Budget Statement

2005-06

New South Wales

Budget Paper No. 2

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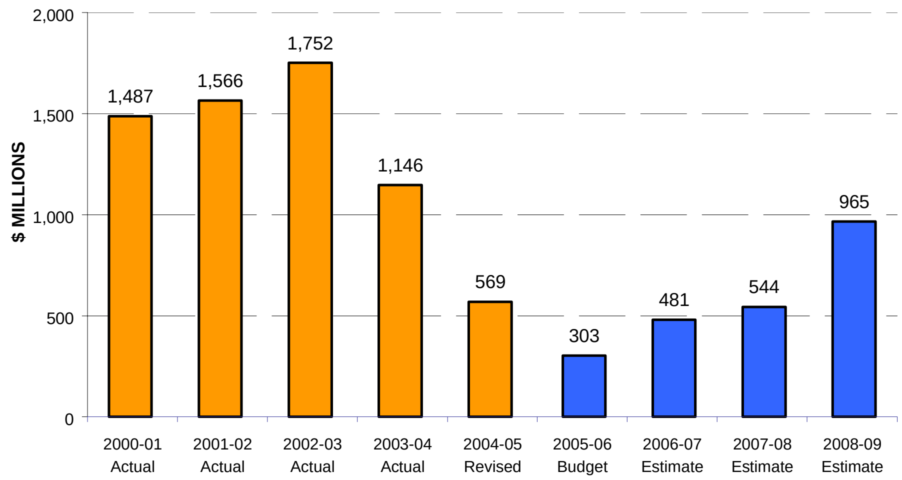
BUDGET OVERVIEW

FISCAL POSITION AND OUTLOOK

The Government continues to make progress on its fiscal targets despite recent fiscal pressures. This is occurring at a time of record infrastructure spending in the State.

The Government's fiscal strategy over the last decade has delivered sustainable improvements in public services at the same time as delivering declining levels of net debt and net financial liabilities as a share of GSP. The budget surplus in prospect for 2005-06 and the forward years will see net financial liabilities fall as a ratio of gross state product. The lower budget surplus in 2004-05 stems from both temporary pressures - such as the downturn in the property market in 2004-05 - and structural factors - such as above-budget arbitrated public sector wage increases and the reduced share of GST revenue going to New South Wales. The Government's fiscal strategy achievements over the last decade and plans for the next decade, including the new *Fiscal Responsibility Bill*, are discussed in Chapter 1.

Chart 1: Budget Result (Operating Surplus of the General Government Sector), 2000-01 to 2008-09



Source: Chart 1.3

Achievement of the Government's fiscal targets will require ongoing expenditure restraint. The modest tax measures introduced in the Budget will also assist in meeting the government's overall fiscal targets.

The budget result for 2005-06 is expected to be $303 million with gross capital expenditure by the general government sector of $3.8 billion. Over the four years to 2008-09 capital expenditure by the total State sector will be $34.7 billion, a 30 percent increase on the $26.6 billion capital expenditure in the four years to 2004-05. This will be partly funded by an increase in total State sector net debt of $8.7 billion.

In 2005-06, global conditions are expected to remain favourable for New South Wales, and strong business investment should ease capacity constraints. A modest improvement in the housing sector is likely to assist domestic activity through the year with employment growth and the unemployment rate remaining steady (see Chapter 6).

SERVICE DELIVERY

The Government has committed $40.6 billion in this Budget for general government expenses. A further $3.8 billion will be spent on capital infrastructure by the general government sector and $4.4 billion by the public trading enterprise sector.

Key expenditure growth areas in the 2005-06 Budget include health, education, welfare and public transport.

- Access to quality health care remains one of the core commitments of the Government. This Budget provides further resources to improve access to health services by: providing at least another 320 permanent beds (part of the $202 million package to open 720 new beds recently announced by the Government); further improving mental health services; opening an additional 57 intensive care beds for adults and children; providing an additional $30 million this year to improve cancer treatment services; and reducing elective surgery waiting lists. This Budget also provides over $296 million in additional capital expenditure over the next four years to upgrade health facilities, as part of a total Health capital program of $2.5 billion.

- Major service improvements are being made in education. This includes a range of targeted initiatives and concessions for apprentices, such as Trade Start, providing a $100 rebate on the cost of car registration and funding for Group Training, to produce more trained and job ready workers where they are needed most. Additional funding will also be provided for the class size reduction program, the Aboriginal education enhancement program and greater support for students with special needs. Twenty-one new public pre-schools have been established and an extra 1,500 teachers will be employed by 2007 to reduce class sizes in Kindergarten, and Years 1 and 2. Capital expenditure of $107 million is supporting this initiative. Capital expenditure in the education sector will total $1.4 billion over the next four years.

- The Budget continues the support provided to disadvantaged members of the community. For the first time the Department of Community Services' expenditure will exceed $1 billion. The increased funding in 2005-06 includes a $218.6 million tranche of the $1.2 billion increase in funding for the Department over five full years. Within this there is substantial additional funding for children exposed to the threat of abuse. An extra 150 case workers and professional staff will be employed in child protection and out-of-home care in 2005-06.

- There is also support for disadvantaged people through an extra $377 million over 4 years for the Department of Ageing, Disability and Home Care (an extra $64 million in 2005-06). Expenditure in 2005-06 will be just over $1.5 billion. The additional funding includes extra respite places, 135 more supported accommodation places, and improving the capacity of the Post School Services program.

- This Budget provides $343 million more than last year’s budget in grants for rail, bus and ferry services, local and community transport services, and fare concessions for students and pensioners. The bulk of this will go towards increased funding for rail services to support operating costs, including maintenance and replacement of rollingstock, improved safety measures, and continued investment in capital works across the rail system. Managing and developing the State road network also remains a priority, and the Government has committed $678 million in 2005-06 for capital works on a number of key road projects.

Chapter 2 contains further details of general government sector expenses.

General government expenses are estimated to increase in nominal terms by 6.4 percent in 2005-06, but growth is expected to slow to an annual average of 4.3 percent in the four years to 2008-09.

General government sector expenditure has grown at an average 5.7 percent a year in the four years to 2004-05, or by 6.0 percent excluding interest payments (which have declined due to lower levels of debt).

This Budget puts in place plans to reduce the growth rate of general government expenditure in the forward years, consistent with the Government's medium-term fiscal strategy. Slower spending growth will be achieved by reordering spending priorities. A major risk to the Budget is the public sector wage agreements to be negotiated with major employee groups in coming months, including public hospital nurses, police and public school and TAFE teachers. The sustainability of the fiscal position will depend critically on the outcomes achieved.

Table 1: General Government Total Expenses [(a)]

	2001-02 Actual	*2002-03 Actual*	*2003-04 Actual*	*2004-05 Revised*	*2005-06 Budget*	*2006-07 Est*	*2007-08 Est*	*2008-09 Est*
In $ billions								
Employee-related	14.8	16.4	17.7	18.9	20.2	20.8	21.5	22.4
Maintenance & other operating	8.3	8.6	9.0	9.1	9.5	10.0	10.8	11.5
Grants & subsidies	6.7	6.7	7.1	7.3	7.9	8.1	8.2	8.3
Finance, Depreciation, Other	2.5	2.6	2.7	2.8	3.0	3.0	3.0	3.0
TOTAL EXPENSES	**32.3**	**34.3**	**36.5**	**38.1**	**40.6**	**41.9**	**43.4**	**45.2**
Growth Rate (%)	5.5	6.2	6.5	4.4	6.4	3.4	3.6	4.0
As % of GSP	12.9	12.9	12.9	12.7	12.6	12.3	12.0	11.8

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

Source: Table 1.6, GSP from ABS (actual) and NSW Treasury estimates from 2004-05.

Concessions and tax expenditures, while not necessarily entailing a direct budget outlay, are also a significant instrument of fiscal policy. They have budgetary and welfare effects in the same way as direct outlays. This Budget provides for concessions of $732 million and tax expenditures worth $3.9 billion in 2005-06. Tax expenditures are mainly on economic services (such as through transfer duty and payroll tax exemptions), while the bulk of concessions are for social security and welfare and housing and community amenities. Chapter 7 provides detailed estimates of tax expenditures and concessions by policy area and by type of tax.

CAPITAL EXPENDITURE

Capital expenditure by the State will continue to rise substantially, reaching record levels for both the general government sector and the public trading enterprise sector in 2005-06.

Total State capital spending of $8.2 billion in 2005-06 is 15.2 percent higher than in 2004-05. This comprises $3.8 billion capital expenditure by the general government sector and $4.4 billion by the PTE sector. Over the four years to 2008-09 capital expenditure in the general government sector is estimated to be $15.8 billion, an average of almost $4 billion a year, and an increase of 18.3 percent over the four years to 2004-05. The PTE sector plans to invest $18.9 billion over the next four years, an increase of 42.4 percent on the four years to 2004-05, partly funded by an increase in net debt of $8.5 billion.

In total, over the four years to 2008-09, total State capital expenditure (general government sector and PTE sector) will be $34.7 billion, a significant increase on the $26.6 billion capital expenditure in the four years to 2004-05. This will be funded by an increase in total State sector net debt of $8.7 billion.

Examples of major new general government sector projects (with estimated total cost) commencing in 2005-06 include:

- Bathurst, Orange and Bloomfield hospitals redevelopment ($236 million);
- Queanbeyan hospital redevelopment ($44 million);
- Commencement of 6 new police stations at Campsie, Dubbo, Fairfield, Lismore, Orange and Wagga Wagga ($72 million);
- 1000 new inmate beds at various correctional centres ($258 million);
- enhanced bus priority network ($90 million);
- 20 major new school projects (including two new schools) and 13 new TAFE projects ($160 million);
- group homes and accommodation facilities for new clients with a disability ($82 million);
- upgrade of the MR92 from Nowra to Nerriga ($80 million); and
- widening of the Great Western Highway to four lanes from Woodford to Hazelbrook ($66 million).

Examples of major new PTE sector projects (with estimated cost) commencing in 2005-06 include:

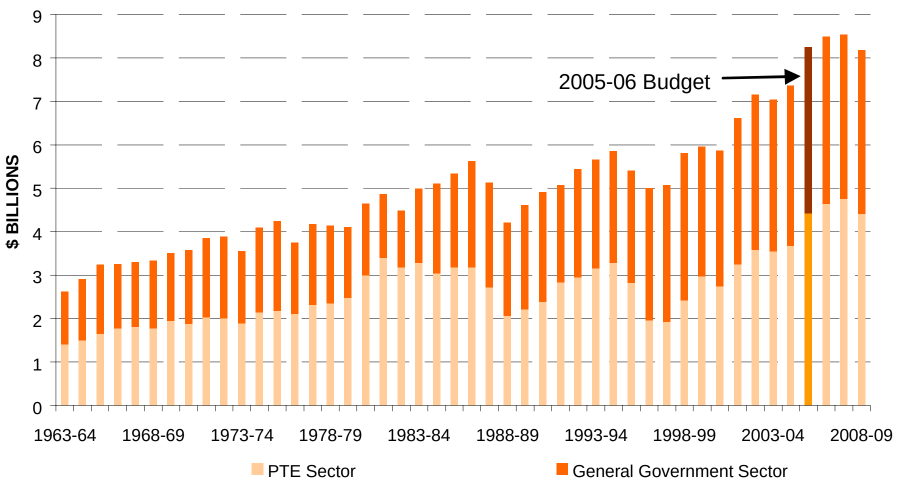
- 81 additional rail cars for the Outer Suburban network – Tranche 2 ($268 million);
- public housing asset improvements including the new pilot Maintenance Reform Package ($223 million);
- 268 buses for the Sydney and Newcastle networks ($138 million); and
- upgrade of the Bayswater-Mt Piper-Marulan transmission line ($195 million).

Chart 2 shows that the level of total State capital expenditure in New South Wales in real terms in 2005-06 is at an all time high, 52.3 percent higher than the average of the 1990s, and 68.4 percent higher than the average of the 1980s.

Chart 3 shows that over one half of total State capital expenditure is allocated to the transport and electricity areas.

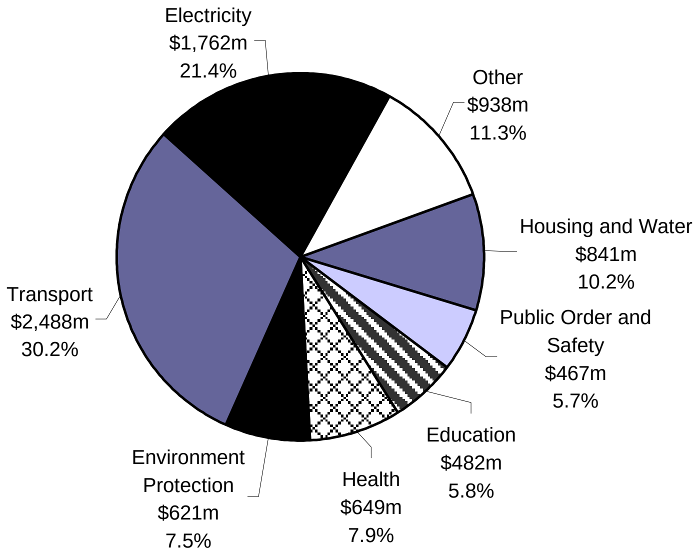
Budget Paper No. 4 provides further details of the State infrastructure program.

Chart 2: State Capital Expenditure Program,1963-64 to 2008-09 *(real 2005-06 dollars)*



Source: ABS and NSW Treasury

Chart 3: Total State Capital Expenditure by Policy Area, 2005-06



Source: Budget Paper No. 4, Chart 1.4.

REVENUES

Total general government sector revenue is expected to grow by 5.6 percent in 2005-06 following growth of 2.7 percent in 2004-05. The pick-up in 2005-06 primarily reflects growth in tax revenue.

Taxation measures announced in this Budget will raise an additional $180 million in 2005-06.

- From 1 September 2005, the general insurance stamp duty rate on certain insurance policies will be increased from 5 percent to 9 percent.

- From 1 August 2005, the mortgage duty exemption for refinancing a mortgage up to the previous amount secured with a different lender will be restricted to amounts up to $1 million.

- From the 2006 land tax year, a $330,000 land tax-free threshold will be introduced with a marginal rate of 1.7 percent (plus $100) on the unimproved value of land in excess of $330,000. The land tax threshold will be indexed annually to estimated average increases in land values for commercial, industrial, business and residential properties.

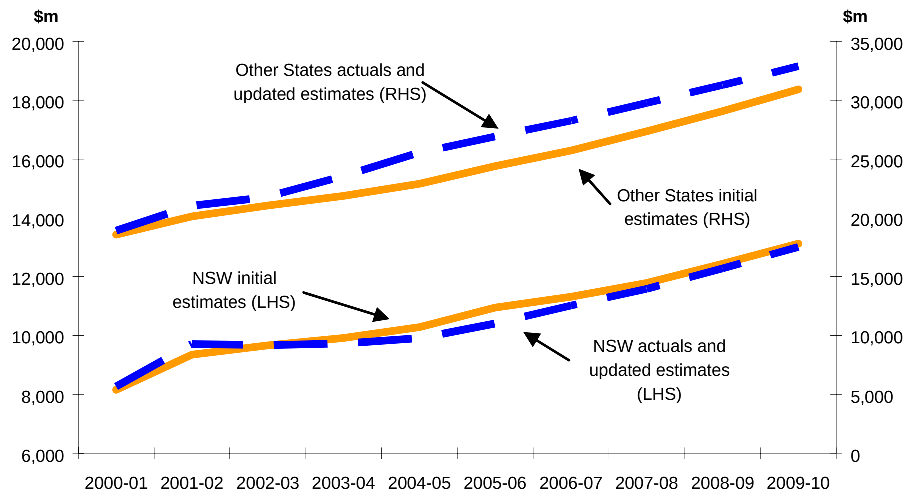
Taxation revenue is estimated to rise by 6.3 percent, following a 1.9 percent increase in 2004-05. The main reasons for the faster growth are the effects of the measures listed above and a pick up in transfer duty revenues following the significant decline in 2004-05.

Commonwealth grant revenue is expected to increase by 5.0 percent in 2005-06. However, the share of GST revenue allocated to New South Wales will not recover from its decline of recent years. The cross-subsidy to other States will increase to $2.8 billion in 2005-06.

New South Wales is estimated to receive less in grants in 2004-05 than was expected when the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* was implemented in 2000. Chart 4 shows the difference between the initial expectations for GST revenue grants to states and what was actually received. It shows that other States, in contrast to New South Wales, have all received general purpose grants well in excess of their initial estimates since 2000-01.

Other issues of concern in Commonwealth-State financial relations include the pressure from the Commonwealth to abolish certain stamp duties and the cessation of existing National Competition Policy payments after 2005-06 and the impact of this on the Budget. These issues are discussed in Chapter 8.

Chart 4: GST Revenue – Initial Estimates and Outcomes ($m)



Source: *Initial estimates from 2000-01 Commonwealth Budget Paper No. 3 and estimates provided to March 2000 Treasurers' Conference. Actuals and latest estimates are from States' Budget papers and estimates provided to the March 2005 Treasurers' Conference.*

Table 2: General Government Sector Revenues [(a)]

	2001-02 Actual	*2002-03 Actual*	*2003-04 Actual*	*2004-05 Revised*	*2005-06 Budget*	*2006-07 Est*	*2007-08 Est*	*2008-09 Est*
In $ billions								
STATE REVENUES	30.3	31.5	33.0	34.0	36.1	37.5	39.1	41.0
- Taxation	13.2	14.2	15.0	15.3	16.3	17.3	18.2	19.2
- Commonwealth Grants								
- General Purpose	10.0	9.9	9.9	10.2	10.7	11.0	11.6	12.3
- Specific Purpose	5.1	5.3	5.6	5.8	6.1	6.3	6.4	6.6
- Financial Distributions	1.3	1.3	1.6	1.6	1.9	1.9	1.9	2.0
- Other	0.8	0.9	0.9	1.1	1.1	1.0	1.0	1.0
OPERATING REVENUES	3.5	4.5	4.6	4.7	4.8	4.9	4.9	5.2
TOTAL REVENUES	**33.8**	**36.0**	**37.7**	**38.7**	**40.9**	**42.4**	**44.0**	**46.1**
Growth Rate (%)	5.5	6.5	4.5	2.7	5.6	3.8	3.8	4.9
As % of GSP	13.5	13.6	13.3	12.9	12.7	12.4	12.2	12.1

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

Source: *Table 1.6*

Chapter 3 provides details of general government sector revenues, including estimates for the Budget and forward years and the impact of revenue policy measures.

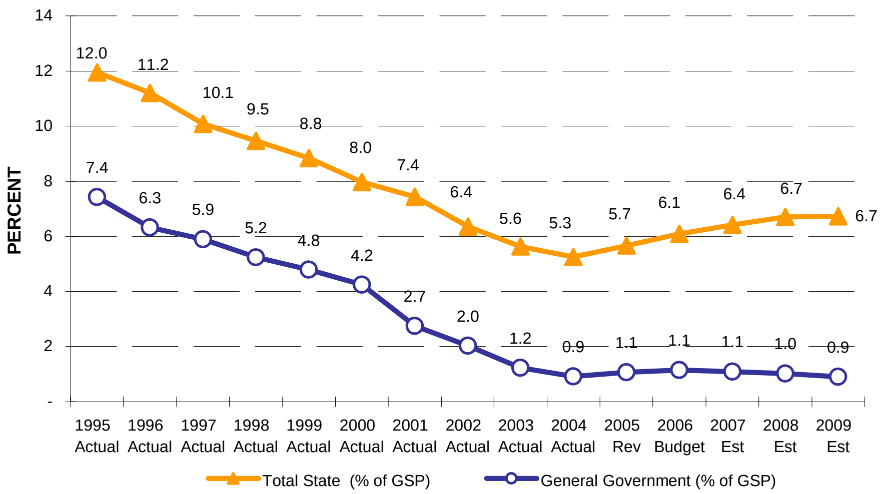
DEBT

Underlying net debt of the general government sector is projected to remain at low and sustainable levels. Total State sector net debt will increase as a result of a large PTE capital spending program.

Underlying net debt of the general government sector has fallen significantly since 1995, both in dollar terms and as a proportion of GSP (Chart 5). In dollar terms it fell from $12.2 billion in 1995 to $2.6 billion as at June 2004, before increasing to an estimated $3.2 billion at June 2005. As a share of GSP it has fallen from 7.4 percent in 1995 to 1.1 percent at June 2005. General government net debt is projected to increase to $3.7 billion at June 2006.

Total State sector underlying net debt has also fallen substantially from $19.6 billion (12.0 percent of GSP) in June 1995 to $14.9 billion at June 2004 (5.3 percent of GSP), before increasing to $17.0 billion at June 2005 (5.7 percent of GSP). Over the four years to June 2009 a significant increase in borrowing by the public trading enterprise sector ($8.8 billion) to fund a larger capital spending program will increase total State sector underlying net debt to $25.8 billion (6.7 percent of GSP).

Chart 5: Underlying Net Debt* as a Percentage of Gross State Product at 30 June, 1995 to 2009



* *Excluding prepayment/deferral of superannuation contributions.*

Source: NSW Treasury for underlying net debt; GSP from ABS (actual) and NSW Treasury (estimates from 2004-05).

Chapter 1 of this Budget Paper summarises progress against the principles and targets in the *General Government Debt Elimination Act (GGDEA) 1995* and provides detail of the fiscal strategy, fiscal position and outlook for this Budget. It also outlines the principles and targets in the *Fiscal Responsibility Bill 2005*, which is intended to replace the GGDEA.

NET FINANCIAL LIABILITIES

Net financial liabilities will continue to trend lower as a percentage of gross state product (GSP).

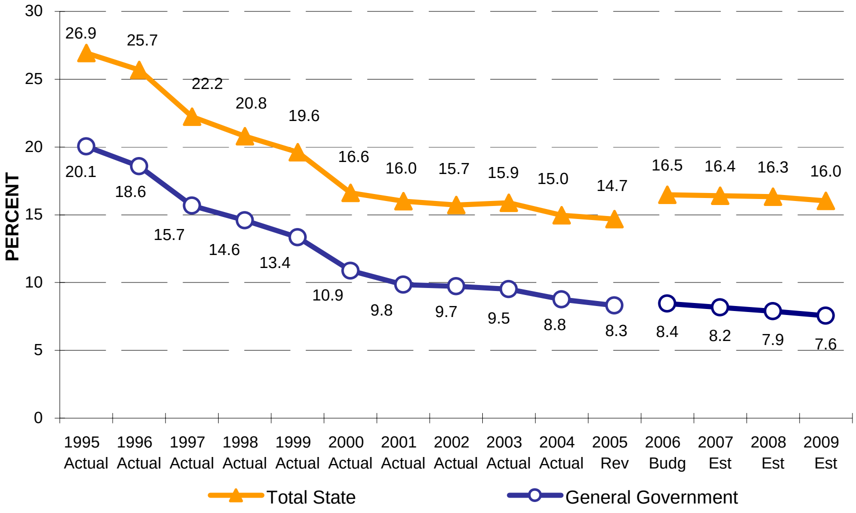
General government net financial liabilities have declined from $32.8 billion (20.1 percent of GSP) in June 1995 to $25.0 billion (8.3 percent of GSP) in June 2005. Total State net financial liabilities at June 2005 are estimated to be broadly the same level in nominal terms as they were at June 1995, but have declined significantly as a share of GSP from 26.9 percent to 14.7 percent (see Chart 6).

The new international accounting standards have the effect of increasing the measured level of net financial liabilities in 2005-06 for both the general government and total State sectors. In the general government sector net financial liabilities would be 8.0 percent of GSP in 2005-06 without the new international accounting standards, but are 8.4 percent of GSP measured under the new standards.

The new international accounting standards have a more significant effect on the PTE sector, adding around two percentage points of GSP to the level of total State sector net financial liabilities in 2005-06. That is, under the old accounting standards, net financial liabilities would have remained at 14.7 percent of GSP in 2005-06, instead of rising to 16.5 percent of GSP.

Thereafter net financial liabilities are expected to resume their downward path, reaching 16.0 percent of GSP by June 2009 in the total State sector and 7.6 percent of GSP in the general government sector.

Chart 6: Net Financial Liabilities* as a Percentage of Gross State Product at 30 June, 1995 to 2009



* *The series break represents the effect of the adoption of new international accounting standards.*

Source: NSW Treasury for net financial liabilities; GSP from ABS (actual) and NSW Treasury (estimates from 2004-05).

The reduction in general government net financial liabilities over the forward estimates period is consistent with the achievement of the targets of 7.5 percent of GSP by 30 June 2010 and 6.0 percent of GSP by 30 June 2015 as provided in the new *Fiscal Responsibility Bill*. The Bill is being introduced with the Budget, to take effect from 1 July 2005.

New South Wales' fiscal fundamentals remain strong, with international credit rating agencies again reaffirming the State's AAA rating in 2004-05.

CHAPTER 1: FISCAL STRATEGY, POSITION AND OUTLOOK

- The 2005-06 Budget is based on a medium term fiscal strategy that supports the Government's service delivery priorities by:
  - supporting expenditure priorities within sustainable aggregate expenditure growth;
  - maintaining a competitive tax regime that is conducive to business investment; and
  - keeping net debt and other financial liabilities at sustainable levels.
- The Government is updating its fiscal strategy targets and principles with the introduction of the Fiscal Responsibility Bill 2005 cognate with the 2005-06 Budget.
- The 2004-05 Budget Surplus is estimated to be $569 million, compared with a Half Yearly Budget Review estimate of $563 million and the original Budget estimate of $837 million.
- Net financial liabilities of the general government sector fell to 8.3 percent of GSP in June 2005 from 8.8 percent in June 2004, to be less than half the level of 20.1 percent of GSP in June 1995. Underlying general government sector net debt has increased from $2.6 billion in June 2004 to $3.2 billion at June 2005 (or from 0.9 percent to 1.1 percent of gross state product (GSP)).
- General government sector net worth of $125.5 billion in June 2005 is $1.2 billion or 1.0 percent above the June 2004 level.
- The outlook is for a Budget Surplus in 2005-06 of $303 million, as measured under the new international accounting standards applying from 2005-06.
- The Budget result is projected to strengthen over the forward years, with surpluses of $481 million in 2006-07, $544 million in 2007-08 and $965 million in 2008-09.
- Underlying net debt will increase over the next two years by $531 million but remain essentially unchanged at close to 1 percent of GSP.
- Net financial liabilities of the general government sector are expected to rise in nominal terms over the next four years. As a share of GSP, after increasing in 2005-06 as a result of the new accounting standards, net financial liabilities are expected to decline to 7.6 percent by June 2009.

