypass	10.0	20.9	…	…
Southern Arterial - Green Square	4.5	4.5	0.5	…
Great Western Highway - Wentworth Falls West, Falls Road to West Street, widening to four lanes	4.0	5.8	…	…
Bangor Bypass, new road	2.0	…	8.0	7.0
Bruxner Highway, Alstonville Bypass	4.4	19.0	10.6	0.7
Pacific Highway, new interchange with the Lakes Way at Rainbow Flat	1.0	4.9	…	…
Other	48.5	18.6	4.0	5.2
Total new asset acquisitions	**102.2**	**142.1**	**100.9**	**73.2**

Improving Teacher Quality and Student Outcomes

The Government is committed to a quality public education system that provides equitable opportunities for all students to develop and contribute to a productive and cohesive society. The Budget addresses the following outcomes:

- *longer-term success at school:* a child's early years are critical in laying the foundations for success at school. Twenty one new public pre-schools will be established and $222 million in recurrent funding over 4 years will employ some 1,500 extra teachers to reduce class sizes in Kindergarten, Year 1 and Year 2 to state-wide averages of 20, 22 and 24 respectively. Class size reductions will be phased in over 4 years, starting first with disadvantaged schools. Capital funding of $107 million over 4 years will also be provided for additional classrooms to support this initiative;

- *improving literacy and numeracy skills:* the Department’s Literacy and Numeracy Strategy will be improved by introducing academic extension programs for all NSW students, extending Count Me In Too and the *Book Raps* online book discussion across the State, expanding the Premier’s Reading Challenge and further enhancing the rigorous monitoring of student progress by adding computer skills to Year 6 Basic Skills tests;

- *improving teacher support and supply:* teacher supply will benefit from improved management and assistance for casual teachers, the trial of relief teacher “flying squads”, a state-wide casual-teacher call centre, and 200 teaching scholarships each year plus benefits to attract teachers to hard-to-staff schools;

- *enhancing teacher quality* through an extra $39 million over the period 2003-04 to 2006-07 for professional development;

- *better discipline in the classroom:* disruption will be reduced by establishing new behaviour schools and tutorial centres and appointing additional specialist teachers to help schools manage difficult students;

- *improving the learning and teaching environment:* the $1.2 billion Schools Improvement Program has been extended by 2 years to 2007. Over the next four years, the safety of staff, students and school property will be improved with security fencing for at least 200 schools and new, upgraded security alarms for at-risk schools. A further $45 million will be spent on the Revitalisation of Inner Sydney Schools Program; and

- *better value-for-money in school construction:* the Department has entered a private finance contract for the construction of 9 schools in new urban release areas of the State. New school buildings to the value of $34.3 million will be delivered by this method in 2003-04.

New recurrent funding for these measures and funding for new capital projects is indicated in Table 2.5. In addition, in 2003-04 the Department will target $16.2 million of teacher quality and supply initiatives and reallocate $26.5 million to support the above and other priority measures.

Table 2.5: Budget Initiatives to Improve Teacher Quality and Student Outcomes

	2003-04 Budget	*2004-05 Estimate*	*2005-06 Estimate*	*2006-07 Estimate*
Initiatives affecting expenses ($ millions):				
Class size reduction	6.0	34.0	77.0	105.0
Teacher Professional Development	6.0	11.0	11.0	11.0
Student Behaviour/Discipline	0.5	1.5	3.0	3.0
Non-Government Review by Board of Studies	0.5	...	...	...
Total new initiatives affecting expenses	**13.0**	**46.5**	**91.0**	**119.0**
Initiatives affecting asset acquisitions ($ millions):				
Design and construct program:				
- education buildings	17.5	61.6	13.9	...
- education ICT	10.0	25.0	5.0	...
- education class size program	18.7	27.4	31.3	29.7
- education – corporate ICT	5.0	2.0	...	...
- TAFE	16.5	39.7	…	...
- National Art School	1.0	3.0	4.5	...
Design and construct program	**68.7**	**158.7**	**54.7**	**29.7**
PFP arrangement	34.3	48.5	…	…
Total new asset acquisitions	**103.0**	**207.2**	**54.7**	**29.7**

Building Healthier Communities

Over the last three years, the Government has implemented major reforms to improve the health of the people of New South Wales. This will progress over the next year through the continued implementation of the Government Action Plan on Health and the NSW Rural Hospital and Health Services Program. New initiatives will be introduced that improve access to and availability of quality health care services.

Additional expenditure to build healthier communities is directed at:

- continued improvement in service delivery with a focus on Emergency Departments;
- improvements to the research and treatment of cancer and other chronic and complex conditions;
- improving access to services, especially in rural New South Wales;

- initiatives to attract and retain a highly skilled professional workforce;

- implementation of strategies developed by health specialists as part of the greater Metropolitan Transition Taskforce; and

- improving acute and community based mental facilities.

Hospital Emergency Departments are under pressure from increasing numbers of patients which is partly driven by the decline in bulk billing and the lack of general practitioner services in some areas (particularly rural areas). This trend is expected to continue because of changes the Commonwealth Government has foreshadowed to Medicare arrangements.

To assist Emergency Departments meet demand, funding of $31 million in 2003-04 is provided to fully operationalise the current trial of Rapid Emergency Assessment Teams (REATs) and Emergency Medical Teams (EMU's). REATs carry out preliminary assessments and provide simple medical treatment for patients awaiting full medical assessment, reducing waiting times. EMU's provide short term treatment or observation beds for patients who need to remain in the emergency department for 23 to 48 hours.

Cancer is the second most common cause of death in the community. Although great improvements have been made in the treatment of cancer, the Government has committed significant funding to ensure that New South Wales is a leader in cancer research and treatment. The Government has committed to:

- creating the Cancer Institute of NSW, with $5 million allocated in 2003-04 and $205 million over 4 years. The institute will report to the Minister Assisting the Minister for Health (Cancer). The NSW Cancer Institute will be responsible for advising on the allocation of funds to new initiatives to fight cancer, such as better co-ordination of patient care; training for medical staff; public awareness campaigns and screening programs for early detection of cancer;

- improve and expand radiotherapy services across New South Wales. An additional $76.7 million will be allocated over the next four years, including $3.5 million in 2003-04; and

- new strategies to attract and retain staff in radiotherapy units. The Government has allocated $8.5 million to radiotherapy workforce strategies over the next four years ($1 million in 2003-04) for a registrar training scheme and tutor positions for radiation therapists.

Increased access to health services in rural areas is a major objective of Government reforms. To further improve access the Government is introducing the following initiatives:

- extension of the Mobile Surgical Bus trial that is to cost $2.6 million in 2003-04;

- expanded access to renal treatment to allow treatment to occur closer to home. An additional $2 million is allocated in 2003-04 as part of a $17 million, 4 year funding package;

- commence the employment of an additional 230 ambulance officers to reduce ambulance response times outside of Sydney at a cost of $2.6 million in 2003-04 and $41 million over four years; and

- $5 million in 2003-04 for an extension of the Visiting Medical Officer (VMO) medical indemnity package to private patients treated in rural public hospitals, including an agreement that no gap payments will be required. This will offer privately insured patients greater choice and assist the retention of skilled professionals in rural areas.

A health system is dependent on its ability to attract and retain motivated and highly qualified health professionals. The Government has implemented initiatives over the past three years to train and retain the highest quality professionals. Major initiatives in the nursing workforce initiative, which aims to attract nurses and assist them to upgrade skills, include:

- $3 million to assist with the replacement of nurses taking study leave;

- nursing scholarships to enhance opportunities for further study. In 2003-04, $0.5 million will be provided; and

- employment of additional nurse practitioners to improve training for nurses which is valued at $1 million in 2003-04 and $6.5 million over four years.

There will be a significant investment in health information technology systems. The development of the Point of Care Clinical System will begin in 2003-04 ($2.5 million), with lead implementation by the Western Sydney Area Health Service. The system will ensure that the latest available clinical information is available to support doctors when treating patients.

Major health initiatives in this Budget are listed in Table 2.6 below.

Table 2.6 Budget Initiatives that Build Healthier Communities

	2003-04 Budget	*2004-05 Estimate*	*2005-06 Estimate*	*2006-07 Estimate*
Initiatives affecting expenses ($ millions):				
Cancer Institute	5.0	35.0	65.0	100.0
Radiotherapy workforce initiatives	1.0	2.0	2.5	3.0
Nurses workforce initiatives	4.5	8.5	8.9	9.1
Emergency departments	31.0	31.0	31.0	31.0
Radiotherapy treatment (linear accelerators)	3.5	3.5	4.4	9.9
Rural initiative – surgical bus	2.6	5.2	5.2	5.2
Rural initiative – doctors' indemnity	5.0	5.0	5.0	5.0
Rural initiative – renal units	2.0	4.0	5.0	6.0
Rural initiative – additional ambulance officers	2.6	7.5	12.5	18.4
Counter terrorism initiatives	4.1	3.0	3.5	3.8
Total new initiatives affecting expenses	**61.3**	**104.7**	**143.0**	**191.4**
Initiatives affecting asset acquisitions ($ millions):				
Counter terrorism initiatives	4.1	…	…	…
Mental health	1.0	5.0	6.0	…
Information technology projects	3.5	8.0	24.5	21.5
Forensic hospital	0.5	9.0	25.0	15.0
Radiotherapy initiatives	…	11.0	27.7	16.7
Other	2.0	…	…	…
Total new asset acquisitions	**11.1**	**33.0**	**83.2**	**53.2**

Public Order and Safety

A safer community can be achieved by a strategy combining a tougher approach to crimes committed with greater efforts to prevent crime by attacking its root causes.

NSW Police

Initiatives in the Police area focus on reducing crime, improving officer safety and making the streets safer for the community.

The quality and quantity of forensic services available to assist officers in investigating crime will be improved significantly by establishing a new Forensic Research and Investigative Science Centre.

The integration of field and laboratory forensic investigators and scientists will enhance the research and training capabilities of NSW Police. Improved forensic services will be supported by the employment of an additional 147 Crime Scene Investigators over three years from 2004-05.

Police officer safety will be enhanced, with funding allocated to continue the installation of in-car video units and to provide prisoner modules and screens for police vehicles. Almost $12 million will be spent on these initiatives over the next 3 years, with $2.3 million available in 2003-04.

The increased use of in-car video units provides an independent means of verifying circumstances surrounding incidents where there is dispute.

NSW Police will continue Operation Vikings throughout the State to make streets safer and reduce the fear of crime. These Operations provide a high visibility police presence on the streets to identify and remove persons carrying firearms or knives and those involved in street crime, drug activity, violent crime and other anti-social behaviour.

Department of Corrective Services

Initiatives in the Corrective Services area focus on custodial and offender management services for an increased number of inmates. The number of inmates on remand increased from 1500 in June 2002 to 1800 in June 2003.

To reduce the risk of re-offending, the Department is establishing a standardised instrument for assessing the risk of re-offending. The Department will provide assessed high risk offenders with targeted programs that reduce the risk of re-offending.

There will be improved services for offenders with significant mental health disorders, including those with an intellectual disability and/or dual diagnosis. A 40 bed Mental Health Assessment Unit for men is under construction at the Metropolitan Remand and Reception Centre at Silverwater. A similar unit with 10 beds for women is also under construction at Mulawa Correctional Centre, Silverwater.

In addition to providing funding for a projected growth in offenders under community supervision, an additional $0.5 million in 2003-04 (rising to $4 million per annum in 2006-07) is provided for supervision of previously unsupervised parolees. The Government will amend the *Crimes (Sentencing Procedure) Act 1999* to create an intention in favour of parole supervision. It is estimated the number of parolees requiring supervision will increase by approximately 800.

Department of Rural Fire Service

The Rural Fire Service is responsible for bush and village fire protection for more than 90 percent of the land area of New South Wales.

An additional $6.9 million per annum will allow the fleet upgrade program to continue. This program enables local government to purchase new and refurbished bushfire tankers for local brigades.

Firefighting equipment damaged during the last two extreme fire seasons needs replacement. A one-off allocation of $4 million is provided. In addition, $4 million per annum will reimburse local councils' contribution towards state-wide programs including training, critical incident management and public education initiatives.

Other initiatives totalling $3 million in 2003-04 include relocation costs of the Service's head office from Rosehill to Homebush Bay.

Attorney General's Department

A regionally based community residential centre for Aboriginal young people at risk will be established to provide drug and alcohol rehabilitation, life skills and cultural education. Its aim is to reduce rates of offending and recidivism, and address concerns about the level of juvenile offending.

Planning to construct a new West Sydney Trial Court facility will commence in 2003-04 to provide modern court facilities in Western Sydney, including nine trial courts, court registry, jury assembly rooms, conference and interview rooms and accommodation for support services. These facilities will be used for sittings of the Supreme Court, District Court and Local Courts, and the NSW Parole Board.

The Department is establishing a new centralised information technology network infrastructure to provide a modern, callable and reliable network for user access to centralised applications via intranet/internet portals. This project should align the Department with wider Government initiatives related to the development of shared services.

To address concerns at the low conviction rate in child sexual assault matters, there will be a pilot program to establish child friendly remote sites and to use electronic facilities and pre-recorded evidence, and mobile videoconferencing units to ensure that rural and remote child witnesses have access to electronic facilities. Judicial officers, prosecutors and court staff will receive specialist training.

There will be enhanced court security in the coming years with additional spending of $1 million in 2003-04 rising to $2.7 million per annum, from 2006-07, to engage sheriff's officers for a visible security presence. This additional expenditure should counter the verbal and physical abuse experienced by court staff particularly in Local Courts where only basic duress alarm systems are in place.

The Office of the Protective Commissioner will receive $3 million per annum for services to those clients that cannot afford to pay fees. This will enable the Office to assist its clients, particularly those that have less than $50,000 in assets and cannot afford the fees.

The NSW Sentencing Council has been established to advise the Attorney General on sentencing policy matters. The Council will monitor sentencing trends and practices, including the operation of non-parole periods and guideline judgements, and report annually to the Attorney General.

Major budget initiatives directly relating to the promotion of public order and safety are listed in Table 2.7 below.

Table 2.7: Budget Initiatives in Public Order and Safety

	2003-04 Budget	*2004-05 Estimate*	*2005-06 Estimate*	*2006-07 Estimate*
Initiatives affecting expenses ($ millions):				
NSW Police:				
Operation Vikings	3.0	3.0	4.5	4.9
Security Industry Act amendments	1.4	0.7	0.7	0.7
New police uniforms	1.2	2.8	2.6	1.8
Remote location incentive package	0.9	0.9	0.9	0.9
Sexual assault response teams	0.5	0.5	0.5	0.5
Further bicycle units	0.3	0.4	0.2	0.2
Financial investigators	0.3	…	…	…
Paperwork minimisation trial	0.1	…	…	…
Additional crime scene investigators	…	1.0	8.5	14.6
Additional firearms and explosive detection dogs	…	0.6	0.5	0.5
Capital related enhancements	2.5	8.2	8.6	8.5
Other	0.1	…	1.0	4.2
Corrective Services:				
Supervision of previously unsupervised parolees	0.5	1.5	1.5	4.0
Assessing the risk of re-offending	...	1.0	1.0	2.0
Targeted rehabilitation programs for offenders	...	2.0	4.0	5.0
Inmates with mental health and intellectual disability	...	0.5	1.0	1.0
Inmates with intellectual and other disabilities	...	1.0	1.5	2.5

Table 2.7: Budget Initiatives in Public Order and Safety (cont)

	2003-04 Budget	*2004-05 Estimate*	*2005-06 Estimate*	*2006-07 Estimate*
Trial diversionary scheme for dually diagnosed female offenders	...	0.3	0.5	0.5
Compulsory drug treatment	…	…	1.0	3.0
Supported accommodation and rehabilitation for homeless parolees	...	...	0.4	0.4
Second Chance Program on Mid North Coast	...	...	...	2.2
Transitional centre for men	...	...	...	1.5
Goulburn – corporate support relocation costs	...	...	1.2	...
Rural Fire Service	17.9	13.2	13.2	13.2
Attorney-General's Department				
Enhanced court security	1.0	1.5	2.0	2.7
Establish one Aboriginal outstation	…	2.0	2.1	2.1
Recurrent costs of capital projects	0.5	3.1	3.0	6.6
Other	0.5	0.4	0.4	0.3
Fire Brigades:				
Community fire units	…	0.3	0.3	0.3
Other	1.6	4.1	4.6	5.4
Total new initiatives affecting expenses	**32.3**	**49.0**	**65.7**	**89.6**
Initiatives affecting asset acquisitions ($ millions):				
Police:				
Forensic Research & Investigative Science Centre	3.6	...	...	...
In-car video	0.9	7.6	...	...
Education facilities upgrade	3.0	0.8	2.4	...
St Mary's replacement police station	2.5	6.0	1.5	
24 Livescan Units	0.9	0.9	...	...
Armidale police station	2.0	2.8	...	...
Integrated Business Information Solution	4.2	2.5	...	...
Redfern replacement police station	2.0	1.0	...	...
PAL (Lithgow) replacement accommodation	0.8	...	...	...
Police vehicle fleet enhancements	1.3	1.0	1.0	…
Bicycles	0.2	0.2	…	…
Corrective Services:				
Mulawa redevelopment	3.0	14.0	5.0	5.0
Mid North Coast Second Chance	0.5	1.4	7.1	...
Parramatta Community Offender Services accommodation	1.0	0.5	...	...
Relocate head office Goulburn	0.6	5.2	11.2	...
Community Offender Services accommodation	1.0	1.5	1.0	1.0
Information Management System	1.4	0.5	...	...

Table 2.7: Budget Initiatives in Public Order and Safety (cont)

	2003-04 Budget	*2004-05 Estimate*	*2005-06 Estimate*	*2006-07 Estimate*
Mid North Coast remand extension	16.1	8.9	...	...
Parklea remand stage 2	0.1	0.5	7.2	19.0
Rural Fire Service:				
New head office fitout	5.1	...	...	...
Attorney General's Department:				
Aboriginal community justice strategy – Aboriginal outstations	2.1	0.2	...	...
Sydney West trial complex	1.0	8.5	15.0	18.0
"Connected" – new IT infrastructure model	3.1	7.6	0.8	...
Fire Brigades:				
Fire computer aided despatch system	1.5	1.0	...	...
Major refurbishment of stations	1.8	...	...	...
Other	0.7	0.2	0.2	0.2
Total new asset acquisitions	**60.3**	**72.8**	**52.3**	**43.2**

Environment and Natural Resource Management

Natural resource management is being improved by a system that better integrates the key elements that underpin balanced development and natural resource management. There will be close consultation with key community groups and the involvement of local communities.

The 2003-04 Budget addresses the following:

- *protecting natural resource assets*: an important priority is to improve the condition of estuarine, floodplain and coastal environments. The Government continues the commitment to floodplain, estuary and coastal management programs with an allocation of a further $23.5 million over four years;

- *air quality*: funding of $2.4 million over four years for the maintenance and upgrade of the Environment Protection Authority's state-wide monitoring network;

- *regional relocation*: recurrent and asset acquisition funding of $32.9 million over four years for the relocation of the Department of Mineral Resource's to new offices in Maitland and an additional $2.5 million in 2003-04 for mine safety initiatives. The relocation will significantly boost the regional economy;

- *new national parks*: additional funding of $15.2 million from 2004-05 towards the creation of an unbroken chain of parks and reserves from the Hunter Valley to the Victorian border, resulting in a 600 kilometre band of environmental protection from north of Newcastle to Albury; and
- *water*: Over the next two years, $5 million (including $1 million from the agency's existing funding) is provided to establish the Aboriginal Water Trust which will increase indigenous communities' participation in the water economy. This will coincide with the implementation of the State's 36 water sharing plans.

In addition, the Government will target:

- *native vegetation:* building on the findings of the natural resource taskforce (chaired by the Honourable John Kerin AM) and independent scientific advice from the Wentworth Group, the recently established Native Vegetation Reform Implementation Group is advising on the detail of reforms to the native vegetation management system. Rural communities will be supported with $120 million over four years from existing sources for implementation; and
- *salinity*: continue the roll-out of salinity projects as part of the $52 million four-year program established under the NSW Salinity Strategy, which is part of New South Wales' contribution to the National Action Plan on Salinity and Water Quality.

Table 2.8: Budget Initiatives in Environment and Natural Resource Management

	2003-04 *Budget*	2004-05 *Estimate*	2005-06 *Estimate*	2006-07 *Estimate*
Initiatives affecting expenses ($ millions):				
Department of Planning, Infrastructure and Natural Resources				
Local Government Grants – Floodplain, Estuary and Coastal Management	1.5	7.5	7.5	7.0
Aboriginal Water Trust	2.0	2.0	…	…
Groundwater Structural Adjustment	3.0	2.0	…	…
Specific Grants (Lake Illawarra, Clarence River Dredging and East Corrimal Sand Dunes)	1.3	1.0	…	…
Environment Protection Authority				
Air Quality Monitoring Program	0.6	0.6	0.6	0.6
National Parks and Wildlife Service				
New parks and reserves	…	2.6	5.1	7.5
Aboriginal joint management of national parks	…	1.5	2.0	3.0
Pest animal and weed control	0.5	1.0	2.0	2.0
Department of Mineral Resources				
Mine safety initiative	2.5	…	…	…
Relocate the Department to Maitland	3.1	7.7	2.1	2.1
Other	1.0	1.0	1.0	1.0
Total new initiatives affecting expenses	**15.5**	**26.9**	**20.3**	**23.2**
Initiatives affecting asset acquisitions ($ millions):				
Mineral Resources				
Relocation of Head Office	7.1	10.8	…	…
National Parks and Wildlife Service				
Park development	3.4	2.9	4.6	7.1
World Heritage visitor centre	1.6	…	…	…
Spatial infrastructure system	1.1	0.4	…	…
Total new asset acquisitions	**13.2**	**14.1**	**4.6**	**7.1**

CHAPTER 3: GENERAL GOVERNMENT SECTOR REVENUES

- ♦ Tax changes included in the 2003-04 Budget will increase revenue by $32 million in 2003-04, and $80 million in 2004-05.
  - Provisions in the *Duties Act 1997* according special treatment to mortgages securing debenture issues will be removed, as an anti-avoidance measure, with effect from 24 June 2003.
  - The *Duties Act 1997* will be amended to protect the transfer duty revenue base from avoidance practices involving the transfer of property through company and trust structures.
  - From 1 July 2003 the payroll tax base will be broadened to include termination payments to non-executive directors and remuneration by way of share plans and share options.
  - From 1 January 2004 the new entrant trainee Payroll Tax Rebate Scheme will be replaced with a payroll tax exemption.
  - Club and hotel gaming machine duty rates will be changed, over seven years, beginning 1 September 2004 for clubs and 1 July 2004 for hotels.
  - The Electricity Distributors Levy, including the Transmission Operators Levy, will remain suspended.
  - From 1 July 2003, the parking space levy will be increased from $800 to $840 a year in the Sydney, North Sydney and Milsons Point business districts, and from $400 to $420 a year in the St Leonards, Chatswood, Parramatta and Bondi Junction business areas. From 2004-05, the levy will be indexed annually to the increase in the Sydney CPI.
- ♦ As a result of all tax changes implemented since 1999, tax revenue in 2003-04 will be $1.4 billion lower than it would have been without those policy changes. In addition, State taxes are $1.2 billion lower as a result of changes made under GST-related tax reform during the same period.
- ♦ Changed funding arrangements associated with GST-related taxation reform will not provide net financial benefits to New South Wales in 2003-04. Net financial benefits are not expected to accrue until 2009-10.

3.1 INTRODUCTION

Total general government sector revenue is estimated to increase by 2.1 percent in 2003-04 (see Table 3.1).

Table 3.1: Summary of Revenues

	2001-02	2002-03		2003-04	2004-05	2005-06	2006-07
	Actual	*Budget*	*Revised*	*Budget*	*Forward Estimates*		
	$m	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*
State Revenues							
Taxation	13,216	12,862	13,919	14,198	14,892	15,753	16,673
Commonwealth Grants	15,033	15,053	15,236	15,497	15,785	16,563	16,814
Dividends and Tax Equivalents	1,228	1,215	1,192	1,496	1,421	1,634	1,726
Other	792	799	793	842	893	886	855
	30,269	**29,929**	**31,140**	**32,033**	**32,991**	**34,836**	**36,068**
Operating Revenues							
Sale of Goods and Services	2,502	2,479	2,555	2,656	2,708	2,788	2,857
Investment Income	282	589	354	637	747	877	1,011
Grants and Contributions	316	382	429	346	319	324	328
Other	382	256	721	264	272	302	322
	3,482	**3,706**	**4,059**	**3,903**	**4,046**	**4,291**	**4,518**
Total Revenues	**33,752**	**33,635**	**35,199**	**35,936**	**37,037**	**39,127**	**40,586**

General government sector revenue is divided into state revenue and operating revenue. State revenue comprises state tax receipts, Commonwealth Government grants, state enterprise dividends and tax equivalent payments, and revenue from licences, fees, fines, levies and royalties. Operating revenue is revenue earned by general government sector agencies in the normal course of their operations and mainly consists of user charges levied to recover the cost of providing goods and services.

State revenue should increase by 2.9 percent in 2003-04, reflecting growth in tax revenue (up $279 million or 2.0 percent), Commonwealth grants (up $261 million or 1.7 percent) and payments from State enterprises (up $304 million, or 25.5 percent).

As a whole, operating revenues are estimated to fall by $156 million, or 3.8 percent, in 2003-04. Investment income should grow more strongly in 2003-04 than in 2002-03 and revenue from sales of goods and services grow steadily, though both will be more than offset by falls in grants and contributions and other operating revenues.

The remainder of this chapter provides detailed information on the revenue estimates for the 2003-04 New South Wales Budget.

Section 3.2 details state taxation policy measures in this Budget as well as policy changes since the 2002-03 Budget. Section 3.3 provides details of the outlook for State revenue in 2003-04, and the latest estimates for 2002-03. Section 3.4 presents the outlook for operating revenue in 2003-04, as well as revised estimates for 2002-03.

3.2 TAXATION POLICY MEASURES

2003-04 BUDGET TAX MEASURES

Revenue measures in the 2003-04 Budget are directed to maintaining the integrity, consistency and equity of important revenue bases. The Government remains committed to sustaining a sound fiscal position over the course of an economic cycle, while at the same time avoiding fluctuations in levels of service delivery and protecting New South Wales' position as a competitive location for business investment and employment growth.

Tax changes in this Budget will increase revenue by $32 million in 2003-04 and $80 million in 2004-05. The measures are summarised in Table 3.2.

Table 3.2: Tax Measures in the 2003-04 Budget

Initiative	*Revenue Impact*	
	2003-04 $m	*2004-05 $m*
Remove concessional stamp duty provisions for mortgages securing debenture issues	6	6
Amend the *Duties Act 1997* to protect the transfer duty base, effective from the introduction of legislation	18	24
Broaden the payroll tax base from 1 July 2003 to include:		
- termination payments to non-executive directors; and	5	5
- share plans and share options	5	5
Replace the new entrant trainee Payroll Tax Rebate Scheme with a payroll tax exemption from 1 January 2004	(-) 4	(-) 9
Change club gaming device duty rates, phased over seven years, beginning from 1 September 2004	…	39
Change hotel gaming device duty rates, phased over seven years, beginning from 1 July 2004	…	7
Increase parking space levy from 1 July 2003 and thereafter index annually to the increase in the Sydney CPI	2	3
Total	**32**	**80**

Mortgage Duty – Remove Concession for Debenture Issues

Mortgage instruments are subject to duty under the *Duties Act 1997*. Mortgages that secure the repayment of money in respect of debentures, however, are subject to concessional treatment. Evidence is available to confirm that ordinary loans are being structured to appear as debenture issues to exploit the maximum concessional treatment.

As genuine mortgage backed debenture issues are now rare, the abuse is to be eliminated by removing the concession with effect from 24 June 2003.

Transfer Duty – Base Protection

A growing number of transactions and mechanisms involving companies and unlisted unit trusts are being used to avoid paying stamp duty on the acquisition of interests in land. Estimated revenue forgone is at least $24 million annually.

The Treasury is developing more comprehensive measures to protect the revenue base. Relevant parties in the property industry are being consulted to ensure that provisions will not unnecessarily impede business activity.

The *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (IGA) provides that the Ministerial Council will, by 2005 review the need for the retention of a range of stamp duties, including stamp duty on non-residential conveyances. However, until the future of non-residential conveyance duty is resolved, the revenue protection measures are warranted.

Payroll Tax – Base Broadening

From 1 July 2003, the Government will include termination payments to non-executive directors and remuneration by way of share plans and share options in the payroll tax base.

While remuneration paid to directors and termination payments to employees are part of the payroll tax base, termination payments to non-executive directors are not. All other jurisdictions except Victoria include termination payments to non-executive directors in the payroll tax base.

Remuneration provided in the form of shares will be included in the payroll tax base. Many employees, particularly senior executives and directors, now receive share options as part of their remuneration, or participate in employee share plans. In many cases the shares are provided free or at a discount as a substitute for additional salary (which would be subject to payroll tax). These benefits are subject to payroll tax in Western Australia and the Northern Territory.

These changes will more closely align the definition of employee remuneration in the payroll tax base with that in the Commonwealth income tax base.

Payroll Tax – Exemption for New Entrant Trainees

From 1 January 2004, the Government will replace the new entrant trainee Payroll Tax Rebate Scheme with a payroll tax exemption. Under the Payroll Tax Rebate Scheme, employers are eligible for a rebate of payroll tax paid in respect of new entrant trainees. From 1 July 2002, apprentices' wages have been totally exempt from payroll tax.

Exemptions for both apprentices' and new entrant trainees' wages from payroll tax will greatly simplify their payroll tax treatment, producing administrative benefits for employers and Government alike.

Club and Hotel Gaming Device Duty Changes

Club and hotel gaming duty rates will be changed from 2004-05, with reductions in some tax rates and increases in others. Details of the new tax rates, to be phased in over 7 years, are provided in Tables 3.3 and 3.4.

Current NSW club gaming rates are around half, and NSW hotel gaming rates around a third, lower than the average of the rest of Australia. Higher taxation is one way excess returns to gaming operators can be shared with the broader community. Both club and hotel gaming operators can earn substantial above-normal profits from gaming, since regulations that restrict the number and distribution of gaming machines have the side-effect of increasing returns per machine.

Table 3.3: Annual Club Gaming Machine Duty Rates [a]

	Annual Profit ($)				
	Up to 200,000	*200,001 to 1,000,000*	*1,000,001 to 5,000,000*	*5,000,001 to 10,000,000*	*Above 10,000,001*
Current marginal rates (%)	0.00	10.91	17.16	17.16	17.16
Rates from 1 September (%):					
2004	0.0	10.8	18.3	19.7	20.4
2005	0.0	10.7	19.4	22.3	23.7
2006	0.0	10.5	20.5	24.8	26.9
2007	0.0	10.4	21.6	27.4	30.2
2008	0.0	10.3	22.8	29.9	33.5
2009	0.0	10.1	23.9	32.5	36.7
2010	0.0	10.0	25.0	35.0	40.0

(a) For profits higher than $1 million, rates shown are before the 1.5 percentage point Community Development and Support Expenditure (CDSE) Scheme duty rate reduction. Under the CDSE, the top marginal duty rate for clubs is reduced by 1.5 percentage points if clubs contribute 1.5 percent of gaming revenues in excess of $1 million to eligible community projects.

The new rates extend the progressive tax scale so that clubs and hotels with larger gaming operations contribute more tax revenue. The rate increases are largest for the most profitable clubs and hotels, and bring their taxation more into line with tax regimes applying in other states. The progressive rate structure recognises that profits earned on each machine increase as the number of machines in each establishment rises.

Table 3.4: Annual Hotel Gaming Machine Duty Rates

	Annual Profit ($)					
	Up to 25,000	*25,001 to 200,000*	*200,001 to 400,000*	*400,001 to 1,000,000*	*1,000,001 to 5,000,000*	*Above 5,000,001*
Current marginal rates (%)	5.91	15.91	15.91	25.91	30.91	30.91
Rates from 1 July (%):						
2004	5.8	15.8	17.2	26.5	31.5	33.6
2005	5.7	15.7	18.5	27.1	32.1	36.4
2006	5.5	15.5	19.8	27.7	32.7	39.1
2007	5.4	15.4	21.1	28.2	33.2	41.8
2008	5.3	15.3	22.4	28.8	33.8	44.5
2009	5.1	15.1	23.7	29.4	34.4	47.3
2010	5.0	15.0	25.0	30.0	35.0	50.0

The changes will commence from 1 September 2004 for clubs and 1 July 2004 for hotels. Implementation has been delayed to the 2004-05 financial year to meet the Government's commitment, announced on 26 July 2001, that the current duty rates for club and hotel gaming would be maintained for three years. The changes will be phased in over a period of seven years to ensure manageable adjustment for the club and hotel industry.

Clubs with gaming profits of up to around $1.1 million will pay less tax than previously, or continue to pay no tax, while hotels with annual profits of up to $220,000 will pay less tax. It is estimated that around two thirds of clubs will pay less, or no more tax, than previously. Around 38 percent of hotels will pay less tax than previously.

Gambling and betting tax revenue contributed an estimated 9.1 percent of total tax revenue in New South Wales in 2002-03 – the second lowest proportion among jurisdictions that permit gaming machines outside casinos. By 2006-07, this percentage is estimated to be 9.8 percent and New South Wales will remain the second lowest state. Table 3.5 details estimated additions to revenue from the measures.

Table 3.5: Revenue Effect of Gaming Machine Duty Changes

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
	$m	$m	$m	$m	$m	$m	$m
Club gaming	39	83	131	183	241	304	373
Hotel gaming	7	15	24	33	45	59	74
Total	46	98	155	216	286	363	447

Electricity Distributors Levy – Extension of Suspension

In the 2001-02 Budget, the electricity distributors levy, including the transmission operators levy, was suspended from 1 July 2001, reducing revenue by $100 million a year. As announced then, the need for the levy has been reviewed in the 2003-04 Budget, and the Government has decided to continue the suspension of both levies.

Parking Space Levy

From 1 July 2003, the parking space levy will increase from $800 to $840 a year per off-street, non-residential parking space in the Sydney, North Sydney and Milsons Point business districts; and from $400 to $420 a year in the business areas of St Leonards, Chatswood, Parramatta and Bondi Junction.

The *Parking Space Levy Act 1992* allows for indexation of the levy in line with increases in the Sydney CPI. The increases approximate indexation of the levy in line with the movement in the Sydney CPI since the last change in the levy, discounted by 2.5 percentage points for the effect on the CPI of the introduction of the GST. From 2004-05, the levy will be indexed annually to movements in the Sydney CPI over the year to the previous March quarter.

Levy revenue is used to provide new public transport infrastructure, such as rail, bus and ferry interchanges, commuter car parks and ferry wharves.

MEASURES INTRODUCED SINCE THE 2002-03 BUDGET

Fire Services Levy Review

On 16 April 2003, the Treasurer announced the Government will consider alternative funding arrangements for fire fighting services. The Government will announce details of the review shortly.

Fire services currently are funded partially by an insurance-based levy, the Fire Services Levy (FSL), with other funding provided by local government and the State Budget. The levy will raise $379 million in 2003-04. The FSL is recouped by insurance companies through premium charges.

TAX RESTRAINT

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

Table 3.6 calculates for 2003-04 and the forward years the cumulative revenue impact in each year of the 2003-04 Budget tax measures and tax policy changes since the 1999-2000 Budget.

Table 3.6: Tax Measures

Initiative	*Revenue Impact* [(a)]			
	2003-04 $m	*2004-05 $m*	*2005-06 $m*	*2006-07 $m*
2003-04 Budget Initiatives				
Remove concessional stamp duty provisions for mortgages securing debenture issues, from 24 June 2003	6	6	6	6
Amend *Duties Act 1997* to protect the transfer duty base, effective from introduction of legislation	18	24	24	24
Broaden the payroll tax base from 1 July 2003 to include:				
- termination payments to non-executive directors; and	5	5	5	6
- share plans and share options	5	5	5	6
Replace the new entrant trainee Payroll Tax Rebate Scheme with a payroll tax exemption from 1 January 2004	(-) 4	(-) 9	(-) 9	(-) 9
Change club gaming device duty rates from 1 September 2004	…	39	83	131
Change hotel gaming device duty from 1 July 2004	…	7	15	24
Increase parking space levy from 1 July 2003 with annual indexation of the levy thereafter	2	3	4	5
Total – 2003-04 Measures	**32**	**80**	**133**	**193**

Table 3.6 Tax Measures (cont)

Initiative	Revenue Impact [(a)] 2003-04 $m	2004-05 $m	2005-06 $m	2006-07 $m
Measures Implemented since 1 July 1999				
Introduce payroll tax concessions for non-group apprentices, from 1.7.99	(-) 5	(-) 5	(-) 5	(-) 6
Exempt apprentice wages from payroll tax, from 1.7.02	(-) 11	(-) 11	(-) 12	(-) 13
Broaden payroll tax base, from 1.7.02	121	127	131	138
Reduce payroll tax rate:				
From 6.85% to 6.7%, (1.7.99)	(-) 113	(-) 119	(-) 125	(-) 132
From 6.7% to 6.4%, (1.7.99)	(-) 225	(-) 238	(-) 252	(-) 267
From 6.4% to 6.2%, (1.1.01)	(-) 150	(-) 159	(-) 168	(-) 178
From 6.2% to 6.0%, (1.7.02)	(-) 150	(-) 159	(-) 168	(-) 178
Reduce land tax rate from 1.85% to 1.7%, from 31.12.99	(-) 88	(-) 91	(-) 95	(-) 99
Phase-out third-party motor vehicle registration levy, completed 1.7.00	(-) 112	(-) 112	(-) 112	(-) 112
Changes to parking space levy, from 1.7.00	26	27	27	27
Remove surcharge on motor vehicle registration fees and transfer fees, from 1.7.00	(-) 36	(-) 36	(-) 36	(-) 36
First Home Plus stamp duty concessions for first home buyers, from 1.7.00	(-) 67	(-) 69	(-) 74	(-) 80
Reduce general insurance stamp duty rate:				
From 11.5% to 10.0% (1.10.00)	(-) 42	(-) 44	(-) 47	(-) 49
From 10.0% to 5.0% (1.8.02)	(-) 189	(-) 200	(-) 211	(-) 223

Table 3.6 Tax Measures (cont)

Initiative	Revenue Impact (a) 2003-04 $m	2004-05 $m	2005-06 $m	2006-07 $m
Introduce insurance protection tax, from 1.7.01	69	69	69	69
Suspend electricity distributors levy, from 1.7.01	(-) 100	(-) 100	(-) 100	(-) 100
Increase lease duty exemption threshold, and abolish lease duty on franchise agreements, from 1.7.01	(-) 3	(-) 3	(-) 3	(-) 3
Increase hiring arrangements duty threshold, from 1.7.01	(-) 2	(-) 2	(-) 2	(-) 3
Abolish stamp duty on instruments relating to superannuation, from 1.7.01	(-) 1	(-) 1	(-) 1	(-) 1
Abolish debits tax, from 1.1.02	(-) 312	(-) 310	(-) 309	(-) 307
Increase miscellaneous Roads and Traffic Authority taxes, from 1.1.02	9	10	11	11
Abolish bookmaker's turnover tax, from 31.3.02 (net cost)	(-) 3	(-) 3	(-) 3	(-) 4
Total – previously implemented measures	**(-) 1,384**	**(-) 1,429**	**(-) 1,485**	**(-) 1,546**
Total – Tax changes since 1 July 1999	**(-) 1,352**	**(-) 1,349**	**(-) 1,352**	**(-) 1,353**

(a) Revenue impacts are expressed in nominal dollars.

Tax changes implemented in 2003-04, together with those introduced in the preceding four years, result in annual tax revenue being around $1.4 billion lower in 2003-04 than it would have been without those measures. Reducing the payroll tax rate – from 6.85 percent at 30 June 1999 to 6.0 percent at 1 July 2002 – accounts for $638 million of this total. Other major measures include abolishing debits tax from 1 January 2002 ($312 million) and more than halving the general insurance duty rate ($231 million) – from 11.5 percent in September 2000 to 5.0 percent in August 2002.

Looking at tax restraint another way, Table 3.7 shows the discrete impact of new tax policy measures in any one year. It shows that over the five years from 1999-2000 to 2003-04, tax policy changes have reduced revenue by an average of around $274 million each year.

Table 3.7: Impact of Tax Policy Changes [(a)]

Year	*Annual Contribution of New Policy Changes to Tax Collections (not including State taxes abolished with the GST) $m* [(b)]
1988-89	50
1989-90	200
1990-91	310
1991-92	80
1992-93	240
1993-94	100
1994-95	(-) 40
1995-96	20
1996-97	180
1997-98	280
1998-99	(-) 110
1999-2000	(-)390
2000-01	(-) 220
2001-02	(-) 270
2002-03	(-) 440
2003-04	(-) 50
2004-05	20
2005-06	40
2006-07	50

(a) *This table shows the effect of new policy on tax revenue in any one year only, and (unlike Table 3.6) does not include the cumulative impact of measures introduced in prior years. Where the tax change commenced during the year, and therefore had only a part year effect in that year, the balance is included in the following year. For example, if a policy has a part-year impact of $50 million in the year it commences and a full year impact of $100 million, the impact of the policy is measured as $50 million in each year.*

(b) *Expressed in nominal dollars. Notes on specific years: (1) from 1999-2000 onwards, the annual indexation of the land tax threshold is treated as a discrete tax change; (2) 1996-97 to 1998-99 include the tax increases to fund Fiscal Contribution Payments to the Commonwealth; (3) 1997-98 excludes the one-off loss from abolishing business franchise fees and their replacement by Commonwealth safety net taxes.*

The tax policy changes in Tables 3.6 and 3.7 are in addition to about $1.2 billion per year worth of State taxes (accommodation levy, financial institutions duty, marketable securities duty on listed shares) abolished as part of the GST-related tax reform program agreed between the Commonwealth and States in 1999.

3.3 ESTIMATES OF STATE REVENUE

TAXATION

Table 3.8 provides detailed estimates of taxation revenue for the period to 2006-07. Payroll tax is the largest single source of taxation revenue, followed by transfer duty (formerly known as contracts and conveyances duty).

