Budget Statement

2004-05

New South Wales

Budget Paper No. 2

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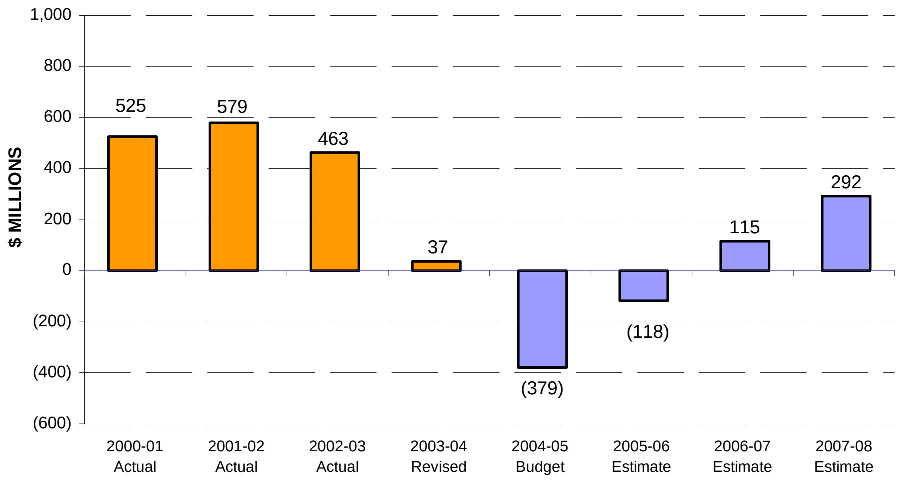
BUDGET OVERVIEW

FISCAL POSITION AND OUTLOOK

The measures announced in the April 2004 mini-Budget and detailed in the Budget address the significant fiscal pressures that emerged during 2003-04. These pressures threatened the State's fiscal sustainability. Even with these measures, a small deficit is in prospect for 2004-05, but importantly, the fiscal position is on an improving trend with a return to surplus from 2006-07.

Budget deficits of $379 million in 2004-05 and $118 million in 2005-06 will give way to modest surpluses in 2006-07 and 2007-08 (Chart 1).

Chart 1: Budget Result (Net Lending of the General Government Sector), 2000-01 to 2007-08

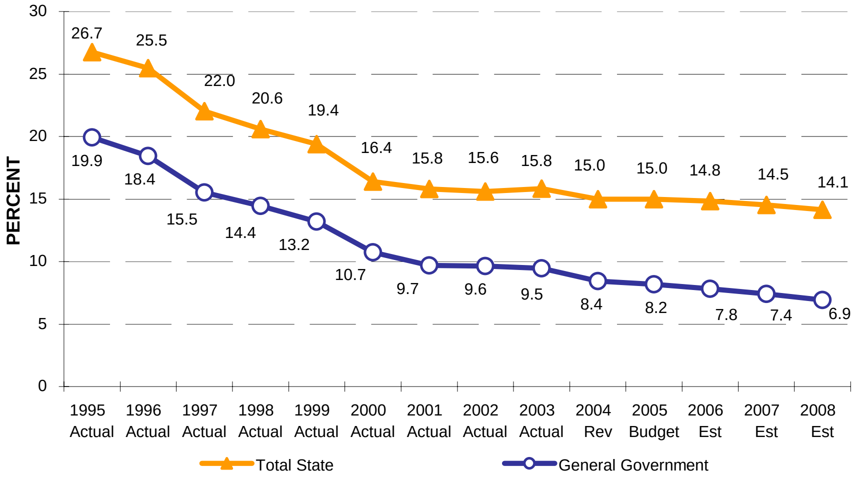


SOURCE: Chapter 1.

Net financial liabilities will continue to trend lower as a percentage of gross state product (GSP), while net worth reaches $130 billion by 2007-08.

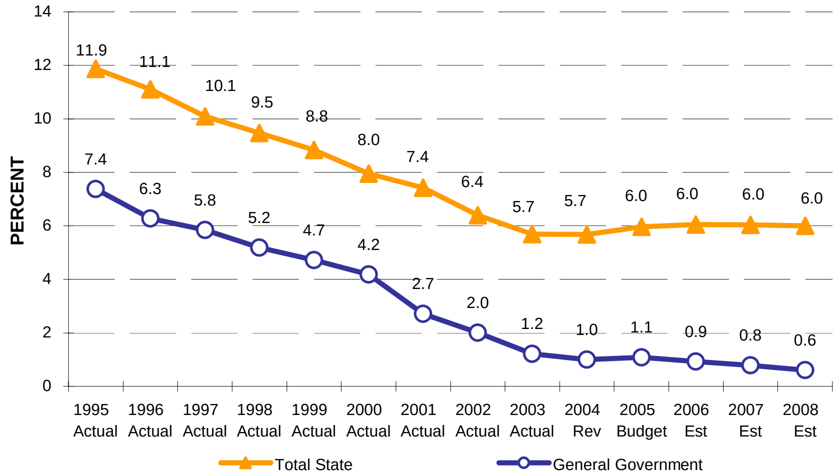
General government net financial liabilities have declined from $32.8 billion (19.9 percent of GSP) in June 1995 to $24.2 billion (8.4 percent of GSP) in June 2004. While remaining at around that level in nominal terms through to 2007-08, as a share of GSP net financial liabilities should continue to decline, to 6.9 percent of GSP in June 2008 (Chart 2). Underlying net debt of the general government sector has also fallen significantly since 1995, both in dollar terms and as a proportion of GSP (Chart 3).

Chart 2: Net Financial Liabilities as a Percentage of Gross State Product at 30 June, 1995 to 2008



SOURCES: NSW Treasury for net financial liabilities; GSP from ABS (actual) and NSW Treasury (estimates from 2003-04).

Chart 3: Underlying Net Debt* as a Percentage of Gross State Product at 30 June, 1995 to 2008



* *Excluding prepayment/deferral of superannuation contributions.*

SOURCES: NSW Treasury for underlying net debt; GSP from ABS (actual) and NSW Treasury (estimates from 2003-04).

The budget surplus for 2003-04 is estimated to be $37 million, close to the original budget estimate of $43 million. Above-budget revenue and a strong balance sheet enabled the Government to increase expenditure in priority areas and meet higher than budgeted wage increases for teachers and nurses, while still delivering a modest surplus.

Last year's Budget noted that the medium-term objective of the Government's fiscal strategy – a reduction in net debt to sustainable levels by June 2005 – had been achieved. This means that the State's finances are able to withstand a *temporary* or *cyclical* fiscal shock without compromising the AAA credit rating and without the need to reduce services or increase taxes. Temporary budget deficits and an increase in net debt during the period of the shock would eventually give way to surpluses and a reduction in net debt again as the shock receded.

As 2003-04 progressed, however, a number of *permanent* or *structural* fiscal shocks emerged which threatened the attainment of that medium-term objective. These included higher than anticipated wage increases as well as the reduction in Commonwealth general purpose grants as a result of the Commonwealth Grants Commission's 2004 review. If these shocks had not been addressed, budget deficits and higher net debt would have ensued.

The Government's wages policy is to maintain the significant real increases in public sector wages secured since 1996. In practical terms that means wage increases of up to 3 percent per annum at the expiry of current awards. The combined effect of recent NSW Industrial Relations Commission (IRC) decisions for teachers and nurses has added nearly $500 million to the ongoing level of annual expenses over and above that provided for under the Government's wages policy. The bulk of the initial impact of these decisions occurs in the 2004-05 budget year[1]. However, expenses in all future years are higher by that full amount. Similarly, the adoption by the Commonwealth of the Commonwealth Grants Commission recommendations lowered revenues by $345 million per year.

The Government responded to this structural deterioration in the fiscal position with policy changes as announced in the mini-Budget. Expenditure savings and tax increases have a total value of around $880 million in 2004-05. These policy initiatives have put the budget position back on a sound footing. This has ensured that the medium-term objective of fiscal sustainability continues to be met.

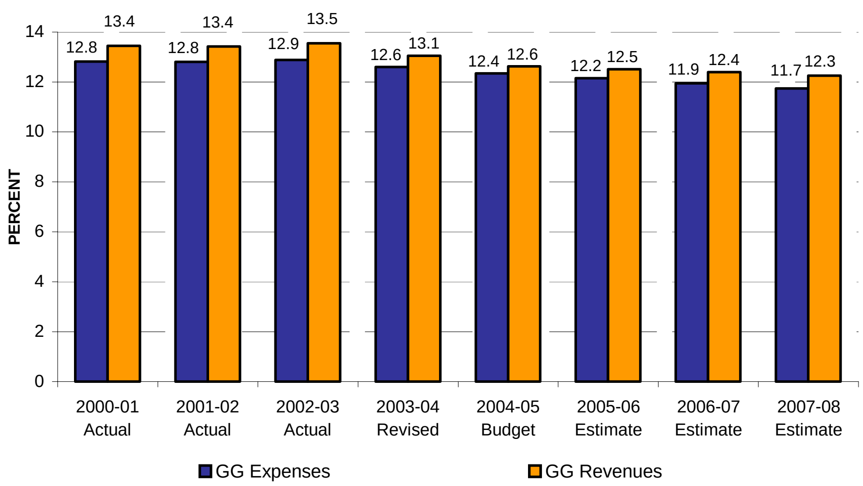
[1] *At the time of the mini-Budget, in anticipation of the IRC's final decision, provisions were made for a further 3 percent increase in teachers' wages from 1 July 2004. The final decision by the IRC on 9 June awarded an increase of 3 percent from 1 July 2004 and a further increase of 3 ½ percent from 1 January 2005. That is an effective wage increase in 2004-05 of 4.75 percent. This increases the Budget deficit relative to the time of the mini-Budget by close to $100 million.*

The measures announced in the mini-Budget go further than restoring fiscal sustainability. They also allow for enhanced service delivery in key areas and transfer duty relief for first home buyers, while maintaining the ongoing benefits to business and consumers of the Government's tax reduction program since 1998-99.

As demonstrated by the gradual and modest recovery in the budget position, however, there is little flexibility to absorb future shocks. If future permanent fiscal shocks, including wage increases above those allowed for under the Government's wages policy were to emerge, further policy responses would be required.

In 2004-05, the NSW economy and employment should return to average levels of growth, though the property market – and thus underlying transfer duty – is expected to slow. The Budget economic forecasts and revenue projections could be characterised as a 'soft landing' scenario for housing. Supporting factors include the robust global economy, firm employment growth, an historically low unemployment rate and neutral monetary policy. The extent of the property market cooling is, however, a key uncertainty in the economic and fiscal outlook for the State. Global developments, including the recent increases in oil prices, also pose uncertainties for the State's economic and fiscal outlook (Chapter 5 provides full details).

Chart 4: General Government Revenues and Expenses* as a Percentage of Gross State Product, 2000-01 to 2007-08



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

SOURCE: Chapter 1.

New South Wales' fiscal fundamentals remain strong, with international credit rating agencies again reaffirming the State's AAA rating in 2003-04. With the measures introduced in the mini-Budget, the budget position has been restored to a sound footing and the State's fiscal fundamentals will remain strong.

Financial liability management measures are directed at maintaining a sustainable fiscal position, enabling progress towards long-term fiscal targets. These measures include full funding of the Treasury Managed Fund self-insurance scheme 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 1995* and provides detail of 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

	2000-01	*2001-02*	*2002-03*	*2003-04*	*2004-05*	*2005-06*	*2006-07*	*2007-08*
	Actual	*Actual*	*Actual*	*Revised*	*Budget*	*Est*	*Est*	*Est*
In $ billions								
Revenues	32.1	33.8	36.0	37.4	38.3	40.1	42.1	44.1
Expenses	30.6	32.3	34.3	36.1	37.4	39.0	40.6	42.2
Budget Result	0.5	0.6	0.5	0.0	(0.4)	(0.1)	0.1	0.3
Net Financial Liabilities	23.1	24.3	25.2	24.2	24.8	25.1	25.2	24.9
Underlying Net Debt	6.5	5.1	3.2	2.9	3.3	3.0	2.7	2.2
Nominal growth rates (% pa) [(a)]								
Revenues	5.1	5.5	6.5	3.7	2.4	4.8	4.9	4.7
Expenses	7.2	5.5	6.3	5.2	3.8	4.2	4.0	4.1
Gross State Product	6.2	5.6	5.6	7.6	5.9	5.9	5.9	5.9

(a) *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 $37.4 billion in this Budget for expenses, $3.6 billion for capital investment by the general government sector and $4.3 billion for concessions and tax expenditures.

This Budget continues the program of expenditure increases in priority areas announced in previous Budgets. Multi-year increases in spending were part of those programs, which continue to influence expense growth in this Budget. In addition, further increases in spending in the key areas of health, transport and education were announced in the 2004 mini-Budget. To accommodate this additional spending, continue the attack on duplication and overlap and respond to the fiscal pressures, the Government also announced in the mini-Budget $365 million of targeted expenditure savings.

The Budget includes spending in key priority areas:

- Last year's Budget dedicated the proceeds of higher gaming taxes to health spending in the future. The proceeds of a higher than expected Budget surplus in 2002-03, as confirmed in October 2003, were also dedicated to a Health Super Growth Fund, the earnings of which will be solely directed to capital spending in health. This Budget provides further funding to improve access to health services by providing 563 additional permanent beds, promoting clinical excellence in the health system and providing improved mental health services. Capital spending in health in 2004-05 will be the highest on record. In addition to these measures, the Government will continue to reduce health administration costs to release more funds to emergency departments and hospital wards.

- As announced in the mini-Budget, the Budget also provides for a major overhaul of the rail system with a $350 million boost for passenger rail services. This includes: the Government's Rail Clearways Program designed to untangle the network and improve reliability; and the replacement of the remaining 498 non-airconditioned rail carriages with new, air-conditioned stock in the next six years.

- Notwithstanding the above-budget wage increases for teachers granted by the Industrial Relations Commission, increases in education funding have continued. The Government had already committed to recruit an additional 1,500 teachers to continue the plan of reducing class sizes. In 2004-05, 800 of the 1,500 teachers will be employed.

As a result of the policy changes announced in the mini-Budget and elaborated in this Budget, spending in other priority areas, as announced in the 2003-04 Budget will not be affected and will continue to increase in line with the Government's priorities:

- Funding for the Department of Community Services will continue to rise substantially in order to offer a home visit by an early childhood nurse to the parents of every newborn child, work with those who may be vulnerable to family breakdown and child neglect, protect children from abuse and support foster children and their carers. Funding for 100 new child protection and early intervention caseworkers and associated staff as well as 50 caseworkers and support staff for the out-of-home care system is provided in the Budget.

- Funding for the Department of Ageing, Disability and Home Care will also continue to rise substantially to maintain residential accommodation, increase support for 600 more school leavers wanting to enter the workforce and provide additional help to families who have children with a disability.

The savings measures announced in the mini-Budget and introduced in this Budget amount to $365 million and include:

- $81 million in across-the-board savings by non-front line agencies, with particular focus on advertising, travel and accommodation, printing, publications and other administration costs. Front line agencies such as health and education or agencies delivering significant specific savings will be exempt from these measures. These measures are in addition to $99.5 million of similar savings delivered in the 2003-04 Budget.

- $284 million in 20 specific savings measures. The major measures include: amalgamating the Department of Agriculture, NSW Fisheries, the Department of Mineral Resources and State Forests into a new Department of Primary Industries (saving $37 million in 2004-05); improving support and coordination between the Department of Environment and Conservation and the catchment management authorities, the Department of Infrastructure, Planning and Natural Resources and the new Department of Primary Industries (saving $30 million); continued reform of the Department of Infrastructure, Planning and Natural Resources (increasing savings by $5 million to $75 million); and fundamentally changing the management of Crown lands in NSW (saving $36 million).

Chapter 2 contains further details on general government sector expenses.

General government expenses will increase in nominal terms by 3.8 percent in 2004-05 and by an annual average 4.0 percent in the four years to 2007-08.

In the four years to 2004-05, annual growth in general government expenses has averaged 5.2 percent, below the average growth in nominal GSP, as targeted by the *General Government Debt Elimination Act 1995*. In recent years, growth in expenses has been boosted by the timing of wage increases for NSW public servants. Wage increases averaging an annual 3.6 percent, as agreed to by unions in a Memorandum of Understanding with the Government, were spread out over a four and a half year period from 1999, with the largest increases occurring in 2002 and 2003. Above-budget wage increases for teachers and nurses resulting from NSW Industrial Relations Commission decisions have also added to employee expenses in recent years.

In the Budget year and the forward estimates period, annual expenses growth is expected to slow to around 4 percent. In large part this slowing is expected to result from the Government's wages policy, which provides for annual wage increases of up to 3 percent. Several major unions have lodged claims with the NSW Industrial Relations Commission seeking wage increases higher than Government policy, threatening the overall expenses position.

A further reason for the slowing in overall expenses growth over the forward estimates period is the significant restructuring in agencies announced in this Budget and the previous Budget. The Government has taken steps to improve its management of displaced employees. Without these changes, the savings from agency restructurings included in this Budget would have been more difficult to achieve.

Table 2: General Government Total Expenses [(a)]

	2000-01	*2001-02*	*2002-03*	*2003-04*	*2004-05*	*2005-06*	*2006-07*	*2007-08*
	Actual	*Actual*	*Actual*	*Revised*	*Budget*	*Est*	*Est*	*Est*
In $ billions								
Employee-related	14.0	14.8	16.4	17.8	18.7	19.6	20.5	21.5
Maintenance & other operating	7.5	8.3	8.6	8.7	9.0	9.4	10.0	10.7
Grants & subsidies	6.7	6.7	6.7	7.0	7.0	7.3	7.4	7.4
Finance, Depreciation, Other	2.4	2.5	2.6	2.6	2.6	2.7	2.7	2.6
TOTAL EXPENSES	**30.6**	**32.3**	**34.3**	**36.1**	**37.4**	**39.0**	**40.6**	**42.2**
Growth Rates (% pa)								
Total Expenses	7.2	5.5	6.3	5.2	3.8	4.2	4.0	4.1
Gross State Product	6.2	5.6	5.6	7.6	5.9	5.9	5.9	5.9

(a) Components may not sum to totals due to rounding.

Budget Paper No.3 contains full details of expenses by agency.

Capital investment by the State will continue to rise substantially, reaching record levels for both the general government sector and the public trading enterprise sector in 2004-05.

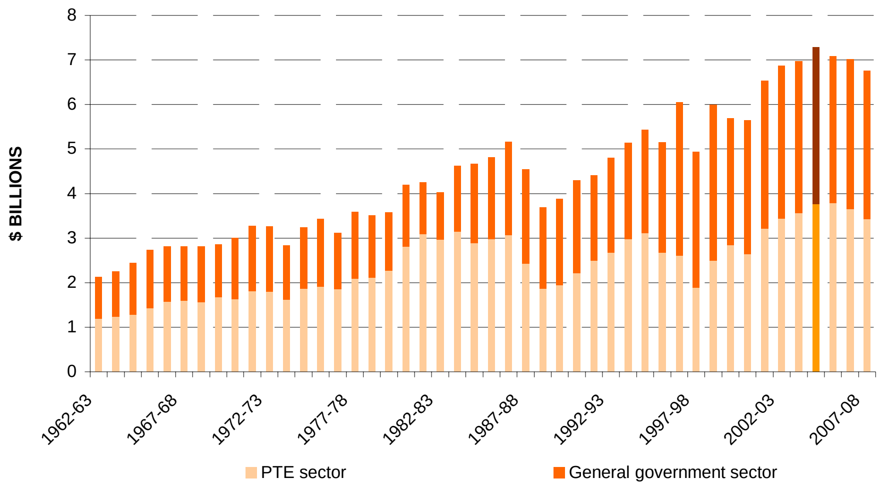
Total State capital spending of $7.5 billion in 2004-05 is 7.0 percent higher than in 2003-04, and includes $1.5 billion of new works commencing in the budget year, with an estimated total cost of $5 billion. Examples of major projects include:

- $111.7 million for upgrades to rural hospitals and community health centres ($12.8 million in 2004-05), including emergency departments and operating theatres;
- $76.2 million over four years ($23.1 million in 2004-05) for cancer care services, including replacing breast screening equipment, establishing radiotherapy services at Coffs Harbour and Port Macquarie and replacing linear accelerators at Royal Prince Alfred and Liverpool Hospitals;
- the commencement of 32 major new works projects in schools, at an estimated total cost of $102 million ($16.7 million in 2004-05), including new schools at Ashtonfield and Hamlyn Terrace, new pre-schools, various upgradings, replacement of demountable classrooms with permanent facilities, libraries, school halls and gymnasiums;
- commencement of construction for the NorthWest Transitway Network (Stage 1) at a total cost of $493 million ($80 million in 2004-05);
- $80 million for Rail Clearways, including the $55 million Bondi Junction turnback, the $17 million Macdonaldtown turnback, the $40 million Revesby turnback, Hornsby platform 5 ($60 million) and planning works for the duplication of the Cronulla line ($145 million);
- ongoing delivery of the Stage 2 of the Millennium Train rail cars ($102 million in 2004-05); and
- $424 million in capital expenditure by EnergyAustralia in 2004-05, of which $361 million relates to network infrastructure expenditure required to meet increasing capacity requirements and fund the replacement of ageing assets.

General government sector (including the Roads and Traffic Authority) capital investment of $3.6 billion in 2004-05 includes new works worth $600 million in 2004-05, with a total estimated cost of $2.5 billion.

Transport, public order and safety, health and education account for the bulk of general government capital expenditure in 2004-05 (Chart 6). Budget Paper No. 4 provides further details of the State asset acquisition program.

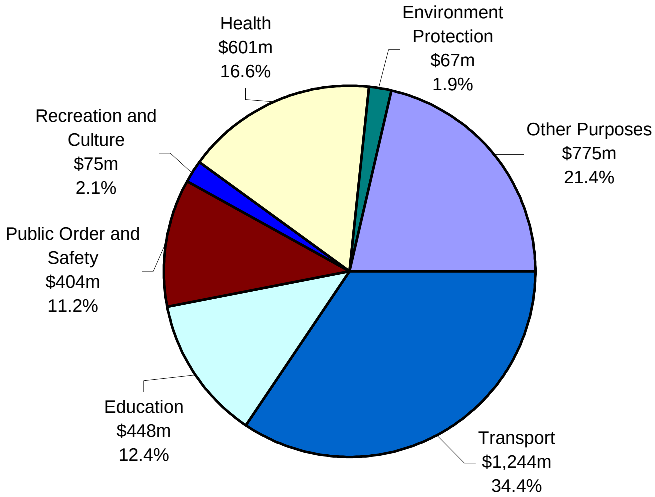
Chart 5: State Asset Acquisition Program,1962-63 to 2007-08 [(a)]



[(a)] *Chart shows General Government and Public Trading Enterprise (PTE) new fixed capital expenditure, in real 2003-04 dollars. Information is on a cash basis from 1962-63 to 1997-98; and on an accrual basis from 1998-99 to 2007-08.*

Source: Chapter 4.

Chart 6: General Government Asset Acquisitions by Policy Area, 2004-05



Total = $3,614 million

SOURCE: Budget Paper No. 4.

Concessions and tax expenditures, while not necessarily entailing a direct budget outlay, are also a significant instrument of fiscal policy. They have the same budgetary and welfare effects as a direct outlay. This Budget provides for concessions of $764 million and tax expenditures worth $3.5 billion in 2004-05. Tax expenditures are mainly on economic services (such as transfer duty and payroll tax exemptions), while the bulk of concessions are for social security and welfare and housing and community amenities. Chapter 6 provides detailed estimates of tax expenditures and concessions by policy area and by type of tax.

REVENUES

The mini-Budget introduced a number of revenue measures in order to address structural fiscal pressures and maintain fiscal sustainability, while at the same time assisting first home buyers. There are no further revenue measures in this Budget.

As discussed earlier, structural pressures on the Budget emerged over the course of 2003-04. In shaping the response to these pressures in the mini-Budget, the Government aimed to preserve the major reductions of recent years in payroll tax, insurance duty rates, motor vehicle related taxes and the Electricity Distributors Levy.

The revenue measures announced in the mini-Budget include:

- The introduction of vendor transfer duty on disposals of properties other than principal places of residence and farms.
- Greatly increased stamp duty concessions for first home buyers under the First Home Plus scheme.
- A restructuring of land tax with lower marginal rates and abolition of the tax-free threshold.
- Reform of premium property taxation to remove the annual premium property land tax and impose in its place a premium marginal rate of transfer duty on residential properties valued at over $3 million.
- Reform of coal royalties by replacing fixed dollar royalties with ad valorem royalties.

These revenue measures will result in a reduction in revenue of $44 million in 2003-04 and an increase in revenue of $515 million in 2004-05.

As well as raising net additional revenue in 2004-05 and beyond, these measures are designed to:

- Tilt the balance of transfer duty in favour of first home buyers at the expense of real estate investors; and

- Enhance the economic efficiency of the land tax and coal royalty systems.

Notwithstanding the measures announced in the mini-Budget, major revenue decisions taken since the 1999-2000 Budget will still deliver annual net revenue reductions of $817 million in 2004-05.

Total general government sector revenue is expected to grow by just 2.4 percent in 2004-05, after slowing to 3.7 percent in 2003-04.

Growth in general government sector revenue is expected to slow further in 2004-05 to 2.4 percent (an increase of $0.9 billion) following growth of 3.7 percent (an increase of $1.4 billion) in 2003-04. The main reason for this is the absence of growth in both Commonwealth general purpose grants to New South Wales and transfer duty revenue. Those two sources account for over 40 percent of total revenue.

- Reflecting the adoption of the Commonwealth Grants Commission recommendations, general purpose grants to New South Wales are expected to decline in real per capita terms by 3 percent in 2004-05, continuing the pattern since 2001-02.

- With the assistance of the measures introduced in the mini-Budget, state tax revenue will increase by $588 million (3.9 percent) in 2004-05, notwithstanding the property market slowdown. Total transfer duty will be little changed after the strong growth of recent years.

Table 3: General Government Sector Revenues [(a)]

	2000-01 Actual	2001-02 Actual	2002-03 Actual	2003-04 Revised	2004-05 Budget	2005-06 Est	2006-07 Est	2007-08 Est
In $ billions								
STATE REVENUES	28.4	30.3	31.5	33.0	33.9	35.6	37.4	39.1
- Taxation	13.3	13.2	14.2	14.9	15.5	16.3	17.3	18.3
- Commonwealth Grants								
- General Purpose	8.4	10.0	9.9	9.9	10.0	10.6	11.2	11.7
- Specific Purpose	4.6	5.1	5.3	5.7	5.8	5.9	6.1	6.3
- Financial Distributions	1.2	1.3	1.3	1.6	1.7	1.8	1.9	1.9
- Other	0.9	0.8	0.9	0.9	1.0	1.0	0.9	0.9
OPERATING REVENUES	3.6	3.5	4.5	4.4	4.3	4.5	4.7	5.0
TOTAL REVENUES	**32.1**	**33.8**	**36.0**	**37.4**	**38.3**	**40.1**	**42.1**	**44.1**
Growth Rates (% pa)								
Total revenues	5.1	5.5	6.5	3.7	2.4	4.8	4.9	4.7
Gross State Product	6.2	5.6	5.6	7.6	5.9	5.9	5.9	5.9

(a) Components may not sum to totals due to rounding.

Chapter 3 provides details of general government sector revenues, including estimates for the Budget and forward years and the impact of revenue policy measures. Chapter 7 discusses developments in intergovernmental financial arrangements, including Commonwealth payments to New South Wales.

CHAPTER 1: FISCAL STRATEGY, POSITION AND OUTLOOK

- ♦ The 2004-05 Budget is based on a medium term fiscal strategy that supports the Government's service delivery priorities by:
  - reducing net debt and other financial liabilities to sustainable levels;
  - supporting spending priorities while restricting aggregate expenditure growth; and
  - maintaining a competitive tax regime that is conducive to business investment.
- ♦ Policy initiatives unveiled in the mini-Budget have ensured that the fiscal strategy remains on track by managing the impact of decisions by the NSW Industrial Relations Commission and the Commonwealth Treasurer that have permanently raised expenses and reduced revenue.
- ♦ The estimated budget surplus of $37 million in 2003-04 is broadly in line with the original budget estimate of $43 million. Underlying general government sector net debt has declined from 1.2 percent of gross state product in June 2003 to 1.0 percent in June 2004.
- ♦ Net financial liabilities of the general government sector fell to 8.4 percent of GSP in June 2004 from 9.5 percent in June 2003, to be less than half the level of 18.4 percent of GSP in June 1996.
- ♦ General government sector net worth of $123.6 billion in June 2004 is $2.6 billion or 2.2 percent above the June 2003 level. Net worth should increase further to $130.1 billion by June 2008, for an annual average increase of about 4.1 percent in real terms between June 1996 and June 2008.
- ♦ This Budget estimates deficits of $379 million in 2004-05 and $118 million in 2005-06 followed by surpluses in each of the next two years.
- ♦ Underlying net debt will remain low and sustainable in 2004-05 at $3.3 billion and will decline over the subsequent three years.
- ♦ Net financial liabilities of the general government sector are expected to be broadly unchanged over the next four years, but to decline as a proportion of GSP to 6.9 percent by 2008.
- ♦ Following a period where real rates of pay increased by between 13 and 20 percent from July 1996, 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 fiscal developments; reports on 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* (GGDEA).

MEDIUM-TERM FISCAL STRATEGY

What the strategy entails

The objective of fiscal strategy is to manage the State's financial resources in a manner that supports the Government's service delivery objectives. Services can only be provided on a consistent basis if they are underpinned by responsible financial management. Fiscal sustainability is achieved by:

- reducing net debt and other financial liabilities to levels where the State's finances could absorb adverse cyclical economic or other temporary fiscal shocks without threatening the State's AAA credit rating[1];
- supporting spending priorities while maintaining aggregate expenditure growth in line with trend revenue growth; 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;
- responding to permanent or structural shocks so that the State remains on track to achieve the medium term fiscal objectives;
- keeping general government expenditure growth within the underlying growth of the revenue base and anticipating, to the extent possible, short-term budget risks;

[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.*

- 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 increases in the proportion of aged people in the population, technological advances and global competition.

Recent Fiscal Developments

A long run of budget surpluses and the significant lowering of net debt and other financial liabilities have met the medium-term objective of the fiscal strategy. The State's finances are now able to withstand a cyclical or temporary fiscal shock without compromising the AAA credit rating and without the need to reduce services or increase taxes.

Over the course of 2003-04, there were a number of fiscal shocks of a more permanent or ongoing nature which threatened both the medium and long-term targets of the strategy. These included the changes in grant shares resulting from the Commonwealth Grants Commission's five yearly review and above-budget increases in teachers' and nurses' wages as a result of NSW Industrial Relations Commission (IRC) decisions. The State also had to provide for substantial increases in spending on priority service delivery areas.

These factors, in combination with an expected cyclical downturn in transfer duties would have led to a deterioration in the budget outcome from the revised surplus of $37 million in 2003-04 to a deficit of over $1 billion in 2004-05. More importantly, since the impact of several of these shocks was ongoing, deficits would have continued through the forward years, undermining the strength of the State's balance sheet and hence the capacity to maintain the rate of growth in service delivery in the longer term.

Decisions by the IRC, for instance, will require the Government to fund a 12 percent increase in teachers wages over a two year period. Set against the Government's wages policy of increases of up to 3 percent per annum, the IRC's decisions represent an extra 6 percent wage increase, costing around $336 million per annum. Similarly, IRC decisions relating to nurses, represent an extra 6½ percent wage increase, costing around $160 million per annum.

The timing of the wage increases determined by the IRC means that the bulk of the initial impact will occur in the 2004-05 budget year[2]. However, expenses in all future years will be higher by that amount. In total, the IRC decisions regarding teachers' and nurses' wages have permanently lowered the budget result by close to $500 million.

On 26 March 2004, the Commonwealth Government announced it would accept Commonwealth Grants Commission recommendations to reduce grants to New South Wales by $345 million[3] in 2004-05 and future years. In conjunction with the IRC decisions, the total structural deterioration in the budget position amounted to $845 million.

The Government responded to this structural deterioration in the fiscal position with the measures announced in the mini-Budget on 6 April 2004. The structural nature of the shocks led to the need for policy changes. Expenditure savings and net tax increases totalling around $880 million in 2004-05 have seen the projected deficit reduced to $379 million. Ongoing restraint in expenses growth, the lagged benefits of expenditure savings and a return to more normal rates of revenue growth over the forward estimates period are expected to see the budget position improve and return to surplus in 2006-07. These significant policy changes have thus ensured that the fiscal strategy remains on target in both the medium and long-term.

Looking ahead, there remain several risks to the fiscal position. Chief among these are further fiscal shocks that permanently raise the level of expenses or lower the level of revenues. A number of public sector wage agreements are currently under negotiation or arbitration. Outcomes above those budgeted for under the Government's wages policy could require further policy responses to ensure the State's fiscal strategy remains on target.

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[2] *At the time of the mini-Budget, in anticipation of the IRC's final decision, provisions were made for a further 3 percent increase in teachers' wages from 1 July 2004. The final decision by the IRC on 9 June awarded an increase of 3 percent from 1 July 2004 and a further increase of 3 ½ percent from 1 January 2005. That is an effective wage increase in 2004-05 of 4.75 percent. This increases the Budget deficit relative to the time of the mini-Budget by close to $100 million. The Budget result would have been a deficit of $280 million in 2004-05 had the IRC not awarded the 3.5 percent increase from 1 January 2005.*

[3] *The Commonwealth Grants Commission generates relativities on two bases: the pre-GST Financial Assistance Grants (FAGs) basis and the current GST basis. At the time the Commission's findings were implemented, New South Wales was expected to remain on FAGs relativities in 2004-05. This would have led to a $376 million loss in 2004-05. However, estimates of GST revenue in the 11 May Federal Budget now suggest New South Wales will receive grants under the GST relativities, which is expected to result in a loss of $345 million. For more detail, see Chapter 7.*

On a longer time frame, the finances of the State are expected to come under strain from, inter alia, higher spending on health services as the population ages. While such factors may not significantly affect budget results in the near-term, improving the efficiency and effectiveness of service delivery is a necessary, though not sufficient, response to such fiscal pressures.

This Budget introduces further significant efforts to improve service delivery by restructuring certain agencies. This task of improving efficiency will be ongoing.

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 1995*(GGDEA) sets June 2005 as the target date for general government sector net debt to reach a sustainable level, and June 2020 as the target date to eliminate general government sector net debt[4].

The GGDEA 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. Some of the factors relevant to assessing the sustainability of the State's debt position 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.

As reported in the 2003-04 Budget Papers, the medium-term target of a sustainable level of general government sector net debt was achieved ahead of the June 2005 target. That said, without the measures introduced in the 2004 mini-Budget, that achievement would have been in jeopardy.

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[4] *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 following provides the status of key fiscal aggregates to date. The discussion covers the period 1995-96 onwards, as the *General Government Debt Elimination Act* came into effect in December 1995[5].

- General government cash surpluses totalled about $4.4 billion in the eight years to 2003-04.

- Average annual growth of total expenses of the general government sector broadly kept pace with that of total revenue during the same period.

- 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 1.0 percent of GSP ($2.9 billion) in June 2004, down from 6.3 per cent of GSP ($11.1 billion) in June 1996. This represents an average annual reduction of 15.5 percent during the period.

- Consequently, the ratio of *general government* net interest to revenue progressively fell from 8.1 percent in 1995-96 to 2.1 percent in 2003-04. Finance expenses in 2003-04 were in the order of $788 million - less than half the level in 1995-96 - and should fall to around $667 million in 2007-08.

- T*otal state sector* underlying net debt has been maintained at 5.7 percent of GSP ($16.2 billion) in June 2004, down from11.9 percent of GSP ($19.6 billion) in June 1995.

- Net financial liabilities of the *general government sector* amount to 8.4 percent of GSP ($24.2 billion) at June 2004, down from 18.4 percent of GSP ($32.6 billion) in June 1996. Corresponding numbers for the *total state sector* are 15 percent of GSP ($42.9 billion) at June 2004, down from 25.5 percent of GSP ($45 billion) eight years earlier.

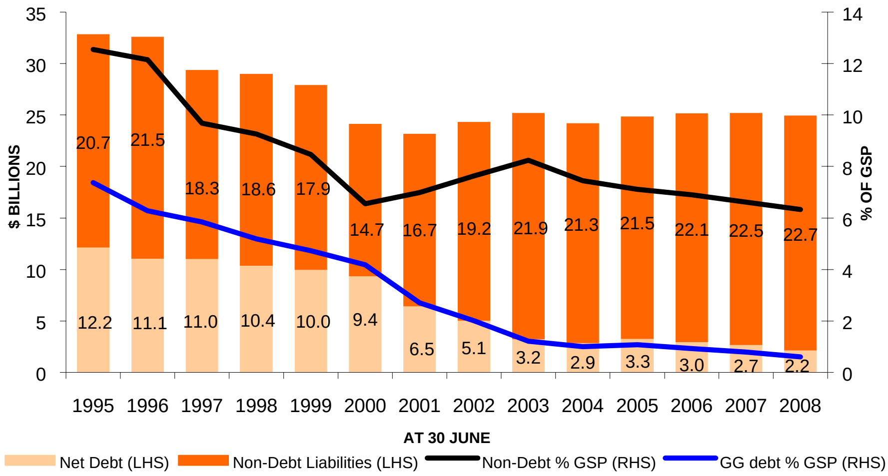
- The *total state sector* underlying net unfunded superannuation liabilities are 4.5 percent of GSP or $12.9 billion at June 2004, a decline of 6.4 percent from a year earlier. These liabilities are now $1.8 billion lower than the 8.3 percent of GSP ($14.8 billion) in June 1996. The unfunded liability was reduced by $886 million in 2003-04 after increasing in recent years following a sharp decline in superannuation fund investment returns and actuarial revaluations.

[5] *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.*

The overall financial position of the NSW Government has improved substantially over the last eight years. This is most clearly shown by reduced general government net debt, which has reached low levels and is sustainable. Even with a deficit forecast in 2004-05, general government underlying net debt as a share of GSP remains on a downward trend. Net unfunded superannuation liabilities, after rising in the three years to June 2003, principally reflecting weakness in global equity markets, are projected to fall in 2003-04. They are, however, expected to increase moderately over the forward estimates period.

General government net financial liabilities are expected to decline in dollar terms in 2003-04 (see Chart 1.1), but to increase in 2004-05 and the forward years in part due to the growth in unfunded superannuation liabilities[6]. 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: Net Debt and Non-Debt Liabilities of the General Government Sector at 30 June, 1995 to 2008



Source: Section 1.3, Chapter 1.

Adherence to the expenditure growth target in the *GGDEA* is an important means of achieving sustainable budget outcomes. As targeted by the *GGDEA*, nominal growth in total expenses provided in this Budget, averaging 4 percent for the four years to 2007-08, is below the 5.9 percent projected average annual growth in nominal GSP for the same period. Savings measures introduced in this Budget will help keep expenses growth within the growth target.

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[6] *Budgeted growth up to 2013 is consistent with the funding plan in place to eliminate unfunded superannuation liabilities by 2030 (Refer to Chapter 4, Section 4.4 for details).*

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. Unlike general government sector debt, PTE debt is supported by assets that earn a financial return and generate revenues to cover expenses associated with the debt.

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 2007-08. In the next four years, a $15.5 billion investment by government businesses for capital expenditure will be partly funded by an increase in net debt of $6 billion.

As government businesses invest in new income-earning infrastructure, the value of taxpayers' equity in those businesses rises. Between June 1998 and June 2004 the value of taxpayers' equity rose by $25 billion to $66.9 billion, while the net debt carried by these businesses rose by $5.6 billion.

General government equity in the PTE sector should increase further to $70.3 billion by June 2008.

This Budget provides for total state sector underlying net debt as a proportion of GSP to remain stable at about 6 percent over the next four years. Interest expense as a proportion of total revenues of the non-financial public sector[7] will likewise remain stable at about 3.2 percent between June 2004 and June 2008, after having declined from 5.6 percent five years earlier.

MANAGING THE PUBLIC SECTOR PAYROLL

The most important single influence on the level and future growth of expenses, and therefore the budget result, is the budget 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 $180 million.

The Government's wages policy seeks to maintain the value of the real wage increases provided to public sector employees since 1996, which are in the range of 13-20 percent. This policy implies nominal wage rises of up to 3 percent a year.

[7] *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 will adopt the same policy for all new wage agreements in 2004-05. Major awards due for renewal include nurses, police, general public service and health employees.

The Government is also actively pursuing greater flexibility in the management of its workforce. This requires having the right people in the right jobs at the right time. This may involve some employees having certain skills that are surplus to current government service priorities and needs.

The Government will seek as a first priority to retrain and redeploy such individuals within the public sector. However, the scale of agency restructurings in train may not permit all to be placed into permanent positions. In line with government policy, forced redundancies are only to be used as a last and unavoidable resort.

RECENT PERFORMANCE AND PROGRESS AGAINST FISCAL TARGETS AND PRINCIPLES

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

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 2007-08, while Chapter 5 provides projections for economic and financial 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 E provides this statement.

Table 1.1: Summary of Progress against Fiscal Principles in the *General Government Debt Elimination Act*, 1995

Fiscal Principle	Progress Indicator	Legislative 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 2003-04 (totalling over $3.1 billion) and projected for the four years ending 2007-08 (totalling $186 million) 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 will be $2.9 billion or 1.0 percent of GSP by June 2004, around a quarter of its June 1996 level of $11.1 billion (6.3 percent of GSP). GG sector underlying net debt - excluding the Liability Management Fund, which further improves net debt – will be $3.3 billion (1.1 percent of GSP) by June 2005 and $2.2 billion (0.6 percent of GSP) by June 2008. (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 $1.8 billion between June 1996 and June 2004. Total state underlying net unfunded superannuation liabilities of $12.9 billion (4.5 percent of GSP) in June 2004; and $13.8 billion (3.8 percent of GSP) by June 2008. (See Chapter 4 for developments regarding superannuation and other financial liabilities.)

Table 1.1: Summary of Progress against Fiscal Principles in the General Government Debt Elimination Act, 1995 (cont)

Fiscal Principle	Progress Indicator	Legislative 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 6.9 percent per annum in real terms from June 1997 to June 2004. (Net worth data on a comparable basis is not available for periods prior to June 1997). (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.*** Responsibility for procurement policy and asset management policy was transferred from Department of Commerce to NSW Treasury in June 2003. These policies are being reformed to provide a more systematic approach to procurement and management of capital assets. The major reforms to be introduced in 2004-05 emphasise greater "upfront" preparation by agencies and a more pro-active Treasury monitoring role, directed at achieving better and more accountable outcomes. The Total Asset Management process has been more closely integrated with the budget process. This will more accurately link agencies' management of assets over the whole life of the asset and liability with the services outlined in their Results and Services Plans. Implementation will involve close liaison with the Departments of Infrastructure Planning and Natural Resources and Commerce in their new roles of strategic planning and procurement practices respectively. (See Budget Paper No.4 for more details).

Table 1.1: Summary of Progress against Fiscal Principles in the General Government Debt Elimination Act, 1995 (cont)

Fiscal Principle	Progress Indicator	Legislative Target	Actual/Status
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 2004-05 and the 4-year period ending 2007-08, respectively, are: • Total expenses 5.2 percent and 4 percent; • NCOS 5.3 percent and 4.2 percent; • Nominal GSP 6.2 percent and 5.9 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.)
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 the Insurance Ministerial Corporation. Includes, among other things, ongoing review of asset allocation and risk management policies and procedures of authorities subject to 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 2004-05 by $817 million 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

2004-05 BUDGET

As outlined earlier, the 2004-05 Budget has been framed under difficult circumstances. Commonwealth grants to New South Wales have been cut as a result of the Grants Commission review of relativities and public sector wages have escalated rapidly with recent decisions by the Industrial Relations Commission. In addition to this, service delivery pressures in key areas, such as health, education and public transport continue to mount.

The Government responded to these pressures on 6 April 2004 with a number of measures to reduce expenditure and increase revenues. At the same time, the Government took the opportunity to restructure transfer duty providing significant benefits to first home buyers. The measures announced in the mini-Budget are outlined in Chapters 2 and 3 and in Budget Paper No 3.

As a result of these measures, a budget deficit of $379 million is expected in 2004-05. However over the forward estimates period, the Budget should move progressively back into surplus (see Table 1.2).

Given the magnitude of the fiscal shocks sustained and the improvement in both net debt and net financial liabilities in recent years, the Budget is able to absorb a short term deficit without compromising the State's underlying fiscal strategy. However the Government continues to be committed to reducing debt and other financial liabilities. Underlying net debt is projected to increase in 2004-05 to $3.3 billion by June 2005 and reduce to less than $2.2 billion by June 2008. Over the same four years, net financial liabilities are projected to increase from $24.2 billion to $24.9 billion but, as a percentage of gross state product, will fall from 8.4 percent at June 2005 to 6.9 percent at June 2008.

Revenue

Total *State revenue* in 2004-05 is estimated to be $33,929 million, an increase of only 3.0 percent on the 2003-04 revised estimate.

Two major revenue sources, together accounting for over 40 percent of State revenue, will be flat in 2004-05:

- *Commonwealth general purpose grants* of $10,004 million show little change from the 2003-04 level, reflecting the loss of $345 million in GST revenue[8] grants by New South Wales arising from the Commonwealth Grants Commission's review of States' grant shares.
- Property *transfer duty* of $3,880 million is also expected to be similar to the latest 2003-04 estimate. While the mini-Budget measures will see an increase in revenue from the introduction of the vendor transfer duty, purchaser transfer duty is expected to decline due to lower property market activity and more generous duty exemptions for first home buyers.

Total *taxation revenue* is expected to rise by 3.9 percent to $15,520 million in 2004-05, comprising mainly growth in payroll tax, gambling taxes, land tax and motor vehicle related taxes. *Financial distributions* from public trading enterprises are expected to increase by 6.6 percent. *Other* State revenue will rise by 14 percent, mainly on account of the increase in coal royalties announced in the mini-Budget.

Total *operating revenues* are expected to be $4,346 million in 2004-05. This represents a fall of 1.5 percent on 2003-04 revenues, which were inflated by a one-off receipt of $80 million by the Roads and Traffic Authority towards works associated with the Lane Cove Tunnel.

Full details of revenue estimates are provided in Chapter 3.

Expenses

In 2004-05, total expenses are estimated to be $37,438 million, an increase of 6.4 percent or $2,239 million over the 2003-04 Budget. Overall, the Budget provides for higher than average expenditure increases in the key areas of health (reflecting growing service demands), education (State Literacy and Numeracy Plan, class size reductions and award increases), transport (increased support to passenger rail services, including maintenance and infrastructure investment) and social welfare (higher spending on child protection and disability services).

Employee related expenses (excluding superannuation) are projected to increase by $1,275 million over the 2003-04 Budget, reflecting spending initiatives announced in the Budget and during 2003-04 as well as the impact of pay rises awarded to teachers and nurses.