1.1 SCOPE OF THE BUDGET PAPERS AND KEY BUDGET AGGREGATES

SCOPE OF THE BUDGET PAPERS

These Budget Papers report principally on the financial and service delivery performance of the general government sector.[1]

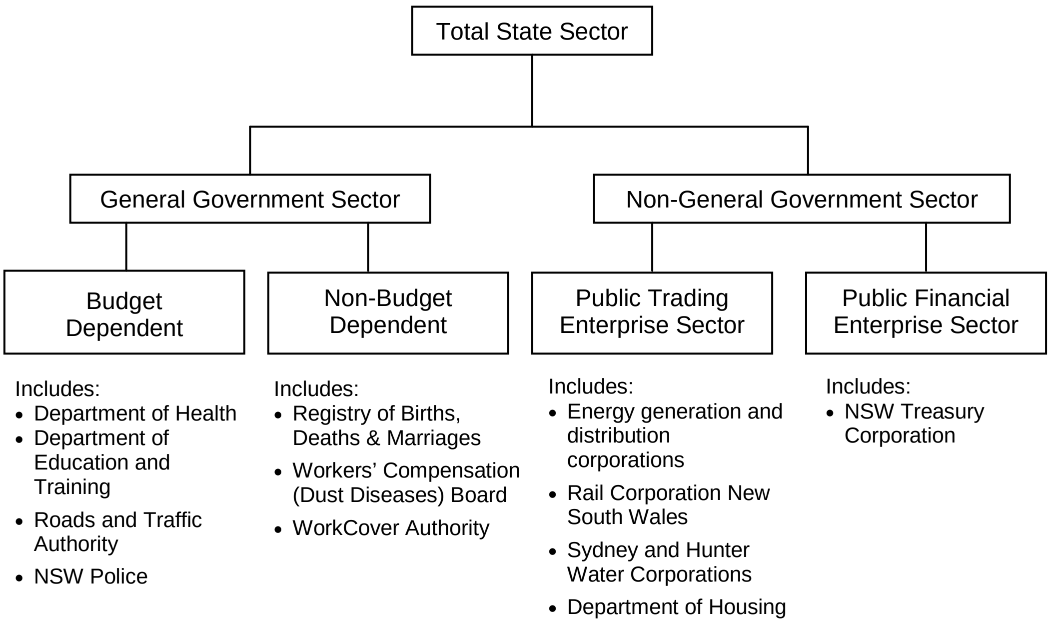
The general government sector includes all NSW Government agencies that receive Parliamentary appropriations or are regulatory in nature.

Budget dependent general government sector agencies receive an appropriation from the Consolidated Fund. Non-budget dependent general government sector agencies are generally self-financing through the imposition of regulatory and user charges. Non-budget dependent agencies may also return a surplus to the Consolidated Fund.

Budget Paper No. 3, *Budget Estimates*, provides details of the performance of each general government sector agency.

The general government sector is part of the total state sector, which encompasses all entities controlled by the NSW Government.

Figure 1.1: Structure of the Total State Sector



[1] *Under the General Government Debt Elimination Act 1995 the Budget Sector is equivalent to the Australian Bureau of Statistics General Government Sector.*

Public trading enterprises (PTEs) and public financial enterprises (PFEs) form the other part of the total state sector.

PTEs and PFEs operate under the commercial policy framework. This policy aims to replicate appropriate disciplines and incentives that lead private sector businesses towards efficient commercial practices.

PTEs and PFEs generally pay dividends and tax equivalent payments to the general government sector, in accordance with normal commercial principles.

Some PTEs, while commercially focussed, also provide services to client groups on a subsidised basis. These include Rail Corporation New South Wales and the Department of Housing, which receive grants from the general government sector to provide their subsidised services.

Details of the performance of PTEs and PFEs can be found in their specific annual reports. An overview of the PTEs' performance is provided in Chapter 5.

Appendix C of this Budget Paper provides a listing of entities controlled by the NSW Government and the sector in which they are classified.

The Budget Papers focus on the three primary financial statements of the general government sector - operating statement, statement of financial position and the statement of cash flows.

The general government sector operating statement and statement of cash flows include:

- State taxation, Commonwealth grants, fines and regulatory fees.
- Dividends and tax equivalent payments received from public trading enterprises and public financial enterprises.
- User charges.
- Employee related expenditure (including superannuation), maintenance expenditures, other operating expenses and finance costs.
- Operating subsidies paid to some PTEs.
- Recurrent and capital grants paid to the non-government sector.

The general government sector statement of financial position (balance sheet) includes:

- All assets controlled by general government agencies (including public schools, hospitals and roads).
- All liabilities incurred by general government agencies (including borrowings, unfunded superannuation liabilities and other accrued employee entitlements).
- The value of the Government's investment in its PTEs and PFEs.

KEY BUDGET AGGREGATES

The Budget Result for 2005-06 and forward years is based on the GFS Net Operating Result. This is a change from prior years when the Budget Result was based on the GFS Net Lending Result.

The GFS Net Operating Result reports the difference between the full cost of general government service delivery in the year and the revenues earned by the Government in that year to fund those services.

At a time when net debt has been reduced to a sustainable level and net financial liabilities have been reduced significantly, the GFS Net Operating Result is the most appropriate measure of the Budget Result because:

- it demonstrates the extent to which the operations of the general government sector in the year impact on its net worth, which is the value of its assets less its liabilities;
- it is in line with the approach adopted in most other States and therefore facilitates a comparison of relative financial performance; and
- it is akin to the profit or loss reported by private sector organisations and is therefore a measure that is easily understood by the community.

A net operating surplus in the general government sector means that the current year's services are fully funded from current year's revenues and are also increasing net worth in that sector. A net operating deficit means that the current year's service delivery is partly funded through running down the general government's net worth, i.e. consuming taxpayers' capital.

The principal difference between the Net Operating Result and the Net Lending Result arises from the accounting treatment of the general government sector's stock of physical assets and new capital expenditure.

The Net Operating Result includes a depreciation charge as an expense, being the loss in value of the existing stock of physical assets through wear and tear incurred in the delivery of government services.

The Net Lending Result does not include a depreciation expense. Instead, it includes the full cost of new capital expenditure incurred during the year, offset by proceeds from the sale of assets.

The Net Operating Result is higher than the Net Lending Result in the Budget Year and forward years because the Government is investing in new capital expenditure at a much faster rate than the current stock of physical assets is depreciating.

The Net Lending Result will continue to be reported in the Budget Papers and is a key aggregate for management purposes.

The Net Lending Result demonstrates the extent to which the current year's activities impact the general government sector's net financial liabilities.

Net financial liabilities show the full range of the general government sector's future financial obligations (including debt, unfunded superannuation liabilities, insurance liabilities and employee related liabilities such as accrued long service leave and annual leave) less its financial assets (including cash and investments).

1.2 FISCAL STRATEGY STATEMENT

This section summarises what has been achieved under the Government's medium-term fiscal strategy over the last ten years, and what the challenges are for the next decade. It discusses recent fiscal developments; sustainable expenditure growth; the Government's public sector wages policy; the new *Fiscal Responsibility Bill*; and reports against the key targets and principles in the *General Government Debt Elimination Act 1995.*

MEDIUM-TERM FISCAL STRATEGY

Trends in 1995 to 2005

The objective of fiscal strategy is to manage the State's financial resources in a manner that supports the Government's service delivery objectives.

The relatively high and growing debt levels of the early 1990s effectively limited how the Government could respond to any cyclical weakening in revenue without putting at risk service delivery and the maintenance of the State's AAA credit rating. Indeed, in 1991 a downturn in the economy saw New South Wales placed on credit watch for a possible ratings downgrade. The State's high debt levels placed in jeopardy the Government's ability to maintain steady growth in its service delivery in the face of cyclical fluctuations in revenue growth.

The Government's fiscal strategy objective since 1995 has been to strengthen the State's balance sheet by reducing general government sector net debt and other financial liabilities to sustainable levels. Once this is achieved, in the event of a recession or major cyclical downturn in revenue, the Government could meet the revenue shortfall by borrowing, thereby allowing the balance sheet to temporarily absorb the impact rather than having to reduce service delivery.

The fiscal strategy also takes into account the financial position of the State sector as a whole, including public trading enterprises (PTEs) and public financial enterprises (PFEs), because the financial position of these enterprises affects the Budget. However, the Government's fiscal targets mostly apply to the general government sector[2] because that is where services are usually provided free of charge to the user, and the services must be paid for by taxpayers. Net debt in the PTE sector (which includes, for example, electricity, water and transport) on the other hand is supported by assets that generally earn a financial return and generate revenues to cover expenses associated with debt. In the PTE sector commercial prices are generally charged for commercially provided services with commercially appropriate levels of debt.

The Government's fiscal strategy principles and targets are set out in the *General Government Debt Elimination Act* 1995 (GGDEA). Recent performance against those principles and targets is summarised in Table 1.5, and the results show that adherence to the fiscal strategy helped strengthen the State's balance sheet considerably over the past decade.

[2] *One long-term fiscal target is the elimination of total State unfunded superannuation liabilities by 2030.*

The short-term target of a sustainable general government surplus by 1998-99 was achieved. With the assistance of a robust economy, and through prudent fiscal management, the Government delivered eight consecutive cash surpluses to 2003-04 – after an almost unbroken string of deficits stretching back to the early 1960s.

The proceeds of those budget surpluses, and the regearing of the public trading enterprise sector (to commercial levels), were used to reduce general government sector underlying net debt from $12.2 billion in 1995 (7.4 percent of GSP) to $2.6 billion in 2003-04 (0.9 percent of GSP). Net debt subsequently increased to $3.2 billion in 2004-05 (1.1 percent of GSP)[3] - see Chart 1.1. While general government sector net debt has fallen significantly, net debt in the PTE/PFE sector has almost doubled in nominal terms, from $7.4 billion at June 1995 to $13.8 billion at June 2005[4]. As a share of gross state product it has increased fractionally from 4.5 percent in 1995 to 4.6 percent at June 2005.

In summary, the GGDEA medium-term target of reducing general government net debt to a sustainable level by June 2005 has been achieved, and the long-term target of eliminating general government net debt by 2020 is on course to be achieved. Another long-term target - eliminating total State sector unfunded superannuation liabilities by 2030 – also remains on track. Unfunded superannuation liabilities are expected to peak in nominal terms in 2010-11 and fall thereafter as the baby boomer generation begin to leave the workforce in larger numbers.

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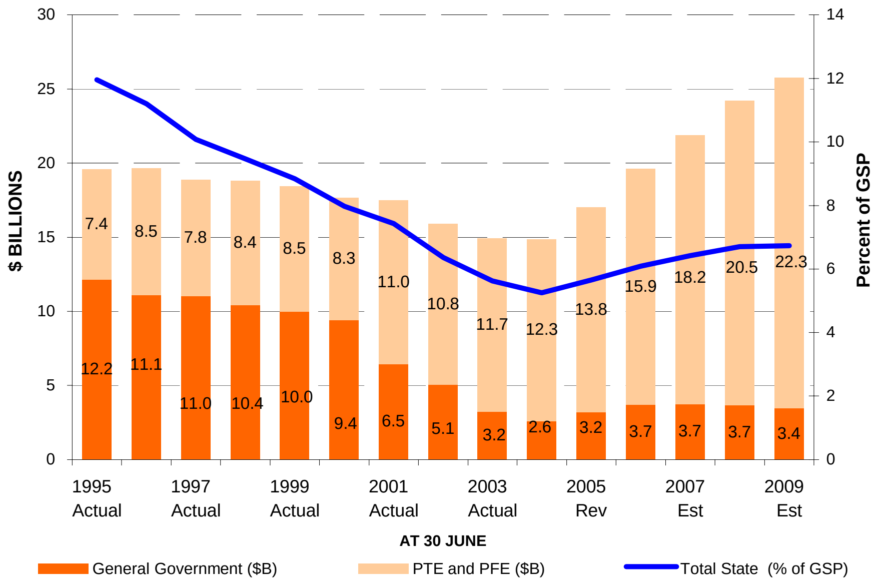
[3] *The Treasury definition of underlying general government net debt is equivalent to the ABS definition but excludes financial assets that are allocated to fund other liabilities through legislation or contract (for example, the net financial assets of the Liability Management Ministerial Corporation).*

[4] *The PFE sector now accounts for less than one percent of the PTE/PFE total.*

Chart 1.1: Underlying Net Debt at 30 June 1995 to 2009

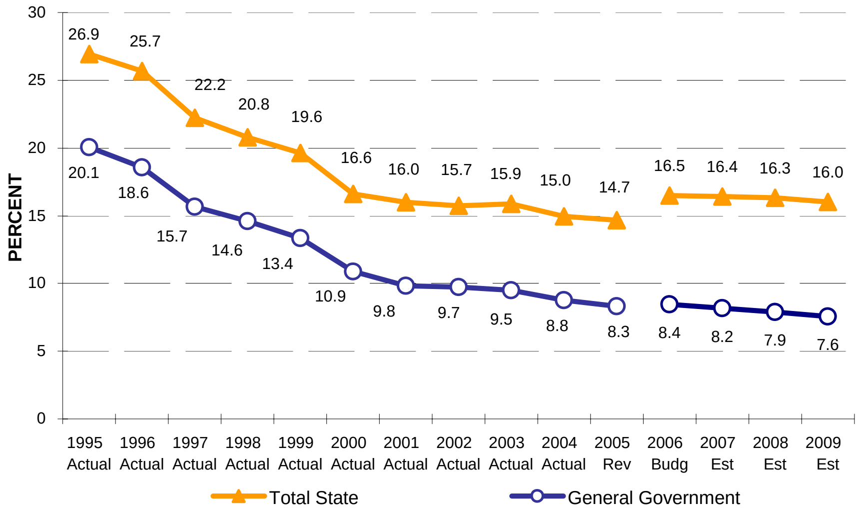


Source: NSW Treasury for net debt; GSP from ABS (actual) and NSW Treasury for estimates from 2004-05.

The GGDEA goal of at least maintaining general government net worth in real terms remains on track, with real net worth increasing by an average of 5.5 percent per annum from June 1997 to June 2005.

Although not specified as a fiscal target in the GGDEA, net financial liabilities for the general government sector have also declined substantially over the last ten years - from $32.8 billion (20.1 percent of GSP) at June 1995 to $25 billion (8.3 percent of GSP) at June 2005 - see Chart 1.2.

Chart 1.2: Net Financial Liabilities of the General Government Sector and the Total State Sector at 30 June 1995 to 2009 (share of GSP)



Note: *Series break in 2005-06 as a result of the adoption of Australian equivalent international financial reporting standards. It has the effect of increasing the reported level of net financial liabilities. For example, in 2005-06 general government sector NFL would have been 8.0 percent without the change in standards, and total State sector NFL would have been 14.7 percent.*

Source: *NSW Treasury for net financial liabilities; GSP from ABS (actual) and NSW Treasury (estimates from 2004-05).*

Through adherence to the principles and targets of the fiscal strategy the balance sheet is now in good shape. It is strong enough to withstand a cyclical or temporary fiscal shock, and as a result international credit rating agencies continue to award New South Wales the highest credit rating (AAA).

The previous ten years, however, have not been solely devoted to strengthening the balance sheet and reducing debt. From 1996-97 to 2004-05[5] total revenue in New South Wales amounted to $291 billion. The Government used that revenue principally to deliver $280 billion of services, as well as providing $27.3 billion in new capital expenditure (or $14.6 billion after depreciation)[6].

[5] *A consistent GFS accrual series is only available from 1996-97. Analysis here is confined to the period from 1996-97 to 2004-05.*

[6] *These figures do not sum because they do not include revenue from asset sales and other movements in non-financial assets.*

Despite the high levels of general government sector revenue during this period, the growth in revenue in the general government sector was exceeded by the growth in expenditure. Table 1.1 shows how expenditure has increased by policy area since 1996-97:

- Total expenses have increased by 51 percent (annual average of 5.3 percent), compared to the growth in revenue of 48 percent (annual average of 5.0 percent). Expenses excluding interest payments (which have declined due to lower levels of debt) increased by 57 percent (annual average of 5.8 percent).

- Growth of expenses in the major general government service delivery areas, including health, education, public order and safety, transport and social security and welfare have all exceeded the aggregate growth. More details on expenditure by policy area are provided in Chapter 2.

- Excluding interest payments, expenditure on service delivery has increased by more than $1,700 per capita in nominal terms, or 17 percent in real per capita terms.

Table 1.1: General Government Expenditure by Policy Area 1996-97 to 2004-05

Expenses by Policy Area	*Total Expenses* $m	*Nominal Growth* %	*Real Growth* (b) %	*Real Per capita Change* (b) $	*Real per Capita Growth* (b) %	*Nominal Per capita Change* $
Health	71,931	67%	35%	317	25%	538
Education	67,451	54%	25%	189	15%	409
Public Order and Safety	29,258	78%	44%	163	33%	247
Transport	28,782	71%	38%	145	28%	235
Social Security and Welfare	20,532	68%	36%	91	25%	153
Environmental Protection	5,641	47%	19%	10	10%	28
Other Purposes (a)	55,918	5%	-15%	-260	-21%	-25
Total Expenses	**279,513**	**51%**	**22%**	**655**	**13%**	**1,586**
Total Expenses Ex interest	260,100	57%	27%	861	17%	1,731
Gross State Product (GSP)		61%	30%	7,701	20%	14,477

(a) Includes: Housing, Recreation and culture, Agriculture, forestry, fishing and hunting and Other economic activities

(b) Deflated using the gross non-farm product deflator

Source: NSW Treasury for expenses; GSP, population and gross non-farm product deflator from ABS (actual) and NSW Treasury (estimates from 2004-05).

Recent Fiscal Developments

The NSW Budget result has experienced some weakening over the past two years as a result of both cyclical and structural factors. Decisions by the Commonwealth Grants Commission, the Commonwealth Government and the NSW Industrial Relations Commission have contributed to a structural weakening of the budget position. These factors need to be distinguished from the weaker conditions in the property market and the resulting cyclical softening in the growth of taxation revenue in 2004-05.

The Commonwealth Government allocates the goods and services tax revenues between the states on a per capita basis, adjusted for states' relative revenue capacities and relative expense needs. The Commonwealth Grants Commission reviews its methods of assessing state relativities every five years and updates the relativities with new data annually. Over the six years since the introduction of the goods and services tax, New South Wales' cumulative loss from changes in relativities now exceeds $800 million annually. The largest loss occurred in 2004-05.

Total revenue growth slowed considerably in 2004-05, increasing by only 2.7 percent over the previous year, which was half the average annual growth rate experienced in the seven years to 2003-04. A softening in the property market contributed to the growth of taxation revenue slowing from 6.2 percent in 2003-04 to only 1.9 percent in 2004-05. Commonwealth general purpose grants are estimated to increase by only 2.2 percent in 2004-05, following only a 0.1 percent increase in 2003-04. Operating revenues are estimated to grow by only 0.6 percent in 2004-05.

On the expenditure side, total general government expenditure increased by 4.4 percent in 2004-05, after increasing by 6.5 percent in 2003-04. Employee-related expenses are the most important single influence on the level and future growth of total expenses, and therefore the budget result. They account for almost half of government expenditures, and each one percent increase in employee expenses – either from increases in rates of pay or numbers of staff – weakens the budget result by around $200 million. Employee-related expenses increased by 7.0 percent in 2004-05 and 7.8 percent in 2003-04, largely as a result of above-budget wage increases for teachers and nurses in 2003 and 2004, and the timing of wage increases granted under the previous Memorandum of Understanding[7]. The NSW Industrial Relations Commission decisions for teachers and nurses alone permanently increased the level of government expenditure by $500 million per year.

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[7] *While the previous MOU provided average annual increases of 3.6 percent over 4½ years, a large part of that increase came in the last 6 months of the agreement.*

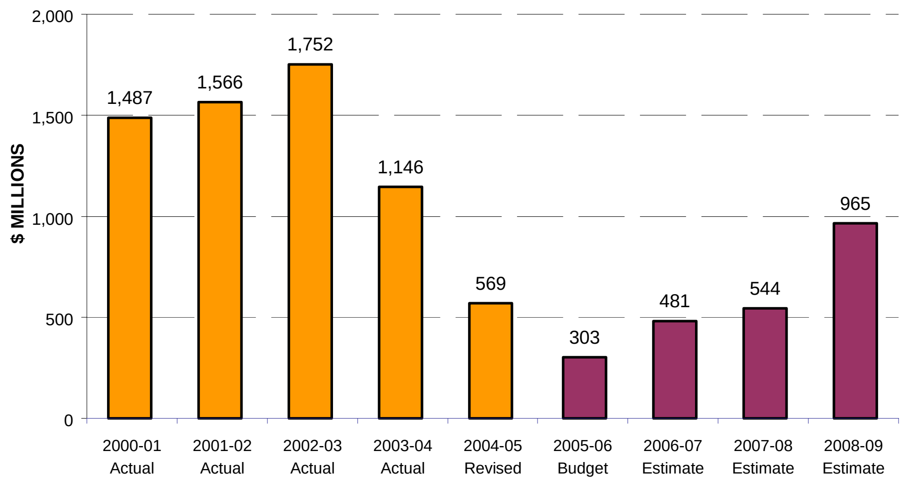
Budget Result

The 2004-05 Budget surplus is estimated to be $569 million (see Chart 1.3), $268 million lower than the original budget estimate of $837 million, but broadly the same as the mid-year review estimate of $563 million.

Budget results have been prepared in previous years using the prevailing Australian Accounting Standards. From 2005-06 the Budget result is based on Australian Equivalents to International Financial Reporting Standards (AEIFRS). This is in accordance with the Government's commitment to adopt globally consistent financial reporting standards.

The budget surplus in 2005-06 is estimated to be $303 million.

Chart 1.3: General Government Budget Result 2000-01 to 2008-09



Source: NSW Treasury.

In the forward years there is some improvement expected in the budget result, largely dependent upon annual expenditure growth slowing to 4.3 percent over the four years ending 2008-09 from an average of 5.7 percent in the four years ending 2004-05.

Sustainable Expenditure Growth

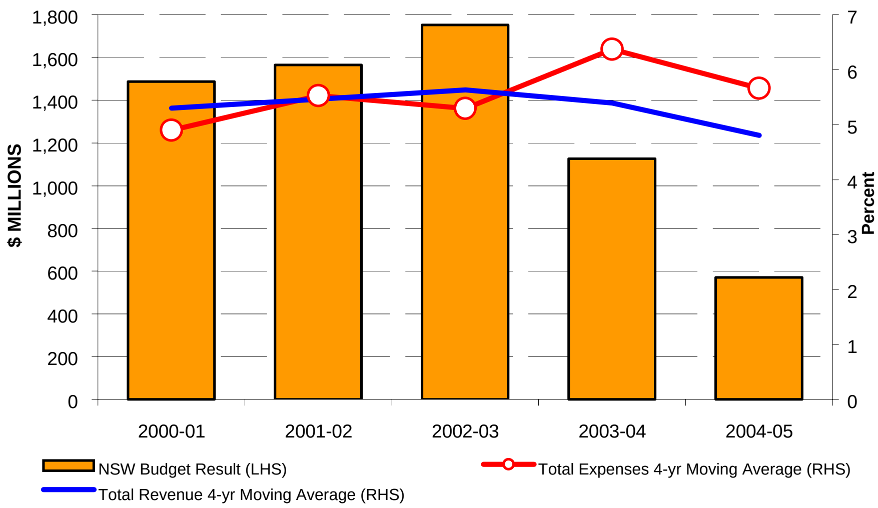
For a government's fiscal position to be sustainable, aggregate expenditure growth must be consistent with sustainable revenue growth, which is itself limited by the sustainable growth in the NSW tax base, and by competitive pressures from other jurisdictions on tax rates.

Revenue growth fluctuates, with periods of above and below trend growth following cycles in the property market and the economy in general. The demand for State Government services, however, is not tied closely to economic or property cycles, but rather tends to be driven by demographic factors, service expectations and increases in costs arising from inflation and wages growth.

The key to maintaining a sustainable fiscal position is aligning expenditure growth with long term trend growth in revenue. If expenditure growth accelerates during periods of above trend revenue growth, the additional rate of growth in expenditure can prove difficult to reverse when revenue growth inevitably returns to trend.

Over the past four years expenditure growth in the general government sector averaged 5.7 percent per annum, while revenue growth averaged 4.8 percent. The imbalance between revenue and expenditure growth has impacted on the budget position (see Chart 1.4).

Chart 1.4: NSW General Government Sector Budget Result, Revenue and Expenditure Growth 2000-01 to 2004-05



Source: NSW Treasury.

Recognising the need to maintain alignment between the growth in expenditure and revenue, the Government reconstituted its budget review processes in preparing the 2005-06 Budget. The Government rigorously examined the expenditure priorities, service delivery and performance of all agencies and programs and will continue to do so to ensure that expenditure is closely aligned to the needs and priorities of the people of New South Wales, and to target efficiency in service delivery.

An important aspect of this work is to look at cross-agency issues such as procurement, central agency reporting, shared services and workforce information and grants administration. This has the advantage of providing opportunities for identifying savings and synergies across the public sector, and for the lessons learned and initiatives undertaken by one agency to be used or adapted to resolve issues within other agencies.

Wages Policy

The Government's wages policy seeks to maintain the value of the substantial real wage increases provided to public sector employees since 1996. The wages policy implies nominal pay rises of up to 3 percent per year through negotiated settlements.

Recent settlements with the Public Service Association and the Health Services Union have been negotiated at 4 percent per annum for four years. These settlements have been above the wages policy as they incorporate an additional 1 percent increase per annum for four years in return for: the Unions withdrawing existing work value cases before the NSW Industrial Relations Commission; extinguishing all claims for work value up to 1 July 2004; and agreeing not to make further salary or conditions claims before 30 June 2008.

In coming months settlements will need to be negotiated for other major employee groups, including public hospital nurses (award expired 31 December 2004), police (award expires 30 June 2005) and public school and TAFE teachers (award expires 31 December 2006). At this stage, there remains considerable risk to budget outcomes unless settlements are consistent with the Government's wages policy. Outcomes in excess of the Government's wages policy could require a structural response such as reduced expenditure elsewhere and/or higher taxation.

The Government is also actively pursuing greater flexibility in the management of its workforce. As noted in last year's Budget papers, at times 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, it may not prove feasible for all to be placed into permanent positions. In line with government policy, forced redundancies will only be used as a last and unavoidable resort.

2005 – 2015: The Challenges Ahead

The challenge in the period ahead is not just to maintain the gains made over the previous ten years, but to build upon them. A strong State balance sheet will permit the flexibility required to address the inevitable expenditure pressures likely to emerge over the next decade. A strong balance sheet also provides the capability to deal with unanticipated shocks. The terrorist threat since 2001 and the collapse of HIH are recent examples of unanticipated shocks that had a significant impact on the Budget. Maintaining a strong balance sheet provides flexibility for government to respond to such events without impairing other service delivery.