Table 3.8: Taxation Revenue

	2001-02	*2002-03*		*2003-04*	*2004-05*	*2005-06*	*2006-07*
	Actual	*Budget*	*Revised*	*Budget*	*Forward Estimates*		
	$m	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*
Stamp Duties							
Transfers	3,119	2,720	3,550	3,373	3,479	3,739	4,019
Insurance	487	385	445	435	458	481	505
Mortgages	294	278	360	372	397	434	475
Marketable Securities	47	31	72	45	45	45	45
Motor Vehicle Registration Certificates	497	528	528	548	576	605	635
Financial Institutions Duty	67	...	3	...	...	...	...
Hire of Goods	73	78	75	78	83	87	92
Leases	52	60	60	63	67	71	75
Adhesive Stamps	1	...	...	...	...	...	...
Other Stamp Duties	2	2	2	2	2	3	3
	4,639	**4,082**	**5,095**	**4,916**	**5,107**	**5,464**	**5,849**
Payroll Tax	4,021	4,246	4,128	4,389	4,663	4,943	5,242
Land Tax	1,001	1,047	1,134	1,251	1,330	1,391	1,452
Debits Tax	187	...	...	...	...	...	...
Taxes on Motor Vehicle Ownership and Operation							
Weight Tax	816	847	878	914	950	985	1,020
Vehicle Registration and Transfer Fees	208	217	223	231	246	254	264
Other Motor Vehicle Taxes	17	20	20	26	27	28	29
	1,041	**1,083**	**1,122**	**1,171**	**1,222**	**1,267**	**1,313**
Gambling and Betting							
Racing	142	139	145	151	155	160	164
Club Gaming Devices	404	437	415	429	486	549	616
Hotel Gaming Devices	319	342	340	362	389	418	449
Lotteries and Lotto	256	262	274	279	287	294	302
Casino	80	81	79	81	83	86	88
Other Gambling & Betting	8	9	8	8	8	8	8
	1,209	**1,270**	**1,261**	**1,309**	**1,408**	**1,515**	**1,628**

Table 3.8: Taxation Revenue (cont)

	2001-02 Actual $m	2002-03 Budget $m	2002-03 Revised $m	2003-04 Budget $m	2004-05 Forward Estimates $m	2005-06 Forward Estimates $m	2006-07 Forward Estimates $m
Other Revenues							
Health Insurance Levy	94	99	97	99	102	105	108
Insurance Protection Tax	65	69	69	69	69	69	69
Parking Space Levy	41	41	48	46	47	48	49
Fire Brigades Levy	264	286	283	287	287	287	285
Bush Fire Services Levy	83	89	89	92	91	92	94
Waste Disposal Levy	78	74	74	79	83	86	88
Electricity Distribution Levy	6	...	...	...	...	...	...
Government Guarantee of Debt	92	126	119	119	119	119	119
Private Transport Operators Levy	6	6	6	6	6	6	6
Pollution Control Licences	43	31	32	37	37	37	37
Other Taxes	345	315	363	330	322	322	335
	1,117	**1,134**	**1,179**	**1,163**	**1,161**	**1,171**	**1,190**
Total Tax Revenue	**13,216**	**12,862**	**13,919**	**14,198**	**14,892**	**15,753**	**16,673**

Total taxation revenue will be 5.3 percent higher in 2002-03 than 2001-02 and 8.2 percent above Budget-time forecasts.

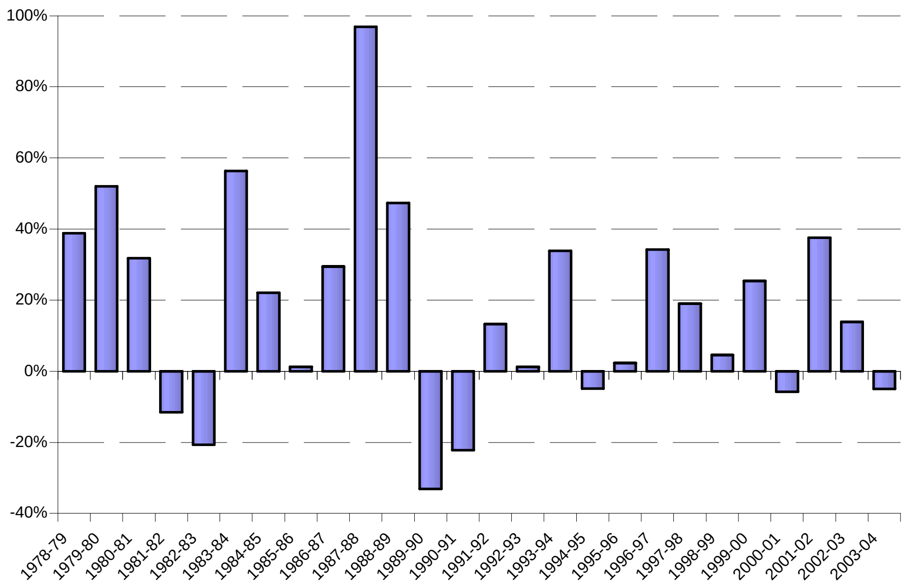
This is mainly because of stronger property market turnover and prices, which boosted transfer duty and mortgage duty revenues. These two stamp duties accounted for over 85 percent of the variance in taxation revenue from Budget. Payroll tax revenue was 2.8 percent lower than the Budget estimate.

In 2003-04 a 2.0 percent rise in total taxation revenue is forecast. The main reason for the slower growth is a fall of 3.5 percent in stamp duty collections, with transfer, insurance and marketable securities duty revenue all declining compared to 2002-03.

Transfer Duty

Stamp duty on property transfers is the largest single component of stamp duty revenue. It is the most volatile revenue source available to the State, with an average (absolute) percentage change of 26 percent for the period 1978-79 to 2002-03, and annual variations of up to 95 percent (see Chart 3.1).

Chart 3.1: Revenue from Transfer Duty - Annual Change [(a)]



(a) Estimate for 2002-03 and 2003-04

Reflecting strong property market performance, transfer duty revenue in 2002-03 will be 13.8 percent higher than in 2001-02.

At the time of last year's Budget, a moderate decline in revenue was expected for 2002-03. Modest increases in interest rates and slackening investor demand as residential vacancy rates climbed were thought likely to cool the residential property market, and produce a weakening in revenue. In year average terms, revenue growth slowed in 2002-03 but did not decline as expected.

After two 0.25 percentage point official interest rate increases (in May and June 2002), further rises were put on hold as weakening confidence in corporate America and an uncertain international security situation shook world share markets and threatened global economic prospects. Continuing low interest rates, resilient domestic economic performance – notwithstanding the drought – and investor nervousness about the share market helped sustain residential property demand.

Available data indicate both the volume of transactions and prices in the residential property market rose strongly again in the first half of 2002-03. The total volume of residential (house and unit) sales in New South Wales in the first half of the financial year was 10 percent higher than in the same period of the previous year, according to the Real Estate Institute of New South Wales. ABS figures show average established Sydney house prices rose 12 percent between the June and December quarters 2002.

Residential property market activity seems to have subsided a little since late 2002. Revenue collections weakened, more noticeably than the usual seasonal pattern, in early 2003. Housing finance statistics, though volatile month to month, generally show an easing in the total value of commitments (excluding refinancing) for both owner-occupied housing and investor housing since peaks in the second half of 2002. Though little official or consolidated industry information on property market performance in 2003 is yet available, industry reports suggest the volume of transactions has fallen and the pace of price rises has moderated. ABS data shows average established Sydney house prices rose 3 percent in the March quarter 2003.

For 2003-04, transfer duty revenue is expected to decline by around 5.0 percent. This is consistent with milder price growth than over the last two years and volumes continuing at recent, more subdued levels.

A decline of this magnitude is modest compared with some in the past following extended periods of above average revenue growth. Although property markets may be pausing for breath, there is no indication of a sharp and sustained downturn. Interest rates are not expected to change significantly, employment growth will remain solid and the unemployment rate is expected to edge downward, general economic growth will remain around the long-term average, and immigration will remain at around 2002-03 levels.

As usual, there are risks that revenue in 2003-04 could be much higher or much lower than expected. The greatest uncertainty for transfer duty revenue is interest rates and overall confidence in the economic and employment outlook.

Other Stamp Duties

Other stamp duty revenue for 2002-03 will be $25 million, or 1.6 percent, higher than in 2001-02 and $183 million, or 13.4 percent, higher than forecast in the 2002-03 Budget. The increase between the original Budget and revised estimates for 2002-03 is due mainly to stronger revenues for insurance, mortgages and unlisted marketable securities duties.

- Insurance duty revenue in 2002-03 declined by 8.6 percent on 2001-02 with the cut in the general insurance duty rate from 10.0 percent to 5.0 percent from 1 August 2002. However, revenue was above original estimate due to the unexpected continuation of high premium increases. Insurance premiums have increased in recent years partly due to the collapse of HIH Insurance (which significantly reduced capacity in the insurance market), events related to international terrorism, and high claim payouts.

- The strong property market underpinned higher than anticipated mortgage duty revenue.

- Several abnormally large transactions resulted in revenue from unlisted marketable securities duty being substantially above expectations. (Stamp duty on listed marketable securities was abolished from 1 July 2001 as part of the GST-related tax reforms.)

For 2003-04, other stamp duty revenue should remain virtually the same as in 2002-03.

- Unlisted marketable securities duty revenue will be lower as transactions return to underlying levels.

- Insurance duty revenue should decline slightly, reflecting the full-year impact of the August 2002 cut in the general insurance duty rate. Additionally, premium increases are expected to be lower than in the last two years.

- Offsetting these declines, motor vehicle registration stamp duty should increase broadly in line with growth in new and used vehicle sales.

Payroll Tax

Payroll tax revenue in 2002-03 will grow only modestly on 2001-02, partly attributable to the cut in the payroll tax rate from 6.2 percent to 6.0 percent from 1 July 2002. After allowing for this, revenue growth has been weaker than expected, and looks likely to fall $118 million, or 2.8 percent, below the 2002-03 Budget estimate.

Growth in the major macroeconomic variables that affect payroll tax revenue has been broadly in line with expectations, with stronger employment growth offsetting lower wages growth. However, contributions to employment growth have been large in some industries where there are relatively more employers below the payroll tax threshold.

Payroll tax revenue growth in 2003-04 should rise in line with – but, as in the last two years, not fully match – employment and wages growth.

Land Tax

Land tax is assessed on a calendar year basis. Notices of assessments are mainly issued in February, and are based on land values assessed by the Valuer-General as at 1 July in the preceding year. Thus, land tax revenue accrued in a financial year depends on the issue date of assessments and land values at the beginning of the financial year.

Land tax revenue in 2002-03 should be $133 million, or 13.3 percent, higher than in 2001-02 and $87 million, or 8.3 percent, higher than the 2002-03 Budget estimate. The revised estimate reflects higher increases in land values than anticipated at Budget-time. However, indexation of the land tax and premium property thresholds by nearly 19 percent for the 2003 land tax year reduced the impact of rising land values on revenue by $76 million.

Continued land value growth over the year to 1 July 2003 will boost tax revenue in 2003-04, although indexation of the thresholds will again limit the impact.

Taxes on Motor Vehicle Ownership and Operation

Motor vehicle weight tax and vehicle registration fees are the largest two components of this category, representing around 95 percent of revenue in 2002-03. Also included are motor vehicle registration transfer fees and miscellaneous taxes.

Collections in 2002-03 should be slightly higher than estimated in the 2002-03 Budget. Most of the increase comes from weight tax revenue, reflecting higher than anticipated vehicle stock growth as well as the increasing significance of heavier vehicles.

Continued growth in motor vehicle stock and indexation of fees are responsible for moderate revenue growth in 2003-04 and following years.

Gambling and Betting Taxes

Revenue from gambling taxes in 2002-03 in aggregate will be close to the 2002-03 Budget estimate. However, within this category, club gaming machine revenue will be below estimate (down $22 million, or 5.0 percent) offset by higher than anticipated revenue from racing and lotteries taxation.

Gambling tax revenue growth in 2003-04 and following years chiefly reflects forecast movements in household disposable income and the changes in gaming machine duty rates announced in this Budget.

COMMONWEALTH GRANTS

Table 3.9 provides estimates of Commonwealth payments to New South Wales for the period to 2006-07.

General Purpose Grants

General purpose grants are dominated by payments under the new Commonwealth-State financial arrangements associated with GST-related tax reform. As outlined in Chapter 7, under these tax reforms the States receive GST revenue grants from the Commonwealth and transitional assistance, termed Budget Balancing Assistance (BBA), to compensate for the revenue forgone by the States.

Table 3.9: Commonwealth Grants

	2001-02	2002-03		2003-04	2004-05	2005-06	2006-07
	Actual	*Budget*	*Revised*	*Budget*	*Forward Estimates*		
	$m	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*
General Revenue Grants [(a)]	243	249	252	257	262	269	275
Budget Balancing Assistance Payments	1,577	910	603	548	379	437	238
GST Revenue Grants	8,132	8,718	9,076	9,234	9,639	10,159	10,632
Total General Purpose Payments	**9,952**	**9,877**	**9,931**	**10,039**	**10,281**	**10,864**	**11,144**
Specific Purpose Payments							
Companies Regulation	49	50	50	52	53	55	56
Technical and Further Education	348	350	361	382	393	397	396
Schools	745	618	685	685	704	732	763
Highly Specialised Drugs	102	111	121	134	138	142	146
Australian Health Care Grants	2,241	2,379	2,412	2,542	2,655	2,813	2,980
Home and Community Care	190	205	210	233	253	273	295
Supported Accommodation Assistance	52	53	53	54	54	54	54
Assistance to Disabled	166	167	167	191	187	193	199
Pensioner Concessions	59	59	62	64	66	69	69
Debt Redemption Assistance	10	10	10	10	10	74	…
Blood Transfusion Services	23	26	29	…	…	…	…
National Land Care	46	51	35	32	31	31	31
Public Housing	269	266	267	241	244	247	250
Australian Land Transport Development	339	414	387	411	366	310	117
Housing	37	37	37	37	38	38	38
Supplementary FHOS Grant	80	8	16	...	...	...	...
Other	326	372	404	390	313	272	275
Total Specific Purpose Payments	**5,081**	**5,176**	**5,305**	**5,459**	**5,504**	**5,699**	**5,670**
Total Grants	**15,033**	**15,053**	**15,236**	**15,497**	**15,785**	**16,563**	**16,814**

(a) National Competition Policy payments.

GST revenue grants and BBA sum to New South Wales' Guaranteed Minimum Amount (GMA). The GMA is the estimated revenue New South Wales would have received under the former national tax and Commonwealth-State financial relations arrangements, and is calculated (for all States and Territories) to meet the Commonwealth's guarantee that no State will be worse off under the new arrangements following the Commonwealth's introduction of the GST.

Commonwealth grants for general purposes are estimated to be marginally lower, by $21 million or 0.2 percent, in 2002-03 than 2001-02. This slight decrease is mostly due to lower First Home Owners Scheme (FHOS) grants which feed into New South Wales' GMA.

However, the composition of general purpose grants has changed significantly from that expected at 2002-03 Budget-time, with higher GST revenue grants resulting in offsetting reductions in BBA payments. Following higher than expected GST revenue collections in 2002-03, the Commonwealth has increased its estimate of 2002-03 GST revenue payments to the States by around $1 billion, with commensurate adjustments to its payments of BBA to the States.

Higher GST revenue grants to New South Wales in 2002-03 of $358 million are matched by a fall in BBA payments to New South Wales. Increased GST revenue in 2002-03 has therefore improved the Commonwealth's budget result (net lending basis) rather than that of New South Wales.

BBA is advanced by the Commonwealth to the States quarterly throughout the year based on projections of the annual amounts the Commonwealth will need to pay to fulfil its budget guarantee to the States. Before the upward revision of GST revenue estimates, the Commonwealth already had paid New South Wales $811 million in BBA for 2002-03, producing a $208 million cash over-payment of BBA. Under Commonwealth legislation this is required to be offset against grants paid to New South Wales in 2003-04. However, as a known liability, this amount has been accrued in 2002-03 in the New South Wales account, mirroring the treatment in the Commonwealth's Budget.

In 2003-04, Commonwealth general purpose payments to New South Wales will increase by 1.1 percent, due principally to an increase in GMA resulting from growth in revenue forgone and spending required under the GST-related arrangements. New South Wales will still require BBA payments in 2003-04, as GST revenue grants are not expected to rise sufficiently to offset GMA growth.

In fact, on current estimates of GMA and GST revenue growth, New South Wales is not expected to benefit financially from the new Commonwealth-State financial arrangements until 2009-10 (see Chapter 7).

National Competition Policy (NCP) payments are $3 million higher in 2002-03 than anticipated at Budget-time. The Commonwealth makes NCP grants to the States so that the States, which are mainly responsible for implementing competition policy reforms, share tangibly in the rewards to government of such reform – rewards which mainly flow to the Commonwealth in higher income and company tax revenue.

In its 2003-04 Budget the Commonwealth quantified NCP payments up to 2005-06 and indicated that payments beyond that year would be subject to negotiations with the States. NCP estimates included in the New South Wales Budget for 2003-04 and following years are based on New South Wales' entitlements under the current Commonwealth-State agreement. The Commonwealth's total payments to all States and Territories are based on an amount of $600 million in 2001-02 indexed to national CPI increases and distributed among the States based on population.

Specific Purpose Payments

Specific purpose payments in 2002-03 will be 4.4 percent above 2001-02 levels and 2.5 percent higher than expected in the 2002-03 Budget. Most of the amount above budget is attributable to payments for schools increasing by $67 million, partly due to increases in indigenous education funding, growth funds from the Australian National Training Authority and Enrolment Benchmark Adjustment funding that was not included in the Budget. Offsetting some of the increase was a decline of $27 million in Australian Land Transport Development grants due to decreases in funding of national highways and the deferment of funding from the Federation Fund till 2003-04.

Specific purpose payments will grow by $154 million, or 2.9 percent in 2003-04. Growth in Health Care grants and Land Transport Development grants (recouping funds deferred from 2002-03) is offset by a $26 million decline in Public Housing grants and the cessation of the supplementary FHOS grant. The $16 million paid for FHOS in 2002-03 represents lagged payments following the grant's termination from 30 June 2002.

From 2003-04 Commonwealth funding to New South Wales for Blood Transfusion Services will cease. Funding for the Red Cross Service will no longer be provided through the State but directly to the newly formed National Blood Authority. Under the new arrangements the State/Commonwealth cost share will be 37:63 with the National Blood Authority being the statutory body responsible for acting on behalf of all State/Territory and Commonwealth governments for all aspects of contracting for the full range of blood and blood products to meet the requirements of blood products on a national basis.

The large increase of Debt Redemption Assistance grants in 2005-06, followed by no receipts in 2006-07, reflects the cessation of these grants from 15 July 2005. In April 1991, the Commonwealth and the States agreed to replace maturing Commonwealth debt issued on behalf of the States with State issued debt. New South Wales is compensated by the Commonwealth for the increased borrowing costs of the directly State-issued debt. The Commonwealth also contributes to the retirement of remaining debt issued on behalf of the States.

As the last Commonwealth loan issued on the States' behalf matures on 15 July 2005, remaining compensation will be discounted to a lump sum payable in 2005-06.

DIVIDENDS AND TAX EQUIVALENTS

Dividends paid by government business enterprises represent a return on equity invested by taxpayers in the enterprises. Income tax equivalent payments by government business enterprises are intended to mirror as closely as possible company tax liabilities that would be incurred if the entities concerned were owned by the private sector. Table 3.10 provides estimates of dividends and tax equivalents for the period to 2006-07.

In 2002-03, dividends and tax equivalents are expected to be $36 million, or 2.9 percent, lower than in 2001-02 and $23 million lower than the 2002-03 Budget estimate. The latter mainly reflects lower than anticipated income tax equivalents from the Water and Waste Services sector associated with poor superannuation fund performance and the write-down of Sydney Water's customer information and billing system. Partially offsetting these shortfalls were higher payments from the property and resources sector following strong price growth and record clearance rates in the property sector.

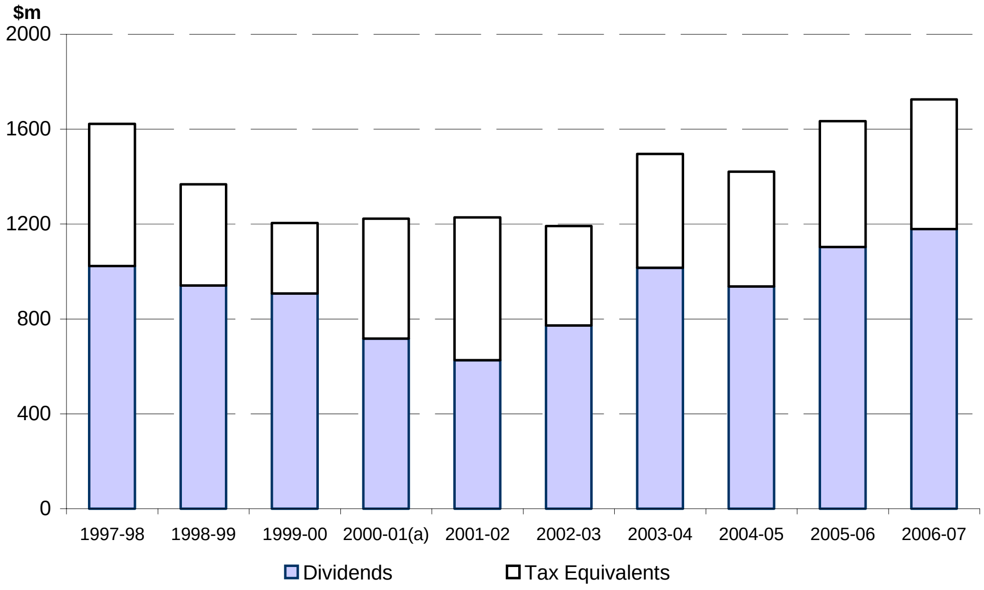
Table 3.10: Dividends and Tax Equivalents from Public Trading and Financial Enterprises

	2001-02	2002-03		2003-04	2004-05	2005-06	2006-07
	Actual	*Budget*	*Revised*	*Budget*	*Forward Estimates*		
	$m	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*
Dividends							
Electricity	322	535	447	645	559	678	749
Water and Waste Services	172	168	175	172	178	178	189
Property and Resources	53	46	81	76	105	128	112
Financial Services	18	18	22	17	18	18	18
Ports	21	23	18	19	20	20	21
Transport	...	...	...	...	...	...	...
Other	40	52	28	86	58	83	89
	626	**842**	**772**	**1,015**	**937**	**1,104**	**1,178**
Income Tax Equivalents							
Electricity	281	166	246	276	263	286	308
Water and Waste Services	184	144	97	133	141	148	134
Property and Resources	39	29	36	35	43	59	68
Financial Services	6	6	8	6	6	6	6
Ports	18	18	20	17	18	17	19
Transport	62	...	...	...	...	...	...
Other	11	9	13	13	13	13	13
	602	**373**	**420**	**481**	**484**	**530**	**548**
Total	**1,228**	**1,215**	**1,192**	**1,496**	**1,421**	**1,634**	**1,726**

For 2003-04, dividends and tax equivalents are expected to increase by $304 million, or 25.5 percent. This is largely a result of increased returns from the electricity sector with expected improved market conditions. Payments from the Water and Waste Services sector will return to underlying levels.

Chart 3.2 shows dividends and tax equivalents falling slightly in 2004-05 and increasing in 2005-06 and 2006-07. This parallels expected developments in the electricity sector, as the dividend percentage declines in 2004-05 and power demand increases in 2005-06 and 2006-07.

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



(a) Excludes $2.46 billion in capital restructure proceeds in 2000-01.

OTHER STATE REVENUES

Licences

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

Fees

The majority of fees are renewed annually, providing a constant underlying level of revenue. The increase in fee revenue in 2003-04 is due to the normal renewal pattern for some longer term licences, and revised fees for security industry and firearm licences.

Fines

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

Table 3.11: Other State Revenues

	2001-02	2002-03		2003-04	2004-05	2005-06	2006-07
	Actual	*Budget*	*Revised*	*Budget*	*Forward Estimates*		
	$m	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*
Licences	82	80	80	116	173	158	114
Fees	114	107	108	114	107	108	110
Fines	236	250	234	238	231	230	232
Royalties	216	225	225	232	239	247	254
Fire Brigades Levy on Local Government	44	48	47	48	48	48	48
Other State Revenues	100	89	99	94	95	96	97
Total Other Revenue	**792**	**799**	**793**	**842**	**893**	**886**	**855**

Royalties

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

3.4 ESTIMATES OF OPERATING REVENUES

Operating revenues are earned by general government agencies in the normal course of their operations. The primary source is user charges levied to recover the costs of providing goods or services. Table 3.12 provides estimates of operating revenues for the period to 2006-07.

SALES OF GOODS AND SERVICES

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

In 2002-03, revenues are expected to exceed 2001-02 by $53 million and the 2002-03 Budget estimate by $76 million. The higher result is mainly due to $36 million under the Department of Veterans' Affairs Deed of Agreement for the treatment of veterans and war widows in public hospitals due to a 4.5 percent increase in the level of charges and growth in demand, and $37 million from various other hospital related charges. For 2003-04, total revenue from sales of goods and services is expected to increase by 4.0 percent.

INVESTMENT INCOME

Revenue from investment income includes interest on advances to public trading enterprises, interest on NSW Treasury Corporation deposits and interest on private sector deposits. In 2002-03, revenues are expected to be $72 million higher than the previous year but $235 million below the Budget estimate, mainly reflecting weaker than expected equity market returns. In 2003-04 and the forward years investment income is expected to return to more normal levels on growing balances.

Table 3.12: Operating Revenues

	2001-02	2002-03		2003-04	2004-05	2005-06	2006-07
	Actual	*Budget*	*Revised*	*Budget*	*Forward Estimates*		
	$m	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*
Sales of Goods and Services							
Rents and leases	129	106	110	109	111	115	119
Fees for Service	87	90	97	99	101	106	107
Entry Fees	17	18	19	18	19	19	20
Patient Fees	532	542	579	595	608	622	636
Department of Veterans Affairs - Concord Hospital	246	235	271	279	285	291	298
Court Fees	128	118	124	122	121	127	130
Road Tolls	66	77	77	78	78	79	80
Office of Government Business and Office of Government Procurement	76	107	107	96	98	101	104
Other Sales of Goods and Services	1,221	1,186	1,172	1,260	1,287	1,328	1,363
	2,502	**2,479**	**2,555**	**2,656**	**2,708**	**2,788**	**2,857**
Investment Income	282	589	354	637	747	877	1,011
Grants and Contributions	316	382	429	346	319	324	328
Other Operating Revenues	382	256	721	264	272	302	322
Total Operating Revenue	**3,482**	**3,706**	**4,059**	**3,903**	**4,046**	**4,291**	**4,518**

GRANTS AND CONTRIBUTIONS

This item mainly consists of contributions from public trading enterprises and the private sector. Revenue in 2002-03 was $47 million higher than estimated in the 2002-03 Budget. The variation was mainly attributable to a $21 million increase in grants and contributions to the public health system, a $12 million increase to the Department of Transport (primarily from the State Rail Authority to fund car park constructions managed by the Department of Transport), and a $9 million increase to the National Parks and Wildlife Service for Snowy rehabilitation and land purchases.

In 2003-04, grants and contributions revenue should decline to more normal levels. Revenue in 2002-03 was boosted by a one-off provision of $109 million from BHP for remediation of former BHP lands at Newcastle.

OTHER OPERATING REVENUE

Other operating revenue in 2002-03 is expected to exceed the 2002-03 Budget estimate by $465 million, and decline by $457 million in 2003-04. The increase in other revenues in 2002-03 is mainly due to $290 million received by the Roads and Traffic Authority following the letting of contracts for the construction of toll roads. The payments reimbursed the Roads and Traffic Authority for costs associated with letting the contracts and will fund related essential connecting works.

CHAPTER 4: NET WORTH, ASSETS AND LIABILITIES

- A strong balance sheet with low levels of debt ensures the continued provision of core government services during periods of volatility in revenue and investment returns.
- New South Wales State sector net worth is forecast to increase by $36 billion, between 1999 and 2007, to $115 billion.
- General government equity in the public trading enterprises sector has increased by $7.8 billion between 1999 and 2003 demonstrating that investment in the sector has created value.
- General government net debt will continue to decline to around $4 billion as at 30 June 2003. By 2007 net debt is forecast to be about $2.4 billion, 0.7 percent of gross state product.
- Interest expenses on borrowings will reduce from $1,362 million in 1999 to $712 million in 2007.
- HIH compulsory third party motor vehicle and home warranty insurance claims, assumed by the New South Wales Government, will be fully met. Over $150 million will be paid out to former policyholders during 2003. Outstanding liabilities will be reduced to $85 million by 2007.
- Unfunded superannuation has been adversely impacted by the decline in world stock markets and longer life expectancy of pension scheme members, which will result in an approximate $1.8 billion increase in liabilities to $13.2 billion at 30 June 2003. Benefits will be fully funded by 2030, fifteen years earlier than anticipated when the funding plan was introduced in 1993.
- General government net financial liabilities are forecast to decline by $3 billion between 1999 and 2007, to $25 billion, primarily reflecting the reduction in net debt.
- State net financial liabilities are expected to increase by $8 billion during the same period, to $49 billion.
- Government business assets are expected to grow, between 1999 and 2007, by about $28 billion.
- The value of taxpayers investment in government businesses will increase by $8.9 billion, in the next four years, largely as a result of these new infrastructure investments.
- Net financial liabilities as a percentage of gross state product have reduced substantially with the state sector expected to decline from 26.7 percent in 1995 to 15 percent in 2007. The general government sector for the same period should reduce from 19.9 percent to 7.6 percent.

Some definitions

- The *total state sector* consists of government businesses and the general government sector. Except where otherwise stated, this chapter deals with the *general government sector*.
- Government businesses are public trading or financial enterprises.
- *Net worth* is the net value of financial assets, including the value of owning government businesses, plus land and physical assets less total liabilities.
- *Liabilities* are existing obligations to make payments in the future.
- *Financial assets* are cash, advances (loans made) and investments, excluding the value of owning government businesses.
- The difference in value between liabilities and financial assets is *net financial liabilities*.
- *Net debt* is the difference in value between borrowings (loans received) and all financial assets outside superannuation funds.
- *Unfunded superannuation* is the difference in value between existing obligations to pay benefits and the financial assets in superannuation funds.
- *Insurance liabilities* are existing obligations to pay claims already incurred.

4.1 INTRODUCTION

Total State sector net worth will grow from $78,740 million in 1999 to a projected $100,423 million at 30 June 2003. Net worth is forecast to increase to $114,854 million by 30 June 2007. Table 4.1 details asset and liability holdings over this eight year period. The table shows a continuous rise in total assets amounting to $57,108 million offset by a more moderate increase in total liabilities of $20,994 million over the period.

The increase in total assets reflects the Government's ongoing investment in the infrastructure of the State with land and fixed assets increasing by $43,356 million, well in excess of depreciation and disposal of surplus assets. The increase in liabilities over the period is more than accounted for by increased superannuation and employee entitlements.

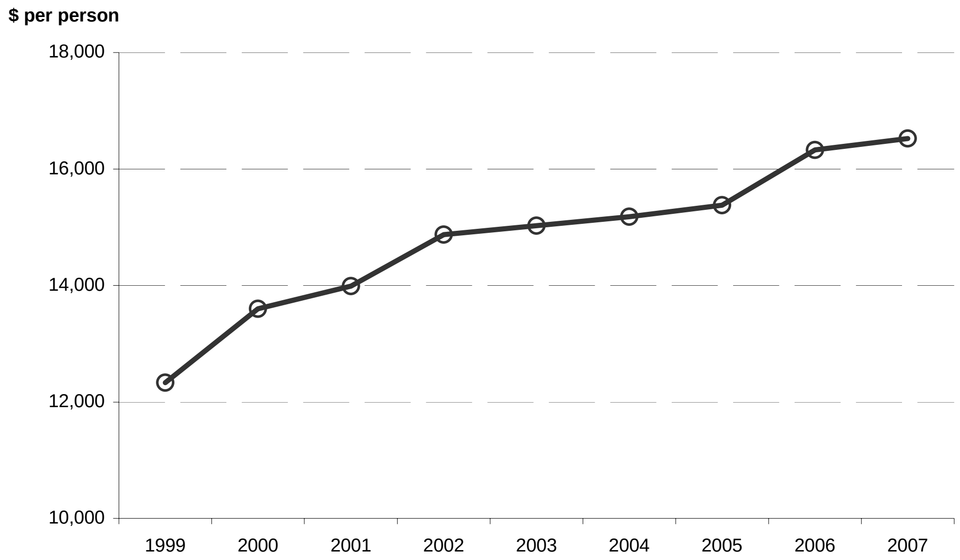
Land and fixed assets consist of investment in hospitals, schools, roads, bridges, public transport, public housing, sporting facilities, as well as the State's electricity, water and ports infrastructure provided by the commercial authorities.

Table 4.1: New South Wales State Sector Net Worth

As at 30 June	*Actual*				*Revised*	*Budget*	*Estimates*		
	1999 $m	*2000 $m*	*2001 $m*	*2002 $m*	*2003 $m*	*2004 $m*	*2005 $m*	*2006 $m*	*2007 $m*
GFS BALANCE SHEET									
Assets									
Financial Assets									
Cash and Deposits	2,496	1,780	1,915	3,119	2,274	1,971	1,887	1,763	1,744
Advances paid	249	315	286	368	422	382	359	366	386
Investments, Loans and Placements	7,598	7,089	6,955	9,680	11,723	13,004	14,722	17,162	20,114
Other Non-Equity Assets	4,320	4,766	4,911	4,737	4,355	4,516	4,620	4,679	4,677
Equity Assets	149	184	160	559	530	541	559	582	588
Total Financial Assets	**14,812**	**14,134**	**14,227**	**18,463**	**19,304**	**20,415**	**22,147**	**24,552**	**27,509**
Non-Financial Assets									
Land and Fixed Assets	118,997	123,597	128,030	136,537	142,011	145,850	149,980	158,912	162,353
Other Non-Financial Assets	727	1,053	1,151	1,198	1,298	1,427	1,583	1,636	1,782
Total Non-Financial Assets	**119,724**	**124,650**	**129,181**	**137,735**	**143,309**	**147,277**	**151,563**	**160,548**	**164,135**
TOTAL ASSETS	**134,536**	**138,784**	**143,408**	**156,198**	**162,613**	**167,692**	**173,710**	**185,100**	**191,644**
Liabilities									
Deposits Held	1,016	944	753	2,445	2,214	2,198	2,181	2,178	2,176
Advances Received	2,270	2,142	2,041	1,826	1,788	1,694	1,652	1,510	1,437
Borrowing	28,979	26,212	25,240	25,000	25,093	26,494	27,956	29,233	30,642
Superannuation	8,179	5,284	7,977	11,723	15,706	17,468	19,318	21,263	23,317
Other Employee Entitlements and Provisions	9,934	10,150	11,234	12,053	12,551	12,878	13,343	13,922	14,554
Other Non-Equity Liabilities	5,418	6,215	4,662	4,721	4,838	4,572	4,495	4,664	4,664
TOTAL LIABILITIES	**55,796**	**50,947**	**51,907**	**57,768**	**62,190**	**65,305**	**68,946**	**72,770**	**76,790**
GFS NET WORTH	**78,740**	**87,837**	**91,501**	**98,430**	**100,423**	**102,387**	**104,765**	**112,330**	**114,854**

Chart 4.1 shows that on a per capita basis the net worth of NSW citizens will increase by approximately 35 per cent between 1999 and 2007.

Chart 4.1: State Sector Net Worth as at 30 June ($ per person)



The State sector's modest increase in borrowings of $1,663 million between 1999 and 2007 will be the result of government businesses borrowing to fund improved infrastructure (refer section 4.2), offset by debt repayments for the general government sector. Debt in the general government sector continues to decline in accordance with the Government's objective to eliminate general government net debt by 2020. The ongoing debt reductions are a result of seven cash budget surpluses, business asset sales and the regearing of the electricity industry.

The Government is also committed to its other liability management fiscal strategy objectives (refer Chapter 1) of fully funding general government superannuation liabilities by 2030 and fully funding the Treasury Managed Fund self insurance scheme by 2003.

World stockmarket declines and changed actuarial assumptions for life expectancy of scheme members have increased unfunded superannuation in 2003. The gross liability will continue to increase to about 2013 and then steadily decline as current active members retire and as mortality rates increase.

Lower than expected investment returns and recognition of claims incurred but not reported have also adversely impacted the Treasury Managed Fund self insurance scheme. The Government will provide $824 million additional capital in June 2003 to ensure full cash funding of claims is maintained.

4.2 GENERAL GOVERNMENT NET WORTH AND THE PTE SECTOR

Government businesses play a significant role in providing the State with vital energy, transport, ports and water infrastructure. The quality of this infrastructure makes an important contribution to the efficiency of the State's economy and the living standards of the community.

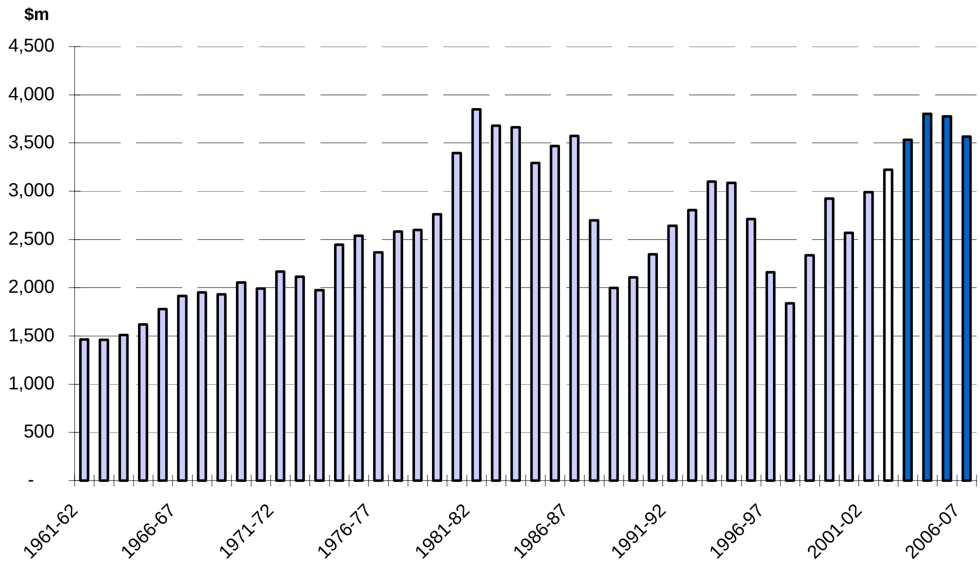
Over the last decade the Government has implemented reforms in the PTE sector aimed at replicating the disciplines and incentives that lead private sector businesses towards efficient commercial practice. The operating and investment decisions of the PTE sector are now made on the basis of a rigorous commercial policy framework.

The commercial nature of the PTE sector is an important consideration in an evaluation of the financial performance of the total State sector. In the general government sector, the Government has reduced debt and established sustainable funding levels to meet other liabilities. Similar debt targets in the PTE sector would inhibit its ability to respond to commercial opportunities and undertake appropriate investments.

The PTE sector typically is profitable. In the six years to 2002-03, the PTE operating surplus averaged nearly $500 million and is projected to remain in a healthy positive position for the foreseeable future. In the past, the sector has generated a large cash surplus from its operating activities which has generally been sufficient to cover capital expenditure. Over the forward estimates period, capital expenditure will be greater than the cash operating surplus and the shortfall will need to be met by borrowings.

The PTE sector is currently undertaking major capital investments in response to the growing demand for services and the need to maintain modern and efficient infrastructure for the NSW economy. Chart 4.2 shows on a GFS cash basis that the capital expenditure planned by the PTE sector is in real terms close to its highest level over the last four decades. Without these investments the viability of the enterprises, including nearly $1.5 billion a year government businesses provide as a return on the State's capital (in dividends and tax equivalent payments) would be adversely impacted.

Chart 4.2: PTE New Fixed Capital Expenditure: 1961-62 to 2006-07 Real 2001 dollars



In the next two years, the PTE sector will continue to increase nominal capital expenditure to reach a peak of $4 billion in 2005-06. This is 77 percent higher than the trough in 1997-98. Capital expenditure decisions by PTEs are mainly commercially based and are expected to generate revenues that provide an adequate return, allowing for risk. It is these revenues that support the sector's debt levels and return on equity.

Electricity, transport and water sectors account for most PTE capital investment (refer Table 4.2). Underlying this investment is revenue growth at an average annual rate of 4.5 percent over the next four years. Revenue growth will ensure that the PTE sector maintains a healthy operating surplus despite the increased interest expenses arising from the need to raise debt to fund higher levels of capital expenditure.

Table 4.2: Gross Fixed Capital Investment by Sector

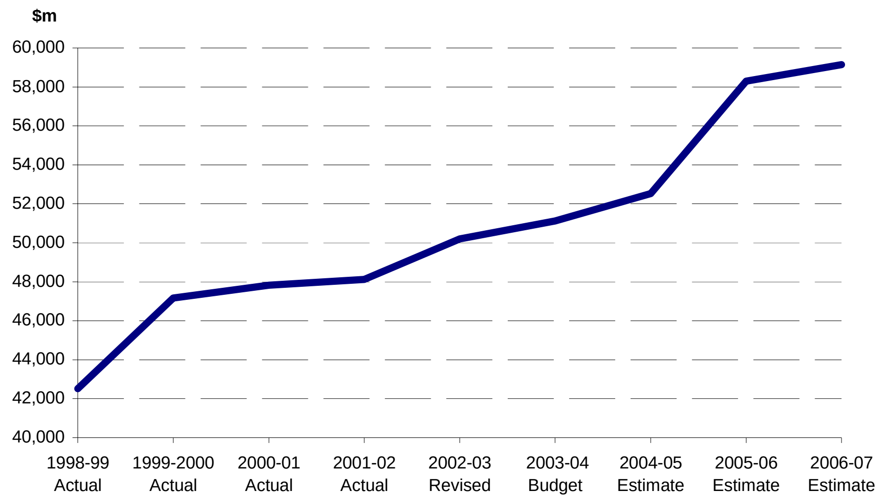
Sector	*2003-04 to 2006-07 Estimates $m*	*2003-04 to 2006-07 Share %*
Electricity Distribution	4,330	28%
Transport	4,022	26%
Water	2,597	17%
Other		
- Electricity Transmission	1,417	9%
- Electricity Generation	831	5%
- Ports	497	3%
- Miscellaneous	1,758	11%
Total	**15,452**	**100%**

The performance of individual PTEs and the sector in aggregate should reflect reasonable commercial outcomes, allowing for the constraints under which a number of PTEs operate. One indicator of commercial performance is the value of taxpayers' investment in the PTE sector, represented in the financial statements as general government sector equity.

General government sector equity in the PTE sector has increased by over $7.8 billion from 1998-99 to 2002-03, even after a $3.2 billion regearing of electricity entities (refer Chart 4.3). PTE sector equity is expected to continue growing throughout the forward estimates period, with a projected $8.9 billion total increase. Refer to Table 1.3, Chapter 2 for further information.

Government business assets are expected to grow between 1998-99 and 2006-07 by about $28 billion, from $59 billion to $87 billion.

Chart 4.3: General Government Equity in the PTE Sector [(a)]



(a) Includes impact of Sydney Organising Committee for the Olympic Games and Sydney Paralympic Organising Committee

The growth in general government equity reflects the value created by the current round of investment in commercially productive operations.

4.3 STATE SECTOR NET FINANCIAL LIABILITIES

Table 4.3 shows the net financial liabilities of the different sectors.

GENERAL GOVERNMENT SECTOR

Net financial liabilities are forecast to decline by about $3 billion over the eight year period ending 30 June 2007, to around $25 billion. This reduction primarily reflects the ongoing reduction in net debt during the period. In recent years the decline in net debt has been fully offset by unfunded superannuation increases. Further details are provided in Sections 4.6 and 4.7.