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[8] *The Commonwealth Grants Commission generates relativities on two bases: the pre-GST Financial Assistance Grants (FAGs) basis and the current GST basis. At the time the Commission's findings were implemented, New South Wales was expected to remain on FAGs relativities in 2004-05. This would have led to a $376 million loss in 2004-05. However, estimates of GST revenue in the 11 May Federal Budget now suggest New South Wales will receive grants under the GST relativities, which is expected to result in a loss of $345 million. For more detail, see Chapter 7.*

Table 1.2: General Government Sector Operating Statement

	2002-03 Actual	2003-04 Budget	2003-04 Revised	2004-05 Budget	2005-06	2006-07 Estimate	2007-08
	$m	$m	$m	$m	$m	$m	$m
State Revenues							
Taxation	14,154	14,198	14,932	15,520	16,337	17,286	18,332
Commonwealth Grants							
- General Purpose	9,931	10,039	9,941	10,004	10,582	11,193	11,725
- Specific Purpose	5,295	5,458	5,654	5,756	5,944	6,139	6,276
Financial Distributions	1,267	1,496	1,567	1,670	1,759	1,863	1,875
Fines, Regulatory Fees & Other	852	842	859	979	967	895	905
Total State Revenues	**31,499**	**32,033**	**32,953**	**33,929**	**35,589**	**37,376**	**39,113**
Operating Revenues							
Sale of Goods and Services	2,710	2,671	2,656	2,729	2,854	2,909	2,985
Investment Income	440	649	736	778	901	1,012	1,139
Grants and Contributions	704	606	594	601	600	606	615
Other	676	264	427	238	181	202	213
Total Operating Revenues	**4,530**	**4,190**	**4,413**	**4,346**	**4,536**	**4,729**	**4,952**
Expenses							
Employee Related							
- Superannuation	2,132	2,320	2,338	2,450	2,604	2,769	2,948
- Other	14,255	14,985	15,449	16,260	17,015	17,764	18,587
Other Operating	7,272	7,402	7,409	7,703	7,978	8,464	9,107
Maintenance	1,303	1,249	1,314	1,329	1,439	1,514	1,558
Depreciation and Amortisation	1,778	1,791	1,816	1,861	1,920	1,977	1,978
Current Grants and Subsidies	5,423	5,477	5,787	5,715	5,954	6,081	6,238
Capital Grants	1,311	1,179	1,174	1,335	1,371	1,324	1,150
Finance	803	796	788	785	733	676	667
Total Expenses	**34,277**	**35,199**	**36,075**	**37,438**	**39,014**	**40,569**	**42,233**
Net Cost of Services	**(29,747)**	**(31,009)**	**(31,662)**	**(33,092)**	**(34,478)**	**(35,840)**	**(37,281)**
Net Operating Surplus	**1,752**	**1,024**	**1,291**	**837**	**1,111**	**1,536**	**1,832**
Less: Asset Acquisitions [(a)]	3,349	3,499	3,417	3,614	3,468	3,628	3,676
Plus: Depreciation	1,778	1,791	1,816	1,861	1,920	1,977	1,978
Asset Sales	362	682	433	587	376	305	240
Other Movements in Non-Financial Assets	(80)	45	(86)	(50)	(57)	(75)	(82)
BUDGET RESULT	**463**	**43**	**37**	**(379)**	**(118)**	**115**	**292**

(a) *Includes assets controlled under finance leases.*

Superannuation expenses are projected to grow more slowly in 2004-05 than the previous year largely due to a significant improvement in investment returns since 2002-03 and an upward revision in assumed long-term investment returns following a review of the taxation position of the fund. Further information on superannuation is detailed in Chapter 4.

Capital grants are expected to increase strongly in 2004-05 with additional funding being provided to RailCorp for improvements to the metropolitan rail system.

Further information on budget initiatives is detailed in Chapter 2 and a more comprehensive expenditure analysis on an agency basis is contained in Budget Paper No. 3.

Asset Acquisitions

In 2004-05, asset acquisitions will total $3,614 million. Spending in 2004-05 is projected to be higher than in any previous year and reflects the Government's commitment to provide the infrastructure essential for the efficient delivery of high quality public services.

The Department of Health program will total $600 million in 2004-05 representing an increase of $143 million on the 2003-04 Budget and includes $23 million of projects supported by the Health Super Growth Fund. The 2004-05 program includes expenditure on cancer therapy and screening facilities and new projects for the upgrading and construction of hospitals and clinics in rural New South Wales and on a new Clinical Information System.

Asset acquisitions by the Department of Education and Training will total $447 million and will continue the Schools Improvement Package, focusing on upgrades of school accommodation and internet services.

During 2004-05 the capital works program for police will focus on replacing a number of police stations and the marine fleet, upgrades to police equipment and improvements to its information technology network.

The budget for the Roads and Traffic Authority in 2004-05 will exceed $1,212 million or 33 percent of the total budget sector asset acquisition program. This year's program will focus on continued upgrades to the Pacific Highway and major works in the Sydney area including the commencement of the construction of the North West Transitway.

Further details of the asset acquisition program are contained in Budget Papers 3 and 4.

FORWARD ESTIMATES

The GFS operating statement for the period 2005-06 to 2007-08 shows a budget deficit in the first year, returning to a modest surplus in 2006-07.

Revenue

Total revenue is estimated to rise by an average 4.8 percent per annum over the three years to 2007-08. This increase is well below the expected nominal growth in gross state product of 5.9 percent per annum.

Taxation revenue is expected to increase by an average of 5.7 percent per annum while financial distributions are projected to grow by 4 percent per annum. Notwithstanding the real cuts in Commonwealth funding in recent years, Commonwealth general purpose grants increase by only 5.4 percent per annum reflecting the growth in GST revenues. Commonwealth specific purpose grants will grow much more slowly at 2.9 percent per annum. Fines and regulatory fees are expected to fall by an average of 2.5 percent per annum, mainly reflecting the volatility in driver's license renewals.

Investment income will increase significantly in the forward estimate years. This is largely due to the operation of the General Government Liability Management Fund. Further details of the Fund appear in Chapter 4. Operating revenues, apart from investment income, are expected to increase by an average 2.2 percent per annum from 2005-06 to 2007-08.

Expenses

Expenses are expected to increase by an average of 4.1 percent per annum over the three years to 2007-08. The increase is below the projected nominal rate of growth in GSP and compares with an average annual increase of 5.1 percent in the three years to 2004-05.

- 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, police and roads. Agency initiatives impacting the forward estimates are detailed in Chapter 2 and in Budget Paper No. 3.

Asset Acquisitions

Asset acquisitions for the Budget sector are expected to total nearly $14.4 billion in the four years to 30 June 2008, an increase of 13.4 percent or $1.7 billon over the four year period to 30 June 2004. When added to asset acquisitions in the PTE sector, the total state sector capital acquisition program for the four years to 2007-08 totals more than $29.9 billion. This represents an increase of $4.8 billion or 19.1 percent compared to the previous four-year period.

1.3 GENERAL GOVERNMENT SECTOR STATEMENT OF FINANCIAL POSITION

Net Worth

Net worth is estimated to be $123.6 billion by 30 June 2004, an increase of $2.6 billion compared with the June 2003 and is expected to increase to $124.5 billion by 30 June 2005 (see Table 1.3). Investments in the public trading enterprise (PTE) and public financial enterprise (PFE) sectors, $66.5 billion at 30 June 2004, are included within the estimate of net worth.

Further information regarding the financial results and projections of the PTE sector is reported in Chapter 8. A review of the PTE and general government asset acquisition programs is also contained in Budget Paper No.4.

Table 1.3: General Government Sector Statement of Financial Position, 2003 to 2008, as at 30 June (GFS Basis)

	2003 Actual	2004 Revised	2005 Budget	2006	2007 Estimate	2008
	$m	$m	$m	$m	$m	$m
ASSETS						
Financial Assets						
Cash and Deposits	1,091	794	739	799	805	859
Advances Paid	1,401	1,396	1,374	1,370	1,325	1,300
Investments, Loans and Placements	7,940	9,534	10,332	11,560	13,704	16,469
Other Non-Equity Assets	5,359	5,606	5,837	6,022	6,261	6,369
PTE/PFE Equity	66,217	66,490	68,743	69,169	69,601	69,929
Other Equity Assets	563	563	590	635	675	722
Total Financial Assets	**82,571**	**84,383**	**87,615**	**89,555**	**92,371**	**95,648**
Non-Financial Assets						
Land and Fixed Assets	78,936	80,181	79,341	80,618	82,081	83,599
Other Non-Financial Assets	1,047	1,150	1,200	1,267	1,353	1,446
Total Non-Financial Assets	**79,983**	**81,331**	**80,541**	**81,885**	**83,434**	**85,045**
TOTAL ASSETS	**162,554**	**165,714**	**168,156**	**171,440**	**175,805**	**180,693**
LIABILITIES						
Deposits Held	53	57	57	58	59	61
Advances Received	1,808	1,675	1,631	1,489	1,443	1,396
Borrowing	10,164	9,985	10,026	9,734	9,728	9,832
Provisions	25,876	26,788	28,915	31,215	33,672	36,314
Other Non-Equity Liabilities	3,611	3,561	3,073	3,010	3,037	3,024
TOTAL LIABILITIES	**41,512**	**42,066**	**43,702**	**45,506**	**47,939**	**50,627**
NET WORTH	**121,042**	**123,648**	**124,454**	**125,934**	**127,866**	**130,066**
Underlying Net Debt[(a)]	**3,244**	**2,874**	**3,290**	**2,973**	**2,686**	**2,174**
- as a % of GSP	**1.2**	**1.0**	**1.1**	**0.9**	**0.8**	**0.6**
Net Financial Liabilities[(b)]	**25,158**	**24,173**	**24,830**	**25,120**	**25,169**	**24,908**
- as a % of GSP	**9.5**	**8.4**	**8.2**	**7.8**	**7.4**	**6.9**

(a) Adjusted for prepayment of superannuation contributions in June 1999 and deferral of superannuation contributions for the period 1 July 1999 to 30 June 2008. 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.

Net Financial Liabilities

Net financial liabilities are projected to be $24.2 billion (or 8.4 percent of gross state product) at 30 June 2004, a reduction of $1 billion since 30 June 2003. This reduction is mainly due to the positive budget result and a net reduction in superannuation liabilities resulting from an increase in the discount rate used to calculate unfunded superannuation liabilities based on recent tax advice as to the status of the fund.

Net financial liabilities are projected to be $24.8 billion in 2004-05. As a percentage of gross state product, net financial liabilities are projected to continue their downward trend, falling by 0.2 percent to 8.2 percent at 30 June 2005.

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), remains relatively low at around 1 percent of gross state product. The projection of $2.9 billion at 30 June 2004 represents a $370 million decrease since June 2003 and is attributable to the budget cash surplus in 2003-04 and capital repatriation receipts of $137 million from the PTE sector.

For 2004-05, net debt is projected to be $3.3 billion, mainly due to the budget cash deficit.

Chapter 4 provides further analysis of the movements in net debt.

Forward Years

Land and fixed assets are projected to rise by more than $4.3 billion over the forward estimates period. This equates with the Government's asset acquisition program with expenditure totalling nearly $10.8 billion over the period offset by depreciation of $5.9 billion and asset sales and other movements of $0.7 billion. This increase is consistent with Fiscal Principle No.2 in the *General Government Debt Elimination Act 1995.*

Investments and other non-equity assets are expected to increase by nearly $6.7 billion as funds continue to be directed into the GGLMF over the forward estimates period. A projected increase in provisions of $7.4 billion relates largely to gross superannuation liabilities for the Government's defined benefits schemes. Increases in gross insurance liabilities, largely in respect of the Treasury Managed Fund (TMF), and long service leave entitlements are also included.

In nominal terms, these liabilities will continue to rise over the forward estimates period. A reduction in superannuation liabilities is expected to commence after 2013 and will largely be due to an increased rate of retirement of active members. Further details are outlined in Chapter 4.

Net financial liabilities will increase marginally by around $78 million to $24.9 billion during the period 30 June 2005 to 30 June 2008. This increase is largely attributed to growth in unfunded superannuation liabilities, partly offset by a projected cumulative budget surplus. As a percentage of gross state product (GSP), net financial liabilities are projected to fall from 8.2 percent to 6.9 percent.

Underlying net debt is expected to fall from $3.3 billion or 1.1 percent of GSP at 30 June 2005 to below $2.2 million or 0.6 percent of GSP at 30 June 2008. This reduction will result largely from projected cash surpluses over that period.

The increase in financial assets over the next few years 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.

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 2003-04 are $619 million more favourable than budget due to a greater increase in state and operating revenue receipts than in operating payments made during the year.

Net cash flows from investments in non-financial assets in 2003-04 are $145 million less favourable than budget. This is due mainly to the deferral of a number of asset sales into 2004-05 and forward years.

After adjusting for the prepayment of superannuation contributions to the General Government Liability Management Fund, a cash deficit of $365 million is forecast for 2004-05. Cash surpluses are projected in each of the forward years.

Table 1.5 shows GFS cash results from 1988-89 to 2007-08.

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

	2002-03 Actual	2003-04 Budget	2003-04 Revised	2004-05 Budget	2005-06	2006-07 Estimate	2007-08
	$m	$m	$m	$m	$m	$m	$m
Cash Receipts from Operating Activities							
Taxes Received	13,953	14,183	14,976	15,542	16,314	17,292	18,350
Receipts from sales of goods & services	3,040	2,875	2,825	3,026	3,095	3,115	3,192
Grants/Subsidies Received	15,858	15,329	15,962	15,796	16,834	17,642	18,314
Other Receipts	4,196	4,181	4,305	4,489	4,778	4,918	5,203
Total Cash Receipts from Operating Activities	**37,047**	**36,568**	**38,068**	**38,853**	**41,021**	**42,967**	**45,059**
Cash Payments from Operating Activities							
Payments for goods & services	(23,960)	(24,918)	(25,906)	(27,154)	(28,382)	(29,711)	(31,279)
Grants & Subsidies Paid	(5,152)	(5,227)	(5,430)	(5,547)	(5,698)	(5,705)	(5,617)
Interest Paid	(818)	(873)	(872)	(747)	(908)	(670)	(576)
Other Payments	(1,700)	(1,810)	(1,501)	(1,612)	(1,538)	(1,527)	(1,577)
Total Cash Payments from Operating Activities	**(31,630)**	**(32,828)**	**(33,709)**	**(35,060)**	**(36,526)**	**(37,613)**	**(39,049)**
Net Cash Flows from Operating Activities	**5,417**	**3,740**	**4,359**	**3,793**	**4,495**	**5,354**	**6,010**
Cash Flows from Investments in Non-Financial Assets							
Purchases of New Non-Financial Assets	(3,052)	(3,152)	(3,060)	(3,474)	(3,322)	(3,513)	(3,571)
Sale of Non-Financial Assets	497	684	447	615	390	316	256
Total Cash Flows from Investments in Non-Financial Assets	**(2,555)**	**(2,468)**	**(2,613)**	**(2,859)**	**(2,932)**	**(3,197)**	**(3,315)**
Cash Flows from Investments in Financial Assets							
Financial Assets for Policy Purposes	839	188	144	1	147	142	286
Financial Assets for Liquidity Purposes	(1,115)	(1,299)	(1,596)	(781)	(1,229)	(2,132)	(2,752)
Cash Flows from Financing Activities							
Advances Received (net)	(31)	(95)	(129)	(28)	(149)	(36)	(48)
Borrowing (net)	(1,017)	(305)	(458)	(150)	(227)	(104)	(117)
Deposits Received (net)	(9)	(1)	3	(1)	...	...	...
Other Financing (net)	...	...	(1)	(21)	...	...	(3)
Total Cash Flows from Financing Activites	**(1,057)**	**(401)**	**(585)**	**(200)**	**(376)**	**(140)**	**(168)**
Net Increase/(Decrease) in Cash held	**1,529**	**(240)**	**(291)**	**(46)**	**105**	**27**	**61**
Net Cash from Operating Activities and nvestments in Non-Financial Assets	**2,862**	**1,272**	**1,746**	**934**	**1,563**	**2,157**	**2,695**
Assets acquired under finance leases	(345)	(347)	(315)	(159)	(148)	(117)	(107)
Surplus/(Deficit)	**2,517**	**925**	**1,431**	**775**	**1,415**	**2,040**	**2,588**
Impact of prepaid superannuation contributions							
Liability Management Fund	(1,651)	(847)	(1,230)	(1,140)	(1,400)	(1,869)	(2,223)
Adjusted Surplus/(Deficit)	**866**	**78**	**201**	**(365)**	**15**	**171**	**365**

Table 1.5: General Government Cash Results (GFS basis), 1988-89 to 2007-08 [(a)]

Year	Current			Capital			Cash Flows from Operating Activities			Asset Acquisitions	Asset Sales	Superannuation Adjustments	***Underlying Surplus/ (Deficit)***
	Outlays $m	*Receipts $m*	*Result $m*	*Outlays [(b)] $m*	*Receipts $m*	*Result $m*	*Payments $m*	*Receipts $m*	*Result $m*	*$m [(c)]*	*$m*	*$m [(d)]*	***$m***
1988-89	12,005	13,149	**1,144**	1,421	879	**(542)**							**602**
1989-90	13,803	14,522	**719**	2,419	1,185	**(1,234)**							**(515)**
1990-91	14,773	15,245	**472**	2,921	1,226	**(1,695)**							**(1,223)**
1991-92	16,060	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							31,630	37,047	**5,417**	(3,397)	497	(1,651)	**866**
2003-04 (est)							33,709	38,068	**4,359**	(3,375)	447	(1,230)	**201**
2004-05 (est)							35,060	38,853	**3,793**	(3,633)	615	(1,140)	**(365)**
2005-06 (est)							36,526	41,021	**4,495**	(3,470)	390	(1,400)	**15**
2006-07 (est)							37,613	42,967	**5,354**	(3,630)	316	(1,869)	**171**
2007-08 (est)							39,049	45,059	**6,010**	(3,678)	256	(2,223)	**365**

(a) Aggregates in prior years may vary from those previously published because of changes in classifications and backcasting for consistency.
(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) Includes assets controlled under finance lease arrangements.
(d) Adjustment for prepayment of superannuation contributions and establishment of General Government Liability Management Fund. See Chapter 4.

1.5 GENERAL GOVERNMENT SECTOR OPERATING STATEMENT- 2003-04 RESULT

The budget surplus for 2003-04 is estimated to be $37 million, compared with the 2002-03 actual result of $463 million. Revenues are expected to be 3.7 percent or $1,337 million higher than in 2002-03 and expenses are expected to be 5.2 percent or $1,798 million higher. Asset acquisitions are projected to exceed 2002-03 by 2.0 percent or $68 million. Asset sales and other movements in non-financial assets are expected to be $65 million higher.

The revised budget surplus for 2003-04 is estimated to be $6 million lower than the 2003-04 Budget estimate (see Table 1.6). Revenues are expected to be 3.2 percent or $1,143 million above budget, and expenses are expected to be 2.5 percent or $876 million higher than budget. Asset acquisitions are projected to be lower than budget by 2.3 percent or $82 million. Asset sales and other movements in non-financial assets are expected to be $380 million lower than budget.

Further details of variations in 2003-04 are highlighted in Appendix D.

Table 1.6: General Government Sector 2003-04 Operating Statement - Estimated Result

	2003-04		
	Budget [(a)] *$m*	*Revised* *$m*	*Variation* *$m*
State Revenues			
Taxation	14,198	14,932	734
Commonwealth Grants			
- General Purpose	10,039	9,941	(98)
- Specific Purpose	5,458	5,654	196
Financial Distributions	1,496	1,567	71
Fines, Regulatory Fees & Other	842	859	17
Total State Revenues	**32,033**	**32,953**	**920**
Operating Revenues			
Sale of Goods and Services	2,671	2,656	(15)
Investment Income	649	736	87
Grants and Contributions	606	594	(12)
Other	264	427	163
Total Operating Revenues	**4,190**	**4,413**	**223**
Expenses			
Employee Related			
- Superannuation	2,320	2,338	18
- Other	14,985	15,449	464
Other Operating	7,402	7,409	7
Maintenance	1,249	1,314	65
Depreciation and Amortisation	1,791	1,816	25
Current Grants and Subsidies	5,477	5,787	310
Capital Grants	1,179	1,174	(5)
Finance	796	788	(8)
Total Expenses	**35,199**	**36,075**	**876**
Net Cost of Services	**(31,009)**	**(31,662)**	**(653)**
Net Operating Surplus	**1,024**	**1,291**	**267**
Less: Asset Acquistions	3,499	3,417	(82)
Plus: Depreciation	1,791	1,816	25
Asset Sales	682	433	(249)
Other Movements in Non-Financial Assets	45	(86)	(131)
BUDGET RESULT	**43**	**37**	**(6)**

(a) During 2003-04, the financial impact of school bank accounts was consolidated into the budget result for the first time. This increased operating revenues by $287 million and operating expenses by the same amount - with no impact on the budget result. Accordingly, the published budget for 2003-04 has been adjusted to reflect this change and all analysis in this chapter refers to the adjusted budget numbers.

CHAPTER 2: SERVICE DELIVERY

- The Budget addresses the Government's strategic policy objectives.
- Key expenditure growth areas in the 2004-05 Budget include Health, Education, and Public Transport.
- The Budget fully meets the cost of recent award increases granted to teachers and nurses.

2.1 INTRODUCTION

The Government's strategic objectives 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.

The tables of major service improvements in this chapter show the increment for 2004-05 and subsequent years for specific initiatives.

They do not include increased allocations for general cost or wage increases. Nor do they show, in every case, the total funding for 2004-05.

The tables therefore record the expansion of various programs in 2004-05, rather than the total expense.

2.2 OVERVIEW: EXPENSES AND ASSET ACQUISITIONS

Total Budget expenses on a Government Finance Statistics (GFS) basis increased in nominal terms by an annual average 5.2 percent in the four years to 2004-05. Increased spending on health, transport, education, public order and safety, support for children and families and environment and natural resource management accounted for the bulk of the growth in that period. Under policies announced in this Budget, total expenses will increase in nominal terms by 6.4 percent in 2004-05 compared with the 2003-04 budget estimate and by 3.8 percent compared with the 2003-04 revised estimate.

The growth in expenses in 2004-05 has been impacted by savings measures announced in the 6 April 2004 mini-Budget. In particular, the mini-Budget announced $284 million of specific savings measures including:

- the establishment of the Department of Primary Industries saving $37 million in 2004-05;
- requiring the Department of Environment and Conservation to work more closely with catchment management authorities, the Department of Infrastructure, Planning and Natural Resources and the Department of Primary Industries saving $30 million in 2004-05;
- continuing the reform of the Department of Infrastructure, Planning and Natural Resources in conjunction with catchment management authorities increasing previously announced savings by $5 million to $75 million in 2004-05;
- one-off reductions or suspension of grants to local government for work on floodplains, estuaries, waterways, river entrances and other minor works saving $16.5 million in 2004-05; and
- capping spending on the North West Transitway at $80 million per annum.

In addition to specific savings measures, most government agencies will be required to make savings of $81 million with priority given to savings in advertising, travel and accommodation, printing, publications and other administration. Global savings will not apply to critical service delivery areas such as NSW Health, the Department of Education and Training, the Department of Community Services, the Department of Ageing Disability and Home Care and, in general, other agencies subject to specific savings.

Asset acquisitions of the Budget sector will average $3.6 billion annually[1] in the four years to 2007-08. The sum of capital investment in the four years to 2007-08 is $14.4 billion which is 11.6 percent higher than for the four years ending 2003-04. In 2004-05, the value of new works commenced will total $2.5 billion with spending of $599 million next financial year.

[1] *Includes assets controlled under finance leases*

Table 2.1: Expenses and Asset Acquisitions, 2002-03 to 2007-08

	2002-03 Actual	*2003-04 Budget*	*2003-04 Revised*	*2004-05 Budget*	*2005-06 Estimate*	*2006-07 Estimate*	*2007-08 Estimate*
Total Expenses ($B) [a]	**34.3**	**35.2**	**36.1**	**37.4**	**39.0**	**40.6**	**42.2**
- % of GSP	12.9%	12.3%	12.6%	12.4%	12.2%	11.9%	11.7%
Asset acquisitions ($B) [b]	**3.3**	**3.5**	**3.4**	**3.6**	**3.5**	**3.6**	**3.7**
- % of GSP	1.3%	1.2%	1.2%	1.2%	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) 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 Budget Paper No. 4 provides details of asset acquisitions by portfolio and by agency.

2.3 STRATEGIC OBJECTIVES AND MAJOR SERVICE IMPROVEMENTS

Building Healthier Communities

The substantial real growth in health expenditure since 1995 shows the Government’s strong commitment to building healthier communities. In 2004-05 total health expenditure will near $10 billion, an increase of $707 million or 7.6 percent on the 2003-04 Budget. This includes an additional $46 million raised from the increased duty on poker machines announced in the 2003-04 Budget.

This will bring the total increase in health expenditure since the 1994-95 Budget to 88 percent.

A record $600 million will be allocated to the health capital works program in 2004-05, an increase of $143 million on the 2003-04 Budget. Earnings from the Health Super Growth Fund will make a contribution of $23 million to the program. Total investment in health capital projects over the next four years will be $2.4 billion.

These funding increases have been necessary to meet greater demand, especially for emergency services. This is the result of a number of factors including: population growth; changes in Commonwealth policy affecting the availability and cost of General Practitioner and nursing home services; and the ageing of the population. Ageing has also impacted on the demand for mental health services due to increased levels of dementia and other age related mental illness. There has also been an increased incidence of more complex and often anti-social mental health problems in younger people, often associated with alcohol and illegal drug use.

This continuing demand for hospital and related services is reflected in the number of people admitted to a hospital for surgical or medical problems. In the period 1995 to 2003 the number of these type of patients has increased by 20 percent or over 250,000 patients per annum. Over the same period, non-admitted patients attending emergency departments, hospital clinics or receiving community support services has increased by more than 4 million, a 19.8 percent increase.

The Government will meet these challenges by concentrating on the following areas in 2004-05:

- improving capacity of and access to hospital services;
- improving clinical excellence;
- enhancing mental health services; and
- redirecting resources to front-line services.

A number of ongoing initiatives will also receive increased funding. These include workforce initiatives, improving access to specialist services such as cancer treatment and providing better services to rural New South Wales.

Improving Capacity of and Access to Hospital and Specialist Services

The Government's Sustainable Access Plan 2004 targets resources to the busiest hospitals. The Plan has three main strategies:

- opening additional beds, including 563 permanent beds and 410 temporary beds to cope with winter demand;
- providing more appropriate care for the elderly who are unnecessarily occupying acute hospital beds while waiting for Commonwealth funded aged care places; and

- improving the operational effectiveness of nine major hospitals to remove pressure points that contribute to unnecessary delays.

Over the next 12 months the Government will spend $57 million on providing 563 additional permanent beds. These beds will improve the capacity of hospitals to deal with increasing demand. As part of this, 250 transitional care places will be provided, giving a more suitable setting for the care of elderly patients awaiting nursing home accommodation. An additional allocation of $35 million is provided to undertake more elective surgery.

In 2004-05, the Government will provide additional intensive care beds across the State, including two paediatric beds and three neonatal cots at a cost of $6.3 million.

Cancer Services

Funding for the Cancer Institute will increase by $30 million to $35 million in 2004-05. The funds will be directed towards clinical cancer treatment, early detection, prevention and information programs, and cancer research.

The Cancer Institute NSW is in the final stages of developing a state-wide Cancer Plan. These funds will enable the Institute to begin the role out of programs to enhance cancer care across the State.

Promoting Clinical Excellence

The Government recognises there is a need to ensure that consistently high standards of patient care are implemented in NSW health facilities. To assist this an additional $10 million has been allocated to improving clinical standards in 2004-05.

The new Clinical Excellence Commission (CEC) recently announced by the Government will take the lead in promoting clinical excellence in NSW hospitals. The CEC will advise the Minister and NSW Health on the clinical framework and standards that should be implemented to promote clinical best practice.

The CEC will also conduct audits of NSW Health facilities to ensure that the frameworks are implemented and acceptable standards of care are being met.

A new complaints mechanism, overseen by the CEC, will be implemented in the health system. Professional Practice Units will be established in each Area Health Service to provide an avenue for staff and the public to raise serious clinical practice concerns. These Units will have staff with legal, clinical and mediation skills.

The Units will not replace the Health Care Complaints Commission (HCCC) which will retain its role as an external and independent investigation body. The Government has restructured the HCCC to improve its effectiveness and provided an additional $5.7 million over 2003-04 and 2004-05 to reduce the backlog of cases it is investigating and to undertake the Macarthur Inquiry.

Improving Mental Health Services

Demand for mental health services has been increasing steadily and is likely to be an area of significant demand growth in the future.

Mental health units have become increasingly busy. The number of patients admitted involuntarily to mental health facilities more than doubled between 1990 and 2001. The increased prevalence of drug and alcohol abuse in mental illness has also increased the average length of stay at inpatient facilities.

The Government has accelerated the provision of mental health beds since 2002 to help meet this demand. By the end of the year 43 additional mental health acute beds will be commissioned in the metropolitan area and emergency psychiatric care facilities will be trialled at a cost of $6.8 million in 2004-05. In addition, 50 mental health acute beds will be opened at Wyong at a cost of $10.2 million, as well as four additional beds at Wagga Wagga and two at Broken Hill.

This Budget sees the commitment of an additional $241 million to mental health over four years ($24.6 million in 2004-05). Over this period this expenditure will provide for:

- additional acute mental health beds, additional supported accommodation places and outreach accommodation support services;

- additional mental health facilities in the Corrections system, including $14 million to support the operation of a new forensic hospital at the Long Bay Correctional Facility;

- more mental health workers, including community based nurses and doctors, child psychiatrists and aboriginal mental health workers. In 2004-05, $4.6 million will be allocated to develop community based services, $2.5 million to enhance the availability of specialist child psychiatry within the health system and $1.4 million for additional aboriginal mental health services; and

- expansion of the Court Liaison programs and community forensic services ($1.5 million in 2004-05).

Redirecting Resources to Front-Line Health Services

The Government is committed to ensuring that the health system is effective and efficient, maximising the funding flowing to front-line services. In order to streamline the health system and reduce administrative costs the Government will reduce the number of Area Health Services and move to shared corporate services where appropriate.

Workforce initiatives

In 2003-04, 32 additional ambulance officers have been employed in rural New South Wales and four new training centres have been established as part of the Government's commitment to provide an additional 230 officers. In 2004-05 an additional $4.9 million has been allocated to employ a further 62 additional ambulance personnel.

Nurses

The recruitment and retention of nurses is a priority for the Government's plan to gradually and safely open more acute and transitional care beds. The 2004-05 Budget provides funding for the additional nurses needed to staff the extra bed base. The numbers of permanent nurses and midwives have increased by 8.9 percent since January 2002. Programs such as *Nursing Re-connect*, along with significant wage increases, have attracted over 3,000 permanent registered and enrolled nurses back into the hospital system in the last two and half years, with a retention rate of over 85 percent.

Health Capital Works

Local initiatives account for a range of asset acquisitions that support local service delivery priorities such as imaging equipment. Cancer Care initiatives include new radiotherapy services at Coffs Harbour and Port Macquarie, replacement of linear accelerators in a number of locations and breast cancer screening facilities. The rural hospital and community health services projects will provide a range of upgrades to emergency departments, operating theatres and wards in a number of rural hospitals to ensure that those in rural New South Wales can be treated closer to home. Planning for major hospital redevelopments in Queanbeyan, Bathurst, Orange/Bloomfield and the redevelopment of Manly Hospital at Brookvale will also commence. Miscellaneous works include extensions to the Brain Injury Unit at Westmead Hospital.

Table 2.2: Major Service Improvements in Health

	2004-05 Budget	2005-06 Estimate	2006-07 Estimate	2007-08 Estimate
Major Service Improvements affecting expenses ($ millions)				
Cancer Institute	30.0	60.0	95.0	95.0
Radiotherapy workforce	1.0	1.5	2.0	2.0
Plan for Nurses	4.0	4.4	4.6	4.6
Radiotherapy treatment	…	0.9	6.4	6.4
Extra Ambulance Officers	4.9	9.9	15.8	15.8
Rural Initiatives - renal units	2.0	3.0	4.0	4.0
Improving capacity and access to hospital services (2004 Strategy)	57.0	57.0	57.0	57.0
Clinical excellence	10.0	15.0	15.0	15.0
Additional elective surgery	35.0	35.0	35.0	35.0
Additional intensive care beds	6.3	6.3	6.3	6.3
Operational costs of new mental health facilities	12.7	12.7	12.7	12.7
Expand mental health services	24.7	48.5	72.0	95.9
Major Service Improvements affecting asset acquisitions ($ millions)				
Local Initiatives	58.2	…	…	…
Cancer Care	23.1	27.9	24.2	1.0
Rural Hospitals and community health centres	12.7	37.6	36.3	25.0
Bathurst - Orange/Bloomfield,	2.0	…	…	…
Queanbeyan planning	6.5	8.6	4.1	…
Central Sydney Resource Transition - Royal Prince Alfred Hospital Laboratories Fitout				
Sylvania Community Health Centre	5.0	…	…	…
Information Management Technology	4.7	10.0	15.0	15.0
Mental Health	3.7	14.8	14.9	3.4
Northern Beaches Strategy planning	0.5	…	…	…

Improving Transport Services

Since April 2003 important reforms have been implemented across the transport services sector. Significant structural reforms in rail focus on a new passenger rail entity, Rail Corporation New South Wales (RailCorp) and the leasing of interstate and Hunter Valley lines to the Australian Rail Track Corporation (ARTC).

Two major public transport inquiries were undertaken, the Parry *Ministerial inquiry into sustainable transport in New South Wales* and the Unsworth *Review of Bus Services in New South Wales*. The Government is pursuing a number of recommendations made by these inquiries to improve the value for money in transport services.

Sydney Ferries is to become an independent State Owned Corporation from 1 July 2004.

Regulatory oversight of all transport agencies has also been significantly enhanced with the establishment on 1 January 2004 of the Independent Transport Safety and Reliability Regulator, which is responsible for regulatory activities across rail, bus and ferry services.

In 2004-05 the Budget provides more than $2.5 billion in grants for public transport, including rail, bus and ferry services; local and community transport services; and fare concessions for students and pensioners. This is $189 million or nearly 8 percent more than last year.

Rail Services

RailCorp was established on 1 January 2004 through the integration of the greater metropolitan functions of the Rail Infrastructure Corporation with passenger operations of the State Rail Authority. RailCorp will focus on increasing the safety and reliability of rail services and will provide greater co-ordination between infrastructure delivery and service planning.

In 2004-05, Budget grants to RailCorp for CityRail and CountryLink services, including a general operating subsidy, funding for major maintenance and subsidies for fare concessions to pensioners and students, will exceed $1.1 billion. A further $529.3 million in grants is available for major asset acquisitions including new rollingstock, improvements to safety, security and customer amenity and for the new Chatswood to Epping Rail Link.

In all, an additional $350 million will be available in 2004-05 for passenger rail services. Over $150 million extra will be provided for operating expenditures for CityRail and CountryLink services, including an additional $25 million for rail maintenance. Spending on major capital works will be boosted by more than $200 million, including the Rail Clearways Program and additions to the passenger rail fleet.

The Government will fast track these two major initiatives:

- the replacement of all non-air conditioned rail carriages over the next six years with a $1.5 billion program for 498 new carriages. The accelerated program will be undertaken as a Public Private Partnership and will include both capital and on-going maintenance needs; and

- a Rail Clearways program to create five independent sectors within the rail network, to remove bottlenecks and minimise delays on the metropolitan lines. More than $1 billion, to be funded by borrowings, will be spent over the next six years on the plan. Rail Clearways will be delivered by the newly created Transport Infrastructure Development Corporation (TIDC), which is responsible for the Epping to Chatswood Rail Link.

The New South Wales and Commonwealth Governments have recently signed an agreement for a 60 year lease by the ARTC of interstate freight lines. This initiative, which is a landmark in rail services, not only facilitates the development of a national rail freight network, but also promises to improve the standard of the country rail network with an investment program of more than $818 million by ARTC including almost $92 million of State funding.

Bus Services

Major reforms to bus services are expected in 2004-05 following the *Review of Bus Services in New South Wales*, by the Hon Barrie Unsworth. The review found that services, both Government and private, were not meeting community needs.

Key initiatives to be introduced in 2004-05 include:

- revised network and service planning arrangements, including the identification of strategic bus corridors and new service planning guidelines;

- new contract arrangements supported by new contract areas. The new contract arrangements are aimed to improve service quality, performance and assist with fleet management;

- an improved focus on local transport needs with the establishment of rural and regional transport co-ordinators responsible for developing more flexible transport solutions to meet local community needs; and

- a trial of the integrated ticketing system, which will eventually be introduced across the public transport network for the greater metropolitan region. The trial, to commence in the later half of 2004, will be with students who travel to school under the School Student Transport Scheme.

In 2004-05, Budget grants to State Transit for bus services will be $237.6 million, an increase of $22.9 million over the 2003-04 Budget. This includes funding for fare concessions for pensioners and students. State Transit will spend $89.9 million on asset acquisitions.

Ferry Services

Sydney Ferries is to be established as a State Owned Corporation, independent of State Transit Authority, from 1 July 2004. This is to achieve service and operational improvements and greater transparency and accountability.

Budget grants to Sydney Ferries are estimated at $43.4 million. Sydney Ferries will spend $4.9 million on asset acquisitions.

Roads

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.

In all, the total capital and maintenance program for the Roads and Traffic Authority for 2004-05 will be $2.4 billion. This includes $1.2 billion for asset acquisitions.

Key projects to be undertaken include the:

- Orbital Strategy, including the Westlink M7 Motorway ($1.5 billion), the Lane Cove Tunnel ($1.1 billion) and the Cross City Tunnel ($680 million) - in 2004-05 Budget funding of $110 million will be provided for these projects. Funding for these projects will be provided mainly by the private sector;

- $380 million upgrade of Old Windsor Road and Windsor Road in north-western Sydney, the $95 million Bangor Bypass and commencement of construction works on the $493 million North West Transitway;

- 12 year, $460 million program to upgrade the Penrith to Orange route;

- continuation of the Pacific Highway Upgrade Program. The 10 year $2.2 billion program comprises $1.6 billion funded by the Roads and Traffic Authority and $600 million by the Federal Government; and

- $179 million North Kiama Bypass, as well as further works on the Central Coast, North Coast, South Western and Western New South Wales.

Table 2.3: Major Service Improvements in Transport

	2004-05 Budget	*2005-06 Estimate*	*2006-07 Estimate*	*2007-08 Estimate*
Major Service Improvements affecting asset acquisitions* ($ millions):				
Rail Services:				
Rail Clearways Program incl				
Bondi Junction Turnback				
Macdonaldtown Turnback				
Revesby Turnback				
Hornsby Platform 5				
Berowra additional platform				
Homebush Turnback				
Lidcombe Turnback				
Cronulla line duplication - planning				
Sub total	80.0	110.0	254.0	264.0
Rollingstock acquisition incl				
Millennium Trains - Stage 2	102.0	…	…	…
Hunter valley rail cars	59.5	15.9	…	…
Outer suburban rail cars	50.1	76.4	8.7	…
Easy Access Upgrades - 11 stations	18.3	17.8	…	…
Vigilance devices and operational safety systems	50.2	4.6	1.0	…
Bus Services:				
160 new buses - Sydney fleet	69.0	…	…	…
12 new buses - Newcastle fleet	5.0	…	…	…
Roads:				
Orbital Strategy**	110.0			
North West Transitway	80.0			
Old Windsor Road and Windsor Road	63.0			
Great Western Highway	47.5	Spending for forward years not yet determined		
Pacific Highway Upgrade	196.5			
North Kiama Bypass	51.0			
Lawrence Hargrave Drive, Illawarra	30.2			

* *For rail and bus services asset acquisitions are primarily financed by recurrent grants from the Ministry of Transport.*

** *The 2004-05 allocation does not include any private sector expenditure.*

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:

- *quality teaching*: the Budget fully funds the 12 percent teacher salary increase awarded by the Industrial Relations Commission. This maintains NSW teachers as the best paid teachers in Australia. The total annual cost of the 12 percent salary increase will be $696 million;

- *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 $373 million in recurrent funding over the next 4 years will employ, by 2007, 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 are being phased in over 4 years, starting with disadvantaged schools. Capital funding of $107 million over 4 years provides additional classrooms to support this initiative;

- *improving literacy and numeracy skills:* the Department's Literacy and Numeracy Strategy will continue to benefit all students through programs such as Reading Recovery, Count Me in Too, Book Raps online book discussion across the State, computer skills testing for Year 6 students and extension of the Premier's Reading Challenge;

- *enhancing teacher quality* through expenditure of $250 million over four years to ensure an adequate supply of teachers in key learning areas and enhance teacher professional development;

- *improved availability of technology* with expenditure of $795 million over four years on various technology initiatives including the Computers in Schools program, upgrading bandwidth in schools and TAFE NSW colleges and the provision of e-mail and a range of other e-services for students and teachers in government schools and TAFE NSW;

- *improving the learning and teaching environment:* more than $364 million will be spent on the construction and enhancement of school facilities in 2004-05, with over 90 major schools works projects being undertaken. A further $80 million will be spent by TAFE NSW, including 33 major projects in 2004-05; 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. Five new schools to the value of $58 million will be delivered by this method in 2004-05.

Table 2.4: Major Service Improvements in Education

	2004-05 Budget	*2005-06 Estimate*	*2006-07 Estimate*	*2007-08 Estimate*
Major service Improvements affecting expenses ($ millions)				
Class size reduction program	31.7	80.5	112.2	123.0
Teacher professional development	18.0	18.0	18.0	18.0
Student behaviour and discipline	0.5	2.4	2.4	2.8
Major service Improvements affecting asset acquisitions ($ millions)				
Class size reduction program	17.3	40.0	32.2	…
Pre school facilities	14.2	…	…	…

Support for children and families

The Budget continues the support provided to the disadvantaged members of the community. In 2004-05 a total of $2.4 billion will be spent on recurrent services and asset acquisitions of the Department of Community Services, the Department of Ageing, Disability and Home Care (including the Home Care Service), the Office of the Children's Guardian, the Commission for Children and Young People and *NSW businesslink*.

Substantial additional funding is being provided to address the issues of children exposed to the threat of abuse; the disadvantage of Aboriginal people; and the needs of people with a disability. The focus is on early intervention and prevention as well as dealing with ongoing demand for services.

Increasing community concern and awareness of child abuse, legislative change and wider social concerns have led to increased demand for child protection services. In December 2002, the Government responded with a $1.2 billion, six-year package for the Department of Community Services ($142.9 million in 2004-05). This package is improving and expanding services that promote and enhance the welfare and development of children in need.

In 2004-05, the Department will focus on:

- growing its capacity to meet demand for high priority cases by recruiting 50 new child protection caseworkers and support staff;

- commencing a demand management strategy by targeting prevention and early intervention including 50 new early intervention caseworkers and support staff, and increasing services for vulnerable and at-risk families;

- improving the range of options in out-of-home care, including 50 new caseworkers and support staff and introducing new service delivery models to better match services to demand, particularly for those children in out-of-home care who have the highest level of support need; and

- providing more specialised support for all caseworkers, and providing improved support to Aboriginal and Torres Strait Islander communities, families and children.

While it is too early to evaluate the success of the early intervention caseworkers and associated programs, calls to the centralised intake Helpline are no longer increasing rapidly with around 190,000 calls expected in 2004-05. Better systems and procedures mean that call waiting times have reduced. This will allow the Department to concentrate on dealing with cases reported and on prevention and early intervention programs.

In 2004-05 the Department will broaden its focus to wider community issues with the creation of a new Communities Division. This will build upon programs and specialist units such Families First, Community Solutions and the Area Assistance Scheme which will be transferred from other agencies. 'Families First' will continue as a broad-based program supporting children and families, including:

- a visit by an early childhood nurse, linked to family health and other services, offered to the family of every newborn child (30,000 in 2003-04);

- the Schools as Community Centres initiative which benefited 68,000 families in 2003-04 through health clinics, parenting skills courses, playgroups and breakfast clubs; and

- services for Aboriginal families in 18 communities supporting these families to achieve better outcomes for their children.

The transferred programs will be integrated with the Department's existing programs while retaining links with other Departments such as Health and Education and Training.

Enhanced opportunities for Aboriginal children and families remain a priority. *Two Ways Together* establishes a new impetus and a strategic framework for a wide range of Government agencies to work with each other and with Aboriginal communities to improve the lives of Aboriginal people. The framework encompasses existing programs and in 2004-05 there is also a new targeted $10 million package of initiatives undertaken by a range of agencies including Attorney General's Department, Department of Corrective Services, Department of Community Services, Cabinet Office, Department of Education and Training, Department of Health, Premier's Department and the Department of Aboriginal Affairs. These initiatives focus on reducing incarceration and family violence, improving literacy, numeracy and school retention rates, screening for conductive hearing loss, increasing Aboriginal employment and improving living conditions.

In 2004-05, the *Two Ways Together* Package will provide:

- $0.8 million to test over 65,000 children for Otitis Media (middle ear infections);
- $2.7 million to reduce incarceration and family violence, including 19 new Community Justice Groups, intensive court supervision in Bourke and Brewarrina and programs responding to family violence at Dubbo, Lismore, Tabulam, Newtown and Redfern;
- $3.2 million to target 2,000 children with programs to assist learning in primary school and continue to support them while they are in high school;
- $1.1 million to intensively work with families to prevent over 300 children entering out-of-home care through extended programs at Campbelltown, Condobolin and Casino;
- $0.1 million to provide 30 new teaching scholarships and 50 new nursing cadetships;
- $1.3 million to improve living conditions in an additional 670 houses in the Far West Area Health Service region; and
- $0.5 million to provide 860 people in the Far West with housing maintenance using Aboriginal tradespeople and apprentices.

The 2004-05 Budget also strengthens the Government's commitment to older people and people with a disability and their carers. The Government will continue its focus on ensuring better opportunities for these individuals to participate in community life. An additional $50.4 million has been allocated to the Department of Ageing, Disability and Home Care in 2004-05 for disability services, enabling the Government to:

- ♦ increase support for up to 250 families who have a child with a disability, where the family is at risk of breakdown;
- ♦ improve the capacity of the Post School Services program, which currently supports around 3,000 individuals, to meet the increasing number of people with a disability (600 a year) who seek assistance in transitioning from education to employment or who require ongoing support when they leave school;
- ♦ ensure that ongoing assistance is available for people with a disability and their families when boarding houses close. Around 1,100 individuals with a disability are currently accommodated in boarding houses;
- ♦ place the substantial network of group homes and residential centres, supporting 2,400 people with a disability, on a stable and sustainable basis to ensure that client service outcomes and productivity are improved; and
- ♦ increase expenditure on personal care services by $5 million, allowing the Department to complete the phasing in of 100 additional attendant care places announced in the 2003-04 Budget. This will provide increased capacity to support people with a disability in their own home environment.