The impacts of the ageing of the population on health expenditures are an example of a fiscal shock that can be anticipated, and one that will start to become evident in the next ten years. In fact, these pressures will be intensifying during this period. For example, currently in New South Wales, the population aged 65 and over increases by fewer than 20,000 people per year. By 2012, the population of that age will be increasing by over 40,000 per year and will continue to do so through to the end of the 2020s.

The pressures on the NSW Budget from the ageing of the population will depend in part on the approach adopted by the Commonwealth to specific purpose funding. Recent changes to health funding arrangements that indicate efforts to shift costs on to the States do not provide cause for optimism.

A strong balance sheet will provide flexibility in dealing with these challenges. The fiscal strategy to achieve this result involves running ongoing operating surpluses, maintaining general government sector underlying net debt at the current sustainable levels as a share of gross state product, and continuing to fund superannuation liabilities so that in aggregate, net financial liabilities continue to decline as a share of gross state product.

The immediate fiscal outlook is also not without its own challenges. The improvement in the budget result over the forward estimates period requires the growth in expenditure to slow from an annual average of 5.7 percent in recent years to 4.3 percent. That is, whereas expenditure growth has been above trend revenue growth in recent years, it will need to slow to below trend for a period to return the budget result to a position that is consistent with the Government's long run fiscal strategy. At that point, expenditure growth can return to levels consistent with long-term revenue growth. Expenditure growth of 4.3 percent or less has been achieved in the past for particular years. The challenge will be to maintain it at these levels on average over the forward estimates period.

Revenue growth is likely to be affected by a number of decisions by the Commonwealth Government. The Commonwealth's proposal to New South Wales on eliminating the stamp duties listed for review in the Intergovernmental Agreement on Commonwealth-State financial relations would have an unacceptably large impact on the NSW Budget. The proposal would generate net costs relative to the forward estimates of around $200 million in 2006-07, rising to almost $800 million in 2008-09.

The Commonwealth Government stated last year that it would stop making national competition policy payments to the states after 2005-06. Accordingly the NSW Budget revenue estimates have been reduced by $271 million in 2006-07 and $278 million in 2007-08. The recently released Commonwealth 2005-06 Budget papers stated, however, that the future of national competition policy payments beyond 2005-06 is under review.

Taking the above factors into account, the outlook is for an improvement in the budget result over the next four years (see Chart 1.3), and for continued high levels of government investment in infrastructure. In the general government sector investment in infrastructure is estimated to be $15.8 billion over the four years to 2008-09, an 18.3 percent increase over the four years to 2004-05. Government businesses plan to invest $18.9 billion over the next four years, partly funded by an increase in underlying net debt of $8.5 billion in the PTE sector.

As a result of the increased debt levels in the PTE sector, the level of underlying net debt in the total State sector will increase as a proportion of gross state product over the next four years, from 5.7 percent at 30 June 2005 to 6.7 percent at 30 June 2009 (see Chart 5 in Overview). Underlying net debt in the general government sector will increase from $3.2 billion as at June 2005 to $3.7 billion at June 2006, but remain essentially unchanged as a share of gross state product at close to 1 percent.

Net financial liabilities are expected to continue declining as a share of GSP over the four years to 2008-09 for the general government and total State sectors, abstracting from the distortion caused by the adoption of new international accounting standards for the 2005-06 Budget year. In the general government sector the new accounting standards have the effect of increasing the recorded level of net financial liabilities by around 0.4 percentage points of GSP in 2005-06 (NFL would have been 8.0 percent of GSP without the change in accounting standards). Under the new standards net financial liabilities in the general government sector are expected to fall to 7.6 percent of GSP by June 2009 (see Chart 1.2).

The new accounting standards have a more significant effect on the level of total State sector net financial liabilities, increasing the estimate by around 2 percentage points of GSP in 2005-06. Instead of remaining at 14.7 percent of GSP in 2005-06, total State net financial liabilities will increase to 16.5 percent, before resuming their downward trajectory to 16.0 percent of GSP as at June 2009.

For more detailed information on revenues, expenditure, budget results and liabilities see Tables 1.2 and 1.3. They provide a comprehensive time series of key fiscal indicators for New South Wales – general government and total State sectors - from 1997-98 to 2008-09.

Table 1.2: Key Fiscal Indicators NSW 1997-98 to 2008-09 (percent)

	1997-98 Actual	*1998-99 Actual*	*1999-00 Actual*	*2000-01 Actual*	*2001-02 Actual*	*2002-03 Actual*	*2003-04 Actual*	*2004-05 Revised*	*2005-06 Budget*	*2006-07 Est*	*2007-08 Est*	*2008-09 Est*
General Government Sector												
Revenue/GSP	13.8	13.9	13.8	13.6	13.5	13.6	13.3	12.9	12.7	12.4	12.2	12.1
Revenue Growth - Nominal	4.8	5.8	5.5	5.1	5.5	6.5	4.5	2.7	5.6	3.8	3.8	4.9
Revenue Growth - Real (a)	3.3	5.2	3.5	0.3	3.5	3.0	1.0	-1.3	1.2	1.4	1.3	2.5
Tax Revenue/GSP	6.5	6.8	6.9	5.7	5.3	5.3	5.3	5.1	5.1	5.1	5.1	5.0
Tax Revenue Growth - Nominal	10.0	9.4	7.6	-12.2	-1.0	7.1	6.2	1.9	6.3	6.5	5.4	5.2
Tax Revenue Growth - Real(a)	8.4	8.8	5.5	-16.1	-2.8	3.6	2.6	-2.1	1.8	4.0	2.9	2.8
Net Debt(underlying)/GSP	5.2	4.8	4.2	2.7	2.0	1.2	0.9	1.1	1.1	1.1	1.0	0.9
Net Debt (underlying)/Revenue	38.0	34.5	30.7	20.1	14.9	9.0	6.9	8.3	9.0	8.8	8.4	7.5
Interest/Revenue	5.4	4.7	4.4	3.2	2.6	2.2	2.1	2.1	2.2	2.0	1.9	1.8
Net Financial Liabilities/GSP	14.6	13.4	10.9	9.8	9.7	9.5	8.8	8.3	8.4	8.2	7.9	7.6
Net Financial Liabilities/Revenue	106.0	96.3	78.9	72.1	71.8	69.8	65.8	64.6	66.5	65.6	64.7	62.5
Net Operating Result/GSP	0.7	0.5	0.9	0.6	0.6	0.7	0.4	0.2	0.1	0.1	0.2	0.3
Net Operating Result /Revenue	4.8	3.6	6.6	4.6	4.6	4.9	3.0	1.5	0.7	1.1	1.2	2.1
Net Lending/GSP	-0.2	-0.1	0.6	0.2	0.2	0.2	0.0	-0.2	-0.3	-0.3	-0.2	-0.1
Net Lending/Revenue	-1.6	-0.5	4.3	1.6	1.7	1.3	0.1	-1.6	-2.4	-2.3	-2.0	-1.2
Expenses/GSP	13.1	13.4	12.9	13.0	12.9	12.9	12.9	12.7	12.6	12.3	12.0	11.8
Expenses Growth - Nominal	3.0	7.2	2.2	7.2	5.5	6.2	6.5	4.4	6.4	3.4	3.6	4.0
Expenses Growth - Real (a)	1.5	6.5	0.3	2.4	3.5	2.8	2.9	0.3	1.9	1.0	1.2	1.6
Gross Capital Expenditure/GSP	1.4	1.4	1.4	1.2	1.2	1.2	1.3	1.2	1.2	1.2	1.2	1.1

(a) Deflated using the gross non-farm product deflator.

Table 1.2: Key Fiscal Indicators NSW 1997-98 to 2008-09 (percent) (cont)

	1997-98 Actual	*1998-99 Actual*	*1999-00 Actual*	*2000-01 Actual*	*2001-02 Actual*	*2002-03 Actual*	*2003-04 Actual*	*2004-05 Revised*	*2005-06 Budget*	*2006-07 Est*	*2007-08 Est*	*2008-09 Est*
Total State Sector												
Net Debt(underlying)/GSP	9.5	8.8	8.0	7.4	6.4	5.6	5.3	5.7	6.1	6.4	6.7	6.7
Net Debt (underlying)/Revenue	54.5	51.1	45.3	41.0	37.9	33.7	32.2	35.8	39.2	42.0	44.7	45.4
Interest/Revenue	6.4	5.4	5.0	4.6	3.8	3.7	3.8	3.9	3.9	3.9	4.0	4.0
Gross Capital Expenditure/GSP	2.2	2.5	2.5	2.3	2.4	2.5	2.4	2.4	2.6	2.6	2.5	2.3
Net Financial Liabilities/Revenue	119.7	113.4	94.3	88.3	93.5	95.0	91.8	92.9	106.2	107.4	108.9	108.1
Net Financial Liabilities/GSP	20.8	19.6	16.6	16.0	15.7	15.9	15.0	14.7	16.5	16.4	16.3	16.0
NFL/Revenue	119.7	113.4	94.3	88.3	93.5	95.0	91.8	92.9	106.2	107.4	108.9	108.1
Net Operating Result/GSP	1.0	0.6	1.2	1.0	1.0	0.7	0.4	0.2	0.1	0.3	0.2	0.3
Net Operating Result /Revenue	5.7	3.4	6.8	5.4	5.8	4.0	2.7	1.0	0.5	1.8	1.4	2.2
Net Lending/GSP	0.0	-0.3	0.3	0.5	0.0	-0.2	-0.3	-0.8	-1.0	-0.9	-0.9	-0.7
Net Lending/Revenue	0.0	-1.9	1.8	2.7	0.2	-1.5	-2.1	-4.9	-6.7	-6.0	-6.1	-4.5

Source: NSW Treasury for expenses, revenue and liabilities, GSP from ABS (actual) and NSW Treasury (estimates from 2004-05).

Table 1.3: Key Fiscal Indicators NSW 1997-98 to 2008-09 ($m)

	1997-98 Actual	*1998-99 Actual*	*1999-00 Actual*	*2000-01 Actual*	*2001-02 Actual*	*2002-03 Actual*	*2003-04 Actual*	*2004-05 Revised*	*2005-06 Budget*	*2006-07 Est*	*2007-08 Est*	*2008-09 Est*
General Government Sector												
Total Revenue	27,345	28,944	30,528	32,071	33,830	36,032	37,664	38,686	40,860	42,401	43,992	46,148
Tax Revenue	12,903	14,122	15,191	13,343	13,216	14,154	15,026	15,306	16,269	17,319	18,248	19,205
Total Expenses	26,035	27,905	28,525	30,584	32,265	34,280	36,517	38,116	40,557	41,920	43,448	45,183
Interest Expenses	1,490	1,362	1,343	1,016	868	803	788	817	894	848	829	813
Net Operating Result	1,309	1,038	2,003	1,487	1,566	1,752	1,146	569	303	481	544	965
Gross Capital Expenditure	2,760	3,002	2,733	2,859	3,096	3,349	3,331	3,590	3,825	3,950	3,971	4,062
Net Lending/Borrowing	(426)	(135)	1,322	525	579	463	39	(612)	(979)	(977)	(897)	(550)
Net Debt (underlying)	10,403	9,990	9,385	6,461	5,056	3,244	2,593	3,201	3,691	3,732	3,675	3,449
Net Financial Liabilities	28,989	27,883	24,101	23,132	24,293	25,158	24,790	24,998	27,187	27,834	28,457	28,859
Total State Sector												
Total Revenue	34,495	36,130	39,031	42,651	42,014	44,305	46,163	47,558	50,005	52,135	54,155	56,665
Total Expenses	32,540	34,898	36,359	40,350	39,598	42,554	44,909	47,067	49,746	51,213	53,383	55,401
Interest Expenses	2,201	1,946	1,954	1,954	1,595	1,653	1,734	1,873	1,970	2,052	2,164	2,265
Net Operating Result	1,955	1,232	2,673	2,301	2,416	1,751	1,254	492	259	922	772	1,263
Gross Capital Expenditure	4,455	5,143	5,462	5,368	6,082	6,699	6,707	7,164	8,249	8,702	8,969	8,812
Net Lending/(Borrowing)	(17)	(678)	687	1,152	86	(651)	(987)	(2,337)	(3,363)	(3,139)	(3,290)	(2,559)
Net Debt (underlying)	18,801	18,460	17,664	17,499	15,904	14,930	14,875	17,036	19,612	21,893	24,209	25,751
Net Financial Liabilities	41,304	40,985	36,813	37,680	39,304	42,108	42,373	44,158	53,087	55,975	58,980	61,262

Source: NSW Treasury for expenses, revenue and liabilities, GSP from ABS (actual) and NSW Treasury (estimates from 2004-05).

With most of the key *General Government Debt Elimination Act* (GGDEA) *1995* targets achieved, the Government updated its fiscal strategy with the introduction of the *Fiscal Responsibility Bill (FRB)* 2005. Just as the GGDEA helped New South Wales make the transition to the strong low debt position of 2005, the new legislation puts in place an enhanced range of measures to help the State face the expenditure pressures of the future.

Fiscal Responsibility Bill 2005

The FRB continues the broad thrust of the GGDEA. It contains both medium-term and long term fiscal targets aimed at controlling the level of general government liabilities, and a range of fiscal principles to address specific goals such as constraining the growth in expenditure, and ensuring ongoing prudent risk management. Table 1.4 shows how the FRB retains a number of the fiscal principles from the GGDEA, and where additional principles have been included.

Table 1.4: Comparison of Fiscal Principles and Targets in the General Government Debt Elimination Act 1995 and the Fiscal Responsibility Bill 2005

	Fiscal Responsibility Bill 2005	*General Government Debt Elimination Act 1995*
Short Term Fiscal Target	See fiscal principle No. 1 below	To achieve a sustainable surplus budget for the general government sector by 1998-99
Medium Term Fiscal Target	1. To reduce the level of general government net financial liabilities as a share of GSP to 7.5% or less by 30 June 2010	
	2. To maintain general government underlying net debt as a share of GSP at or below its level as at 30 June 2005	1. To reduce general government net debt to sustainable level by 30 June 2005
Long Term Fiscal Target	1. To reduce the level of general government net financial liabilities as a share of GSP to 6% or less by 30 June 2015	
	2. To maintain general government underlying net debt as a share of GSP at or below its level as at 30 June 2005.	1. To eliminate net debt for the general government sector by 30 June 2020
	3. To eliminate total state sector unfunded superannuation liabilities by 30 June 2030	2. To eliminate total state sector unfunded superannuation liabilities by 30 June 2030

Table 1.4: Comparison of Fiscal Principles and Targets in the General Government Debt Elimination Act 1995 and the Fiscal Responsibility Bill 2005 (cont)

	Fiscal Responsibility Bill 2005	*General Government Debt Elimination Act 1995*
Fiscal Principles	1. Keeping the budget and forward estimates (operating result) in surplus	1. The budget should be framed so as to achieve a fiscal result for the general government sector consistent with the fiscal targets
	2. Constrained growth in net cost of services and expenses	5. Constrained growth in net cost of services and expenses
	3. Managing public sector employee costs	
	4. Capital expenditure proposals evaluation	
	5. Managing state finances with a view to long term fiscal pressures	
	6. Maintaining or increasing general government sector net worth	2. Maintaining or increasing general government sector net worth
	7. Funding employer superannuation liabilities	3. Funding employer superannuation liabilities
	8. Total asset management	4. Asset maintenance
	9. Prudent risk management	6. Prudent risk management
	10. Tax restraint	7. Tax restraint

- Net debt has been retained as a fiscal target to ensure that the hard won gains on debt over the past decade are kept.

- The FRB includes a net financial liabilities target, as it will provide a focus on the full range of the general government sector’s future financial obligations, including debt, unfunded superannuation liabilities, insurance liabilities, and other liabilities (such as accrued employee entitlements).

- The focus on the budget result has been retained, with Fiscal Principle No. 1 referring explicitly to the need to maintain a net operating surplus for the general government sector.

- The need to constrain the growth in net cost of services and expenses is emphasised, with Fiscal Principle No. 2 in the FRB. Previously specified as Fiscal Principle No. 5 in the GGDEA, it has been amended to constrain expenditure growth at or below the long-run average growth in revenue rather than the growth in gross state product. This change emphasises the point that in the long run a government’s capacity to spend on a sustainable basis is limited by the revenue it receives. Growth in gross state product does not always provide a good measure of the growth in revenue capacity.

- The significance of public sector pay outcomes to the overall growth in government expenditure is recognised with the inclusion of Fiscal Principle No. 3 in the FRB (managing public sector employee costs). This principle requires that government policy with respect to negotiating rates of pay and related conditions of employment of general government sector employees is to be consistent with the fiscal targets and principles.

- Fiscal Principle No. 4 states that capital expenditure proposals are to be evaluated in accordance with government procurement policy requirements.

- Given the significant fiscal pressures New South Wales is likely to face in coming years, the FRB includes a fiscal principle that commits the Government to estimating the size of the long-term fiscal gap every five years – commencing in the 2006-07 Budget papers – and assessing the impact of budget measures on the long-term fiscal gap in each year's budget papers.

- The FRB incorporates a number of fiscal principles from the GGDEA largely unchanged. For example, the GGDEA fiscal principles numbered 2 (maintaining or increasing net worth); 3 (funding employer superannuation liabilities); 6 (prudent risk management) and 7 (tax restraint) have been adopted as principles 6, 7, 9 and 10 in the FRB. The objective of fiscal principle number 8 in the FRB (total asset management) is unchanged from principle number 4 in the GGDEA, but the language has been updated to reflect current government practice in asset management.

RECENT PERFORMANCE AND PROGRESS AGAINST FISCAL TARGETS AND PRINCIPLES

The Government reports every year in the Budget papers on the progress achieved against the fiscal targets and principles that comprise the Government's fiscal strategy. This year will be the final year in which it reports against the targets and principles in the *General Government Debt Elimination Act 1995* (GGDEA), as it is anticipated that the Act will be repealed. Commencing with the 2006-07 Budget papers, the Government will report against the fiscal targets and principles of the proposed *Fiscal Responsibility Bill 2005* (FRB).

Table 1.5 below summarises the progress achieved against the fiscal targets and fiscal principles, and assesses the ability to achieve fiscal targets and principles in the future.

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 1.5: 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 9 for a definition of the scope of the GG sector.)	***Achieved.*** A cash surplus of $408 million in 1998-99. Cash surpluses in the four years to 2004-05 totalling $1.9 billion. Deficits are projected for 2005-06 and 2006-07 before a return to surpluses in 2007-08 and 2008-09. (See section 1.5 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 $3.2 billion or 1.1 percent of GSP by June 2005, around a quarter of its June 1995 level of $12.2 billion (7.4 percent of GSP). GG sector underlying net debt will be $3.7 billion (1.1 percent of GSP) by June 2006 and $3.4 billion (0.9 percent of GSP) by June 2009. (See section 1.4 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 super-annuation 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 until 2010-11, and then decline subsequently due to the retirement of active members. Total State underlying net unfunded liabilities reduced by $1.9 billion between June 1996 and June 2005. Total State underlying net unfunded superannuation liabilities are estimated to be $12.9 billion in June 2005 (4.3 percent of GSP), and $13.9 billion in June 2009 (3.6 percent of GSP). Although the new international accounting standards increase the recorded level of unfunded superannuation liabilities over the forward estimates period, they do not affect the long-term funding plans. (See Chapter 4 for more details on superannuation and other financial liabilities.)

Table 1.5: 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 5.5 percent per annum in real terms from June 1997 to June 2005. (Net worth data on a comparable basis is not available for periods prior to June 1997). (See section 1.4 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*.** Since responsibility of whole-of-government Total Asset Management (TAM) policy was transferred to Treasury in mid-June 2003, Treasury has implemented reforms to improve agency performance in physical asset management. The TAM policy has been integrated with the annual budget process with agencies now needing to demonstrate alignment of their physical asset investment with the services outlined in their Results and Services Plans. TAM Guidelines have been simplified and templates developed to assist agencies in preparation of TAM plans. Training in maintenance principles and practices of asset management from key large asset holding agencies was also arranged by Treasury. In 2005-06, the TAM guidelines will be expanded to incorporate Information and Communication Technology assets. Additionally, the reporting by Agencies on asset maintenance will be standardised to capture total expenditure, as well as provide the data in a form enabling direct comparisons to be made on agency performance. Liaison between Treasury and the Department of Infrastructure and Planning and Natural Resources (DIPNR) will be refined to enable long term whole-of-government planning strategies to be more effectively addressed in the capital funding allocation process. (See Budget Papers No.3 & 4 for more details) .

Table 1.5: 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 2005-06 and the 4-year period ending 2008-09, respectively, are: • Total expenses 5.9 percent and 4.3 percent; • NCOS 5.6 percent and 4.6 percent; • Nominal GSP 6.6 percent and 6.2 percent. (See section 1.3 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 NSW Self Insurance 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 1999-00 is to reduce the NSW tax burden in 2005-06 by around $770 million p.a. (See Chapter 3 for details on tax revenue, measures introduced in this Budget, and tax restraint.)

1.3 GENERAL GOVERNMENT SECTOR OPERATING STATEMENT

The general government sector financial statements for 2005-06 and forward years are prepared in accordance with the Australian Equivalents to International Financial Reporting Standards (AEIFRS).

2005-06 BUDGET

For 2005-06, the NSW Budget result is expected to be an operating surplus of $303 million. The Budget result has weakened over the past two years as a result of cyclical and structural factors, and it is anticipated that in coming years the State's finances will continue to be under pressure from relatively slower revenue growth and increased demand for services.

Accordingly, the NSW Budget result is expected to improve slowly until 2008-09, when it is estimated to reach a surplus of $965 million. (see Table 1.6).

(Refer to Chapters 2, 3 and 4 for more comprehensive discussion).

Revenue

Total *State revenue* in 2005-06 is estimated to be $36,053 million, an increase of 6.0 percent on the 2004-05 revised estimate.

Taxation revenue is expected to increase to $16,269 million in 2005-06, an increase of 6.3 percent from the 2004-05 revised estimate. The 2005-06 Budget contains measures to raise additional revenue to fund the provision of government services. These include an increase in the general stamp duty rate on certain insurance policies, restrictions on eligibility for the exemption from mortgage duty on refinanced loans and changes to land tax arrangements.

Commonwealth general purpose grants are expected to rise to $10,675 million, an increase of 5.1 percent from the 2004-05 revised estimate and *Commonwealth specific purpose grants* are expected to rise to $6,121 million, an increase of 4.7 percent from the 2004-05 revised estimate.

Financial distributions from public trading enterprises are expected to increase to $1,906 million, an increase of 15.9 percent over the 2004-05 level. This reflects the robust business conditions and performance of PTEs during 2004-05 and the Government's policy of aiming for a reasonably stable stream of dividends and tax equivalent payments from its portfolio of businesses. The payments mirror, as closely as possible, company tax liabilities that would be incurred if the entities concerned were owned by the private sector.

Total *operating revenues* are expected to increase to $4,807 million in 2005-06, an increase of 2.8 percent from the 2004-05 revised estimate.

(Full details of revenue estimates are provided in Chapter 3).

Expenses

Total expenses in 2005-06 are estimated to be $40,557 million, an increase of 6.4 percent on the 2004-05 revised estimate. The focus of the 2005-06 Budget includes the key areas of:

- ♦ health (additional beds, and improvements to delivery of mental health, ambulance and renal services);
- ♦ education (new Aboriginal education program and continuing class size reductions);
- ♦ child protection and early intervention, disability services (additional programs for patients transferring from children's services and prisoner programs);
- ♦ corrective services (additional programs for inmates with mental health, intellectual and other disabilities as well as rehabilitation programs); and
- ♦ transport (increased support for bus and rail services).

Employee related expenses (excluding superannuation) in 2005-06 are estimated to increase by $714 million over the 2004-05 revised estimate, an increase of 4.3 percent, reflecting expenditure initiatives announced in the Budget and during 2004-05, as well as the impact of public sector pay rises.

Superannuation expenses in 2005-06 are estimated to increase by $556 million over the 2004-05 revised estimate, an increase of 22.3 percent.

Table 1.6: General Government Sector Operating Statement

	2003-04 Actual	2004-05 Budget	2004-05 Revised	2005-06 Budget	2006-07	2007-08 Forward Estimates	2008-09
	$m	$m	$m	$m	$m	$m	$m
State Revenues							
Taxation	15,026	15,520	15,306	16,269	17,319	18,248	19,205
Commonwealth Grants							
- General Purpose	9,942	10,004	10,153	10,675	11,012	11,577	12,159
- Specific Purpose	5,551	5,756	5,849	6,121	6,277	6,373	6,588
Financial Distributions	1,614	1,670	1,644	1,906	1,884	1,917	1,972
Fines, Regulatory Fees & Other	882	979	1,059	1,082	1,009	995	1,047
Total State Revenues	**33,015**	**33,929**	**34,011**	**36,053**	**37,501**	**39,110**	**40,971**
Operating Revenues							
Sale of Goods and Services	2,740	2,729	2,733	2,851	3,031	3,125	3,256
Investment Income	861	778	924	971	909	824	947
Grants and Contributions	564	601	626	638	630	626	630
Other	483	238	391	347	330	307	344
Total Operating Revenues	**4,648**	**4,346**	**4,674**	**4,807**	**4,900**	**4,882**	**5,177**
TOTAL REVENUES	**37,663**	**38,275**	**38,685**	**40,860**	**42,401**	**43,992**	**46,148**
Expenses							
Employee Related							
- Superannuation	2,314	2,450	2,488	3,044	2,973	2,916	3,069
- Other	15,373	16,260	16,436	17,150	17,808	18,558	19,291
Other Operating	7,648	7,533	7,768	7,934	8,442	9,175	9,868
Maintenance	1,366	1,329	1,350	1,412	1,417	1,450	1,502
Depreciation and Amortisation	1,927	1,861	1,991	2,087	2,138	2,183	2,222
Current Grants and Subsidies	5,879	5,645	5,887	6,454	6,583	6,809	6,968
Capital Grants	1,222	1,335	1,379	1,407	1,551	1,368	1,290
Finance	788	785	817	894	848	829	813
Recurrent Treasurer's Advance	...	240	...	175	160	160	160
Total Expenses	**36,517**	**37,438**	**38,116**	**40,557**	**41,920**	**43,448**	**45,183**
BUDGET RESULT	**1,146**	**837**	**569**	**303**	**481**	**544**	**965**
Capital Expenditure [(a)]	3,331	3,614	3,590	3,825	3,950	3,971	4,062

(a) Includes assets controlled under finance leases.

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.

Capital Expenditure

In 2005-06 capital expenditure in the general government sector will total $3,825 million, an increase of 6.5 percent over the 2004-05 revised estimate. Expenditure in 2005-06 is projected to be higher than ever before in real terms and reflects the Government's commitment to improve infrastructure in the State to support the efficient delivery of high quality public services.