Table 4.3: Net Financial Liabilities by Sector

As at 30 June	Actual				Revised
	1999 $m	2000 $m	2001 $m	2002 $m	2003 $m
GENERAL GOVERNMENT SECTOR					
Gross Debt	15,779	15,422	12,949	12,655	12,004
Financial Assets [(a)]	5,789	6,037	6,488	7,599	8,001
Underlying Net Debt	9,990	9,385	6,461	5,056	4,003
Superannuation Prepayment	3,264	2,251	1,179	...	...
Net Debt	13,254	11,636	7,640	5,056	4,003
Accrued Superannuation Liabilities	26,235	26,797	29,011	30,389	31,873
Investments[(b)]	18,283	21,111	20,884	18,991	18,692
Unfunded Superannuation	7,952	5,686	8,127	11,398	13,181
Insurance Claims	4,204	4,254	5,050	5,535	5,791
Other [(c)]	2,473	2,525	2,315	2,304	2,868
Net Financial Liabilities[(d)]	**27,883**	**24,101**	**23,132**	**24,293**	**25,843**
PUBLIC TRADING ENTERPRISE SECTOR					
Gross Debt	9,993	9,872	12,712	12,333	13,592
Financial assets	2,387	2,199	1,880	1,563	1,545
Net Debt	7,606	7,673	10,832	10,770	12,047
Unfunded Superannuation	227	(402)	(150)	325	875
Insurance Claims	315	285	332	399	359
Other [(c)]	3,829	4,453	3,184	3,252	3,709
Net Financial Liabilities	**11,977**	**12,009**	**14,198**	**14,746**	**16,990**
PUBLIC FINANCIAL ENTERPRISE SECTOR					
Gross Debt	34,211	30,686	30,203	32,552	34,462
Financial Assets	33,148	29,872	29,798	32,274	34,182
Net Debt	1,063	814	405	278	280
Other	62	(111)	(55)	(13)	(226)
Net Financial Liabilities	**1,125**	**703**	**350**	**265**	**54**
TOTAL STATE SECTOR Net Financial Liabilities	**40,985**	**36,813**	**37,680**	**39,304**	**42,887**

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

(b) *Investments include balance of General Government Liability Management Fund, (GGLMF).*

(c) *Mainly represented by employee entitlements, such as long service leave.*

(d) *Equity investment in the PTE/PFE sectors is excluded to give a more conservative picture of the general government sector's overall financial obligations.*

Liability Projections

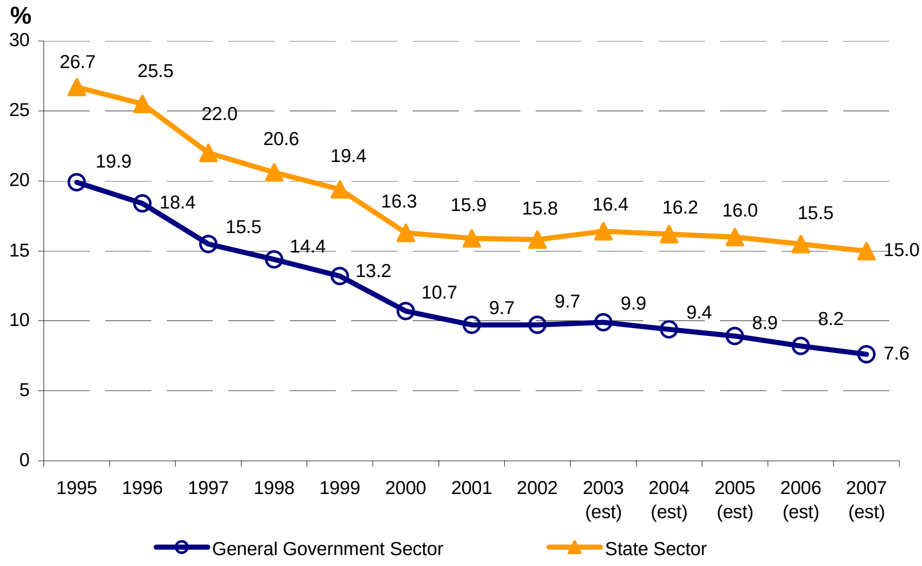
Over the forward estimates period, state sector net financial liabilities will increase in nominal terms but decline as a percentage of gross state product, as shown in Table 4.4 and Chart 4.4 respectively.

Table 4.4: Net Financial Liabilities Forecasts

As at 30 June	*Actual* 2002 $m	*Revised* 2003 $m	*Budget* 2004 $m	*Estimates* 2005 $m	2006 $m	2007 $m
General Government Sector						
Net Debt[a]	5,056	4,003	3,737	3,590	2,909	2,358
Unfunded Superannuation[b]	11,398	13,181	13,983	14,094	13,938	13,514
Insurance Gross Claims[c]	5,535	5,791	5,987	6,268	6,629	7,044
Other[d]	2,304	2,868	2,291	2,111	1,969	1,984
Total	24,293	25,843	25,998	26,063	25,445	24,900
State Sector						
Net Debt[a]	16,104	16,329	17,527	18,949	19,747	20,491
Unfunded Superannuation[b]	11,723	14,055	14,970	15,191	15,148	14,838
Insurance Gross Claims[c]	5,989	6,188	6,379	6,659	7,024	7,447
Other[d]	5,488	6,315	6,014	6,000	6,300	6,505
Total	**39,304**	**42,887**	**44,890**	**46,799**	**48,219**	**49,281**

(a) Excludes balances held in GGLMF.
(b) GGLMF investments included in superannuation asset balances.
(c) Gross amount of insurance assets are included in financial assets in accordance with Australian Bureau of Statistics Standards.
(d) Other employee entitlements and provisions.

Chart 4.4: Net Financial Liabilities as at 30 June (% of GSP)



4.4 GENERAL GOVERNMENT SECTOR INSURANCE

The Treasury Managed Fund (TMF) is a self-insurance scheme owned and underwritten by the Government. The TMF covers workers' compensation, public liability and other insurance for all budget dependent agencies. Crown cash grants totalling $824 million will fully fund the TMF outstanding claims by 30 June 2003. Future investment earnings (assuming normal investment market conditions prevail) and agency premiums will maintain full funding.

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

The Auditor-General's September 2001 report to Parliament on the collapse of HIH Insurance noted that agencies not covered by the TMF had incurred an estimated $30 million loss through the HIH collapse. A key recommendation of this report was:

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

Treasury and the fund manager, GIO Australia, are currently conducting this review. Two information sessions for agencies were held in November 2002 and March 2003 to outline the services and insurance coverage provided by TMF membership. A number of small to medium sized non budget dependent organisations have since joined the scheme.

Table 4.5: General Government Sector Insurance Forecasts

As at 30 June	Actual 2002 $m	Revised 2003 $m	Budget 2004 $m	Estimates 2005 $m	Estimates 2006 $m	Estimates 2007 $m
Outstanding Claim Liabilities						
Treasury Managed Fund	3,353	3,655	3,991	4,380	4,824	5,305
Other (closed schemes)[(a)]	280	266	229	202	178	153
HIH	468	383	269	181	124	85
Dust Diseases	1,204	1,250	1,260	1,265	1,260	1,255
WorkCover Authority	227	232	233	235	238	241
Other (self funded schemes)	3	5	5	5	5	5
	5,535	5,791	5,987	6,268	6,629	7,044
Assets						
Treasury Managed Fund	2,641	3,721	4,140	4,439	5,027	5,482
Dust Diseases	1,204	1,250	1,260	1,265	1,260	1,255
WorkCover Authority	276	251	220	218	213	223
Other (self funded schemes)	32	16	7	7	8	16
	4,153	5,238	5,627	5,929	6,508	6,976
Unfunded Insurance Liabilities[(b)]	**1,382**	**553**	**360**	**339**	**121**	**68**
Assets as proportion of claim liabilities (%)	**75**	**90**	**94**	**95**	**98**	**99**

(a) Closed schemes include the Transport Accident Compensation Fund and the Government Workers Fund whose outstanding claims are funded by the Crown Entity.

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

Increased funding of the TMF will eliminate the Scheme's unfunded outstanding claim liabilities in 2003. The Dust Diseases Board liabilities have increased due to a change in their claims recognition policy to recognise liabilities on a claims incurred basis. This is offset by an equivalent asset receivable which recognises the Board's legislative power to adjust employer premiums in order to fund future claims.

In order to maintain the community's confidence in the insurance industry, the Government assumed liability for the outstanding compulsory third party motor vehicle insurance claims under policies in force with HIH prior to 31 December 2000, and for claims under the home warranty insurance scheme in respect of HIH policies entered into prior to 15 March 2001.

HIH claim liabilities assumed by the Government totalled over $600 million. During 2003 claim payments to previous HIH policyholders will exceed $150 million.

The continuing HIH claim payments and the anticipated increase in TMF financial assets will reduce net liabilities over the forward estimates period. Insurance assets as a proportion of liabilities will rise from 75 percent in 2002 to 99 percent by 2007.

HIH ROYAL COMMISSION REPORT

The report by the Honourable Mr Justice Owen into the collapse of the HIH Insurance Group was released on 16 April 2003. The Commissioner has recommended that the Australian Accounting Standards Board amend general insurance accounting standard AASB1023 to provide for the following:

- prudential margins for outstanding claims with levels of adequacy of 75 percent;
- in estimating the value of liabilities, future cash flows be discounted using a risk-free rate.

If adopted by the TMF these recommendations would require an increase in asset reserves of approximately $500 million. The TMF generally maintains assets sufficient to meet the actuarial central estimate of liabilities and uses a liability valuation discount rate which reflects the forecast investment returns of the TMF balanced asset portfolio.

The Commissioner’s recommendations are appropriate to ensure the ongoing solvency of the private sector insurance industry. However, it is not necessary for a sovereign government such as New South Wales with a AAA credit rating and stable cash flows to provide additional funding to the TMF for contingency reserves. These resources are better utilised to support core government services.

4.5 PUBLIC LIABILITY AND OTHER INSURANCE ISSUES

The collapse of HIH Insurance Group and the tragic events of 11 September 2001 reduced the availability of insurance cover on the local and international market. The insurance market cycle was already entering a period of premium increases following a number of years of poor financial results.

As a result community and small business groups have faced difficulties in obtaining public liability and professional indemnity insurance cover at affordable prices. In some cases cover has either not been available or subject to severe restrictions.

The NSW Government has acted to mitigate these impacts in New South Wales through tort law reform, arrangements for bulk-buying of public liability insurance and by working with the insurance industry to stabilise premiums and increase insurance availability.

New South Wales has led public liability reforms in Australia. Other states are now adopting many of these initiatives as all governments accept that these measures will assist to restore the insurance market.

The NSW Parliament passed the *Civil Liability Act* 2002 to implement Stage One of the Government's law reform program. Key features of Stage One included:

- upper limits for non-economic loss and lost earnings;
- application of a claim threshold of 15 percent in respect of general damages;
- new interest calculations and discount rates for damages awards;
- limit on legal costs in small claims; and
- penalties for making unmeritorious claims.

Stage Two of the Government's legislative program, the *Civil Liability Amendment (Personal Responsibility) Act 2002* has also been passed by Parliament. This legislation includes measures to:

- limit the scope of reasonable foreseeability;
- introduce a new defence for professionals sued for negligence;
- introduce proportionate liability for certain claims;
- limit liability in tort of a public or other authority;
- protect good Samaritans and volunteers from liability for their acts; and
- facilitate structured settlements in personal injury cases.

The insurance industry has responded to these initiatives with the establishment of Community Care Underwriting Agency (CCUA). CCUA is a specialist agency of leading insurers Allianz Australia, IAG and QBE Insurance (Australia) Limited, offering public liability insurance to not for profit organisations.

Another insurer, Suncorp GIO, has announced that it will make public liability insurance available to a much broader range of businesses, consumers and community groups.

However, the Government has been concerned that the insurance industry passes on the savings generated through these reforms. The NSW Government has called on the Commonwealth for greater transparency in the insurance industry and for stringent monitoring by both the Australian Prudential Regulatory Authority and the Australian Competition and Consumer Commission.

Following a series of Ministerial meetings on insurance issues attended by Commonwealth, State and Territory Ministers, all Australian jurisdictions agreed to a landmark package of negligence law reforms.

These meetings also focused on the difficulties faced by professionals in obtaining professional indemnity insurance at a reasonable price. Ministers agreed to work urgently towards developing a nationally consistent model for proportionate liability for economic loss. The changes would mean that defendants would each be liable only to the extent that they have contributed to a plaintiff's economic loss.

The collapse of HIH Insurance severely dislocated the home warranty insurance market. HIH's share of this market was approximately 30 percent. Following the World Trade Centre terrorist attack the home warranty market was again in turmoil with the withdrawal from the market of another provider, Dexta, and certain reinsurers.

The NSW and Victorian Governments have implemented revised reinsurance arrangements that have allowed the existing two insurers to continue in the market.

The Government has announced an inquiry into home warranty insurance, to be chaired by Mr Richard Grellman. He will investigate the adequacy of the existing scheme, as well as other industry based models. The inquiry's final report is due by 30 September 2003.

4.6 GENERAL GOVERNMENT SECTOR NET DEBT

The Government has a strong commitment to responsible financial management, consistent with the goals of the *General Government Debt Elimination Act 1995*. Cash surpluses, asset sales and capital repatriations have reduced general government net debt to a sustainable level, and will see net debt eliminated by 2020.

The net debt level of $12,154 million (7.4 percent of gross state product) in 1995 is estimated to be reduced to $4,003 million (1.5 percent of gross state product) as at 30 June 2003.

Table 4.6: General Government Sector Net Debt

As at 30 June	Actuals				Revised	Budget	Estimates		
	1999 $m	2000 $m	2001 $m	2002 $m	2003 $m	2004 $m	2005 $m	2006 $m	2007 $m
Gross Debt									
Borrowings[(a)]	13,450	13,190	10,847	10,765	10,149	10,236	10,187	9,823	9,696
Advances Received	2,270	2,142	2,041	1,826	1,788	1,694	1,652	1,510	1,437
Deposits Held	59	90	61	64	67	67	67	67	67
	15,779	15,422	12,949	12,655	12,004	11,997	11,906	11,400	11,200
Financial Assets[(b)]									
Cash	1015	481	1,096	1719	1,112	908	962	758	688
Investments	3,118	3,860	3,950	4,359	5,383	5,913	5,964	6,370	6,804
Advances	1,656	1,696	1,442	1,521	1,506	1,439	1,390	1,363	1,350
	5,789	6,037	6,488	7,599	8,001	8,260	8,316	8,491	8,842
Underlying Net Debt	**9,990**	**9,385**	**6,461**	**5,056**	**4,003**	**3,737**	**3,590**	**2,909**	**2,358**

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

(b) Includes financial assets which have been allocated to fund insurance claims, but excludes balances held in the GGLMF.

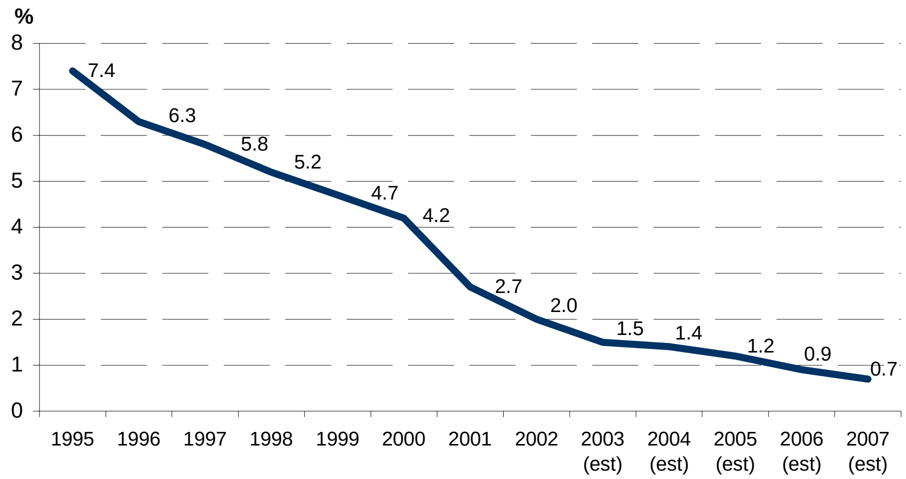
Table 4.7 shows the composition of the $8,151 million reduction in general government net debt from 1995 to 2003. A large part of the reduction in net debt, ($3,368 million) has come from the consistent application of cash surpluses. Public trading enterprise regearing has also made a significant contribution to the reduction. Asset sale proceeds have assisted, though to a lesser extent.

The net debt to gross state product ratio is forecast to be 0.7 percent by 2007 (Chart 4.5).

Table 4.7: Annual Movement in General Government Underlying Net Debt 1995-96 to 2002-03

	Actual							Estimate	Total since
	1995-96 $m	*1996-97 $m*	*1997-98 $m*	*1998-99 $m*	*1999-00 $m*	*2000-01 $m*	*2001-02 $m*	*2002-03 $m*	*1 July 1995 $m*
Opening Balance	**12,154**	**11,092**	**11,042**	**10,403**	**9,990**	**9,385**	**6,461**	**5,056**	**12,154**
Underlying Cash (Surplus)/Deficit	262	(110)	(6)	(408)	(874)	(733)	(1,265)	(234)	(3,368)
PTE Regearing	(1,491)	...	92	(50)	50	(2,583)	...	(710)	(4,692)
Privatisation proceeds	...	...	(937)	...	...	...	(669)	(122)	(1,728)
Premium on debt repayment	83	46	121	60	55	309	100	18	792
Assumption of Freightcorp debt	...	...	...	...	...	...	308	...	...
Other	84	14	91	(15)	164	83	121	(5)	845
Closing Balance	**11,092**	**11,042**	**10,403**	**9,990**	**9,385**	**6,461**	**5,056**	**4,003**	**4,003**
Total (Reduction)/Increase	**(1,062)**	**(50)**	**(639)**	**(413)**	**(605)**	**(2,924)**	**(1,405)**	**(1,053)**	**(8,151)**

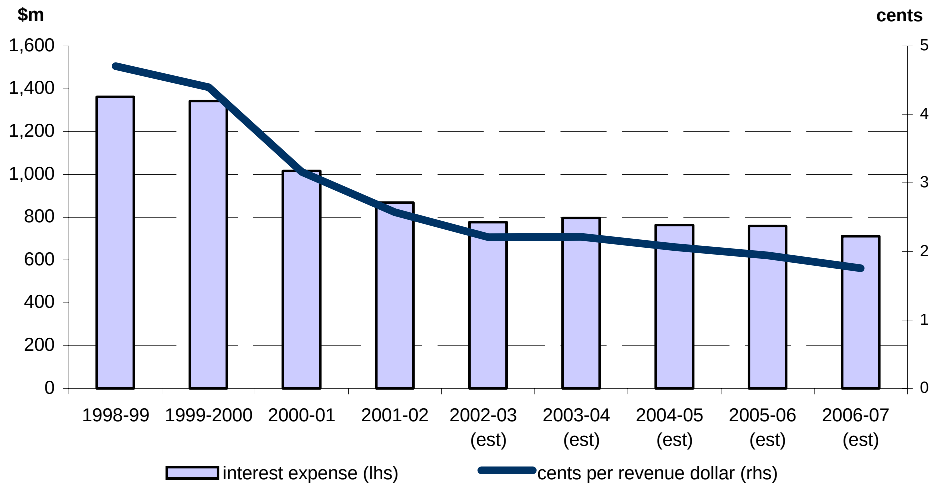
Chart 4.5: General Government Sector Underlying Net Debt as percentage of Gross State Product, as at 30 June



The interest expense on gross debt should fall from $1,362 million to $712 million between 1999 and 2007. The fall in interest expense is due to the ongoing reductions of debt and a lower average interest rate. As old loans in the debt portfolio mature, they are replaced with new loans at lower prevailing interest rates.

In 1999, for every revenue dollar received, 4.7 cents was required to meet loan interest payments. By 2007 it is expected that 1.8 cents in the dollar will be required (Chart 4.6).

Chart 4.6: General Government Sector Gross Debt Interest Expense, and as a percentage of Budget Revenue



4.7 GENERAL GOVERNMENT SECTOR UNFUNDED SUPERANNUATION

The decline in the world equity markets over the last two years has sharply reduced superannuation fund investment returns with adverse impact on the State's superannuation funding position.

Some recently identified improvements in pensioner life expectancy and a trend for retiring public servants to prefer a pension rather than a lump sum have exacerbated the increase in unfunded liabilities. These factors have similarly affected most jurisdictions in Australia.

Based on current actuarial estimates, unfunded superannuation liabilities will increase by about $2.1 billion to $13.5 billion, for the five year period ending 30 June 2007 (refer Table 4.8). This increase is largely explained by the combination of several major factors:

- the expected continuation of negative Pooled Fund investment returns during 2002-03. The return in 2001-02 was negative 7.3 percent while the return for 2002-03 is currently forecast to be around negative 3 percent compared to the previous budget assumption of positive 7 percent. The expected negative return in 2002-03 will increase 30 June 2003 unfunded liabilities by around $1,400 million.

- the 2003 triennial actuarial review of the superannuation schemes has identified that pensioner mortality has steadily improved over the last five years. This is consistent with trends in other jurisdictions in Australia and has increased the cost of total future pension payments. The increase in total unfunded superannuation liabilities, due to past and expected future improvements in mortality, has been actuarially calculated to be about $580 million.

- the review has also noted a decrease in the percentage of superannuation scheme members converting their pensions to lump sums (which are on average less costly to employers), increasing unfunded liabilities by around $204 million.

Table 4.8: General Government Sector Unfunded Superannuation Liabilities [(a)]

As at 30 June	Actuals				Revised	Budget	Estimates		
	1999 $m	2000 $m	2001 $m	2002 $m	2003 $m	2004 $m	2005 $m	2006 $m	2007 $m
Liabilities	26,235	26,797	29,011	30,389	31,873	33,255	34,581	35,819	36,947
Less:									
Assets	18,283	21,111	20,884	18,991	17,038	16,774	16,360	15,766	14,954
Reserves held in General Government Liability Management Fund	...	...	...	...	1,654	2,498	4,127	6,115	8,479
Underlying Net Unfunded Liabilities [(a)]	**7,952**	**5,686**	**8,127**	**11,398**	**13,181**	**13,983**	**14,094**	**13,938**	**13,514**
Assets (including GGLMF Reserves) as proportion of Liabilities (%)	**70**	**79**	**72**	**62**	**59**	**58**	**59**	**61**	**63**

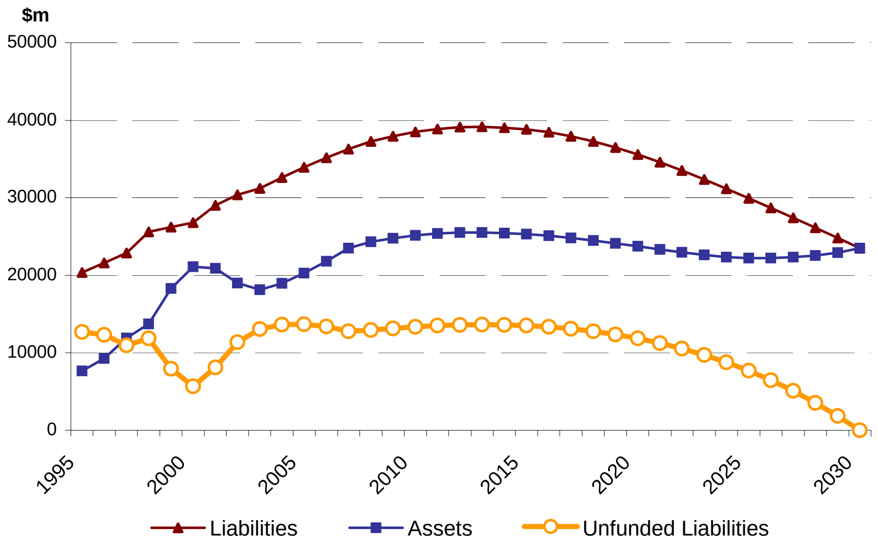
(a) Includes assets and liabilities of both employers and employees. The time series is adjusted to take into account that New South Wales no longer recognises any superannuation liability for Universities. Includes STC Pooled Fund schemes, Parliamentary Contributory Superannuation Scheme and Judges Pension Scheme.

Over the forward estimate period to 30 June 2007 unfunded superannuation is expected to stabilise because assets, including balances in the General Government Liability Management Fund, are projected to increase steadily to around $23 billion by 30 June 2007. Investment returns are forecast to return to the current actuarially assumed long-term average rate of positive 7 percent per annum.

Gross liabilities will continue to grow to 2013, before gradually declining. Liabilities reduce after 2013 due to the retirement of active members. Superannuation will be fully funded in 2030, at which time assets are projected to match liabilities at approximately $24 billion.

General Government unfunded superannuation liabilities will be eliminated by 2030, refer Chart 4.7, based on a revised funding plan and an assumed 7 percent average investment return (real rate 4.5 percent) between 2003 and 2030.

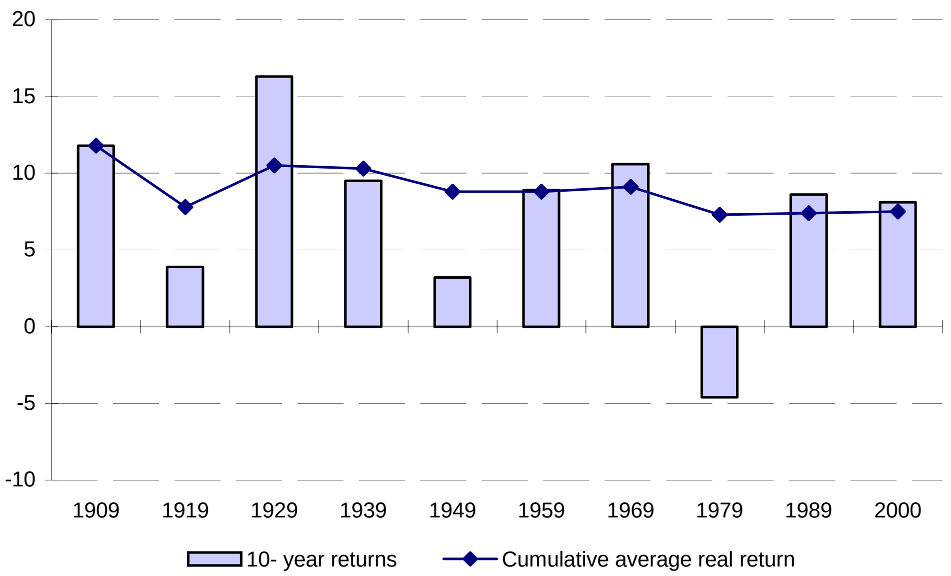
Chart 4.7: Projected General Government Superannuation Gross Liabilities, Assets and Net Liabilities



The cumulative average real rates of return on Australian equities from 1900 to the end of each decade to 2000 is shown in Chart 4.8. The cumulative average real rate of return over the 100 years was 7.5 percent. The lowest cumulative average at the end of any decade was 7.3 percent (1979). International equity returns were also high, with real rates of return in the United States of 6.7 percent, Japan 4.5 percent and United Kingdom 5.8 percent.

If the trend of the last 100 years continues over the next 27 years, an average nominal investment return from 2003 to 2030 of at least 7 percent would be achieved. Actual returns will also be influenced by the superannuation asset portfolio's strategic asset allocation during the period. The Pooled Fund nominal return for the ten year period ended 31 May 2003 was 7.5 percent compared to the Intech Financial Services survey average manager return of 7.3 percent.

Chart 4.8: 100 Year History of the Australian Equity Market [(a)]



(a) Data for Australian equities are described in Officer's chapter in Ball, Brown, Finn and Officer 1989 "Share Markets and Portfolio Theory" and updated in a publication by Dimson, Marsh and Staunton (2002) from the London Business School.

SUPERANNUATION FUNDING PLAN

In 1993, the aim was to fully fund superannuation liabilities by 2045. As a result of higher than originally estimated employer contributions, various liability management initiatives and favourable actual investment returns over a number years, the Government brought forward the full funding target date by fifteen years from 2045 to 2030.

The current 2003 unfunded liability estimate of $13,181 million is $1,555 million lower than the original funding plan forecast of $14,736 million despite recent negative investment returns and adverse changes in actuarial demographic assumptions.

The Government is committed to meeting the 2030 target date. Employer contribution levels will be periodically reassessed to ensure they remain sufficient to achieve full funding.

A new non-superannuation investment fund (the General Government Liability Management Fund) has been established to accumulate Crown employer superannuation contributions. This is designed to more efficiently manage defined benefit superannuation liabilities. The fund will receive the level of contributions determined in the Crown funding plan.

Contributions to the General Government Liability Management Fund over the forward estimates period have been increased. This results from the allocation of estimated cash surpluses between net debt reduction and greater contributions to the Fund, than required by the previous funding plan, to achieve the key fiscal objectives of eliminating net debt by 2020 and fully funding superannuation liabilities by 2030.

4.8 FINANCIAL RISK MANAGEMENT

The *Public Authorities (Financial Arrangements) Act 1987* (PAFA Act) contains controls to manage risks resulting from financial arrangements of government agencies. This Act regulates government agencies' powers to borrow, use derivatives, invest, use funds managers and enter into joint ventures or joint financing arrangements. The PAFA Act also provides for government guarantees of financial arrangements entered into under the Act.

Treasury has initiated a review of the risk management policies and procedures of PAFA Act Authorities.

The major financial liabilities of the State are centrally managed.

INSURANCE MANAGEMENT

The Treasury Managed Fund (TMF) provides insurance for all budget dependent agencies and those non-budget dependent agencies that have chosen to join the Fund. It is government policy to self insure those risks that experience shows can be managed by an organisation of its size and to reinsure those risks it cannot. The TMF's gross liabilities are actuarially assessed quarterly.

In 2002-03 the Government invested a further $824 million to fully fund the TMF. The investments are held by the NSW Treasury Corporation (TCorp) in its TCorp HourGlass facilities or directly in a managed bond portfolio. The TMF portfolio value is approximately $3.7 billion and bonds represent an average of 60 percent of investments. A memorandum of understanding between TCorp and the Treasury details investment policies and procedures and benchmarks for each asset class.

DEBT MANAGEMENT

The debt portfolios of the Crown and the Roads and Traffic Authority together represent 95.8 percent of the debt of budget dependent agencies. These portfolios are managed by TCorp. Debt management has the twin objectives of a) minimising the market value of debt subject to specified risk constraints over the long term and b) minimising the cost of debt.

TCorp uses an active management style with the aim of adding value relative to a benchmark portfolio. This involves positioning the portfolios according to TCorp's view of future interest rates. Memoranda of understandings between Treasury, the Roads and Traffic Authority and TCorp constrain the management of the portfolios. These include a requirement to adhere to finance expense budget allocations which are agreed at the beginning of each financial year.

SUPERANNUATION MANAGEMENT

Nearly all new public servants now join accumulation schemes which are fully funded and pose no risk to the Government. The SAS Trustee Corporation (STC) is the trustee for all defined benefit schemes covering budget dependent agencies.

The STC is required by legislation to arrange a triennial review of all defined benefit schemes under its administration. The current review should be finalised by December 2003. All demographic and economic assumptions used in calculating the gross liabilities are assessed against current experience. Where it is known that these assumptions will change, the new assumptions have been used in the 2003-04 budget calculations.

The Trustee reviews the STC Pool Fund's strategic asset allocation annually. Currently the amount invested in growth assets is approximately 75 percent with the balance in bonds and cash.

The Crown contribution to defined benefit superannuation schemes for 2002-03 is being invested through the General Government Liability Management Fund. These funds are currently being held as cash pending a long term investment decision.

4.9 FINANCIAL ASSET MANGEMENT

THE ROLE OF ASSETS IN FINANCIAL MANAGEMENT

Government determines the level of financial assets to be invested from the funding plans constructed to achieve the targets set for fully funding its liabilities. These policy targets are 2003 for the Treasury Managed Insurance Fund, 2020 for general government debt and 2030 for superannuation.

With a credit rating of AAA, there is no need for the Government to hold additional prudential reserves. Maintaining a strong balance sheet allows the Government to better deal with volatility of taxation revenues and investment markets without impacting the level of core government service provision.

Treasury commissioned InTech Financial Services to review the management of financial risks inherent in holding assets. The review endorsed the current policy approach of fully funding liabilities or constructing a funding plan to fund liabilities within a reasonable timeframe.

Investment income is expected to return to be a growing proportion of total budget revenues.

Table 4.9: Investment Income as Proportion of Total Budget Revenue

	Actual				*Revised*	*Budget*	*Estimates*		
	1998-99 $m	*1999-2000 $m*	*2000-01 $m*	*2001-02 $m*	*2002-03 $m*	*2003-04 $m*	*2004-05 $m*	*2005-06 $m*	*2006-07 $m*
Investment Income	412	476	471	282	354	637	747	877	1,011
Budget Revenue	28,937	30,533	32,118	33,752	35,198	35,936	37,037	39,127	40,586
Income % of Budget	1.4%	1.6%	1.5%	0.8%	1.0%	1.8%	2.0%	2.2%	2.5%

The ratio of financial assets to liabilities is expected to improve over the forward estimates period.

Table 4.10: General Government Sector Financial Assets, and Ratio to Liabilities

As at 30 June	*Actual*	*Revised*	*Budget*	*Estimates*		
	2002 $m	*2003 $m*	*2004 $m*	*2005 $m*	*2006 $m*	*2007 $m*
Superannuation	18,991	17,038	16,774	16,360	15,766	14,954
Liability Management Fund		1,654	2,498	4,127	6,115	8,479
Insurance	4,153	5,238	5,627	5,929	6,508	6,976
Other	3,446	2,763	2,633	2,387	1,983	1,866
Total Financial Assets	**26,590**	**26,693**	**27,532**	**28,803**	**30,372**	**32,275**
Gross Debt [(a)]	12,655	12,004	11,997	11,906	11,400	11,200
Insurance	5,535	5,791	5,987	6,268	6,629	7,044
Superannuation	30,389	31,873	33,255	34,581	35,819	36,947
Other Liabilities	2,304	2,868	2,291	2,111	1,969	1,984
Total Liabilities	**50,883**	**52,536**	**53,530**	**54,866**	**55,817**	**57,175**
Assets/Liabilities	**52%**	**51%**	**51%**	**52%**	**54%**	**56%**

All financial assets outside superannuation funds are reported against debt liabilities in accordance with Australian Bureau of Statistics methodology.

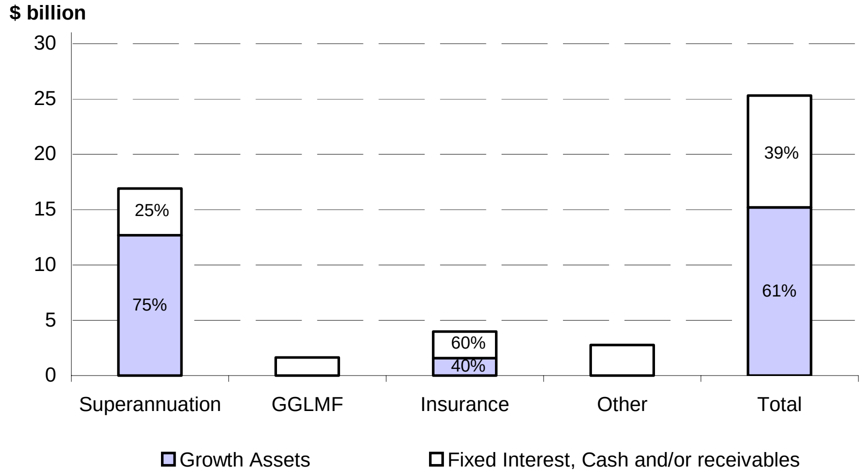
ASSETS: RETURNS AND RISKS

The higher the allocation to growth assets (shares and property), the greater is the expected average return and the wider is the expected range of returns.

The average duration of liabilities is the time during which half the future cash payments will be made. For superannuation liabilities, the average duration is about 12 years and for insurance and debt liabilities, about four years.

For liabilities of different duration, assets are invested in different portfolios. During 2002-03, the assets of the General Government Liability Management Fund were held in cash, pending a decision about asset allocation. The strategic asset allocations of the various asset portfolios held in the general government sector are shown in chart 4.9.

Chart 4.9: General Government strategic asset allocations, 2002-03



Government requires a long-term average return on investments that at least equals the discount rate used in constructing funding plans for the relevant liabilities. The discount rate is the rate at which future cash payments are discounted back to today's dollar value.

For superannuation liabilities, the discount rate used in the funding plan is 7 percent per annum. To earn an average investment return of 7 percent per annum requires a moderately high allocation to growth assets (shares and property).

BOND MARKETS

Commonwealth

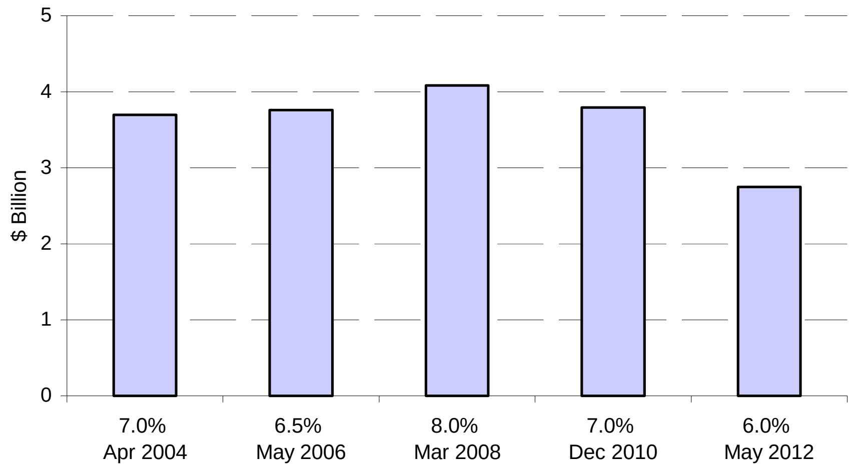
New South Wales participated in the recent Federal Government review of the Commonwealth Government Securities (CGS) market. The State's submission supported the maintenance of the CGS market and urged the Commonwealth to consider the allocation of any surplus cash to commence Federal funding of their unfunded superannuation.

It was thus encouraging that the Commonwealth announced that it will ensure that sufficient CGS remain on issue to maintain a viable market and will consider funding superannuation if their level of financial assets exceed short term liquidity needs.

New South Wales

The reduction in general government net debt is managed while maintaining a viable NSW State government bond market. Chart 4.10 illustrates the profile of benchmark TCorp bonds currently outstanding.

Chart 4.10: Benchmark TCorp Bonds outstanding (May 2003)



4.10 OTHER LIABILITIES

Other liabilities represent employee entitlements and provisions. Employee entitlements are annual leave, vested sick leave, long service leave and superannuation. Superannuation has been discussed in section 4.7. Annual leave 2002-03 liabilities are $1,012 million (2001-02 $915 million). Vested sick leave accumulates in a similar manner to annual leave entitlements. The 2002-03 amount is $150 million (2001-02 $142 million).

Long service leave liabilities primarily represent leave entitlements of employees in budget dependent agencies. The majority of employees take their entitlement at retirement. The liability in 2001-02 was $1,916 million and has increased to $2,250 million in 2002-03. This increase has been primarily due to a change in the method of valuation in accordance with Australian Accounting Standard AASB 1028. The method has changed from the nominal method to the present value method.

The present value method takes into account future wage and salary levels, oncosts, expected periods of service and employee departures. The new valuation methodology change has resulted in a one off increase of $280 million. The amount of leave owed to each employee has not altered, only the method of valuing the leave.

CHAPTER 5: THE ECONOMY AND OTHER FACTORS AFFECTING BUDGET OUTCOMES

Economic Situation and Outlook

NSW state demand grew more strongly than anticipated in 2002-03 but drought and weak world demand saw output growth below Budget expectations.

- An unexpected lift in dwelling construction and strong business investment underpinned larger than expected gains in state demand and employment.
- The drought and weak world demand severely affected exports.

The forecasts for 2003-04 assume that improving agricultural conditions and a firming in world growth will offset a decline in dwelling construction and slower growth in other components of state demand.

- NSW Gross State Product is estimated to increase by 3¼ percent.
- NSW employment growth is projected to moderate to 1¼ percent while the unemployment rate will fall to 5¾ percent, remaining below the national average.

Sensitivity of Budget Outcomes to Alternative Economic Scenarios

- *Scenario One* considers a stronger global economic recovery than expected. The NSW budget result under this scenario would improve in 2003-04.
- *Scenario Two* examines the ramifications of a US economy that slides back into recession. The budget result would deteriorate significantly in 2003-04.

Other Factors Affecting Budget Outcomes

Budget estimates are framed on the basis of no change in government policy settings and economic and other parameters. Budget outcomes may be affected by:

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

5.1 INTRODUCTION

Budget estimates rely on assumptions, forecasts and assessments made at the time of their preparation. The recent performance of the economy and economic forecasts underpinning the 2003-04 budget estimates are presented in Section 5.2.

Actual revenues and expenses will, however, be influenced by outcomes for the economy and other factors that differ from expectations. The sensitivity of budget outcomes to changing economic circumstances is considered in Section 5.3. Other sources of uncertainty affecting budget results, principally unanticipated policy and regulatory decisions, changed demand for services, and the realisation of contingent liabilities, are considered in Section 5.4.

5.2 THE ECONOMIC SITUATION AND OUTLOOK

At this time last year the economic outlook was improving. A global recovery was under way and the Australian economy, after having escaped the worst of the global slowdown, was performing well. The improved outlook had seen the Reserve Bank of Australia (RBA) start the process of increasing the cash rate to more neutral levels. As the fiscal year progressed, however, global financial markets deteriorated, as did the global recovery. Geopolitical tensions and oil prices rose, further damaging the global recovery. More recently, regional health and security concerns have buffeted sentiment in Asia. In addition, drought conditions in Australia emerged and progressively deteriorated, turning into the worst drought on record in terms of its impact on the rural economy. In this environment the RBA left rates at stimulatory levels for the entire year.

Low interest rates and weak financial markets led to a further, unexpected, upswing in the Australian housing cycle. Investors more than picked up the slack as first home buyers were starting to fade. This housing lift, in conjunction with a sharp rise in business investment and firm consumer spending saw the Australian economy once more prove its resilience to shocks. Domestic demand and employment grew at well above average rates even as the stuttering global recovery and the drought put a severe dent in output growth.

The forecasts for 2003-04 are for output growth to lift as a slowing in domestic demand growth is more than offset by a lift in net exports. These forecasts assume a modest global recovery and an ending of the drought. Both assumptions are highly conjectural at this stage and thus there is a high degree of uncertainty about the overall forecasts. On the global front, financial markets have started to improve in recent months and oil prices have fallen, but real economy indicators in most major economies remain weak. Domestically, while early signs have been promising, it remains far too early to declare the drought over.