Table 2.5: Major Service Improvements in Support of Children and Families

	2004-05 Budget	*2005-06 Estimate*	*2006-07 Estimate*	*2007-08 Estimate*
Major Service Improvements affecting expenses ($ millions):				
Two Ways Together	10.0	10.0	10.0	10.0
Aboriginal Affairs Package				
Department of Community Services:				
Child protection caseworkers	13.5	29.6	53.9	78.3
Support services for families and	8.5	22.5	39.5	39.5
children in need	9.7	55.2	107.4	173.0
Out-of-home care services				
Capital grants *to businesslink* for DoCS and DADHC projects	22.3	11.3	…	…

	2004-05 Budget	2005-06 Estimate	2006-07 Estimate	2007-08 Estimate
Department of Ageing, Disability and Home Care:				
Improved family and children support services	2.7	8.3	9.8	9.8
Adult Training Learning and Support	12.4	8.5	14.2	19.0
Response to boarding house closures	3.0	5.0	7.0	9.0
DADHC-operated accommodation facilities	10.0	8.0	4.0	1.0
Additional attendant care places	5.0	5.0	5.0	5.0
Other	17.3	18.3	19.3	19.3
Major Service Improvements affecting asset acquisitions ($ millions):				
Department of Ageing, Disability and Home Care:				
Client Information System	7.3	…	…	…
Response to boarding house closures	2.0	2.0	…	…
Upgrade of group homes and large residencies	5.0	6.5	7.0	7.5
Relocating clients to community - based settings	15.9	14.0	…	…
Group homes to house children	1.0	1.0	1.0	…

Public Order and Safety

The Government's priority of a safer community is being achieved by reducing crime and improving public safety, providing a responsive judicial system that protects people's rights, a correctional system that reduces the risks of re-offending and emergency services that minimise the impact of emergency incidents on the community.

In 2004-05 the Government has maintained strong financial support for this priority area with a total of $3.5 billion to be spent in NSW Police, the Attorney General's Department and the Department of Corrective Services for recurrent services and asset acquisitions. After adjusting for the once-off financing transaction for Police's corporate headquarters in 2003-04 ($187.3 million) this is an increase of $203.2 million or 6.2 percent compared to last year's budget.

The emphasis in the 2004-05 Budget for Public Order and Safety is providing appropriate infrastructure and facilities to Police, the Judiciary, the correctional system and emergency services.

Effective policing has been enhanced by the establishment of specialised taskforces such as Task Force Gain and the Vikings operations. Task Force Gain, operating in south west Sydney, has laid over 600 charges up to May 2004, including substantial numbers of violence, firearms, and drug related charges. Since starting in 2003 an additional $3.2 million has been provided to support the Task Force, which will continue for at least another 6 months to complete current investigations. Operation Vikings which started in 2001, has ongoing budget support of $17.4 million over the next four years.

The Government has fulfilled its commitment of an extra 1,000 police by mid 2002, well ahead of its end 2003 target. Police numbers have remained above the authorised strength of 14,454 during 2003-04.

Crime levels are falling or are stable. In the twelve months to December 2003 the NSW Bureau of Crime Statistics reported that none of the 16 key crime categories on which it reports had shown an increase, and that 8 of the 16 crime categories showed a decrease.

The 2004-05 Budget continues this Government's goal of providing operational police with the infrastructure and facilities to enable them to reduce crime and improve public safety. Police stations with an estimated total cost of $35.7 million will be completed this year at Armidale, Chatswood, Griffith, Muswellbrook, Redfern and Thirroul.

In 2004-05 NSW Police will spend $700,000 to start planning for the replacement or refurbishment of police stations at priority sites. The forward Budget projections assume the upgrade program will commence in 2005-06 with roundly $40 million per annum. The priority sites include Campsie, Fairfield, Warilla, Granville, Leichhardt, Wyong, Lismore, Cronulla, Dubbo, Richmond/Windsor, Corrimal, Revesby, Bowral, Port Kembla, Parkes, Orange, Burwood, Macksville, Tenterfield, Ermington, Quakers Hill, Liverpool, Gunnedah, Moree, Wagga Wagga, Coffs Harbour and Camden.

Over the next four years NSW Police will spend $10 million ($2.5 million in 2004-05) upgrading police cells at various locations and $26.9 million ($8.1 million in 2004-05) replacing its marine fleet.

Police safety and operational capabilities will be enhanced over the next four years, with a total of $31.2 million to digitise and encrypt the radio network and acquire additional metropolitan radio channels.

Improving facilities and infrastructure is also a priority in the 2004-05 Budget for the Attorney General's Department:

- $45.2 million over the next four years ($5.9 million in 2004-05) for the first major refurbishment of the Law Courts building since it opened in 1975.

- $250 million over ten years ($3 million in 2004-05) to upgrade aged court infrastructure. In 2004-05 court houses will be upgraded at Penrith, Wollongong, Goulburn, Dubbo and Taree. Also prisoner holding facilities will be upgraded at Bathurst, Moss Vale and Central Local Courts.

- Completion of Courtlink, (estimated total cost of $20.9 million and $11.3 million in 2004-05) the new web-based case management system, in the Criminal Jurisdictions for the Supreme Court and Court of Criminal Appeal by mid 2004 and in the District Court Criminal Jurisdiction shortly afterwards.

- Extra courtrooms and modern support facilities (estimated total cost of $77.8 million and $37.2 million in 2004-05) in new Children's Courts at Parramatta and Broadmeadow, new Local Courts at Bankstown and Mount Druitt, and the upgrade of Blacktown and Nowra court houses.

The Attorney General's Department will undertake a number of initiatives totalling $22 million over the next four years to improve services to Aborigines:

- To address the over representation of Aborigines in gaols the Department will spend $2.6 million in 2004-05 ($11.8 million over four years). These measures include expanding Circle Sentencing to 5 additional communities (Bourke, Lismore, Kempsey, Tamworth and Armidale). Community Justice Groups, which are representative groups of local Aboriginal people who meet to examine crime and offending in their communities and develop ways to solve those problems at the local level, will also expand.

- Construction will start in 2004-05 (estimated cost $3.6 million) on the Tirkandi Inaburra Cultural and Development Centre at Griffith, the first community-controlled residential outstation for Aboriginal youths at risk of contact with the criminal justice system. The Department will spend $6.6 million over the next four years operating the Centre.

Initiatives in the Corrective Services area focus on custodial and offender management services for an increased number of inmates. The average number of full-time sentenced inmates, remandees and inmates in court cells is estimated to be approximately 9,000 in 2004-05. The number of remandees has increased from around 1,500 in June 2002 to around 1,885 in May 2004.

In 2004-05 an additional 420 inmate beds will become available with the completion of accommodation at Brewarrina, the Mental Health Screening Unit at the Metropolitan Remand and Reception Centre, the Dillwynia Correctional Centre at South Windsor and the Mid North Coast Correctional Centre at Kempsey. Including these improvements, works with an estimated total cost of $156 million will be completed this year.

Construction continues during 2004-05 for a further 900 beds which will be available in 2005-06 at the Parklea Correctional Centre (200 beds) and in 2007-08 at the Parklea Remand Centre (200 beds) and the Western Region Correctional Centre at Wellington (500 beds). These projects have an estimated total cost of $192.7 million.

Other major works are the redevelopment of Mulawa Correctional Centre (estimated total cost: $48.0 million) and the redevelopment of the Long Bay centre (estimated total cost: $43.7 million) and its hospital (estimated total cost: $64.8 million).

The New South Wales Fire Brigades' 2004-05 asset acquisition program of $43.3 million provides for:

- continuation of the new fire station and training facility building program in the greater Sydney area ($3.6 million), the lower Hunter ($2.5 million) and the central coast and country locations ($4.4 million);

- continuation of a program to acquire and replace firefighting appliances ($18 million); and

- acquisition of additional rescue equipment ($1.7 million).

Over the next four years, the Brigades will receive nearly $72 million to purchase state-of-the-art urban and rural fire engines, just over $11 million for improved communications, $6.1 million for counter-terrorism responses and will share the operational capabilities of a helicopter with NSW Police.

The Department of Rural Fire Service's 2004-05 expenses are estimated at $150.2 million, an increase of 16.1 percent over the 2003-04 Budget. A large part of this increase is an additional $13.7 million for Natural Disaster Mitigation Program administration and grants, the review of critical infrastructure protection and increasing grants to volunteer rescue units.

The Rural Fire Service's $8 million 2004-05 asset acquisition program includes the acquisition of fire control and other motor vehicles ($6.5 million) and the purchase of computers and other items of equipment ($1.5 million).

The State Emergency Service will continue to improve its capability to deal with floods, storms, and other incidents and emergencies.

The Service's total expenses for 2004-05 are projected to be $30.6 million. Additional funding has been provided for the Information Management and Technology program ($5.9 million over three years) to provide the Service with up to date systems.

The Service's asset acquisition program, estimated at $3.7 million, includes the installation of new divisional radio systems, essential rescue equipment and paging hardware and facilities.

Table 2.6: Major Service Improvements in Public Order and Safety

	2004-05 Budget	*2005-06 Estimate*	*2006-07 Estimate*	*2007-08 Estimate*
Major Service Improvements affecting expenses ($ millions):				
NSW Police:				
Employment of civilian managers in all PCYCs	2.2	2.2	2.2	2.2
Digital radio upgrade	…	0.7	0.8	1.0
Additional metropolitan radio channels	3.8	3.9	4.0	4.2
Aboriginal cadetships	0.1	0.1	0.1	0.1
Corrective Services:				
Assessing the risk of re-offending	1.0	1.0	2.0	2.0
Targeted rehabilitation programs for offenders	2.0	4.0	5.0	5.0
Inmates with mental health and/or challenging behaviour	0.5	1.0	1.0	1.0
Inmates with intellectual and other disabilities	1.0	1.5	2.5	2.5
Trial diversionary scheme for dually diagnosed female offenders	0.3	0.5	0.5	0.5
Attorney-General's Department				
Major refurbishment of the Law Courts building	5.9	14.5	16.8	8.0
To address over representation of Aboriginals in NSW prisons	2.6	3.1	3.0	3.1
Establish an Aboriginal Outstation	0.4	2.0	2.1	2.1
State Emergency Service				
Information management and technology systems	1.4	1.9	2.6	…
Major Service Improvements affecting asset acquisitions ($ millions):				
Police:				
Additional metropolitan radio channels	0.4	…	…	…
Cell replacement program	2.5	2.5	2.5	2.5
Marine fleet replacement	8.1	7.8	4.9	6.1
Corrective Services:				
Compulsory Drug Treatment Centre	2.0	1.5	…	…
Men's Transitional Centre	0.5	1.0	…	…
Attorney General's Department:				
Upgrade of aged court infrastructure	3.0	10.0	20.0	20.0

Environment and Natural Resource Management

Consistent with its reforms to natural resource management, the Government has brought together a number of environmental and natural resource agencies to better integrate, streamline and coordinate land use and infrastructure planning, and natural resources management. The new administrative arrangements now include three main departments - the Department of Primary Industries (DPI), the Department of Infrastructure, Planning and Natural Resources (DIPNR) and the Department of Environment and Conservation (DEC). The Government has also established Catchment Management Authorities (CMAs) to engage communities in key catchment management issues at the local level. An independent Natural Resources Commission (NRC) has been established to provide a framework of standards and targets to guide the work of CMAs.

The common themes underlying these arrangements are: reducing red tape; more timely service delivery; focusing on high priority services that the community values; and engaging industry and the community to arrive at balanced decisions on the sustainable development and management of our natural and environmental resources.

The Department of Primary Industries will be created from 1 July 2004 and encompass the functions carried out by NSW Fisheries, the Department of Agriculture, the Department of Mineral Resources and State Forests. DPI will deliver integrated services to support the development of profitable primary industries through the sustainable use of natural resources. Expenditure of $370.4 million in 2004-05 will be used to deliver research, extension, regulatory, advisory and policy development services. This will include expenditure of $6.4 million over 2004-05 and 2005-06 on the reform of mine safety to bring the total expenditure over eight years on this major initiative to $24.7 million. Expenditure to prevent and minimise the impact of pests and diseases will include $5.4 million over four years to introduce a mandatory livestock identification scheme and $24.7 million over five years to support the national campaign for the eradication of Imported Red Fire Ants.

The Government has strengthened and enhanced food safety arrangements through the formation of the NSW Food Authority in April 2004. The NSW Food Authority merges Safe Food Production NSW with the food regulatory activities of NSW Health. It is Australia’s first completely integrated or "through chain" food agency responsible for safety regulation at all points in the food supply chain. NSW Food Authority expenditure of $18.8 million in 2004-05 will be used to deliver compliance, regulatory and education services. This will include funding to continue work on ensuring shellfish are harvested from clean waters, through the Shellfish Harvesting Area Classification Project, and on improving food safety in areas of aged care, hospitals and catering through the national Food Safety Management Initiative.

The Rural Assistance Authority (RAA) administers assistance schemes, loans and financial support for primary producers and other rural businesses. RAA expenditure of $30.6 million in 2004-05 will be used to administer the Advancing Australia Agriculture package (which includes Exceptional Circumstances provisions for drought), the Special Conservation Loan Scheme (which provides concessional rate loans to assist farmers to implement improved land management practices) and the Natural Disaster Relief Scheme.

The Department of Infrastructure, Planning and Natural Resource's operations cover five broad activities. In the areas of infrastructure, land use and transport planning, it is developing a framework for the optimum delivery of quality infrastructure and transport services to meet the growing needs of communities across the State.

In the areas of water and ecosystems (soil, biodiversity and coastal), DIPNR's role is to achieve a balance between maintaining economic value, agriculture and sustainable ecosystems. In meeting this objective, the Department:

- through implementation of the *Water Management Act 2000* at a cost of $64 million over four years, is working towards achieving sustainable allocation of water to contribute to productive landscapes and ecosystems;

- is working with the newly formed CMAs to allocate $436 million of matching Commonwealth and State funding to investment strategies that are being developed in consultation with local catchment communities;

- is providing funding of $27.5 million in 2004-05 and $26.3 million in each of the forward years to contribute to the operations of the Murray Darling Basin Commission;

- is currently working with the Commonwealth in developing the National Water Initiative and the Murray Darling Basin intergovernmental agreement with total funding of $500 million over the next five years. New South Wales' share of the cost amounts to $115 million and the major goal is to return 500 gigalitres of water to the river system each year; and

- will distribute structural adjustment assistance to groundwater users to correct the problem of over-allocation and to achieve a sustainable yield. New South Wales' share of this assistance program amounts to $58.4 million, including a contribution to rural communities through a community development fund. Rural communities will also benefit from the increased certainty and investment security resulting from a sustainable allocation of water.

The Department of Environment and Conservation was formed in September 2003 by consolidating the former National Parks and Wildlife Service, the Environment Protection Authority, the former Resource NSW and the Royal Botanic Gardens and Domain Trust. DEC will build upon the many individual successes of these agencies to restore and maintain the quality of the environment, reduce environmental risks and promote ecologically sustainable development. This reform will improve service delivery and provide certainty to the community, especially the conservation movement, farmers and industry. DEC expenditure of $453 million in 2004-05 will be used to coordinate and strengthen environmental science, policy making, regulation and community programs and ensure the continued effective management of the park reserve system.

Table 2.7: Major Service Improvements in Environment and Natural Resource Management

	2004-05 Budget	*2005-06 Estimate*	*2006-07 Estimate*	*2007-08 Estimate*
Major Service Improvements affecting expenses ($ millions):				
Department of Planning, Infrastructure and Natural Resources				
Groundwater structural adjustment	…	46.9	…	…
Preserving native vegetation (through Catchment Management Authorities)	7.5	7.5	7.5	7.5
Establish Building Professionals Board	3.0	…	…	…
Department of Environment and Conservation				
New parks and reserves	2.6	5.1	7.5	7.5
Aboriginal joint management of national parks	1.5	2.0	3.0	3.0
Department of Primary Industries				
Drought programs	5.0[1]	…	…	…
Mine safety program	3.2	3.2	…	…
NSW Food Authority				
Food safety initiative to reduce food borne diseases	1.0	1.0	…	…
NSW Shellfish Harvest Area Classification Project	0.9	…	…	…
Rural Assistance Authority				
Advancing Australia Agriculture program	5.0	5.0	5.0	…

1. *This $5 million is an initial allocation to allow a continuation of existing drought assistance programs into 2004-05 until an assessment of total drought assistance needs is finalised to reflect the most recent information on rainfall and coverage of the drought. Current estimates are that total drought expenditure across all agencies involved in delivering assistance in 2004-05 will be between $20 million and $40 million. Actual expenditure in 2004-05 will depend on the course of the drought, with additional funding to be drawn from a separate provision of $25 million through the Treasurer's Advance as required.*

	2004-05 *Budget*	2005-06 *Estimate*	2006-07 *Estimate*	2007-08 *Estimate*
Major Service Improvements affecting asset acquisitions ($ millions):				
Department of Planning, Infrastructure and Natural Resources				
High-resolution satellite image coverage of NSW	4.6	0.6	0.5	…
Water management, monitoring and information systems	3.1	4.3	4.1	4.1
Property vegetation assessment	5.2	4.2	…	…
Royal Botanic Gardens and Domain Trust				
New Central Depot and various building improvements throughout the parks	0.3	3.0	2.8	0.9
Department of Primary Industries				
Replacement of Plant Pathology Laboratory at Wagga Wagga	1.3	…	…	…
Upgrade of security and infrastructure at Elizabeth Macarthur Agricultural Institute	0.1	0.1	…	…
Refurbishment of College Dining Facility at Tocal	0.9	…	…	…
Cronulla & Wollstonecraft Buildings Project	0.7	…	…	…

CHAPTER 3: GENERAL GOVERNMENT SECTOR REVENUES

- ♦ The mini-Budget responded to the implementation by the Commonwealth of the Commonwealth Grants Commission Report, recent award increases for teachers and nurses and the need to provide extra funds for frontline services such as hospitals, schools and public transport.
- ♦ Expected revenue growth is a modest 2.4 percent in 2004-05, despite the mini-Budget revenue measures. Underlying tax revenue growth - excluding the mini-Budget measures - is a weak 1 percent, mainly reflecting lower transfer duty revenue with a slower property market.
- ♦ The mini-Budget measures will raise an additional $515 million revenue in 2004-05. This will be partly offset by the impact of the measures on property market turnover, which is estimated to reduce transfer duty by $100 million.
- ♦ The mini-Budget measures represent a major overhaul of property tax arrangements, providing a fairer and less distortive land tax and a rebalancing of transfer duty in favour of first home buyers.
- ♦ The mini-Budget measures:
  - abolished the land tax threshold from the 2005 land tax year, and reduced land tax rates;
  - increased First Home Plus thresholds for complete exemption from transfer and mortgage duties for first home buyers purchasing anywhere in New South Wales to $500,000 for dwellings and $300,000 for land, with partial exemptions phasing out at $600,000 for dwellings and $450,000 for land;
  - introduced a vendor transfer duty of 2.25 percent on the sale of real property, other than principal places of residence or farms, provided the sale price exceeds the vendor's purchase price by more than 12 percent;
  - replaced the premium property tax with a marginal rate of purchaser transfer duty of 7 percent on residential properties valued above $3 million; and
  - replaced fixed dollar coal royalties, from 1 July 2004, with royalties based on the value of coal.

3.1 INTRODUCTION

Total general government sector revenue is estimated to increase by 2.4 percent in 2004-05 (see Table 3.1).

Table 3.1: Summary of Revenues

	2002-03	2003-04		2004-05	2005-06	2006-07	2007-08
	Actual	*Budget*	*Revised*	*Budget*	*Forward Estimates*		
	$m	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*
State Revenues							
Taxation	14,154	14,198	14,932	15,520	16,337	17,286	18,332
Commonwealth Grants							
General Purpose Payments	9,931	10,039	9,941	10,004	10,582	11,193	11,725
Specific Purpose Payments	5,295	5,458	5,654	5,756	5,944	6,139	6,276
Dividends and Tax Equivalents	1,267	1,496	1,567	1,670	1,759	1,863	1,875
Other	852	842	859	979	967	895	905
	31,499	**32,033**	**32,952**	**33,929**	**35,589**	**37,376**	**39,113**
Operating Revenues							
Sale of Goods and Services	2,710	2,671	2,656	2,729	2,854	2,909	2,985
Investment Income	440	649	736	778	901	1,012	1,139
Grants and Contributions	704	606	594	601	600	606	615
Other	676	264	427	238	181	202	213
	4,530	**4,190**	**4,413**	**4,346**	**4,536**	**4,729**	**4,952**
Total Revenues	**36,029**	**36,223**	**37,365**	**38,275**	**40,125**	**42,105**	**44,065**

General government sector revenue is classified 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 some goods and services.

State revenue should increase by 3.0 percent in 2004-05, mainly reflecting growth in tax revenue (up 3.9 percent) and payments from State enterprises (up 6.6 percent). Commonwealth General Purpose Payments are expected to increase by only 0.6 percent due to the Commonwealth Grants Commission's new relativities.

Overall, operating revenues are estimated to fall by $67 million, or 1.5 percent, in 2004-05. Investment income should continue to grow strongly in 2004-05, along with steady revenue growth from sales of goods and services and grants and contributions. However, growth will be more than offset by a decline in other operating revenues.

The remainder of this chapter provides detailed information on the revenue estimates for the 2004-05 Budget.

Section 3.2 details revenue measures since the 2003-04 Budget. Section 3.3 provides details of the outlook for State revenue in 2004-05, while the outlook for operating revenue is presented in Section 3.4.

3.2 REVENUE POLICY MEASURES

On 26 March 2004, the Commonwealth Government announced it would accept Commonwealth Grants Commission recommendations to reduce grants to New South Wales by $345 million in 2004-05[1] and future years. This revenue loss came on top of substantial extra spending for recently awarded pay rises for nurses and teachers and the need to provide extra funds for frontline services such as hospitals, schools and public transport.

These developments required adjustments to the revenue side of the Budget, which were announced in the mini-Budget on 6 April 2004. The measures were announced ahead of the normal budget time so that they could be implemented in time to generate a full year's revenue in 2004-05.

MEASURES INTRODUCED IN THE APRIL 2004 MINI-BUDGET

The mini-Budget revenue measures substantially overhaul property market taxation, including the abolition of transfer duty on first home purchases up to $500,000 and the imposition of a vendor transfer duty on sales of real property other than principal places of residence and farms.

Strong growth in investor demand for property in recent years had exacerbated upward pressure on home prices and reduced the affordability of housing, particularly for first home buyers.

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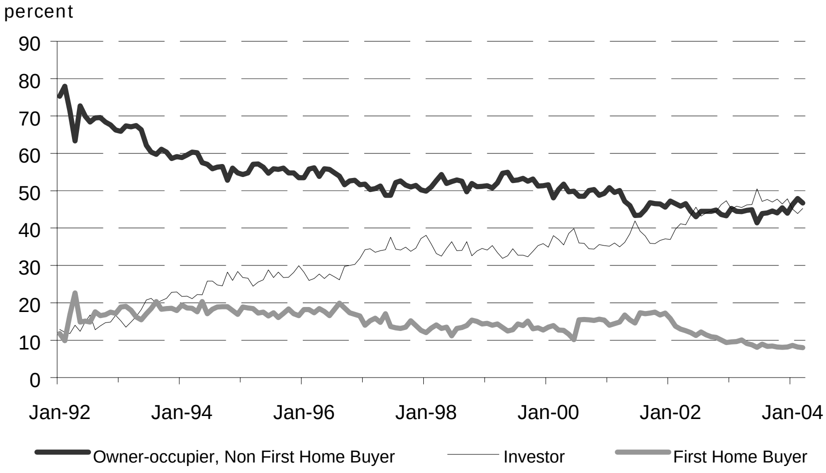
[1] *The Commonwealth Grants Commission generates relativities on two bases: the pre-GST Financial Assistance Grants (FAGs) basis and the current GST basis. At the time the Commission's finding were implemented, New South Wales was expected to remain on FAGs relativities in 2004-05. This would have led to a $376 million loss in 2004-05. However, estimates of GST revenue in the 11 May Federal Budget now suggest New South Wales will receive grants under the GST relativities, which is expected to result in a loss of $345 million. For more detail, see Chapter 7.*

Enhanced first home buyer concessions and the imposition of vendor duty seek to tilt the balance back in favour of first homebuyers who now account for 8 percent of housing loans, down from 18 per cent a few years ago (see Chart 3.1).

Chart 3.1: Housing Finance Approvals by Purpose, NSW



Sources: Australian Bureau of Statistics, *Housing Finance; Lending Finance*

The changes impose greater tax on those who have benefited from price increases on their investment properties to assist those purchasing their first home.

Land tax restructuring will expand the number of investment properties subject to taxation, allowing a reduction in marginal tax rates. This change will enhance the efficiency and equity of the tax system.

Changes to premium property taxation will remove the annual land tax and impose in its place a higher marginal rate of transfer duty on residential properties valued at over $3 million.

In addition to property tax measures, the mini-Budget changed the system of coal royalties by linking revenue to the value of coal rather than the quantity.

The revenue measures contained in the April 2004 mini-Budget are summarised in Table 3.2 and detailed in this section. Legislation enacting the mini-Budget measures was passed by Parliament on 16 May 2004 and received assent on 24 May 2004.

Table 3.2: Revenue Measures in the April 2004 mini-Budget

Measure	Revenue Impact 2003-04 $m	Revenue Impact 2004-05 $m
Abolish the land tax threshold and replace the 1.7 percent tax rate above the threshold with a three-tiered rate scale, ranging from 0.4 to 1.4 percent, from the 2005 land tax year	…	…
Extend the First Home Plus stamp duty exemptions and concessions for first home buyers, effective after midnight on 3 April 2004	(-) 44	(-) 276
Introduce a vendor transfer duty at the rate of 2.25 percent on the sale price of real property, excluding principal places of residence and farms, provided the sale price exceeds the original purchase price by more than 12 percent, from 1 June 2004	…	690[(a)]
Abolish the Premium Property Tax, from the 2005 land tax year	…	(-) 14
Increase the top marginal transfer duty rate from 5.5 percent to 7 percent for residential property with a purchase price above $3 million, from 1 June 2004	…	40
Abolish flat rate per tonne coal royalties and replace with ad valorem royalties based on the value of coal, from 1 July 2004	…	75
Total	**(-) 44**	**515**

(a) This will be partly offset by the impact of vendor duty on property market turnover, which is estimated to reduce transfer duty revenue by $100 million.

Land Tax – Base Broadening and Rate Reduction

Land tax is currently imposed on properties, other than principal places of residence, with unimproved land values above a tax-free threshold (set at $317,000 for the 2004 land tax year) at the rate of $100 plus 1.7 percent of the unimproved land value in excess of the threshold.

From the 2005 land tax year, the land tax threshold will be abolished and lower land tax rates will be introduced. Details of the current and new tax rates are provided in Table 3.3.

Table 3.3: Land Tax Rates

2004 Land Tax Year		*From 2005 Land Tax Year* [(a)]	
Land Value	**Tax Rate**	**Land Value**	**Tax Rate**
$0 up to $317,000	Nil	$0 up to $400,000	0.4%
Over $317,000	$100 plus 1.7% of value over $317,000	Over $400,000 up to $500,000	$1,600 plus 0.6% of value over $400,000
		Over $500,000	$2,200 plus 1.4% of value over $500,000

(a) The minimum land tax payment is $100. Land tax therefore becomes payable on land valued at (and above) $25,000. No land tax is payable on land valued below $25,000.

Abolition of the tax free threshold will create a more neutral tax environment for small and large investors in land. Taxes are generally less distortive of economic decisions when applied to as wide a base at as low a rate as possible.

The reduction of the land tax rate by 18 percent at the top of the scale - from 1.7 percent to 1.4 percent - will provide many businesses and investors that currently pay land tax with significant reductions in their land tax bills. Businesses whose premises have a land value between $500,000 and $1 million will have their land tax liability cut by 20-30 percent. For larger businesses the reduction will be around 18 percent. In all, around 75 percent of existing land tax payers will pay less tax under the new arrangements.

The reduction of land tax rates means that, despite the abolition of the tax free threshold, New South Wales will have a very competitive land tax regime in comparison with other States. The new top New South Wales' marginal rate of 1.4 percent compares with top rates in 2004-05 of between 4 percent (Victoria) and 2.5 percent (Tasmania) in the other States.

The changes to the land tax system are expected to be revenue neutral in 2004-05.

First Home Plus - Increase in Thresholds

In the 2000-01 Budget, the NSW Government introduced First Home Plus. It provided total exemption from transfer and mortgage duty for first home buyers of metropolitan properties valued up to $200,000 and non-metropolitan properties valued up to $175,000. Above these thresholds partial exemptions were provided phasing out at $300,000 for metropolitan properties and $250,000 in non-metropolitan areas. For vacant land, full exemptions were provided for values up to $95,000 in metropolitan areas, phasing out up to land values of $140,000; in non-metropolitan areas the respective land values were $80,000 and $110,000.

First Home Plus has provided some of the most generous first home owner stamp duty concessions available among the States. Since its inception, around 128,000 NSW first home owners have saved transfer and mortgage duty in excess of $370 million.

However, with the rapid growth of property prices since the introduction of the scheme, its benefit to first home buyers has been eroded. In 2000-01, around 90 percent of NSW first home buyers benefited (through total or partial duty exemptions) from the scheme. With increasing property prices this figure had fallen to around 40 percent by 2003-04.

In the April 2004 mini-Budget, the Government substantially increased the thresholds for First Home Plus. For contracts executed after midnight on 3 April 2004:

- the threshold for full exemption from stamp duties, for both metropolitan and non-metropolitan dwellings, was increased to $500,000;
- the threshold at which concessions phase out, again for both metropolitan and non-metropolitan dwellings, was increased to $600,000; and
- for vacant land (metropolitan and non-metropolitan) the threshold for full stamp duty exemptions was increased to $300,000, and the threshold for phasing out the concession was increased to $450,000.

For a first home buyer purchasing a $500,000 dwelling, transfer duty saved is $17,990, and mortgage duty saved (assuming a mortgage of 90 percent of the property value) is $1,741.

The higher thresholds significantly increase the proportion of first home buyers in New South Wales benefiting from the scheme. Under the new thresholds, nearly 90 percent of first home buyers in New South Wales pay no transfer and mortgage duties, and a further 5 percent qualify for partial exemptions.

The new First Home Plus thresholds will reduce stamp duty revenue (transfer duty and mortgage duty) by an estimated $276 million in 2004-05.

Premium Property Taxation – Changed Arrangements

The premium property tax currently applies to principal places of residence whose unimproved land values are above a tax-free threshold (set at $1.97 million for the 2004 land tax year). The tax is levied at $100 plus 1.7 percent of the unimproved land value in excess of the threshold. Legislation provides that a maximum of 0.2 percent of owner-occupied private dwellings are subject to the tax.

Premium property tax will be abolished from the 2005 land tax year, at a cost to revenue of $14 million in 2004-05. Around 1,300 existing tax payers will no longer pay premium property tax.

In place of premium property tax, purchases of residential property will attract a top marginal transfer duty rate of 7 percent on the value of the property over $3 million, instead of the current rate of 5.5 percent. Non-residential property will continue to be taxed at a marginal rate of 5.5 percent on that part of the value over $1 million. The new rate took effect from 1 June 2004.

Rather than attracting tax annually under the premium property tax, premium residences will now attract premium property duty only when they are purchased. The new rate is a marginal rate - it will only apply to that part of the purchase price above $3 million, not to the entire value of the property. Therefore, transfer duty on a $5 million home, for example, increased from 5.2 percent of the purchase price to 5.8 percent from 1 June 2004.

The new 7 percent marginal rate is estimated to raise $40 million in 2004-05.

Vendor Transfer Duty

Vendor transfer duty of 2.25 per cent will apply on investment property sales from 1 June 2004. Vendor duty will not apply to the sale of principal places of residence or farms.

The duty will not apply where the property's sale price does not exceed the original purchase price by more than 12 per cent. Where the sale price exceeds the purchase price by 15 percent or more, the vendor will be liable for full vendor duty; between these two thresholds partial vendor duty will apply. Vendor duty will be a deduction from sales proceeds for capital gains tax purposes, thereby reducing any capital gains tax liability for investors.

The legislation ensures that vendor duty does not apply in a range of unintended circumstances, including the transition between principal places of residence, temporary absence from a principal place of residence, newly constructed buildings or substantially new buildings, substantially improved vacant land, non-land related assets of businesses, sales of principal places of residence following divorce, and property transferred to beneficiaries under a will.

Vendor transfer duty is estimated to raise $690 million in 2004-05. However, the estimate of purchaser transfer duty revenue in 2004-05 has been reduced by $100 million to allow for the impact of vendor duty on property market transactions, including reduced turnover of investment property following the imposition of vendor duty.

Coal Royalties – Replace Fixed Dollar with Ad Valorem Rates

From 1 July 2004, New South Wales will abolish flat rate dollar per tonne coal royalties and replace them with ad valorem royalties based on value. The new ad valorem rates will be 5 percent for deep underground mines, 6 percent for other underground mines, and 7 percent for open cut mines. Royalty will be payable on ‘ex mine’ coal values (sales values less certain allowable deductions).

Ad valorem royalties are preferable to specific royalties from a revenue policy viewpoint because they have less potential to affect resource allocation decisions. Under a specific royalty, the level of royalty per unit of output is unchanged whatever the level of coal prices. Low coal prices mean high effective royalty rates, which could affect production decisions. Under the new system, the rate of royalty is unchanged and the amount of royalty collected per unit adjusts to changes in coal prices: the amount of royalty per unit of output increases when prices are high and vice versa when prices are low.

In current market circumstances, with high international coal prices, the new royalty arrangement is expected to produce more revenue than the former specific rates, which had not been increased for 23 years. The mini-Budget estimated the new system would produce an additional $44 million in 2004-05, based on information available at the time.

Based on the most recent information, it is likely that coal royalties in 2004-05 will be $75 million higher due to the shift to ad valorem rates. One of the drawbacks of an ad valorem system is that, since prices are generally more volatile than volumes, revenue uncertainty will be greater. However, the Government considers this disadvantage is outweighed by the lower potential resource allocation distortions of an ad valorem royalty.

OTHER POLICY DEVELOPMENTS SINCE THE 2003-04 BUDGET

Transfer Duty – 'Land Rich' Base Protection

The 2003-04 Budget noted that Treasury in consultation with the property industry was developing more comprehensive measures to protect the revenue base against the use of companies and unlisted unit trusts to avoid paying transfer duty on the acquisition of interests in land.

Amendments to the 'land rich' provisions of the *Duties Act 1997* took effect from 14 November 2003, the date the *Duties Amendment (Land Rich) Act 2003* was introduced in Parliament. The main amendments were to:

- *the acquisitions threshold* – previously transfer duty applied only to acquisitions of more than 50 percent of units or shares in a 'land rich' unit trust or company. Duty now applies to the acquisition of 50 percent or more of the shares in companies or units in wholesale trusts and 20 percent or more of the units in private unit trusts. There is no duty on the acquisition of units in a public unit trust;

- *the land rich test* – transfer duty now applies to acquisitions above the 'acquisitions threshold' in companies and unit trusts with 60 percent or more of the assets being land rather than the previous threshold of 80 percent or more, except where the company or trust being acquired is wholly or predominantly engaged in primary production. In these cases the 80 percent threshold has been maintained provided the company or trust acquired remains wholly or predominantly engaged in primary production for at least five years from the date of acquisition. In addition, the land rich test does not apply to public unit trusts;

- *the value of land required* – the 'land rich' test now only applies to companies or trusts that own $2 million or more of land in New South Wales, up from the previous threshold of $1 million. This will assist in keeping genuine small businesses out of the scope of the land rich provisions, which might otherwise occur because of the change to the 'land rich' test;

- *introduce a new category of wholesale unit trusts* – these are trusts in which other trusts and certain other 'qualifying' investors invest. Provided 80 percent or more of units in these trusts are held by 'qualifying' investors, duty only applies to acquisitions by a single investor of 50 percent or more, rather than 20 percent or more of the units in the trust (the new rule for private unit trusts); and

- *the public unit trusts definition* – the previous law provided that if there were 50 or more investors in a trust, with more than 20 investors owning at least 75 percent of the units, the trust was a public unit trust and concessionally taxed. That definition of a public unit trust was too easily manipulated. Now, to qualify as a public unit trust there must be at least 300 investors in the fund, with no single investor or related group holding more than 20 percent of the units. This is designed to ensure trusts receiving the public unit trust concession are genuinely widely held.

Fire Services Levy

The 2003-04 Budget noted also that on 16 April 2003 the Government announced it would consider alternative funding arrangements for fire services.

On 22 August 2003 the Treasurer referred to the Public Accounts Committee (PAC) of the NSW Parliament a review of current and alternative funding arrangements for fire services. Fire services currently are substantially funded by an insurance-based levy. The review was initiated in response to community concerns that those without insurance do not make a fair and reasonable contribution to funding fire services.

The PAC is expected to present its final report soon. The Government will then consider the PAC's recommendations.

TAX RESTRAINT

Fiscal Principle No. 7 in the *General Government Debt Elimination Act 1995* requires that adjustments to tax rates, thresholds and bases be made with the maximum possible restraint having regard to the effect of adjustments on the overall level of tax revenue and that policies should be pursued consistent with a reasonable degree of predictability and stability of tax rates, thresholds and bases in future years.

This Principle is in addition to other Principles that establish certain short, medium and long term fiscal targets relating to budget outcomes, general government sector net debt and total state sector unfunded superannuation liabilities (see Chapter 1).

In the mini-Budget, the Government needed to raise additional revenue to address structural or permanent fiscal shocks and maintain a sound medium term fiscal position.

There is a direct link between the inadequacy of Commonwealth funding to New South Wales and the level of revenue that must be raised by NSW State taxes to meet demands for the provision of State services and maintain acceptable fiscal outcomes. The cross subsidies inherent in the allocation of Commonwealth grants ensure that New South Wales has to raise more revenue from State taxes than other States that also receive Commonwealth funding.

In shaping the mini-Budget revenue measures, the Government aimed to avoid reversing the major reductions in payroll tax rates, insurance duty rates, motor vehicle related taxes and the Electricity Distributors Levy in order to maintain stability and predictability in tax arrangements that had only recently been changed.

Despite the tax measures announced in the April mini-Budget, major revenue decisions taken since the 1999-2000 Budget will still deliver net annual revenue reductions of $817 million in 2004-05 and $337 million at the end of the forward estimates period.

Table 3.4 calculates for 2004-05 and the forward years the cumulative revenue impact in each year of the April mini-Budget revenue measures and major revenue policy changes since the 1999-2000 Budget. Appendix F provides details of major revenue policy changes since 1999-2000, but prior to the April mini-Budget.

Table 3.4: Revenue Measures since 1999

Measure	*Revenue Impact* [(a)]			
	2004-05 $m	*2005-06 $m*	*2006-07 $m*	*2007-08 $m*
2004 mini-Budget Initiatives				
Abolish the land tax threshold and replace 1.7 percent rate with a three-tiered rate scale, from 2005 land tax year	…	21	39	62
Extend the First Home Plus Scheme concession for first home buyers, effective after 3.4.04	(-) 276	(-) 320	(-) 334	(-) 363
Introduce a 2.25 percent vendor duty on the sale of investment property, from 1.6.04	690	730	775	825
Abolish Premium Property Tax, from 2005 land tax year	(-) 14	(-) 13	(-) 12	(-) 11

Table 3.4: Revenue Measures since 1999 (cont)

Measure	Revenue Impact (a) 2004-05 $m	2005-06 $m	2006-07 $m	2007-08 $m
Introduce a marginal transfer duty rate of 7.0% on residential property valued above $3 million, from 1.6.04	40	43	46	50
Replace dollar per tonne coal royalties with ad valorem royalties, from 1.7.04	75	75	44	44
Total – 2004 mini-Budget Measures	**515**	**536**	**558**	**607**
Other Measures Implemented since 1 July 1999				
Payroll tax	(-) 563	(-) 597	(-) 631	(-) 662
Land tax	(-) 91	(-) 95	(-) 99	(-) 104
Transfer and other stamp duties, excluding first home owner concessions	25	25	25	24
First home owner stamp duty concessions	(-) 52	(-) 50	(-) 44	(-) 41
Gambling taxes	43	105	174	250
Motor vehicle related taxes and charges	(-) 111	(-) 110	(-) 108	(-) 106
Insurance taxation	(-) 173	(-) 184	(-) 194	(-) 205
Financial transactions taxation[b]	(-) 310	(-) 26[c]	…	…
Electricity distributors levy	(-) 100	(-) 100	(-) 100	(-) 100
Total – previously implemented measures	**(-) 1,332**	**(-) 1,032**	**(-) 997**	**(-) 944**
Total – Revenue changes since 1 July 1999	**(-) 817**	**(-) 496**	**(-) 419**	**(-) 337**

(a) *Revenue impacts are expressed in nominal dollars.*

(b) *This item reflects the abolition of Debits tax from 1 January 2002, 3½ years ahead of the scheduled abolition as part of national tax reforms associated with the introduction of the GST. From 1 July 2005, all States are abolishing Debits tax and the cost of abolition is included in transitional compensation arrangements to ensure no State is worse off from tax reform. Reflecting the compensation arrangements, no costs are shown for 2005-06 and subsequent years.*

(c) *Part year cost relating to 2004-05 that would have been payable in 2005-06.*

Looking at tax restraint another way, Table 3.5 shows the discrete impact of new revenue policy measures in any one year. It shows that over the five years from 1999-2000 to 2003-04, tax policy changes reduced revenue by an average of around $300 million each year. Over the next four years, 2004-05 to 2007-08, revenue policy changes will increase revenue by an average of around $200 million each year.

Table 3.5: Impact of Revenue Policy Changes [(a)]

Year	*Annual Contribution of New Policy Changes to Revenue 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	(-) 310
2001-02	(-) 330
2002-03	(-) 440
2003-04	(-) 100
2004-05	600
2005-06	60
2006-07	70
2007-08	80

(a) This table shows the effect of new policy on revenue in any one year only, and (unlike Table 3.4) does not include the cumulative impact of measures introduced in prior years. Where the revenue 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 to 2003-04, annual indexation of the land tax threshold is treated as a discrete tax change, and from 2004-05 annual indexation of the parking space levy 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 3.4 and 3.5 are in addition to about $1.2 billion per year worth of State taxes (accommodation levy, financial institutions duty and marketable securities duty on listed shares) abolished as part of the GST-related tax reform program agreed between the Commonwealth and States in 1999. All States have agreed to abolish Debits tax from 1 July 2005 as an extension of the GST-related tax reforms, taking the total cost of these tax reforms to $1.5 billion from 2005-06.

3.3 ESTIMATES OF STATE REVENUE

TAXATION

Table 3.6 provides detailed estimates of taxation revenue for the period to 2007-08. Payroll tax is the largest single source of taxation revenue, followed by transfer duty.

Table 3.6: Taxation Revenue

	2002-03	*2003-04*		*2004-05*	*2005-06*	*2006-07*	*2007-08*
	Actual	*Budget*	*Revised*	*Budget*	*Forward Estimates*		
	$m	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*
Stamp Duties							
Transfer Duty							
Purchaser Transfer Duty	3,677	3,373	3,890	3,190	3,370	3,625	3,895
Vendor Transfer Duty	...	...	...	690	730	775	825
Total Transfer Duty	3,677	3,373	3,890	3,880	4,100	4,400	4,720
Other Stamp Duties							
Insurance	442	435	430	451	469	488	508
Mortgages	362	372	399	372	404	444	487
Marketable Securities	75	45	35	36	36	37	38
Motor Vehicle Registration Certificates	534	548	580	609	639	671	705
Hire of Goods	74	78	75	76	77	78	80
Leases	55	63	53	56	59	62	66
Other	1	2	2	2	3	3	3
	5,221	**4,916**	**5,464**	**5,482**	**5,786**	**6,183**	**6,607**

Table 3.6: Taxation Revenue (cont)

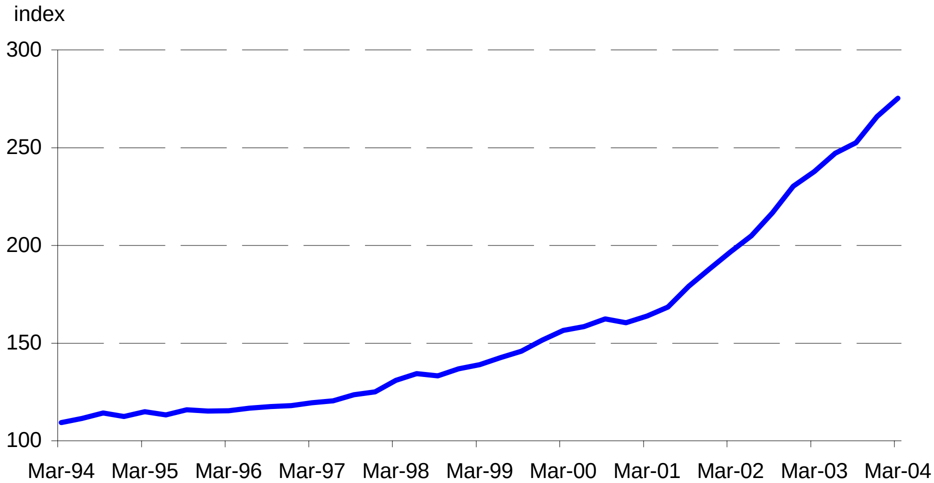
	2002-03	2003-04		2004-05	2005-06	2006-07	2007-08
	Actual	*Budget*	*Revised*	*Budget*	*Forward Estimates*		
	$m	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*
Payroll Tax	4,123	4,388	4,442	4,696	4,988	5,273	5,582
Land Tax	1,136	1,251	1,360	1,448	1,484	1,567	1,655
Taxes on Motor Vehicle Ownership and Operation							
Weight Tax	881	914	940	981	1,025	1,071	1,119
Vehicle Registration and Transfer Fees	221	231	230	239	251	261	270
Other Motor Vehicle Taxes	20	26	23	24	25	26	27
	1,122	**1,171**	**1,192**	**1,243**	**1,301**	**1,357**	**1,416**
Gambling and Betting							
Racing	145	151	151	156	157	163	168
Club Gaming Devices	414	429	429	483	545	618	697
Hotel Gaming Devices	338	362	357	384	404	435	468
Lotteries and Lotto	277	279	282	289	296	303	311
Casino	80	81	81	84	84	87	90
Other Gambling & Betting	8	8	8	8	8	8	8
	1,262	**1,309**	**1,307**	**1,404**	**1,494**	**1,614**	**1,742**
Other Revenues							
Health Insurance Levy	96	99	98	102	106	109	112
Insurance Protection Tax	67	69	69	69	69	69	69
Parking Space Levy	45	46	46	47	48	49	50
Fire Brigades Levy	276	287	286	319	303	305	303
Bush Fire Services Levy	89	92	92	99	101	105	110
Waste Disposal Levy	90	79	89	102	107	109	108
Government Guarantee of Debt	115	119	123	134	160	171	190
Private Transport Operators Levy	6	6	9	7	7	7	7
Pollution Control Licences	33	37	33	40	40	40	40
Other Taxes	474	331	323	327	344	328	342
	1,290	**1,163**	**1,167**	**1,247**	**1,284**	**1,292**	**1,330**
Total Tax Revenue	**14,154**	**14,198**	**14,932**	**15,520**	**16,337**	**17,286**	**18,332**

In 2004-05 a 3.9 percent rise in total taxation revenue is estimated, following a 5.5 percent increase in 2003-04. The main reason for the slower growth in 2004-05 is a fall in transfer duty revenues (0.3 percent including the mini-Budget changes, or 11 percent excluding the mini-Budget changes) and a 6.8 percent fall in mortgage duty, also related to property market developments.