The Department of Health program will total $646 million in 2005-06 representing an increase of $78 million, or 13.7 percent, on the 2004-05 revised estimate. In addition to $23 million of projects supported by the Health Super Growth Fund, the 2005-06 program includes expenditure on a new Clinical Information System and upgrading and construction of hospitals and clinics, including mental health facilities, in metropolitan and rural New South Wales.

Capital expenditure by the Department of Education and Training will total $482 million in 2005-06. The focus of the program will be on the continuation of the Schools Improvement Package announced in 2001-02, commencing 21 major new works projects, and continuing 61 projects commenced in previous years. For the TAFE sector, works will commence on 13 new projects and continue on 17 existing projects. In addition, there is $54 million provided in 2005-06 for major enhancements in information and communication technology.

The Department of Ageing, Disability and Home Care is projected to increase its 2005-06 capital program by 82 percent to $66.8 million, with $38.8 million specifically for the purchase of additional group homes. A further $9.5 million is budgeted to modify and upgrade various residential facilities.

The Department of Corrective Services will have a capital program totalling $164.5 million in 2005-06, compared to $70.1 million in 2004-05, an increase of over 135 percent. The program includes the provision of an additional 1,000 inmate beds, continuing the redevelopment of Mulawa Correctional Centre and constructing a new prison hospital at the Long Bay Correctional Centre and a new correctional centre at Wellington.

Further details on capital expenditure are contained in Budget Paper No. 4, *Infrastructure Statement*.

FORWARD ESTIMATES

The GFS operating statement for the period 2006-07 to 2008-09 shows a budget surplus of $481 million, increasing to $965 million in 2008-09.

Revenue

Total revenue is estimated to rise by an average 4.1 percent per annum over the three years to 2008-09. 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 1.2 percent per annum. Commonwealth general purpose grants are expected to increase by an average of 4.4 percent per annum reflecting the growth in GST revenues. Commonwealth specific purpose grants will grow much more slowly at 2.5 percent per annum. Fines and regulatory fees are expected to fall by 6.7 percent in 2006-07 and 1.4 percent in 2007-08, before increasing by 5.2 percent in 2008-09, reflecting lower infringement estimates, and an expected downturn in mining royalties from current boom levels.

Investment income is expected to decrease in 2006-07 and 2007-08 as funds are used to meet superannuation commitments. As from July 2002 contributions dedicated to superannuation have been made to the General Government Liability Management Fund. The reserves are projected to steadily build up to around $5.2 billion by 30 June 2006, attracting investment income. During 2006-07, these reserves will be transferred into the Pooled Fund.

Operating revenues, apart from investment income, are expected to remain relatively static from 2006-07 to 2008-09.

Expenses

Expenses are expected to increase by an average of 3.7 percent per annum over the three years to 2008-09. The increase is below the projected nominal rate of growth in GSP of 5.9 percent per annum, and compares with an average annual increase of 5.8 percent in the three years to 2005-06.

Over the forward estimates period, expenditures are expected to increase across a broad area of government with particular focus on agencies providing health, community and aged care services, as well as significant increases for prisoner programs. Agency initiatives impacting the forward estimates are detailed in Chapter 2 and in Budget Paper No. 3.

Forward estimates of expenditure rely heavily on achievement of public sector wage outcomes consistent with the Government’s wages policy.

Capital Expenditure

Capital expenditure in the general government sector is expected to total $15.8 billion in the four years to 30 June 2009, an increase of 18.3 percent or $2.4 billon over the amount spent in the four year period to 30 June 2005. When added to capital expenditure in the PTE sector, the total state sector capital expenditure program for the four years to 2008-09 totals $34.7 billion. This represents an increase of $8.1 billion or 30.3 percent compared to the previous four year period.

1.4 GENERAL GOVERNMENT SECTOR STATEMENT OF FINANCIAL POSITION

The general government sector statements of financial position for 2005-06 and forward years are prepared in accordance with the Australian Equivalents to International Financial Reporting standards (AEIFRS). Refer to Appendix F for further details.

Table 1.7: General Government Sector Statement of Financial Position, 2004 to 2009, as at 30 June (GFS Basis)

	2004 Actual	*2005 Revised*	*2006 Budget*	*2007*	*2008 Estimate*	*2009*
	$m	*$m*	*$m*	*$m*	*$m*	*$m*
ASSETS						
Financial Assets						
Cash and Deposits	1,869	1,413	953	1,150	1,302	1,012
Advances Paid	1,359	1,268	1,289	1,253	1,252	1,216
Investments, Loans and Placements	9,575	11,784	12,614	7,049	8,002	9,524
Other Non-Equity Assets	5,840	6,099	10,219	10,207	10,331	10,467
PTE/PFE Equity	67,496	67,769	62,949	63,403	63,642	64,173
Other Equity Assets	571	598	639	688	731	774
Total Financial Assets	**86,710**	**88,931**	**88,663**	**83,750**	**85,260**	**87,166**
Non-Financial Assets						
Land and Fixed Assets	80,402	81,234	82,335	83,999	85,540	87,382
Other Non-Financial Assets	1,175	1,475	1,577	1,650	1,775	1,887
Total Non-Financial Assets	**81,577**	**82,709**	**83,912**	**85,649**	**87,315**	**89,269**
TOTAL ASSETS	**168,287**	**171,640**	**172,575**	**169,399**	**172,575**	**176,435**
LIABILITIES						
Deposits Held	68	67	67	68	69	68
Advances Received	1,681	1,633	1,499	1,461	1,413	1,363
Borrowing	10,795	11,978	11,754	11,655	11,680	11,513
Provisions	27,588	29,138	35,878	31,343	33,283	35,264
Other Non-Equity Liabilities	3,872	3,344	3,703	3,654	3,629	3,644
TOTAL LIABILITIES	**44,004**	**46,160**	**52,901**	**48,181**	**50,074**	**51,852**
NET WORTH	**124,283**	**125,480**	**119,674**	**121,218**	**122,501**	**124,583**
Underlying Net Debt[(a)]	**2,593**	**3,201**	**3,691**	**3,732**	**3,675**	**3,449**
- as a % of GSP	**0.9**	**1.1**	**1.1**	**1.1**	**1.0**	**0.9**
Net Financial Liabilities[(b)]	**24,790**	**24,998**	**27,187**	**27,834**	**28,457**	**28,859**
- as a % of GSP	**8.8**	**8.3**	**8.4**	**8.2**	**7.9**	**7.6**

(a) Adjusted for the deferral of superannuation contributions for the period 1 July 1999 to 30 June 2008. As from 1 July 2002 contributions dedicated to superannuation are made to the General Government Liability Management Fund, reducing unadjusted net debt.

(b) Excluding PTE/PFE equity.

Net Worth

Net worth is estimated to be $125.5 billion at 30 June 2005, an increase of $1.2 billion from 30 June 2004 (see Table 1.7). Investments in the public trading enterprise (PTE) and public financial enterprise (PFE) sectors of $67.8 billion at 30 June 2005, are included within the estimate of net worth.

For 30 June 2006, the impact of adopting AEIFRS will result in a decline in net worth to $119.7 billion. In the absence of adopting AEIFRS, net worth would have increased to $125.9 billion. (Refer to Appendix F for details).

Further information regarding the financial results and projections of the PTE sector is reported in Chapter 5. A review of the PTE and general government capital expenditure programs is also contained in Budget Paper No.4.

Net Financial Liabilities

There is expected to be little movement in net financial liabilities at 30 June 2005, rising to $25 billion from the $24.8 billion at 30 June 2004. However, as a share of GSP, net financial liabilities are expected to fall to 8.3 percent at 30 June 2005 from the 8.8 percent level at 30 June 2004.

At 30 June 2006, net financial liabilities are expected to increase to $27.2 billion (8.4 percent of GSP).

Chapter 4 provides a detailed analysis of net financial liabilities.

Underlying Net Debt

At 30 June 2006, net debt, adjusted for the impact of the General Government Liability Management Fund, is expected to increase to $3.7 billion from the $3.2 billion projected for 30 June 2005. This compares to the level of net debt at 30 June 2004 of $2.6 billion.

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

Forward Years

The value of land and fixed assets is projected to rise by more than $6 billion between June 2005 and June 2009. This equates with the Government’s capital expenditure program, with expenditure totalling $15.8 billion over the period offset by depreciation of $8.6 billion and asset sales and other movements of $1.5 billion.

Investments are projected to decrease by $5.6 billion in 2006-07, primarily due to the $6.5 billion contribution by the General Government Liability Management Fund to reduce the Government's superannuation obligations. Investments will steadily increase by $2.5 billion over 2007-08 and 2008-09.

A projected decrease in provisions of $4.5 billion from June 2006 to June 2007 relates largely to the transfer of funds accumulated in the General Government Liability Management Fund for the payment of gross superannuation liabilities in the Government's defined benefits schemes. Thereafter, provisions are expected to increase steadily as liabilities for long service leave and superannuation accrue.

Net financial liabilities will increase by around $1.7 billion to $28.9 billion during the period 30 June 2006 to 30 June 2009. However, as a share of GSP, they are projected to fall from 8.4 percent to 7.6 percent. This supports the Government's new fiscal targets that include reducing net financial liabilities to 7.5 percent or less by 30 June 2010, and 6 percent or less by June 2015.

The amount of underlying net debt is expected to increase over the next two years to $3.7 billion, while remaining at a constant 1.1 percent of GSP. In 2008 and 2009, the underlying net debt is projected to progressively fall to $3.4 billion (0.9 percent of GSP).

1.5 GENERAL GOVERNMENT SECTOR STATEMENT OF CASH FLOWS

Table 1.8 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 2004-05 are $302 million lower than budget due to a greater increase in operating payments than in state and operating revenue received during the year.

Net cash flows from investments in non-financial assets in 2004-05 are $58 million more favourable than budget. This is due mainly to the rescheduling of a number of capital projects which are to be undertaken in 2005-06 and forward years.

After adjusting for the prepayment of superannuation contributions to the General Government Liability Management Fund, a cash deficit of $824 million is forecast for 2005-06, and $205 million in 2006-07, returning to cash surpluses thereafter.

Table 1.9 shows GFS cash results from 1989-90 to 2008-09.

Table 1.8: General Government Sector Statement of Cash Flows (GFS Basis)

	2003-04 Actual $m	2004-05 Budget $m	2004-05 Revised $m	2005-06 Budget $m	2006-07 $m	2007-08 Estimate $m	2008-09 $m
Cash Receipts from Operating Activities							
Taxes Received	14,979	15,542	15,301	16,245	17,284	18,235	19,191
Receipts from sales of goods & services	2,836	3,026	3,063	3,097	3,249	3,332	3,505
Grants/Subsidies Received	15,856	15,796	16,098	17,121	17,587	18,255	19,055
Other Receipts	5,107	4,489	4,981	5,181	5,654	5,369	5,608
Total Cash Receipts from Operating Activities	**38,778**	**38,853**	**39,443**	**41,644**	**43,774**	**45,191**	**47,359**
Cash Payments from Operating Activities							
Payments for goods & services	(25,645)	(27,154)	(27,435)	(28,748)	(36,347)	(31,331)	(33,006)
Grants & Subsidies Paid	(5,502)	(5,547)	(5,711)	(6,188)	(6,490)	(6,476)	(6,512)
Interest Paid	(863)	(747)	(781)	(1,070)	(849)	(741)	(800)
Other Payments	(2,360)	(1,612)	(2,025)	(1,978)	(2,043)	(2,027)	(2,056)
Total Cash Payments from Operating Activities	**(34,370)**	**(35,060)**	**(35,952)**	**(37,984)**	**(45,729)**	**(40,575)**	**(42,374)**
Net Cash Flows from Operating Activities	**4,408**	**3,793**	**3,491**	**3,660**	**(1,955)**	**4,616**	**4,985**
Cash Flows from Investments in Non-Financial Assets							
Purchases of New Non-Financial Assets	(2,902)	(3,474)	(3,314)	(3,713)	(3,854)	(3,896)	(4,053)
Sale of Non-Financial Assets	408	615	513	563	472	481	453
Total Cash Flows from Investments in Non-Financial Assets	**(2,494)**	**(2,859)**	**(2,801)**	**(3,150)**	**(3,382)**	**(3,415)**	**(3,600)**
Cash Flows from Investments in Financial Assets							
Financial Assets for Policy Purposes	186	1	92	142	202	132	60
Financial Assets for Liquidity Purposes	(1,542)	(781)	(2,207)	(836)	5,544	(951)	(1,521)
Cash Flows from Financing Activities							
Advances Received (net)	(139)	(28)	(13)	(136)	(37)	(48)	(48)
Borrowing (net)	367	(150)	1,071	(141)	(176)	(184)	(168)
Deposits Received (net)	6	(1)	(1)	...	...	(1)	(1)
Other Financing (net)	(1)	(21)	...	...	...	...	...
Total Cash Flows from Financing Activites	**233**	**(200)**	**1,057**	**(277)**	**(213)**	**(233)**	**(217)**
Net Increase/(Decrease) in Cash held	**791**	**(46)**	**(368)**	**(461)**	**196**	**149**	**(293)**
Net Cash from Operating Activities and Investments in Non-Financial Assets	**1,914**	**934**	**690**	**510**	**(5,337)**	**1,201**	**1,385**
Assets acquired under finance leases	(312)	(159)	(167)	(95)	(95)	(95)	...
Surplus/(Deficit)	**1,602**	**775**	**523**	**415**	**(5,432)**	**1,106**	**1,385**
Impact of prepaid superannuation contributions							
Liability Management Fund	(1,200)	(1,140)	(1,137)	(1,239)	5,227	(1,069)	(1,188)
Adjusted Surplus/(Deficit)	**402**	**(365)**	**(614)**	**(824)**	**(205)**	**37**	**197**

Table 1.9: General Government Cash Results (GFS basis), 1988-89 to 2008-09 [(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***
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							34,370	38,778	**4,408**	(3,214)	408	(1,200)	**402**
2004-05 (est)							35,952	39,443	**3,491**	(3,481)	513	(1,137)	**(614)**
2005-06 (est)							37,984	41,644	**3,660**	(3,808)	563	(1,239)	**(824)**
2006-07 (est)							45,729	43,774	**(1,955)**	(3,949)	472	5,227	**(205)**
2007-08 (est)							40,575	45,191	**4,616**	(3,991)	481	(1,069)	**37**
2008-09 (est)							42,374	47,359	**4,985**	(4,053)	453	(1,188)	**197**

(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.

1.6 GENERAL GOVERNMENT SECTOR OPERATING STATEMENT- 2004-05 RESULT

The Budget surplus for 2004-05 is estimated to be $569 million, compared with the 2003-04 actual result of $1,146 million. Revenues are expected to be 2.7 percent, or $1,022 million, higher than in 2003-04 and expenses are expected to be 4.4 percent or $1,599 million higher. Capital expenditure is projected to exceed 2003-04 by 7.8 percent or $259 million.

The revised Budget surplus for 2004-05 is estimated to be $268 million lower than the 2004-05 Budget estimate (see Table 1.10). Revenues are expected to be 1.1 percent or $410 million above Budget, and expenses are expected to be 1.8 percent or $678 million higher than Budget. Capital expenditure is projected to be lower than budget by 0.7 percent or $24 million.

Further details of variations in 2004-05 are highlighted in Appendix D.

Table 1.10: General Government Sector 2004-05 Operating Statement - Estimated Result

BUDGET RESULT

	2004-05		
	Budget *$m*	*Revised* *$m*	*Variation* *$m*
State Revenues			
Taxation	15,520	15,306	(214)
Commonwealth Grants			
- General Purpose	10,004	10,153	149
- Specific Purpose	5,756	5,849	93
Financial Distributions	1,670	1,644	(26)
Fines, Regulatory Fees & Other	979	1,059	80
Total State Revenues	**33,929**	**34,011**	**82**
Operating Revenues			
Sale of Goods and Services	2,729	2,733	4
Investment Income	778	924	146
Grants and Contributions	601	626	25
Other	238	391	153
Total Operating Revenues	**4,346**	**4,674**	**328**
TOTAL REVENUE	**38,275**	**38,685**	**410**
Expenses			
Employee Related			
- Superannuation	2,450	2,488	38
- Other	16,260	16,436	176
Other Operating	7,533	7,768	235
Maintenance	1,329	1,350	21
Depreciation and Amortisation	1,861	1,991	130
Current Grants and Subsidies	5,645	5,887	242
Capital Grants	1,335	1,379	44
Finance	785	817	32
Recurrent Treasurer's Advance	240	...	(240)
Total Expenses	**37,438**	**38,116**	**678**
BUDGET RESULT - SURPLUS/(DEFICIT)	**837**	**569**	**(268)**
Capital Expenditure	3,614	3,590	(24)

CHAPTER 2: GENERAL GOVERNMENT SERVICE DELIVERY

- ♦ The Budget addresses the Government's key strategic priorities:
  - Health;
  - Education;
  - Welfare (Child Protection and Disability Services);
  - Public transport; and
  - Infrastructure provision.
- ♦ Key initiatives include:
  - improving the capacity of and access to hospital, emergency and other health services, including mental health services;
  - a record $646 million in health capital expenditure, including the commencement of the redevelopment of Orange/Bloomfield, Bathurst and Queanbeyan Hospitals;
  - improving the educational outcomes of aboriginal students through a range of initiatives identified in the Aboriginal Education Review and continuing with the reduction of class sizes for K-2;
  - additional caseworkers dealing with child protection, the expansion of out-of-home care services and improved services and accommodation for people with a disability;
  - a major program to acquire over 600 new rail carriages, costing in excess of $2 billion, to improve service reliability and passenger comfort, and a continued focus on safety with the rail improvement plan; and
  - continuation of the more than $1 billion Rail Clearways Program to untangle the metropolitan network, improve reliability and minimise delays.

2.1 INTRODUCTION

The demand for government services continues unabated. Each year the Government attempts to reconcile these demands within a context of limited resources. Inevitably, this involves choices among competing worthwhile programs.

The tight fiscal circumstances in prospect over the next few years have sharpened the focus of the annual budget allocation decision. In response, the Government has commenced a comprehensive expenditure review process to access value for money from individual programs. This review process is expected to both support the decisions made as part of the 2005-06 Budget and establish a firmer base on which decisions can be made in future Budgets.

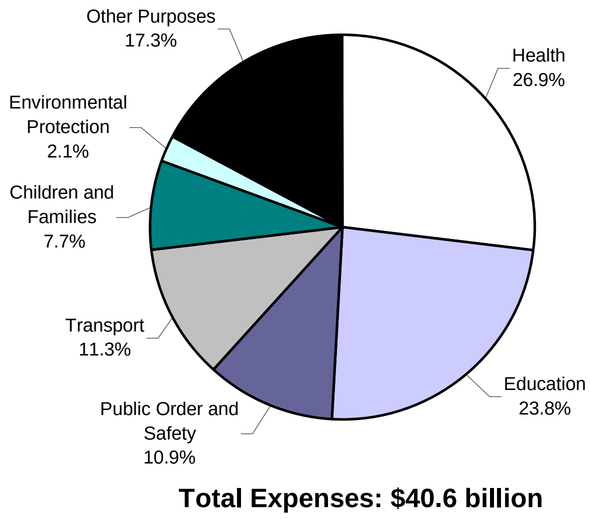
A key factor that determines the Government's ability to deliver high quality public services is the efficiency of the public sector. Like the rest of the economy, the public sector needs to improve its efficiency in a sustainable manner. In this context, the 2005-06 Budget sees expenditures reordered in line with the Government's strategic priorities.

The priorities of the Government are 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 contained within the 2005-06 Budget build on progress already achieved in these areas.

2.2 OVERVIEW: GENERAL GOVERNMENT EXPENSES AND CAPITAL EXPENDITURE

Total general government expenses for the 2005-06 Budget are $40.6 billion. This is an increase in nominal terms of 8.2 percent compared to the 2004-05 Budget, and 6.4 percent compared to the revised estimate for 2004-05.

Chart 2.1: General Government Total Expenses, 2005-06: by Policy Area



Most of the growth in expenditure has targeted service improvements in health, public transport, education, public order and safety, support for children and families and protecting the environment.

Over the past decade significant amounts of additional funding have been provided to improve services in these areas. Table 2.1 highlights these increases, which have been facilitated by the $1 billion reduction in annual interest costs as the State's debt levels have fallen.

The rise in health expenditure as a share of total expenditure from 24.5 percent to 26.9 percent between 1996-97 and 2005-06 reflects its policy priority as well as the costs of medical technology, the onset of increased costs as the population ages and higher consumer expectations over the performance of the system.

Education's share of total general government expenses has increased from 23.7 percent in 1996-97 to 23.8 percent in 2005-06, with Government schools' share increasing from 15.5 percent to 16.9 percent despite a fall in enrolments. Additional expenses have targeted a broad range of education improvements including literacy and numeracy programs, reduced class sizes in K-2, computers in schools and equity programs.

Table 2.1: 1996-97 to 2005-06 – Share and Growth in Expenses for Priority Areas

	1996-97 *$ billion*	*Share of Expenses (percent)*	*2005-06* *$ billion*	*Share of Expenses (percent)*	*Growth in Expenses (percent)*
Health	6.2	24.5	10.9	26.9	76.4
Education	6.0	23.7	9.7	23.8	61.0
- *Government schools*	*3.9*	*15.5*	*6.8*	*16.9*	*74.7*
Transport	2.5	10.0	4.6	11.3	80.8
Public Order and Safety	2.4	9.5	4.4	10.9	83.6
Children and Families	1.7	6.9	3.1	7.7	80.6
Protecting the Environment	0.5	2.0	0.8	2.1	68.2

Section 2.3 provides more detail on the implementation of strategic objectives and major expenditure measures in the Budget, with Budget Paper No. 3 providing details of expenses by portfolio and by agency.

Capital expenditure for the general government sector will average almost $4 billion annually in the four years to 2008-09. The total value of capital expenditure over the next four years is $15.8 billion, which is 18.3 percent higher than for the four years ending 2004-05.

Budget Paper No. 4 provides details of capital expenditure by portfolio and by agency for both general government and public trading enterprise sectors.

2.3 STRATEGIC OBJECTIVES AND MAJOR SERVICE IMPROVEMENTS

Building Healthier Communities

Access to quality health care remains one of the core commitments of the Government. To this end, total expenditure by NSW Health will reach $10.9 billion in 2005-06, an increase of 9 percent on the 2004-05 Budget and a doubling of health expenditure during the Government's term.

The Government is making this commitment in the face of rising demand. Population increases and higher numbers of older patients with complex conditions being admitted to hospital, especially from Emergency Departments, has lead to a significant increase in demand on the system. At the same time, Commonwealth funding for hospitals continues to grow at a lower rate than overall hospital expenditure, forcing the State Government to assume a greater funding burden each year. For example, New South Wales expenditure on the hospital system grew by 7.7 percent in 2003-04, while Commonwealth funding under the Australian Health Care Agreement grew by only 4.4 percent.

In order to meet these challenges the Government will not only continue to provide additional resources but also pursue reform of the health system to deliver better outcomes to patients and improve efficiency.

The Government will continue to implement its key strategies to respond to these pressures. Key elements to receive ongoing funding in 2005-06 include:

- improving capacity of and access to hospital, emergency and other health services, including mental health services;
- building a sustainable health workforce;
- introducing reforms to ensure the best possible patient outcomes through the provision of high quality and integrated care in the most appropriate setting; and
- redirecting resources to front-line services and improving accountability.

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 Other Health Services

In 2005-06 the Government will continue to enhance the capacity of the hospital system by funding the following enhancements:

- opening at least a further 320 permanent beds (part of the $202 million package to open 720 new beds recently announced by the Government);

- 57 ICU beds and cots, for adults, children and infants to meet growing demand for high support beds; and

- $30 million over two years to reduce elective surgery waits. This will supplement an additional $30 million expenditure on elective surgery already committed in calendar year 2005, $20 million of which will be funded by a one off benefit from Area Health Service amalgamations. Area Health Services are also being asked to develop plans to make surgery more predictable.

The Government is also continuing its program to improve mental health services. Mental health expenditure will be $854 million in 2005-06, an increase of $71 million on 2004-05. An additional $24 million has been made available as part of the $241 million, 4 year package announced in the 2004-05 Budget. The Package provides: more mental health beds; more supported accommodation places; and workforce development. The Government will also commit an additional $22 million in the 2005-06 Budget to provide: specialist mental health emergency facilities; better community services in rural areas; and improved rehabilitation services.

This Budget also provides funding for additional staff and vehicles for the Ambulance Service. $10 million will be made available to employ 100 new staff in metropolitan areas and to lease new vehicles. This is in addition to the commitment made in the 2003-04 Budget to employ 230 new Ambulance Officers in rural areas over a four year period. Medical retrieval services for rural and regional New South Wales and helicopter retrieval for children receiving critical care are being enhanced at a cost of $2.2 million.

The Government's commitment to improve cancer treatment services continues. An additional $30 million will be provided to the New South Wales Cancer Institute in 2005-06 for the formation of specialist clinical teams to provide: integrated care; improved education and screening; and research. Additional funding of $1.4 million announced in the 2004-05 Budget will also be made available to support enhanced radiotherapy services.

An additional $5 million will be provided in 2005-06 ($52 million over 4 years) to provide more renal dialysis capacity, and a further $1 million increase for rural dialysis. Additional funding for specialist services, such as severe burns treatment and interventional neuroradiology is also provided.

Building a sustainable Health workforce

One of the major challenges that faces the health system is a shortage of doctors, nurses and other health professionals. The Government has put in place a number of strategies to deal with this, including the Nurse Re-connect program and the recruitment of qualified health professionals from interstate and overseas.

These national shortages have arisen as the result of the failure of the Commonwealth Government to adequately consider workforce planning issues and fund adequate university positions. The State Government has been engaging with the higher education sector in an attempt to address these issues. It has also adopted innovative approaches to nurse education, including the development of a nursing studies component for year 11 and 12 students.

The Government will invest an additional $8.1 million to expand the Trainee Enrolled Nurse Program by 300 places in 2005-06. This will provide for 15 weeks at TAFE and on the job training in hospitals throughout the State.

Focussing on patient outcomes, clinical excellence and integration of care

Additional resources are not the total solution to the provision of better health services. Those resources must also be accompanied by reforms to the way the health system operates to ensure that patients receive high quality, integrated care in the most appropriate setting. To this end the Government has commenced major programs aimed at fostering clinical excellence and a reform initiative to ensure that patients receive high quality, integrated care in the most appropriate setting.

Funding for the Clinical Excellence program announced in 2004 increases by another $5 million to $15 million in 2005-06. This will allow the quality of health care to be closely monitored and the development of systems to ensure clinical excellence.

In addition, a major clinical redesign program has commenced to improve hospital practice by focussing on patient care. This involves clinicians, nurses, other health professionals and administrators working together to

- improve patient treatment;
- make each patient’s stay in the health system smooth and safe; and
- provide better working environments for all staff.

It will focus on ensuring that care is clearly focussed on the entire needs of the patient, is integrated and provided in the most appropriate setting.