RECENT PERFORMANCE [1]

Economic output growth in 2002-03 was weaker than expected in the 2002-03 Budget largely due to the severe drought, which led to a steep fall in agricultural production and rural exports. Output growth was also constrained by the weaker than expected recovery in the world economy, which depressed demand for non-farm exports. These factors more than offset stronger than expected growth in domestic demand. Central to the strength in demand was a further lift in dwelling construction, which at budget-time had been expected to decline. Private consumption also was firmer than expected, while the sharp increase in business investment was largely as anticipated. Reflecting the strong growth in domestic demand, employment growth in New South Wales also exceeded expectations.

Table 5.1: Revised 2002-03 Estimates

(Year average percent change, unless otherwise indicated)

	2002-03 Budget	Half Yearly Review	Current Estimate
Gross State Product	3½	2½	2½
State Final Demand	4¼	4	5
Employment	1¾	1¾	2
Unemployment rate (year average, percent)	5¾	5¾	6
CPI (Sydney)	2½	3	3
Wages (wage cost index, ordinary time)	3¾	3¾	3½

The global economy recovered hesitantly in 2002-03, with slow and uneven progress in the United States, stronger gains in non-Japan Asia, but weakening trends in Europe and Japan. Capacity overhang, high gearing levels and demanding price/earnings ratios continued to restrain business investment in many OECD economies. Geopolitical uncertainties, rising oil prices, corporate governance concerns in the US and the SARS epidemic in East Asia also buffeted sentiment. The air transport and tourism sectors were particularly affected by health and security concerns. Consensus[2] forecasts for 2003 world output growth softened steadily from 3 percent in July 2002 to 1.9 percent at June 2003.

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[1] *Unless otherwise indicated, the sources for statistical information in this chapter are ABS (Australian Bureau of Statistics) data releases and NSW Treasury estimates. Economic estimates are based on data available as at early June 2003, which included results to June 2002 for gross state product, to March 2003 for state final demand, consumer prices and wage costs, and to May 2003 for employment.*

[2] *Consensus Economics Inc., Asia Pacific Consensus Forecasts (June 2003).*

With a large global output gap (the shortfall of actual relative to potential output) opening up, global inflation decelerated. Further deceleration appears in prospect and in recognition of this and attendant deflation concerns, the US Federal Reserve Board shifted its policy stance to an easing bias in May 2003, and the European Central Bank cut its policy rate by half a percentage point in June.

In *the domestic economy* strong growth in housing, consumption and business investment was not enough to overcome the output impacts of the drought-affected rural sector and weaker non-farm exports due to slower than anticipated global growth. While New South Wales state demand is estimated to have increased by 5 percent, Gross State Product, largely reflecting the drag from net exports, is estimated to have risen by 2½ percent.

The Australian Bureau of Agricultural and Resource Economics (ABARE) estimates that the *drought* cut the net value of national farm production to around $2.3 billion in 2002-03, close to 80 percent less than in 2001-02. National crop production fell by about 60 percent, livestock herds were severely depleted, and farm net cash income fell by 50 percent[3]. The Australian Bureau of Statistics (ABS) estimates that the direct impact of the drought reduced GDP by 0.9 of a percentage point[4]. Including flow-on effects to industries supplying agriculture or using agricultural products would substantially increase this impact. While New South Wales farmers bore the brunt of the drought, the share of agriculture in the NSW economy is smaller than the national average, and therefore the net impact on NSW gross state product is likely to have been in line with the national average.

Consumer spending strengthened in 2002-03 supported by rising employment and real wages, stable low mortgage interest rates, and rising property asset valuations.

Dwelling construction increased strongly for a second year in 2002-03, expanding by about 20 percent in New South Wales. Contributing factors included a preceding upswing in immigration from overseas, low interest rates, low unemployment and asset switching by investors from underperforming equity markets into the strongly performing residential property market. The ratio of investors to owner-occupiers in new dwelling finance reached historical highs, and house prices increased substantially. Dwelling investment gave a strong direct boost to employment and earnings, as well as secondary stimulus to producers of building materials, components, furniture and fittings.

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[3] *ABARE, "Agriculture Outlook for 2003-04", NSW Regional Outlook Conference, Lismore, 11 June 2003.*

[4] *ABS, "Impact of the Drought on Australian Production in 2002-03", Australian National Accounts, 4 June 2003.*

Business investment also was robust, reflecting reduced investment costs (particularly for imported equipment, such as aircraft), good profit results, high capital utilisation ratios, low interest rates, and strong business expectations for future growth. Business investment is estimated to have increased by around 10 percent in New South Wales in 2002-03.

The *labour market* made solid gains, with NSW employment rising 2 percent (more than double the previous year's increase) and unemployment declining from 6¼ to 6 percent. Through the year to the March quarter 2003 contributions to employment growth were largest in construction and manufacturing, in wholesale and retail trade, and in the government and defence sectors. Employment was weakest in agriculture, tourism-related sectors (transport, accommodation and catering, cultural and recreational services) and business services.

*Inflation*ary pressures were fairly well contained in 2002-03. Slow world growth and a rising exchange rate maintained downward pressure on manufactured import prices. Higher food prices due to the drought and a spike in petroleum prices preceding the Iraq conflict temporarily pushed up consumer price inflation in the second half of the financial year, but posed no ongoing threat to price stability. While skilled labour shortages put upward pressure on wages in the construction industry, spill-over into other sectors was limited.

With benign inflation prospects and substantial downside risks to the global economic outlook, the RBA held the cash rate steady throughout 2002-03. Long bond rates generally eased lower, in response to disappointing economic news and weak equity markets in the major industrialised countries.

OUTLOOK FOR 2003-04

Assuming a modest global recovery and an ending to the drought, output growth in the economy should improve in 2003-04. Growth should be more evenly balanced between domestic and external demand than was the case last year. Net exports should benefit from better conditions in agriculture (although an end to the drought is not yet assured) and a gradual recovery of momentum in the world economy (although risks to global growth remain substantial and a higher exchange rate will reduce competitiveness in world markets).

Within Australia the pace of business investment is expected to slow but remain firm, while dwelling construction activity is expected to decline modestly, reducing pressures in the labour market and on wages and prices. In an environment of decelerating domestic demand growth and gradually improving global growth, it is likely that monetary policy will not be tightened until well into 2004. Policy could well be eased in the near-term if the global outlook disappoints.

Table 5.2: Economic Performance and Outlook

(Percent change, year average, unless otherwise indicated)

	Outcomes 2001-02	Estimates 2002-03	Forecasts 2003-04
New South Wales			
Gross state product	2.4	2½	3¼
State final demand	2.4	5	3¼
Employment	0.8	2	1¼
Unemployment rate (year average, percent)	6.2	6	5¾
Sydney CPI	3.0	3	2¼
Wage cost index	3.3	3½	3½
Australia			
Non-farm GDP deflator	1.9	2¾	2
Ten year bond rate (year average, percent)	5.9	5¼	5½

The global economy recovered only hesitantly in 2002-03. In 2003-04 a modest, sub-par recovery should ensue. It would not appear at this stage that either Europe or Japan are capable of leading a global recovery, so hopes rest with the US. In the US, monetary and fiscal policy settings are very stimulatory and likely to continue that way, oil prices have fallen, consumer confidence has rebounded and financial markets have improved. All of these, however, are precursors to the expected upturn. Real economy and leading indicators are yet to improve. The forecast pick-up thus remains tentative and is vulnerable to geopolitical and security shocks. The large global output gap and decelerating trend in global prices contribute to concerns about deflation[5]. While a modest global recovery is assumed, it is easier to acknowledge downside than upside risks.

- The forecasts assume that main trading partner growth will slow from 3.1 percent in calendar year 2002 to 2.7 percent in 2003 and then rise to 3.7 percent in 2004. These estimates reflect Consensus forecasts, and estimates from other sources on the likely impact of the SARS epidemic.

[5] *International Monetary Fund, "Could Deflation Become a Global Problem?", World Economic Outlook, April 2003.*

State final demand growth in 2003-04 is likely to be less strong than in the previous year.

- After very buoyant growth in 2002-03, *household consumption* growth is expected to moderate in 2003-04 to be more in line with real household income growth. The slowing is also consistent with slower employment growth as other elements of domestic demand growth soften. But the slowdown will be modest – only a half percentage point or so below long run trends.

- *Investment* growth is expected to be more moderate but still solid in 2003-04.

  - *Dwelling investment* began to decline in the March quarter 2003 and is expected to ease further during 2003-04. Low interest rates and unemployment, a large backlog of work in medium-high density developments yet to be completed and continuing strong demand for alterations and additions work should see activity decline much less than in previous cycles.

  - Continuing its good 2002-03 performance, *business investment* will remain strong in 2003-04. The balance within business investment will shift from plant and equipment to construction. In New South Wales this partly reflects a boost from large PFP transport projects[6].

- Growth in *public demand* is expected to ease slightly after a large run-up in 2002-03 (partly reflecting security expenses).

Growth in *NSW Gross State Product* will be stronger, however, supported by improved rural production and a pick-up in world demand for non-farm exports. Australia's competitiveness was eroded by exchange rate appreciation during 2002-03 and should the A$ again move higher during 2003-04 this could further constrain export performance.

The *drought* detracted some 1 to 1½ percentage points from aggregate output in 2002-03 as exports of cereals, oilseeds and livestock fell sharply. The Bureau of Meteorology formally declared an end to the El Nino event in May, with forward indicators pointing to normal or above normal rainfall during the remainder of 2003. ABARE commented in June, however, that autumn rainfall across the grain belt has been variable and some areas are still waiting for planting rains to allow winter crops to be sown. In summary, the strength, distribution and timing of rainfall cannot be assured and therefore the outlook for the rural sector remains uncertain.

[6] *Work done on the Parramatta Rail Link, Lane Cove Tunnel, Western Sydney Orbital, and Cross City Tunnel projects is projected to increase from $560 million in 2002-03 to $1,450 million in 2003-04.*

In line with ABARE forecasts for Australia[7], it is assumed that better rainfall will lift NSW crop output in 2003-04, although depleted breeding stock and low irrigation reservoir levels will delay the full recovery of rural output and farm income for several more years. Following steep declines in 2002-03, ABARE projects a 17 percent increase in the gross value of farm production in 2003-04 leading to a 165 percent lift in net farm output, and a 42 percent rise in net farm income.

NSW *employment growth* is expected to slow from 2 percent (higher than long-term trend) in 2002-03 to 1¼ percent (near long-term average) in 2003-04, reflecting the slowdown in dwelling construction and in response to slower state demand growth more generally. Population growth will be more moderate due to reduced immigration and other demographic factors. Therefore the forecast pace of job creation should be sufficient to reduce the NSW *unemployment rate* further to 5¾ percent.

Wage costs are expected to remain benign in light of the very gradual improvement in the labour market and as construction activity slows (a sector where some wage pressures have been evident). The $17 per week increase in the national minimum wage provided under the May 2003 Safety Net Review, though above expected increases in the wage cost index, should not add significantly to wage pressures.

The Sydney CPI is expected to decelerate from the top of the RBA's 2 to 3 percent target range in 2002-03 to the lower half of the band in 2003-04. Key drivers should be lower petroleum prices and improved crop production, unwinding the increases seen in 2002-03 (though higher livestock prices will add some upward pressure). The higher exchange rate and continuing global deflation in manufactured goods prices should also act against domestic inflation pressures.

In the current relatively benign inflation environment with domestic demand growth is decelerating and global growth only gradually gaining momentum, *monetary policy* is assumed to remain on hold. In the short term it is possible that the RBA may join in recent moves by other central banks to ease policy. Over the course of 2004, however, improvements in the global outlook may see the RBA decide to resume moving the cash rate towards "neutral" (which it has indicated is between 5½ to 6 percent).

[7] *ABARE, "Agriculture Outlook for 2003-04", 11 June 2003.*

MEDIUM TERM OUTLOOK

Prospects for the economy beyond 2003-04 will depend on the strength of the global economy, the business cycle, domestic policy settings and productivity trends. Because these factors cannot be predicted with reasonable confidence more than a short period ahead, the budget estimates beyond 2003-04 are based on economic parameters determined by expectations for their average performance this decade.

The medium term parameters for output, employment and population are consistent with historical performance and with demographic projections by the Australian Bureau of Statistics, and reflect currently observable trends. Medium term parameters for prices and wages are consistent with public statements by the Reserve Bank of Australia as to their policy objectives.

Table 5.3: Economic Parameters Beyond 2003-04

(Percent change, year average, unless otherwise indicated)

	Medium Term
Gross state product	3¼
Population	1
Employment	1¼
Sydney CPI	2½
Wage cost index	3½
Ten year bond rate (year average, percent)	6½

5.3 SENSITIVITY OF BUDGET OUTCOMES TO THE ECONOMY

The assumptions underpinning the economic forecasts for 2003-04 presented in Section 5.2 are subject to significant variation. The relationships between key economic drivers and some revenue and expense items are also subject to large forecasting errors. Forecast errors and imprecise relationships can result in variations in budget forecasts.

One way to illustrate how budget outcomes can vary is to consider the impacts of different economic scenarios. Two scenarios and their budgetary impacts are explored in this section.

ALTERNATIVE ECONOMIC SCENARIOS AND BUDGET IMPACTS

The economic outlook for New South Wales hinges critically on the robustness of the recovery in overseas economies, and at this juncture the outlook for the United States. Apart form the direct link via exports, another key link from the global economy to the Australian economy is via business and consumer sentiment. For example, confidence of businesses about the future direction of the economy and their markets are critical to the realisation of their investment plans.

- The New South Wales economy would be significantly harmed if the tentative recovery currently under way in the United States stalls in 2003-04. The United States economy would enter a double-dip recession and it would be likely that the global recovery would stall and business and consumer confidence deteriorate sharply in New South Wales.
- Alternatively, the New South Wales economy could be considerably boosted by a substantial surge in investment in the United States and globally on the back of much improved investor and consumer confidence. This would lead to significantly more robust economic conditions in New South Wales.

Table 5.4 presents key outcomes for the New South Wales economy under the *US double-dips* scenario and the *Investment surges* scenario. The scenarios presented should not be interpreted as likely possible outcomes or as confidence intervals around the budget estimates.

Table 5.4: Illustrative Economic Scenarios, 2003-04

	Budget Economic Forecasts %	Alternative Scenarios: US double dips %	Alternative Scenarios: Investment surges %
Gross State Product	3¼	1½	4¼
Employment (NSW)	1¼	0	2
Wages	3½	2½	4½
CPI	2¼	1	3¾
Mortgage interest rates	6¾	5¼	8¾

The *US double-dips* scenario could eventuate if domestic consumers' and foreign investors' confidence in the US economy slumped. US household savings would rise and lead to much softer consumer spending. Investors would be concerned over the deteriorating budgetary position and the sustainability of the large US current account deficit. The US dollar would fall further to attract foreign capital to fund the burgeoning US current account deficit. A weaker US dollar would adversely affect the competitiveness of Asia and Europe, and would exacerbate the financial risks surrounding the financial systems already present in Japan and to a lesser extent Europe.

The outcome for the New South Wales economy under the *US double dips* scenario is much weaker economic activity, principally from poor export performance and deteriorating business and consumer confidence. Gross State Product is assumed to grow 1½ percent. Employment is flat. Wage pressures remain subdued. Consumer price inflation dips below the low end of the RBA's target range of 2 to 3 percent. Interest rates remain low but do not stem the fall in dwelling investment. Investor confidence declines, reducing the number of property sale transactions, particularly for housing. However, reasonable real wages growth supports the general price level for established housing, though price falls are recorded in small pockets of significant dwelling over-supply.

The *Investment surges* scenario is predicated on a quick lifting of the clouds overhanging investors and consumers in the United States and the world. Preconditions for buoyant growth in both the United States and Australia already exist. Fiscal and monetary policies are currently very stimulatory. The potential for good productivity growth remains high. And the low inflationary environment appears set to continue. As confidence improves, a recovery in investment in the United States and Australia could gain momentum rapidly, lifting the pace of economic growth sharply.

The outcome for the New South Wales economy under the *Investment surges* scenario is very strong economic growth. Gross State Product and employment are assumed to grow 4¼ percent and 2 percent respectively. Wages growth is underpinned by above average productivity growth. Consumer spending is buoyant in response to high wages growth and reinvigorated asset market performance. The New South Wales economy experiences very strong business investment. The investment surge also underpins a sharp rise in property and commercial transactions.

Budget scenarios corresponding to each economic scenario are shown in Table 5.5 as *deviations* from the budget result. No allowance is made for spending or revenue responses by State and Federal governments that might occur in these more extreme economic conditions.

Table 5.5: Illustrative Alternative Budget Outcomes, 2003-04

	Change on Budget Estimate	
	US double dips $m	Investment surges $m
Change in Budget Result	**(-) 900**	**540**
Revenues	(-) 1,120	800
Tax	(-) 860	590
Non-tax	(-) 260	210
Expenses	(-) 220	260

The projected budget outcome is a surplus of $43 million in 2003-04. In contrast, a budget deficit of about $850 million is projected in the *US double-dips* scenario while a budget surplus of almost $600 million is projected in the *Investment surges* scenario.

Sharp changes in revenues are the primary driver of deviations in the budget result under alternative economic scenarios. Expenses are relatively insensitive to economic drivers in the short term in the absence of major policy change. A large share of government outlays relate to employee expenses, which are ‘locked in’ through wage agreements for the budget year.

In contrast, revenue items such as payroll tax and stamp duty can be quite sensitive to economic factors. Both employment levels and wage rates affect payroll tax collections. Stamp duty collections on property transfers are largely related to property market activity. Variations in consumer and investor confidence can cause sharp changes in the state of the property market, particularly the number of property-related transactions.

Nevertheless, non-tax revenues, mostly comprising Commonwealth grants, are not as sensitive to economic fluctuations as tax revenues. Variations in Commonwealth grants are mainly explained by movements in consumer price levels and demographic components. These factors have only a limited influence on non-tax revenue outcomes in the scenarios.

In the *US double-dips* scenario, revenues fall sharply. The biggest contributor to the sharp fall in revenues is a decline in property-based transaction revenues and business-related contract revenues. Payroll collections fall due to a flat labour market.

In the *Investment surges* scenario, revenues are much higher in line with strong economic activity and a solid labour market. Buoyant property market conditions and robust business conditions underpin further growth in transfer duty revenues. A solid labour market improves payroll tax collections. Some growth in expenses occurs but is limited. The rise in interest expenses is constrained despite higher interest rates under this scenario. The maturity profile of the State’s debt portfolio limits the immediate impact of interest rate rises. However, the Reserve Bank would move to significantly tighten monetary policy in this scenario. Higher interest rates could set the stage for a slowing in growth in the economy and a more widespread decline in housing activity in 2004-05.

5.4 OTHER FACTORS AFFECTING BUDGET OUTCOMES

The budget is framed on the basis of no change in government policy settings and economic and other parameters. Specific expenditure and revenue policies prevailing at budget time (including new policies announced prior to the budget) are assumed to carry over into the forward estimates period.

In practice, financial outcomes will depend on a diverse range of factors:

- Costs of policies may vary from those assumed in the budget estimates, for example because take-up rates differ from expectations.

- New policy initiatives and fine-tuning of existing policies are inevitable over the forward estimates period.

- New policies in one area can also have flow-on effects for other related areas. These effects are often hard to predict and may vary significantly from original budget-time estimates.

- Utility pricing decisions by independent State and Federal economic regulators can affect the revenue streams of government-owned transport, electricity and water businesses.

- Unforeseen events such as natural disasters where the government intervenes in the interest of the public.

FACTORS AFFECTING EXPENDITURE

There are many factors which have an impact on the expense side of the budget.

Changes in the demand for public sector services

Growth in the demand for public services is largely driven by demographic and social changes and other external factors. These influences can therefore have a substantial impact on the cost of maintaining existing policies, in particular in health, community services, criminal justice and educational services.

The forward estimates make allowances for such cost pressures where possible. However, some changes in demand are difficult to predict.

Unexpected events

Management of the State's finances requires anticipating the impact of new government policies as well as possible future developments which are external to the State's control. The flexibility to respond to changes in circumstances as they occur is critical to effective budget management and is integral to the NSW fiscal strategy. The impact of possible developments on budget aggregates can be favourable in some circumstances and adverse in others.

Contingency funding is provided in the budget. The Treasurer's Advance is for contingencies such as those associated with natural disasters and the costs of unanticipated policy responses that may be required in the budget year. A separate Treasurer's Advance is provided for capital works. In 2003-04, the Treasurer's Advance is $240 million for recurrent services, and $60 million for capital works and services. To the extent that unanticipated expenditures are funded from the Treasurer's Advance or from other contingency provisions, there will be no effect on budget outcomes.

Drought relief assistance

In June 2003, 88.3 percent of the State was still suffering from drought conditions. The Government's drought relief initiatives include transport subsidies, various interest, rent and fee deferrals or waivers, water cartage, and other measures. Actual expenditure on drought relief assistance will depend on the timing of the breaking of drought and subsequent agricultural recovery.

Technological change

New technologies have the potential to facilitate improvements in the quality of service delivery and/or reduce the cost per unit of service delivery, including in key areas such as education and health. However, new technologies can also lead to demands for new services, especially in the health sector, with the potential to increase expenses.

Superannuation liabilities

The measures of liabilities associated with defined benefit superannuation schemes and other employee benefits and insurance schemes depend on actuarial estimates. These estimates require assumptions regarding life expectancy, public sector wage growth, inflation and fund earnings. Accordingly actuarial estimates are subject to change, which can influence both superannuation liabilities and assets. For each 1 percent of investment return on $17 billion of superannuation assets, the impact on the balance sheet is $170 million

Public sector wages

The budget outcome is based on assumptions regarding the rate of growth in public sector wages and employment. Since the majority of public sector employees are covered by agreements that run until June 2004, any changes in forecast wage costs in 2003-04 are generally expected to be small. The uncertainties are greater in the forward estimates period.

The main short-term uncertainty surrounds pay for school teachers, and Technical and Further Education (TAFE) teachers. The current teachers' award expires on 31 December 2003. The Government and the Teachers' Federation are currently negotiating a new award. The Federation's pay claim is for a 20 percent rise over two years, and a 5 percent "catch-up" increase (in addition to the scheduled increases under their current award agreement). In response, the Government has made a salary offer of 6 percent over two years.

The Nurses' Association filed a claim in 2001 for pay increases and allowances in excess of the scheduled increases under their existing award wage agreement. The claim was linked to current nursing shortages. The Industrial Relations Commission's (IRC) interim decision in December 2002 provided for an additional 6 percent pay rise from 1 January 2003 (on top of a 4 percent increase provided on this date by their current agreement). A final determination from the IRC is expected in the first half of 2003-04.

The Government's approach to the next wage round will aim to ensure that public sector efficiency continues to be enhanced and employment costs are fiscally sustainable. The Government's aim is to contain new wage increases to the rate of inflation. The budget is sensitive to movements in public sector wages. A 1 percent across-the-board increase in wages increases total general government expenditure by about $150 million.

Capital Works

Agencies' expectations of capital works expenditure in a given period can be affected by unavoidable circumstances such as bad weather. While every effort is made to account for these effects, the impact of such factors can differ from that allowed for.

The forward estimates assume that the size of the 'discretionary' component of the capital program (i.e. that component which is not funded through dedicated revenue sources or otherwise locked in) will remain more or less constant in real terms. This means that the forward estimates contain an allowance for new projects yet to be identified or approved.

Contingent Liabilities

Contingent liabilities are obligations that the government may face if a particular event occurs. Contingent liabilities include:

- claims for compensation and litigation;
- State guarantees under statute;
- other guarantees provided to facilitate the provision of services and the development of infrastructure; and
- developments where the government intervenes in the public interest, despite there being no legal obligation for the government to do so.

The main contingent liabilities of the general government and total state sectors, both quantifiable and unquantifiable, are identified in the annual *Report on State Finances*. In the 2001-02 Report, Note 19 identifies total quantifiable contingent liabilities of $869 million as at 30 June 2002 (the general government sector component is $273 million). The *Report on State Finances* also identifies contingent liabilities that cannot be quantified, for example from pending litigation.

Additional unidentified liabilities may also arise throughout the course of the year. Contingent liabilities associated with private sector infrastructure projects are detailed in Chapter 8.

FACTORS AFFECTING NON-TAX REVENUES

Commonwealth General Purpose Payments

The main component of Commonwealth general purpose payments to the states is the distribution of GST revenues. These are shared between the states based on the recommendations of the Commonwealth Grants Commission.

New South Wales has no control over the funding received from the Commonwealth. Given the magnitude of GST revenues to be distributed, even a minor change in New South Wales' share of the total can have a substantial impact on revenues, and ultimately the budget outcome.

New South Wales also receives Budget Balancing Assistance from the Commonwealth to compensate for the shortfall between GST revenue and the Guaranteed Minimum Amount (GMA). Although the GMA is subject to an agreed methodology, it too is subject to uncertainties.

Another source of uncertainty is the Commonwealth Grants Commission's 2004 review of the relativities governing the distribution of GST revenues among the States and Territories. The Commission is expected to issue a determination in early 2004 that will affect revenue shares from 2004-05 onwards.

Commonwealth Specific Purpose Payments

A large proportion of the specific purpose payments received by New South Wales consist of three programs that are being reviewed during 2003:

- Commonwealth-State Disability Agreement;
- Australian Health Care Agreement;
- Commonwealth-State Housing Agreement;
- Home and Community Care Agreement; and
- Australian National Training Agreement (TAFE).

These outcomes of these reviews will affect specific purpose payments and therefore the budget.

Public Trading Enterprise (PTE) Revenues

Variations in PTE revenues affect the budget via dividend and tax equivalent payments, and capital and operating subsidies. For example, a 1 percent positive (negative) variation in State Rail Authority's forecast 2003-04 farebox revenue results in a $5 million decrease ($5 million increase) in its annual operating subsidy.

Other PTEs operate in competitive markets for which outcomes can be uncertain. Historically there has been conservative bias in the profit estimates for PTEs. Inevitably the accuracy of PTE estimates falls as they extend into the forward years.

OTHER FACTORS

Pricing Regulation of Government Monopoly Services

Potential impacts on the budget, either adverse or favourable, could arise from arms-length pricing determinations made by the Independent Pricing and Regulatory Tribunal of New South Wales (IPART).

In May 2003, IPART announced new prices for the water, sewerage and stormwater services for customers supplied by Sydney Water Corporation, Hunter Water Corporation, and Gosford and Wyong councils for the period 1 July 2003 to 30 June 2005. In the same month, the Tribunal concluded a mid-term review of Sydney Catchment Authority's water supply services price path (1 October 2000 to 30 June 2005).

The Tribunal is currently carrying out an investigation into the determination of maximum fares for monopoly public transport services to be charged from 1 September 2003. These price determinations will influence the level of budget subsidies required for State Rail Authority CityRail services and State Transit Authority bus and ferry services.

In addition, IPART is currently reviewing electricity distribution network prices for the next regulatory period (1 July 2004 to 30 June 2009). The Tribunal is expected to issue its final determination on network prices in March 2004.

Other Policy Changes

Changes in Commonwealth government policies can affect New South Wales. These impacts can be direct, such as through changes in financing arrangements. The impact of these changes cannot be quantified in advance, but can be significant.

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

In addition, Commonwealth policy changes can alter demand for state government services and therefore the costs faced by states; for example, pricing and/or changes to eligibility requirements or waiting list criteria for some social services, and health insurance policy.

The Commonwealth has recently proposed changes to the way doctors can charge patients under Medicare. These changes may increase the costs of visits to general practitioners for people without a Commonwealth concession card. As a result, people may be more likely to seek treatment at State-funded public hospital emergency departments, increasing the demand, and hence costs, of the State health system.

Policy changes in other states can flow through to the NSW Budget. For instance, different tax regimes may apply to border regions in order to minimise tax revenue leakages between states or policy changes may affect Commonwealth Grants Commission relativities. Apart from taxation, cross-border charging arrangements by other states for some services can also lead to variations in the demand for or the cost of services provided by New South Wales.

CHAPTER 6: TAX EXPENDITURE AND CONCESSIONS STATEMENT

- Tax expenditures in 2003-04 are estimated at $2,810 million (compared with $2,800 million in 2002-03) and concessions at $709 million ($686 million in 2002-03).
- The full year effect on insurance duty tax expenditures of reducing the general insurance duty rate, from 10 percent to 5 percent, from 1 August 2002, is the main reason the increase in tax expenditures between 2002-03 and 2003-04 is so small.

6.1 INTRODUCTION

This chapter estimates revenue forgone from tax expenditures and concessions as well as discussing definition and measurement issues related to the estimates. Appendix B presents a comprehensive listing and, where possible, costing of each tax expenditure and concession reflecting all announced policies up to and including this Budget.

Tax concessions – termed *tax expenditures* as they have a similar policy and fiscal impact as expenditures – involve granting certain taxpayers, activities or assets more favourable tax treatment than that applicable to taxpayers generally. An easily recognisable example of a tax concession is transfer duty (formerly known as contracts and conveyances stamp duty) exemptions/reductions provided to first home buyers.

Concessional charges involve the government providing goods and services to certain classes of users at a lower charge/fee than available to the community generally. An easily recognisable example of a concession is lower public transport fares for pensioners and senior citizens.

Tax expenditures and concessional charges are designed to provide a benefit to a specified activity, class of taxpayer or class of consumer in accordance with government policy. These benefits, in most cases, could be provided equally by direct spending. In the examples above, first home buyer assistance could be provided by direct grants to first home buyers, and pensioners could receive payments to cover the cost of public transport.

Direct government spending is generally subject to annual scrutiny through the budget process, and the attention that process receives through Parliament. Tax expenditures and concessional charges have the same budgetary and welfare effects as direct outlays. However, they are less visible than direct outlays because their cost is in revenue forgone rather than dollars spent.

This chapter and Appendix B make transparent the nature and estimated cost of tax expenditures and concessions, to permit a more comprehensive assessment of New South Wales Government activity.

6.2 CONCEPTS AND METHODS

DEFINITIONS

Tax expenditures can take the form of:

- exempting certain taxpayers from a tax;
- applying a lower rate of tax, a rebate or deduction, to certain taxpayers; or
- deferring the time for payment by certain taxpayers of a tax liability.

Concessions on user charges and fees can take the form of:

- exempting certain users from a charge generally applied to the community for government goods and services or exempting certain sections from a fee generally applied to the community; or
- imposing on certain sections of the community a charge lower than that applied to the general community for government goods and services, or imposing fees lower than the general fee.

There is an element of judgement in deciding what constitutes a tax expenditure or concession and what constitutes a structural feature of the underlying taxation or service delivery system.

- For example, stamp duty on property transfers is charged at different marginal rates according to the value of the property involved. This could be construed as providing a concessional rate of taxation for lower valued properties. However, those lower marginal rates are not identified here as tax expenditures. Rather, the different rates are regarded as an integral design feature of the duty arrangements. In other words, they are regarded as part of the definition of the tax base rather than variations to the tax base.

- Similarly, providing a good or service at varying subsidised rates according to set eligibility criteria for clients could be construed as a concession to those charged lower rates. However, according to the definition used here, no concession is involved if the good or service is provided only to an eligible section of the community (even if at varying rates) and not to the general community at a general community rate. For instance, public housing is targeted assistance provided only to some members of the community, rather than a concession in relation to generally available services.

There is also judgement involved in deciding what concessions funded by explicit Budget payments are included in this chapter and in Appendix B.

- Concessions are included even where the reduction in agency revenue is compensated from the Consolidated Fund through Social Program Policy Payments (SPPPs). Such concessions are included to make the cost of the concession to the total public sector apparent, irrespective of whether intra-government transfers offset the cost of the concession for the agency concerned.

- Concessions are not included where subsidies are paid from the budget to the private sector for concessions provided by the private sector to certain purchasers of goods and services. An example is payments to private sector transport operators for providing free transport for eligible students to and from school. Subsidies provided to the private sector are direct outlays and do not represent revenue forgone.

METHODS

Both tax expenditures and concessions have been valued on the basis of public sector revenue forgone. A full discussion of alternative ways to measure tax expenditures and concessions is contained in the 1998-99 Budget Papers.

The revenue forgone approach involves applying the general, non-discriminatory rate of tax or charge for the class of activity or asset concerned to the current volume of exempt or lower taxed or charged activities or assets. The first step is to identify the taxation/charging arrangement that would normally apply, called the benchmark. As noted above, there is often some judgement involved in establishing the benchmark. In the second step, deviations from the benchmark are identified as tax expenditures or concessions. Information on usage of the tax expenditure or concession then is used to estimate revenue forgone. Estimates for the Budget year are based on estimates of future usage.

Measurement of revenue forgone in tax expenditures and concessions in many cases is impossible or highly approximate. In some cases, information is simply not available on current usage of a tax expenditure or concession. Even where information on usage is available, measurement of revenue forgone will not take into account possible behavioural changes induced by the existence of the tax expenditure or concession. Moreover, since some tax expenditures and concessions may be complementary or substitutable, the existence of one may affect usage of another.

Therefore, some caution should be exercised when using estimates of revenue forgone.

- It may not necessarily follow that abolition of a tax expenditure or concession would produce a commensurate increase in the State’s revenue. Activity making use of the tax expenditure or concession may contract if the tax expenditure or concession was abolished; or there may be increased use of other concessionally-taxed or charged activities, which would reduce revenue elsewhere.

- Since some tax expenditures and concessions overlap, the elimination of one exemption may not increase a taxpayer's liability to pay tax or a client's liability to pay charges or fees. As a result, the revenue forgone under a number of tax expenditures and concessions may be considerably less than the total obtained by adding each individual item.

- Inter-jurisdictional comparisons of tax expenditures and concessions can be rendered difficult by different judgements made in defining which elements of the tax and charging system constitute tax expenditures and concessions, and which elements represent structural features.

6.3 TAX EXPENDITURES

The estimates of tax expenditures in this statement are for the years 2001-02, 2002-03 and 2003-04 except for the estimates for land tax, which are for the 2002, 2003 and 2004 land tax years.

Table 6.1 provides a summary of major (i.e. $1 million or greater) tax expenditures for each type of tax.

Table 6.1: Major Tax Expenditures by Type of Tax

Tax	*2001-02*		*2002-03*		*2003-04*	
	$m	*% of tax revenue*	*$m*	*% of tax revenue*	*$m*	*% of tax revenue*
Transfer Duty	806	25.8	744	21.0	719	21.3
General and Life Insurance Duty	583	119.8	330	74.2	280	64.4
Mortgage Duty	66	22.4	81	22.5	99	26.6
Marketable Securities Duty (a)	8	16.1	...	...	...	...
Financial Institutions Duty (b)	3	4.5	...	...	...	...
Payroll Tax	659	16.4	581	14.1	594	13.5
Land Tax	364	36.3	387	34.1	408	32.6
Debits Tax (c)	11	5.6	...	...	...	...
Taxes on Motor Vehicles	210	13.6	226	13.7	243	14.2
Parking Space Levy	7	17.0	8	16.7	9	19.6
Gambling and Betting Taxes	431	35.6	444	35.2	458	35.0
Total	**3,147**	**23.8**	**2,800**	**20.1**	**2,810**	**19.8**

(a) Stamp duty on the transfer of listed marketable securities was abolished from 1 July 2001.

(b) Financial institutions duty was abolished from 1 July 2001.

(c) Debits tax was abolished from 1 January 2002.

Quantifiable tax expenditures (valued at more than $1 million) are estimated at $2,800 million in 2002-03, representing 20.1 percent of total tax revenue. Tax expenditures should increase to $2,810 million, or 19.8 percent of tax revenue, in 2003-04. The modest increase chiefly reflects:

- tax expenditures associated with insurance stamp duty declining by $50 million in 2003-04, chiefly due to the full year effect of the reduction in the general insurance duty rate to 5 percent from 1 August 2002; and

- the anticipated decline in transfer duty revenue in 2003-04 reducing tax expenditures associated with transfer duty.

Tax expenditures are spread across all major tax bases. By value, tax expenditures in 2003-04 are highest in transfer duty, payroll tax, gambling and betting taxes and land tax, which account for around three quarters of total measurable expenditures. Reduction of the benchmark rate of general insurance duty from 1 August 2002 reduces the relative importance of tax expenditures for insurance stamp duty. The gambling and betting tax expenditure relates to the lower taxation of gaming machines in registered clubs compared to those in hotels.

Tax expenditures for transfer duty vary markedly from year to year mainly due to large and irregular tax expenditures associated with corporate reconstructions. The decline in 2002-03 and 2003-04 also reflects the reduction in forgone revenue under the First Home Plus scheme with the decline in the first home buyer market following the cessation of the Commonwealth's extra First Home Owners Scheme grants for new houses from 1 July 2002.

As a percentage of tax revenue by type of tax, tax expenditures in 2003-04 are largest for insurance duty (despite reductions in the tax rate), gambling and betting taxes and land tax.

Table 6.2: Tax Expenditures by Function [(a)]

Function	*2001-02*	*2002-03*	*2003-04*
	$m	*$m*	*$m*
Public Order and Safety	2	2	2
Education	68	73	78
Health	320	333	351
Social Security and Welfare	235	251	274
Housing and Associated Amenities	205	139	138
Environmental Protection	...	...	...
Recreation and Culture	436	449	463
Agriculture, Forestry, Fishing and Hunting	273	290	308
Transport	11	7	6
Other Economic Activities	1,421	1,085	1,009
Other Purposes	176	172	181
Total	**3,147**	**2,800**	**2,810**
Percent of Expenses	**9.8**	**8.3**	**8.0**

(a) In past budgets, this table compared the functional classification of tax expenditures with that of direct expenses. However, with administrative arrangements in some restructured government departments not fully in place, detailed program statements and a functional classification of expenses are not available. Therefore, calculation of tax expenditures by function as a percentage of expenses by function is not possible in this Budget.

Table 6.2 provides a functional classification of tax expenditures. The largest categories of tax expenditures are Other Economic Activities (which constitutes assistance to industry generally rather than to a particular type of economic activity), Recreation and Culture (reflecting the gambling and betting tax expenditure) and Health (mainly reflecting payroll tax exemptions for hospitals and nursing homes).

The distribution of tax expenditures by function is broadly similar over the three years covered by this statement, with the exception of a decline in Other Economic Activities. That decline reflects reduced tax expenditures related to general insurance and payroll tax due to lower tax rates, as well as the abolition of stamp duty on the transfer of listed marketable securities.

6.4 CONCESSIONS

Table 6.3 classifies the major concessions provided by the NSW Government by function. The estimated total value of major concessions in 2002-03 is $686 million, representing 2 percent of expenses. Concessions are anticipated to amount to around the same proportion of expenses in 2003-04.

Table 6.3: Concessions by Function [(a)]

Function	*2001-02*	*2002-03*	*2003-04*
	$m	*$m*	*$m*
Public Order and Safety	...	...	...
Education	98	100	105
Health	80	84	85
Social Security and Welfare	251	256	262
Housing and Associated Amenities	256	242	253
Environmental Protection	...	...	...
Recreation and Culture	...	...	...
Agriculture, Forestry, Fishing and Hunting	4	4	4
Transport	...	...	...
Other Economic Activities	...	...	...
Other Purposes	...	...	...
Total	**689**	**686**	**709**
Percent of Expenses	**2.1**	**2.0**	**2.0**

(a) In past budgets, this table compared the functional classification of concessions with that of direct expenses. However, with administrative arrangements in some restructured government departments not fully in place, detailed program statements and a functional classification of expenses are not available. Therefore, calculation of concessions by function as a percentage of expenses by function is not possible in this Budget.

The vast majority of concessions are concentrated in the social security and welfare, and housing and associated amenities functions, mainly comprising concessional charges to pensioner concession card holders for transport, water and energy.

CHAPTER 7: FINANCIAL ARRANGEMENTS WITH THE COMMONWEALTH

- New South Wales will lose $153 million in Commonwealth funding in 2003-04 due to the change in relativities arising from the Commonwealth Grants Commission's 2003 Update Report.
- NSW will not begin to accumulate gains from GST related tax reform until 2009-10. However, the Commonwealth Government will stop paying Budget Balancing Assistance in 2007-08, as it refuses to recognise the additional costs to States of its decision to cease petroleum excise indexation.
- In 2003-04, NSW will receive $9.2 billion in GST revenue out of a total pool of $31.7 billion. NSW will subsidise recipient States $2.5 billion, relative to the amount of GST revenue generated in New South Wales. Compared with an equal per capita share of GST revenue, New South Wales will forfeit a total of $1.4 billion, or $212 per capita.
- The NSW Government is pursuing reform of the equalisation system that allocates Commonwealth funding to the States. New South Wales, Victoria and Western Australia commissioned an independent review of this system and the final report was released in August 2002. New South Wales is using the findings and recommendations of the Review to argue a case for reform.
- New South Wales is also contributing to the Commonwealth Grants Commission's 2004 major review of its methods. The State argued the case for reform in its Main Submission to the Review in May 2002, and in its Rejoinder Submission of March 2003. The State also hosted the Commonwealth Grants Commission in April 2003 to discuss some of the more important issues at greater depth.

7.1 INTRODUCTION

The NSW Government depends on Commonwealth grants for half its revenue. Consequently, financial relations with the Commonwealth significantly influence the financial position of the State.

This chapter explains the financial arrangements between the Commonwealth and the States, including recent developments. Section 7.2 discusses the current framework for Commonwealth-State financial relations in the wake of national tax reform.

Section 7.3 discusses the outcomes of the March 2003 Treasurers' Conference and the effect of national tax reform on the State budget.

Section 7.4 outlines the role of the Commonwealth Grants Commission in allocating State revenue. It outlines the Commission's reasons for reducing NSW's share of grants in 2003-04, and compares NSW's share with the seven other States and Territories.

Section 7.5 updates the progress of the Commission's 2004 Review. It also discusses the Review of Commonwealth-State Funding.

7.2 COMMONWEALTH-STATE FINANCIAL ARRANGEMENTS

The *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* sets out the current Commonwealth-State financial arrangements. It was signed in June 1999 and the arrangements took effect from July 2000.

Under the Agreement, the Commonwealth pays the States all GST revenue. In exchange, the States:

- abolished some taxes (including financial institutions duty and stamp duty on quoted marketable securities) and reduced rates of gambling tax;
- forgo a number of Commonwealth grants, including financial assistance grants and revenue replacement payments[1];
- pay the Australian Tax Office (ATO) to administer the GST;
- fund the first home owners scheme; and
- abolish, subject to review, certain other taxes by 2005.

The Commonwealth guaranteed that no State would be worse off under the new arrangements. To ensure this, the Commonwealth paid budget balancing assistance to States that would otherwise suffer a shortfall. While the Agreement offers no immediate financial benefits to NSW, GST revenue grants will grow more quickly than the abolished revenue streams would have. State finances will therefore improve over the longer term.

The Agreement established a Ministerial Council for Commonwealth-State Financial Relations (the Treasurers' Conference) which monitors the operation of the GST and the implementation of the Agreement.

The Agreement also established a GST Administration Sub-Committee (GSTAS). GSTAS monitors the operation of the GST, assesses proposed modifications to it, monitors how well the ATO administers it, and reports to the Treasurers' Conference.

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[1] *Revenue replacement payments were paid by the Commonwealth following the 1997 decision of the High Court that effectively invalidated State Business Franchise Licence Fees.*

2005 Review Of State Taxes

Under the Agreement all States will abolish Debits Tax by 1 July 2005, subject to review by the Treasurers' Conference. New South Wales abolished this tax from 1 January 2002 – three and a half years ahead of schedule.