Transfer Duty (including Vendor Transfer Duty)

Stamp duty on property transfers is the largest single component of stamp duty revenue. Transfer duty revenue is expected to be 5.8 percent higher in 2003-04 than 2002-03, supported largely by strong house price increases (see Chart 3.2). The 2003-04 Budget estimates correctly anticipated a slowdown in property market activity in the second half of 2003-04; however, the property market in the first half of 2003-04 was stronger than expected.

Chart 3.2: Sydney established house price index



Sources: ABS, *House Price Indexes*

Transfer duty revenue for the second half of 2003-04 is currently estimated to be around 5 percent below the corresponding period of 2002-03. The available market data for the second half of 2003-04 – albeit partial – appear to confirm the softer market evident in transfer duty collections:

- Housing finance approvals in New South Wales in April 2004 were 8.3 percent below the corresponding month of 2003.
- The Real Estate Institute (REI) of New South Wales reports that the volume of house and unit sales in the March quarter was 27 percent below a year earlier.
- Australian Property Monitors (APM) data show New South Wales residential auction clearance rates stood at around 50 percent in May 2004 – the lowest monthly rate in five years.

Price information is more mixed. The Australian Bureau of Statistics (ABS) index of established house prices in Sydney rose by 3.5 percent in the March quarter, while some other sources point to flat or falling prices. However, whether or not prices have turned down, it is clear that at least the *rate of increase* has moderated substantially from the peak of 2002-03.

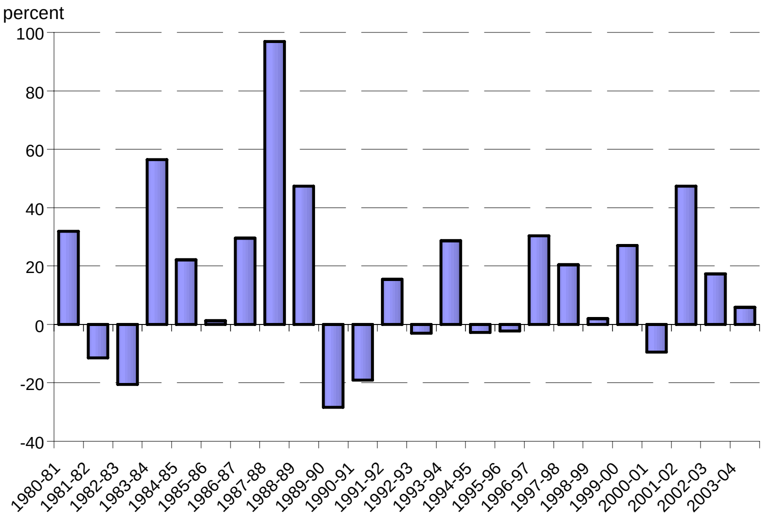
Similar trends to the above are emerging in most other States.

For 2004-05, purchaser transfer duty revenue is estimated to fall by around 18 percent. The estimate takes into account the reduction of $250 million in transfer duty revenue from first home buyers as a result of extending the First Home Plus scheme, and a gain in revenue of $40 million in 2004-05 from the introduction of a new top marginal duty rate of 7 percent for purchases of residential properties valued above $3 million. There is also a $100 million reduction in revenue to account for lower turnover as people adjust to the new measures, including vendor duty. Vendor duty revenue is estimated at $690 million in 2004-05.

Abstracting from the mini-Budget policy changes, transfer duty revenues are expected to remain around the levels experienced in 2004 so far. In annual terms, revenue in 2004-05 is estimated to decline by 11 percent to $3,500 million – abstracting from the mini-Budget measures – little changed from the $3,479 million estimate for 2004-05 contained in the 2003-04 Budget.

A decline of this magnitude is smaller than the 20-40 percent falls that have previously followed extended periods of above average revenue growth (see Chart 3.3). The modest decline takes into account expectations that the labour market will remain firm, household income will continue to grow and interest rates will increase only slightly.

Chart 3.3: Revenue from Transfer Duty - Annual Change [(a)]



(a) Transfer duty revenue figures have been adjusted for policy changes.

As usual, there are risks that revenue in 2004-05 could be much higher or much lower than anticipated. Transfer duty revenue is particularly sensitive to interest rates and overall confidence in the economic and employment outlook.

Other Stamp Duties

Other stamp duty revenues are estimated to increase by $28 million, or 1.8 percent, in 2004-05, following a rise of 2.0 percent in 2003-04. Mortgage duty should decline by $27 million, reflecting a weaker property market and the full-year impact of the increase in concessions to first home buyers from 4 April 2004. However, increases in motor vehicle registration and insurance duty should more than offset this decline.

Payroll Tax

Payroll tax revenue should rise by 5.7 percent in 2004-05, in line with employment and wages. This follows a 7.7 percent rise in 2003-04.

Land Tax

Land tax is assessed on a calendar year basis. The notices of assessments issued in early 2005 will be based on land values assessed by the Valuer-General as at 1 July 2004. Consequently, 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 value growth over the course of 2003-04 (albeit concentrated in the first half) is estimated to boost land tax revenue in 2004-05 by 6.5 percent, although no additional revenue will result from the mini-Budget land tax restructuring. This follows a 19.7 percent increase in 2003-04, when the rise in average land values was much larger.

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 88 percent of revenue in 2003-04. Also included are motor vehicle registration transfer fees and miscellaneous taxes.

Continued strong growth in motor vehicle stock and indexation of fees should underpin revenue growth of 4.3 percent in 2004-05.

Gambling and Betting Taxes

Gambling tax revenue growth in 2004-05 (7.4 percent) and following years chiefly reflects forecast movements in household disposable income and the changes in gaming machine duty rates announced in the 2003-04 Budget. Gambling tax revenue grew by 3.6 percent in 2003-04.

COMMONWEALTH GRANTS

Table 3.7 provides estimates of Commonwealth payments to New South Wales for the period to 2007-08.

Table 3.7: Commonwealth Grants

	2002-03	2003-04		2004-05	2005-06	2006-07	2007-08
	Actual	*Budget*	*Revised*	*Budget*	*Forward Estimates*		
	$m	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*
GST Revenue Grants	9,080	9,234	9,691	9,648	10,317	10,922	11,447
Budget Balancing Assistance Payments	599	548	45	…	…	…	…
Compensation for GST Deferral	…	…	…	96	…	…	…
National Competition Policy Payments	252	257	204	260	265	271	278
Total General Purpose Payments	**9,931**	**10,039**	**9,941**	**10,004**	**10,582**	**11,193**	**11,725**
Specific Purpose Payments							
Companies Regulation	50	52	52	53	54	55	56
Technical and Further Education	363	382	370	384	386	395	404
Schools	688	685	727	754	784	823	861
Highly Specialised Drugs	116	134	127	153	156	159	162
Australian Health Care Grants	2,412	2,542	2,538	2,667	2,793	2,931	3,074
Home and Community Care	208	233	233	247	267	289	312
Supported Accommodation Assistance	53	54	58	55	55	55	55
Assistance to Disabled	166	191	192	187	193	199	199
Pensioner Concessions	62	64	64	66	69	70	71
Debt Redemption Assistance	10	10	10	10	74	…	…
Blood Transfusion Services	29	…	…	…	…	…	…
National Land Care	14	32	32	31	31	31	31
Public Housing	267	241	239	243	246	249	252
Australian Land Transport Development	372	411	446	487	472	516	449
Housing	37	37	37	37	38	38	39
Supplementary FHOS Grant	16	…	2	…	...	...	...
Other	432	389	527	381	327	329	312
Total Specific Purpose Payments	**5,295**	**5,458**	**5,654**	**5,756**	**5,944**	**6,139**	**6,276**
Total Grants	**15,226**	**15,497**	**15,595**	**15,760**	**16,526**	**17,332**	**18,001**

In 2004-05, Commonwealth general purpose payments to NSW will increase by only 0.6 percent, due mainly to the assumed resumption of full National Competition Policy (NCP) payments following a $51 million penalty imposed in 2003-04. Excluding NCP payments, general purpose payments will be virtually stagnant for the third consecutive year.

Specific purpose payments are predicted to grow by $102 million, or 1.8 percent in 2004-05. Growth is offset by a $135 million decline in other grants due to an unwinding of the 2003-04 increases in rural assistance and infrastructure grants.

Further details of Commonwealth grants are contained in Chapter 7.

DIVIDENDS AND TAX EQUIVALENTS

Dividends and Tax Equivalents from Public Trading and Financial Enterprises

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 3.8 provides estimates of dividends and tax equivalents for the period to 2007-08.

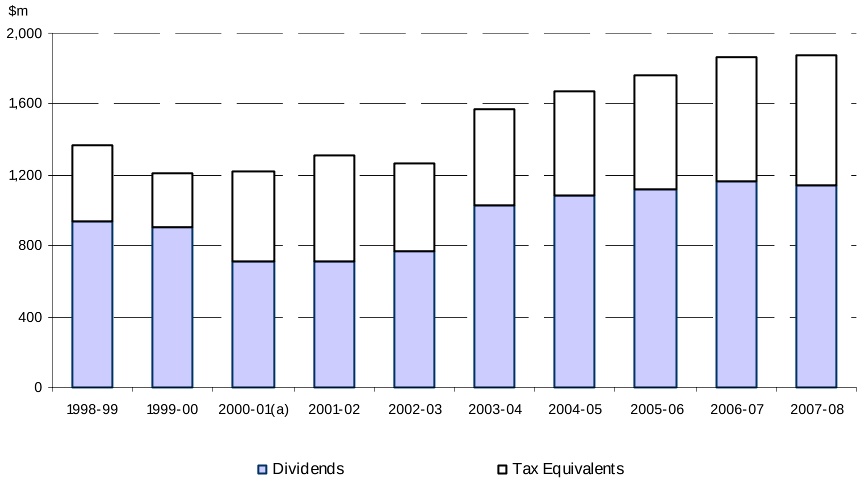
Table 3.8: Dividends and Tax Equivalents from Public Trading and Financial Enterprises

	2002-03	2003-04		2004-05	2005-06	2006-07	2007-08
	Actual	*Budget*	*Revised*	*Budget*	*Forward Estimates*		
	$m	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*
Dividends							
Electricity	431	645	615	628	681	701	705
Water and Waste Services	181	172	168	182	191	202	188
Property and Resources	92	76	87	123	118	130	111
Financial Services	24	17	23	27	17	17	17
Ports	16	19	17	22	22	24	22
Other	25	86	119	103	89	96	98
	768	**1,015**	**1,028**	**1,085**	**1,118**	**1,169**	**1,141**
Income Tax Equivalents							
Electricity	271	276	324	383	400	421	443
Water and Waste Services	131	133	130	114	144	170	179
Property and Resources	65	35	43	48	56	61	69
Financial Services	...	6	8	6	6	6	6
Ports	19	17	20	20	20	21	20
Other	13	13	14	15	15	16	16
	499	**481**	**539**	**585**	**641**	**694**	**734**
Total	**1,267**	**1,496**	**1,567**	**1,670**	**1,759**	**1,863**	**1,875**

For 2004-05, dividends and tax equivalents are expected to increase by $103 million, or 6.6 percent.

Chart 3.4 shows dividends and tax equivalents growing over the next three years, mainly reflecting performance of the electricity generation sector. Dividends from electricity distributors, the sector of the industry regulated by the Independent Pricing and Regulatory Tribunal, are expected to fall in 2004-05 by $62 million.

Chart 3.4: 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

Around 85 percent of revenue in this item comes from drivers' and riders' licences. Revenue is volatile (see Table 3.9) mainly because of the renewal pattern of three and five year drivers' licences.

Fees

This category is made up of a variety of fees such as boat registrations, security industry fees, NSW Fisheries fees and motor dealers fees. The majority of fees are renewed annually and therefore provide a constant underlying level of revenue.

Fines

The main item - over 90 percent - in this category relates to motor traffic fines. A large number of these fines are issued by the Police Service through on-the-spot infringement notices which are subsequently processed by the Infringement Processing Bureau. Some fines 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. Overdue fines are passed by government agencies to the State Debt Recovery Office for collection.

Table 3.9: Other State Revenues

	2002-03	2003-04		2004-05	2005-06	2006-07	2007-08
	Actual	*Budget*	*Revised*	*Budget*	*Forward Estimates*		
	$m	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*
Licences	80	116	113	171	157	99	94
Fees	111	114	112	114	108	110	117
Fines	257	238	238	242	234	241	247
Royalties	235	232	232	300	318	294	294
Fire Brigades Levy on Local Government	49	48	48	53	51	51	51
Other State Revenues	120	94	116	98	99	100	102
Total Other Revenue	**852**	**842**	**859**	**979**	**967**	**895**	**905**

Royalties

Estimates of royalties are predominantly linked to expected volumes sold and coal prices. From 1 July 2004, NSW will abolish flat rate royalties for coal based on tonnage and replace them with ad valorem royalties, based on value.

Based on the most recent information from the industry and other sources, it is likely that coal royalties for 2004-05 will be higher than the mini-Budget estimate, though there are still a number of uncertainties.

Additional coal royalty revenue of $75 million is estimated in 2004-05 and 2005-06 as a result of the change in royalties, assuming prices remain high in Australian dollar terms.

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 3.10 provides estimates of operating revenues for the period to 2007-08.

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.

For 2004-05, total revenue from sales of goods and services is expected to increase by 2.7 percent, following a decline of 2.0 percent in 2003-04.

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 2004-05 and the forward years, investment income is expected to grow significantly as the General Government Liability Management Fund continues to accumulate Crown employer superannuation contributions.

Table 3.10: Operating Revenues

	2002-03	2003-04		2004-05	2005-06	2006-07	2007-08
	Actual	*Budget*	*Revised*	*Budget*	*Forward Estimates*		
	$m	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*
Sales of Goods and Services							
Rents and leases	111	109	107	110	113	118	123
Fees for Service	98	99	129	128	135	143	144
Entry Fees	21	18	19	18	20	20	21
Patient Fees	609	595	604	647	664	683	701
Department of Veterans Affairs - Concord Hospital	245	279	268	263	292	300	308
Court Fees	134	122	132	140	144	148	152
Road Tolls	79	78	67	73	74	74	74
Office of Government Business and Office of Government Procurement	201	96	63	54	56	58	61
Other Sales of Goods and Services	1,212	1,275	1,268	1,296	1,356	1,364	1,400
	2,710	**2,671**	**2,656**	**2,729**	**2,854**	**2,909**	**2,985**
Investment Income	440	649	736	778	901	1,012	1,139
Grants and Contributions	704	606	594	601	600	606	615
Other Operating Revenues	676	264	427	238	181	202	213
Total Operating Revenue	**4,530**	**4,190**	**4,413**	**4,346**	**4,536**	**4,729**	**4,952**

GRANTS AND CONTRIBUTIONS

This item consists mainly of contributions from public trading enterprises and the private sector. In 2004-05, grants and contributions revenue should grow by 1.2 percent.

OTHER OPERATING REVENUE

Other operating revenue in 2004-05 is expected to decline to more normal levels following the receipt in 2003-04 of $79 million from the operator of the Lane Cove Tunnel Project by the Roads and Traffic Authority. The payment was to reimburse development costs incurred by the Roads and Traffic Authority.

CHAPTER 4: NET WORTH, ASSETS AND LIABILITIES

- A strong balance sheet with low levels of debt and other financial liabilities allows the Government to provide additional funding for health, education, public transport and other services despite short term volatility in taxation revenues and investment markets.
- State sector net financial liabilities are forecast to reduce from 26.7 percent of gross state product in 1995 to 14.1 percent in 2008. General government sector liabilities for the same period are estimated to reduce from 19.9 percent to 6.9 percent.
- General government net debt has declined to around $2.9 billion as at 30 June 2004. By 30 June 2008 net debt is forecast to be about $2.2 billion, 0.6 percent of gross state product.
- New South Wales State sector net worth is estimated to be $124 billion as at 30 June 2004. As at 30 June 2008 net worth is expected to be $130 billion.
- Physical asset values for the four year period ending 30 June 2008, are projected to increase by $14 billion to $181 billion reflecting the impact of the State's record asset acquisition program.
- Over the four year period ending in 2003-04 interest expenses on borrowings will reduce from $1,343 million to about $788 million. By 2007-08 finance costs, of $667 million, are projected to be less than half the amount paid in 1999-2000.
- Superannuation obligations are expected to be fully funded by 30 June 2030, fifteen years earlier than anticipated when the funding plan was introduced in 1993.
- NSW Government has acted to increase the availability of affordable insurance cover to the community through ongoing tort law reform, increased medical indemnity coverage for doctors and the development of a community group insurance purchasing scheme.
- Home warranty insurance reforms and revised reinsurance arrangements have increased the number of insurance providers.
- HIH compulsory third party motor vehicle and home warranty insurance claims, assumed by the NSW Government, will be fully met. Over $90 million will be paid out to former policyholders for the year ending 30 June 2004. Outstanding liabilities will be reduced to $28 million by 30 June 2008.

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

THE TOTAL STATE SECTOR BALANCE SHEET

The total state net worth was $121,042 million as at 30 June 2003, an increase of $22,612 million or 23 percent on the previous year's balance.

This increase is primarily due to increased investment in property and infrastructure $6,586 million, the restatement of rail infrastructure assets of $7,856 million and asset revaluations of $14,927 million which were partly offset by an increased provision for depreciation.

Estimated June 2004 net worth is $123,648 million, a further increase of $2,606 million. Over the nine year period 30 June 1995 through to 30 June 2004 the net worth of the NSW Total State Sector will have increased by 78 percent.

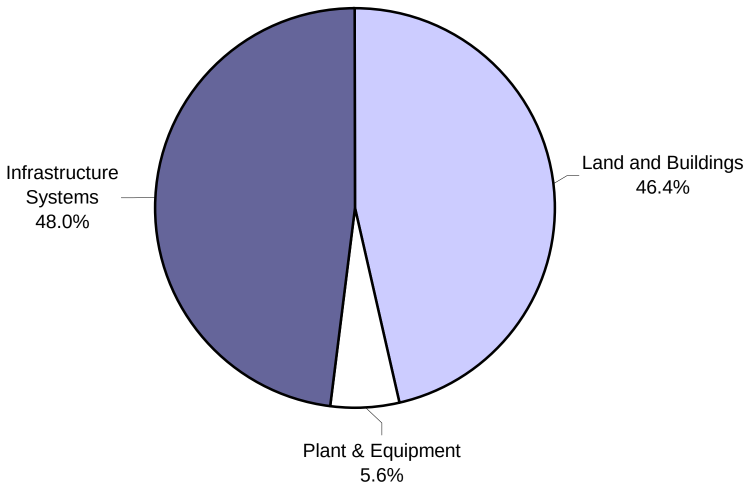
PHYSICAL ASSETS

Physical assets of the State are mainly represented by public schools, hospitals, roads, bridges, transport, public housing and sporting facilities, as well as the infrastructure of the State's commercial authorities such as electricity power stations and distributions assets, dams and water pipelines, and ports infrastructure.

The State's physical asset values were $163,151 million as at 30 June 2003, and are expected to be $166,521 million as at 30 June 2004, representing an increase of $3,370 million.

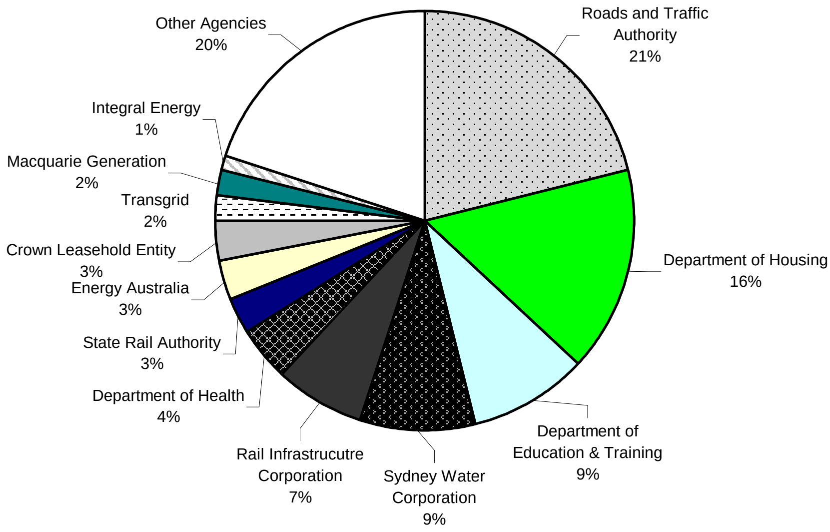
The forecast allocation of physical assets, as at 30 June 2004 between land and buildings, plant and equipment and infrastructure systems is shown in Chart 4.1.

Chart 4.1: Allocation of Total Assets of NSW Government



As Chart 4.1 indicates the majority of physical assets are in the land and buildings and infrastructure systems categories. About 80 percent of the total value of physical assets were held in twelve organisations as at 30 June 2003 as shown in Chart 4.2.

Chart 4.2: Public Sector Agency Physical Assets Allocation



Source: 2002-03 Agency Annual Reports

Table 4.1: New South Wales State Sector Net Worth

As at 30 June	Actual 2000 $m	Actual 2001 $m	Actual 2002 $m	Actual 2003 $m	Revised 2004 $m	Budget 2005 $m	Estimates 2006 $m	Estimates 2007 $m	Estimates 2008 $m
GFS BALANCE SHEET									
Assets									
Physical Assets									
Land and Buildings	57,074	57,941	63,609	74,741	75,303	75,654	76,171	76,593	76,946
Plant and Equipment	8,255	8,298	7,776	9,185	9,098	9,515	9,680	9,616	9,513
Infrastructure Systems	55,800	59,339	62,592	75,280	77,961	80,351	83,245	86,435	89,681
Inventories	2,467	2,453	2,560	2,626	2,718	2,808	2,835	2,911	3,038
Other Non-Financial Assets	1,054	1,150	1,198	1,319	1,441	1,539	1,566	1,621	1,711
Total Physical Assets	**124,650**	**129,181**	**137,735**	**163,151**	**166,521**	**169,867**	**173,497**	**177,176**	**180,889**
Financial Assets									
Cash and Deposits	1,780	1,915	3,119	3,063	2,643	2,571	2,684	2,772	2,873
Advances paid	315	286	368	287	308	311	334	315	317
Investments, Loans and Placements	7,089	6,955	9,680	14,238	15,420	16,222	17,514	19,805	22,732
Other Non-Equity Assets	4,766	4,911	4,737	4,569	4,558	4,539	4,655	4,718	4,760
Equity Assets	184	160	559	620	606	639	687	736	780
Total Financial Assets	**14,134**	**14,227**	**18,463**	**22,777**	**23,535**	**24,282**	**25,874**	**28,346**	**31,462**
TOTAL ASSETS	**138,784**	**143,408**	**156,198**	**185,928**	**190,056**	**194,149**	**199,371**	**205,522**	**212,351**
Liabilities									
Deposits Held	944	753	2,445	3,204	2,981	2,984	2,982	2,986	2,992
Advances Received	2,142	2,041	1,826	1,808	1,675	1,631	1,488	1,443	1,396
Borrowing	26,212	25,240	25,000	26,054	27,070	28,552	30,040	31,693	33,581
Superannuation[(a)]	5,284	7,977	11,723	15,456	15,800	17,543	19,385	21,281	23,296
Other Employee Entitlements and Provisions	10,150	11,234	12,053	13,211	13,756	14,263	14,772	15,369	16,066
Other Non-Equity Liabilities	6,215	4,662	4,721	5,153	5,126	4,722	4,770	4,883	4,954
TOTAL LIABILITIES	**50,947**	**51,907**	**57,768**	**64,886**	**66,408**	**69,695**	**73,437**	**77,655**	**82,285**
GFS NET WORTH	**87,837**	**91,501**	**98,430**	**121,042**	**123,648**	**124,454**	**125,934**	**127,867**	**130,066**

(a) Excludes balances held in General Government Liability Management Fund.

The ongoing forecast increase in state sector net worth, for the four year period ending 30 June 2008, as shown in Table 4.1, is primarily due to the projected increase in the value of physical assets, net of depreciation, which reflects the impact of the State's capital works program.

During this period the state asset acquisition program is expected to total \$29,902 million, an increase of 19.1 percent compared to the four year period ending 30 June 2004. The 2004-05 asset acquisition program of \$7,463 million represents a 7 percent increase compared to the 2003-04 capital works forecast expenditure of \$6,973 million.

Approximately half of this expenditure will be in the general government sector, $3,614 million, whose agencies are engaged in the provision of essential public services such as health, education, roads and public order and safety. The balance of the program, $3,849 million, will be expended by public trading enterprise sector agencies which provide major economic infrastructure such as electricity, public transport and water.

Chart 4.3: PTE Sector New Fixed Capital Expenditure Real 2003-04 dollars

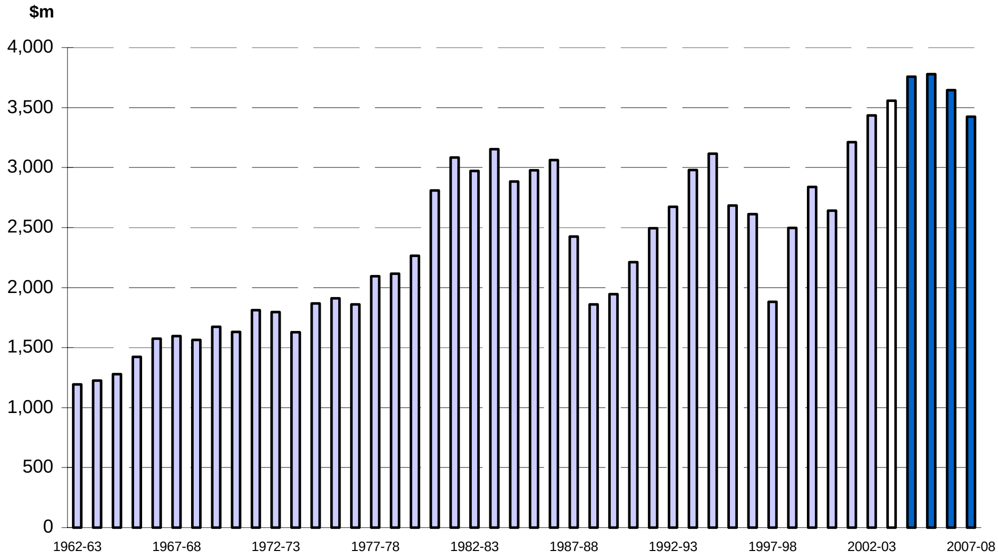
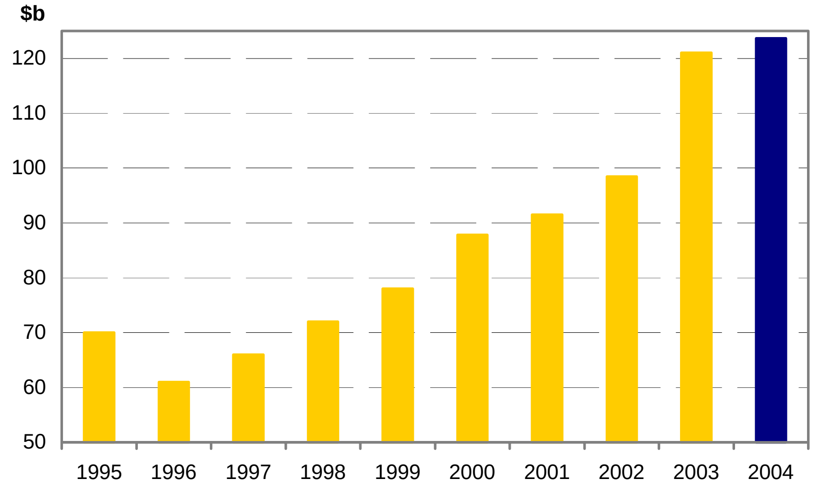


Chart 4.3 shows that the PTE capital works program for the four year period ending 30 June 2008, in real terms, is the highest level of capital investment in the State's history.

Budget Paper Number 4 provides an analysis of the State's asset acquisition program and review of the Governments asset management policies.

Chart 4.4 shows that the net worth of New South Wales is projected to increase by approximately $54 billion between 30 June 1995 and 30 June 2004.

Chart 4.4: Total State Sector Net Worth at 30 June



State sector net financial liabilities are expected to increase by approximately $7.9 billion for the four year period ending 30 June 2008. The forecast increase in state sector net debt of $5.3 billion for the period mainly reflects government businesses borrowing to fund improved infrastructure offset by debt repayments for the general government sector.

Debt in the general government sector will continue 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 eight cash budget surpluses, business asset sales and the regearing of the electricity industry.

The Government is also committed to fully funding general government superannuation liabilities by 2030. This target is 15 years earlier than the original funding plan objective developed in 1993 and results from higher employer contributions, various liability management initiatives and actual investment returns, in total, being higher than forecast over the period since 1993. Consistent with the Government's funding plan the gross superannuation liability will continue to increase in nominal terms, until approximately 2013 before gradually declining.

4.2 NET FINANCIAL LIABILITIES

Table 4.2 shows the net financial liabilities of the different sectors.

General government sector net financial liabilities are estimated to decline by about $1 billion for the year ending 30 June 2004. This reduction primarily reflects anticipated above budget investment returns for the superannuation and insurance asset portfolios.

For the forward estimates period net financial liabilities are expected to increase in nominal terms, but decline as a percentage of gross state product (Table 4.3).

Table 4.2: Net Financial Liabilities by Sector

As at 30 June	Actual 2000 $m	2001 $m	2002 $m	2003 $m	Revised 2004 $m
GENERAL GOVERNMENT SECTOR					
Gross Debt	15,422	12,949	12,705	12,025	11,717
Financial Assets [(a)]	6,037	6,488	7,649	8,781	8,843
Net Debt	9,385	6,461	5,056	3,244	2,874
Unfunded Superannuation[(b)]	7,937	9,306	11,398	13,069	12,203
Insurance Claims	4,271	5,067	5,553	5,881	6,166
Other [(c)]	2,508	2,298	2,286	2,964	2,930
Net Financial Liabilities[(d)]	**24,101**	**23,132**	**24,293**	**25,158**	**24,173**
PUBLIC TRADING ENTERPRISE SECTOR					
Gross Debt	9,872	12,712	12,333	13,464	14,507
Financial assets	2,199	1,880	1,563	1,731	1,294
Net Debt	7,673	10,832	10,770	11,733	13,213
Unfunded Superannuation	(402)	(150)	325	736	716
Insurance Claims	285	332	399	386	399
Other [(c)]	4,453	3,184	3,252	3,680	3,978
Net Financial Liabilities	**12,009**	**14,198**	**14,746**	**16,535**	**18,306**
PUBLIC FINANCIAL ENTERPRISE SECTOR					
Gross Debt	30,686	30,203	32,552	36,452	42,498
Financial Assets	29,872	29,798	32,274	36,299	42,670
Net Debt	814	405	278	153	(172)
Other	(111)	(55)	(13)	262	565
Net Financial Liabilities	**703**	**350**	**265**	**415**	**393**
TOTAL STATE SECTOR Net Financial Liabilities	**36,813**	**37,680**	**39,304**	**42,108**	**42,872**

(a) Gross amount of insurance assets are included in financial assets in accordance with Australian Bureau of Statistics net debt calculation standards.

(b) Net balance includes 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.

Table 4.3: Net Financial Liabilities Estimates

As at 30 June	Actual 2003 $m	Revised 2004 $m	Budget 2005 $m	Estimates 2006 $m	2007 $m	2008 $m
General Government Sector						
Net Debt[(a)]	3,244	2,874	3,290	2,973	2,686	2,174
Unfunded Superannuation[(b)]	13,069	12,203	12,757	13,150	13,130	12,876
Insurance Gross Claims[(c)]	5,881	6,166	6,421	6,782	7,235	7,758
Other[(d)]	2,964	2,930	2,362	2,215	2,118	2,100
Total	**25,158**	**24,173**	**24,830**	**25,120**	**25,169**	**24,908**
State Sector						
Net Debt[(a)]	15,129	16,237	18,084	19,399	20,521	21,560
Unfunded Superannuation[(b)]	13,805	12,919	13,522	13,964	13,991	13,783
Insurance Gross Claims[(c)]	6,267	6,565	6,818	7,178	7,633	8,159
Other[(d)]	6,907	7,151	6,989	7,022	7,165	7,320
Total	**42,108**	**42,872**	**45,413**	**47,563**	**49,310**	**50,822**

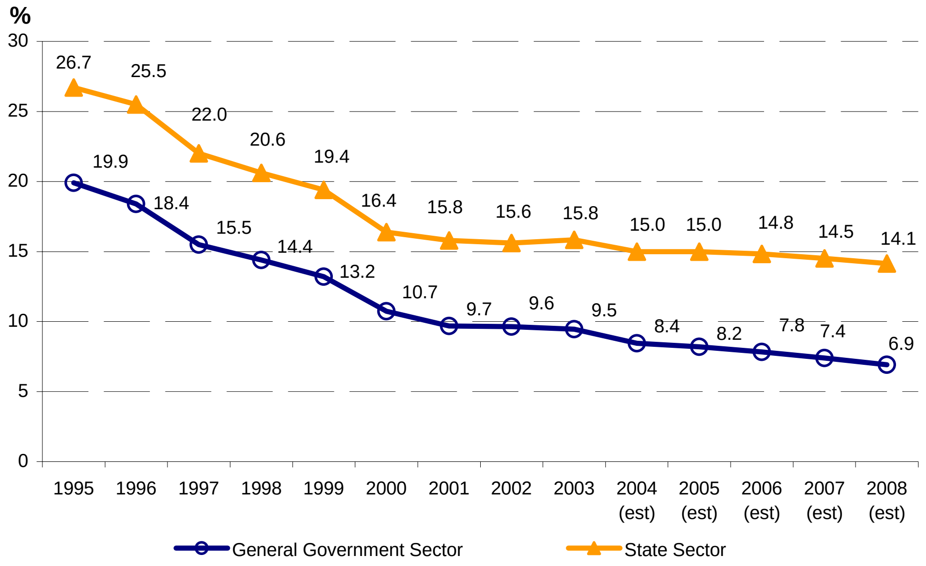
(a) Excludes balances held in GGLMF.

(b) Net superannuation asset balance includes GGLMF funds.

(c) Gross amount of insurance assets are included in financial assets in accordance with Australian Bureau of Statistics net debt calculation standards.

(d) Other employee entitlements and provisions.

Chart 4.5: Net Financial Liabilities as at 30 June (% of GSP)



4.3 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 $2,874 million (1 percent of gross state product) as at 30 June 2004.

Table 4.4: General Government Sector Net Debt

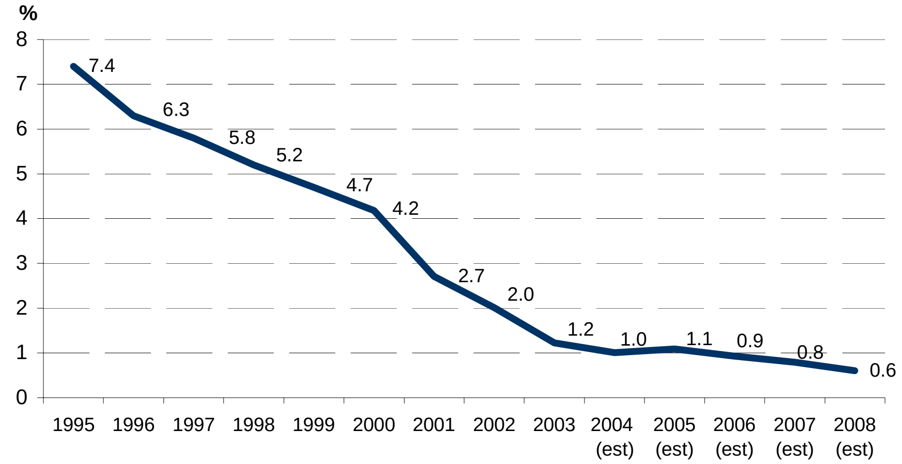
As at 30 June	*Actuals*				*Revised*	*Budget*	*Estimates*		
	2000 $m	*2001 $m*	*2002 $m*	*2003 $m*	*2004 $m*	*2005 $m*	*2006 $m*	*2007 $m*	*2008 $m*
Gross Debt									
Borrowings[(a)]	13,190	10,847	10,815	10,164	9,985	10,026	9,734	9,728	9,832
Advances Received	2,142	2,041	1,826	1,808	1,675	1,631	1,489	1,443	1,396
Deposits Held	90	61	64	53	57	57	58	59	61
	15,422	12,949	12,705	12,025	11,717	11,714	11,281	11,230	11,289
Financial Assets[(b)]									
Cash	481	1,096	1,719	1,091	794	739	799	805	859
Investments	3,860	3,950	4,409	6,289	6,653	6,311	6,139	6,414	6,956
Advances	1,696	1,442	1,521	1,401	1,396	1,374	1,370	1,325	1,300
	6,037	6,488	7,649	8,781	8,843	8,424	8,308	8,544	9,115
Underlying Net Debt	**9,385**	**6,461**	**5,056**	**3,244**	**2,874**	**3,290**	**2,973**	**2,686**	**2,174**

(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.

A large part of the reduction in net debt has come from the consistent application of cash budget 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 0.6 percent by 30 June 2008 (Chart 4.6)

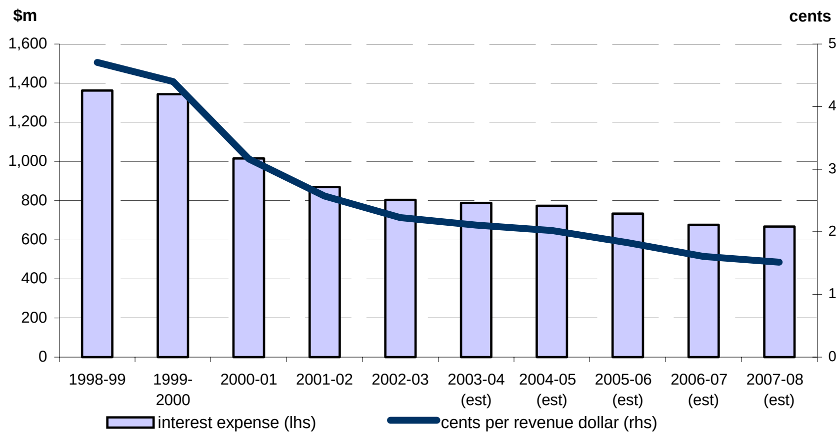
Chart 4.6 General Government Sector Underlying Net Debt as percentage of Gross State Product, as at 30 June



The interest expense on gross debt is expected to fall from $1,343 million to $667 million between 2000 and 2008 (Chart 4.7). 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 2000, for every revenue dollar received, 4.7 cents was required to meet loan interest payments. By 2008 it is expected that 1.5 cents in the dollar will be required (Chart 4.7).

Chart 4.7 General Government Sector Gross Debt Interest Expense, and as a percentage of Budget Revenue



4.4 GENERAL GOVERNMENT SECTOR UNFUNDED SUPERANNUATION

Over the 12 months to 30 June 2004, underlying net unfunded liabilities are projected to decrease by 6.6 percent to $12,203 million.

Over the five year period to 30 June 2008, unfunded liabilities are estimated to reduce to $12,876 million (Table 4.5). This represents an average annual reduction of 0.3 percent over the five year Budget period to 30 June 2008, compared to an average increase of 3.5 percent over the five year Budget period in the 2003-04 Budget Estimates. There are three main reasons for the significant turnaround.

- The negative Pooled Fund investment returns during 2001-02 and 2002-03 have been reversed. The investment return for 2003-04 is estimated to be 9.7 percent, with forward estimates reverting to the assumed long-term investment return for subsequent years.

- The assumed long-term investment return has been increased from 7 percent to 7.3 percent. Treasury has recently received expert tax advice that the Pooled Fund's effective tax rate over the long-term is likely to be zero, instead of the previously assumed 4 percent. On the basis of this advice, the Pooled Fund actuary has indicated that a zero tax rate assumption seemed reasonable and that the after-tax long-term assumption should be increased from 7 percent to 7.3 percent. The SAS Trustee Corporation also obtained independent tax advice which confirmed the reasonableness of a zero tax rate assumption over the long-term. The decrease in the assumed tax rate is due to significant tax credits and concessions available to the Fund. All other things being equal, this will increase Fund assets and reduce estimated unfunded liabilities by an average of around $30 million in each year of the forward estimates period.

- The superannuation liability discount rate used in the actuarial calculation of unfunded liabilities has been increased from 7 percent to 7.3 percent. This was necessary because the Pooled Fund's actuary uses the assumed long-term investment return as the discount rate. The increase has reduced unfunded liabilities by approximately $1,000 million each year over the forward estimates period.

The nexus between the forecast long-term investment return and the assumed discount rate will be broken for statutory accrual accounting reporting purposes when the proposed new international accounting standards (AASB 119) come into effect in 2005-06.

When introduced, the proposed accounting standard AASB 119 will require the discount rate for valuing superannuation liabilities to be equal to a high quality corporate bond rate, or if there is not a sufficiently deep market for corporate bonds, a government bond rate.

It is expected that such a discount rate will be at least one percent lower than the estimated long-term Pooled Fund investment earnings rate that is currently assumed in valuing Pooled Fund liabilities. This would have the effect of substantially increasing the estimated unfunded liabilities currently reflected in these Budget Papers. The NSW Government strongly disagrees with this basis for valuing liabilities for a number of reasons. Firstly, it will break the nexus between the method of calculating superannuation liabilities for reporting and funding purposes. Secondly, it does not reflect the most likely earnings capability of the Pooled Fund.

Accordingly, in future Budget Papers and Financial Statements, the calculation and disclosure of unfunded superannuation liabilities may be calculated on two bases. The first basis will be for balance sheet recognition purposes and will generally accord with AASB 119 requirements with respect to the assumed discount rate. The second basis will be on a funding basis and will be used for note disclosure and funding purposes. This basis will be consistent with that underlying the estimates incorporated into these Budget Papers.

The calculation of superannuation liabilities on a funding basis provides a more meaningful assessment of the budgetary impact of unfunded liabilities. It will be more consistent with how the Pooled Fund Trustee itself will report the schemes' funding position. This is because superannuation schemes will remain subject to the existing accounting standard AAS 25, which is not being revised when other new international accounting standards (including AASB 119) come into effect.

It is the view of NSW Treasury that the funding basis will provide a better indication of the level of unfunded liabilities and therefore the amount of employer funding that will be required over the long-term to meet future benefit obligations.

Table 4.5: General Government Sector Unfunded Superannuation Liabilities [(a)]

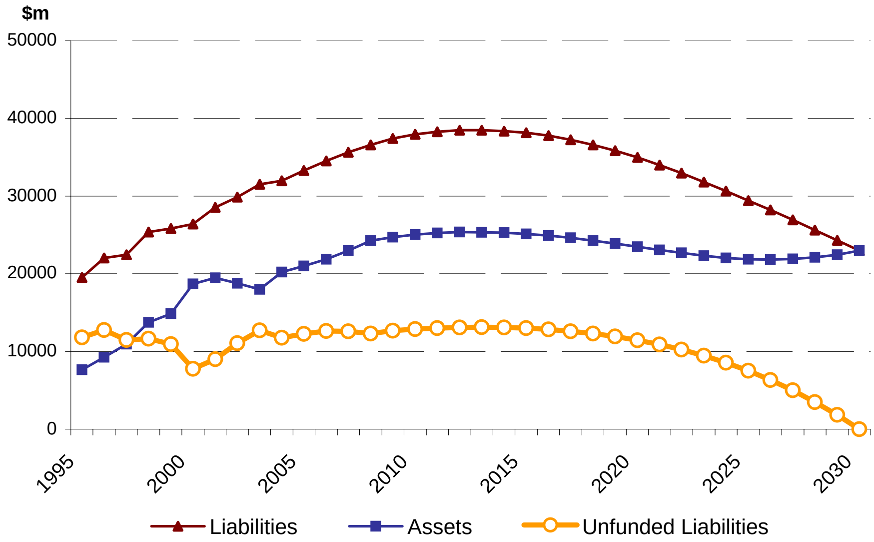
As at 30 June	Actuals				Revised	Budget	Estimates		
	2000 $m	2001 $m	2002 $m	2003 $m	2004 $m	2005 $m	2006 $m	2007 $m	2008 $m
Liabilities	29,048	30,190	30,389	31,873	32,603	33,933	35,184	36,278	37,269
Less:									
Assets	21,111	20,884	18,991	17,153	17,519	17,155	16,613	15,858	14,880
Reserves held in General Government Liability Management Fund	...	...	...	1,651	2,881	4,021	5,421	7,290	9,513
Underlying Net Unfunded Liabilities [(a)]	**7,937**	**9,306**	**11,398**	**13,069**	**12,203**	**12,757**	**13,150**	**13,130**	**12,876**
Assets (including GGLMF Reserves) as proportion of Liabilities (%)	**79**	**72**	**62**	**59**	**63**	**62**	**63**	**64**	**65**

(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 estimates period to 30 June 2008 unfunded superannuation is expected to stabilise because assets, including balances in the General Government Liability Management Fund, are projected to increase steadily to around $24 billion by 30 June 2008. Investment returns are assumed to return to the revised long term average rate of positive 7.3 percent per annum.

Gross Pooled Fund scheme liabilities will continue to grow to 2013, as shown in Chart 4.8, before gradually declining. Liabilities reduce after 2013 due to the retirement of active members and continued budget contributions to 2030 at which time assets are projected to match liabilities at approximately $23 billion.