Specialist teams will be established in each Area Health Service to oversee the clinical redesign process. Funding will allow backfilling of positions, allowing key clinical staff to undertake the redesign with the assistance of change management specialists to ensure that long lasting changes to the workplace occur.

Redirecting Resources to Front-Line Health Services

The Government has taken steps to ensure that the cost of managing the Health system is minimised so that the amount of expenditure on the provision of frontline services is maximised. To this end the number of Area Health Services has been reduced from 17 to 8 and governance arrangements have been reformed. This is expected to result in significant savings in administrative costs and improved accountability.

In 2005-06 the Government intends to progress the consolidation of business support functions across the health system. This will improve the effectiveness, consistency and accessibility of support services across the State, provide more consistent information on the performance of the system and free up resources to be directed to frontline services.

Health Capital Works

NSW Health will spend a record $646 million on capital works in 2005-06, part of a four year $2.5 billion program. Major new capital works include upgrades at metropolitan hospitals (Auburn, Blacktown, Concord, Nepean, Ryde and Royal North Shore), further expansion and improvement of mental health facilities to provide 103 additional beds, the commencement of major redevelopments at Bathurst, Orange and Bloomfield Hospitals ($148.5 million over four years), improvements to Northern Beaches Hospitals, the Queanbeyan Hospital redevelopment and other rural hospital and community health service upgrades.

$466.2 million of the capital budget has been allocated to the continuation of projects announced in previous Budgets. This includes the Newcastle Strategy, redevelopment of a number of rural hospitals, the redevelopment of Royal Prince Alfred and Concord Hospitals and community health facilities in the central Sydney area, the major redevelopment of Royal North Shore Hospital, the redevelopment of hospitals and health services on the Central Coast and development of improved radiotherapy services across the State.

Table 2.2: Major Service Improvements in Health

	2005-06 Budget $m	*2006-07 Estimate $m*	*2007-08 Estimate $m*	*2008-09 Estimate $m*
Major Service Improvements affecting expenses[(a)]:				
Cancer Institute	30.0	65.0	65.0	65.0
Radiotherapy treatment	0.9	6.4	6.4	6.4
Registrars for medical physicists	0.5	1.0	1.0	1.0
Plan for nurses	0.4	0.6	0.6	0.6
Renal services in rural areas	1.0	2.0	2.0	2.0
More rural ambulance staff	5.0	10.9	10.9	10.9
Mental Health Services – 2004-05 program	23.9	43.2	75.2	75.2
Clinical Excellence Reforms	5.0	5.0	5.0	5.0
Hospital beds and increased capacity	202.0	202.0	202.0	202.0
Implementing health care reforms	19.7	19.7	19.7	…
Renal dialysis services	5.0	12.0	15.0	20.0
Elective surgery	15.0	15.0	…	…
Mental Health - psychiatric emergency services, community and rehabilitation services	22.0	22.0	22.0	22.0
NSW Ambulance Service – extra metropolitan staff and vehicles	10.0	10.0	10.0	10.0
Over 300 additional Trainee Enrolled Nurse places	8.1	8.1	8.1	8.1
Increased ICU beds and cots for adults, children and infants	25.1	25.1	25.1	25.1
Interventional neuroradiology services	4.6	4.6	4.6	4.6
Severe burns patients	2.2	2.2	2.2	2.2
Medical retrieval services for rural and regional areas	1.8	1.8	1.8	1.8

Table 2.2: Major Service Improvements in Health (cont)

	2005-06 Budget $m	2006-07 Estimate $m	2007-08 Estimate $m	2008-09 Estimate $m
Major Capital Service Improvements in the Budget[b]:				
Metropolitan Hospital Upgrades	14.8	8.2	…	…
New and better mental health facilities	12.3	20.5	7.7	1.0
Upgrades to rural hospitals and services	6.6	7.6	5.0	2.0
Redevelopment of Bathurst, Orange, Bloomfield Hospitals	6.0	21.0	47.0	74.5
Improvements to Manly and Mona Vale Hospitals	3.6	1.3	…	…
Redevelopment of Queanbeyan Hospital	3.5	18.5	22.0	…
Redevelopment of Gunnedah Ambulance Station	0.8	…	…	…
Local initiatives	12.5	…	…	…

(a) Expenses shown are for new programs or the expansion of existing programs in 2005-06. The full extent of program expenses is shown in Budget Paper 3, by portfolio and agency.

(b) Expenditures shown are for new capital projects as well as the expanded scope of existing projects in 2005-06. The full extent of capital expenditure is shown in Budget Paper 4, by portfolio and agency.

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.

Total expenses for the Department of Education and Training will be $9,567 million, an increase of $403 million, or 4.4 percent on the 2004-05 Budget. This includes an additional $315 million for government schools, $38 million for non-government schools and $50 million for TAFE NSW and related services.

The Budget supports a range of service improvements, including:

♦ *Addressing skills shortages.* The NSW Government is moving to head off potential skills shortages that would otherwise restrain the NSW economy. A detailed plan - **Securing Our Skilled Workforce -** released on 20 March 2005 will focus government training resources on skill shortages. It will produce more trained and job ready workers in the areas where the economy needs them most. Further details of these initiatives, such as TradeStart, providing a $100 rebate on the cost of car registration and funding for Group Training are included in Box 6.4 of Chapter 6.

- *A better start in the early years.* A child’s early years are critical in laying the foundations for success at school. Twenty-one new public pre-schools have been established and $476 million in recurrent funding over the next four 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 four years, starting with disadvantaged schools. Capital funding of $107 million over four years provides additional classrooms to support this initiative.

- *Improving literacy and numeracy skills.* According to the OECD, New South Wales now has the best literacy rates for 15 year olds in the developed world. The Department’s successful Literacy and Numeracy Strategy, costing $538 million over the next four years, will continue to benefit all students through programs such as Reading Recovery, Count Me in Too, Book Raps online book discussion across the State and extension of the Premier’s Reading Challenge.

- *Enhancing teacher quality.* The Institute of Teachers, established through Government funding of $20 million over the first five years of operation, has the objective of assuring the quality of teaching for all students and enhancing the status and standing of teachers throughout the community. The Institute will develop policies for the accreditation of teachers against professional standards, the approval of providers of professional development programs and the endorsement of courses of initial teacher education. Over the next four years the Department will spend $250 million to ensure an adequate supply of teachers in key learning areas and enhance teacher professional development.

- *Better learning outcomes for Aboriginal students.* The Department will implement most of the recommendations from the Review of Aboriginal Education. This includes an additional $53 million being spent over the next four years on initiatives including establishing community schools, which will involve individualised learning plans, teacher incentive packages, curriculum revision and extended student assessment and testing. The Government is committed to overcoming the multiple disadvantages facing Aboriginal students by developing flexible, innovative approaches to meeting the diverse learning needs of Aboriginal students.

- *Greater support for students with special learning needs.* Support for students attending special schools, special classes in regular schools and integration of students with special needs into mainstream classes will be strengthened through an additional $130 million over the next four years. This includes employing 660 new teachers’ aides over three years. When fully implemented in 2007, every special class of students with intellectual and physical disabilities will have a teacher’s aide.

- *Targeted programs for behaviour and discipline.* Over the next four years $60 million will be spent on improving the range of placement and support options for disruptive students. Eight new behaviour schools and seven new tutorial centres will be established by 2007. Additional specialist teacher positions will be established to assist schools to manage difficult students.

- *Better access to the benefits of modern technology in the classroom.* Expenditure of over $940 million will be incurred 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.

- *Higher levels of safety and security for staff and students.* The Government will continue to increase the safety and security of staff, students and school property in public schools, with a further $55 million to be provided over the next four years. This includes the provision of security patrols, security fencing and new and upgraded security alarms being provided to at-risk schools.

- *Improving the learning and teaching environment.* The Schools Improvement Package will continue with $1.4 billion being spent over the next four years on new schools and a significant upgrade of school accommodation, including new school halls, gymnasiums, security fences, toilets and the purchase of computers and expansion of internet services for staff and students. A further $84 million will be spent in 2005-06 upgrading TAFE infrastructure, including the commencement of 13 new major TAFE projects.

- *Better value-for-money in school construction.* The Department is tendering a new public-private partnership project in 2005 for the design, construction and facilities management of nine new schools in growth areas of New South Wales. This project builds on the existing nine public-private partnership schools which are now operational.

Table 2.3: Major Service Improvements in Education[(a)]

	2005-06 Budget $m	*2006-07 Estimate $m*	*2007-08 Estimate $m*	*2008-09 Estimate $m*
Major Service Improvements affecting expenses[(a)]:				
Aboriginal Education Enhancement	7.8	16.9	14.2	14.4
Class size reduction program	53.7	87.5	97.1	97.1
Special needs students and integration	19.4	22.8	25.0	25.0
Supporting apprenticeship programs	7.1	4.1	4.1	4.1

Table 2.3: Major Service Improvements in Education[(a)] (cont)

	2005-06 Budget $m	*2006-07 Estimate $m*	*2007-08 Estimate $m*	*2008-09 Estimate $m*
Major Capital Service Improvements in the Budget[(b)]:				
20 new major works projects for schools including 2 new schools and 18 facility upgrades	16.2	50.9	30.9	2.0
12 new major works projects for TAFE NSW	22.1	27.5	8.4	2.0

(a) *Expenses shown are for new programs or the expansion of existing programs in 2005-06. The full extent of program expenses is shown in Budget Paper 3, by portfolio and agency.*

(b) *Expenditures shown are for new capital projects as well as the expanded scope of existing projects in 2005-06. The full extent of capital expenditure is shown in Budget Paper 4, by portfolio and agency.*

Improving Transport Services

The Government has pursued a range of reforms in transport services, fundamentally designed to secure for the long term, a safe, reliable and clean public transport system.

In 2005-06 the Budget provides more than $2.9 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 $343 million or 13.3 percent more than last year's Budget.

In addition to budget grants, expenditures by Government transport service providers are financed from their own revenues and from borrowings. Public transport fares for Government service providers are regulated by the Independent Pricing and Regulatory Tribunal (IPART). In recent years fare increases have only been modest, meaning that expenditure growth has largely been met by increases in Budget support.

Rail Services

The New South Wales rail network is one of the world's most complex. Every day CityRail moves close to one million passengers to and from 306 stations, in a fleet of more than 1,500 carriages, covering over 2,000 kilometres of track.

Budget support for rail services in 2005-06 is $2,024 million, an increase of $257 million or 14.5 percent on the 2004-05 Budget. Increased funding will support operating expenditures, including maintenance of rollingstock and continued investment in capital works across the rail system.

Delivering safe, reliable and clean services is a priority. CityRail has introduced a number of safety improvements over the past 18 months, resulting in a safer and slower network. A new timetable, to be introduced in the second half of 2005, reflects a safer operating environment and will improve reliability, particularly for morning and evening peak periods.

During 2005-06 a series of major operational reforms designed to produce a sustainable improvement in rail services will be introduced or continued:

- a rail improvement plan developed from the 127 recommendations of the Special Commission of Inquiry into the Waterfall Rail Accident. The first stage of implementation is expected to cost around $250 million over three years, including $43 million on vigilance back up braking systems on CityRail and CountryLink trains. Implementation of some of the recommendations requires further investigation of new technologies and risk assessments;

- development of the more than $1 billion Rail Clearways Program, announced in last year's Budget, to untangle the network's 14 interconnected lines into five rail clearways capable of independent operation;

- the commitment to acquire over 600 new rail carriages for the network, costing in excess of $2 billion, with a significant improvement in both reliability and passenger comfort; and

- the development of a new timetable, to operate from the second half of 2005, which better matches the capacity of the rail system with customer needs.

In 2005-06, Budget grants to RailCorp for CityRail and CountryLink services will exceed $1.3 billion. This includes a general operating subsidy, funding for major maintenance and subsidies for fare concessions to pensioners and students.

In addition, more than $1 billion will be available from Budget grants and borrowings to RailCorp and to the Transport Infrastructure Development Corporation, for major capital expenditure including new rollingstock, improvements to safety, security and customer amenity and for continuation of works on the $2 billion Epping to Chatswood Rail Line, due for completion in 2008.

Bus Services

In 2005-06, Budget grants to State Transit for bus services will be $257 million, an increase of $19.4 million over the 2004-05 Budget. This includes funding for fare concessions for pensioners and students. State Transit will spend $83.7 million on the provision of new buses and other infrastructure improvements.

A number of key initiatives commenced in 2004-05 will be further progressed in 2005-06. These include:

- revised bus network and service planning arrangements, including the identification of strategic bus corridors and new service planning guidelines. An additional $90 million will be available over three years ($10 million in 2005-06) for an expanded bus priority program;
- revised contract arrangements based around 15 new regions, with a single operator to lead each region. The new arrangements replace the current individual contracts with around 40 operators and will improve service quality, performance and assist with fleet management;
- an improved focus on local transport needs. Regional Transport Co-ordinators within the Ministry of Transport have funded over 100 trials of new transport arrangements. These trials will continue in 2005-06 to develop more flexible transport solutions to meet local community needs; and
- development of "Tcard", a contact-less smart card integrated ticketing system for all public transport operators in the Greater Sydney Region, which will eliminate the need for separate tickets for train, bus and ferry travel and improve the convenience and attraction of using public transport. The project involves a trial of the system in 2005-06, with system introduction commencing mid 2006.

Roads

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 2005-06 will be $2.4 billion. This includes $1.3 billion on capital expenditure.

Key projects which are being undertaken, or nearing completion, include the:

- Orbital Strategy, including the Westlink M7 Motorway ($1.5 billion) and the Lane Cove Tunnel ($1.1 billion) - in 2005-06 Budget funding of $27 million will be provided for Orbital projects. Financing of the projects will be provided mainly by the private sector;
- $524 million North West Transitway Network;

- $393 million upgrade of Old Windsor Road and Windsor Road in north-western Sydney;
- 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 2.4: Major Service Improvements in Transport

	2005-06 Budget $m	2006-07 Estimate $m	2007-08 Estimate $m	2008-09 Estimate $m
Major Service Improvements affecting capital expenditure[(a),(b)]:				
Rail Services:				
Rollingstock acquisition incl				
498 air conditioned rail cars[(c)]	17.1	…	…	…
81 Outer suburban rail cars – Tranche 2	84.0	134.3	43.4	…
XPT Upgrade	9.0	4.0	6.0	…
Easy Access Upgrades	4.6	11.8	…	…
Vigilance control systems – Stage 2	8.0	2.0	…	…
Resignalling Illawarra Line – Oatley to Cronulla	15.5	15.5	18.0	…
Train radio onboard communications	2.6	2.6	…	…
Central Station power upgrade	0.5	1.5	4.5	…
Rhodes Station upgrade	10.5	…	…	…
Bus Services:				
124 new buses – Sydney and Newcastle networks	60.1	…	…	…
Roads: [(d)]				
Orbital Strategy [(e)]	27.0	…	…	…
North West Transitway	130.0	…	…	…
Old Windsor Road and Windsor Road	176.0	…	…	…
Great Western Highway	38.0	…	…	…
Pacific Highway Upgrade	221.2	…	…	…
Cowpasture Road	23.0	…	…	…
Narellan Road	21.0	…	…	…
Lawrence Hargrave Drive, Illawarra	9.4	…	…	…
Five Islands Road	14.0	…	…	…
North Kiama Bypass	18.0	…	…	…
Bus Priority network	10.0	30.0	50.0	…

(a) *Expenditures shown are for new capital projects as well as the expanded scope of existing projects in 2005-06. The full extent of capital expenditure is shown in Budget Paper 4, by portfolio and agency.*

(b) *For rail and bus services capital expenditure is primarily financed by recurrent grants from the Ministry of Transport.*

(c) *The estimated total cost of this project and forward years expenditure is being formulated as part of financing arrangements for the Public Private Partnership.*

(d) *For Roads projects amounts shown reflect estimated expenditure in 2005-06.*

(e) *The 2005-06 allocation does not include any private sector expenditure.*

Improving 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 2005-06 the Government continues its strong financial support for this priority area with a total of $4.5 billion to be spent on recurrent services and capital expenditure in NSW Police, the Attorney General's Department, Department of Corrective Services, New South Wales Fire Brigades, Department of Rural Fire Service and the State Emergency Service.

The 2005-06 Budget maintains the emphasis on providing police, the Judiciary and the correctional system with infrastructure and facilities to achieve a safer community.

Police

In the two years to December 2004 crime levels have fallen or are stable. For the second year in a row the NSW Bureau of Crime Statistics has reported that none of the 16 key crime categories on which it reports had increased. Crime has reduced significantly in 9 of the 16 crime categories.

The 2005-06 Budget continues the Government's commitment to providing police with the infrastructure and facilities to reduce crime. Last year the Government announced a major replacement and refurbishment program for police stations. This year work will commence on replacing 6 police stations at Campsie, Dubbo, Fairfield, Lismore, Orange and Wagga Wagga. The total estimated cost of these works is $72 million, of which $12.2 million will be spent this year.

Building works, estimated at $33.3 million, will also continue on police stations at Armidale, Griffith, Thirroul, Muswellbrook and St Mary's, the cell upgrade program, the new Forensic Research and Investigative Science Centre and various educational facilities, including the Goulburn Police Academy.

The Polair One helicopter will be replaced in 2005-06 at an estimated cost of $2.8 million, while $1.3 million is to be invested in additional surveillance equipment to enhance public safety in the current terrorist climate. A further $7.8 million has been provided to continue the replacement of the marine fleet.

In 2004-05 the Police Service commenced a number of priority information technology projects. Development of these systems, at an estimated cost of $19.7 million, will continue in 2005-06.

An amount of $3.7 million has also been allocated to complete the digitisation and encryption of the Police Radio Network as part of the ongoing implementation of the first stage of the Government's Long-Term Radio Strategy.

Justice

Improving facilities and infrastructure is also a priority in the 2005-06 Budget for the Attorney General's Department:

- The existing videoconferencing facilities, including bail video appearances, now average 1,500 sessions per month. A second phase of installations will commence in 2005-06 (total estimated cost of $9.3 million over three years and $2.8 million in 2005-06). It will extend the network to another 30 sites in courts, Legal Aid offices and corrections facilities in rural and regional centres. This project will increase the responsiveness of the judicial system to 30,000 sessions per annum by 2010.

- Last year the Government announced a major Court upgrade program ($250 million over 10 years). In 2005-06, $7 million is allocated for 30 courthouses including continued works to improve prisoner holding facilities at Bathurst, Central, Moss Vale, Goulburn and Penrith Local Courts, upgrade of electronic security at the Downing Centre, and cyclic maintenance at 15 regional court facilities.

- Courtlink is a web-based case management system that will provide seamless access and transfer of information to the Supreme, District and Local Courts together with the Coroner's, Drug and Children's Courts and the Sheriff's Office. The estimated total cost of this phase of the project is $21 million and $7.3 million will be spent in 2005-06.

- Courthouses at Bankstown, Blacktown and Mt Druitt and the Hunter Children's Court at Newcastle will be completed in 2005-06 (total cost of $46.5 million and $18.1 million in 2005-06).

- The Parramatta Justice precinct will include six specialist Children's Courts, eight criminal trial courts and a new justice building for over 1,200 staff from the Attorney General's Department, Legal Aid Commission, and the Office of the Public Guardian and Protective Commissioner. The precinct will cost a total of $110 million ($30.9 million in 2005-06) and is expected to operate from 2008.

- Construction will be completed on the Tirkandi Inaburra Cultural and Development Centre, the first community-controlled residential outstation for Aboriginal young people at risk of contact with the criminal justice system. The Centre will provide culturally-based educational, vocational and life skills programs for Aboriginal boys, preventing future contact with the criminal justice system through improving their health, learning outcomes, cultural identity and sense of responsibility (total estimated cost is $4 million, $0.6 million in 2005-06). The Department will spend $8.4 million over the next four years operating the Centre.

Corrective Services

Initiatives in the Corrective Services area focus on custodial and offender management services for an increased number of inmates. The Department expects significant growth in the community corrections area.

In 2003-04, new sentencing legislation provided for the supervision of offenders in the community on court based parole. The Department of Corrective Services will receive $1.5 million in 2005-06 to employ additional field staff to provide supervision and programs for offenders.

The average number of full-time sentenced inmates, remandees and inmates in court cells is estimated to be 9,217 in 2005-06, an increase of 217 on the 2004-05 estimate. The number of remandees has increased from around 1,500 in June 2002 to around 2,100 in April 2005.

To meet this growth in inmate numbers $4.6 million is provided for new initiatives and expanded services for offenders in custody and the community. These initiatives include $1 million for compulsory drug treatment, $1 million for additional programs for inmates with mental health, intellectual and other disabilities, $0.2 million for a trial diversionary scheme for dual diagnosed female offenders, $2 million for targeted and accredited rehabilitation programs for offenders and $0.4 million for supported accommodation and rehabilitation for homeless parolees.

In 2005-06 capital expenditure for the Department of Corrective Services totals $164.5 million, an increase of $54 million or 48.9 percent on 2004-05 Budget. Highlights of this program include:

- Continuing work at a cost of $45 million on the 500 bed Western Region Correctional Centre at Wellington. This facility will cost $125.6 million and is expected to be completed in 2008.

- The redevelopment of Mulawa Correctional Centre (estimated total cost: $49.2 million) and the staged redevelopment of the Long Bay Correctional Centre (estimated total cost is $44.8 million) and its hospital (estimated total cost is $63.9 million).

- Planning is also commencing to accommodate an additional 1,000 inmates by 2010. This includes expansion of the Cessnock Correctional Centre (250 beds) and the Lithgow Correctional Centre (250 beds) and a new 500 bed facility modelled on the Kempsey and Wellington Correctional Centres. In 2005-06 $2.1 million is provided for these works (estimated total cost is $257.7 million).

Fire Services

Between 1999-2000 and 2004-05 there was a 10.4 percent growth in the number of incidents attended by the New South Wales Fire Brigades. In 2005-06 the Brigades is expected to respond to more than 135,000 incidents. This is a response, on average, every six minutes.

The New South Wales Fire Brigades has received significant funding increases over recent years. In 1999-2000 the Brigades' expenditure totalled $330.7 million (including $37.7 million for capital). In 2005-06 expenditure is budgeted at $489.5 million (including $35.8 million for capital), an increase of 48 percent since 1999-2000.

Over the next four years, the Brigades will receive nearly $72 million to purchase state-of-the-art urban and rural fire engines, $21 million for improved communications, $12.5 million for firefighter safety and counter terrorism equipment and will share the operational capabilities of a helicopter with NSW Police.

Since 1997 new stations have been completed at St Andrew's, Blacktown, Kellyville, Horningsea Park, Rosemeadow, Narellan, Huntingwood, Regentville, Bonnyrigg Heights, Kariong, Bateau Bay, Berkeley Vale, Umina, Dubbo, Kelso, Doyalson, Toronto, Lawson, Schofields, East Maitland, Shellharbour, Portland, Mt Victoria, Nambucca Heads, Teralba and Wangi Wangi.

The Brigades' 2005-06 capital expenditure program of $35.8 million provides for:

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

- continuation of the fire station building renovation program ($4 million);

- replacing and servicing firefighter safety and counter terrorism equipment ($3 million); and

- upgrading information technology, communications and paging equipment ($5.7 million).

The Department of Rural Fire Service's 2005-06 expenses are estimated at $162 million. These funds will continue the tanker upgrade program ($27.4 million) and an equipment and maintenance program ($47.4 million).

The Rural Fire Service's $8.8 million 2005-06 capital expenditure program includes the acquisition of motor vehicles ($6.5 million) and the purchase of computers and other items of equipment ($2.3 million).

Emergency Services

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

Since 1999-2000 the Service's funding has increased from $22 million (including $2.4 million for capital) to $40.6 million (including $4.2 million for capital), an increase of 84.5 percent.

Total expenses for 2005-06 are projected to be $36.4 million. An additional $1.9 million has been provided to increase the Service's capabilities at State and Divisional Headquarters and $0.9 million to design and implement a 24 x 7 Operations Communication Centre to improve the dispatch of SES units to emergencies.

The Service's capital expenditure program, estimated at $4.2 million, includes the installation of new divisional radio systems, essential rescue equipment and paging hardware and facilities.

Table 2.5: Major Service Improvements in Public Order and Safety

	2005-06 *Budget* *$m*	2006-07 *Estimate* *$m*	2007-08 *Estimate* *$m*	2008-09 *Estimate* *$m*
Major Service Improvements affecting expenses[a]:				
NSW Police				
Backlog maintenance program	10.0	7.2	7.2	7.2
Maintenance of forensic equipment	3.5	2.0	1.6	1.9
Increased surveillance activities	1.8	1.6	1.6	1.6
Information Technology upgrades	2.4	4.3	6.3	6.3
Revised licensing arrangements for commercial and private inquiry agents	0.4	0.4	0.4	0.4
Corrective Services				
Growth in inmate numbers	4.6	29.1	55.3	84.3
Attorney-General's Department				
Court appearance videoconferencing	…	1.5	1.6	1.6
Increased legal referrals to the Crown Solicitor's Office	3.4	3.4	3.4	3.4
Legal Aid Commission				
Criminal case processing reforms	2.8	2.8	…	…
Civil law mental health	0.6	0.6	0.6	0.6
Women's domestic violence court assistance program	0.6	0.6	0.6	0.6
Office of the Director of Public Prosecutions				
Criminal case processing reforms	5.5	1.7	…	…
State Emergency Service				
Improved organizational capabilities in State and Regional Headquarters	1.9	3.0	4.1	4.1
Establish a 24 x 7 operations communication centre	0.9	1.4	1.4	1.4
Major Service Improvements affecting capital expenditure[b]:				
NSW Police				
Six new police stations	12.2	39.2	20.6	…
Helicopter replacement	2.8	…	…	…
Additional surveillance equipment	1.3	…	…	…

Table 2.5: Major Service Improvements in Public Order and Safety (cont)

	2005-06 Budget $m	2006-07 Estimate $m	2007-08 Estimate $m	2008-09 Estimate $m
Corrective Services				
Additional 1,000 inmate beds	2.1	15.0	66.1	89.6
Armoury replacement	0.8	0.4	…	…
Dog squad accommodation	0.9	0.9	…	…
Attorney General's Department				
Court appearance videoconferencing	2.8	3.8	2.7	…
Departmental fitouts at the Parramatta Justice Precinct	6.0	8.8	7.9	1.5
Information technology equipment	6.7	3.4	1.2	3.9
Office of the Director of Public Prosecutions				
Criminal case process reforms	1.0	…	…	…
New South Wales Crime Commission				
Voice and data interception	1.0	…	…	…

(a) Expenses shown are for new programs or the expansion of existing programs in 2005-06. The full extent of program expenses is shown in Budget Paper 3, by portfolio and agency.