The Agreement also requires all States, by 2005, to consider abolishing stamp duties on: non-residential conveyances; leases; mortgages, debentures, bonds and other loan securities; credit arrangements, instalment purchase arrangements and rental arrangements; cheques, bills of exchange, and promissory notes; and unquoted marketable securities.

7.3 2003 TREASURERS' CONFERENCE

The Treasurers' Conference was held on 28 March 2003.

The Commonwealth advised that it would distribute GST revenues amongst the States according to the recommendations of the Commonwealth Grants Commission (refer to section 7.4).

The Treasurers discussed the *Review of Commonwealth-State Funding* by Professor Ross Garnaut and Dr Vince FitzGerald (refer to section 7.5 for further details).

The Treasurers' Conference amended the *GST Administration Performance Agreement* between the States and the ATO. Under the revised Agreement, the ATO will increase the efficiency and transparency of its operations, and improve the GST collection information provided to the States. Also, a number of new performance measures were added to help States better assess how efficiently the GST is being collected.

The States agreed to the ATO's GST budget of $570.9 million to administer the GST in 2003-04.

The Treasurers noted that the Commonwealth will meet its commitment to at least maintain Specific Purpose Payments (SPPs) to the States and Territories in real terms. On current estimates, total SPPs to the States and Territories will increase by around 4.6 percent, or $992.5 million, in 2003-04.

The Commonwealth will also provide National Competition Policy Payments of $758.6 million to the States and Territories in 2003-04.

Effect of Tax Reform on NSW

Table 7.1 shows that tax reform and the associated reform of Commonwealth-State Financial Relations has not yet produced net financial gains for the NSW budget. The losses have so far exceeded the gains, with the Commonwealth making up the difference in Budget Balancing Assistance.

Current estimates show the last Budget Balancing Assistance being paid to NSW in 2007-08, with a net benefit beginning in 2008-09 when annual gains exceed annual losses.

Table 7.1: Effect of Tax Reform on NSW: 2001-02 to 2008-09

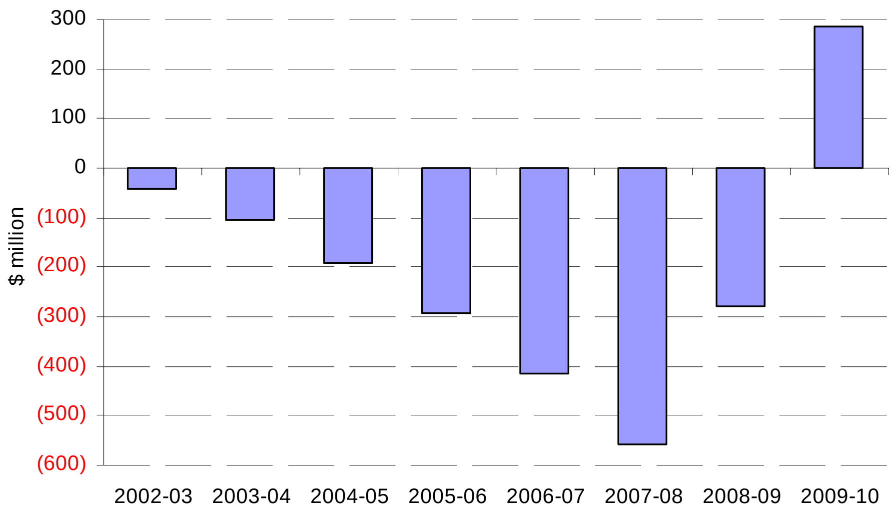
$ million	*2001-02 Actual*	*2002-03 Revised*	*2003-04 Est*	*2004-05 Est*	*2005-06 Est*	*2006-07 Est*	*2007-08 Est*	*2008-09 Est*
Losses								
Revenue Forgone								
Financial Assistance Grants	5,399	5,387	5,454	5,526	5,614	5,710	5,798	5,932
Gross Safety-Net Revenue	2,388	2,461	2,545	2,616	2,690	2,768	2,849	2,933
State taxes abolished	1,035	1,155	1,218	1,281	1,675	1,790	1,884	1,973
Reduction in gambling taxation	558	574	585	596	620	643	668	693
Loss of Interest Income	3	4	0	0	0	0	0	0
WST Equivalents	38	38	0	0	0	0	0	0
Additional Expenditures								
First Home Owners Scheme	440	284	231	287	321	323	325	326
GST Administration Costs	175	188	192	195	199	203	207	212
Adjustments (a)	25	(7)						
Total Losses	**10,061**	**10,084**	**10,226**	**10,501**	**11,120**	**11,438**	**11,730**	**12,069**
Gains								
Additional Revenue								
GST Revenue	8,132	9,076	9,234	9,639	10,159	10,632	11,113	11,684
Growth Dividend - State taxes	57	77	99	123	149	177	206	237
Reduced Expenditure								
Off-road Diesel Subsidies	138	138	141	142	144	146	148	150
Savings from Tax Reform	157	168	179	191	204	218	233	248
Beer Subsidy Scheme Deduction	0	25	25	26	26	27	28	29
Total Gains	**8,484**	**9,484**	**9,678**	**10,122**	**10,682**	**11,200**	**11,727**	**12,349**
BUDGET BALANCING ASSISTANCE	**1,577**	**600**	**548**	**379**	**437**	**238**	**3**	**0**

(a) Adjustments for previous years are made when final data are collated.

NSW is expected to be the last State to gain a net benefit from GST revenue. Queensland and the Northern Territory are both expected to gain in 2002-03. Western Australia, Tasmania and the ACT are all expected to pass the breakeven point in 2003-04. South Australia will see a net annual benefit in 2006-07, followed by Victoria in 2007-08, and finally New South Wales in 2008-09.

However, the above figuring is based on a new method of calculating Budget Balancing Assistance announced by the Commonwealth at the 2002 Treasurers' Conference. The Commonwealth no longer includes CPI indexation in calculating the value of petroleum revenue replacement payments forgone. This decision imposes an additional cost on the States that is not recognised in the calculation of Budget Balancing Assistance. For NSW, this cost is around $60 million in 2003-04, with a cumulative cost over $500 million by 2007-08. When this shortfall in compensation is taken into account, it is evident that NSW will not receive net financial benefits from the reforms until 2009-10 (see Chart 7.1).[2]

Chart 7.1: Cumulative Shortfall / Gain from Tax Reform Arrangements for New South Wales



7.4 NEW SOUTH WALES' SHARE OF COMMONWEALTH FUNDING

Two features of Australia's system of Commonwealth funding deserve particular attention: Vertical Fiscal Imbalance and Horizontal Fiscal Equalisation.

VERTICAL FISCAL IMBALANCE

Vertical fiscal imbalance refers to the mismatch of revenue capacity and spending responsibilities between the Commonwealth and the States.

2 The year in which the State begins to benefit from the new arrangements may be further delayed as a result of the agreed 2005 review of State taxes.

State governments have access to only a small number of taxes relative to their expenditure responsibilities. In contrast, the Commonwealth Government collects much more revenue than it needs for its own purposes. The States rely on grants from the Commonwealth to be able to fund their expenditure responsibilities.

The introduction of the GST worsened this imbalance because States abolished a number of their own taxes. Commonwealth grants now account for half of New South Wales' revenue, compared with slightly over one-third before the introduction of the GST.

The Commonwealth's decision last year to change the arrangements for paying transitional assistance to the States raised some questions about the future operation of the *Intergovernmental Agreement*. Although the basis of the Agreement remains in place, States are exposed to the risk that the Commonwealth may further change the agreed arrangements in the future.

HORIZONTAL FISCAL EQUALISATION

GST revenue grants are allocated among the States according to the principle of horizontal fiscal equalisation. Under the current system this means that the share of funding allocated to each State is recommended by the Commonwealth Grants Commission.

Each year the Commission updates its recommendations to take account of changes in its measures of States' needs. The recommendations are in the form of 'relativities' based on the current fiscal arrangements (GST relativities) and the arrangements applying prior to the introduction of the GST (FAG relativities). Both sets of relativities compare States' recommended revenue shares with the revenue that would be received if there was an equal per capita distribution.

Until NSW is better off under the new system, forecast to be in 2008-09, FAGs relativities will remain the most important aspect of the Commission's annual update. This is because, until that time, NSW grants will be based on what it would have received under the old FAG-based system.

2003 UPDATE OF STATE RELATIVITIES

The 2003 relativities recommended by the Commission were accepted at the 2003 Treasurers' Conference. New South Wales' funding will be reduced by $153 million as a result of the change in relativities. The Commission highlighted Stamp Duty on Conveyances, Debt Charges and lower Cost of Service Provision as the main factors reducing NSW's relativities.

Stamp Duty on Conveyances has increased in importance as a source of state revenue in recent years, because of the nationwide rise in property prices. Revenue from this duty has increased from 9.1 percent of States' own-source revenue in 1996-97 to 14.9 percent in 2001-02. This is the timeframe on which the Commission based its 2003 assessment. All States shared in the growth in conveyancing revenue over this time. In fact, in 2001-02, New South Wales' conveyancing revenue grew more slowly than the national average. Conveyancing revenue for Queensland, Victoria, Tasmania and the ACT increased by more than in New South Wales, but the Commission reduced NSW's grant by $80 million as a direct result of this growth.

Despite NSW having *slower* growth in conveyancing revenue than other States, the amount of annual conveyancing revenue which NSW loses to other States will *increase* by $80 million in 2003-04 to $647 million. This is a direct cost to the NSW budget. This anomaly highlights the need for reforming the current system of equalisation.

NSW has a higher cost of capital infrastructure which in the past has created higher debt charges. The Commission has recognised this cost to NSW, and so increased its grant share. However, the importance of debt charges in State budgets has declined from 6.2 percent of States' expenditure in 1996-97 to 2.9 percent in 2001-02, as a result of States paying off large amounts of debt. This reduces the emphasis on NSW's higher capital costs, and decreases the grant share for NSW.

Changes in NSW's Cost of Service Provision relate mainly to the number of students in government schools. NSW has experienced a shift of students from government schools to private schools, which reduces the NSW government's average cost per student. This has led to a reduced grant share for NSW.

As will be discussed in Section 7.5, the NSW Government has major concerns with the current system of fiscal equalisation.

COMPARISON WITH EQUAL PER CAPITA FUNDING

In 2003-04, New South Wales will receive $9,234 million of the total GST pool of $31,700 million. But NSW receives significantly less in GST revenue grants than if funding were based solely on population shares (see Table 7.2):

- New South Wales' GST revenue grants in 2003-04 will be $1,371 per capita or 13.4 percent less than the average of all the States;
- The average GST revenue grant in 2003-04 for New South Wales, Victoria and Western Australia (the donor States) will be $1,382 per capita, compared with an average of $2,014 for the recipient States; and

- The ACT receives 42 percent more GST revenue grants per capita than NSW, despite the fact that average per capita income in the ACT is 18 percent higher than NSW[3].

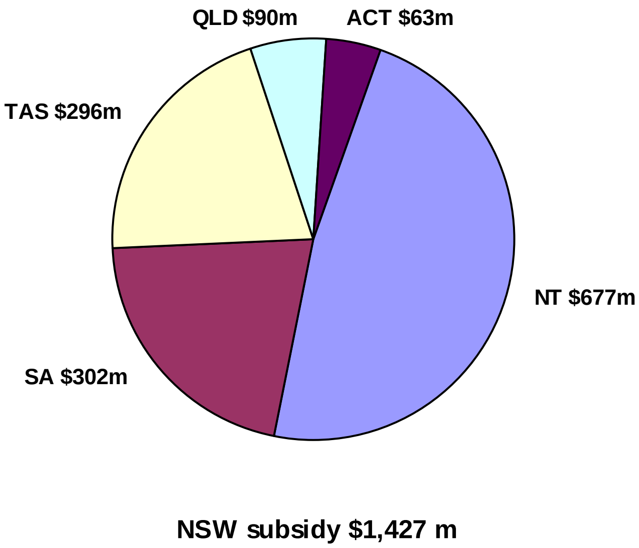
Table 7.2: GST Revenue Grants per Capita 2003-04

State/Territory	*GST Revenue Grants (In $ per capita)*
New South Wales	1,371
Victoria	1,340
Queensland	1,628
Western Australia	1,528
South Australia	1,961
Tasmania	2,781
Australian Capital Territory	1,952
Northern Territory	8,125
Average, 3 donor States	**1,382**
Average, 5 recipient States	**2,014**
AUSTRALIAN AVERAGE	**1,583**

In 2003-04, New South Wales, Victoria and Western Australia will subsidise the recipient States $2,740 million, compared with an equal per capita distribution. New South Wales alone will transfer $1,427 million, or $212 per capita, to the recipient States. The allocation of NSW's subsidy is shown in Chart 7.2.

[3] *Measured as gross state product per capita.*

Chart 7.2: Allocation of NSW subsidy (Equal per Capita Basis)



COMPARISON WITH GST GENERATED BY STATES

An alternative method of measuring the level of transfers from donor States to recipient States is to compare GST revenue grants with the amount of GST generated by each State (estimated using household final consumption expenditure)[4].

On this basis, the total transfer from donor States (New South Wales and Victoria) in 2003-04 is $3,866 million, of which New South Wales will contribute $2,541 million.

Chart 7.3 indicates the allocation of NSW subsidies to recipient States in relation to household final consumption expenditure (HFCE).

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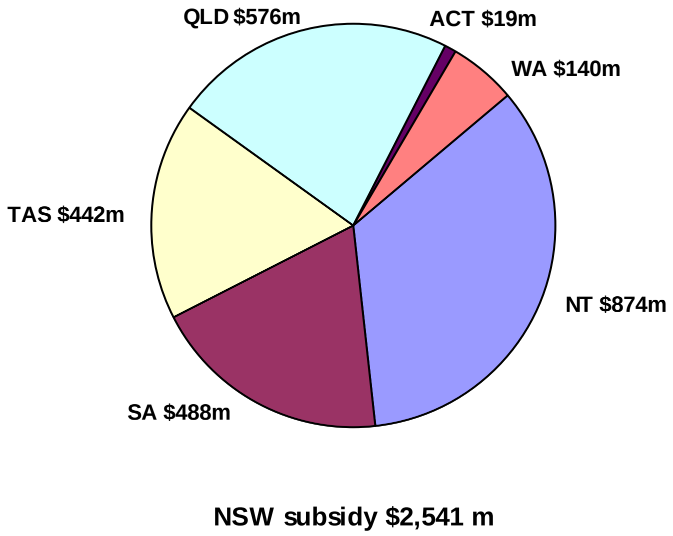
[4] *State contributions to GST revenue are estimated using information on consumption in each State. Estimates of household consumption have been adjusted to remove expenditure on food, health and education services, as these are largely GST free, in an effort to more closely approximate the GST revenue base.*

Chart 7.3: Allocation of NSW subsidy (HFCE basis)



SPECIFIC PURPOSE PAYMENTS

The Commonwealth Government expects to provide $5,578m in Specific Purpose Payments (SPPs) to New South Wales in 2003-04. As the name implies, SPPs are grants which the State must use for specific purposes. The Commonwealth uses SPPs to implement policies in areas which are the constitutional responsibilities of the States. An agreement between the Commonwealth and the State governs each SPP, and details the specific purposes. These agreements typically last three to five years, and are renegotiated after that time.

The following major SPPs were the subject of negotiations during 2002-03:

- *Australian Health Care Agreement;*
- *Commonwealth State Disability Agreement; and*
- *Commonwealth-State Housing Agreement.*

None of these negotiations has been concluded yet.

SPPs are generally less efficient than general purpose funding. This is because the Commonwealth controls can often adversely distort the pattern of State expenditure—through matching and other requirements—and also impose significant administrative costs.

The Commonwealth now plans to require additional performance reports from the States for SPPs. This will further increase administrative costs. Also, the Commonwealth proposes to withhold some SPP funding from States, unless it is satisfied with the States' financial and performance reports. If this threat is carried out, it will directly affect the States' capacity to deliver services.

NSW is working with the Commonwealth and the other States to improve the way in which SPP agreements operate. This includes investigating ways to satisfy the Commonwealth's reporting requirements without limiting the ability of States to deliver the most appropriate services to their citizens.

7.5 THE NEED FOR REFORM

NSW's loss of revenue in 2003-04 reflects the State's vulnerability to the decisions of the Commonwealth Grants Commission. The State is appealing for a completely new system that will assure all States of a simpler, fairer and more reliable revenue source.

COMMONWEALTH GRANTS COMMISSION 2004 REVIEW

In addition to the annual update of relativities discussed above, the Commission reviews its methods of calculating relativities every five years. The 2004 Review is currently under way and will be implemented for the 2004-05 financial year.

In the most recent year of the Review, NSW made numerous contributions to the Commission to ensure the State will receive a fair share of revenue:

- NSW's Main Submission, presented to the Commission in May 2002, made a number of suggestions to the Commission covering issues such as the costs of congestion in Sydney. NSW also appealed for a complete overhaul of the equalisation system that would minimise the complexity and anomalous incentives that the current system creates;
- NSW presented its Rejoinder Submission to the Commission in March 2003, in response to various issues that arose from the States' Main Submissions. The submission provided additional data to help the Commission's understanding of certain issues, and updated a number of particular matters of concern to NSW. It also responded to issues raised by other States;
- Treasury officers represented NSW at a conference on high level issues, hosted by the Commission in October 2002, and at a further conference in November 2002 on technical issues; and
- In April 2003, NSW hosted the Commission to discuss a number of issues that are particularly important to NSW. NSW analysed and debated with the Commission the methods used to assess costs created by migration, needs for transport infrastructure, public sector wage costs and own-source revenue.

REVIEW OF COMMONWEALTH-STATE FUNDING

New South Wales and Victoria commissioned a *Review of Commonwealth-State Funding* on 26 March 2001, and were later joined by Western Australia. The Review was conducted by Professor Ross Garnaut of the Australian National University and Dr. Vince FitzGerald of the Allen Consulting Group. The *Review* aimed to measure how well the current system of horizontal fiscal equalisation is performing. New South Wales' submission to the Review argued that a reformed system should involve greater attention to efficiency implications, reduced scope for judgements and a lower financial burden on donor States. The *Review* released an interim report in April 2002 and the final report was completed in August 2002.

The final report found that the current system performed poorly. It found that the system did not achieve desirable levels of efficiency, equity, simplicity or transparency. It also recommended that the current system be replaced. Importantly, no State would be worse off under the *Review's* proposal than they were in the suggested base year of 2002-03.

New South Wales, Victoria and Western Australia presented the *Review* to the Commonwealth Grants Commission in October 2002. The Commission believed that although the *Review* raised important issues, the issues were outside its Terms of Reference. At the 2003 Treasurers' Conference, the Commonwealth Government referred to the 2004 Commonwealth Grants Commission Review as an opportunity for States to advocate changes to the system.

NSW remains sceptical that this is possible. A number of problems identified in the *Review* by Garnaut and FitzGerald are deeply embedded in the current system. NSW continues to believe that the system needs to be overhauled, beyond what is possible under the Commonwealth Grants Commission's Terms of Reference.

CHAPTER 8: GOVERNMENT FINANCE STATISTICS AND UNIFORM REPORTING FRAMEWORK

- ♦ Financial aggregates are prepared on an accrual basis in accordance with the uniform presentation framework (UPF).
- ♦ A time series is provided from 1999-2000 to 2006-07 for the general government, public trading enterprise and consolidated sectors.
- ♦ The Loan Council allocation estimate for 2003-04 is a deficit of $1,306 million.
- ♦ The Government is entering into several important infrastructure projects with the participation of the private sector. Project details are outlined at the end of this chapter.

8.1 INTRODUCTION

This chapter presents financial aggregates for the general government and public trading enterprise (PTE)[1] sectors according to international statistical standards and in accordance with a revised uniform reporting framework agreed to by the Australian Loan Council in March 2000. Presentational changes were agreed at subsequent Loan Council meetings. The format of the aggregates is based on the reporting standards of the Australian Bureau of Statistics (ABS) accrual government finance statistics (GFS) framework.

The financial aggregates presented in this chapter serve a number of purposes including:

- ♦ allowing comparisons between the financial position of Australian governments on a consistent basis;
- ♦ facilitating time series comparisons since they are relatively unaffected by changes in public sector administrative structures; and
- ♦ permitting an assessment of the impact of NSW public sector transactions on the economy by providing data classified by economic type.

[1] *The PTE sector is also referred to by the Australian Bureau of Statistics as the public non-financial corporation or PNFC sector. Other chapters in this budget paper use the term "PTE".*

Section 8.2 outlines the format of the accrual UPF statements, comparing and contrasting them to their equivalent accrual accounting reports. It also describes the main fiscal measures in the accrual GFS reports.

The classification of public sector entities is outlined in Section 8.3.

Section 8.4 provides a brief commentary on the operations of the PTE sector.

The accrual uniform presentation framework estimates are presented in Section 8.5. They are presented in the sequence of operating statements, balance sheets and cash flow statements which are dissected by their economic transactions. This is followed by a table of general government taxes by type. In addition to the UPF minimum disclosure requirements, these reports also include a historical and forward year time series.

The table of general government expenses by function is not published, as not all the functional data is available for agencies affected by the government restructure of April 2003. This data will be published in August 2003.

Section 8.6 presents estimates of the State's Loan Council allocation (LCA) for 2003-04 and compares this to the original LCA bid. Information is also presented in Section 8.7 on new infrastructure projects for 2002-03 and 2003-04 in accordance with Loan Council reporting requirements.

8.2 ACCRUAL GFS REPORTING

THE ACCRUAL GFS PRESENTATION

Public sector estimates and outcomes are presented in the accrual GFS framework in three primary statements: operating statement, balance sheet, and cash flow statement. These statements form the core of the accrual UPF.

GFS includes only those transactions over which a government exercises control under its legislative or policy framework. This means that, unlike the accounting viewpoint, the GFS excludes from the calculation of net operating balance both revaluations (holding gains or losses) arising from a change in market prices, and other changes in the volume of assets that result from discoveries, depletion and destruction of assets. This means that differences arise between the GFS and accounting frameworks, particularly within the operating statement.

Operating Statement

The operating statement presents information on GFS revenues[2] and GFS expenses[3]. This statement is designed to capture the composition of revenues and expenses and the net cost of a government's activities within a fiscal year. It shows the full cost of resources consumed by a government in achieving its objectives, and how these costs are met from various revenue sources.

Unlike a standard accounting operating statement, the GFS operating statement reports two major fiscal measures – the GFS net operating balance, and GFS net lending. The *GFS net operating balance* is calculated as GFS revenue minus GFS expenses. *GFS net lending*[4] is GFS revenues less GFS expenses (excluding depreciation), less net capital expenditure (i.e. after asset sales) and other selected asset movements/adjustments, thereby giving a better measure of a jurisdiction's call on financial markets.

Balance Sheet

The balance sheet records the stocks of financial and non-financial assets and liabilities. This statement, also referred to as a 'statement of assets and liabilities' or a 'statement of financial position', discloses the resources over which a government exercises control. The balance sheet is a financial snapshot taken at the end of each financial year. By providing information on the type of assets and liabilities held by a government, the statement gives an indication of financial liquidity.

The balance sheet includes data on the composition of financial assets, on the holdings of fixed assets, and on the extent of liabilities such as borrowing and unfunded superannuation. This allows for intertemporal and interjurisdictional comparisons of asset and liability levels.

The GFS balance sheet differs from the standard accounting presentation:

- it provides information on financial and non-financial assets, and does not distinguish between current and non-current assets and liabilities;

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[2] *GFS revenue differs from accounting revenues. GFS revenues include all (mutually agreed) transactions that increase net worth. Revaluations, included in accounting revenues, are not considered mutually agreed transactions, and so are excluded from GFS revenues. Included in this revaluations category are asset write-offs. Asset sales, which involve a transfer of a non-financial asset for a financial asset, are also excluded.*

[3] *GFS expenses differ from accounting expenses. GFS expenses encompass all transactions that decrease net worth, including dividend and tax equivalent payments.*

[4] *Net lending is equivalent to the budget result shown elsewhere in the budget papers. Commonwealth Treasury has adopted the term "fiscal balance".*

- receivables are presented on a gross basis (i.e. excluding all provisions for doubtful debts) resulting in GFS net worth being greater than accounting net assets; and

- the general government sector discloses an equity investment in the public financial enterprise (PFE)[5] and public trading enterprise (PTE) sectors. GFS recognises a holding company model for the general government's ownership of the PFE and PTE sectors.

Balance sheet indicators include net debt, net financial worth and net worth.

Net debt comprises the stock of selected gross financial liabilities less selected financial assets and is the same under cash and accrual-based financial reporting.

The net debt measure is limited in that it does not include employee liabilities such as superannuation or insurance claim obligations, which can be substantial and a substitute for debt obligations. In addition, net debt does not provide information on whether this debt has been incurred to finance capital expenditure or operations.

Net financial worth (NFW) measures net holdings of financial assets. It is calculated from the balance sheet as financial assets minus total liabilities. It is also commonly referred to as net financial assets. Net financial worth excludes physical assets such as property and infrastructure which can be subject to significant valuation movements. It is a useful indicator for examining the soundness of a government's fiscal position, particularly over the medium-to-long term.

Net worth, also known as net assets, provides a comprehensive picture of the financial position, as it is measured by total assets less total liabilities. Net worth shows the impact of asset acquisitions over time, giving an indication of the extent to which borrowings are used to finance asset purchases, rather than current expenditure.

The difference between total assets and total liabilities for the PTE and PFE sectors is deemed to be owner's equity (shares and other contributed capital). GFS treats owner's equity for the PTE and PFE sectors similar to a liability. Therefore the GFS net worth for the PTE and PFE sectors is always zero.

[5] *The PFE sector is also referred to by the Australian Bureau of Statistics as the public financial corporation or PFC sector. Other chapters in this budget paper use the term "PFE".*

In addition to the UPF requirement to report net debt and net financial worth, *underlying net debt* is also reported after adjusting for the impact of a special prepayment of superannuation (1999-2000 to 2001-02), and the establishment of the General Government Liability Management Fund. While the financial assets in the General Government Liability Management Fund accrue within the general government sector, they are dedicated to meet superannuation liabilities. Underlying net debt is published after adjustment to avoid the distortionary impact of the superannuation transactions, which are basically temporary and reversing.

Cash Flow Statement

The cash flow statement records cash receipts and payments, revealing how a government obtains and expends cash.

This statement requires cash flows to be categorised into operating, investing and financing activities. Operating activities are those which relate to the collection of taxes, the distribution of grants, and the provision of goods and services. Investing activities are those which relate to the acquisition and disposal of financial and non-financial assets. Financing activities are those which relate to the changing size and composition of a government's financial structure.

The convention within the cash flow statement is that all inflows carry a positive sign and all outflows carry a negative sign (regardless of whether they are gross or net cash flows).

The GFS cash flow statement reports two major fiscal measures – net increase in cash held, and cash surplus. *Net increase in cash held* is the sum of net cash flows from all operating, investing and financing activities. The *cash surplus* comprises net cash received from operating activities, and from sales and purchases of non-financial assets, minus distributions paid (in the case of public trading enterprises), minus finance leases and similar arrangements.

The cash surplus measure is broadly comparable with the old cash-GFS surplus measure, allowing for comparisons between the two frameworks.

An *underlying cash surplus/deficit* has also been published. The underlying result removes the distortionary impact of both the 2000 Olympic and Paralympic Games for the PTE sector, and the discretionary timing of general government defined benefit superannuation contributions.

COMPARISON TO ACCRUAL BASED ACCOUNTING REPORTS

Information reported in the accrual UPF tables is generally consistent with that reported elsewhere in Budget Paper No. 2. However, differences in treatment and disclosure can occur because the Australian Bureau of Statistics requires that:

- selected payments that pass through the State's accounts, e.g. for non-government schools, be included in the UPF tables. Reports in other chapters of the budget papers exclude these receipts and payments as the NSW Government has no control over them;

- the general government sector balance sheet in the UPF table reports an equity investment in the public financial and non-financial corporation sectors while the accounting based statement of financial position does not record this item. A residual entity model of the Crown is considered more appropriate under an accounting framework than a holding company model; and

- provisions for doubtful debts and the capitalised interest component of assets are excluded from balance sheets presented on a GFS basis.

APPLICATION OF GFS PRINCIPLES

The standards applied to produce the uniform presentation tables in this chapter are the same as those used by the ABS in its government financial estimates publication (Catalogue No. 5501.0).

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

The ABS has recognised the accounting difficulties of their approach. Given this, a compromise has been reached and all jurisdictions and the ABS have departed from GFS principles on this matter and record the premium as a negative interest payment in the final year of the loan.

8.3 CLASSIFICATION FRAMEWORK

The economic type classification adopted in this budget paper follows international conventions as outlined in the ABS information paper, *Accruals-based Government Finance Statistics Australia 2000*, Catalogue Number 5517.0.

CLASSIFICATION OF PUBLIC SECTOR ENTITIES

Public sector entities in New South Wales can be classified as general government entities (GGEs), public trading enterprises (PTEs) or public financial enterprises (PFEs).

GGEs consist of those public sector entities that provide, in the main, goods and services outside the market mechanism as well as providing for the transfer of income for public policy purposes. The major form of financing of these goods and services is by taxation, imposed by the State or by the Commonwealth and subsequently on-passed to the State. In New South Wales, most government departments and a number of statutory authorities, e.g. WorkCover Authority, fit into this category.

In contrast, PTEs charge for services provided and hence have a broadly commercial orientation. They do not, however, necessarily operate in competitive markets. While PTEs are not required to be fully self-funding, a substantial portion of their costs must be met by user charges. The PTE sector in New South Wales includes for example Eraring Energy, TransGrid, Sydney Water Corporation and the State Rail Authority.

PFEs are the third category of authorities in the ABS framework. NSW Treasury Corporation is the major entity in New South Wales operating in this sector. PFEs are not included in this chapter as the Uniform Presentation Agreement only requires the publication of PFE data ex-post. Further, forward estimates of financial transactions in this sector are subject to considerable uncertainty.

Appendix C lists NSW public sector entities and their sector classifications.

The *non-financial public (NFP) sector* is a consolidation of GGEs and PTEs.

8.4 OPERATIONS OF THE PUBLIC SECTOR

This section focuses on the financial results and projections of the Public Trading Enterprise (PTE) Sector. It presents GFS accrual data for the PTE sector from 1999-2000 to 2006-07, including three years of actual results, revised outcomes for 2002-03, and four years of forward estimates.

Actual results for 1999-2000 and 2001-02 include the impact of the Olympics, which is not considered part of the normal operating scope of the sector. Unless otherwise stated, the results presented in this section exclude the impact of the Olympics.

PTE Capital Expenditure and Operating Performance

Over the forward estimates period the PTE sector will remain in a net borrowing position, reaching a peak of almost $2 billion in 2005-06. The reason for PTE borrowing is to fund capital expenditure (i.e. purchases of non-financial assets). Since 1999-2000, annual capital expenditure has been consistent, rising from $2.7 billion to a revised estimate of $3.3 billion in 2002-03. Capital expenditure will peak at $4 billion in 2005-06. The PTE sector would be in a net lending position in the absence of this increase in capital expenditure.

The balance sheet implications of the rise in PTE capital expenditure are discussed in Chapter 4. The discussion in this chapter focuses on the operating performance of the PTE sector and hence its capacity to repay the borrowings required to fund the current historically high levels of capital expenditure.

The PTE sector includes a diverse range of business engaging in commercial activity. Most of these businesses are profitable on a stand-alone basis (e.g. electricity) and therefore provide a return to the Government. Others perform important social policy objectives (e.g. transport and housing) and therefore receive support from the Government through grants and subsidies. Regardless of their status in this respect, all PTEs are expected to operate efficiently according to standard commercial principles.

Most of the large shifts in PTE financial aggregates reflect the activities of the electricity sector. Both the increase in capital expenditure and the increase in net borrowing are driven by the electricity distributors, which will have a collective net borrowing position of $3.1 billion in 2002-03.

During the 1990s, the Government introduced a range of initiatives aimed at commercialising the PTE sector. The reforms implemented under the auspices of the Commercial Policy Framework (CPF) have focused on improving the incentives for sound performance. In particular, clearer objectives and the application of the ‘user-pays’ principle have created the conditions for efficient commercial activity. The Government has made substantial progress in implementing the CPF and will continue to seek efficiencies in the PTE sector.

Allowing PTEs to borrow during periods of heavy capital expenditure is critical to the operation of the CPF. Any artificial interference to constrain PTE borrowing to achieve a particular aggregate outcome would undermine the structure of incentives and hence the long-term performance of the PTE sector.

The increase in capital expenditure and borrowing is supported by the strong operating performance of the PTE sector. The underlying trading performance of the PTE sector has been robust and will remain so for the foreseeable future. Net cash flows from operating activities for the PTE sector were $2.8 billion in 2002-03 and are expected to grow to $3.5 billion by 2006-07.

Chart 8.1 shows this is consistent with a pattern of large cash operating surpluses in the PTE sector, particularly since the introduction of the CPF in the early 1990s. The data for this historical perspective is only available up to 1997-98.

Chart 8.1: Net cash flows from operating activities (Cash GFS framework) Real 2000-01 dollars

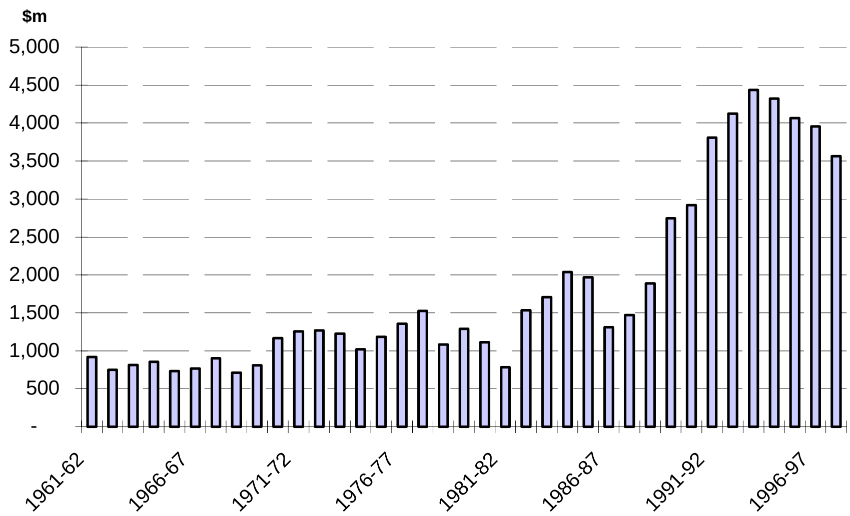
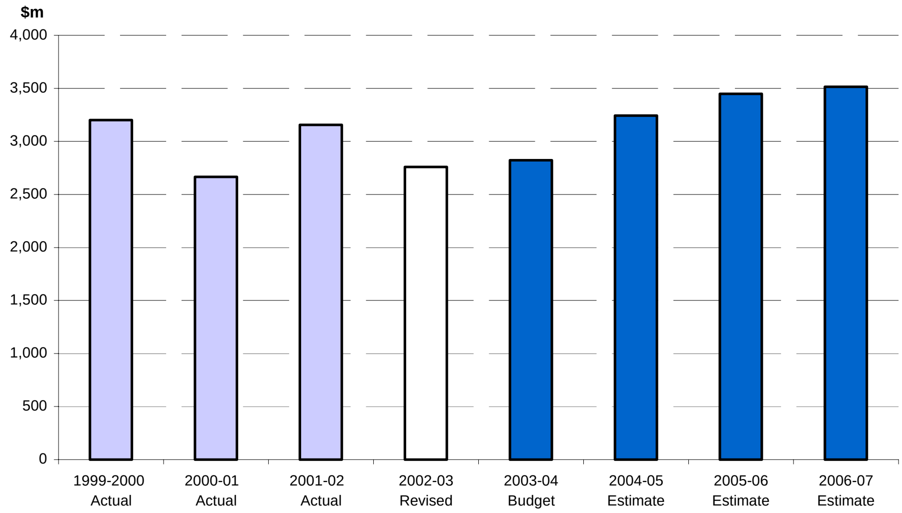


Chart 8.2 presents the conceptually similar result in the accrual GFS framework[6]. Net cash flows from operating activities have consistently been above $2.5 billion in the last four years and are forecast to rise to $3.5 billion by 2006-07.

Chart 8.2: Net cash flows from operating activities[(a)] (Accrual GFS framework)



(a) Includes impact of SOCOG and SPOC

The difference between net cash flows from operating activities on the cash flow statement and the net lending result on the operating statement is accounted for primarily by capital expenditure.

Conservative Bias in PTE Budget Estimates

Previous budgets have commented on the conservative bias in estimates of the PTE sector's financial results. This was based on observations of the cash result which indicated that the PTE sector consistently underestimated its cash surplus by approximately $400 million.

[6] The cash result is similar in the cash GFS and accrual GFS frameworks. However, the different methodologies produce significantly different results for net cash flows from operating activities.

This bias persists and is also evident in the accrual operating statement. In the last four years, the actual net lending result for the PTE sector has consistently been better than both the budgeted and revised net lending result. The size of this bias is not insignificant, averaging $316 million each year between 1999-2000 and 2002-03.

The factors contributing to this bias vary from year to year but a broad pattern can be discerned. The net operating balance is consistently better than budgeted. There is a tendency to underestimate both revenue and expenditure, but the conservatism is greater with respect to revenue. The net acquisition of non-financial assets is more volatile but has also on average contributed to an improvement against the forecast net lending position.

Given this history of conservative bias, the actual results over the forward estimates period may well be above current projections.

Budget Estimates and Revised Outcomes for 2002-03

The 2002-03 Budget estimate of a $1,296 million net borrowing requirement for the PTE sector has been revised down to $1,231 million. The $65 million decrease is due to lower than expected gross fixed capital formation.

Table 8.1: Public Trading Enterprise Sector 2002-03 Revised Outcomes

		Budget 2002-03 $m	*Revised 2002-03 $m*	*Variation $m*
	GFS Total Revenue	11,913	12,155	+ 242
Less	GFS Total Expenses	11,648	11,862	+ 214
Equals	**GFS Net Operating Balance**	265	293	+ 28
Less	**Net Acquisition of Non-Financial Assets**			
	Gross fixed capital formation	3,111	2,967	(-) 144
	less Depreciation	(1,643)	(1,601)	+ 42
	plus Changes in inventories	42	40	(-) 2
	plus Other movements in non-financial assets	51	118	+ 67
	Equals Total Net Acquisition of Non-financial Assets	1,561	1,524	(-) 37
Equals	**Net Lending/(Borrowing)**	(1,296)	(1,231)	+ 65
	GFS Cash Flow Surplus/(Deficit)	(828)	(791)	+ 37

Both revenues and expenses have been revised up. Revenues rose because of increased sales in the electricity sector and an increase in current grants and subsidies to the transport sector. The increase in expenses was the result of increased operating expenses in the electricity sector and higher insurance costs across the whole PTE sector.

Gross fixed capital formation in the PTE sector is expected to be $144 million lower than budget estimates due to the sale of PowerCoal. The 2002-03 budget was based on the assumption that Powercoal would remain in public ownership and therefore included its capital expenditure in the budget.

Public Trading Enterprise Sector – Trends and Outlook

Table 8.2 presents the PTE sector operating statement over the three-year period ending 2002-03 on an underlying basis. Table 8.8 provides estimates for the four years from the Budget year and over the forward estimates to 2006-07.

Table 8.2: Public Trading Enterprise Sector Operating Statement (underlying basis)

		Actual 1999-2000 $m	Actual 2000-01 $m	Actual 2001-02 $m	Revised 2002-03 $m
	Revenue				
	Sales of goods and services	8,902	9,238	9,336	9,177
	Current grants and subsidies	922	1,063	1,072	1,392
	Capital grants	602	771	925	687
	Interest income	97	99	78	79
	Other	1,171	922	875	820
	Total Revenue	**11,694**	**12,093**	**12,286**	**12,155**
less	**Expenses**				
	Employee Expenses	2,888	3,360	3,005	2,971
	Depreciation	1,389	1,514	1,563	1,601
	Other Operating Expenses	4,880	4,428	4,676	5,183
	Interest expenses	692	825	813	857
	Other property expenses	1,215	981	1,214	1,151
	Current transfers	70	73	78	97
	Capital transfers	63	56	92	2
	Total Expenses	**11,197**	**11,237**	**11,441**	**11,862**
equals	**Net Operating Balance**	**497**	**856**	**845**	**293**
less	**Net Acquisition of Non-financial Assets**				
	Purchase of non-financial assets	2,716	2,509	2,989	3,269
	Sales of non-financial assets	(391)	(282)	(358)	(302)
	less Depreciation	(1,389)	(1,499)	(1,563)	(1,601)
	plus Change in inventories	(8)	141	58	40
	plus Other movements in non-financial assets	100	239	170	118
	equals Total Net Acquisition of Non-financial Assets	**1,028**	**1,108**	**1,296**	**1,524**
equals	**Net Lending / (Borrowing)**	**(531)**	**(252)**	**(451)**	**(1,231)**

Net Operating Balance – Trends and Outlook

Chart 8.3 illustrates the trend in the net operating balance of the PTE sector from 1999-2000 to 2006-07. Aggregate PTE sector revenues exceed expenses resulting in a positive net operating balance for every year. Net operating surpluses for 2003-04 and over the forward estimates period indicate that current PTE activities are financially sustainable at the aggregate level.

The fall in the PTE sector's net operating surplus in 2002-03 reflects the conservative bias discussed earlier in this chapter, as well as changes in both revenues and expenditures. Revenues fell by $170 million due to a reduction in capital grants mainly to the housing and amenities sector. Expenses, however, increased by $411 million due to an increase in operating expenses of the electricity distributors and the sale of PowerCoal. The electricity generators' purchases of coal from PowerCoal were previously eliminated on consolidation but are now recorded as an expense to the private sector.

Chart 8.3: PTE Sector Net Operating Balance

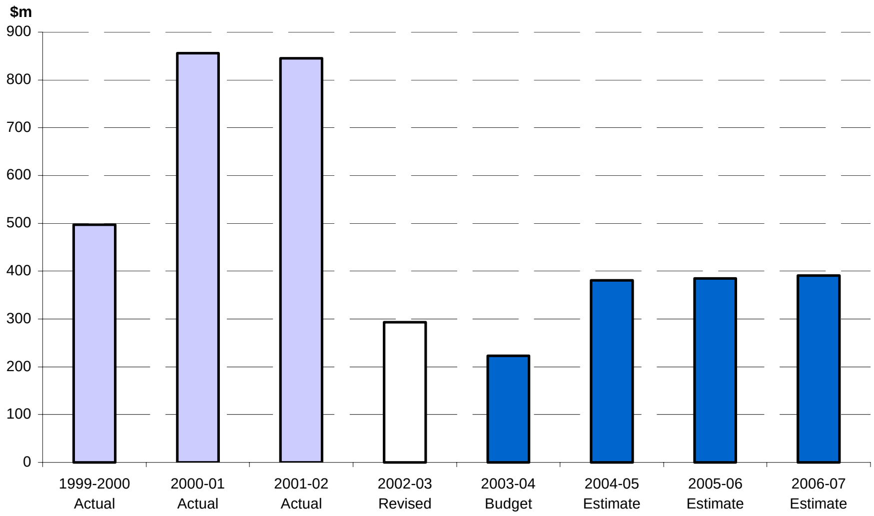


Table 8.3 shows PTE sector revenues in 2003-04 are expected to be $623 million higher than the previous year, reflecting increases in sales of goods and services by electricity distributors and 'other' PTEs .