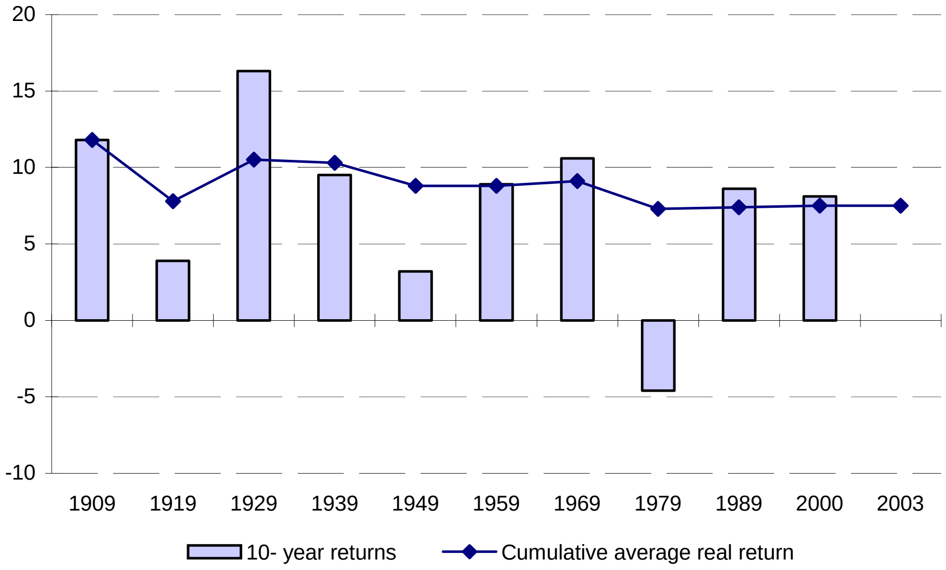
Chart 4.8: Projected General Government Pooled Fund Scheme Superannuation Gross Liabilities, Assets and Net Liabilities



The cumulative average real rates of return on Australian equities from 1900 to 2003 are shown in Chart 4.9. The cumulative average real rate of return over the 103 years to 31 December 2003 was 7.5 percent. The lowest cumulative average at the end of any decade was 7.4 percent (1980). International equity returns were also high, with real rates of return in the United States of 6.5 percent, Japan 4.1 percent and United Kingdom 5.3 percent.

If the trend of the last 103 years continues over the next 26 years to 2030, the 7.3 percent average long term nominal investment return assumed in the actuarial projection of unfunded liabilities will 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 30 April 2004 was 7.4 percent which equates to the Intech Financial Services survey average manager return of 7.4 percent.

Chart 4.9: 103 Year History of the Australian Equity Market [(a)]



(a) Data for Australian equities obtained from the ABN-AMRO Global Investment Returns Yearbook 2004 compiled by Elroy Dimson, Paul Marsh and Mike Staunton from the London Business School.

SUPERANNUATION FUNDING PLAN

When the original long-term funding plan for the total Pooled Fund superannuation schemes was first drafted in 1993, it was intended to eliminate superannuation unfunded liabilities by 2045. However, higher than originally estimated employer contributions and a number of liability management initiatives, combined with favourable investment returns over a number years resulted in the Government bringing forward the full funding target date by fifteen years from 2045 to 2030.

The current 2004 unfunded liability estimate of $12,203 million is $2,791 million lower than the original funding plan forecast of $14,994 million.

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.

4.5 GENERAL GOVERNMENT SECTOR INSURANCE

General government insurance net liabilities are comprised primarily of the net financial liabilities of the Treasury Managed Fund (TMF), as well as the net financial liabilities of the Workers' Compensation (Dust Diseases) Board and various WorkCover Authority of New South Wales administered schemes such as the Emergency Rescue Workers and Bush Fire Fighters Compensation Funds. They do not include liabilities under the workers' compensation scheme for private sector employees.

The TMF is a self insurance scheme owned and underwritten by the Government. The TMF covers workers' compensation, public liability and other insurance liabilities for all general government sector budget dependent agencies. Other public sector agencies may apply to join the TMF on a voluntary basis.

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

On 30 June 2005, the current management contract with GIO General Limited for the TMF expires and Treasury proposes to implement fundamental reforms to the arrangements by which insurance services are provided to government agencies in New South Wales. The objective is to create a more contestable market for the provision of such services.

In reforming the management of the TMF and developing a more contestable market, Treasury has the objective of improved scheme performance to minimise overall claims costs and budget impacts for member agencies and the general government sector as a whole.

Table 4.6: General Government Sector Insurance Forecasts

As at 30 June	Actual	Revised	Budget	Estimates		
	2003 $m	*2004 $m*	*2005 $m*	*2006 $m*	*2007 $m*	*2008 $m*
Outstanding Claim Liabilities						
Treasury Managed Fund	3,710	4,103	4,458	4,897	5,406	5,969
Other (closed schemes)[(a)]	289	268	247	224	205	191
HIH	330	232	148	88	52	28
Dust Diseases	1,298	1,304	1,308	1,311	1,307	1,301
WorkCover Authority	250	255	256	258	261	265
Other (self funded schemes)[(b)]	4	4	4	4	4	4
	5,881	6,166	6,421	6,782	7,235	7,758
Assets[(c)]						
Treasury Managed Fund	3,740	4,239	4,739	5,278	5,873	6,524
Dust Diseases	1,298	1,304	1,308	1,311	1,307	1,301
WorkCover Authority	240	233	218	223	230	250
Other (self funded schemes)	4	4	4	4	4	4
	5,282	5,780	6,269	6,816	7,414	8,079
Unfunded Insurance Liabilities[(d)]	**599**	**386**	**152**	**(34)**	**(179)**	**(321)**
Assets as proportion of claim liabilities (%)	**90**	**94**	**98**	**101**	**102**	**104**

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

(b) Waterways Authority is a closed fund of the workers' compensation liabilities of the former Maritime Services Board incurred between 1989 and 1995

(c) Gross amount of insurance assets are included in financial assets for net debt and net financial liability reporting purposes in accordance liability reporting purposes in accordance with Australian Bureau of Statistics standards.

(d) Does not include liabilities under the workers' compensation scheme for private sector employees.

The TMF is now a fully funded scheme, that is, the assets of the fund exceed its liabilities. The liabilities of the closed Transport Accident Compensation Fund and Government Workers Fund are funded by the Crown Finance Entity. The liabilities of the Dust Diseases Board are fully offset by an 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 claims liabilities originally assumed by the Government totalled in excess of $700 million. During 2003-04 claim payments to previous HIH policyholders and those entitled to third party compensation will exceed $90 million and the outstanding claims liability is estimated to be $232 million as at 30 June 2004.

The continuing decline in HIH claim liabilities and the anticipated increase in TMF financial assets is expected to reduce net liabilities over the forward estimates period. Insurance assets as a proportion of liabilities are forecast to rise from 90 percent in 2003 to 104 percent in 2008 (Table 4.6).

The report by the Honourable Mr Justice Owen into the collapse of the HIH Insurance Group recommended that the Australian Accounting Standards Board amend general insurance accounting standard AASB1023 to provide for:

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

These recommendations are also contained in draft International Accounting Standards to be adopted by general insurance entities.

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

COMMUNITY AND OTHER INSURANCE ISSUES

The collapse of HIH Insurance Group and the tragic events of September 2001 reduced the availability of insurance 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 faced difficulties in obtaining public liability and professional indemnity insurance cover at affordable prices. In some cases cover was either not available or subject to severe restrictions.

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

TORT LAW REFORM

In May 2002 Parliament passed the *Civil Liability Act 2002* to implement Stage One of the Government's law reform program. These reforms mainly revolved around compensation payment thresholds, caps and restrictions on lawyers' fees.

Stage Two of the Government's legislative program, the *Civil Liability Amendment (Personal Responsibility) Act*, was passed by Parliament in November 2002. This Act introduced proportionate liability for certain claims, protected good Samaritans and volunteers from liability for their acts and ensured that a warning of risk is a good defence for high risk entertainment or sporting injuries.

In December 2003 the Government enacted a further series of reforms through the *Civil Liability Amendment Act 2003* including reforms to:

- further limit the circumstances in which a public or other authority or public official is liable for damages in respect of the exercise of public functions;
- provide for self-defence against civil action for a citizen arising from the conduct of another person whose action would have been unlawful except that the person was suffering from a mental illness;
- amend the Mental Health Act to exclude police and health care professionals from personal liability for functions exercised under the Act; and
- amendments to the provisions for proportionate liability for economic loss.

COMMUNITY INSURANCE

The Council of Social Service of New South Wales (NCOSS) is the peak body for the social and community services sector in New South Wales. As many not for profit non-government organisations were experiencing difficulties with insurance costs and availability of cover, NCOSS approached the Government to fund a project to establish a bulk buying insurance scheme for the community sector.

An amount of $215,700 was made available to fund a two year project with a brief to:

- establish a bulk buying scheme;
- provide ongoing information to assist non-government organisations identify their insurance needs; and
- provide risk management training and assistance.

The scheme, NCOSS Community Cover, was officially launched by the Assistant Treasurer, the Hon John Della Bosca MLC, on 27 April 2004. NCOSS has already had discussions with over 1000 not for profit organisations about their insurance issues.

As well as the initiatives introduced through its extensive tort law reform program, the Government has undertaken extensive consultation with the insurance industry and other key stakeholders to develop solutions to increase the availability of liability insurance.

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

By January 2004, CCUA had taken 5,000 enquiries from eligible organisations, issued 2,600 quotations and written 1,200 policies representing $2 million in premium.

MEDICAL INDEMNITY

The New South Wales Government recognised at an early stage the looming crisis in medical indemnity insurance and took positive action to address the problem. The Government introduced the *Health Care Liability Act 2001* to provide necessary tort reforms and industry supervision. On 19 December 2001 the Government announced it would assume the liabilities for all Visiting Medical Officers (VMO's) treating public patients in New South Wales public hospitals.

The Commonwealth has consistently failed to acknowledge that by this positive step New South Wales has assumed an estimated 30 percent of the liability of the insolvent specialist medical insurer UMP or approximately $150 million of accrued liabilities.

Other steps taken include:

- a further extension of medical indemnity insurance from 1 July 2003 to VMOs and staff specialists exercising rights of private practice treating private patients in rural and regional hospitals;

- a further extension of medical indemnity insurance to VMOs and staff specialists treating children who are private patients in public hospitals which is currently being implemented; and

- an extension of medical indemnity insurance cover to clinical academics.

PROFESSIONAL INDEMNITY INSURANCE

The Treasurer has represented New South Wales at a series of ministerial meetings of Commonwealth, state and territory ministers that have led to all Australian jurisdictions agreeing to a landmark package of negligence law reform.

A major focus of these meetings has been the difficulties faced by all professionals in obtaining professional indemnity insurance at a reasonable price. At these meetings, New South Wales has encouraged other jurisdictions to adopt legislation similar to the New South Wales *Professional Standards Act 1994*.

The purpose of the Act is to minimise claims against professionals by improving professional standards and requiring risk management strategies, compulsory insurance cover, professional education and appropriate complaints and disciplinary mechanisms, in return for limited liability.

All jurisdictions have now agreed to implement Professional Standards Legislation based on the New South Wales model.

HOME WARRANTY INSURANCE

The collapse of HIH Insurance severely dislocated the home warranty insurance market. HIH's share of the market was approximately 30 percent. Following the World Trade Centre terrorist attack, the home warranty market was again in turmoil through the withdrawal of most of its reinsurance capacity.

The New South Wales and Victorian Governments have worked together to introduce home warranty reforms and revised reinsurance arrangements that have enabled the market to continue. As a result of these reforms, Insurance Australia Group subsidiary CGU entered the market on 17 May 2004.

4.6 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. New contractors have been engaged to assist Treasury to perform a regular review of government agencies' ability to use the powers they have been given under the PAFA Act.

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.

As a result of significant government investments in recent years the TMF is now fully funded. The TMF portfolio value is approximately $4.1 billion and bonds represent an average of 60 percent of investments. The investments are held by the NSW Treasury Corporation (TCorp) in its TCorp HourGlass facilities or directly in a managed bond portfolio. A memorandum of understanding between TCorp and the Treasury details investment policies and procedures and benchmarks for each asset class.

Investment performance is monitored by the Crown Entity Asset Management Committee that was formed in December 2003 for the purpose of co-ordinating the management of the large amount of funds held centrally by the State. The Committee has representatives from both Treasury and TCorp.

DEBT MANAGEMENT

The debt portfolios of the Crown and the Roads and Traffic Authority together represent approximately 92 percent of the debt of budget dependent agencies. These portfolios are managed by TCorp. Debt management has the twin objectives of minimising the market value of debt subject to specified risk constraints over the long term and 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. The General Government Debt Management Committee, consisting of representatives of TCorp, Treasury and the RTA, meets quarterly to monitor debt strategy.

SUPERANNUATION MANAGEMENT

All new public servants now join accumulation schemes which are fully funded and pose no financial risk to the Government. The SAS Trustee Corporation (STC) is the trustee for all defined benefit schemes covering the employees of general government agencies.

The STC is required by legislation to arrange a triennial review of all defined benefit schemes under its administration. The latest review was finalised in December 2003. All demographic and economic assumptions used in calculating the gross liabilities were assessed against current experience. Where these assumptions had changed, the new assumptions have been used in the 2004-05 budget calculations.

Additionally, the long-term investment return and discount rate assumed in the 2003 Triennial Review was subsequently revised to take into account new information not available at the time the Review was undertaken. Refer to Section 4.4 of this chapter for a more detailed explanation.

The Trustee reviews the STC Pool Fund's strategic asset allocation annually. Currently the amount invested in growth assets is approximately 72 percent with the balance in bonds and cash.

The Crown contributions to defined benefit superannuation schemes are currently being invested through the General Government Liability Management Fund. These funds are invested in a fixed interest portfolio managed by TCorp under a memorandum of understanding with Treasury.

4.7 FINANCIAL ASSET MANAGEMENT

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 to fully fund general government net debt by 2020 and superannuation liabilities by 2030. Further, sufficient financial assets will be allocated to the Treasury Managed Fund to fully match outstanding insurance claim liabilities.

Maintaining a strong balance sheet allows the Government to cope with volatility of taxation revenues and investment markets without reducing the level of core government services. Investment income is expected to continue growing as a proportion of total budget revenues (Table 4.7).

Table 4.7: Investment Income as Proportion of Total Budget Revenue

	Actual				*Revised*	*Budget*	*Estimates*		
	1999-2000 $m	*2000-01 $m*	*2001-02 $m*	*2002-03 $m*	*2003-04 $m*	*2004-05 $m*	*2005-06 $m*	*2006-07 $m*	*2007-08 $m*
Investment Income	476	471	282	440	736	778	901	1,012	1,139
Budget Revenue	30,533	32,118	33,752	36,029	37,366	38,275	40,125	42,105	44,065
Income % of Budget	1.6%	1.5%	0.8%	1.2%	2.0%	2.0%	2.2%	2.4%	2.6%

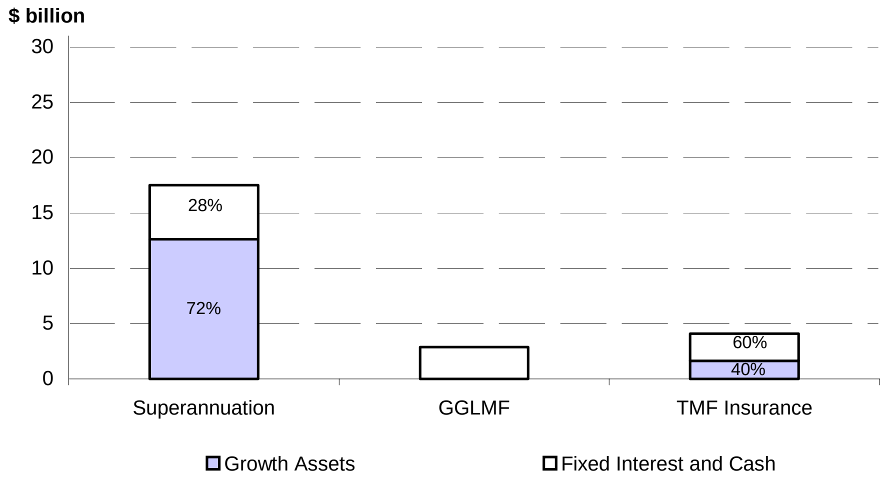
ASSETS: RETURNS AND RISKS

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 the risk profile is varied. Longer term liabilities allow assets to be invested in higher return but volatile markets. The strategic asset allocations of the major asset portfolios held in the general government sector are shown in Chart 4.10.

Chart 4.10: General Government forecast strategic asset allocations, as at 30 June 2004



Government requires a long-term average return on investments that at least equals the discount rate used in constructing the funding plan for the relevant liability. 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 7.3 percent per annum. To earn an average investment return of 7.3 percent per annum requires a moderately high allocation to growth assets (shares and property).

4.8 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 4.4. Annual leave liabilities as at 30 June 2004 are estimated at $1,130 million (30 June 2003 $1,085 million). Vested sick leave accumulates in a similar manner to annual leave entitlements. The 30 June 2004 estimate is $72 million (30 June 2003 $46 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 long service leave liabilities, as at 30 June 2004 forecast are $3,755 million (30 June 2003 $3,572 million). The present value method as set out in Australian Accounting Standard AASB 1028 is used to calculate the liability.

Other provision liabilities primarily relate to land remediation at the former BHP steel works site in Newcastle. The provision is expected to remain unchanged at $103 million as at 30 June 2004. BHP Billiton made a payment to the Crown that fully covers the land remediation costs. The contribution is held as cash.

CHAPTER 5: THE ECONOMY AND OTHER FACTORS AFFECTING BUDGET OUTCOMES

Economic Situation and Outlook

NSW output growth of 3½ percent in 2003-04 will be a little firmer than expectations in the 2003-04 Budget. Growth in state final demand is likely to be stronger than anticipated while net exports are likely to be weaker than expected.

- Despite little contribution from dwelling construction, domestic demand grew by around 4½ percent, boosted by a lift in consumer and business spending.
- Net exports were constrained by strong import growth and only partial recovery from the drought.

The forecasts for 2004-05 assume that with continuing robust world output growth, exports will contribute strongly to growth, but not enough to offset a decline in dwelling construction and slower growth in other components of domestic demand.

- NSW state final demand is forecast to increase by 3 percent, and gross state product is estimated to increase by 3¼ percent.
- NSW employment growth is projected to be 1¼ percent, while the unemployment rate should be steady at 5½ percent, below the national average.

Factors Affecting Budget Outcomes

The budget is sensitive to variations between actual and expected outcomes for the economy. Current uncertainties include:

- Stresses affecting the global outlook, particularly the US “twin deficits”, the sustainability of China’s rapid growth, and world oil prices;
- Domestic economic uncertainties, including the housing cycle, drought, the exchange rate and interest rates.

In addition to economic parameters, Budget estimates are framed on the basis of no change in government policy and other parameters. Key factors which have recently affected Budget outcomes include:

- Arbitrated public sector wage increases above those planned for; and
- Commonwealth policy on intergovernmental financial relations.

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 2004-05 budget estimates are presented in Section 5.2.

The sensitivity of budget outcomes to change in underlying factors is considered in Section 5.3. These factors include changing economic circumstances, unanticipated policy and regulatory decisions, changed demand for services, and the realisation of contingent liabilities.

5.2 THE ECONOMIC SITUATION AND OUTLOOK

At this time last year there were considerable concerns about the global economic outlook. Consensus forecasts for world output growth had been continuously revised lower, financial markets had deteriorated and there were concerns about global deflation. Meanwhile the drought had taken a large toll on an otherwise robust domestic economy. The Reserve Bank of Australia had indicated that if global conditions continued to deteriorate it would consider lowering interest rates.

Nevertheless, a modest global recovery was forecast to take place over 2003-04 in light of the significant global fiscal and monetary stimulus in place. That recovery did take hold as the year progressed, although concerns about the sustainability of the US and global recovery have only very recently receded. At present a continuation of firm global growth through 2004-05 is in prospect with the risks to such an outlook more balanced than has been the case for several years.

Stronger global demand for resources (particularly from China) lifted Australia’s terms of trade, while expansionary fiscal and monetary policy settings in the United States contributed to a depreciation of the US$ against major currencies. These factors drove a sharp upward adjustment in the Australian exchange rate during the first half of 2003-04. Despite strong growth in domestic demand and private sector credit, the Reserve Bank kept interest rates on hold until late in 2003. This reflected concern about the negative impact of rapid currency appreciation and hesitant global recovery on the national economy.

The activity of financial investors in the housing sector surged during the last few years, fuelled by low interest rates, capital gains tax changes favourable to property investment, and until 2003-04, comparatively weak returns in equity markets. This contributed to an unusual extension of the current housing cycle – accompanied by a rapid expansion in housing credit, a rising ratio of investors to owner-occupiers in total housing finance and a ramp-up of house prices. The weaker trend in housing finance and residential building approvals in the first half of 2004 suggests that the housing cycle might finally be entering a downswing.

A still buoyant housing and construction sector helped to maintain strong growth in employment and wages, providing a boost to consumer spending and overall domestic demand during 2003-04.

Inflation eased in 2003-04 under the weight of falling import prices. The combination of strong domestic demand and a high exchange rate drove a wedge between trends for prices of traded goods (stable or falling) and non-traded goods (strongly increasing). Without some easing in domestically sourced inflation, there is a risk that general price inflation will accelerate once the exchange rate stops rising, especially against the US dollar.

The forecasts for 2004-05 are for output growth to ease marginally. Slower domestic demand growth, principally due to a decline in housing investment, will largely be offset by gains in net exports. These forecasts assume continued firm global expansion, further improvements in agricultural output, moderately softer dwelling construction activity, and only marginally higher interest rates.

Uncertainties include the timing of the US monetary policy response to a narrowing output gap in that country and the reaction of global financial markets as rates rise. Security concerns could detract from global economic performance as could ongoing high oil prices. Domestically, while the slowing of dwelling activity thus far has been moderate, historically the cyclical movements in this industry often have proved larger and more disruptive than initially anticipated. Drought conditions currently affect nearly 80 percent of New South Wales. The Australian Bureau of Agricultural and Resource Economics (ABARE) and the Bureau of Meteorology expect average seasonal conditions in agriculture in 2004-05, with low risk of an El Nino event emerging[1]. The possibility of continued drought, however, cannot be precluded.

RECENT PERFORMANCE [2]

NSW economic output growth in 2003-04 was slightly above 2003-04 Budget expectations. Growth relied somewhat more on domestic demand and less on net exports than anticipated in the Budget.

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[1] *Australian Bureau of Agricultural and Resource Economics (ABARE),* Crop Report*, 8 June 2004*

[2] *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 2004, which included: results to June 2003 for gross state product: to March 2004 for state final demand, consumer prices and wage costs; and to May 2004 for employment.*

Moderate outcomes for net exports reflected a very strong lift in the exchange rate, still moderate growth in overseas markets, a less than full recovery in rural production and strong growth in import volumes. The strength of imports reflected robust investment and consumer demand. While crop production was up considerably on drought-affected 2002-03, conditions remained mixed and output did not recover to previous peaks. Despite a boost from the 2003 Rugby World Cup, inbound tourist numbers declined for a second year in 2003-04, reflecting continued economic and security uncertainties abroad. While strong North Asian demand boosted minerals and energy exports, this initially provided less benefit to New South Wales than to other more resource-intensive States.

Domestic demand expanded very strongly in the first half of 2003-04, supported by robust private consumption, resilient dwelling investment and a pick-up in non-residential construction. This strength reflected continued low interest rates, strong gains in asset prices, falling unemployment, strong growth in real wages, and the boost to real incomes from Australia's rising terms of trade. It also reflected a lift in Privately Financed Projects (PFP) infrastructure construction spending in New South Wales. In line with the strong growth in domestic demand, employment growth in New South Wales also exceeded expectations.

Table 5.1: Revised 2003-04 Estimates

(Year average percent change, unless otherwise indicated)

	2003-04 Budget	Half Yearly Review	Current Estimate
Gross State Product	3 ¼	3 ½	3 ½
State Final Demand	3 ¼	3 ¾	4 ½
Employment	1 ¼	1 ½	1 ½
Unemployment rate (year average, percent)	5 ¾	5 ½	5 ½
CPI (Sydney)	2 ¼	2 ¼	2 ¼
Wages (wage cost index, ordinary time)	3 ½	3¾	3 ¾

The global economic recovery was more synchronised in 2003-04, with marked accelerations in growth in the United States and Japan adding to continued robust performance in non-Japan Asia, particularly China. The upswing in those regions offset still sluggish trends in continental Europe. Initial concerns over deflation and a 'jobless' recovery in the United States were dissipated by sharp lifts in both employment and prices in early 2004. Health-related issues (SARS and Asian bird flu) receded, although both geopolitical uncertainties and financial stresses related to US budget and current account deficits remained of concern. Nonetheless consensus forecasts[3] for 2004 world output growth improved steadily from 2.9 percent in July 2003 to 3.8 percent in May 2004.

[3] *Consensus Economics Inc., Asia Pacific Consensus Forecasts, various issues.*

The major central banks kept monetary policy on hold during the first eleven months of 2003-04, with no change in the United States, Japan or the European Monetary Union. Policy initially eased before tightening again in the United Kingdom and New Zealand; while Canada reduced its intervention rate over the course of the year.

In *the domestic economy* strong growth in consumption spending and business investment was partially offset by the output impacts of the drought-affected rural sector and weaker than expected non-farm exports. While NSW state final demand is estimated to have increased by 4½ percent, weak net exports limited gross state product growth to 3½ percent.

ABARE reported that Australian winter crop production reached record levels in 2003-04, and solid if less spectacular gains are likely for the summer cropping season. In New South Wales, winter crop production is estimated to have increased by 141 percent to 8 million tonnes, but still well short of the 10 to 11 million tonnes during the three years preceding the 2002-03 drought.[4] The ABS has estimated that the increase in gross value of national agricultural production should add 0.6 percentage points to GDP between 2002-03 and 2003-04.[5] In New South Wales, given the sector's less complete recovery and its smaller share in the total economy, the contribution to 2003-04 output growth will be more modest.

The pace of *consumer spending* lifted further in the first half of 2003-04, reflecting solid growth in employment and wages, higher property and equity valuations and purchasing power gains from Australia's rising exchange rate and terms of trade. However, trends in retail turnover and motor vehicle sales suggested growth was starting to moderate in the second half of the year, reflecting tighter monetary policy, some easing in residential construction and higher petroleum prices.

Dwelling construction continued to expand in the first half of 2003-04 but appeared to be easing back gradually in the second half. The cyclical upswing was prolonged by speculative investor activity encouraged by low interest rates and favourable federal tax arrangements. This ramped up established house prices and reduced affordability for first home owners – whose share in the housing finance approvals declined to historical lows.

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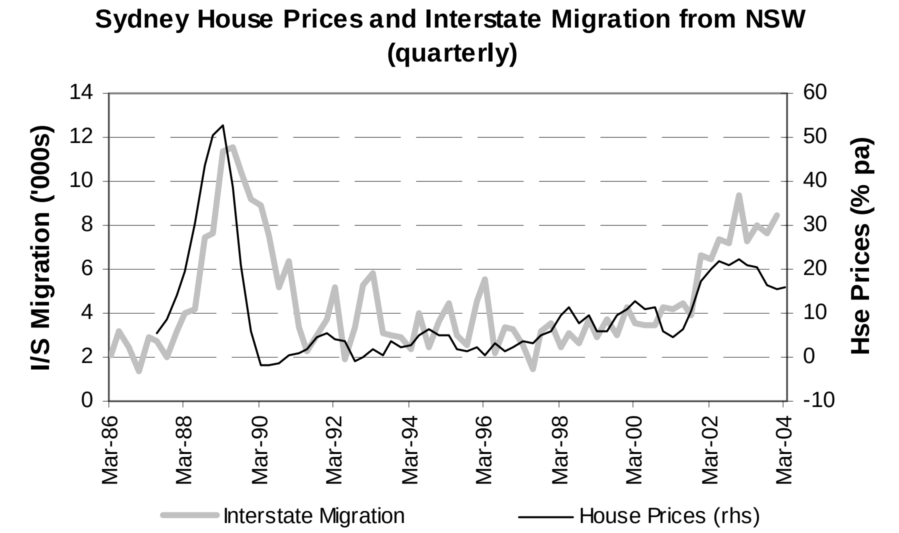
[4] *ABARE, Australian Crop Report, June 2004.*
[5] *ABS, Australian National Accounts, March Quarter 2004.*

Box 5.1: Housing and Demographic Cycles



Source: ABS

State economic performance is influenced by population growth, which has slowed from 1.3 percent in 2001 to 0.8 percent in 2003. One factor is a decline in New South Wales' share of net overseas migration to Australia during the past two years. In addition, net interstate migration from New South Wales has been larger than usual. Historically, interstate migration is correlated with the housing cycle, as shown in the chart above. Now that house price inflation has begun to slow, the historical relationship suggests interstate migration could also taper off, with a positive impact on NSW population growth.

Business investment remained firm, responding to improved profit ratios, high levels of capacity utilisation, improving world economic prospects, low financing costs and flat or declining prices for imported equipment (although cost pressures in building and construction increased). NSW business investment was also supported by Privately Financed Projects (PFP) infrastructure outlays which are estimated to have quadrupled to nearly $1 billion in 2003-04.

The *labour market* made solid gains, with NSW employment rising by an estimated 1½ percent and the unemployment rate declining from 6 to 5½ percent. Through the year to the March quarter 2004, employment growth was strongest in the transport and storage, accommodation and restaurants, property and business services, retail trade and education sectors. Employment was weakest in the wholesale trade, manufacturing, communications, and general government sectors.

*Inflation*ary pressures receded in 2003-04. Strong global competition from China in manufactured goods and a sharply higher exchange rate maintained downward pressure on inflation. The A$ rose by 23.2 percent against the US$ and by 15.9 percent against the Trade Weighted Index (TWI) in the first eleven months of 2003-04 compared to a year earlier. Price falls for tradeables (down 0.5 percent through the year to March, despite increased petroleum prices) offset faster growth in prices for non-tradeable items such as construction and service industry outputs.

Skilled labour shortages put upward pressure on wages in the construction industry and a bunching of wage adjustments in the public sector added pressure to total wage cost growth, which peaked at an annual rate of 4.1 percent in the December quarter 2003. Outside those two sectors, however, wage pressures remained moderate. Total wage cost growth slowed to 3.7 percent in the March quarter.

At the start of 2003-04, the RBA indicated that further weakness in the global outlook could prompt interest rate easings. The global outlook, however, improved rapidly in the first half of the year. The RBA then had to balance the case for tighter policy to contain high levels of capacity utilisation in the domestic economy and rapid private credit growth, against the case for policy moderation to offset the drag on net exports from the rapidly rising exchange rate.

Monetary policy was held steady until November and then tightened in two steps by a total of ½ percentage point. The RBA then paused to assess the effect, leaving policy unchanged through the remainder of 2003-04. While long bond rates were volatile, they drifted generally higher in response to evidence of improving United States employment and output, rising US inflation and the gradual hardening of Federal Reserve Board commentary on the monetary policy outlook.

OUTLOOK FOR 2004-05

In 2004-05 the world economy (except continental Europe) appears to be shifting into a synchronised upswing, as reflected in strong IMF predictions for global GDP and trade growth. Imbalances in the domestic economy are expected to decline, with stronger exports partially offsetting the easing of dwelling sector activity to more sustainable levels. Net exports may benefit from a more stable exchange rate, as well as more broad-based demand from world markets.

Within Australia, private consumption growth is expected to be slightly slower and the pace of business investment to slow but remain firm, while dwelling construction activity will ease back after three years of expansion. The first positive contribution to growth from net exports since 2000-01 should offset most of the slowdown in domestic demand, with aggregate output growth expected to be only slightly less than in 2003-04. As a result, employment growth will ease marginally and wages growth should stabilise.

Table 5.2: Economic Performance and Outlook

(Percent change, year average, unless otherwise indicated)

	Outcomes 2002-03	Estimates 2003-04	Forecasts 2004-05
New South Wales			
Gross state product	2.2	3 ½	3 ¼
State final demand	5.3	4 ½	3
Employment	2.0	1 ½	1 ¼
Unemployment rate (year average, percent)	6.0	5 ½	5 ½
Sydney CPI	2.8	2 ¼	2 ½
Wage cost index	3.5	3 ¾	3 ¾
Australia			
Non-farm GDP deflator	2.6	2 ½	2 ½
Ten year bond rate (year average, percent)	5.3	5 ¾	6 ¼

With a steadier exchange rate and terms of trade, however, the relief valve of low or falling tradeable sector inflation will tighten. This will see overall inflation rise, especially if current price pressures in the non-tradeables sector do not ease. In these circumstances it is likely that the current stance of monetary policy will be adjusted, though any adjustment should be small.

The global economic recovery is expected to continue and broaden further in 2004-05, as reflected in the recent IMF Outlook. The IMF forecasts global output growth at about 4½ percent and world trade growth at about 6½ percent in both 2004 and 2005, with the balance of uncertainties weighted to the up side. While the pace of expansion may ease somewhat in the United States and Japan, it should accelerate in Europe while remaining very robust in non-Japan East Asia. Key issues identified for IMF member states are how to achieve an orderly resolution to global imbalances (notably the large US current account deficit and the global petroleum market), resist protectionist pressures and manage the transition to higher interest rates.

State final demand [6] growth in 2004-05 is likely to slow to around 3 percent from 4½ percent in the previous year.

- After very buoyant growth in 2003-04, *household consumption* growth is expected to slow in 2004-05. Higher interest rates, less buoyant asset prices, weaker housing construction activity and slower employment growth will restrain consumer spending, although reduced income taxes and higher social benefit payments will add to consumer demand.

- *Fixed investment* growth is expected to be slightly more moderate in 2004-05.

  - *Dwelling investment* growth eased from a peak annual rate of 49 percent in December 2002 to 4 percent in December 2003, and turned negative in March 2004. The sector is expected to continue gradually declining throughout 2004-05. The downturn is expected to be modest, given still firm underlying demand and, in the main, few signs of significant excess supply.

  - *Business investment* will continue to expand at a robust pace in 2004-05, though a little slower than seen in 2003-04. Private capital expenditure intentions in New South Wales point to nominal declines of about 12 percent in building expenditure and 1 percent in plant and equipment expenditure in 2004-05**.** While real building investment may be slightly weaker (construction output prices are rising at an annual rate of around 8 percent), real plant and equipment business investment should be considerably stronger (output prices of capital imports have been declining at an annual rate of around 15 percent). Private business investment growth also will be boosted by increased cash outlays by PFP transport and social infrastructure projects[7].

- Growth in *public demand* is expected to strengthen with increased federal spending as announced in the Commonwealth Budget and priority NSW Government initiatives, particularly in health and transport, as outlined in the April mini-Budget and detailed in this Budget.

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[6] *State final demand is the sum of private consumption, dwelling investment, business investment, ownership transfer costs, and public consumption and investment.*

[7] *Privately Financed Projects (PFP) work done (nine new schools, Lane Cove Tunnel, Western Sydney Orbital, Cross City Tunnel, alternative waste treatment plant and Royal Prince Alfred Car Park projects) is projected to increase from $978 million in 2003-04 to $1,307 million in 2004-05. PFP activity during the four years from 2004-05 will be further supported by the $1.5 billion railway rolling stock renewal project.*

♦ *Net exports* should make a positive contribution to growth, reflecting further gains in rural production (provided there is a break in the drought currently affecting nearly 80 percent of New South Wales), further strengthening in world demand for NSW minerals, manufactures and tourist services and slower growth in import volumes.

  - In line with ABARE forecasts,[8] it is assumed that NSW winter crop production will increase by around 17 percent in 2004-05, contrasting with a 13 percent decline for the rest of Australia. Therefore growth in NSW real farm production should be stronger than the national average, which ABARE forecasts will increase by 1.9 percent. Falls in rural commodity prices, however, may sharply reduce the net value of farm production in 2004-05, following large gains in 2003-04. NSW mineral producers, particularly coal miners, should enjoy stronger returns reflecting large price increases in forward contracts negotiated during 2003-04.

NSW *employment growth* is expected to slow from 1½ percent in 2003-04 to 1¼ percent (near the long-term average) in 2004-05, reflecting the cyclical shift from employment intensive sectors such as dwelling construction to more capital intensive sectors such as mining. With growth in working age population continuing to ease, however, the forecast pace of job creation should be sufficient to keep the NSW *unemployment rate* steady at 5½ percent.

Wage cost growth in the private sector is expected to remain moderate in light of the stabilisation in the unemployment rate and as construction activity slows (a sector which has experienced above average wage pressure in the last few years). The AIRC national minimum wage decision in May 2004, providing a $19 per week or 4.2 percent increase to lower-paid workers, will exert some upward pressure. It is assumed that growth in public sector wages will moderate in 2004-05. Recent increases awarded by the Industrial Relations Commission (IRC) to teachers and nurses, however, demonstrate that less moderate outcomes cannot be precluded.

The *Sydney CPI* is expected to grow in line with recent RBA projections, with underlying inflation declining to around 1¾ percent during 2004 before rising to around 2½ percent in 2005[9]. Key drivers include the exchange rate, petroleum prices (these are assumed to be steady in year average terms, implying a decline through the year to June 2005). Wage pressures are expected to remain steady.

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[8] *ABARE,* Australian Commodities*, March quarter 2004; and* Australian Crop Report*, June 2004.*

[9] *RBA,* Statement on Monetary Policy*, May 2004.*

Competitive pressures in the domestic economy are expected to improve with more moderate growth in domestic demand, and this will slow the pace of inflation. Declining world prices of manufactures (in part reflecting China's emergence as "the world's workshop") also should help contain domestic inflationary pressures.

With global expansion now more firmly based and with the risk of a destabilising rise in the exchange rate now abating, the RBA is expected to follow other major central banks in gradually removing some of the stimulus of historically low current monetary policy settings. In Australia, however, the policy adjustment task is nearly complete, while in the United States and some other countries it has yet to begin.

MEDIUM TERM OUTLOOK

Prospects for the economy beyond 2004-05 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 2004-05 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. 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 2004-05

(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 FACTORS AFFECTING BUDGET OUTCOMES

Budget estimates rely on assumptions, forecasts and assessments for the economy and other factors made when the Budget was prepared[10]. This section considers the sensitivity of budget outcomes to changing economic circumstances. It also reviews other sources of uncertainty including unanticipated policy and regulatory decisions, changed demand for services, and the realisation of contingent liabilities.

ECONOMIC UNCERTAINTY

Factors of uncertainty in the economic outlook for 2004-05 include:

- While the forecasts assume a moderate downturn in dwelling construction, some previous downturns (often associated with sharp tightenings in monetary policy) have been much more severe. Because the dwelling sector has strong direct and indirect influence on demand for labour and goods, it is an important determinant of aggregate economic output and employment. In addition, the large rise in housing-related debt by households (as occupiers and as investors) in recent years has increased their exposure to swings in the cycle and other shocks leading to higher interest rates or increased unemployment. With households devoting an unprecedented share of their disposable income to debt servicing, any adverse economic shock could oblige them to cut back on consumption – risking a broader economic downturn.

- A large portion of New South Wales remains affected by drought. A continuation of drought would further degrade the difficult conditions now affecting much of rural New South Wales, undermine exports and slow State economic growth.

- Oil prices have risen sharply in months leading up to the Budget. If recent levels are sustained or exceeded, whether due to production limits by oil exporting countries, unanticipated growth in demand in oil importing countries or geopolitical factors impeding supply, this could weaken real incomes and global economic growth and increase inflation. The International Energy Agency estimates that a $10 per barrel increase in the oil price retards world growth by half a percentage point, with a far larger impact on oil importing developing countries such as India, Thailand and China[11].

[10] *Key source publications and their release dates are reported in the footnote on page 5-3.*

[11] *International Energy Agency,* Analysis of the Impact of High Oil Prices on the Global Economy, *May 2004.*

- Further widening of the United States "twin deficits" (on budget and on balance of payments) would increase the possibility of a destabilising sell-off in bonds, or a prolonged decline in the US exchange rate. The United States trade deficit also increases global protectionist pressures. Uncertainty over US fiscal policy may increase with the approach of elections in November 2004.

Box 5.2: Uncertainties in the Outlook for Inflation

While inflation is expected to average 2.5 percent in 2004-05, it is possible that the outcome could be higher or lower.

Why might inflation be lower than forecast? Much of the recent pressure on non-tradeables in the CPI (which increased by 4.1 percent through the year to March) is attributable to the dwelling market boom (which drove up housing costs) and the drought (which lifted food prices). With the housing cycle turning down and provided that there is a break in the drought currently affecting most of New South Wales, these pressures may now reverse.

Why might inflation be higher than forecast? Factors of concern are: (a) the reversal of the exchange rate which, after appreciating from US49c in March 2001 to US80c in February 2004, was back below US70c in early June; (b) the recent lift in world oil prices – with potentially far-ranging secondary effects on prices across the rest of the economy; (c) high capacity utilisation and tight labour markets in the domestic economy, (d) fiscal stimulus from increased spending and reduced taxation measures announced in the Commonwealth budget, and (e) the possibility that Chinese currency revaluation may lift world prices for manufactured goods, which up to now have contributed to CPI stability.

- China's current growth rate may be unsustainable, and authorities have begun to impose credit restrictions and other measures to rein in demand. But China's financial system and poorly performing banks may not be robust enough to absorb adjustment without major disruption. Hence a mild tightening might end with a severe slowdown, drop in imports, and shock to trading partner economies.

These are among the more salient uncertainties in the outlook at the time of Budget preparation. History suggests that often the critical factors for economic outcomes are ones not foreseen or deemed too improbable when the forecasts were assembled.

Box 5.3: Housing – Soft or Hard Landing?

The evolution of the housing market over the next year or two is a major uncertainty. The housing sector is very important to the NSW budget. Related revenues (transfer duty, mortgage duty and land tax) account for 15 percent of total general government sector revenue in 2004-05. The housing market also is very volatile.

The forecasts utilised in the Budget and the revenue projections could be characterised as a 'soft landing' scenario. A robust global economy, strong domestic corporate profits, firm employment growth, a historically low unemployment rate and neutral, rather than tight, monetary policy are all expected to support such a scenario. This is consistent with the Commonwealth Budget assessment that "the rate of increase in nominal house prices is expected to flatten in 2004-05".[1] It is also consistent with the OECD's assessment that "the projected downturn of the housing investment cycle is in line with declining lending to owner-occupiers and investors and a softening general sentiment about the property market."[2]

At this stage available data (which lags activity considerably) and anecdotes do suggest that some of the heat seen in the market has dissipated and that a peak has been reached. The Reserve Bank commented recently "…a turning point appears to have been reached in the housing market after the overheated levels of late last year"[3].

While general economic conditions should support the soft landing scenario (and may even provide some upside risk), there are two concerns on the downside.

The first is that pockets of excess supply in inner city investor housing could see a sharp downturn in these prices as investors attempt to exit the market. This could then lead to some spill-over into other housing markets, dampening sentiment and prices more broadly.

The other is that there may have been a bubble in housing prices, which might burst at some stage. Price increases in housing seen in recent years certainly fulfil the requirements of an asset price 'boom' as defined by the IMF[4]. The IMF also suggested that some 40 percent of booms end in busts. So the risk of a broader housing price decline, with severe negative impacts on the economy more generally, cannot be precluded. That said, the IMF also noted that housing busts were normally associated with high interest rates. Provided that inflation remains contained, as anticipated in the Budget, that risk should be small.

Footnotes:

1. Commonwealth Treasury (2004), Budget Strategy and Outlook 2004-05, Budget Paper No. 1, Canberra, May;
2. Organisation of Economic Cooperation and Development (2004), OECD Economic Outlook, pages 114-116, Paris, 11May;
3. Reserve Bank of Australia (RBA) (2004), Statement on Monetary Policy, Sydney, 8 May; and
4. International Monetary Fund (IMF) (2003a), 'When Bubbles Burst', Chapter 2, World Economic Outlook, Washington DC, April.

SENSITIVITY OF THE BUDGET TO ECONOMIC PARAMETERS

A guide to the sensitivity of budget estimates of expenses and revenues to variations in economic parameters is provided in Table 5.4. The table gives a 'rule of thumb' indication of the direct impact on the budget of a change in a given parameter. In each case, the analysis presents the estimated effects of a change in one economic variable only, and does not attempt to capture the linkages between economic variables that characterise changes in the economy more broadly. The table excludes consideration of possible policy responses. The analysis assumes that changes are uniform across the General Government sector and across the Budget year.

Both revenues and expenses may be affected by variations between actual and expected economic outcomes.

Revenues are sensitive to factors affecting revenue bases (such as the value and volume of property and motor vehicle sales, employment and earnings), profits of public enterprises, and Commonwealth grant bases (such as household consumption).

The main **state taxes**, payroll tax and transfer duty, are sensitive to economic factors. Both employment levels and wage rates affect payroll tax collections. Transfer revenue depends primarily on property market activity, with dwelling transactions accounting for about three-quarters of such revenue[12]. Many factors (including monetary policy, Commonwealth tax arrangements, unemployment, and trends in alternative asset markets) contribute to fluctuations in property turnover.

The arrangements for **general purpose and specific purpose payments** to the States are described in Chapter 7. From 2004-05, general purpose payments to New South Wales will depend on the amount of GST collected. Since the GST is levied on private consumption, NSW receipts in excess of the Guaranteed Minimum Amount will vary in line with fluctuations in household expenditure.

Expenses are less sensitive than revenues to economic variation within the budget year. Expenses can be significantly affected by public sector wage decisions, however, and to a lesser extent by changes in the prices of goods and services purchased by Government. Debt retirement since passage of the *General Government Debt Elimination Act 1995* has greatly reduced the budget's exposure to interest rate fluctuations. The maturity profile of the State's debt portfolio, moreover, limits the immediate impact of interest rate rises.

[12] Non-residential property transactions have far greater variation in size and timing than dwelling transactions. Due to this lumpiness in non-residential transactions, Table 5.4 provides estimates only for the dwellings component.

Table 5.4: Sensitivity of Fiscal Aggregates to Changes in Selected Economic Parameters, 2004-05 (effect of a one percent increase, unless otherwise indicated)

Parameter	Effect on the 2004-05 Budget Result ($m) [1]
A. Factors affecting tax revenue	
Dwelling sales (price or volume)	40
Motor vehicle sales	15
Employment	52
Private sector wages	57
Household disposable income	9
B. Factors affecting grant revenue	
Household consumption [2]	97
C. Factors affecting expenses	
Public sector wages and salaries	-180
Prices of goods and services	-101
Interest rates [3]	-17
	Effect on 2004-05 Net Financial Liabilities ($m) [5]
D. Factors affecting Superannuation Liabilities [4]	
Public sector wages and salaries	174
Sydney CPI	182
Investment return [3]	-130

1 A positive effect (eg, from increased dwelling sales) improves the Budget Result, while a negative effect (eg, from increased public sector wages) weakens the Budget Result.

2 Projected GST receipts are $9,744 million. GMA provisions limit NSW exposure to GST shortfalls during the next few years.

3 Effect of a one percentage point increase in the indicated factor (interest rate, or rate of return).

4 Factors affecting superannuation liabilities also indirectly affect expenses in the operating statement. For brevity, however, these indirect effects are not detailed in the table.

5 A positive effect (eg, public sector wages) increases NFL (weakens the financial position), while a negative effect (eg, improved investment returns) reduces NFL (improves the financial position).