(b) Expenditures shown are for new capital projects as well as the expanded scope of existing projects in 2005-06. The full extent of capital expenditure is shown in Budget Paper 4, by portfolio and agency.

Supporting children and families

The Budget continues the support provided to the disadvantaged members of the community. In 2005-06 a total of nearly $3 billion will be spent on recurrent services and capital expenditure 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.

Community Services

Increasing community concern and awareness of child abuse, legislative change and wider social concerns have led to increased demand for child protection services. The Department of Community Services has dealt with a 461 percent increase in child protection reports over 1995-96 to 2003-04. In December 2002, the Government responded by committing to a $1.2 billion increase in funding for the Department over five full years ($218.6 million in 2005-06). This package is improving and expanding services that promote and enhance the welfare and development of children in need.

The funding package will allow the Department to employ an extra 875 caseworkers in child protection and out-of-home care. In 1994-95, 727 staff were employed as caseworkers. By June 2003, this had increased to 1,202 – a rise of 475 or 65 per cent. During 2003-04, the first full year of the funding package, an additional 173 caseworkers were employed. During 2004-05 a further 160 will be employed. The remaining caseworkers from the package will be recruited by June 2008. In 2005-06, funding under the package will allow for an extra 125 child protection and early intervention caseworkers and an extra 25 caseworkers supporting out-of-home care services for young people and their carers.

Out-of-home care services have been increased for children not able to live at home. Under the funding package a further $306.4 million will be provided in the next three years, with total program expenditure of $321.7 million in 2005-06. New service delivery models are being developed to better match services to demand, particularly for those children in out-of-home care who have high levels of support need. Over three years from 2003, $3.5 million is being invested in services for Indigenous children and young people, including an additional 100-150 foster care places. This is the largest ever injection of funds into Indigenous foster care services in New South Wales.

The Government is also expanding prevention and early intervention services with an extra $76 million to be spent in the next three years. Total expenditure of $186 million in 2005-06 is targeted at safely diverting children and young people away from statutory child protection and supporting their development while improving their families' capacity to care for them. A range of services will be provided to families including supported playgroups, centre-based childcare, sustained home visiting and parental education.

While it is too early to evaluate the success of the early intervention caseworkers and associated programs, it is anticipated that over time, there will be a reduction in the number of child protection reports. Contacts by phone and facsimile to the DoCS Helpline, the State-wide intake service for all child protection reports, are no longer increasing rapidly.

The Communities Division of the Department of Community Services was formed on 1 July 2004 and operates programs to support families and communities including Families First, Better Futures, the Aboriginal Child, Youth and Family Strategy, the Community Solutions and Crime Prevention Strategy, the Violence Against Women Strategy and the Area Assistance Scheme. During 2005-06, the Division will lead the Government's community development efforts by:

- offering every family with a new baby in New South Wales a free home visit from an early childhood nurse, as part of Families First, a universal strategy which helps all parents with children 0 to 8 years old;

- expanding Better Futures – a strategy to improve the health, education and safety of children and young people 9-18 years – from six to ten regions. The new regions are South West Sydney, the Mid North Coast, the Far North Coast and New England; and

- continuing the Aboriginal Child, Youth and Family Strategy – a statewide targeted strategy to improve outcomes for Aboriginal children and young people 0 to 18 years. The strategy is developing services that include after school and school holiday programs, Aboriginal youth groups, transition to school programs, parental support and development projects, career development programs and programs to strengthen individuals and communities.

Two Ways Together

Enhanced opportunities for Aboriginal children and families remain a priority. *Two Ways Together* is the 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 2005-06 there is a further $10 million package of initiatives by agencies including the Department of Aboriginal Affairs, Attorney General's Department, Department of Corrective Services, Department of Community Services, Department of Education and Training, Department of Health, Premier's Department and The Cabinet Office.

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.

Over the life of the initial four year funding program the *Two Ways Together* Package will provide:

- $2.5 million to conduct 65,000 checks on children for Otitis Media (middle ear infections) ($0.6 million allocated in 2005-06);

- $12 million to reduce incarceration and family violence, including 19 Community Justice Groups, intensive court supervision in Bourke and Brewarrina and programs responding to family violence at Dubbo, Lismore, Tabulam, Newtown and Redfern ($3.1 million allocated in 2005-06);

- $12.2 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 ($3 million allocated in 2005-06);

- $4.4 million to intensively work with families to prevent over 300 children entering out-of-home care ($1.1m allocated in 2005-06);

- $0.3 million to provide 30 teaching scholarships and 50 nursing cadetships ($0.1 million allocated in 2005-06);

- $5 million to improve living conditions in an additional 670 houses in the Far West Area Health Service region ($1.3m allocated in 2005-06); and

- $1.8 million to provide 860 people in the Far West with housing maintenance using Aboriginal tradespeople and apprentices ($0.5 million allocated in 2005-06).

The Aboriginal Communities Development Program (ACDP) is a capital construction and infrastructure upgrade program aimed at raising the health and living standards of 22 selected, priority Aboriginal communities.

The program is managed by the Department of Aboriginal Affairs and began in 1998-99 with a budget of $200 million over seven years. The ACDP is now a ten year, $240 million program ($45 million in 2005-06) with completion expected in 2007-08.

- To date, 123 new houses have been completed or are underway. There have been 88 spot purchases of houses and 807 houses have been refurbished or had emergency works undertaken.

- Other ACDP project milestones include: 222 apprentices commenced work, 54 water and sewerage projects have been completed and 731 houses have been improved under the Housing for Health program.

- Around 9,500 people have benefited from the program to date.

- For the remainder of the program 449 new houses, 90 spot purchases and 777 refurbishments or emergency works on houses are planned. An additional 217 apprentices are also planned to commence work.

Services for Older People and People with a Disability

- The 2005-06 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.

- From 1995 to 2004, the Government's commitment to people with a disability has included an additional 2,500 places in respite and children services and more than 1,400 extra supported accommodation places.

An additional $377.2 million over four years ($63.7 million in 2005-06) has been allocated to the Department of Ageing, Disability and Home Care for disability services, enabling the Government to:

- increase expenditure by $158.1 million over four years ($22.1 million in 2005-06) to provide services to clients transferring from other agencies to the Department's care;

- 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 (around 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 (additional $18 million over four years with $4.5 million in 2005-06) is available for people with a disability and their families when boarding houses close. Around 900 individuals with a disability are currently accommodated in boarding houses;

- trial alternative models of supported accommodation at a cost of $8.4 million over four years ($1.2 million in 2005-06); and

- increase expenditure on respite care services by $8.8 million over four years ($2.2 million in 2005-06), allowing the Department to ease the blockages currently being experienced in this area.

Table 2.6: Major Service Improvements in Support of Children and Families

	2005-06 Budget $m	*2006-07 Estimate $m*	*2007-08 Estimate $m*	*2008-09 Estimate $m*
Major Service Improvements affecting expenses[(a)]:				
Department of Community Services:				
Child protection caseworkers	16.1	40.5	64.8	64.8
Support services for families and children in need	14.0	31.0	31.0	31.0
Out-of-home care services	45.5	97.7	163.2	163.2
Department of Ageing, Disability and Home Care:				
Supporting financial viability of NGOs	3.5	3.5	3.5	3.5
Servicing clients displaced from boarding house closures	4.5	4.5	4.5	4.5
Servicing clients transferred from other agencies to the Department' s care	22.1	34.6	45.5	55.9
Post-school programs	6.0	8.0	8.0	9.5
Servicing clients with intensive support needs	6.0	12.1	18.2	24.4
Respite care services	2.2	2.2	2.2	2.2
Trialing new accommodation models	1.2	2.4	2.4	2.4
Major Service Improvements affecting capital expenditure[(b)]:				
Department of Community Services:				
Caseworker Accommodation	5.0	…	…	…
Communities Division Accommodation	1.5	…	…	…
Department of Ageing, Disability and Home Care:				
Group homes for new clients	24.9	18.9	19.1	19.1
Client Information System	1.2	…	…	…
Upgrade of group homes and large residencies	9.5	7.0	7.5	8.0
Grants Administration System	1.5	2.6	…	…

(a) Expenses shown are for new programs or the expansion of existing programs in 2005-06. The full extent of program expenses is shown in Budget Paper 3, by portfolio and agency.

(b) Expenditures shown are for new capital projects as well as the expanded scope of existing projects in 2005-06. The full extent of capital expenditure is shown in Budget Paper 4, by portfolio and agency.

Caring for the Environment and our Natural Resources

The Government will consolidate delivery on its current reforms to environmental and natural resource management. These reforms include:

- bringing together a number of environmental and natural resource agencies to better integrate and streamline environmental management, land use and infrastructure planning and natural resources management;

- establishing thirteen Catchment Management Authorities (CMAs) to engage communities in key catchment management issues at the local level. Expenditure of $436 million is being delivered through CMAs to implement catchment management priorities;

- establishing an independent Natural Resources Commission to provide a framework of standards and targets to guide the work of CMAs. These standards and targets are being developed in consultation with industry and community stakeholders and have been piloted with CMAs; and

- implementing reforms to threatened species and native vegetation legislation to reduce red tape and engage industry and the community in decisions on the sustainable development and management of our environment and our natural resources.

Environment and Conservation

The Department of Environment and Conservation (DEC) aims to restore and maintain the quality of the environment, reduce environmental risks, promote ecologically sustainable development and conserve natural and cultural values across the State.

DEC's expenditure of $506.6 million in 2005-06 will be used to coordinate and strengthen environmental science, policy development, regulation and community programs and ensure the continued effective management of the park reserve system.

Following the creation of nearly 350 new national parks and reserves since 1995-96, the total national park estate now exceeds six million hectares, comprising more than 630 national parks, marine parks and other reserves.

DEC has commenced a world leading program to assess the management effectiveness of its natural and cultural conservation efforts. Comprehensive data is being collected on the condition and management of all parks. Over time, this will enable DEC to track trends in the condition of natural and cultural values in New South Wales. It will also facilitate strategic planning and research and development programs. Initial results show there is a positive correlation between having park plans and management effectiveness, with the majority of parks now covered by park plans. Strong results are also reported in satisfaction with education and interpretation programs for park visitors.

In 2005-06 DEC will spend an additional $5.4 million on park planning and management, with a further $1.5 million to improve maintenance of park infrastructure. In the Kosciuszko National Park, $3.1 million will be spent to continue road and bridge maintenance.

The Zoological Parks Board will receive $32.8 million through DEC for the continuation of a comprehensive program to upgrade and enhance facilities, research capability and public education.

The annual contribution to the Waste Fund, totalling $29.6 million, will resume in 2005-06 following a two-year funding suspension. During these two years, priority waste programs were funded from monies already in the Waste Fund.

A further $31.3 million will be spent through the Royal Botanic Gardens and Domain Trust on maintaining the Royal Botanic Gardens, the Domain, the National Herbarium of New South Wales and Mount Tomah and Mount Annan Botanic Gardens and undertaking scientific and horticultural research.

In line with an election commitment, the Environmental Trust will be reformed during 2005-06 to enable significant levels of funding for major policy initiatives. These will include forestry decisions (such as Brigalow), marine parks and environmental flows for inland rivers and wetlands. Legislative amendments to implement these reforms will be introduced during 2005.

The NSW Greenhouse Office (within The Cabinet Office) was created last year to lead, promote and facilitate strategic greenhouse action to combat climate change and secure long-term economic, social and environmental benefits for New South Wales. In 2005-06 the Office will spend $7.2 million on Greenhouse policy development and emission reduction initiatives. This is an increase of $6 million over 2004-05.

Infrastructure, Planning and Natural Resources

The Department of Infrastructure, Planning and Natural Resources' (DIPNR's) expenditure of $544.2 million is over 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 maintain a balance between economic value, agriculture and sustainable ecosystems.

In meeting this objective, the Department:

- over the next two years will provide $13.4 million for the Wetland Recovery Strategy to improve the management of rivers and the efficiency of water supply systems in areas such as the Macquarie Marshes and Gwydir Wetlands;
- is working towards achieving sustainable allocation of water to contribute to productive landscapes and ecosystems through the implementation of the *Water Management Act 2000* over several years at a cost exceeding $64 million. The new water management framework, including perpetual licences and a water access licence register, will comply with key elements of the National Water Initiative. On 1 July 2004, 31 water sharing plans commenced. These plans account for 80 percent of the State's surface water resources;
- will allocate $436 million of matching Commonwealth and State funding, mainly over the next few years, to the newly formed Catchment Management Authorities to implement investment strategies that are being developed in consultation with local catchment communities. Nearly $130 million in investment strategies have already been approved;
- is providing $26.3 million in 2005-06 and in each of the forward years to contribute to the operations of the Murray Darling Basin Commission;
- is currently working with the Commonwealth to implement the National Water Initiative and the Murray Darling Basin intergovernmental agreement;
- through the Living Murray program, with total funding of $500 million over the next five years, aims to increase the annual return of water to the Murray River system by 500 gigalitres. Over the five years, the NSW share of the cost amounts to $115 million; and

- will distribute structural adjustment assistance to groundwater users to correct the problem of over-allocation and to achieve a sustainable yield. The NSW share of this assistance program amounts to $58.4 million with the bulk of the funding distributed through 2006-07, 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.

Primary Industries

The Department of Primary Industries (DPI) aims to support development of profitable primary industries that enhance the NSW economy through the sustainable use of natural resources. Expenditure of $359.9 million in 2005-06 will be used to deliver research, extension, regulatory, advisory and policy development services. This will include expenditure of:

- $8.7 million to continue drought assistance programs. Actual drought assistance expenditure in 2005-06 will depend on the course of the drought;

- $4.2 million to support the national campaign for the eradication of imported Red Fire Ants;

- $4.4 million to buy out commercial fishery licences in association with the establishment of the Cape Byron Marine Park; and

- $3.2 million to extend the mine safety program and improve mining industry safety and culture.

DPI is developing an asset sale and reinvestment plan. DPI plans to sell a number of sites and facilities that are no longer required. Sale proceeds will pay for improvements to service efficiency and effectiveness. Projects include upgrading DPI's main research facilities, integrating IT infrastructure inherited from former agencies, and other projects. Site sales began in 2004-05 and reinvestment projects start in 2005-06.

The NSW Food Authority is an integrated or "through chain" food agency responsible for safety regulation at all points in the food supply chain. NSW Food Authority expenditure of $22.7 million in 2005-06 will be used to deliver compliance, regulatory and education services. This will include funding of $0.4 million to continue work on ensuring shellfish are harvested from clean waters, through the Shellfish Harvesting Area Classification Scheme. The Authority will also invest $1.8 million over two years to implement a "Paddock to Plate" intelligence system to enable state-wide tracking of food-borne illness and timely action to prevent its spread.

The Rural Assistance Authority (RAA) administers assistance schemes, loans and financial support for primary producers and other rural businesses. RAA expenditure of $37.9 million in 2005-06 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 Coal Compensation Board is a sunset organisation set up to compensate private owners of coal whose coal rights were acquired by the Crown. The Board has embarked on a program to accelerate the payment of compensation and wind up the balance of undetermined claims. The Government has provided an additional $13.8 million over two years to achieve this goal.

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

	2005-06 Budget $m	*2006-07 Estimate $m*	*2007-08 Estimate $m*	*2008-09 Estimate $m*
Major Service Improvements affecting expenses[a]:				
Department of Environment and Conservation				
Park planning and management	5.4	6.5	7.5	8.0
Increased maintenance funding for park infrastructure	1.5	1.5	1.5	2.0
NSW Greenhouse Office (within The Cabinet Office)				
Facilitation of strategic action to combat climate change	6.0	6.0	6.0	6.0
Department of Infrastructure, Planning and Natural Resources				
Wetland Recovery Strategy	4.4	9.0	…	…
Department of Primary Industries				
Drought assistance programs[b]	8.7	…	…	…
Cape Byron Marine Park buy back	4.3	0.1	…	…
Funding for eradication of red fire ants	1.8	1.7	…	…
Contribution to Noxious Pest Destruction contingency fund	0.8	…	…	…

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

	2005-06 Budget $m	2006-07 Estimate $m	2007-08 Estimate $m	2008-09 Estimate $m
NSW Food Authority				
NSW Shellfish Harvest Area Classification Project	0.4	…	…	…
Rural Assistance Authority				
Advancing Australian Agriculture program	1.3	…	…	…
Coal Compensation Board				
Acceleration of operations	4.8	9.0	…	…
Major Service Improvements affecting capital expenditure(c):				
Department of Environment and Conservation				
Park planning and management	7.0	4.2	1.1	0.7
Increased maintenance funding for park infrastructure	7.3	9.2	7.5	8.2
Department of Infrastructure, Planning and Natural Resources				
High-resolution satellite image coverage of NSW	2.6	1.8	1.5	1.1
Department of Primary Industries				
Upgrade of Cronulla research facility	0.6	…	…	…
Electronic surveillance for cattle tick	0.5	…	…	…
NSW Food Authority				
“Paddock to Plate” Information system	1.1	0.7	…	…

(a) Expenses shown are for new programs or the expansion of existing programs in 2005-06. The full extent of program expenses is shown in Budget Paper 3, by portfolio and agency.

(b) Actual drought assistance expenditure in 2005-06 will depend on the course of the drought.

(c) Expenditures shown are for new capital projects as well as the expanded scope of existing projects in 2005-06. The full extent of capital expenditure is shown in Budget Paper 4, by portfolio and agency.

CHAPTER 3: GENERAL GOVERNMENT SECTOR REVENUES

- ♦ Revenue is expected to grow by 5.6 percent in 2005-06 following growth of 2.7 percent in 2004-05.
- ♦ Taxation measures announced in this Budget will raise an additional $180 million in 2005-06.
  - From 1 September 2005, the general insurance stamp duty rate on certain insurance policies will be increased from 5 percent to 9 percent.
  - From 1 August 2005, the mortgage duty exemption for refinancing a mortgage up to the previous amount secured with a different lender will be restricted to amounts up to $1 million.
  - From the 2006 land tax year, a $330,000 land tax-free threshold will be introduced with a marginal rate of 1.7 percent (plus $100) on the unimproved value of land in excess of $330,000. The land tax threshold will be indexed annually to estimated average increases in land values for commercial, industrial, business and residential properties.
- ♦ New South Wales has more than met commitments to abolish certain State taxes under the June 1999 Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations (IGA), and has participated fully in the required review by 2005 of 'the need for retention' of other stamp duties.
- ♦ The 2005 Treasurers' Conference did not reach agreement on the outcome of the 2005 Review. In the absence of agreement, no further IGA tax changes are included in this Budget. Such changes have the potential to be very costly, as discussed in Chapter 8.
- ♦ Despite GST revenue collected by the Commonwealth Government being much higher than originally expected, GST revenue grants provided to New South Wales in 2005-06 are estimated to be only marginally above revenues the State would have received under the pre-GST financial arrangements.
- ♦ Moreover, in 2005-06 New South Wales is estimated to receive $538 million *less* in GST revenue grants than was expected to be received in GST grants and Budget Balancing Assistance when the IGA took effect in 2000.

3.1 INTRODUCTION

Total general government sector revenue is estimated to increase by 5.6 percent in 2005-06 following growth of only 2.7 percent in 2004-05. The increase in 2005-06 primarily reflects growth in tax revenue. With only a modest property cycle expected, transfer duty revenue should pick up following the significant decline in 2004-05. Policy measures to fund the provision of government services will also produce revenue growth.

Table 3.1 outlines the revenue estimates.

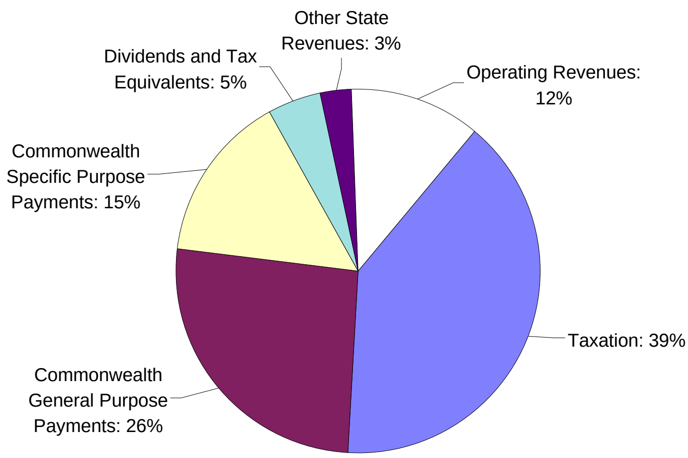
Table 3.1: Summary of Revenues

	Actual	*Budget*	*Revised*	*Budget*	*Forward Estimates*		
	2003-04 $m	*2004-05 $m*	*2004-05 $m*	*2005-06 $m*	*2006-07 $m*	*2007-08 $m*	*2008-09 $m*
State Revenues							
Taxation	15,026	15,520	15,306	16,269	17,319	18,248	19,205
Commonwealth Grants							
General Purpose Payments	9,942	10,004	10,153	10,675	11,012	11,577	12,159
Specific Purpose Payments	5,551	5,756	5,849	6,121	6,277	6,373	6,588
Dividends and Tax Equivalents	1,614	1,670	1,644	1,906	1,884	1,917	1,972
Other	882	979	1,059	1,082	1,009	995	1,047
	33,015	**33,929**	**34,011**	**36,053**	**37,501**	**39,110**	**40,971**
Operating Revenues							
Sale of Goods and Services	2,740	2,729	2,733	2,851	3,031	3,125	3,256
Investment Income	861	778	924	971	909	824	947
Grants and Contributions	564	601	626	638	630	626	630
Other	483	238	391	347	330	307	344
	4,648	**4,346**	**4,674**	**4,807**	**4,900**	**4,882**	**5,177**
Total Revenues	**37,663**	**38,275**	**38,685**	**40,860**	**42,401**	**43,992**	**46,148**

State revenue – comprising State tax receipts, Commonwealth grants, State enterprise dividends and tax equivalent payments, and revenue from licences, fees, fines, levies and royalties – should increase by 6.0 percent in 2005-06, mainly reflecting the growth in tax revenue (up 6.3 percent) and Commonwealth general purpose grants (up 5.1 percent).

Chart 3.1 details the composition of total revenue in 2005-06.

Chart 3.1: Composition of Total Revenue, 2005-06



Operating revenue – revenue earned by general government sector agencies in the normal course of their operations – is estimated to rise by 2.8 percent in 2005-06. Revenue from sales of goods and services is budgeted to rise by 4.3 percent, and investment income by 5.1 percent.

The remainder of this chapter provides detailed information on taxation policy and revenue estimates included in the 2005-06 Budget.

Section 3.2 provides information on State taxation policy measures in this Budget and since the last Budget. Section 3.3 details the estimates for State revenue in 2005-06, while the outlook for operating revenue is presented in Section 3.4.

3.2 TAXATION POLICY MEASURES

MEASURES INTRODUCED IN THE 2005-06 BUDGET

This Budget reinstates a land tax-free threshold of $330,000 and a marginal tax rate of 1.7 percent. The decision to reinstate the threshold is in response to public concerns about the abolition of the threshold for the 2005 land tax year and the impact this had on small land owners.

The 2005-06 Budget also contains measures to raise additional revenue to fund the provision of government services. These measures include a higher rate of taxation on general insurance, and restrictions on eligibility for the exemption from mortgage duty on refinanced loans.

The revenue raising measures have been implemented against the background of:

- the absence of a significant net fiscal benefit for New South Wales from the receipt of GST revenue. The Commonwealth has estimated the net gains for New South Wales in 2005-06 to be only $43 million (or 0.1 percent of total revenue) in 2005-06, with this estimate revised up to $60 million in the 2005-06 Commonwealth Budget;

- arrangements for the distribution of GST revenues that continue to disadvantage New South Wales relative to other states;

- successive downward revisions since the IGA took effect in 2000 of the amounts New South Wales is expected to receive in Commonwealth grants as a result of the IGA. These downward revisions mean that in 2004-05 New South Wales received $367 million less than initially expected, and in 2005-06 will receive $538 million less than expected when the IGA took effect;

- the Commonwealth Government's decision to discontinue the existing National Competition Policy payments at a cost to the NSW Budget of $270 million a year from 2006-07; and

- a more subdued property market than that experienced prior to 2004.

Property market trends are discussed later in this chapter. The fiscal impact of the GST-related Commonwealth-State financial reforms, arrangements for distributing GST revenues and national competition payments are discussed in Chapter 8.

Tax changes in this Budget will increase taxation revenue by $180 million to $16.3 billion in 2005-06 and by $206 million to $17.3 billion in 2006-07. The measures are summarised in Table 3.2.

Table 3.2: Tax Measures in the 2005-06 Budget

Measure	*Revenue Impact* [(a)]			
	2005-06 $m	*2006-07 $m*	*2007-08 $m*	*2008-09 $m*
Increase the general rate of stamp duty on certain insurance products from 5% to 9%, from 1 September 2005	120	168	176	185
Cap the mortgage duty exemption for refinancing of loans at $1 million, from 1 August 2005	20	25	25	25
Introduce a $330,000 indexed land tax-free threshold with a marginal tax rate of 1.7% (plus $100) above the threshold, from the 2006 land tax year	40	13	-20	-51
Total	**180**	**206**	**181**	**159**

(a) Revenue impacts are expressed in nominal dollars. These figures show the part-year effect of the revenue measures where the change commences during the year.

Insurance Duty – Rate Change

From 1 September 2005, the general insurance stamp duty rate on certain insurance policies will be increased from 5 percent to 9 percent. Policies to which the higher rate will apply include household, travel, mortgage and certain types of commercial insurance, including public liability insurance.

A concessional duty rate of 5 percent will continue to apply to motor vehicle and aviation insurance, professional indemnity, disability income and consumer credit insurance. Exemptions from insurance duty continue to apply to workers compensation premiums, Compulsory Third Party (CTP) motor vehicle green slips and insurance taken out by non-profit charities.

The rate change will add $30 a year – less than $1 a week – to a home and contents insurance policy currently costing $800 a year.

Notwithstanding the measure, New South Wales will continue to have a general insurance duty rate below that applying in most other states. State insurance duty after 1 September 2005 on a policy costing $800 a year, at $66 in New South Wales, will compare with $79 in South Australia, $73 in Victoria, Western Australia, the Northern Territory and the Australian Capital Territory, $59 in Tasmania and $56 in Queensland.

The revised stamp duty rate is expected to raise an additional $120 million in 2005-06 and $168 million in 2006-07.

Mortgage Duty – Base Broadening

Mortgage duty is levied on loans secured by property at a rate of $5 plus $4 per $1,000 on the loan value in excess of $16,000.

Refinancing a mortgage up to the original amount secured for the same borrower over the same property with the same lender does not attract duty. To ensure that those who refinance with a different lender receive equal treatment to those who refinance with the same lender, exemption from duty is given up to the original amount secured for those who refinance with a different lender.