The increase in both revenues and expenses during 2003-04 is projected to reduce the net operating surplus by $70 million on the previous year to $223 million. An increase in sales in electricity distribution is typically associated with an increase in expenses. The fall in the net operating balance in 2003-04 is due primarily to an increase in maintenance in the transport sector.

Table 8.3: Changes to PTE Sector Net Operating Balance

	Revised 2002-03 $m	*Budget 2003-04 $m*	*Variation $m*
Revenue			
Sales of goods and services	9,177	9,821	+ 644
Current grants and subsidies	1,392	1,467	+ 75
Capital grants	687	634	(-) 53
Interest income	79	52	(-) 27
Other	820	804	(-) 16
Total Revenue	**12,155**	**12,778**	**+ 623**
Expenses			
Gross Operating Expenses	9,755	10,110	+ 355
Employee Expenses	2,971	3,017	+ 46
Depreciation	1,601	1,660	+ 59
Other Operating Expenses	5,183	5,433	+ 250
Other interest expenses	857	900	+ 43
Other property expenses	1,151	1,416	+ 265
Current transfers	97	129	+ 32
Capital transfers	2	...	(-) 2
Total Expenses	**11,862**	**12,555**	**+ 693**
Net Operating Balance	**293**	**223**	**(-) 70**
Net Acquisition of Non-financial Assets			
Purchase of non-financial assets	3,269	3,640	+ 371
Sales of non-financial assets	(302)	(276)	+ 26
less Depreciation	(1,601)	(1,660)	(-) 59
plus Change in inventories	40	13	(-) 27
plus Other movements in non-financial assets	118	118	...
equals Total Net Acquisition of Non-financial Assets	**1,524**	**1,835**	**+ 311**
Net Lending / (Borrowing)	**(1,231)**	**(1,612)**	**(-) 381**

However, as shown in Table 8.4, PTE sector revenues are expected to grow faster than expenses in 2004-05, increasing the net operating surplus to $381 million.

Table 8.4: Percentage Growth in PTE Sector Revenues and Expenses

	4 years to 2002-03 Average	*2003-04 Budget*	*2004-05 Estimate*	*2005-06 Estimate*	*2006-07 Estimate*
Revenue	2.6	5.1	3.8	4.7	4.2
Expenses	2.4	5.8	2.6	4.8	4.2
Gross State Product (nominal)	5.5	5.5	5.9	5.9	5.9

Table 8.8 reveals that projected PTE sector revenue growth comes from higher sales. Over the four years to 2006-07, PTE sector sales of goods and services are anticipated to increase by $2.2 billion, with the bulk of the growth attributed to electricity distributors.

Net Lending – Trends and Outlook

The net lending/borrowing result includes net capital expenditure, but not the use of capital (i.e. depreciation). It measures the call the sector makes on capital markets and measures the PTE sector's impact on national savings on a National Accounts basis.

As shown in Table 8.8, a net borrowing requirement of $1,612 million is projected in 2003-04. Net borrowing requirements are also projected for each of the three years to 2006-07. The net borrowing requirement will peak at $1,927 million in 2005-06 and fall to $1,573 million the following year. These projections reflect the strong capital investment outweighing the expected net operating surpluses.

Cash Flow Position – Trends and Outlook

Given that the primary goal for PTEs is to increase shareholder value through the commercial delivery of services to the public, the aggregate PTE sector may over time experience both surplus and deficit cash positions depending on investment cycles and the strength of the economy.

Although the cash flow statement is a useful tool for cash management purposes, there is no clear basis for judging the PTE sector's overall performance based on the aggregate cash outcome measure. Unlike the general government sector there is no economic rationale for targeting a consistent cash surplus for the aggregate PTE sector during the positive phase of the business cycle. Indeed, it is not necessarily true that a positive aggregate cash result in any particular year is a mark of success.

Table 8.14 shows that, over the five year period ending 2006-07, PTE sector cash flow deficits will peak at $1,544 million in 2004-05. A smaller cash deficit of $1,245 million is anticipated by 2006-07.

These cash flow projections should be viewed in a longer-term perspective. Over the last forty years, it was only during the 1990s that sustained cash surpluses were recorded by the PTE sector. The establishment of the Commercial Policy Framework has undoubtedly contributed to this turnaround in financial performance.

The Commercial Policy Framework allows PTEs to respond to commercial opportunities, while discouraging unproductive capital expenditure. After eleven consecutive cash flow surpluses commencing 1988-89, it is not surprising to find the PTE sector enter a period of cash flow deficits corresponding to increased capital investment. In comparison to the very large cash deficits incurred during the early 1980s, the recent short term reduction in the PTE cash flow result is modest.

NON-FINANCIAL PUBLIC SECTOR PERFORMANCE

The non-financial public sector (NFP) is a consolidation of the general government and PTE sectors.

Table 8.5: Net Operating Balance by Sector

Sector	*2002-03 Revised $m*	*2003-04 Budget $m*	*2004-05 Estimate $m*	*2005-06 Estimate $m*	*2006-07 Estimate $m*
General Government	1,425	1,024	1,127	1,810	1,846
PTE	293	223	381	385	391
NFP[(a)]	1,709	1,247	1,508	2,195	2,237

(a) Totals may not add due to inter-sector transactions between the general government and PTE sectors.

The NFP net operating balance excludes the dividends and income tax equivalent transactions between the PTE and general government sectors. The net operating surplus for the NFP sector is expected to decline in 2003-04, primarily due to slower growth in taxation revenue for the general government sector. The surplus is projected to rise thereafter.

Net Lending Result – Results and Outlook

The 2002-03 net borrowing requirement for the NFP sector is expected to be $1,040 million. In 2003-04 NFP net borrowing will increase by $527 million as the general government surplus diminishes and PTE borrowing increases to fund commercial investment.

Although the PTE sector's net borrowing requirement is expected to increase through to 2005-06 in line with increased capital investment, the NFP's net borrowing requirement will fall after next year as the general government sector moves toward a $932 million surplus in 2006-07.

Table 8.6: Net Lending Result by Sector [(a)]

Sector	*2002-03 Revised $m*	*2003-04 Budget $m*	*2004-05 Estimate $m*	*2005-06 Estimate $m*	*2006-07 Estimate $m*
General Government	199	43	303	821	932
PTE	(1,231)	(1,612)	(1,797)	(1,927)	(1,573)
NFP[(b)]	(1,040)	(1,567)	(1,492)	(1,104)	(638)

(a) A positive number denotes a net lending surplus.

(b) Totals may not add due to inter-sector transactions between the general government and PTE sectors.

8.5 ACCRUAL UNIFORM PRESENTATION FRAMEWORK TABLES

In accordance with the revised uniform presentation framework agreed by the Australian Loan Council in March 2000 and subsequent meetings, Tables 8.7 through to 8.16 of this Section provide estimates on a comparable basis to those which the ABS will be publishing.

Table 8.7: NSW General Government Sector Operating Statement (ABS Basis)

		Actual 1999-2000 $m	*Actual 2000-01 $m*	*Actual 2001-02 $m*	*Revised 2002-03 $m*	*Budget 2003-04 $m*	*Forward Estimates 2004-05 $m*	*2005-06 $m*	*2006-07 $m*
	GFS Revenue								
	Taxation revenue[(a)]	15,191	13,343	13,216	13,919	14,199	14,892	15,752	16,673
	Current grants and subsidies[(a)]	10,098	13,741	15,873	16,266	16,557	16,891	17,735	18,175
	Capital grants	889	866	891	911	917	862	797	608
	Sales of goods and services	2,792	2,659	2,699	2,762	2,909	3,011	3,078	3,105
	Interest income	476	471	282	354	637	747	877	1,011
	Other	2,456	2,591	2,479	2,775	2,651	2,568	2,821	2,948
	Total Revenue	**31,902**	**33,671**	**35,440**	**36,987**	**37,870**	**38,971**	**41,060**	**42,520**
less	**GFS Expenses**								
	Employee expenses	12,810	13,236	13,847	14,964	15,941	16,699	17,460	18,324
	Depreciation	1,472	1,402	1,638	1,717	1,791	1,828	1,854	1,903
	Other operating expenses	8,304	8,801	9,696	9,918	9,862	9,978	10,347	10,729
	Nominal superannuation interest expense	479	438	564	756	903	995	1,090	1,193
	Other interest expenses	1,343	1,016	868	777	796	764	760	712
	Other property expenses	...	...	...	...	...	...	...	...
	Current transfers	4,488	4,955	5,474	6,016	6,338	6,183	6,342	6,502
	Capital transfers	993	2,287	1,864	1,414	1,215	1,397	1,397	1,311
	Total Expenses	**29,889**	**32,135**	**33,951**	**35,562**	**36,846**	**37,844**	**39,250**	**40,674**
equals	**GFS Net Operating Balance**	**2,013**	**1,536**	**1,489**	**1,425**	**1,024**	**1,127**	**1,810**	**1,846**

Table 8.7: NSW General Government Sector Operating Statement (ABS Basis) (cont)

		Actual 1999-2000 $m	Actual 2000-01 $m	Actual 2001-02 $m	Revised 2002-03 $m	Budget 2003-04 $m	Forward Estimates 2004-05 $m	2005-06 $m	2006-07 $m
less	**Net Acquisition of Non-financial Assets**								
	Purchases of non-financial assets	2,450	2,569	2,745	3,046	3,152	3,089	3,217	3,161
	less Sales of non-financial assets	(626)	(344)	(424)	(486)	(684)	(566)	(473)	(442)
	less Depreciation	(1,472)	(1,402)	(1,638)	(1,717)	(1,791)	(1,828)	(1,854)	(1,903)
	plus Change in inventories	(3)	11	...	...	2	(1)	...	(1)
	plus Other movements in non-financial assets	296	92	385	383	302	130	99	99
	equals Total Net Acquisition of Non-financial Assets	**645**	**926**	**1,068**	**1,226**	**981**	**824**	**989**	**914**
equals	**GFS Net Lending / (Borrowing)**	**1,368**	**610**	**421**	**199**	**43**	**303**	**821**	**932**

Note:

(a) Impacted by the introduction of the Goods and Services Tax (GST) and the processing arrangements from 2001-02.

Table 8.8: NSW Public Non-financial Corporation Sector Operating Statement [a] [b] (ABS Basis)

		Actual 1999-2000 $m	Actual 2000-01 $m	Actual 2001-02 $m	Revised 2002-03 $m	Budget 2003-04 $m	Forward Estimates 2004-05 $m	Forward Estimates 2005-06 $m	Forward Estimates 2006-07 $m
	GFS Revenue								
	Sales of goods and services	9,234	11,564	9,347	9,177	9,821	10,262	10,855	11,416
	Current grants and subsidies	1,101	1,071	1,072	1,392	1,467	1,400	1,420	1,436
	Capital grants	602	771	925	687	634	722	714	668
	Interest income	97	142	78	79	52	54	65	70
	Other	1,171	922	875	820	804	827	836	877
	Total Revenue	**12,205**	**14,470**	**12,297**	**12,155**	**12,778**	**13,265**	**13,890**	**14,467**
less	**GFS Expenses**								
	Employee expenses	2,888	3,360	3,005	2,971	3,017	3,034	3,120	3,222
	Depreciation	1,389	1,514	1,563	1,601	1,660	1,773	1,837	1,901
	Other operating expenses	5,391	6,637	4,676	5,183	5,433	5,626	5,814	6,045
	Interest expenses	692	825	813	857	900	959	1,044	1,125
	Other property expenses	1,215	981	1,214	1,151	1,416	1,368	1,557	1,644
	Current transfers	70	73	78	97	129	124	133	139
	Capital transfers	63	56	92	2	...	...	...	...
	Total Expenses	**11,708**	**13,446**	**11,441**	**11,862**	**12,555**	**12,884**	**13,505**	**14,076**
equals	**GFS Net Operating Balance**	**497**	**1,024**	**856**	**293**	**223**	**381**	**385**	**391**

Table 8.8: NSW Public Non-financial Corporation Sector Operating Statement [(a)] [(b)] (ABS Basis) (cont)

	Actual 1999-2000 $m	Actual 2000-01 $m	Actual 2001-02 $m	Revised 2002-03 $m	Budget 2003-04 $m	Forward Estimates 2004-05 $m	Forward Estimates 2005-06 $m	Forward Estimates 2006-07 $m
less Net Acquisition of Non-financial Assets								
Purchases of non-financial assets	2,729	2,510	2,989	3,269	3,640	3,974	4,002	3,835
less Sales of non-financial assets	(391)	(282)	(358)	(302)	(276)	(132)	(190)	(103)
less Depreciation	(1,389)	(1,514)	(1,563)	(1,601)	(1,660)	(1,773)	(1,837)	(1,901)
plus Change in inventories	252	(651)	58	40	13	5	230	24
plus Other movements in non-financial assets	101	239	170	118	118	104	107	109
equals Total Net Acquisition of Non-financial Assets	**1,302**	**302**	**1,296**	**1,524**	**1,835**	**2,178**	**2,312**	**1,964**
equals GFS Net Lending / (Borrowing)	**(805)**	**722**	**(440)**	**(1,231)**	**(1,612)**	**(1,797)**	**(1,927)**	**(1,573)**

Notes:

(a) The public non-financial corporation (PNFC) sector is also referred to in these budget papers as the public trading enterprise (PTE) sector.

(b) Refer to commentary earlier in this chapter on the impact of the 2000 Olympic and Paralympic Games on the results.

GFS Net Lending / (Borrowing)	***(805)***	***722***	***(440)***	***(1,231)***	***(1,612)***	***(1,797)***	***(1,927)***	***(1,573)***
adjustment to exclude SOCOG and SPOC	*274*	*(974)*	*(11)*	*...*	*...*	*...*	*...*	*...*
Underlying Net Lending/ (Borrowing) [(b)]	***(531)***	***(252)***	***(451)***	***(1,231)***	***(1,612)***	***(1,797)***	***(1,927)***	***(1,573)***

Table 8.9: NSW Non-financial Public Sector Operating Statement (ABS Basis) [(a)]

		Actual 1999-2000 $m	Actual 2000-01 $m	Actual 2001-02 $m	Revised 2002-03 $m	Budget 2003-04 $m	Forward Estimates 2004-05 $m	Forward Estimates 2005-06 $m	Forward Estimates 2006-07 $m
	GFS Revenue								
	Taxation revenue[(b)]	14,547	12,656	12,597	13,296	13,545	14,218	15,051	15,950
	Current grants and subsidies[(b)]	10,122	13,769	15,852	16,234	16,523	16,867	17,711	18,151
	Sales of goods and services	11,900	14,007	11,933	11,823	12,562	13,102	13,758	14,341
	Capital grants	833	805	886	911	917	862	797	608
	Interest income	507	549	306	381	638	752	893	1,034
	Other	2,371	2,298	2,097	2,423	1,950	1,990	2,098	2,203
	Total Revenue	**40,280**	**44,084**	**43,671**	**45,068**	**46,135**	**47,791**	**50,308**	**52,287**
less	**GFS Expenses**								
	Employee expenses	15,695	16,593	16,863	17,940	18,883	19,724	20,571	21,537
	Depreciation	2,860	2,916	3,201	3,317	3,451	3,601	3,691	3,803
	Other operating expenses	12,903	14,525	13,634	14,359	14,471	14,757	15,285	15,872
	Nominal superannuation interest expense	479	438	564	756	903	995	1,090	1,193
	Other interest expenses	1,971	1,778	1,627	1,581	1,646	1,674	1,755	1,789
	Other property expenses	...	...	...	...	...	...	...	...
	Current transfers	3,607	3,919	4,466	4,713	4,987	4,893	5,054	5,208
	Capital transfers	243	1,559	962	693	547	639	667	648
	Total Expenses	**37,758**	**41,728**	**41,317**	**43,359**	**44,888**	**46,283**	**48,113**	**50,050**
equals	**GFS Net Operating Balance**	**2,522**	**2,356**	**2,354**	**1,709**	**1,247**	**1,508**	**2,195**	**2,237**

Table 8.9: NSW Non-financial Public Sector Operating Statement (ABS Basis) (cont) [(a)]

			Actual 1999-2000 $m	Actual 2000-01 $m	Actual 2001-02 $m	Revised 2002-03 $m	Budget 2003-04 $m	Forward Estimates 2004-05 $m	Forward Estimates 2005-06 $m	Forward Estimates 2006-07 $m
less	**Net Acquisition of Non-financial Assets**									
	Purchases of non-financial assets		5,176	5,075	5,729	6,314	6,791	7,062	7,218	6,995
	less	Sales of non-financial assets	(1,011)	(626)	(781)	(788)	(960)	(698)	(662)	(545)
	less	Depreciation	(2,860)	(2,916)	(3,201)	(3,317)	(3,451)	(3,601)	(3,691)	(3,803)
	plus	Change in inventories	249	(641)	58	39	15	4	230	22
	plus	Other movements in non-financial assets	397	331	554	501	419	233	204	206
	equals	**Total Net Acquisition of Non-financial Assets**	**1,951**	**1,223**	**2,359**	**2,749**	**2,814**	**3,000**	**3,299**	**2,875**
equals	**GFS Net Lending / (Borrowing)**		**571**	**1,133**	**(5)**	**(1,040)**	**(1,567)**	**(1,492)**	**(1,104)**	**(638)**

Notes:

(a) Refer to commentary earlier in this chapter on the impact of the 2000 Olympic and Paralympic Games on the results.

(b) Impacted by the introduction of the Goods and Services Tax (GST) and the processing arrangements from 2000-01.

GFS Net Lending / (Borrowing)	***571***	***1,133***	***(5)***	***(1,040)***	***(1,567)***	***(1,492)***	***(1,104)***	***(638)***
adjustment to exclude SOCOG and SPOC	*273*	*(975)*	*(12)*	*...*	*...*	*...*	*...*	*...*
Underlying Net Lending/ (Borrowing) [(a)]	***844***	***158***	***(17)***	***(1,040)***	***(1,567)***	***(1,492)***	***(1,104)***	***(638)***

Table 8.10: NSW General Government Sector Balance Sheet (ABS Basis)

	Actual June 2000 $m	Actual June 2001 $m	Actual June 2002 $m	Revised June 2003 $m	Budget June 2004 $m	Forward Estimates June 2005 $m	Forward Estimates June 2006 $m	Forward Estimates June 2007 $m
Assets								
Financial assets								
Cash and deposits	481	1,096	1,719	1,104	866	887	662	568
Advances paid	1,696	1,442	1,521	1,506	1,438	1,391	1,369	1,364
Investments, loans and placements	3,859	3,950	4,409	7,114	8,410	10,091	12,485	15,283
Other non-equity assets	4,507	4,837	5,155	5,236	5,617	5,683	5,965	6,125
Equity	46,596	47,501	48,337	50,502	51,429	52,855	58,620	59,467
Total Financial Assets	**57,139**	**58,826**	**61,141**	**65,462**	**67,760**	**70,907**	**79,101**	**82,807**
Non-financial assets								
Land and fixed assets	64,710	66,306	73,916	75,229	76,321	77,233	78,296	79,289
Other non-financial assets	754	847	952	1,021	1,122	1,226	1,346	1,485
Total Non-financial Assets	**65,464**	**67,153**	**74,868**	**76,250**	**77,443**	**78,459**	**79,642**	**80,774**
Total Assets	**122,603**	**125,979**	**136,009**	**141,712**	**145,203**	**149,366**	**158,743**	**163,581**

Table 8.10: NSW General Government Sector Balance Sheet (ABS Basis) (cont)

	Actual June 2000 $m	*Actual June 2001 $m*	*Actual June 2002 $m*	*Revised June 2003 $m*	*Budget June 2004 $m*	*Forward Estimates June 2005 $m*	*Forward Estimates June 2006 $m*	*Forward Estimates June 2007 $m*
Liabilities								
Deposits held	89	61	64	69	67	67	67	67
Advances received	2,142	2,041	1,826	1,788	1,694	1,652	1,510	1,437
Borrowing	15,441	12,026	10,815	10,219	10,192	10,113	9,733	9,590
Superannuation liability [(a)]	5,686	8,127	11,398	14,832	16,481	18,221	20,053	21,993
Other employee entitlements and provisions	8,205	9,168	9,965	10,649	10,980	11,384	11,883	12,437
Other non-equity liabilities	3,203	3,055	3,511	3,732	3,402	3,165	3,167	3,203
Total Liabilities	**34,766**	**34,478**	**37,579**	**41,289**	**42,816**	**44,602**	**46,413**	**48,727**
NET WORTH	**87,837**	**91,501**	**98,430**	**100,423**	**102,387**	**104,764**	**112,330**	**114,854**
Net Financial Worth [(b)]	**22,373**	**24,348**	**23,562**	**24,173**	**24,944**	**26,305**	**32,688**	**34,080**
Net Debt [(c)]	**11,636**	**7,640**	**5,056**	**2,352**	**1,239**	**(537)**	**(3,206)**	**(6,121)**

Notes:

(a) Comprises net unfunded obligations.

(b) Net financial worth equals total financial assets minus total liabilities.

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

(d) Adjusted for prepaid superannuation in the years 1999-2000 to 2001-02, and Crown deposits to the Liability Management Fund and fund earnings in the years 2002-03 to 2006-07 inclusive.

GFS Net Debt [(c)]	***11,636***	***7,640***	***5,056***	***2,352***	***1,239***	***(537)***	***(3,206)***	***(6,121)***
Impact of prepayment of superannuation	*(2,251)*	*(1,179)*	*...*	*...*	*...*	*...*	*...*	*...*
Impact of deposits to the Liability Management Fund	*...*	*...*	*...*	*1,651*	*2,498*	*4,127*	*6,115*	*8,479*
Underlying Net Debt [(c) (d)]	***9,385***	***6,461***	***5,056***	***4,003***	***3,737***	***3,590***	***2,909***	***2,358***

Table 8.11: NSW Public Non-financial Corporation Sector Balance Sheet [(a)] (ABS Basis)

	Actual June 2000 $m	*Actual June 2001 $m*	*Actual June 2002 $m*	*Revised June 2003 $m*	*Budget June 2004 $m*	*Forward Estimates June 2005 $m*	*June 2006 $m*	*June 2007 $m*
Assets								
Financial assets								
Cash and deposits	1,324	960	1,289	925	848	698	796	873
Investments, loans and placements	875	920	900	620	597	618	619	727
Other non-equity assets	2,701	2,349	2,357	2,041	2,173	2,321	2,410	2,450
Equity	63	139	77	44	54	72	96	101
Total Financial Assets	**4,963**	**4,368**	**4,623**	**3,630**	**3,672**	**3,709**	**3,921**	**4,151**
Non-financial assets								
Land and fixed assets	58,883	61,720	62,617	66,778	69,525	72,743	80,613	83,060
Other non-financial assets	295	304	245	279	308	360	292	300
Total Non-financial Assets	**59,178**	**62,024**	**62,862**	**67,057**	**69,833**	**73,103**	**80,905**	**83,360**
Total Assets	**64,141**	**66,392**	**67,485**	**70,687**	**73,505**	**76,812**	**84,826**	**87,511**

Table 8.11: NSW Public Non-financial Corporation Sector Balance Sheet [a] (ABS Basis) (cont)

	Actual June 2000 $m	Actual June 2001 $m	Actual June 2002 $m	Revised June 2003 $m	Budget June 2004 $m	Forward Estimates June 2005 $m	Forward Estimates June 2006 $m	Forward Estimates June 2007 $m
Liabilities								
Deposits held	40	49	85	87	95	104	111	116
Advances received	1,379	1,155	1,153	1,085	1,056	1,033	1,004	978
Borrowing	8,453	11,508	11,721	12,420	13,799	15,253	16,853	18,354
Superannuation liability/ (prepaid contributions) [b]	(402)	(150)	325	875	988	1,098	1,211	1,324
Other employee entitlements and provisions	3,843	3,814	4,139	4,075	4,457	4,612	5,004	5,265
Other non-equity liabilities	3,659	2,197	1,944	1,878	1,926	2,110	2,281	2,269
Total Liabilities	**16,972**	**18,573**	**19,367**	**20,420**	**22,321**	**24,210**	**26,464**	**28,306**
Shares and other contributed capital [c][d]	47,169	47,819	48,118	50,267	51,184	52,602	58,362	59,205
NET WORTH [c][d]	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**...**
Net Financial Worth [d][e]	**(59,178)**	**(62,024)**	**(62,862)**	**(67,057)**	**(69,833)**	**(73,103)**	**(80,905)**	**(83,360)**
Net Debt [f]	**7,673**	**10,832**	**10,770**	**12,047**	**13,505**	**15,074**	**16,553**	**17,848**

Notes:

(a) The public non-financial corporation (PNFC) sector is also referred to in these budget papers as the public trading enterprise (PTE) sector.
(b) Comprises net unfunded obligations.
(c) For entities whose equity is not traded on the market, the GFS net worth is zero as the equity (shares and other contributed capital) is recorded as an asset in the general government balance sheet.
(d) The Australian Bureau of Statistics treats 'shares and other contributed capital' as a liability to the general government sector and deducts it to calculate a zero GFS net worth and negative net financial worth. However, these shares and other contributed capital reflect the value of the government's cumulative equity and earnings over time for the PTE sector. The PTE sector equity has grown since 2000 from $47.2 billion to a projected $59.2 billion in 2007 reflecting an increase in the value of the Government's investment. This improvement is reflected in the equity investment line in the GFS general government sector balance sheet.
(e) Net financial worth equals total financial assets minus total liabilities, and minus shares and other contributed capital.
(f) Net debt equals the sum of deposits held, advances received and borrowing, minus the sum of cash and deposits, advances paid, and investments, loans and placements.

Table 8.12: NSW Non-financial Public Sector Balance Sheet (ABS Basis)

	Actual June 2000 $m	*Actual June 2001 $m*	*Actual June 2002 $m*	*Revised June 2003 $m*	*Budget June 2004 $m*	*Forward Estimates June 2005 $m*	*Forward Estimates June 2006 $m*	*Forward Estimates June 2007 $m*
Assets								
Financial assets								
Cash and deposits	1,805	2,056	3,008	2,028	1,714	1,585	1,458	1,441
Advances paid	315	286	368	422	382	359	366	386
Investments, loans and placements	4,726	4,870	5,309	7,734	9,007	10,709	13,104	16,009
Other non-equity assets	4,560	4,708	4,650	4,239	4,386	4,511	4,578	4,601
Equity	(510)	(179)	296	278	300	325	354	363
Total Financial Assets	**10,896**	**11,741**	**13,631**	**14,701**	**15,789**	**17,489**	**19,860**	**22,800**
Non-financial assets								
Land and fixed assets	123,593	128,026	136,532	142,007	145,846	149,976	158,908	162,349
Other non-financial assets	1,053	1,151	1,198	1,299	1,427	1,584	1,637	1,783
Total Non-financial Assets	**124,646**	**129,177**	**137,730**	**143,306**	**147,273**	**151,560**	**160,545**	**164,132**
Total Assets	**135,542**	**140,918**	**151,361**	**158,007**	**163,062**	**169,049**	**180,405**	**186,932**

Table 8.12: NSW Non-financial Public Sector Balance Sheet (ABS Basis) (cont)

						Forward Estimates		
	Actual June 2000 $m	*Actual June 2001 $m*	*Actual June 2002 $m*	*Revised June 2003 $m*	*Budget June 2004 $m*	*June 2005 $m*	*June 2006 $m*	*June 2007 $m*
Liabilities								
Deposits held	121	110	149	155	162	171	179	183
Advances received	2,142	2,041	1,826	1,788	1,694	1,653	1,510	1,437
Borrowing	23,884	23,533	22,536	22,640	23,991	25,366	26,586	27,943
Superannuation liability [(a)]	5,284	7,978	11,723	15,706	17,469	19,319	21,264	23,317
Other employee entitlements and provisions	10,078	11,165	11,997	12,511	12,850	13,323	13,907	14,542
Other non-equity liabilities	6,196	4,590	4,700	4,784	4,509	4,453	4,629	4,656
Total Liabilities	**47,705**	**49,417**	**52,931**	**57,584**	**60,675**	**64,285**	**68,075**	**72,078**
Shares and other contributed capital	...	...	...	...	...	...	...	...
NET WORTH	**87,837**	**91,501**	**98,430**	**100,423**	**102,387**	**104,764**	**112,330**	**114,854**
Net Financial Worth [(b)]	**(36,809)**	**(37,676)**	**(39,300)**	**(42,883)**	**(44,886)**	**(46,796)**	**(48,215)**	**(49,278)**
Net Debt [(c)]	**19,301**	**18,472**	**15,826**	**14,399**	**14,744**	**14,537**	**13,347**	**11,727**

Notes:

(a) Comprises net unfunded obligations.
(b) Net financial worth equals total financial assets minus total liabilities.
(c) Net debt equals the sum of deposits held, advances received and borrowing, minus the sum of cash and deposits, advances paid, and investments, loans and placements.
(d) Adjusted for prepaid superannuation in the years 1999-2000 to 2001-02, and Crown deposits to the Liability Management Fund and fund earnings in the years 2002-03 to 2006-07 inclusive.

GFS Net Debt [(c)]	***19,301***	***18,472***	***15,826***	***14,399***	***14,744***	***14,537***	***13,347***	***11,727***
Impact of prepayment of superannuation	*(2,251)*	*(1,179)*	...	...	...	...	...	...
Impact of deposits to the Liability Management Fund	...	...	...	*1,651*	*2,498*	*4,127*	*6,115*	*8,479*
Underlying Net Debt [(c) (d)]	***17,050***	***17,293***	***15,826***	***16,050***	***17,242***	***18,664***	***19,462***	***20,206***

Table 8.13: NSW General Government Sector Cash Flow Statement[a] (ABS Basis)

	Actual 1999-2000 $m	Actual 2000-01 $m	Actual 2001-02 $m	Revised 2002-03 $m	Budget 2003-04 $m	Forward Estimates 2004-05 $m	Forward Estimates 2005-06 $m	Forward Estimates 2006-07 $m
Cash Receipts from Operating Activities								
Taxes received[b]	15,193	13,170	13,341	13,860	14,183	14,885	15,755	16,677
Receipts from sales of goods and services	2,845	2,507	2,637	2,792	2,875	3,003	3,069	3,099
Grants/subsidies received[b]	10,978	14,608	16,762	17,388	17,264	17,752	18,532	18,783
Other receipts	2,824	4,026	3,663	3,977	4,181	4,509	4,662	5,050
Total Receipts	**31,840**	**34,311**	**36,403**	**38,017**	**38,503**	**40,149**	**42,018**	**43,609**
Cash Payments for Operating Activities								
Payment for goods and services	(20,978)	(21,278)	(21,798)	(23,723)	(24,918)	(26,014)	(26,877)	(28,101)
Grants and subsidies paid	(5,273)	(6,013)	(6,808)	(7,020)	(7,161)	(7,180)	(7,299)	(7,322)
Interest paid	(1,284)	(1,067)	(848)	(797)	(873)	(731)	(926)	(692)
Other payments	(319)	(1,647)	(1,878)	(1,685)	(1,811)	(1,730)	(1,756)	(1,797)
Total Payments	**(27,854)**	**(30,005)**	**(31,332)**	**(33,225)**	**(34,763)**	**(35,655)**	**(36,858)**	**(37,912)**
Net Cash Flows from Operating Activities	**3,986**	**4,306**	**5,071**	**4,792**	**3,740**	**4,494**	**5,160**	**5,697**
Net Cash Flows from Investments in Non-financial Assets								
Sales of non-financial assets	627	344	424	486	684	566	473	442
Purchases of non-financial assets	(2,450)	(2,569)	(2,745)	(3,046)	(3,152)	(3,089)	(3,217)	(3,161)
Net Cash Flows from Investments in Non-financial Assets	**(1,823)**	**(2,225)**	**(2,321)**	**(2,560)**	**(2,468)**	**(2,523)**	**(2,744)**	**(2,719)**
Net Cash Flows from Investments in Financial Assets for Policy Purposes	**(42)**	**3,228**	**756**	**854**	**188**	**44**	**228**	**54**

Table 8.13: NSW General Government Sector Cash Flow Statement[a] (ABS Basis) (cont)

	Actual 1999-2000 $m	Actual 2000-01 $m	Actual 2001-02 $m	Revised 2002-03 $m	Budget 2003-04 $m	Forward Estimates 2004-05 $m	2005-06 $m	2006-07 $m
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	**(257)**	**(354)**	**(575)**	**(2,703)**	**(1,299)**	**(1,683)**	**(2,394)**	**(2,796)**
Net Cash Flows from Financing Activities								
Advances received (net)	(133)	(85)	(220)	(38)	(95)	(41)	(142)	(73)
Borrowing (net)	(2,279)	(4,480)	(2,122)	(940)	(305)	(268)	(331)	(256)
Deposits received (net)	28	(25)	(5)	2	(1)	(1)	(1)	(1)
Other financing (net)	(2)	...	...	1	...	...	...	...
Net Cash Flows from Financing Activities	**(2,386)**	**(4,590)**	**(2,347)**	**(975)**	**(401)**	**(310)**	**(474)**	**(330)**
Net Increase / (Decrease) in Cash Held	**(522)**	**365**	**584**	**(592)**	**(240)**	**22**	**(224)**	**(94)**
SURPLUS / (DEFICIT)								
Net Cash from Operating Activities and Investments in Non-financial Assets	**2,163**	**2,081**	**2,750**	**2,232**	**1,272**	**1,971**	**2,416**	**2,978**
Finance leases and similar arrangements	(284)	(290)	(351)	(347)	(347)	(173)	(125)	(125)
SURPLUS / (DEFICIT)	**1,879**	**1,791**	**2,399**	**1,885**	**925**	**1,798**	**2,291**	**2,853**

Notes:

(a) *A positive number denotes a cash inflow, a negative (i.e. bracketed) sign denotes a cash outflow.*
(b) *Impacted by the introduction in 2000-01 of the Goods and Services Tax (GST) and the processing arrangements.*
(c) *Deposits by the Crown to the Liability Management Fund and the fund's earnings have been set aside to meet future superannuation contributions.*

GFS SURPLUS / (DEFICIT)	***1,879***	***1,791***	***2,399***	***1,885***	***925***	***1,798***	***2,291***	***2,853***
Impact of prepayment of superannuation	*(1,005)*	*(1,058)*	*(1,134)*	*...*	*...*	*...*	*...*	*...*
Impact of deposits to the Liability Management Fund [c]	*...*	*...*	*...*	*(1,651)*	*(847)*	*(1,629)*	*(1,988)*	*(2,364)*
UNDERLYING SURPLUS / (DEFICIT) (after adjusting for the timing of superannuation contributions)	***874***	***733***	***1,265***	***234***	***78***	***169***	***303***	***489***

Table 8.14: NSW Public Non-financial Corporation Sector Cash Flow Statement[(a) (b) (c)] (ABS Basis)

	Actual 1999-2000 $m	*Actual 2000-01 $m*	*Actual 2001-02 $m*	*Revised 2002-03 $m*	*Budget 2003-04 $m*	*Forward Estimates 2004-05 $m*	*Forward Estimates 2005-06 $m*	*Forward Estimates 2006-07 $m*
Cash Receipts from Operating Activities								
Receipts from sales of goods and services	9,591	10,756	9,427	9,587	10,023	10,639	11,304	11,892
Grants/subsidies received	1,866	1,957	2,022	2,095	2,123	2,137	2,149	2,119
Other receipts	1,260	1,934	1,961	1,930	1,949	2,060	2,144	2,232
Total Receipts	**12,717**	**14,647**	**13,410**	**13,612**	**14,095**	**14,836**	**15,597**	**16,243**
Cash Payments for Operating Activities								
Payment for goods and services	(8,352)	(9,365)	(7,622)	(8,290)	(8,685)	(8,878)	(9,064)	(9,552)
Grants and subsidies paid	(70)	(144)	8	(106)	(126)	(121)	(130)	(136)
Interest paid	(711)	(722)	(820)	(859)	(889)	(944)	(1,034)	(1,122)
Other payments	(384)	(1,751)	(1,821)	(1,599)	(1,574)	(1,651)	(1,921)	(1,919)
Total Payments	**(9,517)**	**(11,982)**	**(10,255)**	**(10,854)**	**(11,274)**	**(11,594)**	**(12,149)**	**(12,729)**
Net Cash Flows from Operating Activities	**3,200**	**2,665**	**3,155**	**2,758**	**2,821**	**3,242**	**3,448**	**3,514**
Net Cash Flows from Investments in Non-financial Assets								
Sales of non-financial assets	390	282	358	303	276	132	189	103
Purchases of non-financial assets	(2,729)	(2,510)	(2,989)	(3,269)	(3,640)	(3,974)	(4,002)	(3,835)
Net Cash Flows from Investments in Non-financial Assets	**(2,339)**	**(2,228)**	**(2,631)**	**(2,966)**	**(3,364)**	**(3,842)**	**(3,813)**	**(3,732)**
Net Cash Flows from Investments in Financial Assets for Policy Purposes	**(1)**	**(6)**	**579**	**7**	**(27)**	**(18)**	**(23)**	**(9)**
Net Cash Flows from Investments in Assets for Liquidity Purposes	**383**	**(69)**	**49**	**287**	**22**	**(21)**	**(1)**	**(107)**

Table 8.14: NSW Public Non-financial Corporation Sector Cash Flow Statement[(a) (b) (c)] (ABS Basis) (cont)

	Actual 1999-2000 $m	Actual 2000-01 $m	Actual 2001-02 $m	Revised 2002-03 $m	Budget 2003-04 $m	Forward Estimates 2004-05 $m	Forward Estimates 2005-06 $m	Forward Estimates 2006-07 $m
Net Cash Flows from Financing Activities								
Advances received (net)	(22)	(3,230)	(798)	(591)	(165)	(28)	(224)	(69)
Borrowing (net)	(110)	3,253	640	711	1,372	1,367	1,632	1,470
Deposits received (net)	1	10	42	...	8	8	7	4
Distributions paid	(824)	(758)	(671)	(583)	(743)	(944)	(891)	(1,027)
Other financing (net)	(32)	25	(20)	...	1	...	...	...
Net Cash Flows from Financing Activities	**(987)**	**(700)**	**(807)**	**(463)**	**473**	**403**	**524**	**378**
Net Increase / (Decrease) in Cash Held	**256**	**(338)**	**345**	**(377)**	**(75)**	**(236)**	**135**	**44**
SURPLUS / (DEFICIT)								
Net Cash from Operating Activities and Investments in Non-financial Assets	**861**	**437**	**524**	**(208)**	**(543)**	**(600)**	**(365)**	**(218)**
Distribution paid	(824)	(758)	(671)	(583)	(743)	(944)	(891)	(1,027)
Finance leases and similar arrangements	...	...	...	...	...	...	...	...
SURPLUS / (DEFICIT)	**37**	**(321)**	**(147)**	**(791)**	**(1,286)**	**(1,544)**	**(1,256)**	**(1,245)**

Notes:
(a) The public non-financial corporation (PNFC) sector is also referred to in these budget papers as the public trading enterprise (PTE) sector.
(b) A positive number denotes a cash inflow, a negative (i.e. bracketed) sign denotes a cash outflow.
(c) Refer to commentary earlier in this chapter on the impact of the 2000 Olympic and Paralympic Games on the results.

GFS SURPLUS / (DEFICIT)	***37***	***(321)***	***(147)***	***(791)***	***(1,286)***	***(1,544)***	***(1,256)***	***(1,245)***
Reversing the impact of SOCOG and SPOC operations	*(343)*	*340*	*68*	*...*	*...*	*...*	*...*	*...*
UNDERLYING SURPLUS / (DEFICIT) adjusted to exclude SOCOG & SPOC	***(306)***	***19***	***(79)***	***(791)***	***(1,286)***	***(1,544)***	***(1,256)***	***(1,245)***

Table 8.15: NSW Non-financial Public Sector Cash Flow Statement[(a)] [(b)] (ABS Basis)

	Actual 1999-2000 $m	Actual 2000-01 $m	Actual 2001-02 $m	Revised 2002-03 $m	Budget 2003-04 $m	Forward Estimates 2004-05 $m	Forward Estimates 2005-06 $m	Forward Estimates 2006-07 $m
Cash Receipts from Operating Activities								
Taxes received [(c)]	14,543	12,569	12,522	13,256	13,530	14,216	15,055	15,954
Receipts from sales of goods and services	12,300	13,068	12,050	12,339	12,724	13,465	14,195	14,810
Grants/subsidies received [(c)]	11,027	14,602	16,738	17,355	17,230	17,728	18,509	18,759
Other receipts	2,964	4,713	4,710	4,903	5,000	5,228	5,514	5,805
Total Receipts	**40,834**	**44,952**	**46,020**	**47,853**	**48,484**	**50,637**	**53,273**	**55,328**
Cash Payments for Operating Activities								
Payment for goods and services	(28,581)	(29,831)	(28,613)	(31,395)	(32,721)	(34,057)	(35,073)	(36,759)
Grants and subsidies paid	(3,494)	(4,199)	(4,896)	(5,018)	(5,223)	(5,157)	(5,285)	(5,358)
Interest paid	(1,931)	(1,723)	(1,614)	(1,603)	(1,711)	(1,626)	(1,912)	(1,766)
Other payments	(471)	(3,023)	(3,347)	(2,871)	(3,012)	(3,006)	(3,287)	(3,261)
Total Payments	**(34,477)**	**(38,776)**	**(38,470)**	**(40,887)**	**(42,667)**	**(43,846)**	**(45,557)**	**(47,144)**
Net Cash Flows from Operating Activities	**6,357**	**6,176**	**7,550**	**6,966**	**5,817**	**6,791**	**7,716**	**8,184**
Net Cash Flows from Investments in Non-financial Assets								
Sales of non-financial assets	1,011	626	782	789	961	698	662	545
Purchases of non-financial assets	(5,177)	(5,076)	(5,729)	(6,314)	(6,791)	(7,062)	(7,218)	(6,995)
Net Cash Flows from Investments in Non-financial Assets	**(4,166)**	**(4,450)**	**(4,947)**	**(5,525)**	**(5,830)**	**(6,364)**	**(6,556)**	**(6,450)**
Net Cash Flows from Investments in Financial Assets for Policy Purposes	**(88)**	**(7)**	**537**	**306**	**(3)**	**(29)**	**(20)**	**(24)**
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	**126**	**(423)**	**(526)**	**(2,415)**	**(1,276)**	**(1,704)**	**(2,395)**	**(2,903)**

Table 8.15: NSW Non-financial Public Sector Cash Flow Statement[(a) (b)] (ABS Basis) (cont)

	Actual 1999-2000 $m	*Actual 2000-01 $m*	*Actual 2001-02 $m*	*Revised 2002-03 $m*	*Budget 2003-04 $m*	*Forward Estimates 2004-05 $m*	*Forward Estimates 2005-06 $m*	*Forward Estimates 2006-07 $m*
Net Cash Flows from Financing Activities								
Advances received (net)	(110)	(85)	(230)	(51)	(95)	(42)	(142)	(73)
Borrowing (net)	(2,388)	(1,227)	(1,472)	(250)	1,067	1,127	1,301	1,215
Deposits received (net)	29	(14)	38	2	6	7	6	3
Distributions paid	...	...	...	...	...	...	...	...
Other financing (net)	(32)	23	(21)	(1)	...	1	1	...
Net Cash Flows from Financing Activities	**(2,501)**	**(1,303)**	**(1,685)**	**(300)**	**978**	**1,093**	**1,166**	**1,145**
Net Increase / (Decrease) in Cash Held	**(272)**	**(7)**	**929**	**(968)**	**(314)**	**(213)**	**(89)**	**(48)**
SURPLUS / (DEFICIT)								
Net Cash from Operating Activities and Investments in Non-financial Assets	**2,191**	**1,726**	**2,603**	**1,441**	**(13)**	**427**	**1,160**	**1,734**
Distribution paid	...	...	...	...	...	...	...	...
Finance leases and similar arrangements	(284)	(290)	(351)	(347)	(347)	(173)	(125)	(125)
SURPLUS / (DEFICIT)	**1,907**	**1,436**	**2,252**	**1,094**	**(360)**	**254**	**1,035**	**1,609**

Notes:

(a) A positive number denotes a cash inflow, a negative (i.e. bracketed) sign denotes a cash outflow.
(b) Refer to commentary earlier in this chapter on the impact of the 2000 Olympic and Paralympic Games on the results.
(c) Impacted by the introduction in 2000-01 of the Goods and Services Tax (GST) and the processing arrangements.
(d) Deposits by the Crown to the Liability Management Fund and the fund's earnings have been set aside to meet future superannuation contributions.