Superannuation factors will affect the operating result as well as the Net Financial Liabilities. For example, an increase in 2004-05 investment earnings on NSW public sector pooled superannuation funds from 7.3 percent to 8.3 percent will decrease projected unfunded superannuation liabilities by about $130 million. In turn, total superannuation expense for 2004-05 will decrease by about $8 million. This is because, for net lending GFS reporting purposes, an increase in unfunded liabilities is regarded as a borrowing with a notional borrowing cost as determined by the Fund's actuary.

OTHER FACTORS AFFECTING BUDGET OUTCOMES

The budget is framed on the basis of no change in government policy settings as well as 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 public interest.

Factors Affecting Expenditure

The main factors that influence the expense side of the budget include:

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 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.

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 2004-05, the Treasurer's Advance is $240 million for recurrent services, and $110 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

After some easing of NSW drought conditions during summer, seasonal conditions have again deteriorated. The area of the State affected by drought has expanded from 49.7 percent at the beginning of February to 79.5 percent at the start of June 2004.

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 in 2004-05 will depend on the timing of the breaking of drought and subsequent agricultural recovery, with funding to be drawn from the Treasurer's Advance.

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.

Public sector wages

The budget outcome is based on assumptions regarding the rate of growth in public sector wages and employment. General government sector employee costs, which comprise almost 50 percent of total expenses, are the most important factor in determining the budget result. Each 1 percent rise in wages weakens the budget result by an estimated $180 million. In addition, a 1 percent pay rise adds an estimated $50 million to employee entitlement liabilities.

The Government's wages policy seeks to maintain the value of the substantial real wage increases provided to public sector employees since 1996. These are in the range of 13 to 25 percent, or an average of 19 percent. The wages policy implies nominal pay rises of about 3 percent per year through negotiated settlements.

Recent increases granted by the NSW Industrial Relations Commission (IRC), a State judicial body with arbitration powers, have been well in excess of the Government's policy.

In December 2003 the IRC awarded a pay increase for public hospital nurses of 3.5 percent from 1 January 2004. This pay increase was additional to an interim 6 percent rise awarded by the IRC from 1 January 2003. These increases cumulate to 9.7 percent over two years.

On 9 June 2004, the IRC announced their final decision regarding the teachers' pay claim. The decision provides for salary increases of 3 percent from 1 July 2004 and 3.5 percent from 1 January 2005. This followed an interim arbitrated 5.5 percent increase from 1 January 2004. These increases cumulate to 12.5 percent over two years.

In contrast, settlements being reached in other States have generally been in the 3 to 4 percent per year range. For example, recently concluded Victorian agreements for teachers, nurses and public servants have provided for annual salary increases of 3.5 percent. Recently concluded Queensland agreements for teachers and for firefighters have provided for annual salary increases averaging 3.5 to 3.6 percent.

The short-term outlook is for continuing uncertainty from further arbitrated cases as current wage agreements with other public sector unions expire.

The Government's wages policy reflects what the public sector can afford at a time when revenues are increasing only modestly and there are large increases in spending on health, education, community services and other government services.

Wage outcomes affect the long term structure of budget expenses. Public sector pay rises in excess of the Government's wages policy therefore require a structural response such as reduced spending elsewhere and/or higher taxation.

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 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 Government's main contingent liabilities, both quantifiable and unquantifiable, are identified in the annual *Report on State Finances*. In the 2002-03 Report, Note 19 identifies total quantifiable contingent liabilities of $490 million as at 30 June 2003. The main quantifiable items are NSW Treasury Corporation's bonds on loan (less securities held) of $124 million, and known claims including legal proceedings against NSW Police of $110 million. The general government sector component of total quantifiable contingent liabilities is $227 million.

The *Report on State Finances* also identifies contingent liabilities that cannot be quantified, for example from pending litigation.

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. Under the current funding arrangements, the share of funding allocated to each State is recommended by the Commonwealth Grants Commission (CGC). After consultation with the States, the Commonwealth Treasurer has the ultimate responsibility to determine the grants to the States.

New South Wales has no ultimate 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. The CGC's 2004 review of relativities resulted in a significant loss of revenue to New South Wales due to changes in the Commission's assessment methodology. The next five-yearly report on the CGC's methodology is due in 2009. However, the Commission's annual updates prior to 2009 could also lead to significant changes in States' funding.

New South Wales also receives Budget Balancing Assistance from the Commonwealth to compensate for any 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. The GMA for New South Wales has tended to decline over recent years. For example, the GMA for 2004-05 $10,030 million as at June 2002, but had fallen to $9,631 million by May 2004.

Commonwealth Specific Purpose Payments

Specific Purpose Payments that are due for re-negotiation in 2004, or which were due for re-negotiation earlier but have been delayed, are as follows:

- Australian National Training Authority Agreement;
- Government Schools Grants; and
- The Indigenous Education Strategic Initiatives Program.

The outcome of these reviews will also affect the Budget.

Public Trading Enterprise (PTE) Financial Performance

The State's PTEs operate in commercial markets for which future revenues and costs can be characterised by a high degree of uncertainty. Unanticipated variations in PTE profits affect the budget via dividend and tax equivalent payments (financial distributions), and through capital and operating subsidies.

For example, a 1 percent positive (negative) variation in EnergyAustralia's forecast 2004-05 pre-tax profit results in a $1.54 million increase ($1.54 million decrease) in its financial distributions to Government.

OTHER FACTORS

Pricing Regulation of Government Monopoly Services

Potential impacts on the Budget, either adverse or favourable, could arise from pricing determinations made by the Independent Pricing and Regulatory Tribunal of New South Wales (IPART) and the Australian Competition and Consumer Commission (ACCC).

IPART is currently undertaking a fare review for government bus and ferry services delivered by the State Transit Authority and Sydney Ferries Corporation, to take effect from 31 October 2004. At time of writing, the 2004-05 IPART fare review process for CityRail had been deferred until further notice. These price determinations have an important influence on the level of budget subsidies required for public transport services.

The ACCC is currently reviewing maximum allowable electricity transmission revenues for EnergyAustralia and TransGrid for the period from 1 July 2004 to 30 June 2009. At time of writing, the ACCC's final decision is due for public release in early August 2004.

On 10 June 2004, IPART completed determinations on electricity distribution network prices, and regulated retail prices for the four state-owned electricity distributors – EnergyAustralia, Integral Energy, Country Energy, and Australian Inland Energy and Water. The determination on electricity distribution covers the five year period from 2004-05 to 2008-09. The determination on electricity retail prices applies to customers who use less than 160MW of electricity per year and have not accepted a competitive offer from another electricity supplier; this determination covers the three year period from 2004-05 to 2006-07.

Price paths for 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 were set in May 2003. In the same month, the Tribunal concluded a mid-term review of Sydney Catchment Authority's water supply services price path for the period 1 October 2000 to 30 June 2005.

Other Policy Changes

Changes in Commonwealth Government policies can affect New South Wales. These impacts can be direct, such as through unilateral changes in GST 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.

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 2004-05 are estimated at $3,555 million (compared with $3,228 million in 2003-04) and concessions are estimated at $764 million ($733 million in 2003-04).
- The enhancement of transfer and mortgage duty exemptions to first home buyers from 4 April 2004 results in substantially higher first home buyer tax expenditures in 2003-04 (part year) and 2004-05. The first home buyer tax expenditures are estimated to be $95 million in 2003-04 (up from $72 million in 2002-03), rising to $327 million in 2004-05.

6.1 INTRODUCTION

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

Tax concessions – called *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 applies to taxpayers in general. One example are the transfer duty exemptions/reductions provided to first home buyers.

Concessional charges involve the sale by the government of goods and services to certain users at a lower charge/fee than available to the wider community. One example 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, while pensioners could receive cash 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.

The purpose of this chapter and Appendix B is to make the nature and estimated cost of tax expenditures and concessions transparent in order to permit a more comprehensive assessment of NSW 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 a design feature of the duty arrangements.

- Similarly, providing a good or service at varying subsidised rates according to set eligibility criteria for clients could be seen 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 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, regardless of whether intra-government transfers offset the cost of the concession for the agency concerned.

- Concessions do not include subsidies paid from the budget to the private sector for concessions provided by the private sector to certain purchasers of goods and services. One example is payments to private sector transport operators for providing free transport for eligible students to and from school. Such subsidies are direct outlays and therefore 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 is then used to estimate revenue forgone. Estimates for the Budget year are consistent with assumptions used in budget and agency revenues.

Measurement of revenue forgone from tax expenditures and concessions in many cases is impossible to determine 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 corresponding 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 2002-03, 2003-04 and 2004-05 except for the estimates for land tax, which are for the 2003, 2004 and 2005 land tax years (land tax years commence at midnight, 31 December).

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

Table 6.1: Major Tax Expenditures by Type of Tax

Tax	2002-03		2003-04		2004-05	
	$m	% of tax revenue	$m	% of tax revenue	$m	% of tax revenue
Purchaser Transfer Duty	876	23.8	1,042	26.8	1,247	39.1
Vendor Transfer Duty	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
General and Life Insurance Duty	330	74.6	281	65.3	299	66.3
Mortgage Duty	87	24.0	123	30.8	141	37.9
Payroll Tax	585	14.2	624	14.0	655	13.9
Land Tax	407	35.8	432	31.8	456	31.5
Taxes on Motor Vehicles	242	21.6	256	21.5	286	23.0
Parking Space Levy	13	28.6	13	28.3	14	29.8
Gambling and Betting Taxes	443	35.1	457	35.0	457	32.6
Total	**2,983**	**21.1**	**3,228**	**21.6**	**3,555**	**22.9**

Quantifiable tax expenditures (valued at more than $1 million) are estimated at $3,228 million in 2003-04, representing 21.6 percent of total tax revenue. Tax expenditures should increase to $3,555 million, or 22.9 percent of tax revenue, in 2004-05.

Purchaser transfer duty tax expenditures are predicted to increase by $205 million in 2004-05. This reflects a substantial increase in revenue forgone under the First Home Plus scheme following the extension of the scheme from 4 April 2004.

Similarly, mortgage duty tax expenditures are expected to increase by $18 million, largely reflecting an increase in revenue forgone from the extension of the First Home Plus scheme.

Tax expenditures are spread across all major tax bases. By value, tax expenditures in 2004-05 are highest in transfer duty, payroll tax, gambling and betting taxes and land tax, which account for more than three quarters of total measurable expenditures.

The gambling and betting tax expenditures relate to the lower taxation of gaming machines in registered clubs compared to those in hotels. The club and hotel gaming rates announced in the 2003-04 Budget and taking effect from 2004-05 have reduced the overall tax differential between clubs and hotels. As a consequence, gambling and betting tax expenditures are expected to remain flat in 2004-05.

As a percentage of tax revenue by type of tax, tax expenditures in 2004-05 are expected to be largest for insurance duty, purchaser transfer duty and mortgage duty.

Table 6.2: Tax Expenditures by Function

Function	*2002-03*		*2003-04*		*2004-05*	
	$m	*% of Expenses*	*$m*	*% of Expenses*	*$m*	*% of Expenses*
Public Order and Safety	2	0	2	0	3	0
Education	74	1	81	1	79	1
Health	342	4	367	4	388	4
Social Security and Welfare	323	12	362	13	386	13
Housing and Associated Amenities	150	15	181	17	414	45
Environmental Protection	0	0	0	0	0	0
Recreation and Culture	448	75	463	72	463	75
Agriculture, Forestry, Fishing and Hunting	289	49	308	45	328	75
Transport	20	1	19	1	20	1
Other Economic Activities	1,188	106	1,289	109	1,311	120
Other Purposes	147	5	156	5	163	5
Total	**2,983**	**9**	**3,228**	**9**	**3,555**	**9**

Table 6.2 provides a functional classification of tax expenditures.

In terms of revenue forgone, 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 increases in Housing and Associated Amenities and Agriculture, Forestry, Fishing and Hunting. The increase in Housing and Associated Amenities is due to the extension of transfer duty and mortgage duty exemptions for first home buyers, while the increase in Agriculture, Forestry, Fishing and Hunting is a result of the value of exemptions increasing at the same time as expenditure is decreasing.

6.4 CONCESSIONS

Table 6.3 classifies the major concessions provided by the NSW Government by function. The total value of major concessions in 2004-05 is expected to be $764 million, or 2 percent of expenses, the same proportion of expenses as in 2003-04.

Table 6.3: Concessions by Function

Function	*2002-03*		*2003-04*		*2004-05*	
	$m	*% of Expenses*	*$m*	*% of Expenses*	*$m*	*% of Expenses*
General Public Services	...	...	...	...	...	...
Public Order and Safety	...	...	...	...	...	...
Education	107	1	123	1	138	1
Health	87	1	88	1	90	1
Social Security and Welfare	258	10	263	9	271	9
Housing and Associated Amenities	246	24	252	24	258	28
Environmental Protection	...	...	...	...	...	...
Recreation and Culture	3	1	3	0	3	0
Agriculture, Forestry, Fishing and Hunting	4	1	4	1	4	1
Transport	...	...	...	...	...	...
Other Economic Activities	...	...	...	...	...	...
Other Purposes	...	...	...	...	...	...
Total	**705**	**2**	**733**	**2**	**764**	**2**

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

CHAPTER 7: FINANCIAL ARRANGEMENTS WITH THE COMMONWEALTH

- Total Commonwealth general purpose grants (GST revenue and Budget Balancing Assistance) to New South Wales will be flat in 2004-05, the third consecutive year without growth.
- The absence of growth in general purpose funding in 2004-05 reflects New South Wales' loss due to the change in States' GST grant shares arising from the Commonwealth Grants Commission's 2004 Review.
- As a result of horizontal fiscal equalisation, New South Wales will receive only 28 percent of GST revenue compared with a 33 percent population share and a 37 percent share of the GST base.
- This means that New South Wales will cross-subsidise other States by $3 billion in 2004-05, 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 $1.9 billion.
- Cross subsidies paid by New South Wales have increased significantly as a result of the 2004 Review.
- New South Wales considers the current system of Commonwealth-State funding overdue for reform and will contribute to the review of horizontal fiscal equalisation methodology announced at the 2004 Treasurers' Conference.

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 details grants under the current framework for Commonwealth-State financial relations.

Section 7.3 discusses the outcome of the Commonwealth Grants Commission's 2004 Review.

Issues in intergovernmental finances, including vertical and horizontal fiscal imbalance, are addressed in Section 7.4.

The need for reform of the current system of Commonwealth-State funding is highlighted in Section 7.5, along with the Treasurers' Conference decision to review the current way in which the Commonwealth Grants Commission implements horizontal fiscal equalisation.

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. Details of the Agreement were provided in the 2003-04 Budget Paper No 2.

Table 7.1 provides estimates of Commonwealth payments to New South Wales for the period to 2007-08.

Table 7.1: Commonwealth Grants

	2002-03	2003-04		2004-05	2005-06	2006-07	2007-08
	Actual	Budget	Revised	Budget	Forward Estimates		
	$m	$m	$m	$m	$m	$m	$m
GST Revenue Grants	9,080	9,234	9,691	9,648	10,317	10,922	11,447
Budget Balancing Assistance Payments	599	548	45	...	...	...	...
Compensation for GST Deferral	...	...	...	96	...	...	...
Guaranteed Minimum Amount/GST	**9,679**	**9,782**	**9,736**	**9,744**	**10,317**	**10,922**	**11,447**
National Competition Policy Payments	252	257	204	260	265	271	278
Total General Purpose Payments	**9,931**	**10,039**	**9,941**	**10,004**	**10,582**	**11,193**	**11,725**
Total Specific Purpose Payments	**5,295**	**5,458**	**5,654**	**5,756**	**5,944**	**6,139**	**6,276**
Total Grants	**15,226**	**15,497**	**15,595**	**15,760**	**16,526**	**17,332**	**18,001**

GST REVENUE GRANTS AND BUDGET BALANCING ASSISTANCE

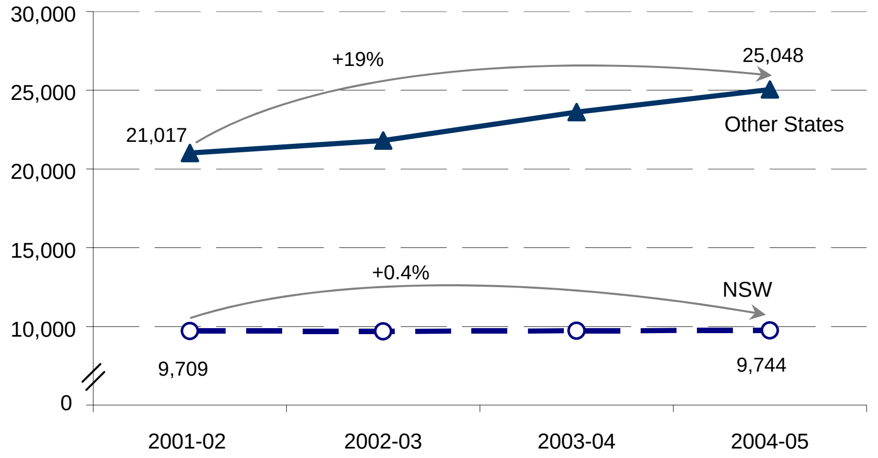
GST revenue grants comprise the bulk of untied grants from the Commonwealth. Until 2003-04 these have had to be supplemented by Budget Balancing Assistance (BBA) grants to meet the Commonwealth's funding commitment (the Guaranteed Minimum Amount) in the Intergovernmental Agreement. From 2004-05, for the first time, New South Wales expects to receive GST revenue grants alone, with no BBA required.

In total, GST revenue and BBA grants to New South Wales have been little changed in nominal terms since 2001-02. This flat profile is expected to continue in 2004-05, reflecting New South Wales' loss of grant share arising from the Commonwealth Grants Commission's 2004 Review.

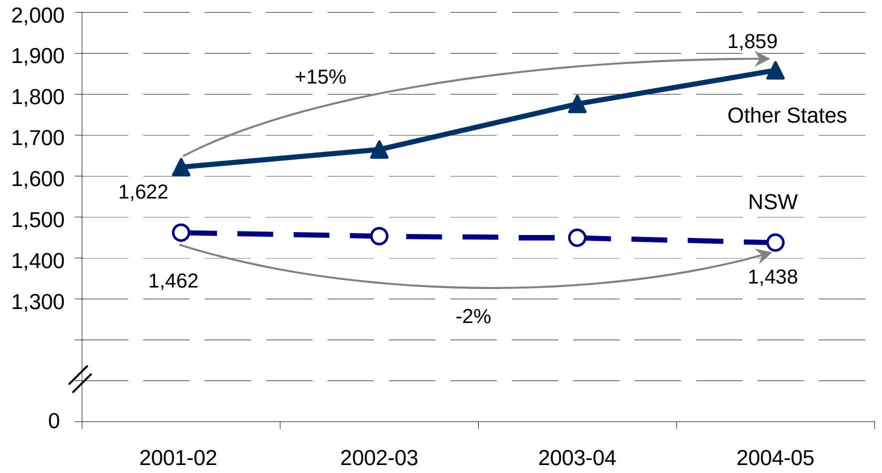
In per capita terms, New South Wales' GST revenue and BBA grants will be lower in nominal and real terms than they were in 2001-02. Chart 7.1 shows trends in these grants in absolute, per capita and real per capita terms.

Chart 7.1:

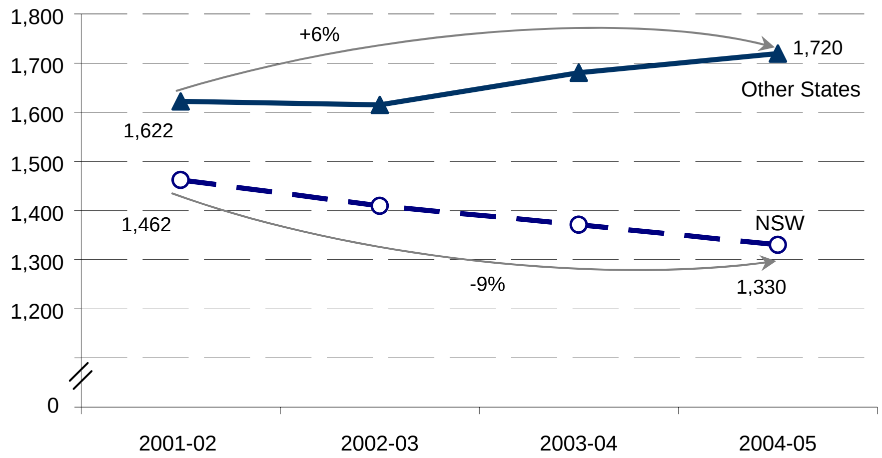
(a) General Purpose Grants $m



(b) General Purpose Grants $ per capita



(c) General Purpose Grants Real $ per capita



The variations among the States are striking. New South Wales' position is unique in that it is now receiving lower grants per capita in nominal terms than three years ago. At the other extreme, Queensland is receiving a 22 percent higher grant per capita than three years ago. New South Wales and Victoria have seen a decline in grants received on a real per capita basis over this period.

NATIONAL COMPETITION POLICY PAYMENTS

The Commonwealth Government makes National Competition Policy payments to the States for implementing National Competition Policy and related reforms. These payments are subject to the State making satisfactory progress with the implementation of reform commitments. The National Competition Council assesses whether each State has met the specified conditions and makes recommendations to the Commonwealth.

In 2003-04, New South Wales received $203.5 million after being penalised by a permanent deduction of $25.4 million over chicken meat industry legislation and regulation of liquor sales and by a suspension of $25.4 million for outstanding legislation review items. Permanent deductions are irrevocable while suspensions may be lifted or reduced where satisfactory progress is made.

New South Wales is currently scheduled to receive $259.8 million in National Competition Policy payments in 2004-05.

The Government has introduced a package of reforms into Parliament through the *National Competition Policy Health and Other Amendments (Commonwealth Financial Penalties) Bill 2004* and the *National Competition Policy Liquor Amendments (Commonwealth Financial Penalties) Bill 2004* to achieve compliance with National Competition Policy requirements, as assessed by the National Competition Council and agreed to by the Commonwealth Government. Provided that Parliament enacts these reforms, and given the expected finalisation of uncompleted legislative reviews, no competition payment penalties are expected to be incurred in 2004-05. It will not be known for some time whether the $25.4 million pool suspension from 2003-04 is to be refunded.

SPECIFIC PURPOSE PAYMENTS

New South Wales agencies are expecting to receive $5.8 billion in Specific Purpose Payments (SPPs) in 2004-05, an increase of 1.8 percent over 2003-04.[1] Details are provided in Chapter 3.

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 States governs each SPP, and details the specific purposes. These agreements typically last three to five years, and are renegotiated after that time.

SPPs are generally less efficient than general purpose funding. This is because the Commonwealth controls can often 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 occurs, it will directly affect the States' capacity to deliver services.

New South Wales 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.

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[1] *This figure is an aggregate estimate of the payments NSW agencies expect to receive under various SPP programs in 2004-05.*

The following SPPs were the subject of negotiations during 2003-04:

- Australian National Training Authority Agreement
- Commonwealth-State Housing Agreement.

The ANTA negotiations have not yet been concluded.

The following SPPs are due for renewal in 2004-05:

- Government Schools Grant
- Supported Accommodation Assistance Program.

7.3 COMMONWEALTH GRANTS COMMISSION'S 2004 REVIEW

The GST revenue collected by the Commonwealth is shared among the States on the basis of recommendations made by the Commonwealth Grants Commission and based on the principle of horizontal fiscal equalisation. The Commission attempts to equalise the financial capacities of all States based on their revenue raising capacities and their cost of providing the range of State services.

The Commission comprehensively reviews its methodology every five years. The results of the most recent five yearly review were announced on 3 March 2004.

As a result of the Commission's recommendations, New South Wales' grant share in 2004-05 will decrease substantially.

The Commission's recommendations are in the form of per capita relativities. The Commission generates relativities on two bases: the pre-GST Financial Assistance Grants (FAGs) basis and the current GST basis. New South Wales was on the FAGs basis in 2003-04 and was expected to remain so in 2004-05. Based on the Commission's standard methodology, and using the FAGs relativities, the Commission's 2004 Review showed a significant annual loss for New South Wales of $375.7 million in 2004-05.

The Federal Budget (released 11 May 2004) showed that GST revenue in 2004-05 exceeded the earlier estimate. As a result, New South Wales is now expected to receive grants based on GST relativities in 2004-05. NSW Treasury has re-calculated the impact on New South Wales' grant share to allow for this change. The revised changes in State grants are shown in Table 7.2.

Table 7.2: Effect of 2004 Review on the States in 2004-05 (a)

	NSW	*Vic*	*Qld*	*WA*	*SA*	*Tas*	*ACT*	*NT*
$m	-345	-57	289	251	-29	-42	-15	-52
% of grants	-3.5	-0.8	4.0	7.1	-0.9	-3.0	-2.2	-3.1
% General Government Revenue	-0.9	-0.2	1.3	2.0	-0.3	-1.4	-0.6	-2.0

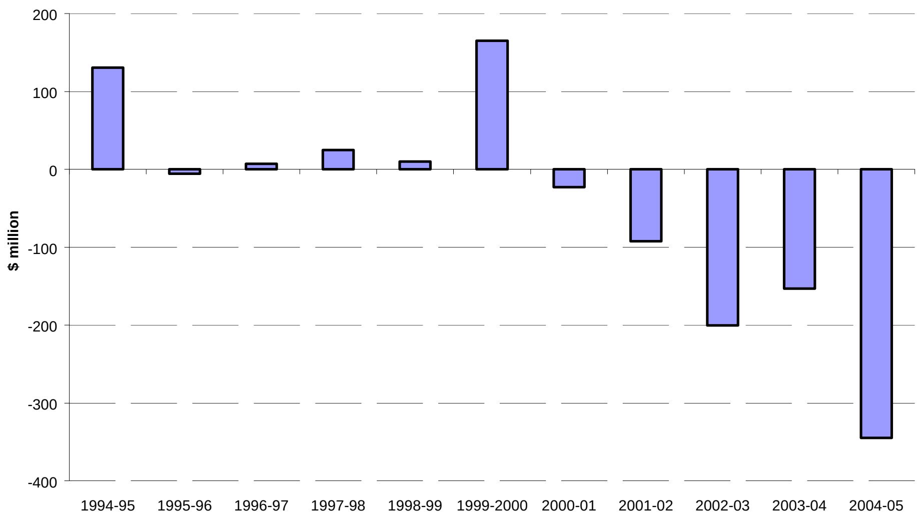
(a) NSW Treasury estimates of the difference between actual GST revenue grants in 2004-05 and what the grants would have been had the Commission's relativities not changed from 2003-04. A negative sign indicates that the actual change in relativities results in a loss of grants for that State. GST deferral compensation has been included in the GST pool.

The total redistribution among States (compared to an equal per capita distribution) has increased from $2,864 million (8.6 percent of the pool) in 2003-04 to $3,271 million, which is 9.4 percent of the pool, in 2004-05.

The change in relativities has caused a significant deterioration in New South Wales' budget position. The $345 million loss represents 3.5 percent of New South Wales' grants, which is the largest loss in percentage terms of any State or Territory, and is equivalent to a loss of 0.9 percent of general government revenue.

The loss in the 2004 Review follows four consecutive losses as published in the Commission's annual updates (see Chart 7.2).

Chart 7.2: Annual Effect of Changing Relativities on NSW ($m)



Commonwealth Grants Commission's Assessments

The 2004 Review incorporated the Commission's five-yearly review of its methods.

New South Wales made a series of major submissions to the Commission's Review, emphasising the unique characteristics of this State which increase the costs of and demand for services compared to other States.

The Commission partially recognised some of these arguments, but in many cases it did not accept that these issues actually resulted in increased service delivery costs for agencies. Table 7.4 shows the major gains and losses for New South Wales from the Commonwealth Grants Commission's 2004 Review.

Table 7.4 Major Contributors to the Changes in the 2004 Review

Factor	*$ million*
Wages Input Costs	183.9
Debt and Depreciation	-517.4
Property Transfer Duty	-59.0
Mining Revenue	-87.6
Payroll Tax	-30.8
Socio-demographic	-337.0
Administrative Scale	51.9
Urban Transit	168.6

The Commission recognised that public sector **wage costs** are higher in New South Wales than the Australian average. The Commission recognised that wages are influenced by features of the locations where work is performed (such as the cost of living and relative inherent attractions of the location). The evidence suggested that New South Wales' wage levels are noticeably above the average and that wages in New South Wales between 1997 and 2001 increased relative to the other States. However, despite the strong econometric and other evidence, the Commission discounted the results of their analysis. While New South Wales gained $183.9 million from this assessment, the gain would have been almost $300 million had the Commission not discounted the results.

Changes to the way in which **capital** expenditures were assessed in this Review had a significant negative effect, decreasing the grant assessment by $517.4 million through the debt and depreciation assessments.

The Commission's assessments have always redistributed large amounts away from New South Wales on the grounds that it has well above-average revenue raising capacities in the areas of **property transfer duty**, **payroll tax** and land tax. In the 2004 Review the Commission further increased these redistributions by $59 million in the case of property transfer duty and $30.8 million in the case of payroll tax.

The Commission changed the basis for the **mining revenue** assessment in 2004. The basis has changed from a measure based on the profitability of the mining industry to a value of production basis. This change has reduced New South Wales' grant by $87.6 million.

In the **socio-demographic** category, the Commission claimed that there was a lack of evidence on how costs are affected by a culturally and linguistically diverse population. The Commission does not make any adjustment for a state-specific poverty level, despite agreeing that a conceptual case does exist. The combined effect of socio-demographic composition influences contributed $337 million to the reduction in New South Wales' grant share.

"Scale-affected variable costs" were dropped from the **administrative scale** assessment in the 2004 Review, increasing grants to New South Wales by $51.9 million.

The increase in New South Wales' grant for **urban transit** merely reflected a reclassification of depreciation expenses to this category in the 2004 Review. The Commission did not recognise a higher cost disability for New South Wales in urban transit services.

7.4 ISSUES IN INTERGOVERNMENTAL FINANCES

The Australian system of Commonwealth funding has two significant aspects: Vertical Fiscal Imbalance and Horizontal Fiscal Equalisation.

VERTICAL FISCAL IMBALANCE

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

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. The Commonwealth collects around 80 percent of the taxation revenue (including the GST), but is responsible for around 55 percent of own-purpose outlays. The States collect around 15 percent of taxation revenue and account for around 40 percent of own-purpose outlays. Commonwealth grants now account for half of New South Wales' revenue, compared with slightly over one-third before the introduction of the GST.

HORIZONTAL FISCAL EQUALISATION

GST revenue grants are allocated among the States according to the principle of horizontal fiscal equalisation which states:

- State governments should receive funding from the pool of goods and services tax revenue and health care grants such that, if each made the same effort to raise revenue from its own sources and operated at the same level of efficiency, each would have the capacity to provide services at the same standard.[2]

Under the current system the share of funding allocated to each State is recommended by the Commonwealth Grants Commission. These recommendations are then considered at the annual Treasurers' Conference. The Commonwealth Treasurer has the ultimate responsibility to determine the grants to the States and accepted the recommendations of the 2004 Review despite New South Wales' disagreement.

COMPARISON WITH EQUAL PER CAPITA FUNDING

In 2004-05, New South Wales will receive $9,744 million of the total GST pool of $34,790 million.[3] But New South Wales receives significantly less in GST revenue grants than if funding were based solely on population shares (see Table 7.5):

- New South Wales' GST revenue grants in 2004-05 will be $1,438 per capita or 16.3 percent less than the average of all the States;

- The average GST revenue grant in 2004-05 for New South Wales and Victoria (the donor States) will be $1,440 per capita, compared with an average of $2,104 per capita for the recipient States; and

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[2] *Commonwealth Grants Commission Report on State Revenue Sharing Relativities 2004 Review, page 4.*

[3] *These figures include the $330 million compensation for GST deferral in the GST revenue calculations.*

- Queensland is forecast to receive a per capita grant 28.1 percent higher than New South Wales.

Table 7.5: GST Revenue Grants Per Capita, 2004-05

State/Territory	*GST Revenue Grants (In $ per capita)*
New South Wales	1,438
Victoria	1,443
Western Australia	1,785
Queensland	1,842
Australian Capital Territory	2,064
South Australia	2,107
Tasmania	2,926
Northern Territory	8,501
Average, 2 donor States	**1,440**
Average, 6 recipient States	**2,104**
AUSTRALIAN AVERAGE	**1,718**

In 2004-05, New South Wales and Victoria will subsidise the recipient States by $3,271 million, compared with an equal per capita distribution. New South Wales alone will transfer $1,898 million, or $280 per capita, to the recipient States.

Total cross subsidies for 2004-05 reflecting the 2004 Review relativities compared with an equal per capita distribution of GST revenue are in Table 7.6 (negative figures indicate that a State is a donor State).

Table 7.6: GST Cross Subsidies, Per Capita Basis, 2004-05

	NSW	*Vic*	*Qld*	*WA*	*SA*	*Tas*	*ACT*	*NT*
Total, $m	-1,898	-1,373	489	133	599	586	112	1,351
$ per capita	-280	-274	125	67	389	1,208	346	6,783

The New South Wales' cross subsidy is distributed to the subsidised States as shown in Table 7.7.

Table 7.7: NSW' GST Cross Subsidy Distribution, 2004-05

	Qld	*WA*	*SA*	*Tas*	*ACT*	*NT*	*Total*
Total, $m	284	77	347	340	65	784	1,898
$ per capita	42	11	51	50	10	116	280

The cross subsidy from New South Wales to Queensland has increased from a total of $95 million in 2003-04 to $284 million in 2004-05.

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, Victoria and the Australian Capital Territory) in 2004-05 is $4.5 billion, of which New South Wales will contribute $3.0 billion.

Table 7.8 shows the allocation of cross subsidies from the donor States to recipient States on this basis (negative figures indicate that the State is a donor).

Table 7.8: GST Incidence Cross Subsidies, 2004-05

	NSW	*Vic*	*Qld*	*WA*	*SA*	*Tas*	*ACT*	*NT*
Total, $m	-2,985	-1,537	1,258	485	706	695	-6	1,384
$ per capita	-440	-307	320	243	459	1,432	-18	6,951

Table 7.9 shows the distribution of New South Wales' cross subsidy of $2,985 million.

[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. Consumption data have been sourced from ABS Cat No 5220.0, Australian National Accounts: State Accounts 2002-03.*

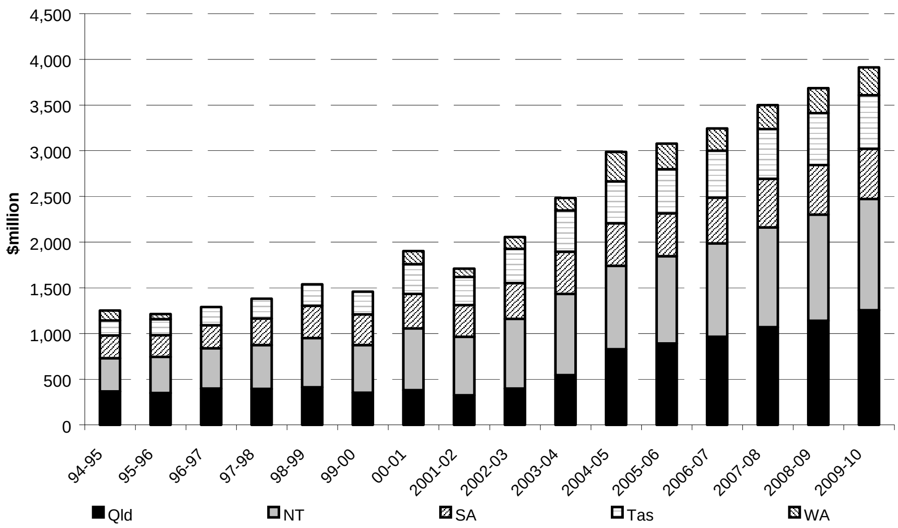
Table 7.9: NSW' GST Incidence Cross Subsidies, 2004-05

	Qld	*WA*	*SA*	*Tas*	*NT*	*Total*
Total, $m	829	320	466	458	912	2,985
$ per capita	122	47	69	68	135	440

The cross subsidy from New South Wales to Queensland has increased by over 50 percent in the 2004 Review—from a total of $545 million in 2003-04 to $829 million in 2004-05.

Chart 7.3 shows the growth in New South Wales' cross subsidy since 1994-95.

Chart 7.3: NSW Cross Subsidy to Recipient States



For the period prior to the introduction of the GST, 1994-95 to 1990-2000, the cross subsidy is based on the difference between FAGs and a share of the combined FAG/unquarantined health care grant pool equivalent to New South Wales' share of income tax payments.[5] The cross subsidy in the GST period is based on the difference between the amount of GST generated in New South Wales and GST grants received. Clearly, the cross subsidy paid by New South Wales to the recipient States has risen dramatically over the past ten years.[6]

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[5] *Sourced from Commonwealth Budget Paper No. 3 for each year.*

[6] *Note that the ACT – which was estimated to be a recipient jurisdiction over 2000-01 to 2003-04 – is not shown on this chart as the amounts involved are small.*

7.5 THE NEED FOR REFORM

The Commonwealth Grants Commission was initially set up to recommend grants to financially disadvantaged states. New South Wales supports the redistribution of grants to States in genuine fiscal need. However, the 2004 Review has resulted in a sharp increase in the share of the redistribution being directed to Queensland.

New South Wales considers that the current system used to allocate Commonwealth grants between the States is outmoded and is a good candidate for micro-economic reform.

New South Wales has been actively promoting a review of the principles underpinning the current system of Commonwealth-State funding for some time.

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 Commonwealth Grants Commission 2004 Review as an opportunity for States to advocate changes to the system.

The Commonwealth Grants Commission said in its Report on the 2004 Review that it is supportive of a far-reaching review of equalisation, including its underlying purposes and objectives. Recognising the need to rebuild consensus support for the equalisation process, the Commission believes the following four issues could usefully be explored:

Objectives of equalisation

The Commission "thinks there are grounds for considering whether equalisation is being asked to do too much."[7] The Commission suggests that equalisation is not the best mechanism to address issues such as regional equity or the relative decline in the economic performance of some States.

Application of equalisation

The Commission notes the practical implications for States of large changes in relativities, and also notes that, because of data problems, these may not reflect underlying changes in States' circumstances. To moderate this, "The simplest [way] would be for new relativities recommended by the Commission to be phased in over a period."[8]

Complexity and Transparency

"Our processes are stretching the available data to the limit. … We have come to the very strong view that simplification of methods should be a priority going forward, irrespective of any decision governments might make about a wider reconsideration of principles and objectives."[9]

Data Issues

The Commission believes strongly that equalisation methods should be designed to suit the available data.[10] New South Wales believes that this is an admission that the Commission's processes are driven by what is possible, rather than by what is right. Since there is better data on the well established disabilities such as size and distance than there is on modern disabilities such as complexity, this approach is implicitly biased against New South Wales and Victoria. The Commission notes that it "may be pushing the data too far in some of the ways we use them."[11]

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7 *CGC 2004 Review, p84, para 28.*
8 *CGC 2004 Review, p85, para 37.*
9 *CGC 2004 Review, p86, para 43.*
10 *See CGC 2004 Review, p87, para 44.*
11 *CGC 2004 Review, p87, para 45.*

THE COMMISSION'S PROPOSED WORK PROGRAM FOR A REVIEW

The Commission notes that "The terms of reference for such a review would need to be developed in full consultation with all States to ensure an inclusive process that encouraged a comprehensive presentation of views."[12] The Commission suggests the following work program:

- the scope of equalisation—is the present approach, which is based on a comprehensive assessment of virtually all receipts and expenses in the operating statements of States, appropriate and necessary?
- the size and trend of the redistributions;
- simplification—the Commission's current approach is based on high levels of disaggregation and large numbers of adjustments. Is this necessary and does it deliver a better equalisation outcome than possible alternatives? and
- data issues—a consultative examination of the robustness and comparability of key data sets and likely data availability in the future.[13]

This work program formed the basis of the review agreed by the Treasurers' Conference on 26 March 2004.

> The States and Territories propose a work program, overseen by Heads of Treasuries, using resources and expertise from both within and external to the CGC, covering the following areas:
>
> - whether the present approach, which is based on a comprehensive assessment of virtually all receipts and expenses in the operating statements of States, is appropriate and necessary;
> - the size and trend of the redistributions;
> - simplification—the Commission's current approach is based on high levels of disaggregation and large numbers of adjustments. Is this necessary and does it deliver a better equalisation outcome than possible alternatives?; and
> - data issues—a consultative examination of the robustness and comparability of key data sets and likely data availability in the future.

The formal terms of reference and reporting timeframe for this review have not yet been finalised. New South Wales will actively participate in this review.

[12] *CGC 2004 Review, p88, para 52.*
[13] *CGC 2004 Review, p88, para 54.*

2005 REVIEW OF STATE TAXES

Under the Intergovernmental Agreement, all States will abolish debits tax by 1 July 2005. This was confirmed at the 2004 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 review the need for 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. The 2004 Treasurers' Conference agreed on terms of reference for such a review, which will report to the 2005 Conference.

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 2007-08 for the general government, public trading enterprise and consolidated sectors.
- The Loan Council allocation estimate for 2004-05 is a deficit of $1,353 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 uniform reporting framework agreed by the Australian Loan Council. 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

[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".*

- permitting an assessment of the impact of NSW public sector transactions on the economy by providing data classified by economic type.

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 economic type. In addition to the UPF minimum disclosure requirements, these reports also include a historical and forward year time series. This is followed by tables of general government taxes by type, and expenses and purchases of non-financial assets by function. The functional reports are prepared according to the Australian Bureau of Statistics general purpose classifications.

Section 8.6 presents estimates of the State's Loan Council allocation (LCA) for 2004-05 and compares this to the original LCA bid provided to the March 2003 Treasurers' Conference. Information is also presented in Section 8.7 on new infrastructure projects for 2003-04 and 2004-05 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 within the operating and cash flow statements 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 government activities within a fiscal year. It shows the full cost of resources consumed by 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 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;

[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 under GFS 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 borrowings and net advances received less cash and investments.

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 (ie it includes superannuation and insurance 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. However, given that many public sector assets do not generate a financial return or are not saleable assets, net worth does not give a good indication of fiscal sustainability.

The difference between total assets and total liabilities for the PTE and PFE sector 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, which commenced operations in 2002-03. 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 distorting 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. 5501.0.55.001).

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 Rail Corporation New South Wales.

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 TRADING ENTERPRISE SECTOR

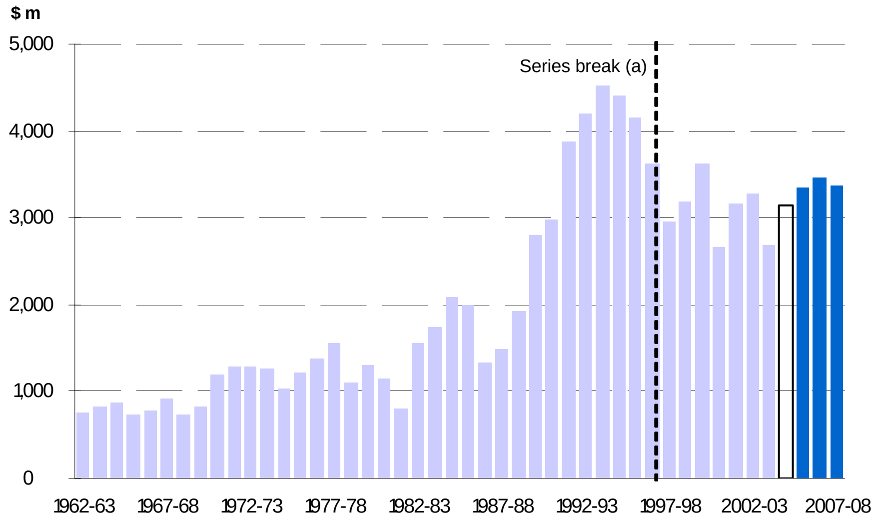
The operations of the general government sector are discussed in previous chapters of Budget Paper No. 2. This section focuses on the performance and projections of the Public Trading Enterprise (PTE) Sector.

PTE Sector Performance and the Commercial Policy Framework

The PTE sector includes a diverse range of businesses engaging in commercial activity. Most of these businesses are profitable on a stand-alone basis (e.g. electricity). These entities therefore provide a return to the Government. Others address 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.

The PTE sector has traditionally performed strongly, displaying significant operating surpluses on a cash basis. Chart 8.1 shows a consistent pattern of large cash operating surpluses in the PTE sector, particularly since the introduction of the Commercial Policy Framework in the early 1990s. Net cash flows from operating activities have consistently been above $2.5 billion in the last four years and are forecast to rise to $3.6 billion in nominal terms by 2006-07.

Chart 8.1: Net Cash Flows from Operating Activities, Real 2003-04 dollars



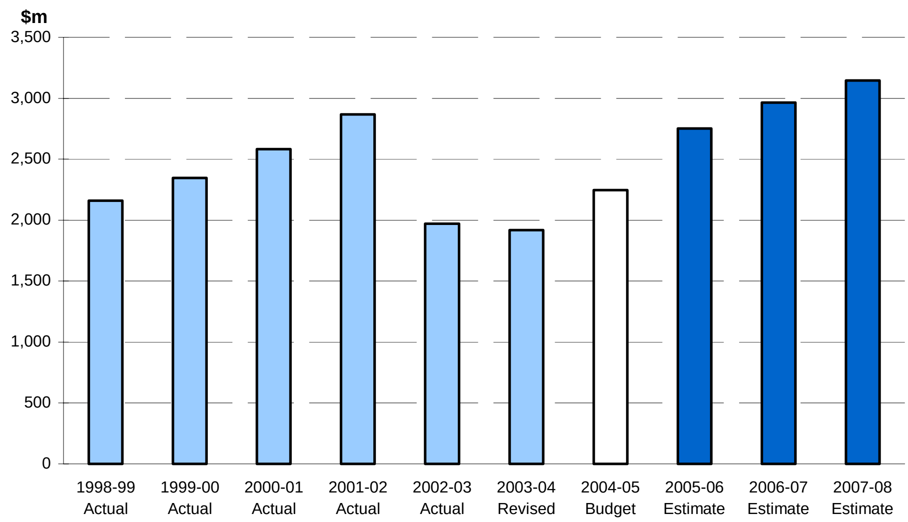
(a) Accrual GFS framework is used from 1996-97. The cash GFS framework applies in the prior period. The cash result is similar between the two frameworks.

The establishment of the Commercial Policy Framework, a major initiative of the Greiner Government which continues to be applied today, has undoubtedly contributed to the turnaround in financial performance since the early 1990s. In establishing the Framework, the Government introduced a range of reform initiatives aimed at commercialising the PTE sector. The reforms 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 Framework and will continue to seek efficiencies in the PTE sector.