From 1 August 2005, the exemption for refinancing a mortgage up to the previous amount secured, for the same borrower over the same, or substantially the same, property, with a different lender will be restricted to amounts not exceeding $1 million. This measure is expected to generate revenue of $20 million in 2005-06 and $25 million in 2006-07.

Land Tax – New Tax Rate and Threshold

From the 2006 land tax year, a $330,000 tax-free threshold will be introduced. A marginal rate of 1.7 percent (plus $100) will apply on the unimproved value of land in excess of $330,000. The land tax threshold will be indexed annually to estimated average increases in land values for commercial, industrial, business and residential properties. There will be no change to existing exemptions from land tax – notably, principal places of residence and land used for primary production will continue to be exempt from land tax.

The reintroduction of the land tax threshold will free around 350,000 landowners from land tax, and reduce the tax for around another 50,000. Owners of properties valued below the threshold will save up to $1,320.

The changes to the land tax arrangements are expected to generate additional revenue of $40 million in 2005-06 and $13 million in 2006-07.

Table 3.3: Land Tax Rates

2005 Land Tax Year		*From 2006 Land Tax Year*	
Land Value	**Tax Rate**	**Land Value**	**Tax Rate**
$0 up to $400,000	0.4 percent	$0 up to $330,000	Nil
Over $400,000 up to $500,000	$1,600 plus 0.6 percent of value over $400,000	Over $330,000	$100 plus 1.7 percent of value over $330,000
Over $500,000	$2,200 plus 1.4 percent of value over $500,000		

MEASURES INTRODUCED SINCE THE 2004-05 BUDGET

Vendor Transfer Duty – 'Land Rich' and Other Changes

The Government foreshadowed, when introducing the vendor duty legislation in May 2004, its intention to include indirect as well as direct disposals of land-related property in the vendor duty tax base.

The *Duties Amendment (Land Rich) Act 2004* makes certain disposals of shares in land rich[1] companies and units in land rich trusts liable for vendor duty from the date the legislation was introduced (10 November 2004). The vendor duty land rich provisions protect the vendor duty base in the same way that the purchaser transfer duty base is protected by the imposition of duty on the acquisition of significant indirect interests in land.

Legislative changes have also clarified a number of issues in relation to vendor duty and exemptions from vendor duty.

[1] *An entity is defined as 'land rich' if it has land holdings in New South Wales with an unencumbered value of $2 million or more; and its total land holdings, within or outside Australia, comprise 60 percent or more of the unencumbered value of all its property.*

Transfer Duty – Equity Withdrawal for Aged Home Owners

In October 2004, the Government introduced an exemption from purchaser duty on approved equity release schemes for aged home owners.

An equity release scheme provides elderly home owners with cash in exchange for the scheme operator receiving a share of the proceeds when the house is sold in the future. Such an arrangement requires – as collateral – a contract between the financier and the home owner framed as a term of sale. This would normally attract transfer duty payable within three months, even though the sale to the financier might not take place.

In granting the exemption from duty, the Government removed an impediment to older home owners wishing to obtain greater access to their wealth without the need to sell their property and move house. Under an approved equity release scheme, the aged home owner’s right to reside in, sell or lease the property is unaffected.

Fire Services Levy

On 22 August 2003, the Government asked the Public Accounts Committee (PAC) of the NSW Parliament to review current and alternative funding arrangements for fire services.

In its final report released on 2 September 2004 the PAC recommended an insurance-based levy be retained at this time. The Government accepted this principal finding and will implement other PAC recommendations aimed at improving the operation of the existing insurance-based funding of the fire services. In particular, the Government will review:

- the types of insurance and weightings used to calculate insurance company funding contributions;
- the extent of offshore insurance by commercial policyholders and options to enhance compliance with legislative requirements; and
- charges payable for services rendered by the NSW Fire Brigades to ensure they remain appropriate.

The Government will also continue to investigate ways to improve the current funding system.

Motor Vehicle Registration Charges – Rebate for Apprentices

On 20 March 2005, the Government announced a package of measures to reduce skill shortages. As part of this package, about 25,000 first and second year apprentices will be eligible for a $100 rebate on the cost of car registration.

Annual registration charges comprise a registration fee and a charge based on the weight of the vehicle. The Roads and Traffic Authority (RTA) will administer the rebate scheme resulting in a reduction in weight tax revenue. Weight tax revenue is devoted to the RTA's roads program. The RTA will receive additional budget funding to offset the cost of the apprentice rebate scheme.

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. This principle also requires that policies should be pursued consistent with a reasonable degree of predictability and stability of tax rates, thresholds and bases in future years. The *Fiscal Responsibility Bill 2005*, intended to replace the *General Government Debt Elimination Act*, retains this principle.

Table 3.4 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 annual average of around $320 million. Over the next five years, 2004-05 to 2008-09, revenue policy changes will increase revenue by an annual average of around $130 million each year.

Table 3.4: 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	(-) 340
2002-03	(-) 420
2003-04	(-) 140
2004-05	230
2005-06	250
2006-07	90
2007-08	10
2008-09	50

(a) *This table shows the effect of new policy on revenue in any one year only. 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 $70 million, the impact of the policy is measured as $50 million in the year it commences and $20 million in the following year.*

(b) *Expressed in nominal dollars. Notes on specific years: (1) from 1999-2000 to 2003-04, and from 2006-07, 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.*

3.3 ESTIMATES OF STATE REVENUE

TAXATION

Table 3.5 provides detailed estimates of taxation revenue for the period to 2008-09.

The two largest sources of taxation are payroll tax and stamp duties (see Chart 3.2). While payroll tax collections are relatively stable from year to year, total stamp duty revenues can vary significantly from year to year as its components are affected by fluctuations in transaction volumes particularly in relation to property market transactions.

Chart 3.2: Composition of Tax Revenue, 2005-06

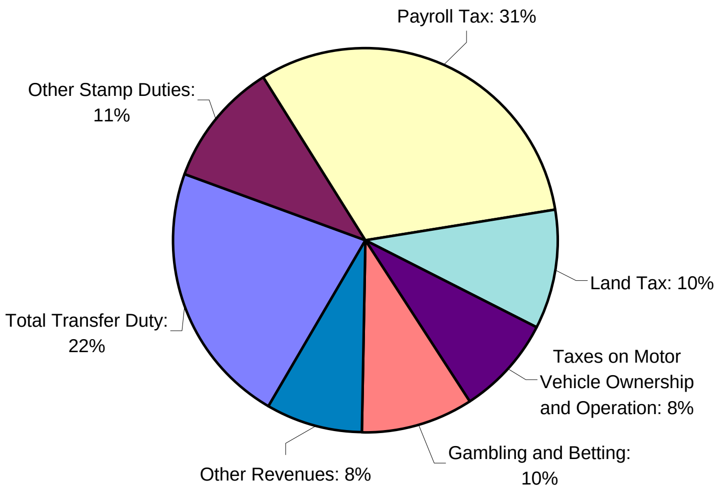


Table 3.5: Taxation Revenue

	Actual	Budget	Revised	Budget	Forward Estimates		
	2003-04 $m	2004-05 $m	2004-05 $m	2005-06 $m	2006-07 $m	2007-08 $m	2008-09 $m
Stamp Duties							
Transfer Duty							
Purchaser Transfer Duty	3,916	3,190	3,030	3,250	3,530	3,850	4,122
Vendor Transfer Duty	2	690	340	358	382	409	429
Total Transfer Duty	3,918	3,880	3,370	3,608	3,912	4,259	4,551
Other Stamp Duties							
Insurance	423	451	415	541	606	632	650
Mortgages	404	372	330	379	424	467	504
Marketable Securities	43	36	77	55	56	57	58
Motor Vehicle Registration Certificates	581	609	575	608	638	671	702
Hire of Goods	75	76	76	77	79	80	81
Leases	56	56	58	62	65	68	71
Other	2	2	2	2	2	3	3
	5,502	**5,482**	**4,903**	**5,332**	**5,782**	**6,237**	**6,620**
Payroll Tax	**4,356**	**4,696**	**4,852**	**5,114**	**5,466**	**5,798**	**6,111**
Land Tax	**1,355**	**1,448**	**1,591**	**1,633**	**1,669**	**1,736**	**1,790**
Taxes on Motor Vehicle Ownership and Operation							
Weight Tax	948	981	1,000	1,046	1,100	1,156	1,213
Vehicle Registration and Transfer Fees	233	239	239	253	264	275	285
Other Motor Vehicle Taxes	23	24	24	26	27	28	29
	1,203	**1,243**	**1,264**	**1,325**	**1,391**	**1,459**	**1,527**
Gambling and Betting							
Racing	150	156	156	160	165	171	176
Club Gaming Devices	435	483	500	562	637	631	709
Hotel Gaming Devices	358	384	405	438	475	464	488
Lotteries and Lotto	278	289	284	295	302	310	317
Casino	81	84	84	86	89	81	84
Other Gambling & Betting	8	8	8	8	9	9	9
	1,311	**1,404**	**1,437**	**1,550**	**1,677**	**1,666**	**1,783**

Table 3.5: Taxation Revenue (cont)

	Actual	*Budget*	*Revised*	*Budget*	*Forward Estimates*		
	2003-04	*2004-05*	*2004-05*	*2005-06*	*2006-07*	*2007-08*	*2008-09*
	$m	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*
Other Revenues							
Health Insurance Levy	98	102	102	106	110	113	117
Insurance Protection Tax	68	69	69	69	69	69	69
Parking Space Levy	48	47	47	44	45	46	47
Fire Brigades Levy	286	319	317	343	339	333	334
Bush Fire Services Levy	92	99	99	103	106	110	113
Waste Disposal Levy	95	102	102	107	109	108	108
Government Guarantee of Debt	132	134	117	129	134	139	143
Private Transport Operators Levy	9	7	8	7	7	8	8
Pollution Control Licences	36	40	42	42	42	42	42
Other Taxes	433	327	357	364	372	384	393
	1,298	**1,247**	**1,258**	**1,315**	**1,334**	**1,352**	**1,374**
Total Tax Revenue	**15,026**	**15,520**	**15,306**	**16,269**	**17,319**	**18,248**	**19,205**

In 2005-06, total taxation revenue is estimated to rise by 6.3 percent, following a 1.9 percent increase in 2004-05. The main reasons for the faster growth are: a pick-up in transfer duty revenues following the significant decline in 2004-05; increased insurance duty revenue due to the increase from 1 September 2005 in the general insurance duty rate; and increased mortgage duty revenue, also related to property market developments as well as the capping of the exemption for refinancing. Payroll tax revenue is expected to grow by 5.4 percent in 2005-06 after the 11.4 percent increase experienced in 2004-05.

Transfer Duty (including Vendor Transfer Duty)

Stamp duty on property transfers is the largest single component of stamp duty revenue. It is also the most volatile with annual variations of up to 95 percent in the period from 1978-79 to 2004-05.

After annual growth averaging 19 percent in the previous eight years, housing lending declined in 2004-05 – the first decline since the GST-related dip in 2000-01. A downturn in market activity was not unexpected, given the unsustainably rapid pace of growth over the previous eight years and the half a percentage point increase in interest rates by the Reserve Bank in late 2003.

Total transfer duty revenue in 2004-05 is expected to be $510 million lower than expected at Budget time due to shortfalls of $160 million in purchaser transfer duty and $350 million in vendor duty.

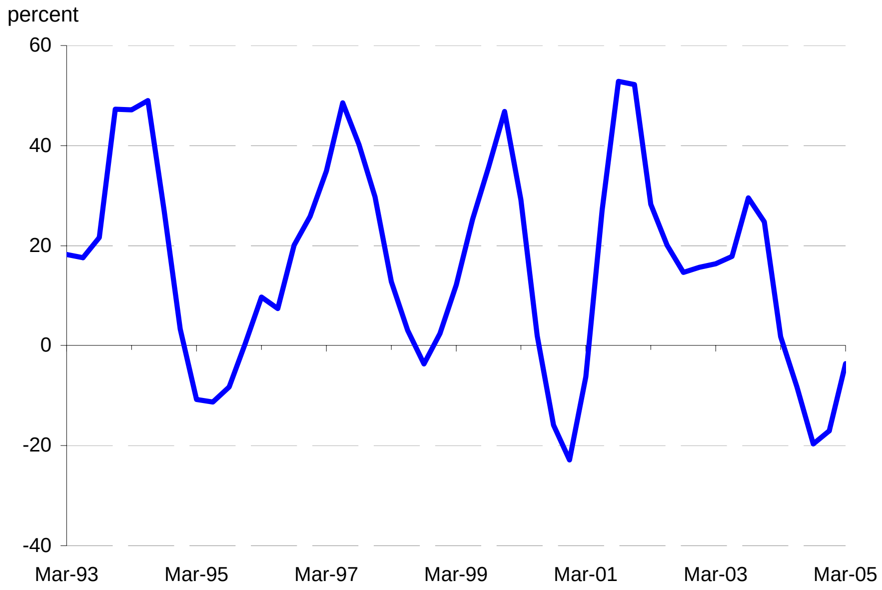
Lower vendor duty revenue mainly reflects the greater than expected cost of exemptions from vendor duty. Around 23 percent of transfers were subject to vendor duty. It also reflects the impact of a technique to avoid vendor duty involving property owned in a trust. Legislation is being introduced cognate with the Budget to end this practice.

The shortfall in purchaser transfer duty is partly due to the cost of the first home buyer concessions being $64 million higher than expected. Around 35,000 first home buyers will benefit from the concession this financial year or 39,000 since the new concessions commenced on 4 April 2004.

Purchaser transfer duty will decline by 22.6 percent in 2004-05 – a little more than the 18.5 per cent decline estimated at budget time. The decline in purchaser duty has been due mainly to a lower volume of residential and non-residential transactions. In the ten months to April 2005, residential volumes were 27.7 percent lower and non-residential volumes were 27.3 percent lower than the corresponding period the year before.

For 2005-06, purchaser transfer duty will rise by 7.3 percent to $3,250 million. Vendor duty is expected to rise by 5.3 percent to $358 million. This outlook is consistent with a relatively modest property cycle – which is now showing signs of bottoming (see Chart 3.3). Underpinning expectations of a modest property cycle is the relatively firm labour market supporting growing household income and an expectation of stable or slightly higher interest rates.

Chart 3.3: Quarterly Housing Finance Approvals in New South Wales – Change on Year Before



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

As in all years, there are risks that revenue in 2005-06 could be much higher or much lower than anticipated. Transfer duty is particularly sensitive to interest rates and overall confidence in the economic and employment outlook.

Other Stamp Duties

Other stamp duty revenue is estimated to increase by $191 million, or 12.5 percent, in 2005-06 following a fall of $51 million or 3.2 percent in 2004-05.

Insurance duty should increase by $126 million in 2005-06 due mainly to the increase in the general insurance duty rate from 1 September 2005. Mortgage duty is estimated to increase by $49 million, reflecting the recovery in the property market and the impact of limiting the exemption for refinancing of loans to amounts up to $1 million from 1 August 2005.

Payroll Tax

Payroll tax revenue is estimated to increase by 11.4 percent in 2004-05. The strong growth in revenue was broadly based across employers liable for payroll tax, and contrasts with the lower growth in wages and employment reported by the Australian Bureau of Statistics.

Payroll tax revenue growth in 2005-06 is estimated at 5.4 percent, in line with employment and wage growth.

Land Tax

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

Land tax revenue in 2004-05 will be 17.4 percent higher than in 2003-04. The increase reflects stronger growth in land values (over the year to July 2004) than anticipated at Budget-time. Revenue is estimated to be 2.6 percent higher in 2005-06 due to weaker growth in land values across the State during 2004-05 and the revenue effect of the new scale.

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 86 percent of revenue in 2004-05. Also included are motor vehicle registration transfer fees and miscellaneous taxes.

Continued strong growth in the motor vehicle fleet and indexation of fees should underpin revenue growth of 4.8 percent in 2005-06.

Gambling and Betting Taxes

Gambling tax revenue grew by 9.6 percent in 2004-05. Gambling tax revenue growth in 2005-06 (7.9 percent) and following years chiefly reflects forecast movements in household disposable income and the changes in club and hotel gaming machine duty rates announced in the 2003-04 Budget.

However, gambling revenue is expected to decline slightly in 2007-08 owing to the implementation of smoking bans in clubs, hotels and the casino.

COMMONWEALTH GRANTS

Table 3.6 provides estimates of Commonwealth payments to New South Wales for the period to 2008-09.

Table 3.6: Commonwealth Grants

	Actual	Budget	Revised	Budget	Forward Estimates		
	2003-04 $m	2004-05 $m	2004-05 $m	2005-06 $m	2006-07 $m	2007-08 $m	2008-09 $m
GST Revenue Grants	9,667	9,648	9,856	10,374	11,007	11,572	12,155
Budget Balancing Assistance Payments	69	…	…	…	…	…	…
Compensation for GST Deferral	…	96	64	37	5	5	5
National Competition Policy Payments	204	260	234	265	…	…	…
Total General Purpose Payments	**9,942**	**10,004**	**10,153**	**10,675**	**11,012**	**11,577**	**12,159**
Specific Purpose Payments							
Companies Regulation	52	53	53	55	57	59	61
Technical and Further Education	370	384	383	383	390	398	405
Schools	690	754	762	851	890	928	973
Highly Specialised Drugs	127	153	159	178	181	185	188
Australian Health Care Grants	2,536	2,667	2,668	2,804	2,949	3,098	3,201
Home and Community Care	229	247	238	268	290	313	338
Supported Accommodation Assistance	54	55	56	57	58	59	61
Assistance to Disabled	192	187	188	194	200	200	200
Pensioner Concessions	64	66	66	69	70	72	75
Debt Redemption Assistance	10	10	10	74	…	…	…
Blood Transfusion Services	1	…	…	…	…	…	…
National Land Care	23	31	31	40	40	31	8
Public Housing	239	243	241	244	246	249	249
National Land Transport (Auslink)	433	487	505	472	496	409	474
Housing	37	37	37	38	38	38	38
Supplementary FHOS Grant	2	…	…	...	...	...	...
Other	495	381	452	396	372	332	315
Total Specific Purpose Payments	**5,551**	**5,756**	**5,849**	**6,121**	**6,277**	**6,373**	**6,588**
Total Grants	**15,493**	**15,760**	**16,002**	**16,796**	**17,289**	**17,950**	**18,747**

In 2005-06, Commonwealth general purpose payments to New South Wales will increase by 5.1 percent. Specific purpose payments are predicted to grow by $272 million, or 4.7 percent, in 2005-06.

Further details of Commonwealth grants are contained in Chapter 8.

DIVIDENDS AND TAX EQUIVALENTS

The payment of dividends and income tax equivalents is an important commercial discipline for Government businesses. Requiring a return on the Government's equity investment in the form of dividends and payment of income tax equivalents ensures competitive neutrality with the private sector and is consistent with businesses making efficient decisions.

Dividends are based on commercial principles which include ensuring businesses retain a prudent level of cash for operational and investment needs. Determining appropriate dividends (both in forecasts and actual payments) requires a case-by-case consideration of excess cash available in each business after allowing for working capital, funding of approved capital expenditure (taking into account the appropriate capital structure of the business) and contingency for financial flexibility. Table 3.7 provides estimates of dividends and tax equivalents for the period to 2008-09.

Table 3.7: Dividends and Tax Equivalents from Public Trading and Financial Enterprises

	Actual	*Budget*	*Revised*	*Budget*	*Forward Estimates*		
	2003-04	*2004-05*	*2004-05*	*2005-06*	*2006-07*	*2007-08*	*2008-09*
	$m	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*
Dividends							
Electricity	681	692	649	855	814	827	814
Water, Property and Resources	254	305	322	348	292	305	315
Financial Services	33	27	30	18	19	19	19
Ports	22	22	24	29	29	25	24
Other	37	39	35	35	35	36	37
	1,028	**1,085**	**1,059**	**1,285**	**1,189**	**1,212**	**1,209**
Income Tax Equivalents							
Electricity	357	383	397	393	399	392	434
Water, Property and Resources	175	162	140	172	239	260	275
Financial Services	12	6	10	6	7	7	7
Ports	28	20	23	34	35	31	32
Other	14	15	15	15	15	16	16
	586	**585**	**585**	**621**	**695**	**705**	**763**
Total	**1,614**	**1,670**	**1,644**	**1,906**	**1,884**	**1,917**	**1,972**

In the case of the energy sector, dividend growth of 31.7 percent in 2005-06 reflects a convergence of payout ratios across electricity network businesses (transmission and distribution) which provide commercial and competitive returns while reflecting the capital, investment and operational needs of each business.

For 2005-06, tax equivalents from the public trading enterprise and public financial enterprise sectors are expected to increase reflecting expected higher underlying earnings growth.

OTHER STATE REVENUES

Licences

More than 85 percent of revenue in this item comes from drivers' and riders' licences. Revenue is variable (see Table 3.8) 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 growth in revenue is relatively stable.

Fines

The main item – over 90 percent – in this category relates to motor traffic fines.

Table 3.8: Other State Revenues

	Actual	*Budget*	*Revised*	*Budget*	*Forward Estimates*		
	2003-04	*2004-05*	*2004-05*	*2005-06*	*2006-07*	*2007-08*	*2008-09*
	$m	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*
Licences	111	171	151	162	107	98	124
Fees	117	114	117	115	118	122	135
Fines	246	242	265	230	245	254	266
Royalties	233	300	360	413	373	353	353
Fire Brigades Levy on Local Government	49	53	53	57	57	56	56
Other State Revenues	125	98	114	106	109	112	113
Total Other Revenue	**882**	**979**	**1,059**	**1,082**	**1,009**	**995**	**1,047**

Royalties

From 1 July 2004, New South Wales replaced specific royalties based on tonnage for coal with ad valorem royalties based on value. Higher than anticipated commodity prices increased revenue in 2004-05. Expected price movements drive the movements of revenue in 2005-06 and 2006-07.

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 3.9 provides estimates of operating revenues for the period to 2008-09.

Table 3.9: Operating Revenues

	Actual	*Budget*	*Revised*	*Budget*	*Forward Estimates*		
	2003-04 *$m*	*2004-05* *$m*	*2004-05* *$m*	*2005-06* *$m*	*2006-07* *$m*	*2007-08* *$m*	*2008-09* *$m*
Sales of Goods and Services							
Rents and leases	109	110	121	117	126	134	137
Fees for Service	101	128	104	113	133	140	151
Entry Fees	19	18	24	23	23	24	25
Patient Fees	610	647	643	666	699	731	761
Department of Veterans Affairs - Concord Hospital	266	263	263	287	297	306	315
Court Fees	137	140	143	152	158	163	168
Road Tolls	68	73	73	74	74	74	75
Other Sales of Goods and Services	1,430	1,350	1,361	1,420	1,522	1,552	1,624
	2,740	**2,729**	**2,733**	**2,851**	**3,031**	**3,125**	**3,256**
Investment Income	861	778	924	971	909	824	947
Grants and Contributions	564	601	626	638	630	626	630
Other Operating Revenues	483	238	391	347	330	307	344
Total Operating Revenue	**4,648**	**4,346**	**4,674**	**4,807**	**4,900**	**4,882**	**5,177**

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 2005-06, total revenue from sales of goods and services is expected to increase by 4.3 percent, after remaining virtually unchanged in 2004-05.

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. Investment income in 2004-05 exceeded the 2004-05 Budget estimate significantly mainly because of higher than expected returns from funds invested by the NSW Self Insurance Corporation. The expected increase in 2005-06 mainly results from the investment of accumulating Crown employer superannuation contributions by the General Government Liability Management Fund.

GRANTS AND CONTRIBUTIONS

This item consists mainly of contributions from residents, private businesses and councils. The largest contributions relate to schools and hospitals. In 2005-06, grants and contributions revenue should grow by 1.9 percent.

OTHER OPERATING REVENUE

Other operating revenue in 2004-05 declined to more normal levels following the large one-off payment in 2003-04 by the operator of the Lane Cove Tunnel Project to reimburse the Roads and Traffic Authority for development costs.

CHAPTER 4: ASSETS AND LIABILITIES

- The strong balance sheet of the State sector has provided a sound foundation to meet future net financial liability and net debt fiscal targets in the new *Fiscal Responsibility Bill*.
- Physical asset values for the four year period ending 30 June 2009 are projected to increase from $168 billion to $183 billion, mainly reflecting the impact of the State's record $35 billion capital works program – up over 30 percent compared to the four year period ending 30 June 2005.
- State sector net financial liabilities are forecast to reduce from 26.9 percent of gross state product in 1995 to 16.0 percent in 2009. General government sector liabilities for the same period are estimated to reduce from 20.1 percent to 7.6 percent.
- General government net debt has declined to around $3.2 billion as at 30 June 2005, being only 1.1 percent of gross state product. Forecast debt levels will maintain this low gearing ratio.
- State sector net debt will increase by $8.7 billion for the four year period ending 30 June 2009 to partly fund New South Wales' infrastructure investment. Debt levels will remain prudent, being forecast at 6.7 percent of gross state product as at 30 June 2009.
- Over the ten year period ending in 2009 interest expense on borrowings is expected to reduce from $1,362 million to about $813 million.
- Current forecasts confirm that general government 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.
- The adoption of the new superannuation accounting standard will increase reported 2005-06 State sector superannuation liabilities by around $5.6 billion and general government sector liabilities by $5.1 billion, but the level of Crown cash employer contributions required to achieve the funding target date will not change.
- The State's self insurance scheme, Treasury Managed Fund, has reduced member agencies' public liability premiums by 12.6 percent in 2005-06. This is a direct result of reducing claims expenses, particularly legal costs, following the Government's tort reform legislation.
- HIH compulsory third party motor vehicle and home warranty insurance claims totalling $700 million that were assumed by the NSW Government will have declined to around $82 million by 2009. Approximately $70 million will be paid out to former policyholders for the year ending 30 June 2005.

4.1 INTRODUCTION

The financial information in this chapter confirms that the State is on target to meet the fiscal targets in the *Fiscal Responsibility Bill* as detailed in Chapter 1: Fiscal Strategy, Position and Outlook.

General government sector net financial liabilities are projected to be lower, as a percentage of gross state product, by the end of the forward estimates period. Net financial liabilities are forecast to reduce between 30 June 2005 and 30 June 2009 from 8.3 percent to 7.6 percent, while net debt for the same period will remain relatively constant.

The estimated value of physical assets continues to increase due in part to the impact of New South Wales' record $34.7 billion capital expenditure program for the four year period ending 30 June 2009 (refer to Budget Paper No. 4: Infrastructure Statement for capital works project details).

Infrastructure asset values for the State sector will increase to $85.1 billion at 30 June 2009, up from an estimated $73.7 billion at 30 June 2005, due in part to capital expenditure. This capital works program will be partly funded by an $8.7 billion increase in State net debt for the four year period ending 30 June 2009. However, NSW forecast debt levels will remain prudent, at 6.7 percent of gross state product as at 30 June 2009.