GFS SURPLUS / (DEFICIT)	***1,907***	***1,436***	***2,252***	***1,094***	***(360)***	***254***	***1,035***	***1,609***
Impact of prepayment of superannuation	*(1,005)*	*(1,058)*	*(1,134)*	*...*	*...*	*...*	*...*	*...*
Impact of deposits to the Liability Management Fund [(d)]	*...*	*...*	*...*	*(1,651)*	*(847)*	*(1,629)*	*(1,988)*	*(2,364)*
Impact of SOCOG and SPOC operations	*(200)*	*389*	*(12)*	*...*	*...*	*...*	*...*	*...*
UNDERLYING SURPLUS / (DEFICIT) (after adjusting for the timing of superannuation contributions and excluding SOCOG and SPOC operations)	***702***	***767***	***1,106***	***(557)***	***(1,207)***	***(1,375)***	***(953)***	***(755)***

Table 8.16: NSW General Government Sector Taxes (ABS Basis)

	Revised 2002-03 $m	*Budget 2003-04 $m*
Taxes on employers' payroll and labour force	**4,128**	**4,389**
Taxes on property		
Land taxes	1,134	1,251
Stamp duties on financial and capital transactions	4,238	4,052
Financial institutions' transaction taxes	3	...
Other	60	57
Total taxes on property	**5,435**	**5,360**
Taxes on the provision of goods and services		
Excises and levies	...	...
Taxes on gambling	1,261	1,309
Taxes on insurance	1,278	1,246
Total taxes on the provision of goods and services	**2,539**	**2,555**
Taxes on use of goods and performance of activities		
Motor vehicle taxes	1,656	1,725
Franchise taxes	8	8
Other	153	162
Total taxes on use of goods and performance of activities	**1,817**	**1,895**
Total GFS Taxation Revenue	**13,919**	**14,199**

8.6 LOAN COUNCIL REPORTING REQUIREMENTS

Table 8.17 presents estimates of the State's Loan Council allocation (LCA) for 2003-04.

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 in a case of private sector default and disclosed as a footnote to, rather than a component, of LCAs.

The 2003-04 estimated NSW Loan Council allocation is a deficit of $1,306 million, compared to an original deficit allocation of $809 million.

Table 8.17: 2003-04 Loan Council Allocation Estimates, NSW

	Loan Council Allocation 2003-04 $m	*Budget-time Estimate 2003-04 $m*
General government sector cash deficit / (surplus)	(1,325)	(925)
Public Non-financial Corporations sector cash deficit / (surplus)	1,121	1,286
Non-financial public sector cash deficit / (surplus) [(a)]	**(204)**	**360**
Minus Net cash flows from investments in financial assets for policy purposes [(b)]	(40)	3
Plus Memorandum items [(c)]	1,053	943
Loan Council Allocation	**809**	**1,306**

Notes:

(a) Does not directly equate to the sum of the general government and PTE cash deficits due to intersectoral transfers which are netted out.

(b) This item is the negative of net advances paid under a cash accounting framework

(c) Memorandum items are used to adjust the ABS deficit to include in LCAs certain transactions, such as operating leases, that have many of the characteristics of public sector borrowings but do not constitute formal borrowings. They are also used, where appropriate, to deduct from the ABS deficit certain transactions that Loan Council has agreed should not be included in LCAs - for example, the funding of more than employers' emerging costs under public sector superannuation schemes, or borrowings by entities such as statutory marketing authorities.

8.7 PRIVATE SECTOR INFRASTRUCTURE PROJECTS

CONTRACTS TO BE ENTERED INTO IN 2002-03

Cross City Tunnel

Project Description:

The Cross City Tunnel will comprise twin two-lane tunnels between the Kings Cross Tunnel and the Western Distributor, with connections to the Eastern Distributor.

Removing most east-west through traffic from the City Centre will improve the local environment, will allow more bus priority (both east-west and north-south), will improve conditions for pedestrians, and will allow lanes to be marked for cyclists.

An Environmental Impact Statement (EIS) was exhibited from 2 August to 6 October 2000. The Minister for Planning approved the project in October 2001.

A Supplementary EIS has been exhibited, incorporating changes suggested by the preferred proponent to improve the tunnel's configuration and enhance traffic flow.

The final cost to design, construct, operate and maintain the tollway project is estimated to be $680 million. The contracts were signed on 18 December 2002 with the Cross City Motorway Consortium *(Baulderstone-Hornibrook Pty Limited / Bilfinger+Berger Bauaktiengesellschaft, Deutsche Bank AG).*

Construction work commenced in January 2003 and is expected to be completed in late 2005. The project will be funded by toll revenues.

Government Contingent Liability	Nil

Western Sydney Orbital Road

Project Description:

The Western Sydney Orbital will be a 39km long road linking the Hume Highway / M5 at Prestons with the M2 at West Baulkham Hills. On completion in 2006, the route will form part of the National Highway system. The expected route will consist of two travel lanes in each direction and a wide central median which will allow for the possible construction of extra traffic lanes or public transport facilities in the future.

The EIS was placed on display in February and March 2001. The Minister for Planning approved the project with conditions on 28 February 2002.

Westlink Motorway Limited (*Leighton Contractors Pty Ltd and Abigroup Contractors Pty Ltd*) was appointed the Preferred Proponent and a contract was signed on 14 January 2003.

The estimated construction cost of the project is $1,850 million. The Federal Government is providing around $360 million, which will be used for the acquisition of land and project development costs. The balance of the project cost will be funded by toll revenue.

The contractor is establishing a site with substantial construction work expected to commence in June 2003.

Government Contingent Liability	Nil

Waste Services – Alternative Waste Technology

Project Description:

Waste Service NSW entered into a contract with Global Renewables Eastern Creek Pty Limited (Global Renewables) in March 2003. Global Renewables will design, build, own and operate an alternative waste treatment facility on the Eastern Creek land-fill site. The facility will sort recyclables, compost waste and convert waste to energy, reducing the amount of household waste going to land-fill. The initial total construction cost of the facility is estimated to be $70 million, with provision to expand the facility under the operating agreement. It is estimated that the facility will be completed by June 2004.

Under the 25 year operating arrangement, Waste Service will:

- secure supply of waste at a specified standard; and
- pay Global Renewables for processed waste at a contracted and performance based price.

Councils and other waste generators will be able to contract their waste to the Global Renewables facility. Waste Service NSW may also divert waste from its existing facilities to the Global Renewables facility. Costs will be recovered through Waste Service NSW's normal gate charge.

Government Contingent Liability	Nil

CONTRACTS TO BE ENTERED INTO IN 2003-04

Lane Cove Tunnel

Project Description:

The Lane Cove Tunnel will link the M2 Motorway at East Ryde and the Gore Hill Freeway at Artarmon. The proposed 3.4 kilometre twin tunnels have been designed to run under Epping Road as much as practical.

The Project also includes:

♦ modification to Epping Road / Longueville Road to provide bus lanes in each direction, additional right turn lanes, a continuous bicycle path from Wicks Road, Ryde to Naremburn, and other improvements to the Urban environment;

♦ an extra westbound lane on Epping Road from Lane Cove River to Wicks Road;

♦ widening the Gore Hill Freeway to include a transit lane in each direction between the Pacific Highway and Warringah Freeway; and.

♦ adding new north facing ramps between Falcon Street and the Warringah Freeway to provide access between the Warringah Freeway and Falcon Street/Military Road.

Four proponents submitted detailed proposals on 24 January 2003. They are:

♦ Lane Cove Expressway *(Baulderstone Hornibrook Pty Ltd, Bilfinger Berger Aktiengesellschaft, Commonwealth Bank of Australia, Transurban Infrastructure Developments Limited);*

♦ Lane Cove Motorway Consortium *(Leighton Contractors Pty Limited, Deutsche Bank AG);*

- Lane Cove Tunnel Consortium *(Thiess Pty Ltd, Transfield Pty Ltd, ABN AMRO Australia Limited);* and

- TunnelLink Limited *(Ferrovial Infraestructuras SA, Macquarie Bank Limited, Abigroup Limited).*

Assessment of proposals is in progress with a preferred proponent to be nominated in mid 2003.

The estimated project cost is $815 million. The project is to be funded by toll revenue.

Government Contingent Liability	To Be Determined

Royal Prince Alfred Hospital Car Park

Project Description:

Detailed proposals have been submitted by the private sector to finance and build a new 1,000 space car park on the Royal Prince Alfred Hospital campus. The total construction cost for the project is estimated to be $13.5 million. The successful proponent will, under a 20 or 25 year licence, operate and collect user charges from around 1,300 campus car park spaces, including the 1,000 new spaces.

The form of the arrangement is expected to be similar to that for the Randwick and St George Hospital Car Parks. The expected contract execution date is August 2003. At this time no government liability is anticipated based on the termination provisions of the draft contract.

Government Contingent Liability	To Be Determined

Table 8.18: NSW General Government Sector Expenses by Function (ABS Basis)

	Revised 2002-03 $m	*Budget 2003-04 $m*
General public services	1,140	1,173
Defence	...	...
Public order and safety	3,610	3,819
Education	9,505	9,764
Health	8,763	9,377
Social security and welfare	2,598	2,767
Housing and community amenities	1,452	1,323
Recreation and culture	943	905
Fuel and energy	61	66
Agriculture, forestry, fishing and hunting	637	617
Mining, manufacturing and construction	109	111
Transport and communications	3,709	3,730
Other economic affairs	865	826
Other purposes	2,170	2,368
Total GFS Expenses	**35,562**	**36,846**

Table 8.19: NSW General Government Sector Purchases of Non-Financial Assets [(a)]

	Revised 2002-03 $m	*Budget 2003-04 $m*
General public services [(b)]	54	250
Defence	...	...
Public order and safety	353	361
Education	407	408
Health	484	458
Social security and welfare	50	33
Housing and community amenities	86	58
Recreation and culture	169	130
Fuel and energy	1	7
Agriculture, forestry, fishing and hunting	47	48
Mining, manufacturing and construction	1	9
Transport and communications	1,336	1,276
Other economic affairs	46	33
Other purposes	12	81
Total GFS Expenses	**3,046**	**3,152**

(a) *Includes land and secondhand assets, however excludes assets acquired under finance leases.*

(b) *The main finance leasing arrangement for purchasing new motor vehicles expired on 30 June 2003. It is to be replaced with direct motor vehicle purchases commencing 1 July 2003.*

APPENDIX A: GENERAL GOVERNMENT SECTOR ACCOUNTING FINANCIAL STATEMENTS

Refer to Chapter 8 (Section 8.2) for an explanation of the differences in treatment and disclosure between the following financial statements which are prepared in accordance with Australian accounting standards, and the accrual uniform presentation tables reported in Chapter 8 which follow the government finance statistics convention.

Table A.1: General Government Sector Statement of Financial Performance

	2001-02 Actual	2002-03 Budget	2002-03 Revised	2003-04 Budget	2004-05	2005-06 Estimate	2006-07
	$m	$m	$m	$m	$m	$m	$m
State Revenues							
Taxation	13,207	12,856	13,912	14,191	14,884	15,743	16,665
Commonwealth Grants	15,033	15,053	15,236	15,497	15,785	16,564	16,814
Financial Distributions	1,331	1,204	1,425	1,460	1,394	1,582	1,672
Fines, Regulatory Fees & Other	792	799	795	843	894	888	855
Total State Revenues	30,363	29,912	31,368	31,991	32,957	34,777	36,006
Operating Revenues							
Sale of Goods and Services	2,264	2,479	2,558	2,664	2,710	2,786	2,854
Investment Income	283	612	360	696	780	933	1,073
Grants and Contributions	475	376	556	353	328	343	349
Other	4,917	261	613	354	333	313	291
Total Operating Revenues	7,939	3,728	4,087	4,067	4,151	4,375	4,567
Expenses							
Employee Related							
- Superannuation[(a)]	3,859	2,049	4,271	2,556	2,694	2,829	2,957
- Other	12,937	13,464	13,955	14,694	15,418	16,146	16,956
Other Operating	6,994	7,240	7,378	7,376	7,425	7,769	8,087
Maintenance	1,308	1,175	1,228	1,231	1,222	1,204	1,254
Depreciation and Amortisation	1,538	1,404	1,636	1,791	1,828	1,854	1,903
Current Grants and Subsidies	4,969	5,075	5,492	5,571	5,489	5,671	5,838
Capital Grants	1,854	1,333	1,375	1,175	1,357	1,356	1,271
Borrowing Costs	942	751	767	786	754	750	702
Total Expenses	34,401	32,491	36,102	35,180	36,187	37,579	38,968
Net Cost of Services	(26,462)	(28,763)	(32,015)	(31,113)	(32,036)	(33,204)	(34,401)
Surplus/(Deficit) for the Year	3,901	1,149	(647)	878	921	1,573	1,605

Note:

(a) *Superannuation has a large impact on the 2002-03 accounting operating results. The increase in 2002-03 superannuation expense is largely due to projected negative investment returns and an increase in gross liabilities arising from changed demographic assumptions. Refer to Section 4.7 of Chapter 4 for further details.*

Table A.1: General Government Sector Statement of Financial Performance (cont)

	2001-02 Actual	2002-03 Budget	2002-03 Revised	2003-04 Budget	2004-05	2005-06 Estimate	2006-07
	$m	$m	$m	$m	$m	$m	$m
OTHER MOVEMENTS IN EQUITY							
Net Asset Valuation Increments	2,849	30	93	51	26	29	29
Adjustment to insurance claims liabilities on adopting a claim incurred basis following the release of UIG47 (Urgent Issues Group)	(369)	...	(809)	...	...	...	...
Recognition of insurance receivables recoverable associated with the adoption of UIG47	...	...	809	...	...	...	...
Total Revenues, Expenses and Valuation Adjustments Recognised Directly in Equity	**2,480**	**30**	**93**	**51**	**26**	**29**	**29**
Changes in Equity Resulting From Other Transactions							
Contributions by Owners Made to Wholly Owned Public Sector Agencies (Urgent Issues Group UIG 38)							
- Equity Restructure payments from Public Trading Enterprises	...	400	520	137	...	195	40
- Adjustment to Crown income tax accruals associated with a compensation adjustment by TransGrid	...	...	(46)	...	...	...	...
- Other	128	...	(32)	...	(1)	...	...
Total Other Movements in Equity	**2,608**	**430**	**535**	**188**	**25**	**224**	**69**
Opening Balance Equity	**43,828**	**46,008**	**50,337**	**50,225**	**51,291**	**52,237**	**54,034**
Operating Surplus/ (Deficit)	3,901	1,149	(647)	878	921	1,573	1,605
Other Movements in Equity	2,608	430	535	188	25	224	69
Closing Balance Equity	**50,337**	**47,587**	**50,225**	**51,291**	**52,237**	**54,034**	**55,708**

Table A.2: General Government Sector Statement of Financial Position as at 30 June, 2002-2007

	2002 Actual $m	2003 Budget $m	2003 Revised $m	2004 Budget $m	2005 Estimate $m	2006 Estimate $m	2007 Estimate $m
Current Assets							
Cash Assets	1,646	1,277	1,104	866	887	663	569
Receivables	2,741	2,502	2,718	2,951	2,851	2,987	3,081
Other Financial Assets	625	689	675	884	1,019	1,138	1,275
Inventories	154	130	118	119	119	120	121
Other	73	63	90	89	89	89	90
Total Current Assets	**5,239**	**4,661**	**4,705**	**4,909**	**4,965**	**4,997**	**5,136**
Non-Current Assets							
Receivables	2,845	2,786	3,681	3,792	3,904	4,020	4,073
Other Financial Assets	4,314	5,300	7,166	8,239	9,777	12,046	14,701
Inventories	12	18	34	36	35	35	33
Property, Plant and Equipment							
Land and Buildings	37,654	32,866	37,872	38,259	38,608	38,778	38,850
Plant and Equipment	4,256	4,498	4,408	5,006	4,929	4,840	4,705
Infrastructure Systems	31,281	30,849	32,027	32,735	33,386	34,376	35,443
Other	963	1,078	1,032	1,132	1,235	1,356	1,495
Total Non-Current Assets	**81,325**	**77,395**	**86,220**	**89,199**	**91,874**	**95,451**	**99,300**
Total Assets	**86,564**	**82,056**	**90,925**	**94,108**	**96,839**	**100,448**	**104,436**
Current Liabilities							
Payables	1,823	1,397	2,489	2,176	1,957	1,981	2,045
Interest Bearing	1,730	2,041	3,067	1,684	3,142	1,657	3,060
Employee Entitlements and Other Provisions	2,395	3,739	2,246	2,310	2,358	2,452	2,588
Other	423	284	372	352	356	356	349
Total Current Liabilities	**6,371**	**7,461**	**8,174**	**6,522**	**7,813**	**6,446**	**8,042**
Non-Current Liabilities							
Interest Bearing	10,360	9,496	8,353	10,202	8,623	9,587	7,967
Employee Entitlements and Other Provisions	18,504	16,572	23,208	25,151	27,246	29,483	31,841
Other	992	940	965	942	920	898	878
Total Non-Current Liabilities	**29,856**	**27,008**	**32,526**	**36,295**	**36,789**	**39,968**	**40,686**
Total Liabilities	**36,227**	**34,469**	**40,700**	**42,817**	**44,602**	**46,414**	**48,728**
NET ASSETS	**50,337**	**47,587**	**50,225**	**51,291**	**52,237**	**54,034**	**55,708**
Equity							
Asset Revaluation Reserves	18,418	16,523	18,480	18,527	18,551	18,578	18,605
Accumulated Funds	31,919	31,064	31,745	32,764	33,686	35,456	37,103
TOTAL EQUITY	**50,337**	**47,587**	**50,225**	**51,291**	**52,237**	**54,034**	**55,708**

Table A.3: General Government Sector Statement of Cash Flows

	2001-02 Actual $m	2002-03 Budget $m	2002-03 Revised $m	2003-04 Budget $m	2004-05 Estimate $m	2005-06 Estimate $m	2006-07 Estimate $m
Cash Flows from Operating Activities							
Receipts							
Taxation	13,323	12,834	13,853	14,174	14,876	15,745	16,667
Commonwealth Grants	15,033	15,053	15,446	15,287	15,785	16,564	16,814
Financial Distributions	1,101	1,246	1,296	1,235	1,319	1,285	1,501
Sale of Goods and Services	2,348	2,496	2,579	2,665	2,708	2,789	2,857
Investment Income	265	301	245	272	258	289	286
Other	2,570	2,159	2,997	2,546	2,768	2,764	2,701
Total Receipts	**34,640**	**34,089**	**36,416**	**36,179**	**37,714**	**39,436**	**40,826**
Payments							
Employee Related	(13,269)	(14,029)	(14,433)	(15,425)	(16,471)	(16,997)	(17,823)
Grants and Subsidies	(6,572)	(6,191)	(6,672)	(6,570)	(6,680)	(6,883)	(6,966)
Finance	(844)	(750)	(759)	(784)	(731)	(741)	(692)
Other	(8,951)	(9,601)	(9,598)	(9,971)	(9,854)	(10,103)	(10,420)
Total Payments	**(29,636)**	**(30,571)**	**(31,462)**	**(32,750)**	**(33,736)**	**(34,724)**	**(35,901)**
Net Cash Flows from Operating Activities	**5,004**	**3,518**	**4,954**	**3,429**	**3,978**	**4,712**	**4,925**
Cash Flows from Investing Activities							
Proceeds from Sale of Property, Plant and Equipment	194	434	237	664	551	463	432
Proceeds from Sale of Investments	449	1,133	255	2,116	725	560	444
Equity restructure	758	400	520	137	...	195	40
Advance Repayments Received	106	104	101	110	127	90	87
Purchases of Property, Plant & Equipment	(2,782)	(3,030)	(3,042)	(3,159)	(3,089)	(3,220)	(3,164)
Purchase of Investments	(987)	(1,367)	(2,847)	(3,010)	(1,890)	(2,307)	(2,451)
Advances Made	(123)	(81)	(83)	(54)	(57)	(58)	(57)
Other	28	(17)	66	...	...	...	...
Net Cash Flows from Investing Activities	**(2,357)**	**(2,424)**	**(4,793)**	**(3,196)**	**(3,633)**	**(4,277)**	**(4,669)**
Cash Flows from Financing Activities							
Proceeds from Borrowings and Advances	53	35	44	244	175	102	53
Repayments of Borrowings and Advances	(2,097)	(647)	(730)	(718)	(498)	(762)	(403)
Net Cash Flows From Financing Activities	**(2,044)**	**(612)**	**(686)**	**(474)**	**(323)**	**(660)**	**(350)**
Net Increase/(Decrease) in Cash	**603**	**482**	**(525)**	**(241)**	**22**	**(225)**	**(94)**
Opening Cash and Cash Equivalents	995	791	1,615	1,090	849	871	646
Reclassification of Cash Equivalents	17	...	...	...	...	...	...
CLOSING CASH AND CASH EQUIVALENTS BALANCE	**1,615**	**1,273**	**1,090**	**849**	**871**	**646**	**552**

Table A.4: Reconciliation between the Accounting Based Operating Result and the GFS Based Budget Result

	2002-03 Budget $m	*2002-03 Projection $m*	*2003-04 Budget $m*
Accounting Based Operating Surplus/ (Deficit)	**1,149**	**(647)**	**878**
Accounting items not in the GFS Budget Result			
Depreciation and amortisation	1,404	1,636	1,791
Valuation items - (gains)/losses [(a)]	151	2,153	146
GFS items not in the Accounting Result			
Fixed capital acquisitions	(3,022)	(3,046)	(3,152)
Assets acquired under finance lease	...	(347)	(347)
Asset sales and other movements in non-financial assets	486	450	727
GFS Based Budget Result	**168**	**199**	**43**

Note:

(a) Valuation items primarily comprise actuarial adjustments for superannuation and insurance obligations, adjustments to fixed asset values and non cash gains/losses on debt management.

APPENDIX B: TAX EXPENDITURE AND CONCESSIONS STATEMENT

B.1: DETAILED ESTIMATES OF TAX EXPENDITURES

TRANSFER DUTY (FORMERLY KNOWN AS CONTRACTS AND CONVEYANCES DUTY)

The benchmark is defined as the transfer of property (whether residential or commercial) where a real change in beneficial ownership occurs. The benchmark tax rate is defined against marginal rates of tax varying from 1.25 to 5.5 percent.

Table B.1: Transfer Duty

Major Tax Expenditures	*2001-02 $m*	*2002-03 $m*	*2003-04 $m*
First Home Plus			
Under the First Home Plus scheme all first home buyers receive a full exemption from transfer duty where the property is valued up to $200,000 ($95,000 for vacant land) in the metropolitan area and up to $175,000 ($80,000 for vacant land) elsewhere in NSW. The exemption phases out as property value increases. Group self-build schemes are also eligible.	133	67	64
Transfer of residences between spouses			
An exemption is granted for property transferred between spouses or de facto partners, subject to the property being jointly held after transfer.	15	20	22
Transfers of matrimonial property consequent upon divorce			
An exemption is granted for transfers between parties under the *Family Law Act 1975* (Cth) or partnership property under the *Property (Relationships) Act 1984.*	47	54	60
Intergenerational rural transfers			
An exemption is granted for transfers of rural land used for primary production between generations, and between siblings, to facilitate young family members taking over family farms.	17	14	14

Major Tax Expenditures	*2001-02 $m*	*2002-03 $m*	*2003-04 $m*
Property transferred to benevolent institutions	15	11	10
Corporate reconstructions			
An exemption is given for corporate reconstructions provided certain qualifying criteria are satisfied.	549	558	530
Transfer of property from companies and trusts to individuals			
Exemption for transfer of a principal place of residence from a corporation or a special trust to certain individuals or transfer of any land owned as at 31 December 1986 by a special trust from the trust to certain persons.	30	20	19
'Off the plan' purchases			
Duty may be deferred for purchases of real estate until completion of the sale or 12 months after the contract.	n.a.	n.a.	n.a.

n.a. Not available

Minor Tax Expenditures (< $1 million)

- A person who has sold his or her property to a local government council because the home was built on flood-prone land and has then purchased another home may pay duty on the contract by instalments over a five-year period.

- A credit of duty previously paid is applied to amalgamations of certain Western Lands leases.

- Transfers of poker machine permits where there is no change in beneficial ownership.

The following are exempt:

- transfers back to a former bankrupt by trustee of his or her estate;

- transfers by way of mortgage or discharge of mortgage of old system titled properties;

- transfers relating to the property of the estate of a deceased person;

- certain purchases of manufactured relocatable homes (caravans);

- land resumed by operation of a Commonwealth Act where the Crown in right of the Commonwealth is the person upon whom liability of duty would otherwise be imposed. If land is subsequently transferred back to the person who was entitled to the land immediately before the resumption, the instrument of transfer is also exempted from duty provided that no compensation has been paid in respect of the resumption;

- transfers where public hospitals are the liable party;

- instruments executed by or on behalf of a council or county council under the *Local Government Act 1993*, not connected with a trading undertaking;

- transfers executed for the purpose of amalgamation or dissolution of clubs or the formation of a new club under Section 17A of the *Registered Clubs Act 1976*;

- instruments executed by or on behalf of agencies within the meaning of the Convention on the Privileges and Immunities of the Specialised Agencies approved by the General Assembly of the United Nations in 1947;

- transfers between associations of employees or employers registered under the *Workplace Relations Act 1996* (Cth) for the purpose of amalgamation;

- NSW Aboriginal Land Council (ALC), Regional ALC and Local ALC;

- transfers of property between licensed insurers, and between the WorkCover Authority and licensed insurers, under the *Workers Compensation Acts of 1926 and 1987* (NSW);

- purchase of their principal place of residence by tenants of the Department of Housing, the Community Housing Program administered by the Department of Housing and the Aboriginal Housing Office;

- transfers of property made for the purpose of complying with the Commonwealth regulatory regime for managed investments, and other transfers by or as a consequence of a statute;

- transfers of property in a statutory trust as a result of an order under Section 66G of the *Conveyancing Act 1919*; and

- transfer of a liquor licence in certain circumstances under Sections 41, 42 or 61 of the *Liquor Act 1982.*

GENERAL INSURANCE DUTY

The benchmark is defined as all premiums for general insurance policies. The benchmark tax rate is 10 percent of premium paid for contracts or renewals that took effect between 1 October 2000 and 31 July 2002 and 5 percent of premium paid for contracts or renewals that take effect on or after 1 August 2002.

Table B.2: General Insurance Duty

Major Tax Expenditures	*2001-02 $m*	*2002-03 $m*	*2003-04 $m*
Concessional rates for motor vehicle, aviation, disability income, occupational indemnity, crop and livestock			
Before 1 August 2002, a concessional rate of 5 percent applies to certain categories of insurance including motor vehicle (excluding compulsory third party (the ‘green slip’)), aviation, disability income and occupational indemnity. Crop and livestock insurance is taxed at 2.5 percent.	153	34	2
Exemption for third party motor vehicle personal injury insurance as per the *Motor Vehicle Act 1988*			
Third party motor vehicle personal injury insurance (‘green slip’) is exempt from stamp duty.	149	94	85
Marine and cargo insurance			
Exemption for marine insurance covering hulls of commercial ships and the cargo carried by land, sea or by air.	11	7	6
Exemption for WorkCover premiums	210	130	117

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 DUTY

The benchmark is defined as all products (or part thereof) where the sum assured offered by life insurance companies provides for a payment in the event of death or injury from natural causes of the person insured or upon survival to a specified age. The benchmark tax rate is 10 cents per $200 where the sum assured is less than $2,000 and $1 plus 20 cents per $200 or part thereof where the sum assured is greater than $2,000.

Table B.3: Life Insurance Duty

Major Tax Expenditures	*2001-02 $m*	*2002-03 $m*	*2003-04 $m*
Superannuation			
An exemption is granted to all group superannuation investment policies that are for the benefit of more than one member.	48	52	56
Annuities			
An exemption is provided to annuities.	12	13	14

MORTGAGE DUTY

The benchmark is defined as all secured loans that affect property in New South Wales. The benchmark tax rate is $5 up to $16,000 plus $4 per $1,000 or part thereof on the excess.

Table B.4: Mortgage Duty

Major Tax Expenditures	*2001-02 $m*	*2002-03 $m*	*2003-04 $m*
Refinanced loans where the borrower and the security for the loan remain the same.			
A mortgage that secures the amount of the balance outstanding under an earlier mortgage granted for the same borrower over the same or substantially the same property is exempt. Any additional amount above the previously secured amount is liable for duty. From 1 January 2003, exemption extended to related bodies corporate of the borrower (i.e. members of the same corporate group).	50	69	93

Major Tax Expenditures	2001-02 $m	2002-03 $m	2003-04 $m
First home purchase mortgage covered by First Home Plus (or First Home Purchase Scheme)			
Mortgages given to assist the financing of a first home purchase eligible under the First Home Plus scheme (or before 1 July 2000 the First Home Purchase Scheme) are exempt from duty up to certain loan values, phasing out as value increases.	9	5	5
Additional advances up to $10,000 in any 12 month period			
No duty is charged on additional loans secured under a mortgage if the additional loans do not exceed $10,000 in any 12 month period, not being the 12 month period following the making of the initial loan.	1	1	1
Deferred duty on debentures backed by mortgages			
A concession is provided to companies that raise money through the issue of debentures, the repayment of which is secured by the issue of a mortgage over property in New South Wales. Duty is payable annually on funds raised in New South Wales rather than at the time the mortgage is issued on the whole amount secured. This concession will be removed with effect from 24 June 2003.	6	6	…
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
Consumer credit contract			
Mortgages securing amounts under a consumer credit contract, where the amount financed is $35,000 or less are exempt from duty.	n.a.	n.a.	n.a

Major Tax Expenditures	2001-02 $m	2002-03 $m	2003-04 $m
Instruments creating mortgage-backed securities			
An instrument executed for the purpose of creating, issuing or marketing mortgage-backed securities is exempt from duty.	n.a.	n.a.	n.a

Minor Tax Expenditures (< $1 million)

The following are exempt:

- mortgages created solely for the purpose of providing security in accordance with a condition imposed on the grant of bail in criminal proceedings;
- the refinancing of a loan following divorce or the break up of a de facto relationship;
- mortgages given by Federal or State/Territory governments or public statutory body;
- any mortgage made or given to the WorkCover Authority;
- mortgages given by a council or county council under the *Local Government Act 1993*;
- mortgages given by institutions for the relief of poverty and promotion of education;
- mortgages to institutions of charitable or benevolent nature, or for the promotion of the interest of Aborigines;
- NSW Aboriginal Land Council (ALC), Regional ALC and Local ALC;
- offshore banking units (as defined in the *Income Tax Assessment Act 1936* (Cth)) where a loan is executed for offshore parties;
- mortgages given by tenants of the Department of Housing, the Aboriginal Housing Office or from the Community Housing Program who, in purchasing the real property, obtain not less than 25 percent of the beneficial ownership of land and who intend to use the land as their principal place of residence;
- mortgages granted by a non-profit organisation in conjunction with a lease not subject to duty, the purpose of which is to provide accommodation to an aged or disabled person;

- mortgages by public hospitals;
- mortgages under the *Liens on Crops and Wool and Stock Mortgage Act 1898*;
- agencies within the meaning of the Convention on the Privileges and Immunities of the Specialised Agencies approved by the General Assembly of the United Nations in 1947; and
- mortgages by clearing houses of the Sydney Futures Exchange and Australian Options Market that do not secure an advance.

MARKETABLE SECURITIES DUTY

Prior to 1 July 2001, the benchmark was 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 5 cents per $100 or part thereof for both buyer and seller for on-market transactions; and 30 cents per $100 or part thereof for off-market transactions in listed companies, and 60 cents per $100 or part thereof for transactions in unlisted companies, with the purchaser paying all the duty for off-market transactions.

From 1 July 2001, duty on the transfer of shares and securities quoted on the Australian Stock Exchange or a recognised stock exchange was abolished as part of GST-related tax reform. Because of a week's lag in collection of this revenue, forgone revenue in 2001-02 relates to transactions undertaken before duty was abolished on listed share transfers. Unlisted share transfers remain dutiable.

Table B.5: Marketable Securities Duty

Major Tax Expenditures	*2001-02 $m*	*2002-03 $m*	*2003-04 $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.	7	…	…

Minor Tax Expenditures (< $1 million)

A concessional rate of duty of 0.25 cents per $100 or part thereof applies to trading in securities of companies incorporated in Papua New Guinea or New Zealand.

The following transfers are exempt:

- transfers of units in a unit trust where the purpose is to give effect to a merger or takeover of qualifying unit trusts;
- share buy-backs by NSW companies;
- mining companies whose operations relate solely to New South Wales;
- transfers to parties outside a marriage where the transfer is pursuant to an order of the Family Court of Australia; and
- certain transfers of shares by superannuation funds to a Pooled Superannuation Fund.

MOTOR VEHICLE REGISTRATION DUTY

The benchmark taxable activity is defined as the purchase of a new vehicle and the subsequent transfer of the vehicle. The benchmark tax rate is $3 per $100 or part thereof for vehicles valued to $45,000 and $1,350 plus $5 per $100 or part thereof for passenger vehicles valued above $45,000.

Table B.6: Motor Vehicle Registration Duty

Major Tax Expenditures	*2001-02 $m*	*2002-03 $m*	*2003-04 $m*
Local councils			
An exemption is granted for the transfer of registration into the name of a local council, not being for a trading undertaking.	5	6	6
Transfer of ownership after divorce or a breakdown of a defacto relationship			
An exemption is granted for the transfer of registration into the name of one of the parties to a divorce or separation in a de facto relationship.	2	2	2
Transfer of ownership of a deceased registered owner			
An exemption is granted for the transfer of registration to the legal personal representative of a deceased registered owner or the person beneficially entitled to the vehicle in the estate.	3	3	3
New demonstrator motor vehicle			
An exemption is granted for the registration of a motor vehicle to a licensed motor dealer or wholesaler under the *Motor Dealers Act 1974* (NSW).	28	34	35

Major Tax Expenditures	2001-02 $m	2002-03 $m	2003-04 $m
Extreme Disablement Adjustment and other Disabled War Veterans			
An exemption is provided to war veterans in receipt of a totally and permanently incapacitated (TPI) pension, veterans in receipt of an extreme disablement adjustment pension, an intermediate service pension or 70 percent or higher of the disability pension from the Department of Veterans Affairs.	2	2	2

Minor Tax Expenditures (< $1 million)

The following are exempt:

- all vehicles registered by non-profit charitable, benevolent, philanthropic or patriotic organisations;
- vehicles specially constructed for ambulance or mine rescue work;
- conveyances weighing less than 250 kg used for transporting invalids;
- rural lands protection boards; and
- Aboriginal Land Councils within the meaning of the *Aboriginal Land Rights Act 1983* (NSW).

FINANCIAL INSTITUTIONS DUTY

Financial institutions duty (FID) was abolished from 1 July 2001 as part of national tax reform. For 2001-02, some revenue was received related to transactions that occurred before FID was abolished. The benchmark is defined as all receipts to financial institutions except for receipts to internal and working accounts, clearing and settlement accounts. The benchmark tax rate was 0.06 percent, subject to a cap of $1,200 per transaction.

Table B.7: Financial Institutions Duty

Major Tax Expenditures	2001-02 $m	2002-03 $m	2003-04 $m
Non-business activities of government departments			
Departments of Commonwealth, State and Territory and Local Governments, other than those whose sole or principal function is to carry on an activity in the nature of a business, are exempt.	3	…	…

Minor Tax Expenditures (< $1 million)

For a discussion of minor tax expenditures, refer to Appendix B in 2002-03 Budget Paper No.2

HIRE OF GOODS DUTY

The benchmark is defined as all short-term consumer hiring and other non-finance rentals greater than $14,000 per month, and equipment financing arrangements, including hire purchase arrangements. The benchmark tax rate is 0.75 percent for equipment financing arrangements, and 1.5 percent for other hires, with a maximum of $10,000 tax payable for any single arrangement.

There are no major tax expenditures.

Minor Tax Expenditures (< $1 million)

The following are exempt:

- prosthetic items;
- invalid aids;
- “wet hires” (where equipment is hired with an operator);
- motor vehicles subleased by an employee to an employer;
- gas, water and electricity meters;
- arrangements between related bodies corporate;
- certain arrangements in relation to aircraft, ships and vessels;
- arrangements for the use of goods by a public hospital;
- a credit contract within the meaning of the Consumer Credit (New South Wales) Code;
- books;
- hire of goods as part of a franchise arrangement; and
- where the use of goods is incidental and ancillary to the provision of a service.

Lease Duty

The benchmark is defined as any lease of real property with a total rental cost greater than $20,000 per year in New South Wales. The benchmark tax rate is 35 cents per $100 (or part thereof) of the total cost of the lease.

There are no major tax expenditures.

Minor Tax Expenditures (< $1 million)

The following are exempt:

- residential leases where the term of the lease does not exceed five years;
- leases on a movable dwelling site (mainly sites in caravan parks and relocatable home parks), used, or intended to be used as a place of residence for a term of not more than 5 years;
- leases executed in accordance with Part 5 of the Commonwealth National Health Act 1953;
- leases executed by an Aboriginal Land Council;
- leases of premises to the Home Care Service of New South Wales; and
- leases (granted by or on behalf of a corporation, society or institution) of residential accommodation for retired and disabled persons.

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 6.2 percent from 1 January 2001 to 30 June 2002 and 6 percent from 1 July 2002.

Table B.8: Payroll Tax

Major Tax Expenditures	*2001-02 $m*	*2002-03 $m*	*2003-04 $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.	298	310	327

Major Tax Expenditures	*2001-02 $m*	*2002-03 $m*	*2003-04 $m*
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 carried on by or on behalf of the state of New South Wales, 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.	65	70	75
Religious institutions			
An exemption is granted for remuneration paid by a religious institution to a person while engaged in work of a kind ordinarily performed in the conduct of these institutions.	7	8	8
Charitable institutions			
An exemption is granted for remuneration paid by a charitable, benevolent, philanthropic or patriotic institution (other than an instrumentality of the State) to a person while engaged in work of a charitable, benevolent, philanthropic or patriotic nature.	22	23	24
Local councils			
An exemption is granted for remuneration paid by a council or county council, except in connection with a number of trading undertakings, including the operation of an abattoir or public food market, parking station, cemetery, crematorium, hostel, coal mine or transport service, the supply and distribution of coal and the supply of building materials.	109	114	120
Private hospitals and nursing homes			
An exemption is granted for remuneration paid by a non-profit hospital to a person in respect of time when the person is engaged in work of a kind ordinarily performed in connection with the conduct of hospitals.	10	10	11
Home Care Service			
From July 1998 an exemption has been provided for the salaries paid to employees of the Home Care Service.	10	9	10

Major Tax Expenditures	*2001-02 $m*	*2002-03 $m*	*2003-04 $m*
Apprentices			
From 1 July 2002, wages paid to apprentices are exempt from payroll tax. Before that, an exemption was provided for employees under the group apprenticeship scheme or a group traineeship scheme approved by the Department of Industrial Relations; and employers of apprentices were only required to include in their calculations of 'taxable wages' 25 percent of wages paid to first year apprentices, 50 percent of the wages paid to second year apprentices and 75 percent of the wages paid to third year apprentices.	6	15	15
Trainees			
From 1 January 2004 wages paid to trainees will be exempt from payroll tax. Before that, employers of trainees were entitled to claim payroll tax paid on wages through the trainee Payroll Tax Rebate Scheme.	…	…	4
Certain termination payments			
Termination payments made in relation to leave accrued prior to 1 January 1990 are exempt from payroll tax, up to 30 June 2002. From 1 July 2002, the exemption no longer applies.	<5	<2	…
Fringe benefits			
Prior to 1 July 2002 fringe benefits to employees were subject to payroll tax on the nominal value of the benefit provided by the employer. From 1 July 2002, payroll tax is applied to the 'grossed-up', or full pre-tax value, of the benefit.	85	7	…
Redundancy payments			
Redundancy payments that do not represent accrued benefits, lump sum superannuation and ex-gratia payments are not subject to payroll tax.	32	3	…
Termination payments to non-executive directors			
Termination payments made to non-executive directors are exempt up to 30 June 2003. From 1 July 2003, the exemption no longer applies.	5	5	…
Share plans and share options			
Up to 30 June 2003, share options received as part of employee remuneration and participation in employee share plans were exempt from payroll tax.	5	5	…

Minor Tax Expenditures (< $1 million)

The following are exempt:

- wages paid to an employee who is on leave from employment by reason of service in the Defence Forces;
- wages paid to persons employed under the Community Development Employment Project administered by the Aboriginal and Torres Strait Islander Commission;
- wages paid by the Australian-American Educational Foundation;
- wages paid to members of the official staff by a consular or other non-diplomatic representative of another country or by a Trade Commissioner representing in Australia any other part of Her Majesty's dominions;
- wages paid by the Governor of a State;
- wages paid to employees while the employees are providing assistance to the State Emergency Services; and
- wages that are exempt from income tax under Section 23(z) of the *Income Tax Assessment Act 1936* (Cth) being income derived by way of scholarship or other educational assistance received by a full-time student at a tertiary educational institution.