Public Trading Enterprise Sector – Trends and Outlook

Table 8.1 presents the PTE sector operating statement over the four years ending 2003-04 (with the Olympic impacts removed in 2000-01 and 2001-02). Under the accrual GFS framework, a good measure of the financial health of the PTE sector is the net operating surplus before interest, dividends and taxes. This measure is equivalent to earnings before interest and taxes (EBIT) commonly used by company analysts. Chart 8.2 shows the net operating surplus before interest, dividends and taxes for the PTE sector in the period 1998-99 to 2007-08 (also with Olympic impacts removed).

Chart 8.2: Net Operating Balance before Interest, Dividends and Taxes



The PTE sector's net operating surplus before interest, dividends and taxes rose from $2,159 million in 1998-99 to a recent peak of $2,868 million in 2001-02. The PTE sector's net operating surplus declined to $1,970 million in 2002-03 and is expected to reach a trough at $1,918 million in 2003-04.

The largest factor contributing to the sector's decline in performance in 2002-03 was a change in accounting standards which saw the rail track assets capitalised at fair value rather than at their recoverable amount increasing asset values by $7.8 billion and annual depreciation charges by over $400 million per annum.

Table 8.1: Public Trading Enterprise Sector Operating Statement 2000-01 to 2003-04 (adjusted for Olympic impacts) (a)

		Actual 2000-01 $m	*Actual 2001-02 $m*	*Actual 2002-03 $m*	*Revised 2003-04 $m*
	Revenue				
	Sales of goods and services	9,238	9,336	9,371	9,789
	Current grants and subsidies	1,063	1,072	1,404	1,592
	Capital grants	771	925	690	638
	Interest income	99	78	85	70
	Other	844	870	827	1,040
	Total Revenue	**12,015**	**12,281**	**12,377**	**13,129**
less	**Expenses**				
	Employee Expenses	3,360	3,005	2,972	3,250
	Depreciation	1,499	1,563	2,068	2,138
	Other Operating Expenses	4,444	4,676	5,248	5,712
	Interest expenses	825	813	823	833
	Other property expenses	981	1,294	1,244	1,455
	Current transfers	73	78	85	111
	Capital transfers	56	92	32	...
	Total Expenses	**11,238**	**11,521**	**12,472**	**13,499**
equals	**Net Operating Balance**	**777**	**760**	**(95)**	**(370)**
	Net Operating Balance before Interest, Dividends & Taxes	*2,582*	*2,868*	*1,970*	*1,918*
less	**Net Acquisition of Non-financial Assets**				
	Purchase of non-financial assets	2,509	2,989	3,352	3,557
	Sales of non-financial assets	(315)	(302)	(332)	(235)
	less Depreciation	(1,499)	(1,563)	(2,068)	(2,138)
	plus Change in inventories	141	58	47	96
	plus Other movements in non-financial assets	159	166	119	139
	equals Total Net Acquisition of Non-financial Assets	**995**	**1,348**	**1,118**	**1,419**
equals	**Net Lending / (Borrowing)**	**(218)**	**(588)**	**(1,213)**	**(1,789)**

(a) The table excludes the impact of the Olympics through SOCOG and SPOC in 2000-01 and 2001-02. The Olympics are not considered part of the normal operating scope of the PTE sector.

In addition, the disposal of PowerCoal and Pacific Power International resulted in wind up costs within the electricity sector including significant redundancy payments and other leave costs.

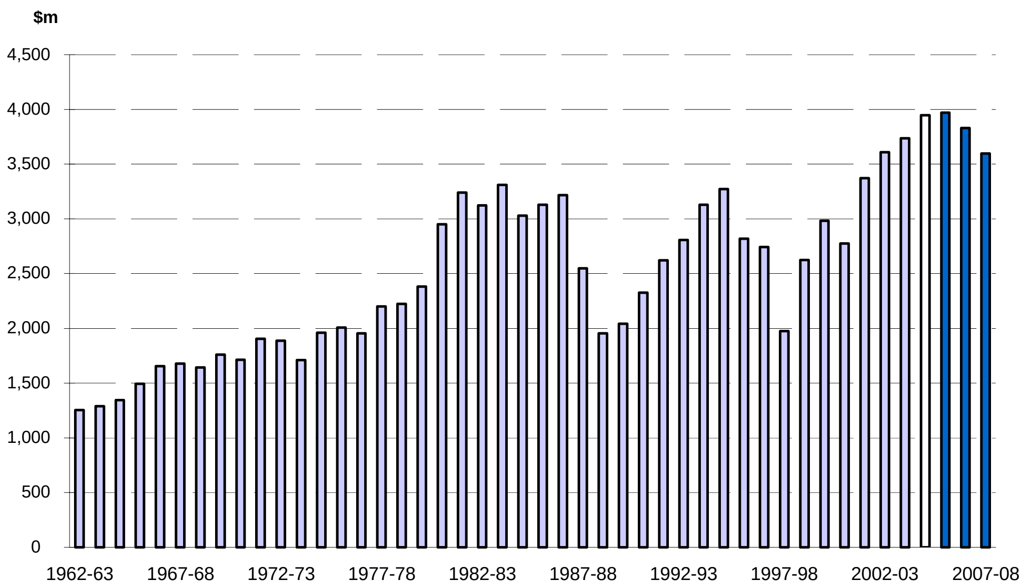
Much improved performance in the electricity sector in 2003-04 was offset by a further deterioration in the performance in the rail sector. A greater focus on improved customer safety, more accurate scheduling timeliness and greater customer comfort in the provision of rail services resulted in additional maintenance and employee spending on rail infrastructure and customer facilities.

The PTE sector's operating performance is projected to recover strongly over the forward estimates period. The PTE sector's net operating surplus before interest, dividends and taxes is projected to grow from $2,246 million in 2004-05 to $3,145 million in 2007-08. The electricity sector is expected to record the greatest improvement due to revenue growth. Overall, cost pressures in the PTE sector should be contained with key reforms being implemented in the transport, housing and the water sectors.

PTE Sector and State Infrastructure Provision

The PTE sector plays an important role in infrastructure provision in the State. Chart 8.3 shows capital expenditure by the PTE sector in the period 1962-63 to 2007-08 expressed in real terms. Over the forward estimates period, the PTE sector is projected to sustain high rates of capital investment.

Chart 8.3: PTE Sector New Fixed Capital Expenditure, Real 2003-04 dollars



Transport, electricity distribution and water sectors are expected to account for most PTE capital investment over the forward estimates period. More detail on the capital investment plans of the PTE sector is outlined in the State Asset Acquisition Program contained in Budget Paper No. 4.

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 8.2 through to 8.13 of this Section provides estimates on a comparable basis to those which the ABS will be publishing.

Table 8.2: NSW General Government Sector Operating Statement (ABS Basis)

		Actual 1999-2000 $m	Actual 2000-01 $m	Actual 2001-02 $m	Actual 2002-03 $m	Revised 2003-04 $m	Budget 2004-05 $m	Forward Estimates 2005-06 $m	Forward Estimates 2006-07 $m	Forward Estimates 2007-08 $m
	GFS Revenue									
	Taxation revenue[(a)]	15,191	13,343	13,216	14,154	14,932	15,521	16,337	17,287	18,332
	Current grants and subsidies[(a)]	10,098	13,741	15,873	16,475	16,881	17,148	17,940	18,699	19,435
	Capital grants	889	866	891	914	974	1,005	981	1,029	966
	Sales of goods and services	2,792	2,659	2,699	2,914	2,911	3,028	3,091	3,125	3,203
	Interest income	476	471	282	440	736	778	901	1,012	1,139
	Other	2,445	2,537	2,549	2,861	2,894	2,881	2,961	3,039	3,076
	Total Revenue	**31,891**	**33,617**	**35,510**	**37,758**	**39,328**	**40,361**	**42,211**	**44,191**	**46,151**
less	**GFS Expenses**									
	Employee expenses	12,824	13,283	13,877	15,314	16,719	17,603	18,412	19,216	20,105
	Depreciation	1,472	1,402	1,638	1,779	1,816	1,861	1,920	1,977	1,978
	Other operating expenses	8,289	8,749	9,658	10,081	9,944	10,368	10,808	11,402	12,128
	Nominal superannuation interest expense	479	438	564	745	851	913	1,013	1,118	1,227
	Other interest expenses	1,343	1,016	868	803	788	785	734	676	667
	Other property expenses	...	...	...	...	...	...	...	...	...
	Current transfers	4,488	4,955	5,475	5,942	6,702	6,613	6,795	6,895	7,017
	Capital transfers	993	2,287	1,864	1,342	1,217	1,382	1,418	1,371	1,197
	Total Expenses	**29,888**	**32,130**	**33,944**	**36,006**	**38,037**	**39,525**	**41,100**	**42,655**	**44,319**
equals	**GFS Net Operating Balance**	**2,003**	**1,487**	**1,566**	**1,752**	**1,291**	**836**	**1,111**	**1,536**	**1,832**

Table 8.2: NSW General Government Sector Operating Statement (ABS Basis) (cont)

	Actual 1999-2000 $m	Actual 2000-01 $m	Actual 2001-02 $m	Actual 2002-03 $m	Revised 2003-04 $m	Budget 2004-05 $m	Forward Estimates 2005-06 $m	2006-07 $m	2007-08 $m
less Net Acquisition of Non-financial Assets									
Purchases of non-financial assets (b)	2,450	2,569	2,745	3,004	3,102	3,455	3,320	3,510	3,568
less Sales of non-financial assets	(681)	(372)	(596)	(366)	(431)	(586)	(375)	(300)	(238)
less Depreciation	(1,472)	(1,402)	(1,638)	(1,779)	(1,816)	(1,861)	(1,920)	(1,977)	(1,978)
plus Change in inventories	(3)	11	...	4	(3)	(1)	(1)	(5)	(2)
plus Other movements in non-financial assets									
- finance leases (b)	283	290	351	345	315	159	147	117	107
- other	104	(134)	125	81	87	49	58	76	83
equals Total Net Acquisition of Non-financial Assets	**681**	**962**	**987**	**1,289**	**1,254**	**1,215**	**1,229**	**1,421**	**1,540**
equals GFS Net Lending / (Borrowing)	**1,322**	**525**	**579**	**463**	**37**	**(379)**	**(118)**	**115**	**292**

Note:

(a) Impacted by the introduction of the Goods and Services Tax (GST) and the processing arrangements from 2001-02.

(b) Elsewhere in the Budget Papers references are made to Asset Acquisitions, which comprise purchases of non-financial assets and assets acquired under finance lease arrangements.

Table 8.3: NSW Public Non-financial Corporation Sector Operating Statement [(a)] [(b)] (ABS Basis)

		Actual 1999-2000 $m	Actual 2000-01 $m	Actual 2001-02 $m	Actual 2002-03 $m	Revised 2003-04 $m	Budget 2004-05 $m	Forward Estimates 2005-06 $m	Forward Estimates 2006-07 $m	Forward Estimates 2007-08 $m
	GFS Revenue									
	Sales of goods and services	9,234	11,564	9,347	9,371	9,789	10,463	11,059	11,617	12,104
	Current grants and subsidies	1,101	1,071	1,072	1,404	1,592	1,518	1,559	1,482	1,477
	Capital grants	602	771	925	690	638	763	711	679	566
	Interest income	97	142	78	85	70	62	57	60	64
	Other	1,167	843	870	827	1,040	835	928	974	1,035
	Total Revenue	**12,201**	**14,391**	**12,292**	**12,377**	**13,129**	**13,641**	**14,314**	**14,812**	**15,246**
less	**GFS Expenses**									
	Employee expenses	2,888	3,360	3,005	2,972	3,250	3,035	3,046	3,020	3,092
	Depreciation	1,389	1,514	1,563	2,068	2,138	2,170	2,113	2,195	2,211
	Other operating expenses	5,391	6,637	4,676	5,248	5,712	6,059	6,300	6,527	6,689
	Interest expenses	692	825	813	823	833	885	983	1,091	1,214
	Other property expenses	1,215	981	1,294	1,244	1,455	1,573	1,682	1,780	1,789
	Current transfers	70	73	78	85	111	132	102	105	108
	Capital transfers	63	56	92	32	...	...	...	...	...
	Total Expenses	**11,708**	**13,446**	**11,521**	**12,472**	**13,499**	**13,854**	**14,226**	**14,718**	**15,103**
equals	**GFS Net Operating Balance**	**493**	**945**	**771**	**(95)**	**(370)**	**(213)**	**88**	**94**	**143**

Table 8.3: 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	Actual 2002-03 $m	Revised 2003-04 $m	Budget 2004-05 $m	Forward Estimates 2005-06 $m	2006-07 $m	2007-08 $m
less	**Net Acquisition of Non-financial Assets**									
	Purchases of non-financial assets	2,729	2,510	2,989	3,352	3,557	3,852	3,970	3,926	3,780
	less Sales of non-financial assets	(388)	(315)	(302)	(332)	(235)	(213)	(134)	(171)	(123)
	less Depreciation	(1,389)	(1,514)	(1,563)	(2,068)	(2,138)	(2,170)	(2,113)	(2,195)	(2,211)
	plus Change in inventories	252	(651)	58	47	96	101	39	93	141
	plus Other movements in non-financial assets									
	- finance leases	...	...	...	...	...	...	...	...	...
	- other	97	159	166	119	139	132	183	179	183
	equals Total Net Acquisition of Non-financial Assets	**1,301**	**189**	**1,348**	**1,118**	**1,419**	**1,702**	**1,945**	**1,832**	**1,770**
equals	**GFS Net Lending / (Borrowing)**	**(808)**	**756**	**(577)**	**(1,213)**	**(1,789)**	**(1,915)**	**(1,857)**	**(1,738)**	**(1,627)**

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.

	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
GFS Net Lending / (Borrowing)	***(808)***	***756***	***(577)***	***(1,213)***	***(1,789)***	***(1,915)***	***(1,857)***	***(1,738)***	***(1,627)***
adjustment to exclude SOCOG and SPOC	*274*	*(974)*	*(11)*	*...*	*...*	*...*	*...*	*...*	*...*
Underlying Net Lending/ (Borrowing) [b]	***(534)***	***(218)***	***(588)***	***(1,213)***	***(1,789)***	***(1,915)***	***(1,857)***	***(1,738)***	***(1,627)***

Table 8.4: NSW Non-financial Public Sector Operating Statement (ABS Basis) [(a)]

		Actual 1999-2000 $m	Actual 2000-01 $m	Actual 2001-02 $m	Actual 2002-03 $m	Revised 2003-04 $m	Budget 2004-05 $m	Forward Estimates 2005-06 $m	Forward Estimates 2006-07 $m	Forward Estimates 2007-08 $m
	GFS Revenue									
	Taxation revenue[(b)]	14,547	12,656	12,597	13,437	14,275	14,841	15,617	16,538	17,548
	Current grants and subsidies[(b)]	10,122	13,769	15,852	16,442	16,855	17,118	17,915	18,679	19,415
	Sales of goods and services	11,900	14,007	11,933	12,179	12,531	13,345	14,002	14,589	15,150
	Capital grants	833	805	886	908	973	1,003	979	1,028	964
	Interest income	507	549	306	473	755	788	906	1,020	1,153
	Other	2,355	2,166	2,083	2,423	2,394	2,239	2,197	2,236	2,334
	Total Revenue	**40,264**	**43,952**	**43,657**	**45,862**	**47,783**	**49,334**	**51,616**	**54,090**	**56,564**
less	**GFS Expenses**									
	Employee expenses	15,709	16,640	16,892	18,293	19,854	20,625	21,347	22,225	23,186
	Depreciation	2,860	2,916	3,201	3,847	3,954	4,031	4,033	4,172	4,189
	Other operating expenses	12,887	14,473	13,598	14,499	14,828	15,591	16,234	17,023	17,874
	Nominal superannuation interest expense	479	438	564	745	851	913	1,013	1,118	1,227
	Other interest expenses	1,971	1,778	1,627	1,573	1,569	1,618	1,664	1,716	1,830
	Other property expenses	...	...	...	...	...	...	...	...	...
	Current transfers	3,607	3,919	4,467	4,611	5,239	5,333	5,456	5,563	5,691
	Capital transfers	243	1,559	962	638	567	599	671	644	592
	Total Expenses	**37,756**	**41,723**	**41,311**	**44,206**	**46,862**	**48,710**	**50,418**	**52,461**	**54,589**
equals	**GFS Net Operating Balance**	**2,508**	**2,229**	**2,346**	**1,656**	**921**	**624**	**1,198**	**1,629**	**1,975**

Table 8.4: NSW Non-financial Public Sector Operating Statement (ABS Basis) (cont) [(a)]

	Actual 1999-2000 $m	Actual 2000-01 $m	Actual 2001-02 $m	Actual 2002-03 $m	Revised 2003-04 $m	Budget 2004-05 $m	Forward Estimates 2005-06 $m	2006-07 $m	2007-08 $m
less Net Acquisition of Non-financial Assets									
Purchases of non-financial assets	5,176	5,075	5,729	6,352	6,657	7,304	7,288	7,434	7,345
less Sales of non-financial assets	(1,063)	(687)	(898)	(698)	(666)	(799)	(509)	(470)	(361)
less Depreciation	(2,860)	(2,916)	(3,201)	(3,847)	(3,954)	(4,031)	(4,033)	(4,172)	(4,189)
plus Change in inventories	249	(641)	58	51	93	101	38	88	139
plus Other movements in non-financial assets									
- finance leases [(c)]	284	290	351	345	316	159	147	117	107
- other	199	27	291	200	226	181	239	252	266
equals Total Net Acquisition of Non-financial Assets	**1,985**	**1,148**	**2,330**	**2,403**	**2,672**	**2,915**	**3,170**	**3,249**	**3,307**
equals GFS Net Lending / (Borrowing)	**523**	**1,081**	**16**	**(747)**	**(1,751)**	**(2,291)**	**(1,972)**	**(1,620)**	**(1,332)**

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.
(c) Elsewhere in the Budget Papers references made to Asset Acquisitions which comprise purchases of non-financial assets and assets acquired under finance lease arrangements.

GFS Net Lending / (Borrowing)	***523***	***1,081***	***16***	***(747)***	***(1,751)***	***(2,291)***	***(1,972)***	***(1,620)***	***(1,332)***
adjustment to exclude SOCOG and SPOC	*273*	*(975)*	*(12)*	...	...	...	...	...	...
Underlying Net Lending/ (Borrowing) [(a)]	***796***	***106***	***4***	***(747)***	***(1,751)***	***(2,291)***	***(1,972)***	***(1,620)***	***(1,332)***

Table 8.5: NSW General Government Sector Balance Sheet (ABS Basis)

	Actual June 2000 $m	Actual June 2001 $m	Actual June 2002 $m	Actual June 2003 $m	Revised June 2004 $m	Budget June 2005 $m	*Forward Estimates* June 2006 $m	June 2007 $m	June 2008 $m
Assets									
Financial assets									
Cash and deposits	481	1,096	1,719	1,091	794	739	799	805	859
Advances paid	1,696	1,442	1,521	1,401	1,396	1,374	1,370	1,325	1,300
Investments, loans and placements	3,859	3,950	4,409	7,940	9,534	10,332	11,560	13,704	16,469
Other non-equity assets	4,525	4,854	5,172	5,359	5,606	5,837	6,022	6,261	6,369
Equity	46,596	47,501	48,337	66,780	67,053	69,333	69,804	70,277	70,652
Total Financial Assets	**57,157**	**58,843**	**61,158**	**82,571**	**84,383**	**87,615**	**89,555**	**92,372**	**95,649**
Non-financial assets									
Land and fixed assets	64,710	66,306	73,916	78,936	80,181	79,341	80,617	82,081	83,599
Other non-financial assets	754	847	952	1,047	1,150	1,200	1,268	1,353	1,445
Total Non-financial Assets	**65,464**	**67,153**	**74,868**	**79,983**	**81,331**	**80,541**	**81,885**	**83,434**	**85,044**
Total Assets	**122,621**	**125,996**	**136,026**	**162,554**	**165,714**	**168,156**	**171,440**	**175,806**	**180,693**

Table 8.5: NSW General Government Sector Balance Sheet (ABS Basis) (cont)

	Actual June 2000 $m	Actual June 2001 $m	Actual June 2002 $m	Actual June 2003 $m	Revised June 2004 $m	Budget June 2005 $m	Forward Estimates June 2006 $m	Forward Estimates June 2007 $m	Forward Estimates June 2008 $m
Liabilities									
Deposits held	90	61	65	53	57	57	58	59	61
Advances received	2,142	2,041	1,826	1,808	1,675	1,631	1,489	1,443	1,396
Borrowing	15,440	12,026	10,814	10,164	9,985	10,026	9,734	9,728	9,832
Superannuation liability [(a)]	5,686	8,127	11,398	14,720	15,084	16,778	18,571	20,420	22,389
Other employee entitlements and provisions	8,223	9,185	9,982	11,156	11,704	12,137	12,644	13,252	13,925
Other non-equity liabilities	3,203	3,055	3,511	3,611	3,561	3,073	3,010	3,037	3,024
Total Liabilities	**34,784**	**34,495**	**37,596**	**41,512**	**42,066**	**43,702**	**45,506**	**47,939**	**50,627**
NET WORTH	**87,837**	**91,501**	**98,430**	**121,042**	**123,648**	**124,454**	**125,934**	**127,867**	**130,066**
Net Financial Worth [(b)]	**22,373**	**24,348**	**23,562**	**41,059**	**42,317**	**43,913**	**44,049**	**44,433**	**45,022**
Net Debt [(c)]	**11,636**	**7,640**	**5,056**	**1,593**	**(7)**	**(731)**	**(2,448)**	**(4,604)**	**(7,339)**

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 2007-08 inclusive.

GFS Net Debt [(c)]	***11,636***	***7,640***	***5,056***	***1,593***	***(7)***	***(731)***	***(2,448)***	***(4,604)***	***(7,339)***
Impact of prepayment of superannuation	*(2,251)*	*(1,179)*	*...*	*...*	*...*	*...*	*...*	*...*	*...*
Impact of deposits to the Liability Management Fund	*...*	*...*	*...*	*1,651*	*2,881*	*4,021*	*5,421*	*7,290*	*9,513*
Underlying Net Debt [(c) (d)]	***9,385***	***6,461***	***5,056***	***3,244***	***2,874***	***3,290***	***2,973***	***2,686***	***2,174***

Table 8.6: NSW Public Non-financial Corporation Sector Balance Sheet [(a)] (ABS Basis)

	Actual June 2000 $m	Actual June 2001 $m	Actual June 2002 $m	Actual June 2003 $m	Revised June 2004 $m	Budget June 2005 $m	Forward Estimates June 2006 $m	Forward Estimates June 2007 $m	Forward Estimates June 2008 $m
Assets									
Financial assets									
Cash and deposits	1,324	960	1,289	1,163	908	924	937	1,011	1,052
Investments, loans and placements	875	920	900	568	386	371	381	460	588
Other non-equity assets	2,701	2,350	2,358	2,183	2,203	2,243	2,344	2,398	2,465
Equity	63	139	77	56	43	48	52	60	57
Total Financial Assets	**4,963**	**4,369**	**4,624**	**3,970**	**3,540**	**3,586**	**3,714**	**3,929**	**4,162**
Non-financial assets									
Land and fixed assets	58,883	61,720	62,617	82,892	84,896	88,983	91,310	93,470	95,575
Other non-financial assets	295	304	245	262	294	343	304	275	271
Total Non-financial Assets	**59,178**	**62,024**	**62,862**	**83,154**	**85,190**	**89,326**	**91,614**	**93,745**	**95,846**
Total Assets	**64,141**	**66,393**	**67,486**	**87,124**	**88,730**	**92,912**	**95,328**	**97,674**	**100,008**

Table 8.6: NSW Public Non-financial Corporation Sector Balance Sheet [(a)] (ABS Basis) (cont)

	Actual June 2000 $m	Actual June 2001 $m	Actual June 2002 $m	Actual June 2003 $m	Revised June 2004 $m	Budget June 2005 $m	Forward Estimates June 2006 $m	Forward Estimates June 2007 $m	Forward Estimates June 2008 $m
Liabilities									
Deposits held	40	49	85	93	88	92	94	97	99
Advances received	1,379	1,155	1,153	1,116	1,090	1,064	1,038	1,012	985
Borrowing	8,453	11,508	11,721	12,255	13,329	14,785	16,463	18,060	19,816
Superannuation liability/ (prepaid contributions) [(b)]	(402)	(150)	325	736	716	765	814	861	908
Other employee entitlements and provisions	3,843	3,814	4,139	4,242	4,629	5,021	5,227	5,461	5,613
Other non-equity liabilities	3,659	2,198	1,945	2,063	1,994	2,057	2,154	2,228	2,318
Total Liabilities	**16,972**	**18,574**	**19,368**	**20,505**	**21,846**	**23,784**	**25,790**	**27,719**	**29,739**
Shares and other contributed capital [(c)(d)]	47,169	47,819	48,118	66,619	66,884	69,128	69,538	69,955	70,269
NET WORTH [(c)(d)]	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**...**
Net Financial Worth [(d)(e)]	**(59,178)**	**(62,024)**	**(62,862)**	**(83,154)**	**(85,190)**	**(89,326)**	**(91,614)**	**(93,745)**	**(95,846)**
Net Debt [(f)]	**7,673**	**10,832**	**10,770**	**11,733**	**13,213**	**14,646**	**16,277**	**17,698**	**19,260**

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 $70.3 billion in 2008 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 8.7: NSW Non-financial Public Sector Balance Sheet (ABS Basis)

	Actual June 2000 $m	Actual June 2001 $m	Actual June 2002 $m	Actual June 2003 $m	Revised June 2004 $m	Budget June 2005 $m	Forward Estimates June 2006 $m	Forward Estimates June 2007 $m	Forward Estimates June 2008 $m
Assets									
Financial assets									
Cash and deposits	1,805	2,056	3,008	2,254	1,702	1,664	1,736	1,817	1,911
Advances paid	315	286	368	285	306	309	332	313	315
Investments, loans and placements	4,726	4,870	5,309	8,507	9,918	10,701	11,940	14,162	17,055
Other non-equity assets	4,577	4,725	4,666	4,565	4,538	4,522	4,627	4,690	4,733
Equity	(510)	(179)	296	218	211	253	318	382	439
Total Financial Assets	**10,913**	**11,758**	**13,647**	**15,829**	**16,675**	**17,449**	**18,953**	**21,364**	**24,453**
Non-financial assets									
Land and fixed assets	123,593	128,026	136,532	161,828	165,077	168,324	171,927	175,551	179,174
Other non-financial assets	1,053	1,151	1,198	1,318	1,440	1,539	1,567	1,622	1,711
Total Non-financial Assets	**124,646**	**129,177**	**137,730**	**163,146**	**166,517**	**169,863**	**173,494**	**177,173**	**180,885**
Total Assets	**135,559**	**140,935**	**151,377**	**178,975**	**183,192**	**187,312**	**192,447**	**198,537**	**205,338**

Table 8.7: NSW Non-financial Public Sector Balance Sheet (ABS Basis) (cont)

	Actual June 2000 $m	*Actual June 2001 $m*	*Actual June 2002 $m*	*Actual June 2003 $m*	*Revised June 2004 $m*	*Budget June 2005 $m*	*Forward Estimates June 2006 $m*	*Forward Estimates June 2007 $m*	*Forward Estimates June 2008 $m*
Liabilities									
Deposits held	121	110	149	146	145	149	153	156	159
Advances received	2,142	2,041	1,826	1,808	1,675	1,631	1,488	1,443	1,396
Borrowing	23,884	23,533	22,536	22,418	23,312	24,809	26,196	27,786	29,646
Superannuation liability [(a)]	5,284	7,978	11,723	15,456	15,800	17,543	19,385	21,281	23,297
Other employee entitlements and provisions	10,094	11,182	12,014	13,166	13,724	14,241	14,756	15,358	16,055
Other non-equity liabilities	6,197	4,590	4,699	4,939	4,888	4,485	4,535	4,646	4,719
Total Liabilities	**47,722**	**49,434**	**52,947**	**57,933**	**59,544**	**62,858**	**66,513**	**70,670**	**75,272**
Shares and other contributed capital	...	...	...	...	...	...	...	...	...
NET WORTH	**87,837**	**91,501**	**98,430**	**121,042**	**123,648**	**124,454**	**125,934**	**127,867**	**130,066**
Net Financial Worth [(b)]	**(36,809)**	**(37,676)**	**(39,300)**	**(42,104)**	**(42,869)**	**(45,409)**	**(47,560)**	**(49,306)**	**(50,819)**
Net Debt [(c)]	**19,301**	**18,472**	**15,826**	**13,326**	**13,206**	**13,915**	**13,829**	**13,093**	**11,920**

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 2007-08 inclusive.

GFS Net Debt [(c)]	***19,301***	***18,472***	***15,826***	***13,326***	***13,206***	***13,915***	***13,829***	***13,093***	***11,920***
Impact of prepayment of superannuation	*(2,251)*	*(1,179)*	...	...	...	...	...	...	...
Impact of deposits to the Liability Management Fund	...	...	...	*1,651*	*2,881*	*4,021*	*5,421*	*7,290*	*9,513*
Underlying Net Debt [(c) (d)]	***17,050***	***17,293***	***15,826***	***14,977***	***16,087***	***17,936***	***19,250***	***20,383***	***21,433***

Table 8.8: NSW General Government Sector Cash Flow Statement[(a)] (ABS Basis)

	Actual 1999-2000 $m	Actual 2000-01 $m	Actual 2001-02 $m	Actual 2002-03 $m	Revised 2003-04 $m	Budget 2004-05 $m	Forward Estimates 2005-06 $m	2006-07 $m	2007-08 $m
Cash Receipts from Operating Activities									
Taxes received[(b)]	15,193	13,170	13,341	13,953	14,976	15,542	16,314	17,292	18,350
Receipts from sales of goods and services	2,845	2,517	2,638	3,032	2,826	3,027	3,095	3,115	3,192
Grants/subsidies received[(b)]	10,978	14,608	16,762	17,587	17,923	17,882	18,920	19,729	20,401
Other receipts	2,823	4,019	3,656	4,204	4,304	4,488	4,779	4,918	5,203
Total Receipts	**31,839**	**34,314**	**36,397**	**38,776**	**40,029**	**40,939**	**43,108**	**45,054**	**47,146**
Cash Payments for Operating Activities									
Payment for goods and services	(20,963)	(21,234)	(21,760)	(23,960)	(25,906)	(27,154)	(28,382)	(29,711)	(31,279)
Grants and subsidies paid	(5,273)	(6,013)	(6,809)	(6,881)	(7,391)	(7,633)	(7,785)	(7,791)	(7,704)
Interest paid	(1,284)	(1,067)	(848)	(818)	(872)	(747)	(908)	(669)	(575)
Other payments	(273)	(1,673)	(1,867)	(1,700)	(1,501)	(1,612)	(1,539)	(1,529)	(1,578)
Total Payments	**(27,793)**	**(29,987)**	**(31,284)**	**(33,359)**	**(35,670)**	**(37,146)**	**(38,614)**	**(39,700)**	**(41,136)**
Net Cash Flows from Operating Activities	**4,046**	**4,327**	**5,113**	**5,417**	**4,359**	**3,793**	**4,494**	**5,354**	**6,010**
Net Cash Flows from Investments in Non-financial Assets									
Sales of non-financial assets	626	344	424	497	447	615	390	316	256
Purchases of non-financial assets	(2,510)	(2,590)	(2,787)	(3,052)	(3,060)	(3,474)	(3,322)	(3,513)	(3,571)
Net Cash Flows from Investments in Non-financial Assets	**(1,884)**	**(2,246)**	**(2,363)**	**(2,555)**	**(2,613)**	**(2,859)**	**(2,932)**	**(3,197)**	**(3,315)**
Net Cash Flows from Investments in Financial Assets for Policy Purposes	**(42)**	**3,228**	**756**	**839**	**144**	**1**	**147**	**142**	**286**

Table 8.8: NSW General Government Sector Cash Flow Statement[a] (ABS Basis) (cont)

	Actual 1999-2000 $m	Actual 2000-01 $m	Actual 2001-02 $m	Actual 2002-03 $m	Revised 2003-04 $m	Budget 2004-05 $m	Forward Estimates 2005-06 $m	2006-07 $m	2007-08 $m
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	**(257)**	**(354)**	**(575)**	**(1,115)**	**(1,596)**	**(781)**	**(1,229)**	**(2,132)**	**(2,752)**
Net Cash Flows from Financing Activities									
Advances received (net)	(133)	(85)	(220)	(31)	(129)	(28)	(149)	(36)	(48)
Borrowing (net)	(2,279)	(4,480)	(2,122)	(1,017)	(458)	(150)	(227)	(104)	(117)
Deposits received (net)	28	(25)	(5)	(8)	3	(1)	...	...	...
Other financing (net)	(1)	...	...	(1)	(1)	(22)	...	1	(3)
Net Cash Flows from Financing Activities	**(2,385)**	**(4,590)**	**(2,347)**	**(1,057)**	**(585)**	**(201)**	**(376)**	**(139)**	**(168)**
Net Increase / (Decrease) in Cash Held	**(522)**	**365**	**584**	**1,529**	**(291)**	**(47)**	**104**	**28**	**61**
SURPLUS / (DEFICIT)									
Net Cash from Operating Activities and Investments in Non-financial Assets	**2,162**	**2,081**	**2,750**	**2,862**	**1,746**	**934**	**1,562**	**2,157**	**2,695**
Finance leases and similar arrangements	(283)	(290)	(351)	(345)	(315)	(159)	(147)	(117)	(107)
SURPLUS / (DEFICIT)	**1,879**	**1,791**	**2,399**	**2,517**	**1,431**	**775**	**1,415**	**2,040**	**2,588**

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***	***2,517***	***1,431***	***775***	***1,415***	***2,040***	***2,588***
Impact of prepayment of superannuation	*(1,005)*	*(1,058)*	*(1,134)*	*...*	*...*	*...*	*...*	*...*	*...*
Impact of deposits to the Liability Management Fund [c]	*...*	*...*	*...*	*(1,651)*	*(1,230)*	*(1,140)*	*(1,400)*	*(1,869)*	*(2,223)*
UNDERLYING SURPLUS / (DEFICIT) (after adjusting for the timing of superannuation contributions)	***874***	***733***	***1,265***	***866***	***201***	***(365)***	***15***	***171***	***365***

Table 8.9: 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	Actual 2002-03 $m	Revised 2003-04 $m	Budget 2004-05 $m	Forward Estimates 2005-06 $m	Forward Estimates 2006-07 $m	Forward Estimates 2007-08 $m
Cash Receipts from Operating Activities									
Receipts from sales of goods and services	9,591	10,765	9,431	9,653	10,046	10,945	11,686	12,226	12,696
Grants/subsidies received	1,866	1,957	2,022	2,124	2,230	2,280	2,270	2,162	2,043
Other receipts	1,261	1,933	1,961	2,149	2,239	2,093	2,196	2,313	2,431
Total Receipts	**12,718**	**14,655**	**13,414**	**13,926**	**14,515**	**15,318**	**16,152**	**16,701**	**17,170**
Cash Payments for Operating Activities									
Payment for goods and services	(8,352)	(9,374)	(7,626)	(8,002)	(9,246)	(9,431)	(9,731)	(9,963)	(10,139)
Grants and subsidies paid	(70)	(144)	8	(99)	(110)	(131)	(101)	(104)	(107)
Interest paid	(711)	(722)	(820)	(809)	(842)	(878)	(959)	(1,081)	(1,198)
Other payments	(246)	(1,847)	(1,866)	(1,776)	(1,625)	(1,732)	(2,042)	(2,085)	(2,301)
Total Payments	**(9,379)**	**(12,087)**	**(10,304)**	**(10,686)**	**(11,823)**	**(12,172)**	**(12,833)**	**(13,233)**	**(13,745)**
Net Cash Flows from Operating Activities	**3,339**	**2,568**	**3,110**	**3,240**	**2,692**	**3,146**	**3,319**	**3,468**	**3,425**
Net Cash Flows from Investments in Non-financial Assets									
Sales of non-financial assets	390	282	358	280	246	218	138	175	127
Purchases of non-financial assets	(2,868)	(2,413)	(2,944)	(3,343)	(3,616)	(3,838)	(3,957)	(3,911)	(3,769)
Net Cash Flows from Investments in Non-financial Assets	**(2,478)**	**(2,131)**	**(2,586)**	**(3,063)**	**(3,370)**	**(3,620)**	**(3,819)**	**(3,736)**	**(3,642)**
Net Cash Flows from Investments in Financial Assets for Policy Purposes	**(1)**	**(6)**	**579**	**134**	**(6)**	**(7)**	**(5)**	**(10)**	**(2)**
Net Cash Flows from Investments in Assets for Liquidity Purposes	**384**	**(69)**	**49**	**273**	**179**	**14**	**(11)**	**(78)**	**(128)**

Table 8.9: 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*	*Actual 2002-03 $m*	*Revised 2003-04 $m*	*Budget 2004-05 $m*	*Forward Estimates 2005-06 $m*	*Forward Estimates 2006-07 $m*	*Forward Estimates 2007-08 $m*
Net Cash Flows from Financing Activities									
Advances received (net)	(22)	(3,230)	(798)	(578)	(163)	(42)	(155)	(108)	(298)
Borrowing (net)	(110)	3,253	640	591	1,070	1,450	1,666	1,562	1,710
Deposits received (net)	1	10	42	4	(6)	1	1	2	1
Distributions paid	(824)	(758)	(671)	(738)	(657)	(930)	(993)	(1,047)	(1,091)
Other financing (net)	(33)	25	(20)	2	(8)	...	...	(1)	1
Net Cash Flows from Financing Activities	**(988)**	**(700)**	**(807)**	**(719)**	**236**	**479**	**519**	**408**	**323**
Net Increase / (Decrease) in Cash Held	**256**	**(338)**	**345**	**(135)**	**(269)**	**12**	**3**	**52**	**(24)**
SURPLUS / (DEFICIT)									
Net Cash from Operating Activities and Investments in Non-financial Assets	**861**	**437**	**524**	**177**	**(678)**	**(474)**	**(500)**	**(268)**	**(217)**
Distribution paid	(824)	(758)	(671)	(738)	(657)	(930)	(993)	(1,047)	(1,091)
Finance leases and similar arrangements	...	...	...	...	...	...	...	...	...
SURPLUS / (DEFICIT)	**37**	**(321)**	**(147)**	**(561)**	**(1,335)**	**(1,404)**	**(1,493)**	**(1,315)**	**(1,308)**

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)***	***(561)***	***(1,335)***	***(1,404)***	***(1,493)***	***(1,315)***	***(1,308)***
Reversing the impact of SOCOG and SPOC operations	*(343)*	*340*	*68*	*...*	*...*	*...*	*...*	*...*	*...*
UNDERLYING SURPLUS / (DEFICIT) adjusted to exclude SOCOG & SPOC[(c)]	***(306)***	***19***	***(79)***	***(561)***	***(1,335)***	***(1,404)***	***(1,493)***	***(1,315)***	***(1,308)***

Table 8.10: NSW Non-financial Public Sector Cash Flow Statement[(a)] [(b)] (ABS Basis)

	Actual 1999-2000 $m	Actual 2000-01 $m	Actual 2001-02 $m	Actual 2002-03 $m	Revised 2003-04 $m	Budget 2004-05 $m	Forward Estimates 2005-06 $m	2006-07 $m	2007-08 $m
Cash Receipts from Operating Activities									
Taxes received [(c)]	14,543	12,569	12,522	13,398	14,306	14,859	15,601	16,541	17,571
Receipts from sales of goods and services	12,300	13,068	12,051	12,531	12,672	13,818	14,620	15,183	15,729
Grants/subsidies received [(c)]	11,027	14,602	16,738	17,557	17,887	17,851	18,894	19,707	20,379
Other receipts	2,962	4,707	4,703	5,157	5,443	5,374	5,444	5,649	5,934
Total Receipts	**40,832**	**44,946**	**46,014**	**48,643**	**50,308**	**51,902**	**54,559**	**57,080**	**59,613**
Cash Payments for Operating Activities									
Payment for goods and services	(28,565)	(29,778)	(28,575)	(31,266)	(34,194)	(35,760)	(37,153)	(38,780)	(40,493)
Grants and subsidies paid	(3,494)	(4,199)	(4,897)	(4,867)	(5,274)	(5,554)	(5,682)	(5,699)	(5,722)
Interest paid	(1,931)	(1,723)	(1,614)	(1,575)	(1,662)	(1,574)	(1,815)	(1,699)	(1,723)
Other payments	(298)	(3,145)	(3,362)	(3,027)	(2,787)	(3,003)	(3,090)	(3,129)	(3,334)
Total Payments	**(34,288)**	**(38,845)**	**(38,448)**	**(40,735)**	**(43,917)**	**(45,891)**	**(47,740)**	**(49,307)**	**(51,272)**
Net Cash Flows from Operating Activities	**6,544**	**6,101**	**7,566**	**7,908**	**6,391**	**6,011**	**6,819**	**7,773**	**8,341**
Net Cash Flows from Investments in Non-financial Assets									
Sales of non-financial assets	1,011	626	781	778	693	832	528	491	383
Purchases of non-financial assets	(5,364)	(5,001)	(5,745)	(6,376)	(6,674)	(7,310)	(7,278)	(7,422)	(7,337)
Net Cash Flows from Investments in Non-financial Assets	**(4,353)**	**(4,375)**	**(4,964)**	**(5,598)**	**(5,981)**	**(6,478)**	**(6,750)**	**(6,931)**	**(6,954)**
Net Cash Flows from Investments in Financial Assets for Policy Purposes	**(88)**	**(7)**	**537**	**395**	**(40)**	**(55)**	**(16)**	**8**	**2**
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	**126**	**(423)**	**(526)**	**(842)**	**(1,417)**	**(767)**	**(1,240)**	**(2,210)**	**(2,880)**

Table 8.10: 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	Actual 2002-03 $m	Revised 2003-04 $m	Budget 2004-05 $m	Forward Estimates 2005-06 $m	Forward Estimates 2006-07 $m	Forward Estimates 2007-08 $m
Net Cash Flows from Financing Activities									
Advances received (net)	(110)	(85)	(230)	(70)	(129)	(28)	(149)	(36)	(48)
Borrowing (net)	(2,388)	(1,227)	(1,472)	(387)	628	1,307	1,441	1,474	1,578
Deposits received (net)	29	(14)	38	(4)	(2)	...	2	1	1
Distributions paid	...	...	...	...	...	...	...	...	...
Other financing (net)	(32)	23	(20)	2	(10)	(22)	...	...	(3)
Net Cash Flows from Financing Activities	**(2,501)**	**(1,303)**	**(1,684)**	**(459)**	**487**	**1,257**	**1,294**	**1,439**	**1,528**
Net Increase / (Decrease) in Cash Held	**(272)**	**(7)**	**929**	**1,404**	**(560)**	**(32)**	**107**	**79**	**37**
SURPLUS / (DEFICIT)									
Net Cash from Operating Activities and Investments in Non-financial Assets	**2,191**	**1,726**	**2,602**	**2,310**	**410**	**(467)**	**69**	**842**	**1,387**
Distribution paid	...	...	...	...	...	...	...	...	...
Finance leases and similar arrangements	(284)	(290)	(350)	(345)	(316)	(159)	(147)	(117)	(107)
SURPLUS / (DEFICIT)	**1,907**	**1,436**	**2,252**	**1,965**	**94**	**(626)**	**(78)**	**725**	**1,280**

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***	***1,965***	***94***	***(626)***	***(78)***	***725***	***1,280***
Impact of prepayment of superannuation	*(1,005)*	*(1,058)*	*(1,134)*	*...*	*...*	*...*	*...*	*...*	*...*
Impact of deposits to the Liability Management Fund [(d)]	*...*	*...*	*...*	*(1,651)*	*(1,230)*	*(1,140)*	*(1,400)*	*(1,869)*	*(2,223)*
Impact of SOCOG and SPOC operations [(b)]	*(200)*	*389*	*(12)*	*...*	*...*	*...*	*...*	*...*	*...*
UNDERLYING SURPLUS / (DEFICIT) (after adjusting for the timing of superannuation contributions and excluding SOCOG and SPOC operations)	***702***	***767***	***1,106***	***314***	***(1,136)***	***(1,766)***	***(1,478)***	***(1,144)***	***(943)***

Table 8.11: NSW General Government Sector Taxes (ABS Basis)

	Revised 2003-04 $m	Budget 2004-05 $m
Taxes on employers' payroll and labour force	**4,442**	**4,696**
Taxes on property		
Land taxes	1,360	1,448
Stamp duties on financial and capital transactions	4,577	4,557
Financial institutions' transaction taxes	...	...
Other	59	59
Total taxes on property	**5,996**	**6,064**
Taxes on the provision of goods and services		
Excises and levies	...	...
Taxes on gambling	1,307	1,404
Taxes on insurance	1,226	1,301
Total taxes on the provision of goods and services	**2,533**	**2,705**
Taxes on use of goods and performance of activities		
Motor vehicle taxes	1,781	1,859
Franchise taxes	8	7
Other	172	190
Total taxes on use of goods and performance of activities	**1,961**	**2,056**
Total GFS Taxation Revenue	**14,932**	**15,521**

Table 8.12: NSW General Government Sector Expenses by Function (ABS Basis)

	Revised 2003-04 $m	Budget 2004-05 $m
General public services	1,251	1,381
Defence	...	...
Public order and safety	3,916	4,033
Education	10,258	10,924
Health	9,510	10,034
Social security and welfare	2,862	2,925
Housing and community amenities	1,506	1,351
Recreation and culture	932	904
Fuel and energy	127	60
Agriculture, forestry, fishing and hunting	687	442
Mining, manufacturing and construction	108	118
Transport and communications	3,956	4,157
Other economic affairs	880	829
Other purposes [(a)]	2,044	2,367
Total GFS Expenses	**38,037**	**39,525**

[(a)] *2004-05 includes $240 million Advance to the Treasurer which will be allocated across functions as the funds are spent in the Budget Year.*

Table 8.13: NSW General Government Sector Purchases of Non-Financial Assets [a]

	Revised 2003-04 $m	*Budget 2004-05 $m*
General public services	259	384
Defence	...	...
Public order and safety	337	404
Education [b]	404	390
Health	496	601
Social security and welfare	52	54
Housing and community amenities	48	57
Recreation and culture	155	99
Fuel and energy	1	1
Agriculture, forestry, fishing and hunting	41	36
Mining, manufacturing and construction	14	13
Transport and communications	1,251	1,262
Other economic affairs	26	32
Other purposes [c]	18	122
Total GFS Expenses	**3,102**	**3,455**

[a] *Includes land and secondhand assets, however excludes assets acquired under finance leases.*

[b] *Excluded from Education is finance lease expenditure of $58 million in 2004-05 and $28 million in 2003-04.*

[c] *2004-05 includes $110 million Advance to the Treasurer which will be allocated across functions as the funds are spent in the Budget Year.*

8.6 LOAN COUNCIL REPORTING REQUIREMENTS

Table 8.14 presents estimates of the State's Loan Council allocation (LCA) for 2004-05.