LAND TAX

The benchmark tax base for land tax is defined as the unimproved capital value of all land owned (as defined in the *Land Tax Management Act 1956* (NSW)) at 31 December by a person or organisation other than the Commonwealth or NSW Governments which: (i) for owner-occupied residences, is above the threshold for principal places of residences for that year; (ii) for non-concessional companies and special trusts, the total aggregate land values; and (iii) for any other land owners, the aggregate land owned has an unimproved capital value above the threshold for that year. The benchmark tax rate is 1.7 percent.

Table B.9: Land Tax

Major Tax Expenditures	*2001-02 $m*	*2002-03 $m*	*2003-04 $m*
Boarding houses for low-income persons			
An exemption is granted for land used by boarding houses which meet approved guidelines, principally that the rent charged is less than the amount prescribed by the Office of State Revenue.	3	3	3

Major Tax Expenditures	*2001-02 $m*	*2002-03 $m*	*2003-04 $m*
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.	256	272	290
Racing clubs			
An exemption is granted for land owned by or held in trust for any club for promoting or controlling horse racing, trotting or greyhound racing which is used primarily for the purposes of the meetings of the above.	5	5	5
Employer and employee organisations			
An exemption is granted for land owned by or held in trust for employer and employee organisations for that part that it is not used for a commercial activity open to members of the public.	2	2	2
Cooperatives			
An exemption is granted for land owned by a co-operative whose objectives are listed under the *Co-operatives Act 1992* (NSW) and whose objectives are listed in Section 7 of that Act.	6	6	6
Public cemeteries and crematoriums			
An exemption is granted for any land used as a public cemetery or crematorium.	8	9	9
Retirement villages			
An exemption is given for land owned and used by retirement villages, and residential parks predominantly occupied by retired persons.	60	64	66
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	3	3
Public hospitals and Area Health Services			
An exemption is granted for land used by a public hospital (including nursing homes) or Area Health Service.	12	13	13

Major Tax Expenditures	*2001-02 $m*	*2002-03 $m*	*2003-04 $m*
Early Payment Discount A discount of 1.5 percent on land tax payable is available where the taxpayer pays the whole amount within 30 days after issue of the notice of assessment.	9	10	11
Agricultural showgrounds An exemption is granted for land used and occupied for the purpose of holding agricultural shows, or shows of a like nature and owned by, or held in trust for, a society which is established for the purpose of holding such shows not for the pecuniary profit of its members and primarily uses its funds for the holding of such shows.	n.a.	n.a.	n.a.
Friendly societies An exemption is granted for any society registered under the *Friendly Societies Act 1989* (NSW).	n.a.	n.a.	n.a.
Religious societies An exemption is provided for land owned by or in a trust for a religious society if the society is carried on solely for religious, charitable or educational purposes.	n.a.	n.a.	n.a.
Non-profit societies, clubs and associations An exemption is provided where a building (or part thereof) is occupied by a society, club or association not carried on for pecuniary profit.	n.a.	n.a.	n.a.
Charitable and educational institutions An exemption is provided for land owned by or in a trust for a charitable or educational institution if the institution is carried on solely for charitable or educational purposes and not for pecuniary profit.	n.a.	n.a.	n.a.
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.

Major Tax Expenditures	2001-02 $m	2002-03 $m	2003-04 $m
Sydney Light Rail			
An exemption is provided in respect of the land occupied by the Sydney Light Railway.	n.a.	n.a.	n.a.
Land owned and used by a local council	n.a.	n.a.	n.a.

Minor Tax Expenditures (< $1 million)

- concessions for land subject to heritage orders.

The following are exempt:

- certain public trading enterprises are exempt from land tax;
- low cost accommodation within 5 km of GPO;
- Marketing and Pastures Protection Boards;
- Aboriginal Land Councils;
- victims of fire, storm, earthquakes, accidents or malicious damage;
- community land development;
- unoccupied flood-liable land;
- land used for maintaining endangered animals;
- land leased for use as a fire brigade, police, ambulance or mines rescue station; and
- land owned by RSL (NSW Branch), Anzac House.

DEBITS TAX

Debits tax was abolished in New South Wales from 1 January 2002. The benchmark was defined as all accounts with cheque drawing facilities. The benchmark rate of tax varies from 30 cents to $4.00 depending on the value of the debit.

Table B.10: Debits Tax

Major Tax Expenditures	*2001-02 $m*	*2002-03 $m*	*2003-04 $m*
Non-business activities of government departments			
The non-business activities of departments of Commonwealth, State and Territory and Local Governments are exempt.	6-12	…	…
Public benevolent and religious bodies			
Debits from cheque linked accounts of public, religious and non-profit organisations having as one of their objects a charitable, benevolent, philanthropic or patriotic purpose are exempt.	1-2	…	…

Minor Tax Expenditures (< $1 million)

For a discussion of minor tax expenditures, refer to Appendix B in 2002-03 Budget Paper No.2

VEHICLE WEIGHT TAX

The benchmark is defined as all vehicles intended for on-road use with the exception of Commonwealth Government-owned vehicles, which for constitutional reasons cannot form part of the tax base. The benchmark tax rate is as defined in the *Motor Vehicles Taxation Act 1988* (NSW) for private and business vehicles.

Table B.11: Vehicle Weight Tax

Major Tax Expenditures	*2001-02 $m*	*2002-03 $m*	*2003-04 $m*
Selected social security recipients			
An exemption is granted in respect to any motor vehicle owned by holders of pensioner concession cards, Department of Veteran Affairs (DVA) TPI cards and DVA Gold War Widow's cards. Those pensioners must use the vehicle substantially for non-business purposes.	106	112	117
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.	17	18	18

Major Tax Expenditures	*2001-02 $m*	*2002-03 $m*	*2003-04 $m*
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.	4	4	5
State government departments and others			
Any motor vehicle that is registered and falls under Part 16 and 17 of the *Motor Vehicle Taxation Act 1988.*	1	1	1
Federal government departments			
Any Commonwealth motor vehicle that is registered under Section 16, Part 3 (2) (d) of the *Commonwealth Vehicle (Registration and Exemption from Taxation) Act 1997.*	1	1	1
General purpose plant			
Concessions are provided for machines that cannot carry any load other than tools and accessories necessary for the operation of the vehicle.	5	5	5

Minor Tax Expenditures (< $1 million)

♦ a concessional rate of 55 percent of business rates (or 30 percent if outside the Sydney metropolitan area, Newcastle or Wollongong districts) is applied to any motor vehicle that is used solely or principally as a tow truck.

♦ a concession is provided for mobile cranes.

♦ a concessional rate of tax is applied to any motor vehicle that is owned by a rural land protection board and is used solely for the carrying out of the functions of the board.

The following are exempt:

♦ all vehicles registered by non-profit charitable, benevolent, philanthropic or patriotic organisations;

♦ any motor vehicle that is used principally as an ambulance;

- motor vehicles that are designed for people with disabilities;
- motor vehicles used by the State Emergency Services; and
- any motor vehicle on which a trader's plate is being used in accordance with the *Traffic Act 1909* (NSW) or the regulations under that Act.

DRIVERS' LICENCES

The benchmark is considered to be the licensing of all persons to drive a vehicle in New South Wales on public roads. The benchmark tax rates in 2002-03 were $37 for a one-year licence, $91 for a three-year licence and $122 for a five-year licence.

Table B.12: Drivers' Licences

Major Tax Expenditures	*2001-02 $m*	*2002-03 $m*	*2003-04 $m*
Selected social security recipients			
An exemption is granted to any licence holder who also holds a pensioner concession card, Department of Veteran Affairs (DVA) TPI card, or DVA Gold War Widows Card and who can provide evidence that their income is below a certain level or can provide a DVA letter regarding their disability rate. The vehicle owned by the licence holder must be used substantially for social or domestic purposes.	10	10	19

VEHICLE TRANSFER FEES

The benchmark is considered to be all transfers of previously registered vehicles. From 1 July 2002 the benchmark rate is $22 for individuals and motor dealers.

Minor Tax Expenditures (< $1 million)

The following are exempt:

- consignees;
- beneficiaries under wills;
- executors and administrators of deceased estates;
- vehicles awarded in court decisions;
- representatives of unincorporated organisations; and
- adding/removing a trading name.

MOTOR VEHICLE REGISTRATION FEES

The benchmark is defined to be all vehicles intended for on-road use. The benchmark tax rate in 2002-03 was $45 for most motor vehicles, $199 for trucks with a mass of 5 tonnes or more and $349 for articulated trucks.

Table B.13: Motor Vehicle Registration Fees

Major Tax Expenditures	*2001-02 $m*	*2002-03 $m*	*2003-04 $m*
Selected Social Security Recipients			
Holders of pensioner concession cards, Department of Veteran Affairs (DVA) TPI Cards, and DVA Gold War Widows Cards (based on income or based on disability pension rate) are exempt.	26	28	29

Minor Tax Expenditures (< $1 million)

- Exemption for Mobile Disability Conveyance.

GAMBLING AND BETTING TAXES

The only areas where a different tax treatment is provided to essentially the same activity are in respect of gaming machines in hotels and registered clubs and the taxation of totalisators operated by racing clubs. The benchmark for gaming machines in hotels and registered clubs is defined to be the rates of taxation applying to hotels, which vary from 5.91 percent to 30.91 percent (annual rates) depending on the level of annual profits from gaming machines.

The benchmark for totalisators is a tax rate of 19.11 percent of player loss.

Table B.14: Gambling and Betting Taxes

Major Tax Expenditures	*2001-02 $m*	*2002-03 $m*	*2003-04 $m*
Club gaming machines			
Poker machines installed in clubs registered under the *Registered Clubs Act 1976* are taxed at lower rates than poker machines installed in hotels.	431	444	458

Minor Tax Expenditures (< $1 million)

- A full rebate of tax is provided to racing clubs operating non-TAB Ltd pools.

PARKING SPACE LEVY

For 2001-02 and 2002-03 the benchmark levy is defined as $800 per off-street, non-residential parking space in the Sydney, North Sydney and Milsons Point business districts, and $400 per space in the business areas of Chatswood, Parramatta, St Leonards and Bondi Junction.

Effective from 1 July 2003, the benchmark is increased to $840 per space in the Sydney, North Sydney and Milsons Point business districts and $420 per space in the business areas of Chatswood, Parramatta, St Leonards and Bondi Junction.

Table B.15: Parking Space Levy

Major Tax Expenditures	*2001-02 $m*	*2002-03 $m*	*2003-04 $m*
Exempt spaces in all regions			
An exemption from the levy is granted to parking spaces for bicycles or motor bikes, parking of a motor vehicle by a person resident on the same premises, parking of a motor vehicle for the purpose of loading or unloading goods or passengers, parking of a vehicle by a person who is providing services on a casual basis, parking of a vehicle while a disabled person's parking authority is displayed, parking without charge of a motor vehicle on premises owned or occupied by the council of the local government area, parking without charge of a motor vehicle on premises owned or occupied by a religious body or religious organisation, parking without charge of a motor vehicle on premises owned or occupied by a public charity or public benevolent institution, ambulance, fire brigade motor vehicle or police motor vehicle but only if used for garaging the vehicle overnight, parking without charge of a mobile crane, a forklift truck, a tractor or a front end loader, and parking without charge of a vehicle used only for carrying out deliveries or only for the provision of services, if the space is used for garaging the vehicle overnight on premises occupied by the owner of the vehicle.	6	6	7
Exempt parking spaces in Chatswood, Parramatta, St Leonards and Bondi Junction.			
Parking spaces for customers attached to retail outlets, hotels, motels, clubs, restaurants and medical centres are exempt from the levy.	1	2	2

B.2: DETAILED ESTIMATES OF CONCESSIONS

Details of concessions by function are shown below. Each concession is classified by type and a distinction is drawn between major concessions ($1 million or more) and minor concessions (less than $1 million).

Table B.16: Education

Major Concessions	*2001-02 $m*	*2002-03 $m*	*2003-04 $m*
TAFE concession for needy students			
Fees for TAFE courses are waived for students considered to be in need of financial assistance.	30	31	34
School transport subsidy scheme			
The State Rail Authority and State Transit Authority provide eligible students with free transport to and from school. (A similar subsidy to private transport operators is not included here, since it is an outlay from the public sector, and does not reduce public sector revenue.)	68	69	71

Table B.17: Health

Major Concessions	*2001-02 $m*	*2002-03 $m*	*2003-04 $m*
Ambulance service for pensioners			
Free transport by ambulance is provided for holders of pensioner health benefit cards.	77	80	81
Outpatient Pharmaceutical Scheme for Pensioners			
Free pharmaceuticals are provided for holders of pensioner health benefit cards.	2	2	2
Life Support Energy Rebates Scheme			
The Ministry of Energy and Utilities funds a rebate for users of certain life support systems. Administration of this program was transferred from the Department of Community Services to the Ministry from 1 January 2002. From 1 January 2002, the Ministry agreed to reimburse retailers for administering the Scheme on a monthly rather than six monthly basis.	1	2	2

Table B.18: Social Security and Welfare

Major Concessions	*2001-02 $m*	*2002-03 $m*	*2003-04 $m*
Public transport concessions for pensioners and welfare beneficiaries			
Pensioners, Seniors and welfare beneficiaries travel for less than full fare on State Rail and State Transit services. (Subsidies to private transport operators for concession travel are not included here, since it is an outlay from the public sector, and does not reduce public sector revenue).	228	233	239
Community Transport Scheme			
Subsidises transport to address special needs caused by location, isolation, age, disability or factors relating to the time and/or cost of travel.	19	19	19
Community Interpreting and Translation Service			
The Community Relations Commission funds translation and interpreting services in criminal and family courts for holders of Pensioner Concession Cards.	4	4	4

Table B.19: Housing and Associated Amenities

Major Concessions	*2001-02 $m*	*2002-03 $m*	*2003-04 $m*
Local council rates concession			
Local council rates are reduced by up to $250 for holders of Pensioner Concession Cards.	74	74	78
Sydney Water Corporation Pensioner Rate Concession			
Holders of Pensioner Concession Cards receive a 50 percent discount on water rates and a special rate reduction to reduce the hardship associated with the move to a greater reliance on pricing.	64	67	70
Sydney Water Corporation Exempt Properties Concession			
Owners of properties that are used to provide non-profitable community services and amenities (principally local councils and charities) are exempt from the payment of water charges.	9	9	9
Hunter Water Corporation Water Pensioner Rate Concession			
Holders of Pensioner Concession Cards receive a 50 percent discount on water rates.	8	8	8

Major Concessions	2001-02 $m	2002-03 $m	2003-04 $m
Energy Accounts Payment Assistance scheme			
This Scheme funds a rebate for consumers in crisis and financial need. Currently administered by the Department of Community Services, it will be transferred to the Ministry of Energy and Utilities from 1 July 2003.	7	8	8
Pensioner Energy Subsidy Scheme			
The Ministry of Energy and Utilities funds an energy rebate for eligible pensioners. From 1 January 2002, the Ministry agreed to reimburse retailers for administering this Scheme on a monthly rather than six monthly basis. This means additional one-off expenditure will be incurred in 2001-02. The rate of the rebate was also increased from 1 January 2002.	94	76	80

Minor Concessions (< $1 million)

- Blue Mountains septic pump-out service for households not connected to the sewerage network.
- Australian Inland Energy Water Infrastructure– water rebates for pensioners.
- Hunter Water Corporation – exempt properties concession.
- Payment Assistance Scheme offered by Sydney Water
- Payment Assistance Scheme offered by Hunter Water

Recreation and Culture

Minor Concessions (< $1 million)

- Waterways Authority – concessional boat licence, registration and mooring fees for pensioners.
- Royal Botanic Gardens – concessional admission charges for pensioners and Seniors Cardholders for entry to the Tropical Centre, Mount Annan and Mount Tomah Botanic Gardens.
- National Parks and Wildlife Service – free day entry and 20 percent discount on annual passes for people holding pension concession and TPI cards.
- Historic Houses Trust – concessional admission charges for unemployed, children, pensioners, seniors and students.

- Australian Museum - concessional admission charges for entry to special exhibitions for students, the unemployed and holders of pensioner health care cards, free general admission to seniors card holders, disadvantaged school students, accompanying adults with school groups, Museum Society members and children under five years old.

- Powerhouse Museum - free entry for holders of Seniors cards and group supervisors, concessional membership fees for students, pensioners and the unemployed, free admission and reduced membership fee for schools for the disadvantaged, discount of $30 on household membership for country residents and free or reduced charges for public program activities and free use of venue for meetings for community and charitable groups.

Table B.20: Agriculture, Forestry and Fishing

Major Concessions	*2001-02 $m*	*2002-03 $m*	*2003-04 $m*
Recreational fishing fee concession			
Pensioners and children are exempt from the recreational fishing fee.	4	4	4

Minor Concessions (< $1 million)

- State Forests provides pensioner discounts on firewood permits for the collection of firewood and discounts to charitable organisations on the purchase of Christmas trees.

APPENDIX C: CLASSIFICATION OF AGENCIES

Agency/Activity	ABS[1] Category		Funding Category[4]	
	General Government[2]	Public Trading Enterprise[3]	Budget Dependent	Non Budget Dependent
Aboriginal Affairs, Department of	•		•	
Aboriginal Housing Office	•			•
Ageing, Disability and Home Care, Department of	•		•	
Agriculture, Department of	•		•	
Art Gallery of New South Wales	•		•	
Arts, Ministry for the	•		•	
Attorney General's Department	•		•	
Audit Office of New South Wales	•			•
Australian Inland Energy Water Infrastructure		•		•
Australian Museum	•		•	
Board of Studies, Office of the	•		•	
Building and Construction Industry Long Service Payments Corporation	•			•
Cabinet Office	•		•	
Casino Control Authority	•		•	
Centennial Park and Moore Park Trust	•		•	
Children’s Guardian, Office of the	•		•	
City West Housing Pty Ltd		•		•
Coal Compensation Board	•		•	
Commerce, Department of	•		•	
Commission for Children and Young People	•		•	
Community Relations Commission	•		•	
Community Services, Department of	•		•	
Co-ordinator General of Rail, Office of the	•		•	
Corrective Services, Department of	•		•	
Country Energy		•		•
Crime Commission, New South Wales	•		•	
Crown Land Development		•		•
Crown Land Homesites		•		•

[1] *Australian Bureau of Statistics*

[2] *Equates to the scope of the Budget in New South Wales.*

[3] *The Public Trading Enterprise or PTE sector is also referred to by the ABS as the Public Non Financial Corporations (PNFC) Sector.*

[4] *Based on reliance on Consolidated Fund allocations.*

Agency/Activity	ABS[1] Category		Funding Category[4]	
	General Government[2]	Public Trading Enterprise[3]	Budget Dependent	Non Budget Dependent
Crown Leaseholds	•		•	
Crown Property Portfolio	•			•
Crown Finance Entity	•		•	
Delta Electricity		•		•
Education and Training, Department of	•		•	
Electricity Tariff Equalisation Ministerial Corporation	•			•
Energy and Utilities, Ministry of	•		•	
EnergyAustralia		•		•
Environment Protection Authority	•		•	
Environmental Planning and Assessment Act	•			•
Environmental Trust	•		•	
Eraring Energy		•		•
Film and Television Office, New South Wales	•		•	
Fire Brigades, New South Wales	•		•	
Fisheries, New South Wales	•		•	
Fish River Water Supply Authority		•		•
Gaming and Racing, Department of	•		•	
Government Business, Office of	•			•
Government Procurement, Office of	•			•
Health Care Complaints Commission	•		•	
Health, Department of (including Area Health Services, Ambulance Service of NSW, Corrections Health Service and Westmead Children's Hospital)	•		•	
Heritage Office	•		•	
Historic Houses Trust of New South Wales	•		•	
Home Care Service of New South Wales	•		•	
Home Purchase Assistance Fund	•			•
Honeysuckle Development Corporation	•			•
Housing, Department of		•		•
Hunter Water Corporation		•		•
Independent Commission Against Corruption	•		•	
Independent Pricing and Regulatory Tribunal	•		•	

[1] *Australian Bureau of Statistics*

[2] *Equates to the scope of the Budget in New South Wales.*

[3] *The Public Trading Enterprise or PTE sector is also referred to by the ABS as the Public Non Financial Corporations (PNFC) Sector.*

[4] *Based on reliance on Consolidated Fund allocations.*

Agency/Activity	ABS[1] Category		Funding Category[4]	
	General Government[2]	Public Trading Enterprise[3]	Budget Dependent	Non Budget Dependent
Infrastructure, Planning and Natural Resources, Department of	•		•	
Insurance Ministerial Corporation, New South Wales	•			•
Integral Energy		•		•
Judicial Commission of New South Wales	•		•	
Juvenile Justice, Department of	•		•	
Land and Housing Corporation, New South Wales		•		•
Land and Property Information New South Wales	•			•
Landcom		•		•
Lands, Department of	•		•	
Legal Aid Commission of New South Wales	•		•	
Legislature, The	•		•	
Liability Management Ministerial Corporation	•			•
Local Government, Department of	•		•	
Lotteries Corporation, New South Wales		•		•
Luna Park Reserve Trust	•			•
Macquarie Generation		•		•
Mineral Resources, Department of	•		•	
Motor Accidents Authority	•			•
Museum of Applied Arts and Sciences	•		•	
National Parks and Wildlife Service	•		•	
Newcastle Port Corporation		•		•
Ombudsman's Office	•		•	
Pacific Power		•		•
Parliamentary Counsel's Office	•		•	
Parramatta Stadium Trust		•		•
Police Integrity Commission	•		•	
Police, Ministry for	•		•	
Police, NSW	•		•	
Port Kembla Port Corporation		•		•
Premier's Department	•		•	

[1] *Australian Bureau of Statistics*

[2] *Equates to the scope of the Budget in New South Wales.*

[3] *The Public Trading Enterprise or PTE sector is also referred to by the ABS as the Public Non Financial Corporations (PNFC) Sector.*

[4] *Based on reliance on Consolidated Fund allocations.*

Agency/Activity	ABS[1] Category		Funding Category[4]	
	General Government[2]	Public Trading Enterprise[3]	Budget Dependent	Non Budget Dependent
Public Prosecutions, Office of the Director of	•		•	
Public Trust Office - Administration	•			•
Public Works and Services, Office of The Minister for	•		•	
Rail Infrastructure Corporation		•		•
Registry of Births, Deaths and Marriages	•			•
Rental Bond Board	•			•
Resource NSW	•			•
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	•		•	
State Emergency Service	•		•	
State Forests of New South Wales		•		•
State Library of New South Wales	•		•	
State Rail Authority		•		•
State Records Authority	•		•	
State Sports Centre Trust	•			•
State Transit Authority		•		•
Stormwater Trust	•			•
Superannuation Administration Corporation	•			•
Sustainable Energy Development Authority	•		•	
Sustainable Natural Resources, Department of	•		•	
Sydney Catchment Authority		•		•
Sydney Cricket and Sports Ground Trust		•		•
Sydney Harbour Foreshore Authority		•		•

[1] *Australian Bureau of Statistics*

[2] *Equates to the scope of the Budget in New South Wales.*

[3] *The Public Trading Enterprise or PTE sector is also referred to by the ABS as the Public Non Financial Corporations (PNFC) Sector.*

[4] *Based on reliance on Consolidated Fund allocations.*

Agency/Activity	ABS[1] Category		Funding Category[4]	
	General Government[2]	Public Trading Enterprise[3]	Budget Dependent	Non Budget Dependent
Sydney Olympic Park Authority	•		•	
Sydney Opera House		•		•
Sydney Ports Corporation		•		•
Sydney Water Corporation		•		•
Teacher Housing Authority of NSW		•		•
Tourism New South Wales	•		•	
TransGrid		•		•
Transport Co-ordination Authority	•		•	
Transport, Ministry of	•		•	
Treasury	•		•	
Urban and Transport Planning, Department of	•		•	
Waste Fund	•			•
Waste Recycling and Processing Corporation		•		•
Waterways Authority	•		•	
Wollongong Sports Ground Trust		•		•
Women, Department for	•		•	
WorkCover Authority	•			•
Workers' Compensation (Dust Diseases) Board	•			•
Zoological Parks Board of NSW		•		•

Notes:

(a) *This table only includes those agencies which have had information collected directly from them for the Budget Papers. Other agencies not specifically listed may be incorporated within other agencies.*

(b) *The NSW Treasury Corporation, the Fair Trading Administration Corporation and the controlled FANMAC Trusts, all Public Financial Enterprises, provide data that is included in these Budget Papers.*

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[1] *Australian Bureau of Statistics*

[2] *Equates to the scope of the Budget in New South Wales.*

[3] *The Public Trading Enterprise or PTE sector is also referred to by the ABS as the Public Non Financial Corporations (PNFC) Sector.*

[4] *Based on reliance on Consolidated Fund allocations.*

APPENDIX D: 2002-03 BUDGET - SUMMARY OF VARIATIONS

Category/Agency	*Budget*	*Revised*	*Variation*	*Comment on Major Variations*
	$m	*$m*	*$m*	
Taxation				
Stamp Duty -				
Contracts and conveyances	2,720	3,553	833	Higher property prices and sales volumes in a period of relatively low interest rates.
Insurance	385	445	60	Premiums higher than expected.
Share transfers	31	72	41	Higher volumes traded.
Mortgage Duty	278	360	82	Strong property market.
Other duties	590	590	...	
Payroll Tax	4,862	4,740	(122)	Compositional changes in employment.
Land Tax	1,048	1,135	87	Higher land values than assumed in the Budget.
Other taxes	2,948	3,024	76	Minor variations.
Total, Taxation	**12,862**	**13,919**	**1,057**	
Commonwealth Grants				
First Home Owners grant (FHOG)	302	311	9	Additonal funding for new homes.
Guaranteed Minimum Amount (other than FHOG)	9,877	9,931	54	Revised estimates of State populations.
Education and Training	1,006	1,094	88	Mainly a $39M Enrollment Benchmark Adjustment. Special Purpose Grants have also increased in the following areas: Fostering Maths, Science and Technology $18M; Indigenous grants $7M and TAFE $12M

Category/Agency	Budget	Revised	Variation	Comment on Major Variations
	$m	$m	$m	
Supplementary FHOG	8	16	8	Additional funding for new homes.
Other	3,860	3,884	24	Minor variations.
Total Commonwealth grants	**15,053**	**15,236**	**183**	
Financial distributions	**1,215**	**1,192**	**(23)**	Minor variations.
Fines, Regulatory Fees and Other				
Traffic and Parking Fines	150	131	(19)	Mainly lower revenue from fixed digital speed cameras.
NSW Crime Commission	3	10	7	Increased revenue from sale of confiscated property.
Other	646	652	6	Minor variations.
Total Fines, Regulatory Fees and Other	**799**	**793**	**(6)**	
TOTAL STATE REVENUES	**29,929**	**31,140**	**1,211**	
Sales of Goods and Services				
Health	834	909	75	Increased revenue earned by salaried doctors in public hospitals from private patients and increased revenue from Veteran Affairs
Education and Training	187	219	32	Mainly increases in course fees and fees collected from overseas students.
Roads and Traffic Authority	265	222	(43)	Transfer of budget for the Cross City Tunnel to Other Operating revenue below.
Other	1,193	1,205	12	Minor variations.
Total Sales of Goods and Services	**2,479**	**2,555**	**76**	

Category/Agency	*Budget*	*Revised*	*Variation*	*Comment on Major Variations*
	$m	*$m*	*$m*	
Investment Income				
NSW Insurance Ministerial Corporation	242	91	(151)	Lower than anticipated returns in equity markets.
Other	347	263	(84)	Minor variations.
Total Investment Income	**589**	**354**	**(235)**	
Grants and Contributions				
Health	61	83	22	Higher public donations received.
Other	321	346	25	Minor variations.
Total Grants and Contributions	**382**	**429**	**47**	
Other Operating revenue				
Roads and Traffic Authority	51	345	294	Receipt of one-off revenues relating to development contributions for the Cross City Tunnel and Western Sydney Orbital Motorway. Including $43M transfer of budget from Sales of Goods and Services.
Transport	5	85	80	Donation of Land from State Rail to Department of Transport. GFS treatment reverses transaction before determining the Budget result.
Other	200	291	91	Minor variations.
Total Other Operating revenue	**256**	**721**	**465**	
TOTAL OPERATING REVENUES	**3,706**	**4,059**	**353**	

Category/Agency	*Budget*	*Revised*	*Variation*	*Comment on Major Variations*
	$m	*$m*	*$m*	
Expenses				
Roads and Traffic Authority	1,481	1,764	283	Mainly due to a change in accounting treatment on the rate of depreciation. Increased expenditure on Road Safety and Traffic and Transport programs.
Department of Transport	2,266	2,476	210	Additional resources allocated to metropolitan rail maintenance, to subsidise State Rail's operations and a revised allocation of costs associated with the Parramatta Rail Link between State Rail Authority and Rail Infrastructure Corporation.
Department of Education and Training	6,629	7,047	418	Additional salary costs for teachers, costs associated with greater than expected enrolments, grants to non government schools, cleaning contract costs, conveyance of disabled school children and funding towards school expenses.
Department of Community Services	614	695	81	Mainly due to increases in the number of children in Out of Home care, cost of children in foster care, extra child protection caseworkers and changes in the Social and Community Services Award (SACS).
Rural Fire Service	117	205	88	Summer bushfire season.
Department of Health	7,837	8,155	318	Additional salary costs including the recent award decision impacting nurses wages; increased spending on emergency wards; additional funding for the Ambulance service; additional expenditure in relation to private patient fees in public and private hospitals.
Other	13,391	13,432	41	Minor variations.
Total Expenses	**32,335**	**33,774**	**1,439**	
Net Operating Surplus	**1,300**	**1,425**	**125**	

Category/Agency	*Budget*	*Revised*	*Variation*	*Comment on Major Variations*
	$m	*$m*	*$m*	
Asset Acquisition				
Health	504	470	(34)	Mainly projects reclassified as maintenance.
Roads and Traffic Authority	1,196	1,245	49	Expenditure associated with the Cross City Tunnel and Western Sydney Orbital Motorway offset by revisions in Commonwealth funding.
Motor Vehicles	...	347	347	Car fleet finance lease.
Other	1,322	1,331	9	
Total Asset Acquisitions	**3,022**	**3,393**	**371**	
Depreciation				
Roads and Traffic Authority	305	502	197	Removes the change in the Road and Traffic Authority's depreciation treatment from the budget result in accordance with GFS principles.
Other	1,099	1,215	116	Mainly the impact of the finance lease for motor vehicles.
Total Depreciation	**1,404**	**1,717**	**313**	
Asset Sales and other movements in non-financial assets				
Waterways Authority	153	3	(150)	Deferral in the sale of the Maritime Centre.
Asset Sales and other movements	...	(80)	(80)	Removes the donation of land from State Rail to Department of Transport from the Budget result in accordance with GFS principles.
Motor vehicle leases		230	230	Reclassification from operating to finance lease for motor vehicles.
Other	333	297	(36)	Minor variations
Total Asset Sales and other movements in non-financial assets	**486**	**450**	**(36)**	
BUDGET RESULT	**168**	**199**	**31**	

APPENDIX E: RECONCILIATION OF BUDGET AND PREVIOUS FORWARD ESTIMATES OF EXPENSES FOR 2003-04

	$m
FORWARD ESTIMATE TOTAL 2003-04 EXPENSES AS SHOWN IN 2002-03 BUDGET	**33,090**
Superannuation	231
Transport subsidies	264
Insurance expenses	50
Finance expenses	66
Health:	
♦ Nurses' 6% wage increase	115
♦ Increased Commonwealth funding	60
♦ Private Practice Trust Funds	39
♦ Expenditures funded from additional revenue	94
♦ Other	6
Roads and Traffic Authority:	
♦ Depreciation	197
♦ Other	31
Education and Training:	
♦ Additional Commonwealth funding	33
♦ School maintenance	40
♦ Transfer from capital	16
♦ Class size reductions	6
♦ Teacher quality and supply	6
♦ Other	20
Department of Community Services:	
♦ Expansion of out-of-home care services	47
♦ New caseworkers	14
♦ Intensive early intervention support services	6
♦ Drought relief payments	5
♦ Additional family support services	3
♦ Other	21

	$m
NSW Police:	
♦ Funding for handgun buyback	29
♦ Other	28
Department of Ageing, Disability and Home Care:	
♦ New Commonwealth-State Disability Funding Agreement	13
♦ Additional Commonwealth funding	22
♦ Other	13
Agriculture:	
♦ Drought	22
♦ Fire ant eradication	7
♦ Other	6
Rural Fire Service	26
Audit Office[(a)]	24
Premier's Department	22
Crown Property Portfolio	18
Sydney Olympic Park Authority	18
Aboriginal Housing Office	17
Legal Aid Commission	13
Motor Accidents Authority	13
NSW Fire Brigades	12
Attorney General's Department	12
Ministry for the Arts	9
Corrective Services	-13
Restructured Agencies	68
Other expenses	73
TOTAL EXPENSES 2003-04 BUDGET	**34,912**

(a) Not included in forward estimates published in 2002-03 Budget.

APPENDIX F: GLOSSARY

ACCRUAL ACCOUNTING STATEMENTS

Consist of a Statement of Financial Performance, a Statement of Cash Flows and a Statement of Financial Position.

ADJUSTMENT FOR NET CAPITAL ACQUISITIONS

This adjustment adds the depreciation charge back into the operating result and then adjusts for the financial impact of capital expenditure, new finance leases and asset sales.

APPROPRIATIONS

The process by which monies are allocated by Parliament to Ministers for the purposes of funding agencies to provide goods and services to the public.

ASSETS

Are controlled and provide future economic benefits.

AVERAGE STAFFING

Represents the number of staff engaged on outputs produced by the program.

BUDGET-DEPENDENT AGENCIES

Agencies that are predominantly funded from the Consolidated Fund, rather than user charges.

BUDGET RESULT

Is equal to the GFS Net Lending measure and broadly represents the Government's capacity to reduce the State's Net Financial Liabilities.

CASH FLOWS FROM FINANCING ACTIVITIES

Shows all payments and receipts relating to changing the size or composition of an organisation's financial structure. Changes to borrowings are shown in this section.

CASH FLOWS FROM INVESTMENTS IN FINANCIAL ASSETS

Shows payments and receipts relating to financial assets.

CONSOLIDATED FUND

The main banking account of the Government. It records:

- Taxes, fines, fees collected;
- Commonwealth grants;
- Financial distributions from non-General Government agencies; and
- Recurrent and capital appropriations to agencies.

EQUIVALENT FULL-TIME (EFT)

Standard measure of staffing which measures an agency's labour force in terms of an equivalent number of full-time positions.

EXPENSES - EMPLOYEE RELATED

Expenses include salaries and wages and employee entitlements such as superannuation and long service leave.

EXPENSES - OPERATING, DEPRECIATION AND GRANTS

Includes all other operating expenses, maintenance of fixed assets, interest, depreciation and other expenses. Does not include expenditure on the purchase of assets.

GENERAL GOVERNMENT DEBT ELIMINATION ACT 1995

The Act contains a number of provisions dealing with the coverage of the Budget and the standards to be used in presenting Budget data. Sets targets over time for the sound financial management of the State.

GENERAL GOVERNMENT NON BUDGET-DEPENDENT AGENCIES

Agencies that do not rely on the Consolidated Fund for ongoing financial support, but which are not commercial agencies.

GENERAL GOVERNMENT SECTOR

Consists of those public sector entities, which provide, in the main, goods and services outside the market mechanism as well as providing for the transfer of income for public policy purposes, in accordance with ABS definitions.

GFS CASH SURPLUS/(DEFICIT)

Measures the direct financial impact of Government activity on the economy. In simple terms the surplus/(deficit) is equal to the net cash flows from operating activities and investing in non-financial assets.

GOVERNMENT FINANCE STATISTICS (GFS)

A system developed by the International Monetary Fund and used by the Australian Bureau of Statistics to classify the financial transactions of governments and measure their impact on the rest of the economy.

LIABILITIES

Are amounts owed to other parties. They are, by their nature, financial, and include debt obligations, unfunded superannuation, other employee entitlements and amounts payable to suppliers.

NET CASH FLOWS FROM OPERATING ACTIVITIES

Shows all payments and receipts relating to normal business operations. Please note that payments and receipts are not the same as accrued expenses and revenue because the receipt or payment may relate to transactions, which occur in the previous or in the next financial year.

NET COST OF SERVICES

Measures the net cost of providing Government services. It equals Operating Expenses less Operating Revenues, and excludes State Revenues.

NET DEBT

Is broadly equal to gross borrowings less cash and investments.

NET FINANCIAL LIABILITIES

Is broader in concept than Net Debt and best represents the financial position of the Government. It includes all liabilities (such as unfunded superannuation and insurance liabilities) less all financial assets (with the exception of the Government's equity in the PTE/PFE sectors).

NET INCREASE/(DECREASE) IN CASH HELD

Shows the net result of all cash receipts and payments for the current financial year.

NET WORTH

Represents total assets less total liabilities.

OPERATING REVENUES

Includes revenue earned in the period, even if not yet received. Includes revenues from sale of goods and services, investment income and grants at individual agency level.

OPERATING STATEMENT/STATEMENT OF FINANCIAL PERFORMANCE

Details the major categories of expenses and revenues of agencies and includes non-cash items such as depreciation and accruing superannuation entitlements. Also, the Statement reflects movements in accrued items such as accounts receivable and accounts payable.

OPERATING SURPLUS

This is the accounting result for the current financial year, which corresponds to profit or loss in private sector reports. It equals State Revenues less the Net Cost of Services. The surplus includes all abnormal transactions.

OUTCOMES

The results for the community, which the Government is seeking to influence.

OUTPUTS

Goods and services provided by agencies to assist in the achievement of the Government's desired outcomes.

PROGRAM DESCRIPTION

Explains the activities, which are grouped together within each program of an agency.

PROGRAM OBJECTIVES

Statements about the broad aims of the program.

PROGRAM STATEMENTS

Each program statement includes narrative material - program objectives and program description - as well as staffing and detailed financial information.

PUBLIC FINANCIAL ENTERPRISE (PFE)

Agencies which have one, or more, of the following functions:

- that of a central bank;
- the acceptance of demand, time or savings deposits; or
- the authority to incur liabilities and acquire financial assets in the market of their own account.

PUBLIC TRADING ENTERPRISE (PTE)

Agencies which charge for services provided and hence have a broadly commercial orientation.

SOCIAL PROGRAMS

Non-commercial requirements imposed on Public Trading Enterprises by the Government.

STATE REVENUES

Includes taxes, fines and fees, financial distributions from Government businesses and Commonwealth grants.

STATEMENT OF CASH FLOWS

Contains cash inflows and outflows from the agency's main operations, together with cash flows derived from both investing and financing activities.

STATEMENT OF FINANCIAL POSITION

Shows assets, liabilities and equity and is prepared for each agency and at a consolidated sector level.

STATE OWNED CORPORATION

PTEs which have been established with a governance structure which mirrors as far as possible that of a publicly-listed company

TOTAL CASH FLOWS FROM INVESTMENTS IN NON-FINANCIAL ASSETS

Shows payments and receipts relating to the purchase or sale of non-financial assets such as land, buildings and infrastructure assets.

TOTAL EXPENSES

The total amount incurred in the provision of goods and services, regardless of whether a cash payment is made to meet the expense in the same year.

TOTAL STATE SECTOR

Comprises the General Government Sector, the Public Financial Enterprise Sector and the Public Trading Enterprise Sector (also referred to as the Public Non Financial Corporations Sector).

APPENDIX G: STATEMENT OF GOVERNMENT FINANCE STATISTICS AND ACCOUNTING PRINCIPLES AND POLICIES

FINANCIAL STATEMENTS

Chapter 1 of Budget Paper No. 2 presents three budget financial statements that comply with the accrual based government financial statistics (GFS) principles recently developed by the Australian Bureau of Statistics:

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

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

A reconciliation of the operating surplus derived under AAS and the budget result reported on a GFS basis appears in Appendix A.

Budget Operating Statement

The budget result (GFS basis) in the budget operating statement is the key indicator of change in the State's financial position. It represents the balance available to reduce general government sector net liabilities. Consequently, the budget result broadly approximates the movement in net financial liabilities, underscoring the Government's focus on balance sheet management.

The principal difference between the net operating surplus and the budget result is the treatment of capital. The net operating surplus includes a depreciation charge that reflects the cost of wear and tear of agencies' assets arising from the delivery of services. The budget result excludes depreciation but instead reflects agencies' acquisition and sale of assets.

Statement of Financial Position

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

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

Statement of Cash Flows

The statement of cash flows adopts a GFS format and classification approach with the key focus being the cash surplus/(deficit). The result reflects all payments and receipts on a cash basis. Any accrual transactions included in the budget result, such as accrued dividends, are removed and replaced with the equivalent cash transactions.

The cash result is fully detailed in the GFS statement of cash flows and is one of the measures of performance against the fiscal targets and principles in the *General Government Debt Elimination Act 1995*.

Comparability of historical data

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

Accounting based reports

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

They include all accrued expenses and revenues and reflect the operating result for general government agencies. This differs from the budget result in Chapter 1 which is prepared on a GFS basis. GFS has an economic focus and for this reason excludes from the operating result any revenues and expenses that are related to the revaluation of assets or liabilities. These types of revenues and expenses are largely outside the control of governments. This different treatment can result in wide variances in the reported results under the GFS and the AAS approaches.

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

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

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

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

DEPARTURES FROM AUSTRALIAN ACCOUNTING STANDARDS AND GFS

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

Departures from Australian Accounting Standards and Principles

The Budget preparation departs from Australian Accounting Standards and principles as follows:

- lack of reliable information has resulted in certain cultural collection assets and school bank accounts not being recognised in the financial statements. Further, the Auditor-General qualified the 2001-02 Total State Sector Accounts as he was unable to obtain information and form an opinion on the value of the Crown's investment of $469 million in Snowy Hydro Limited recognised in the Statements of Financial Performance and Financial Position. The audit of Snowy Hydro's first financial report was completed subsequent to the Total State Sector Accounts and Treasury anticipates that this matter will no longer be qualified;

- the WorkCover Scheme Statutory Funds have not been consolidated because they are regulated, but not controlled by the NSW Government. This treatment has been confirmed in three separate legal opinions provided by the Crown Solicitor's Office since 1996, including advice given on the matter by the NSW Solicitor General. Despite these opinions the Auditor-General has qualified his recent Independent Audit Reports, because he is of the opinion that the State has the capacity to control decision making in relation to the scheme's financial and operating policies; and

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

Departures from GFS Principles

The Budget as summarised in Chapter 1 of Budget Paper No. 2 has been prepared in accordance with GFS principles except as discussed below:

- the Australian Bureau of Statistics requires that selected payments that pass through the State's accounts e.g. transfer payments for non-government schools from the Commonwealth, be included in the operating statement and statement of cash flows. Reports in the Budget Papers exclude these receipts and payments as the NSW Government has no control over them;

- GFS requires the general government sector to record an investment in the equity of the PTE and PFE sectors. The equity investment has been excluded from the general government's net financial liabilities as the investment is supported largely by physical infrastructure and in practical terms is not in the true nature of a financial asset; and

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

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

The first two of the above three transactions have, however, been treated in accordance with GFS principles in Chapter 8, Uniform Presentation Framework.

BUDGET SCOPE

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

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

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

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

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

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

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

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

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

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