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 2004-05 estimated NSW Loan Council allocation is a deficit of $1,353 million compared to an original deficit allocation of $927 million.

Table 8.14: 2004-05 Loan Council Allocation Estimates, NSW

		Loan Council Allocation 2004-05 $m	*Budget-time Estimate 2004-05 $m*
General government sector cash deficit / (surplus)		(1,447)	(775)
Public Non-financial Corporations sector cash deficit / (surplus)		1,590	1,404
Non-financial public sector cash deficit / (surplus) [(a)]		**144**	**626**
Minus	Net cash flows from investments in financial assets for policy purposes [(b)]	59	55
Plus	Memorandum items [(c)]	724	672
Loan Council Allocation		**927**	**1,353**

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 universities.

8.7 PRIVATE SECTOR INFRASTRUCTURE PROJECTS

CONTRACTS 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 3.6 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 improvement to the Urban environment;
- an extra westbound lane on Epping Road from Pittwater Road 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.

The Lane Cove Tunnel Company (sponsored by Thiess Pty Ltd, Transfield Holdings Pty Ltd and ABN AMRO Australia Limited) was selected as preferred proponent to undertake the project in October 2003. The project reached financial close in December 2003, and construction has commenced. The Consortium's estimated total design and construction cost is $1.1 billion. The project is to be funded by toll revenue.

Government Contingent Liability	Nil

CONTRACTS TO BE ENTERED INTO IN 2004-05

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 $14 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 July 2004. Under the draft contract, in the case that the proponent defaults on the contract and the Central Sydney Area Health Service (CSAHS) terminate the contract, CSAHS may be required to refund that part of the up-front payment that relates to the unexpired licence period.

Government Contingent Liability	To Be Determined

Chatswood Transport Interchange

Project Description:

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

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

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

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

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

Government Contingent Liability	To Be Determined

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

	2002-03 Actual	2003-04 Budget	2003-04 Revised	2004-05 Budget	2005-06	2006-07 Estimate	2007-08
	$m	$m	$m	$m	$m	$m	$m
State Revenues							
Taxation	14,154	14,191	14,925	15,513	16,329	17,278	18,323
Commonwealth Grants	15,228	15,497	15,594	15,760	16,526	17,332	18,001
Financial Distributions	1,471	1,460	1,457	1,612	1,707	1,807	1,816
Fines, Regulatory Fees & Other	866	843	859	969	968	898	905
Total State Revenues	31,719	31,991	32,835	33,854	35,530	37,315	39,045
Operating Revenues							
Sale of Goods and Services	2,719	2,664	2,659	2,751	2,855	2,909	2,988
Investment Income	512	696	818	873	1,003	1,116	1,254
Grants and Contributions	818	353	623	583	578	584	596
Other	1,542	354	374	227	255	259	162
Total Operating Revenues	5,591	4,067	4,474	4,434	4,691	4,868	5,000
Expenses							
Employee Related							
- Superannuation[(a)]	4,140	2,556	1,287	2,711	2,872	2,964	3,123
- Other	14,653	14,694	15,445	16,255	17,009	17,757	18,580
Other Operating	7,635	7,376	7,470	7,665	7,938	8,416	9,042
Maintenance	1,353	1,231	1,342	1,350	1,467	1,543	1,587
Depreciation and Amortisation	1,773	1,791	1,816	1,861	1,920	1,977	1,978
Current Grants and Subsidies	5,491	5,571	5,883	5,799	6,020	6,157	6,332
Capital Grants	1,304	1,175	1,167	1,327	1,363	1,315	1,141
Borrowing Costs	831	786	796	790	739	681	672
Total Expenses	37,180	35,180	35,206	37,758	39,328	40,810	42,455
Net Cost of Services	(31,589)	(31,113)	(30,732)	(33,324)	(34,637)	(35,942)	(37,455)
Surplus/(Deficit) for the Year	130	878	2,103	530	893	1,373	1,590

Note:

(a) The Superannuation expense is significantly lower in 2003-04, largely due to a higher than budgeted return on underlying fund assets, and a revision to the discount rate applied to calculate the gross fund liabilities. Refer to Section 4.4 of Chapter 4 for further details.

Table A.1: General Government Sector Statement of Financial Performance (cont)

	2002-03 Actual	2003-04 Budget	2003-04 Revised	2004-05 Budget	2005-06	2006-07 Estimate	2007-08
	$m	$m	$m	$m	$m	$m	$m
OTHER MOVEMENTS IN EQUITY							
Net Asset Valuation Increments	3,697	51	153	38	28	29	28
Adjustment to Insurance Claims Liabilities on Adopting a Claim Incurred Basis Following the Release of UIG47 (Urgent Issues Group)	(826)	...	...	...	...	...	...
Recognition of Insurance Receivables Recoverable Associated with the Adoption of UIG47	826	...	...	...	...	...	...
Total Revenues, Expenses and Valuation Adjustments Recognised Directly in Equity	**3,697**	**51**	**153**	**38**	**28**	**29**	**28**
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	520	137	137	16	129	95	252
- Adjustment to Crown Income Tax Accruals Associated with a Corporatisation Adjustment by TransGrid	(48)	...	...	...	...	...	...
- Transfers of Net Assets on Administrative Restructure							
- to State Water	...	...	...	(2,028)	...	...	...
- to Transport Infrastructure Development Corporation	...	...	(70)	...	...	...	...
- Other	21	...	10	...	...	...	...
Total Other Movements in Equity	**4,190**	**188**	**230**	**(1,974)**	**157**	**124**	**280**
Opening Balance Equity	**50,337**	**50,225**	**54,657**	**56,990**	**55,546**	**56,596**	**58,093**
Operating Surplus/ (Deficit)	130	878	2,103	530	893	1,373	1,590
Other Movements in Equity	4,190	188	230	(1,974)	157	124	280
Closing Balance Equity	**54,657**	**51,291**	**56,990**	**55,546**	**56,596**	**58,093**	**59,963**

Table A.2: General Government Sector Statement of Financial Position as at 30 June, 2003-2008

	2003 Actual $m	2004 Budget $m	2004 Revised $m	2005 Budget $m	2006 Estimate $m	2007 Estimate $m	2008 Estimate $m
Current Assets							
Cash Assets	1,091	866	794	739	799	805	859
Receivables	2,561	2,951	2,750	2,889	2,997	3,077	3,075
Other Financial Assets	3,231	884	3,357	3,491	3,537	3,570	3,659
Inventories	116	119	114	115	115	116	116
Other	70	89	75	76	80	79	79
Total Current Assets	**7,069**	**4,909**	**7,090**	**7,310**	**7,528**	**7,647**	**7,788**
Non-Current Assets							
Receivables	3,900	3,792	3,916	3,999	4,065	4,170	4,250
Other Financial Assets	5,518	8,239	6,987	7,680	8,908	11,065	13,791
Inventories	38	36	38	38	37	32	31
Property, Plant and Equipment							
Land and Buildings	38,518	38,259	39,161	39,389	39,776	40,058	40,272
Plant and Equipment	5,622	5,006	5,662	5,859	5,980	6,026	6,073
Infrastructure Systems	34,465	32,735	35,023	33,757	34,525	35,664	36,923
Other	1,072	1,132	1,180	1,216	1,283	1,370	1,462
Total Non-Current Assets	**89,133**	**89,199**	**91,967**	**91,938**	**94,574**	**98,385**	**102,802**
Total Assets	**96,202**	**94,108**	**99,057**	**99,248**	**102,102**	**106,032**	**110,590**
Current Liabilities							
Payables	2,179	2,176	1,955	1,832	1,808	1,863	1,898
Interest Bearing	2,820	1,684	2,575	3,917	2,387	3,827	2,413
Employee Entitlements and Other Provisions	2,173	2,310	2,327	2,375	2,433	2,579	2,655
Other	508	352	677	350	345	344	345
Total Current Liabilities	**7,680**	**6,522**	**7,534**	**8,474**	**6,973**	**8,613**	**7,311**
Non-Current Liabilities							
Interest Bearing	9,151	10,202	9,085	7,739	8,836	7,344	8,816
Employee Entitlements and Other Provisions	23,707	25,151	24,459	26,538	28,781	31,092	33,658
Other	1,007	942	989	951	916	890	842
Total Non-Current Liabilities	**33,865**	**36,295**	**34,533**	**35,228**	**38,533**	**39,326**	**43,316**
Total Liabilities	**41,545**	**42,817**	**42,067**	**43,702**	**45,506**	**47,939**	**50,627**
NET ASSETS	**54,657**	**51,291**	**56,990**	**55,546**	**56,596**	**58,093**	**59,963**
Equity							
Asset Revaluation Reserves	21,766	18,527	21,938	21,947	21,930	21,955	21,983
Accumulated Funds	32,891	32,764	35,052	33,599	34,666	36,138	37,980
TOTAL EQUITY	**54,657**	**51,291**	**56,990**	**55,546**	**56,596**	**58,093**	**59,963**

Table A.3: General Government Sector Statement of Cash Flows

	2002-03 Actual $m	2003-04 Budget $m	2003-04 Revised $m	2004-05 Budget $m	2005-06 Estimate $m	2006-07 Estimate $m	2007-08 Estimate $m
Cash Flows from Operating Activities							
Receipts							
Taxation	13,946	14,174	14,893	15,534	16,307	17,285	18,342
Commonwealth Grants	15,440	15,287	15,653	15,489	16,526	17,332	18,001
Financial Distributions	1,471	1,235	1,147	1,360	1,563	1,627	1,758
Sale of Goods and Services	2,817	2,665	2,605	2,785	2,870	2,911	2,986
Investment Income	294	272	390	307	304	310	317
Other	3,910	2,546	2,888	2,775	2,748	2,651	2,629
Total Receipts	**37,878**	**36,179**	**37,576**	**38,250**	**40,318**	**42,116**	**44,033**
Payments							
Employee Related	(14,676)	(15,425)	(16,211)	(17,082)	(17,898)	(18,668)	(19,504)
Grants and Subsidies	(6,594)	(6,570)	(6,900)	(6,971)	(7,254)	(7,354)	(7,352)
Finance	(803)	(784)	(788)	(747)	(723)	(669)	(694)
Other	(9,617)	(9,971)	(9,579)	(10,202)	(10,410)	(10,821)	(11,469)
Total Payments	**(31,690)**	**(32,750)**	**(33,478)**	**(35,002)**	**(36,285)**	**(37,512)**	**(39,019)**
Net Cash Flows from Operating Activities	**6,188**	**3,429**	**4,098**	**3,248**	**4,033**	**4,604**	**5,014**
Cash Flows from Investing Activities							
Proceeds from Sale of Property, Plant and Equipment	495	664	444	615	390	316	256
Proceeds from Sale of Investments	469	2,116	2,789	1,200	1,170	708	492
Equity restructure	...	137	137	16	129	95	252
Advance Repayments Received	165	110	89	73	79	76	88
Purchases of Property, Plant & Equipment	(2,971)	(3,159)	(3,132)	(3,474)	(3,323)	(3,513)	(3,571)
Purchase of Investments	(3,874)	(3,010)	(3,977)	(1,469)	(1,751)	(2,081)	(2,361)
Advances Made	(44)	(54)	(63)	(54)	(54)	(56)	(56)
Other	75	...	1	2	...	...	...
Net Cash Flows from Investing Activities	**(5,685)**	**(3,196)**	**(3,712)**	**(3,091)**	**(3,360)**	**(4,455)**	**(4,900)**
Cash Flows from Financing Activities							
Proceeds from Borrowings and Advances	42	244	201	190	148	140	130
Repayments of Borrowings and Advances	(1,103)	(718)	(877)	(392)	(717)	(261)	(182)
Net Cash Flows From Financing Activities	**(1,061)**	**(474)**	**(676)**	**(202)**	**(569)**	**(121)**	**(52)**
Net Increase/(Decrease) in Cash	**(558)**	**(241)**	**(290)**	**(45)**	**104**	**28**	**62**
Opening Cash and Cash Equivalents	1,614	1,090	1,056	761	707	766	773
Reclassification of Cash Equivalents	...	...	(5)	(9)	(45)	(21)	(9)
CLOSING CASH AND CASH EQUIVALENTS BALANCE	**1,056**	**849**	**761**	**707**	**766**	**773**	**826**

Table A.4: Reconciliation between the Accounting Based Operating Result and the GFS Based Budget Result

	2003-04 Budget $m	*2003-04 Revised $m*	*2004-05 Budget $m*
Accounting Based Operating Surplus/ (Deficit)	**878**	**2,103**	**530**
Accounting items not in the GFS Budget Result			
Depreciation and amortisation	1,791	1,816	1,861
Valuation items - (gains)/losses [(a)]	146	(812)	307
GFS items not in the Accounting Result			
Asset Acquisitions			
Purchases of non-financial assets	(3,152)	(3,102)	(3,455)
Assets acquired under finance lease	(347)	(315)	(159)
Asset sales and other movements in non-financial assets	727	347	537
GFS Based Budget Result	**43**	**37**	**(379)**

Note:

(a) Valuation items primarily comprise actuarial adjustments for superannuation 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 (INCLUDING VENDOR TRANSFER DUTY)

Prior to the 2004 mini-Budget announcement of two new transfer duty related measures, the benchmark was defined as the transfer of property (whether residential or commercial) where a real change in beneficial ownership occurs, with the benchmark tax rate defined against marginal rates ranging from 1.25 percent to 5.5 percent.

Following the mini-Budget, the benchmark tax rates have been changed with effect from 1 June 2004:

- for transfers relating to the **purchase of non-residential land**, the benchmark tax rate is defined against marginal tax rates varying from 1.25 to 5.5 percent (Purchaser Transfer Duty);

- for transfers relating to the **purchase of residential land** the benchmark tax rate is defined against marginal rates varying from 1.25 to 7 percent (Purchaser Transfer Duty); and

- For agreements on the **sale** or transfer of land-related property or declarations of trust over land-related property other than principal places of residence or farms, provided the sale price exceeds the purchase price by 12 percent or more, the benchmark tax rate is defined against a 2.25 percent tax rate (Vendor Transfer Duty).

Table B.1: Transfer Duty (Including Vendor Duty)

Major Tax Expenditures	*2002-03 $m*	*2003-04 $m*	*2004-05 $m*
TRANSFER DUTY (PURCHASER DUTY)			
First Home Plus			
Up to midnight 3 April 2004, the scheme provided a full exemption to all eligible first home buyers from transfer duty where the property was 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 New South Wales. The exemption was phased out as property value increased. Group self-build schemes were also eligible.			
Effective from midnight, 3 April 2004, all eligible first home buyers receive a full exemption from transfer duty where the home is valued up to $500,000 with a phase-out of the benefit between $500,000 and $600,000. First home buyers of vacant land receive a full exemption from duty on land valued up to $300,000. The exemption phases out as land value increases to $450,000. Group self-build schemes are also eligible.	68	83	295
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.	26	25	25
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.*	68	79	79
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.	15	10	9
Exemption on purchase by charitable and benevolent institutions where the property is to be used for approved purposes	11	26	23
Corporate reconstructions			
An exemption is given for corporate reconstructions provided certain qualifying criteria are satisfied.	667	795	795

Major Tax Expenditures	*2002-03 $m*	*2003-04 $m*	*2004-05 $m*
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.	1	2	2
Purchase of property by Department of Housing and Aboriginal Housing Office tenants			
An exemption is granted for the 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.	2	2	2
Other Legislation			
Exemption is granted for certain transfers of dutiable property contained in other legislation.	15	10	9
Aboriginal Land Councils			
Duty is not chargeable on the transfer of property by the New South Wales Aboriginal Land Council, Regional Aboriginal Land Council, or Local Aboriginal Land Council under the *Aboriginal Land Rights Act 1983*.	…	4	3
Councils and County Councils			
Duty is not chargeable on the transfer of property by a council or county council under the *Local Government Act 1993.*	3	6	5
'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.
Nominal transfer duty is payable on the transfer of properties as a result of a change in trustees	n.a.	n.a.	n.a.
Nature Conservation Trust of NSW			
An exemption is granted for the transfer of land that is vested in, owned by, held on trust by, or leased by the Nature Conservation Trust of NSW constituted by the *Nature Conservation Trust Act 2001*.	n.a.	n.a.	n.a.

Major Tax Expenditures	*2002-03 $m*	*2003-04 $m*	*2004-05 $m*
VENDOR TRANSFER DUTY			
Concession for land-related property sold for increased price more than 12 per cent and less than 15 per cent	n.a.	n.a.	n.a.
Exemption for the sale or transfer of vacant land that has been substantially improved by the vendor	n.a.	n.a.	n.a.
Exemption for transfers of newly constructed and substantially new buildings	n.a.	n.a.	n.a.
Exemption for sale of business that includes land-related property subject to certain conditions	n.a.	n.a.	n.a.
Transfers of matrimonial property consequent upon divorce or break-up of de facto relationships			
Exemption for transfers of former principal places of residences to former partners or spouses on divorce or break-up of de facto relationships.	n.a.	n.a.	n.a.
Property used by charitable or benevolent societies or institutions			
An exemption is provided for the sale of land-related property used for approved purposes by charitable or benevolent societies or institutions.	n.a.	n.a.	n.a.
Applications under Real Property Act 1900			
An exemption is granted for a possessory application or an application to bring land under the *Real Property Act 1900.*	n.a.	n.a.	n.a.
Exemptions for gifts of land-related property to charities and Government			
No vendor duty is chargeable on a transfer of land-related property, for no consideration, if the transferee is not liable to pay duty in respect of the transfer under the *Duties Act 1997.*	n.a.	n.a.	n.a.
Land subject to conservation agreement			
An exemption is granted for the transfer of land that is the subject of a conservation agreement under the *National Parks and Wildlife Act 1974*.	n.a.	n.a.	n.a.

Major Tax Expenditures	2002-03 $m	2003-04 $m	2004-05 $m
Nature Conservation Trust of NSW			
An exemption is granted for the transfer of land that is vested in, owned by, held on trust by, or leased by the Nature Conservation Trust of NSW constituted by the *Nature Conservation Trust Act 2001*.	n.a.	n.a.	n.a.

Minor Tax Expenditures (< $1 million)

- A person who has sold his or her property to a local government council because the home was built on flood-prone land and has then purchased another home may pay purchaser transfer duty on the contract by instalments over a five-year period.

- A credit of purchaser transfer duty previously paid is applied to amalgamations of certain Western Lands leases.

The following are exempt from **purchaser transfer duty** and **vendor transfer duty**:

- 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;

- 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);

- transfers relating to the property of the estate of a deceased person;

- certain purchases of manufactured relocatable homes (caravans);

- transfers of property in a statutory trust as a result of an order under Section 66G of the *Conveyancing Act 1919*;

- transfer of a liquor licence in certain circumstances under Sections 41, 42 or 61 of the *Liquor Act 1982*; and

- transfers of poker machine permits where there is no change in beneficial ownership.

The following are exempt from **vendor transfer duty**:

- principal places of residence on which there is one other residential occupancy;

- sale of former principal place of residence in certain circumstances;

- sale of a property that was used as the principal place of residence of a deceased person, including the sale of a deceased's former principal place of residence after the expiry of life tenancy granted by the will; and

- land sold to Government pursuant to compulsory process under the *Land Acquisition (Just Terms Compensation) Act 1991.*

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 before 1 August 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	*2002-03 $m*	*2003-04 $m*	*2004-05 $m*
Concessional rates for motor vehicle, aviation, disability income, occupational indemnity, crop and livestock			
Before 1 August 2002, a concessional rate of 5 percent applied 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 currently taxed at 2.5 percent.	34	2	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.	94	81	88
Marine and cargo insurance			
Exemption for marine insurance covering hulls of commercial ships and the cargo carried by land, sea or by air.	7	6	6
Exemption for WorkCover premiums	130	122	128

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	*2002-03 $m*	*2003-04 $m*	*2004-05 $m*
Superannuation			
An exemption is granted to all group superannuation investment policies that are for the benefit of more than one member.	52	56	60
Annuities			
An exemption is provided to annuities.	13	14	15

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	*2002-03 $m*	*2003-04 $m*	*2004-05 $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).	77	111	109
First home purchase mortgage covered by First Home Plus			
Mortgages given to assist the financing of a first home purchase eligible under the First Home Plus Scheme are exempt from duty up to certain loan values, phasing out as value increases.			
The loan value duty exemption limits are now higher with the extension of the First Home Plus Scheme in the 2004 mini-Budget. The mini-Budget change commenced at midnight on 3 April 2004.	4	12	32
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 was removed with effect from 24 June 2003.	6	…	n.a.
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.

Major Tax Expenditures	2002-03 $m	2003-04 $m	2004-05 $m
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.
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)

- 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.

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

The benchmark is defined as the turnover (sale price *x* quantity traded) of shares that are not quoted on the Australian Stock Exchange or a recognised stock exchange. The benchmark tax rate is 60 cents per $100 or part thereof, with the purchaser paying all the duty.

There are no major tax expenditures

Minor Tax Expenditures (< $1 million)

Duty of $10 is charged on the transfer of unquoted marketable securities between the beneficial owner and the trustee or nominee of the beneficial owner.

A concessional rate of duty of 0.25 cents per $100 or part thereof applies to:

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.5: Motor Vehicle Registration Duty

Major Tax Expenditures	*2002-03 $m*	*2003-04 $m*	*2004-05 $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.	11	12	13
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

Major Tax Expenditures	2002-03 $m	2003-04 $m	2004-05 $m
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).	34	34	36
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).

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.

Table B.6: Lease Duty

Major Tax Expenditures	*2002-03 $m*	*2003-04 $m*	*2004-05 $m*
Australian Rail Track Corporation (ARTC)			
An exemption is granted to the ARTC for lease of the rail network.	n.a.	n.a.	n.a.

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 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 percent.

Table B.7: Payroll Tax

Major Tax Expenditures	*2002-03 $m*	*2003-04 $m*	*2004-05 $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.	320	345	364
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.	71	78	85

Major Tax Expenditures	*2002-03 $m*	*2003-04 $m*	*2004-05 $m*
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.	8	8	9
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.	23	25	26
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.	114	123	131
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.	9	9	10
Home Care Service			
From July 1998 an exemption has been provided for the salaries paid to employees of the Home Care Service.	9	10	9
Apprentices			
From 1 July 2002, wages paid to apprentices are exempt from payroll tax.	15	15	16
Trainees			
From 1 January 2004 wages paid to trainees are 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 operated by the Department of Eduction and Training.	n.a.	5	9
Redundancy payments			
An exemption applies to bona fide redundancy or approved early retirement scheme payments.	6	6	6

Major Tax Expenditures	*2002-03 $m*	*2003-04 $m*	*2004-05 $m*
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	n.a.	n.a.
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	n.a.	n.a.

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; and
- wages paid to employees while the employees are providing assistance to the State Emergency Services;

LAND TAX

Prior to midnight on 31 December 2004, 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 was 1.7 percent.

From midnight on 31 December 2004, the benchmark tax base for land tax will be defined as the unimproved capital value of all land owned (as defined in the *Land Tax Management Act 1956* (NSW)), with the exception of land used for owner-occupied residences, as at 31 December by a person or organisation other than the Commonwealth or NSW Governments. The benchmark tax rates are:

- 1.4 percent of aggregate land values for non-concessional companies and special trusts; and
- marginal tax rates ranging from 0.4 percent to 1.4 percent of aggregate land values for all other land taxpayers.

Table B.8: Land Tax

Major Tax Expenditures	*2002-03 $m*	*2003-04 $m*	*2004-05 $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
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.	272	290	309
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	6	6
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.	7	7	7
Public cemeteries and crematoriums			
An exemption is granted for any land used as a public cemetery or crematorium.	10	10	10

Major Tax Expenditures	*2002-03 $m*	*2003-04 $m*	*2004-05 $m*
Retirement villages			
An exemption is given for land owned and used by retirement villages, and residential parks predominantly occupied by retired persons.	73	77	79
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	4
Public hospitals and Area Health Services			
An exemption is granted for land used by a public hospital (including nursing homes) or Area Health Service.	13	13	14
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.	11	12	12
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.	8	9	10
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.
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.

Major Tax Expenditures	*2002-03 $m*	*2003-04 $m*	*2004-05 $m*
Charitable and educational institutions			
An exemption is provided for land owned by or in a trust for a charitable or educational institution if the institution is carried on solely for charitable or educational purposes and not for pecuniary profit.	n.a.	n.a.	n.a.
Public gardens, recreation grounds and reserves			
An exemption is provided for land used as a public garden, public recreation ground or public reserve.	n.a.	n.a.	n.a.
Sporting clubs			
An exemption is provided for land owned by or in a trust for any club or body of persons where the land is used primarily for the purpose of a game or sport and not used for pecuniary profit of the members of that club or body.	n.a.	n.a.	n.a.
Sydney Light Rail			
An exemption is provided in respect of the land occupied by the Sydney Light Railway.	n.a.	n.a.	n.a.
Australian Rail Track Corporation (ARTC)			
An exemption is granted in respect of the land used to maintain and operate the rail network.	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 preserving 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.

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.9: Vehicle Weight Tax

Major Tax Expenditures	*2002-03 $m*	*2003-04 $m*	*2004-05 $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.	115	120	125
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	19
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	5	5

Major Tax Expenditures	*2002-03 $m*	*2003-04 $m*	*2004-05 $m*
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	2
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.	14	15	15

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 2003-04 were $39 for a one-year licence, $94 for a three-year licence and $126 for a five-year licence.

Table B.10: Drivers' Licences

Major Tax Expenditures	*2002-03 $m*	*2003-04 $m*	*2004-05 $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	13	32

VEHICLE TRANSFER FEES

The benchmark is considered to be all transfers of previously registered vehicles. The benchmark rate is $23 for individuals and motor dealers.

There are no major tax expenditures.

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 2003-04 was $46 for most motor vehicles, $204 for trucks with a mass of 5 tonnes or more and $358 for articulated trucks.

Table B.11: Motor Vehicle Registration Fees

Major Tax Expenditures	*2002-03 $m*	*2003-04 $m*	*2004-05 $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.	28	30	31

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, before 30 June 2004), or 5.8 percent to 33.6 percent (annual rates from 1 July 2004) 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.12: Gambling and Betting Taxes

Major Tax Expenditures	*2002-03 $m*	*2003-04 $m*	*2004-05 $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.	443	457	457

Minor Tax Expenditures (< $1 million)

- A full rebate of tax is provided to racing clubs operating non-TAB Ltd pools.

PARKING SPACE LEVY

For 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.

For 2003-04 the benchmark levy was 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.

From 2004-05, the benchmark levy will be indexed annually to movements in the Sydney CPI over the year to the previous March quarter.

Table B.13: Parking Space Levy

Major Tax Expenditures	*2002-03 $m*	*2003-04 $m*	*2004-05 $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.	9	9	10
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.	4	4	4

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.14: Education

Major Concessions	*2002-03 $m*	*2003-04 $m*	*2004-05 $m*
TAFE Fee concession			
Fees are waived for students with disabilities, Aboriginal and Torres Strait Islanders, students of Special Access Courses or students receiving nominated pensions or allowances.	44	57	69
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.)	63	66	69

Table B.15: Health

Major Concessions	*2002-03 $m*	*2003-04 $m*	*2004-05 $m*
Ambulance service for pensioners			
Free transport by ambulance is provided for holders of pensioner health benefit cards.	83	84	85
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 Department of Energy, Utilities and Sustainability (formerly the Ministry of Energy and Utilities) funds a rebate for energy costs associated with certain life support systems.	2	2	3

Table B.16: Social Security and Welfare

Major Concessions	2002-03 $m	2003-04 $m	2004-05 $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. (A similar subsidy 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).	233	237	245
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.	22	23	23
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.	3	3	3

Table B.17: Housing and Associated Amenities

Major Concessions	2002-03 $m	2003-04 $m	2004-05 $m
Local council rates concession			
Local council rates are reduced for holders of Pensioner Concession Cards.	74	75	79
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.	70	70	72
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	8	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	2002-03 $m	2003-04 $m	2004-05 $m
Energy Accounts Payment Assistance scheme			
This Scheme funds an energy rebate (including gas and electricity) for consumers in financial hardship. The administration of this Scheme was transferred from the Department of Community Services to the Department of Energy, Utilities and Sustainability from 1 July 2003.	8	9	8
Pensioner Energy Subsidy Scheme			
The Department of Energy, Utilities and Sustainability (formerly the Ministry of Energy and Utilities) funds an energy rebate for eligible pensioners. Under the Scheme, eligible pensioners receive a rebate of $112 per annum on their energy bills.	73	77	79
Crown Land Rent Concessions			
Registered charities and not-for profit organizations receive a discount on Crown Land rents.	4	5	3

Minor Concessions (< $1 million)

- Blue Mountains septic pump-out service for households not connected to the sewerage network.
- Australian Inland Energy Water Infrastructure– water and sewerage rebates for pensioners.
- Hunter Water Corporation – exempt properties concession.
- Payment Assistance Scheme offered by Sydney Water.
- Payment Assistance Scheme offered by Hunter Water.
- Department of Lands – discounted rents for holders of Pensioner Concession Cards.

Table B.18: Recreation and Culture

Major Concessions	*2002-03 $m*	*2003-04 $m*	*2004-05 $m*
National Parks and Wildlife Service Free or Discounted Entry to National Parks			
Holders of Pensioner Concession Cards, Seniors, Volunteers and Community Groups receive free or discounted entry to National Parks.	3	3	3

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.

- 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.

- Sydney Opera House – concessional charges on guided tours for children, pensioners, seniors, students and school group tours.

- Art Gallery – concessional admission charges for entry to special exhibitions for seniors and holders of pensioner health care cards.

Table B.19: Agriculture, Forestry and Fishing

Major Concessions	*2002-03 $m*	*2003-04 $m*	*2004-05 $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	•			•
businesslink	•			•
Cabinet Office	•		•	
Casino Control Authority	•		•	
Catchment Management Authorities	•			•
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	•		•	

[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 Land Development		•		•
Crown Land Homesites		•		•
Crown Leaseholds	•		•	
Crown Property Portfolio	•			•
Crown Finance Entity	•		•	
Delta Electricity		•		•
Education and Training, Department of	•		•	
Electricity Tariff Equalisation Ministerial Corporation	•			•
EnergyAustralia		•		•
Energy, Utilities and Sustainability, Department of	•		•	
Environment and Conservation, Department of	•		•	
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	•			•

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[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
Housing, Department of		•		•
Hunter Water Corporation		•		•
Independent Commission Against Corruption	•		•	
Independent Pricing and Regulatory Tribunal	•		•	
Independent Transport Safety and Reliability Regulator	•		•	
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	•		•	
Natural Resources Commission	•		•	
Newcastle Port Corporation		•		•
NSW Food Authority	•			•
Ombudsman's Office	•		•	

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[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
Parliamentary Counsel's Office	•		•	
Parramatta Stadium Trust		•		•
Police Integrity Commission	•		•	
Police, Ministry for	•		•	
Police, NSW	•		•	
Port Kembla Port Corporation		•		•
Premier's Department	•		•	
Primary Industries, Department of	•		•	
Public Prosecutions, Office of the Director of	•		•	
Public Trust Office - Administration	•			•
Rail Corporation New South Wales		•		•
Rail Infrastructure Corporation		•		•
Registry of Births, Deaths and Marriages	•			•
Rental Bond Board	•			•
Residual Business Management Corporation		•		•
Roads and Traffic Authority	•		•	
Royal Botanic Gardens and Domain Trust	•		•	
Rural Assistance Authority	•		•	
Rural Fire Service, Department of	•		•	
Science and Medical Research, Ministry for	•		•	
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		•		•
State Water		•		•
Stormwater Trust	•			•

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[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
Superannuation Administration Corporation	•			•
Sustainable Energy Development Authority	•		•	
Sydney Catchment Authority		•		•
Sydney Cricket and Sports Ground Trust		•		•
Sydney Ferries		•		•
Sydney Harbour Foreshore Authority		•		•
Sydney Olympic Park Authority	•		•	
Sydney Opera House		•		•
Sydney Ports Corporation		•		•
Sydney Water Corporation		•		•
Teacher Housing Authority of NSW		•		•
Tourism New South Wales	•		•	
Tourism, Sport and Recreation, Department of	•		•	
TransGrid		•		•
Transport, Ministry of	•		•	
Transport Infrastructure Development Corporation		•		•
Treasury	•		•	
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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[4] *Based on reliance on Consolidated Fund allocations.*

APPENDIX D: 2003-04 BUDGET - SUMMARY OF VARIATIONS

Category/Agency	*Budget*	*Revised*	*Variation*	*Comment on Major Variations*
	$m	*$m*	*$m*	
STATE REVENUES				
Taxation				
Stamp Duty:				
Contracts and conveyances	3,373	3,890	517	Stronger than expected property market in the first half of the financial year.
Motor Vehicle Registrations	548	580	32	Higher than expected new vehicle registrations.
Mortgage Duty	372	399	27	Stronger property market in the first half of the financial year.
Other Duties	257	234	(23)	Reductions in unlisted share transfer and lease duties.
Payroll Tax	4,388	4,439	51	Stronger than expected employment growth and earnings.
Land Tax	1,251	1,360	109	Higher land values.
Other Taxes	4,009	4,030	21	Aggregated net minor variations.
Total Taxation	**14,198**	**14,932**	**734**	
Commonwealth Grants				
General Purpose:				
First Home Owners Grant (FHOG)	231	238	7	Increase in claims associated with stronger than expected property market.
GST Revenue Grants (other than FHOG)	9,551	9,499	(52)	Revised CPI and population estimates.
National Competition Payments	257	204	(53)	Penalties imposed by the Commonwealth.
Specific Purpose:				
Natural Disasters Assistance	40	60	20	Increased assistance for drought and flood affected areas.
Rural Assistance Authority	10	60	50	Specific payment for Advancing Australian Agriculture.
Roads & Traffic Authority	446	490	44	Increased funding for national highways development.
Department of Education & Training	1,091	1,121	30	Increase in school grants offset by reduction in TAFE grants.

Category/Agency	*Budget*	*Revised*	*Variation*	*Comment on Major Variations*
	$m	*$m*	*$m*	
Department of Infrastructure, Planning & Natural Resources	62	97	35	Increased funding for water quality and environmental improvement in rural areas.
Other	3,809	3,826	17	Aggregated net minor variations.
Total Commonwealth Grants	**15,497**	**15,595**	**98**	
Financial Distributions	**1,496**	**1,567**	**71**	Increased energy sector dividends due to higher average spot market prices.
Fines, Regulatory Fees & Other				
Motor Traffic Fines	182	192	10	Adjustment to projected receivables within the State Debt Recovery Office.
Other	660	667	7	Aggregated net minor variations.
Total Fines, Regulatory Fees & Other	**842**	**859**	**17**	
TOTAL STATE REVENUES	**32,033**	**32,953**	**920**	
OPERATING REVENUES				
Sales of Goods and Services				
Department of Education & Training	249	276	27	Higher overseas student and other TAFE course enrolments.
Roads & Traffic Authority	226	238	12	Higher registration plate and other general sales.
Department of Commerce	202	156	(46)	Reductions in administrative cost recoveries and project management fees.
Other	1,994	1,986	(8)	Aggregated net minor variations.
Total Sales of Goods and Services	**2,671**	**2,656**	**(15)**	
Investment Income				
NSW Insurance Ministerial Corporation	259	300	41	Higher than projected equity market returns.
Other	390	436	46	Aggregated net minor variations.
Total Investment Income	**649**	**736**	**87**	

Category/Agency	Budget	Revised	Variation	Comment on Major Variations
	$m	$m	$m	
Grants and Contributions				
Waterways Authority	21	...	(21)	Deferral of developer contributions towards King Street Warf development.
Other	585	594	9	Aggregated net minor variations.
Total Grants and Contributions	**606**	**594**	**(12)**	
Other Revenue				
Roads & Traffic Authority	45	131	86	Developer contributions in relation to Lane Cove Tunnel.
Other	219	296	77	Aggregated net minor variations.
Total Other Revenue	**264**	**427**	**163**	
TOTAL OPERATING REVENUES	**4,190**	**4,413**	**223**	
EXPENSES				
Department of Education & Training	7,435	7,653	218	Due to Teachers Award variation, additional expenses funded by the Commonwealth and unbudgeted user charges. Partly offset by a reduction in depreciation expense due to property asset revaluations.
Roads and Traffic Authority	1,752	1,941	189	Projected increases in maintenance, road safety, traffic and transport management programs and revised depreciation road cost indexes. Funded from increased RTA revenues and a re-allocation of funds from the capital program.
Department of Infrastructure, Planning & Natural Resources	491	595	104	Resulting from higher Specific Purpose Payments from the Commonwealth, increased support by the Government for the Australian Technology Park, higher salaries due to delays in implementing of the Department's restructure and higher operating expenses flowing from additional revenues.
Department of Health	8,702	8,919	217	Largely due to the in-year Award decisions for nurses and other selected health service occupations. Other increases from long service leave calculation changes, increased payments for blood transfusion services and additional Area Health Service costs.

Category/Agency	Budget	Revised	Variation	Comment on Major Variations
	$m	$m	$m	
Ministry of Transport	2,463	2,556	93	Reflects additional grants to the State Rail Authority to meet operating costs, funding for private transport operators to meet the costs of subsidy schemes including school student transport; the establishment of the Independent Transport Safety and Reliability Regulator and transport costs associated with major sporting events (partially offset by fare revenues).
NSW Treasury - Office of State Revenue	332	379	47	Mainly caused by costs associated with the transfer of the Infringement Processing Bureau to the OSR and a projected increase in First Home Owners Scheme claims.
NSW Police	1,499	1,542	43	Due to additional police officers, operational costs associated with the information technology network upgrade, the new Recovered Assets Pool and Operation Gain activities in south western Sydney.
Rural Assistance Authority	31	73	42	Increased expenditure due to the drought - partly funded through higher Commonwealth grant receipts.
Department of Community Services	765	799	34	Increase mainly due to Out of Home Care cost overruns for high-needs children. Other increases relate to foster care support allowances and other recurrent costs.
Department of Ageing, Disability & Home Care	1,038	1,071	33	Increases include funding for the Department's Service Access System, accommodation services for people with disabilities and the Adult Training Learning and Support program. These increases partly offset by delays in Home and Community Care program expenditure.
Attorney General's Department	467	499	32	Includes funding of operating costs for the Office of the Protective Commissioner, salary increases determined by the Statutory and Other Offices Remuneration Tribunal, increased costs associated with Court operations and from core legal work undertaken by the Crown Solicitor's Office.
Ministry for the Arts	90	120	30	Includes additional funding for Sydney Opera House security and an increase in payments under the Cultural Grants Program.

Category/Agency	*Budget*	*Revised*	*Variation*	*Comment on Major Variations*
	$m	*$m*	*$m*	
Treasurer's Advance	240	...	(240)	Due to increased expenses included in agency data.
NSW Insurance Ministerial Corporation	1,177	1,121	(56)	Revised claims experience assessment within the Treasury Managed Fund.
Other	8,717	8,807	90	Aggregated net minor variations.
TOTAL EXPENSES	**35,199**	**36,075**	**876**	
NET OPERATING SURPLUS	**1,024**	**1,291**	**267**	
Asset Acquisitions				
Department of Health	457	490	33	Additional expenditure relating to the Health Super Growth Fund and additional capital expenditure announced by the Premier in January 2004.
Department of Ageing, Disability & Home Care	14	33	19	Additional funding in support of increased service delivery through the Devolution Program.
NSW Police	257	271	14	Relates mainly to approved funding for the Police IT Network upgrade.
Roads and Traffic Authority	1,209	1,189	(20)	Due to delays in obtaining planning approvals and in acquiring properties on some projects.
Department of Corrective Services	110	90	(20)	Due to delays in development decisions in relation to the Western Region Correctional Centre and Long Bay Prison Hospital construction projects.
Treasurer's Advance	60	...	(60)	Due to increased expenditure included in agency data.
Other	1,392	1,344	(48)	Aggregated net minor variations.
Total Asset Acquisitions	**3,499**	**3,417**	**(82)**	
Depreciation				
Roads and Traffic Authority	512	588	76	Due to revised road cost indexes.
Department of Education & Training	330	274	(56)	Resulting from a downward revaluation of property assets.
Other	949	954	5	Aggregated net minor variations.
Total Depreciation	**1,791**	**1,816**	**25**	

Category/Agency	*Budget*	*Revised*	*Variation*	*Comment on Major Variations*
	$m	*$m*	*$m*	
Asset Sales				
Waterways Authority	136	2	(134)	Mainly due to deferral in sale of the Maritime Centre.
Crown Property Portfolio	39	1	(38)	Deferral in sale of Sydney Fish Markets and Sheas Creek site at Alexandria.
Department of Health	85	55	(30)	Deferral of surplus property sales into 2004-05.
Office of Government Procurement	23	2	(21)	Revised projection of motor vehicle sales.
Roads & Traffic Authority	37	28	(9)	Deferral of surplus property sales into 2004-05.
Other Asset Sales & Movements	362	345	(17)	Aggregated net minor variations.
Total Asset Sales	**682**	**433**	**(249)**	
Other Movements in Non-Financial Assets	**45**	**(86)**	**(131)**	Includes $110m reversal of right-to-receive income on non-current fixed assets - change in accounting treatment implemented to align with GFS reporting requirements.
BUDGET RESULT	**43**	**37**	**(6)**	

APPENDIX E: 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 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.

GFS Based Reports

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 non-financial assets.

The statement of financial position details the financial assets, non-financial assets and liabilities that comprise the Government's balance sheet. 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.

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*.

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 Australian Accounting Standards.

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;
- 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:

- 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 Report for the 2002-03 Total State Sector Accounts, 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;

- in 2002-03 the Statement of the Budget Result included a provision for land remediation and other works amounting to $109 million. The Auditor-General qualified his Independent Audit Report for the 2002-03 Statement of the Budget Result, that the expense should not have been recognised in 2002-03, because the amount could not be measured reliably; 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 four 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.

APPENDIX F: REVENUE MEASURES, 1999 TO 2003(a)

Initiative	Revenue Impact (b) 2004-05 $m	2005-06 $m	2006-07 $m	2007-08 $m
Payroll tax	**(-) 563**	**(-) 597**	**(-) 631**	**(-) 662**
Introduce payroll tax concessions for non-group apprentices, from 1.7.99	(-) 5	(-) 5	(-) 6	(-) 6
Exempt apprentice wages from payroll tax, from 1.7.02	(-) 11	(-) 12	(-) 13	(-) 13
Replace the new entrant trainee Payroll Tax Rebate Scheme with a payroll tax exemption, from 1.1.04	(-) 9	(-) 9	(-) 9	(-) 9
Broaden payroll tax base, from 1.7.02	127	131	138	146
Broaden the payroll tax base, from 1.7.03 to include:				
- termination payments to non-executive directors; and	5	5	5	6
- share plans and share options	5	5	5	6
Reduce payroll tax rate:				
From 6.85% to 6.7%, (1.7.99)	(-) 119	(-) 126	(-) 133	(-) 140
From 6.7% to 6.4%, (1.7.99)	(-) 238	(-) 251	(-) 264	(-) 279
From 6.4% to 6.2%, (1.1.01)	(-) 159	(-) 168	(-) 177	(-) 186
From 6.2% to 6.0%, (1.7.02)	(-) 159	(-) 168	(-) 177	(-) 186
Land tax	**(-) 91**	**(-) 95**	**(-) 99**	**(-) 104**
Reduce land tax rate from 1.85% to 1.7%, from 31.12.99	(-) 91	(-) 95	(-) 99	(-) 104

Initiative	Revenue Impact (b) 2004-05 $m	2005-06 $m	2006-07 $m	2007-08 $m
Transfer and other stamp duties, excluding first home owner concession	**25**	**25**	**25**	**24**
Amend *Duties Act 1997* to protect the transfer duty base, effective from introduction of legislation	24	24	24	24
Remove concessional stamp duty provisions for mortgages securing debenture issues, from 24.6.03	6	6	6	6
Increase lease duty exemption threshold, and abolish lease duty on franchise agreements, from 1.7.01	(-) 2	(-) 2	(-) 2	(-) 2
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
First home owner stamp duty concessions	**(-) 52**	**(-) 50**	**(-) 44**	**(-) 41**
First Home Plus stamp duty concessions for first home buyers, from 1.7.00	(-) 45	(-) 47	(-) 50	(-) 54
Gambling taxes	**43**	**105**	**174**	**250**
Change club gaming device duty rates from 1.9.04	39	93	151	215
Change hotel gaming device duty from 1.7.04	7	16	27	39
Abolish bookmaker's turnover tax, from 31.3.02 (net cost)	(-) 3	(-) 4	(-) 4	(-) 4
Motor vehicle related taxes and charges	**(-) 111**	**(-) 110**	**(-) 108**	**(-) 106**

Initiative	Revenue Impact [b] 2004-05 $m	2005-06 $m	2006-07 $m	2007-08 $m
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	24	25	25	26
Increase parking space levy, from 1. 7.03, with annual indexation of the levy thereafter	3	3	4	4
Remove surcharge on motor vehicle registration fees and transfer fees, from 1.7.00	(-) 36	(-) 36	(-) 36	(-) 36
Increase miscellaneous Roads and Traffic Authority taxes, from 1.1.02	10	10	11	12
Insurance taxation	**(-) 173**	**(-) 184**	**(-) 194**	**(-) 205**
Reduce general insurance stamp duty rate:				
From 11.5% to 10.0%, (1.10.00)	(-) 44	(-) 47	(-) 49	(-) 51
From 10.0% to 5.0%, (1.8.02)	(-) 198	(-) 206	(-) 214	(-) 223
Introduce insurance protection tax, from 1.7.01	69	69	69	69
Financial transactions taxation	**(-) 310**	**(-) 26**	**…**	**…**
Abolish debits tax, from 1.1.02 [c]	(-) 310	(-) 26 [d]	…	…

Initiative	Revenue Impact [b] 2004-05 $m	2005-06 $m	2006-07 $m	2007-08 $m
Electricity distributors levy	**(-) 100**	**(-) 100**	**(-) 100**	**(-) 100**
Suspend electricity distributors levy, from 1.7.01	(-) 100	(-) 100	(-) 100	(-) 100
Total	**(-) 1,332**	**(-) 1,032**	**(-) 997**	**(-) 944**

(a) Does not include revenue initiatives announced in the 2004 mini-Budget

(b) Revenue impacts are expressed in nominal dollars.

(c) This item reflects the abolition of Debits tax from 1 January 2002, 3½ years ahead of the scheduled abolition as part of national tax reforms associated with the introduction of the GST. From 1 July 2005, all States are abolishing Debits tax and the cost of abolition is included in transitional compensation arrangements to ensure no State is worse off from tax reform. Reflecting the compensation arrangements, no costs are shown for 2005-06 and subsequent years.

(d) Part year cost relating to 2004-05 that would have been payable in 2005-06.

APPENDIX G: 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).

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