Current superannuation unfunded liability estimates confirm that, in accordance with the State's funding plan, superannuation liabilities will be fully funded by 2030. That is, no further cash employer contributions will need to be made into the defined benefit Pooled Fund schemes after that time. Further, the rate of growth of Treasury Managed Fund (TMF) insurance liabilities has slowed following the Government's tort reform legislation. As a result, public liability premiums for TMF member agencies in 2005-06 have reduced by 12.6 percent.

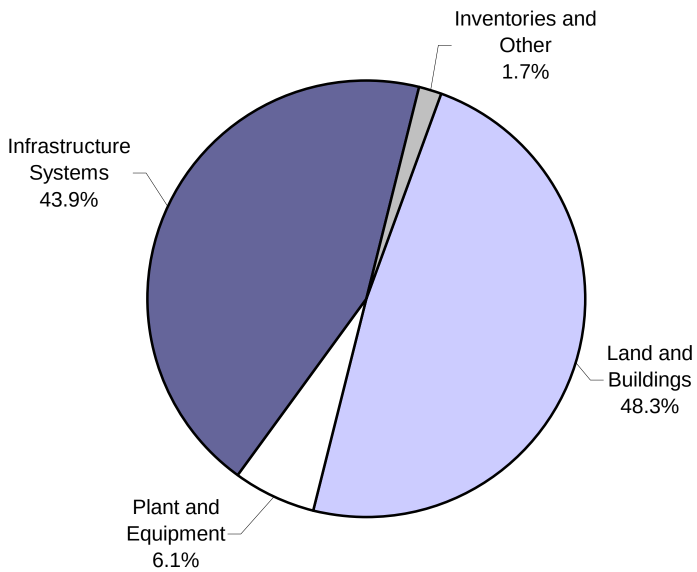
4.2 PHYSICAL ASSETS AND NET WORTH

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

The State's physical assets were valued at $165,183 million as at 30 June 2004, and are expected to be $167,835 million as at 30 June 2005, representing an increase of $2,652 million.

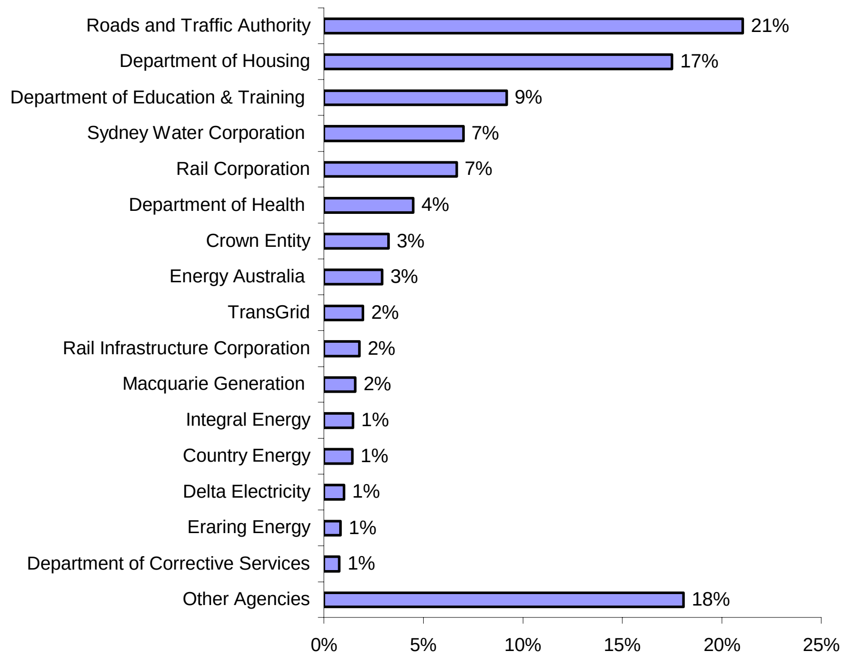
The estimated allocation of physical assets, as at 30 June 2005 between land and buildings, plant and equipment, infrastructure systems and inventories is shown in Chart 4.1.

Chart 4.1: Estimated Allocation of Total State Physical Assets, as at 30 June 2005



As Chart 4.1 indicates, the majority of physical assets are in the land and buildings and infrastructure systems categories. The majority of physical assets are held by a small number of general government agencies and public trading enterprises. About 82 percent of physical assets by value were held in sixteen organisations at 30 June 2004 as shown in Chart 4.2.

Chart 4.2: Public Sector Agency Physical Assets Allocation[(a)]



(a) Excludes for the Roads and Traffic Authority the value of land under roads of $34 billion. If this amount is included, the Roads and Traffic Authority physical assets would be 35% of the total State physical assets.

Source: 2003-04 Agency Annual Reports

The *Fiscal Responsibility Bill* lists ten fiscal principles the Government will use as a guide to the achievement of its fiscal targets. Fiscal Principle 6 states that general government sector net worth should at least be maintained in real terms. Progress reports will be presented in the annual budget papers.

This approach to fiscal management aims to improve the balance sheet position of the general government sector. Important components of the balance sheet include the fixed assets of the general government sector and its equity investment in public trading and financial enterprises, offset by unfunded superannuation and other employee entitlements and any net debt used to finance activities.

Over the forward estimates period the general government sector's value of physical assets is expected to increase by $6.1 billion.

Table 4.1: State Sector Net Worth

As at 30 June	Actual				Revised	Budget	Estimates		
	2001 $m	2002 $m	2003 $m	2004 $m	2005 $m	2006 $m	2007 $m	2008 $m	2009 $m
Assets									
Non-Financial Assets									
Land and Buildings	57,400	62,784	74,552	80,658	81,082	79,790	80,643	81,294	82,097
Plant and Equipment	8,298	7,776	9,185	10,061	10,152	10,174	10,296	10,332	10,251
Infrastructure Systems	59,339	62,592	75,280	71,532	73,721	74,961	78,166	81,612	85,059
Inventories & Other	2,994	3,385	2,814	2,932	2,880	5,352	5,520	5,626	5,704
Other Non-Financial Assets	1,151	1,198	1,319	1,474	1,802	2,483	2,568	2,617	2,734
Total Non-Financial Assets	**129,181**	**137,734**	**163,150**	**166,657**	**169,637**	**172,760**	**177,193**	**181,481**	**185,845**
Financial Assets									
Cash and Deposits	1,915	3,119	3,063	3,696	3,051	2,469	2,755	3,002	2,754
Advances paid	286	368	287	275	226	284	274	299	290
Investments, Loans and Placements	7,139	8,355	12,049	13,413	15,734	16,718	11,007	11,982	13,430
Other Non-Equity Assets	4,928	4,754	4,569	4,875	4,933	5,047	5,061	5,148	5,238
Equity Assets	161	559	619	603	629	673	748	781	821
Total Financial Assets	**14,429**	**17,155**	**20,587**	**22,862**	**24,573**	**25,191**	**19,844**	**21,212**	**22,532**
TOTAL ASSETS	**143,610**	**154,889**	**183,737**	**189,519**	**194,210**	**197,951**	**197,037**	**202,693**	**208,377**
Liabilities									
Deposits Held	936	1,120	1,014	1,283	1,690	1,751	1,722	1,714	1,636
Advances Received	2,041	1,826	1,808	1,681	1,633	1,499	1,461	1,413	1,363
Borrowing	25,041	24,801	25,855	26,444	28,737	30,606	32,744	35,296	36,969
Superannuation[(a)]	7,977	11,723	15,456	15,850	16,890	24,247	19,307	20,691	22,119
Other Employee Entitlements and Provisions	11,251	12,070	13,211	14,197	14,687	14,602	15,052	15,640	16,224
Other Non-Equity Liabilities	4,863	4,919	5,351	5,780	5,094	5,573	5,533	5,439	5,483
TOTAL LIABILITIES	**52,109**	**56,459**	**62,695**	**65,235**	**68,731**	**78,278**	**75,819**	**80,193**	**83,794**
NET WORTH	**91,501**	**98,430**	**121,042**	**124,283**	**125,480**	**119,674**	**121,218**	**122,501**	**124,583**

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

The reduction in State sector net worth between 30 June 2005 and 30 June 2006 is due to the introduction of Australian Equivalent International Financial Reporting Standards (AEIFRS). This accounting approach increases the reported estimate of the State's superannuation liabilities by $5.6 billion. The forecast increase in State sector net worth for the four year period ending 30 June 2009, as shown in Table 4.1, is primarily due to the projected increase in the value of physical assets reflecting the State's large capital works program.

The State is increasing its level of capital expenditure. Over the next four years to 30 June 2009, capital expenditure is expected to total $34,727 million compared to $26,644 million in the four years to 30 June 2005, an increase of more than 30 percent.

In 2005-06 the State will spend $8,248 million on capital expenditure - a 15.2 percent increase compared to the 2004-05 forecast expenditure of $7,162 million. This represents 2.6 percent of gross state product.

Approximately half of the 2005-06 capital expenditure program ($3,825 million) will be in the general government sector whose agencies are engaged in the provision of public services such as health, education, roads and public order and safety.

NSW general government sector capital expenditure will increase by 18.3 percent to $15.8 billion over the four years to 2008-09, relative to the prior four years.

The balance of the 2005-06 capital expenditure program, $4,425 million, will be expended by public trading enterprises (PTEs), and provide major economic infrastructure in water, electricity, housing and public transport. The PTE sector has a generally commercial charter.

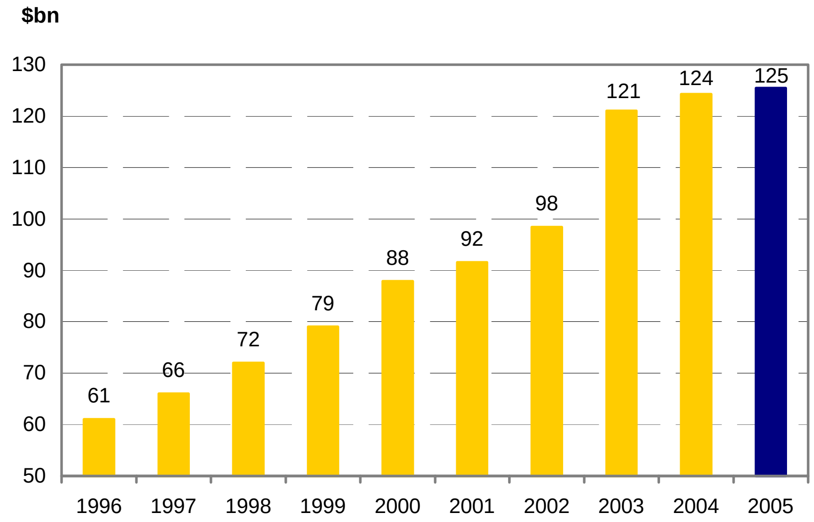
Capital expenditure by the PTE sector is expected to increase by 42.4 percent to $18.9 billion over the four years to 2008-09, relative to the prior four years.

Borrowing by the PTE sector to partially fund capital expenditure is an important part of commercial operations. The increase in PTE capital expenditure will result in a 39 percent rise in borrowing by the sector from 2005-06 to 2008-09.

In aggregate, the net debt (excluding funds held aside for superannuation funding in the General Government Liability Managed Fund) of the total State sector will rise by $8.7 billion over the next four years, primarily reflecting the timing of high levels of infrastructure spending by public utilities.

Chart 4.3 shows that the net worth of New South Wales is projected to increase by approximately $64 billion between 30 June 1996 and 30 June 2005.

Chart 4.3: Total State Sector Net Worth at 30 June



Budget Paper No. 4 provides an analysis of the State's capital expenditure program and review of the Government's asset management.

4.3 NET FINANCIAL LIABILITIES

The Government has adopted new fiscal targets as part of the *Fiscal Responsibility Bill* being introduced with this Budget. The new targets are to:

- reduce the level of general government net financial liabilities as a proportion of gross state product to 7.5 percent or less by 30 June 2010 and 6 percent or less by 30 June 2015;
- eliminate total State sector unfunded superannuation liabilities by 30 June 2030; and
- maintain the proportion of underlying general government net debt to gross state product at or below 30 June 2005 levels, unless an increase in such debt is used to reduce other components of net financial liabilities.

These targets continue a prudent approach to fiscal management by explicitly incorporating all financial liabilities in the targets, thus providing a focus on the full range of the general government sector's future financial obligations.

Table 4.2 shows the net financial liabilities of the different sectors over the past five years.

Table 4.2: Net Financial Liabilities by Sector

As at 30 June	2001 $m	2002 $m	2003 $m	2004 $m	Revised 2005 $m
GENERAL GOVERNMENT SECTOR					
Gross Debt	12,949	12,705	12,025	12,544	13,678
Cash, Advances and Investments [(a)]	6,488	7,649	8,781	9,952	10,477
Underlying Net Debt [(b)]	6,461	5,056	3,244	2,593	3,201
Unfunded Superannuation[(b)]	9,306	11,398	13,069	12,609	12,473
Insurance Claims	5,067	5,553	5,881	6,279	6,568
Other [(c)]	2,298	2,286	2,964	3,310	2,756
Net Financial Liabilities[(d)]	**23,132**	**24,293**	**25,158**	**24,790**	**24,998**
PUBLIC TRADING ENTERPRISE SECTOR					
Gross Debt	12,513	12,133	13,264	13,812	14,950
Cash, Advances and Investments [(a)]	1,880	1,563	1,731	1,720	1,304
Net Debt	10,633	10,571	11,534	12,092	13,647
Unfunded Superannuation	(150)	325	736	391	429
Insurance Claims	332	399	386	398	421
Other [(c)]	3,390	3,451	3,881	4,362	4,324
Net Financial Liabilities	**14,205**	**14,746**	**16,537**	**17,243**	**18,821**
PUBLIC FINANCIAL ENTERPRISE SECTOR					
Gross Debt	30,203	32,552	36,452	27,718	29,853
Cash, Advances and Investments [(a)]	29,798	32,274	36,299	27,528	29,664
Net Debt	405	278	153	190	188
Other [(c)]	(62)	(12)	261	150	151
Net Financial Liabilities	**343**	**266**	**414**	**340**	**340**
TOTAL STATE SECTOR					
Underlying Net Debt	17,499	15,904	14,930	14,875	17,036
Unfunded Superannuation	9,156	11,723	13,805	12,999	12,902
Insurance Claims	5,467	6,006	6,309	6,722	7,024
Other	5,558	5,671	7,064	7,777	7,196
Net Financial Liabilities	**37,680**	**39,304**	**42,108**	**42,373**	**44,158**

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

(b) General Government Liability Management Fund (GGLMF) is excluded from underlying net debt but included in unfunded superannuation.

(c) Mainly represented by employee entitlements, such as long service leave and offset by other non-equity financial assets such as receivables. Public financial enterprise sector "Other" includes insurance claims.

(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.

General government sector net financial liabilities are expected to be about $25 billion for the year ending 30 June 2005, or an estimated 8.3 percent of gross state product.

The adoption of Australian Equivalent of International Financial Reporting Standards (AEIFRS) from 1 July 2005 will have the following impact on financial liabilities:

- Australian Accounting Standard AASB 119 “Employee Benefits” will increase the measure of the State’s unfunded superannuation liabilities by $5.1 billion for the general government sector and $5.6 billion for the State sector; and

- The general government sector, but not State sector, net financial liabilities will be reduced by $3.6 billion in 2005-06 (and by similar amounts thereafter) following the initial recording of deferred income tax receivables from the public trading enterprise sector to the general government sector in accordance with AASB 112 “Income Taxes”. This additional receivable arises when assets are revalued by public trading enterprises. When this occurs, the increased tax liability that would arise if the asset was sold is recognised by the public trading enterprise and a corresponding receivable is recognised within the general government sector. There is no impact at the total State level.

Table 4.3 shows the projection of net financial liabilities to 2008-09.

Table 4.3: Net Financial Liabilities Estimates

As at 30 June	Actual 2004 $m	Revised 2005 $m	Budget 2006 $m	Estimates 2007 $m	Estimates 2008 $m	Estimates 2009 $m
General Government Sector						
Underlying Net Debt[(a)]	2,592	3,201	3,691	3,732	3,676	3,450
Unfunded Superannuation[(b)]	12,609	12,473	17,982	18,254	18,561	18,801
Insurance Gross Claims[(c)]	6,279	6,568	6,347	6,653	7,069	7,516
Other Liabilities (assets)[(d)]	3,310	2,756	(833)	(805)	(848)	(907)
Total	**24,790**	**24,998**	**27,187**	**27,834**	**28,457**	**28,859**
State Sector						
Net Debt[(a)]	14,875	17,036	19,612	21,893	24,209	25,751
Unfunded Superannuation[(b)]	13,000	12,902	19,021	19,308	19,622	19,862
Insurance Gross Claims[(c)]	6,722	7,024	6,740	7,034	7,438	7,875
Other Liabilities[(d)]	7,777	7,196	7,714	7,740	7,711	7,774
Total	**42,373**	**44,158**	**53,087**	**55,975**	**58,980**	**61,262**

(a) Excludes balances held in GGLMF.

(b) Net superannuation asset balance includes GGLMF funds. Adoption of AEIFRS from 1 July 2005 will increase measured superannuation liabilities by $5.6 billion for the total State sector and $5.1 billion for the general government sector. The 2003-04 and 2004-05 numbers are on the old basis of measurement.

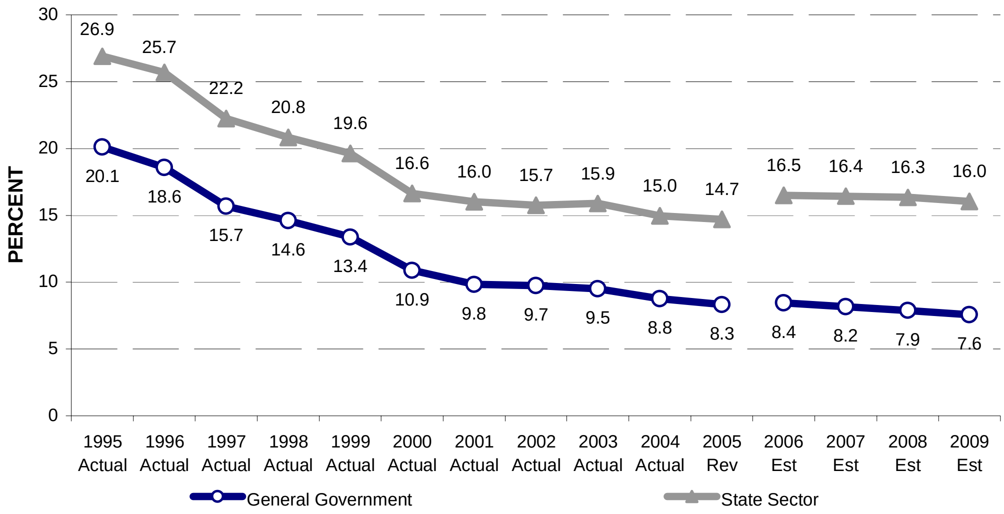
(c) Gross amount of insurance assets are included in financial assets in accordance with Australian Bureau of Statistics net debt calculation standards.

(d) Other employee entitlements and provisions. Adoption of AEIFRS from 1 July 2005 has decreased liabilities by $3.56 billion for the general government sector due to changed treatment of income tax receivable from the PTE sector. This does not impact on the State sector as the tax receivables are eliminated upon consolidation. Estimates prior to 2005-06 are on the old basis of measurement.

General government net financial liabilities are currently projected to decrease to 7.6 percent of gross state product by June 2009.

Chart 4.4 shows that the Government is on track to meet the new targets outlined in the *Fiscal Responsibility Bill*. Net financial liabilities are predicted to fall at such a rate, as a percentage of gross state product, that the medium and longer term targets will be achieved.

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



Note:

Series break in 2005-06 as a result of the adoption of Australian Equivalent International Financial Reporting Standards. It has the effect of increasing the reported level of net financial liabilities. For example, in 2005-06 general government sector NFL would have been 8.0 percent without the change in standards, and total State sector NFL would have been 14.7 percent.

As noted previously, the adoption of Australian Accounting Standard AASB 119 “Employee Benefits” has significantly increased the amount recorded for unfunded superannuation liabilities. However, the underlying economic value of the liabilities has not increased as a result of the changed accounting reporting approach. Employers must now value their liability in a defined benefit superannuation scheme using a risk free government bond discount rate rather than the rate that the assets are expected to earn. Such a discount rate will be well below the estimated long-term Pooled Fund investment earnings rate that is currently assumed in valuing Pooled Fund liabilities.

In Treasury’s view the unfunded superannuation liability should be based on the level of funds needed to be contributed today to meet the liability based on an assumed (and disclosed) investment strategy. As such, it is considered that the present value of a liability should take into account the most likely earnings capability of the entity. Long-term investment history shows that government bond rate earnings are materially below a growth asset portfolio, and the Pooled Fund has a 74 percent strategic allocation to growth assets.

The Pooled Fund trustee itself will continue to report the schemes' financial position based on a discount rate which reflects forecast Pooled Fund earnings. This is because superannuation schemes will remain subject to the existing accounting standard AAS 25, which is not being revised when other new Australian Equivalent International Financial Reporting Standards (AEIFRS), including AASB 119, come into effect.

The adoption of AASB119 for accounting reporting purposes will have no impact on the level of Crown employer cash contributions required to meet the 2030 funding target, as the Government's funding plan will continue to be calculated in accordance with AAS 25. The long-term earning rate of the fund that can be used as a discount rate under AAS 25 is more reflective of the actual performance of superannuation assets over time than the government bond rate required under AASB119.

4.4 STATE SECTOR NET DEBT

State sector debt is used to finance both the general government sector and the public trading enterprise (PTE) sectors of Government. The NSW Government's fiscal strategy is different for each sector and is based on the source of funds available to each sector.

The general government sector provides services (schools, hospitals and police) which are largely free of charge to recipients. These are funded either from State taxation receipts and/or federal funding. In recent years the strategy has been to reduce net debt in this sector to a sustainable level.

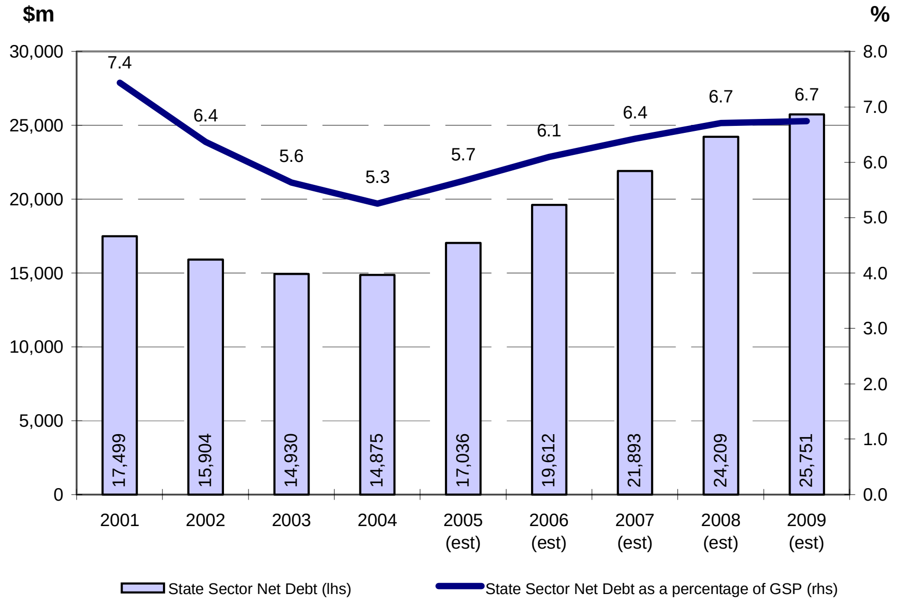
This was achieved in 2004-05. Future budgets are being planned to maintain net debt at or below the same level as a proportion of gross state product.

The PTE sector provides major economic services in areas such as water, electricity and public transport. It is funded by user charges and operates under commercial disciplines as contained in the Government's Commercial Policy Framework. Borrowing by the PTE sector to fund capital investments is an important part of imposing commercial disciplines. Commercially efficient decisions require returns on investments to at least cover the cost of capital. Prices are largely set by independent pricing regulators, which take into account capital expenditure requirements. Hence capital expenditure must generate revenues to support the sector's debt levels and related increased interest expense.

In aggregate, the net debt of the total State sector will rise by $8.7 billion over the next four years, primarily reflecting the high levels of infrastructure spending in the PTE sector.

Chart 4.5 shows the trend in State sector net debt over the forward estimates period.

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



4.5 GENERAL GOVERNMENT SECTOR NET DEBT

The Government's strong commitment to responsible fiscal management was shown by the virtual elimination of general government sector net debt in 2004, being only 0.9 percent of gross state product. This has been achieved through the fiscally responsible application of cash surpluses, assets sales and capital repatriations to pay off debt and build up financial assets.

The Government has now introduced the *Fiscal Responsibility Bill*. The purpose of this proposed legislation is to provide the framework for the conduct of NSW fiscal policy, with a view to maintaining financial outcomes that are fiscally sustainable in the medium- and long-term. This is explained further in Chapter 1.

The net debt level of $12,154 million (7.4 percent of gross state product) in 1995 reduced to $2,593 million (0.9 percent of gross state product) as at 30 June 2004 which is regarded as a sustainable level of debt. Future budgets are forecast to maintain this low gearing ratio in the general government sector, refer Chart 4.6.

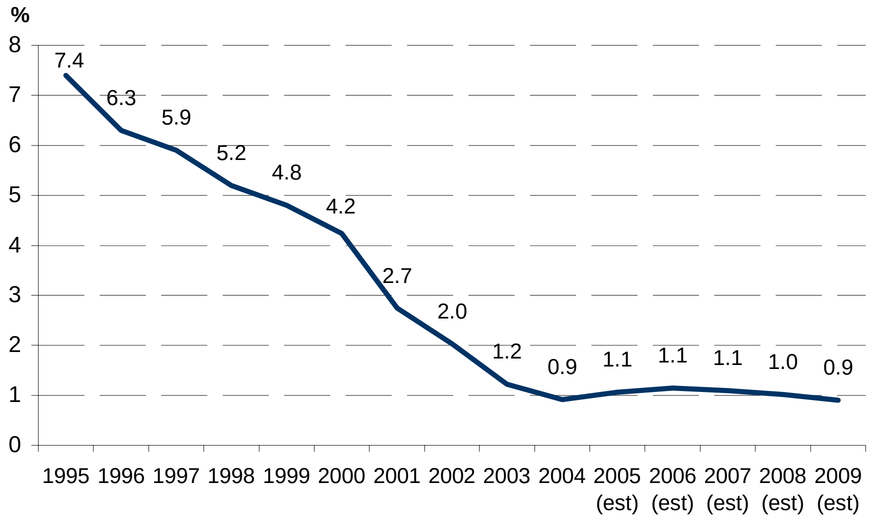
Table 4.4: General Government Sector Net Debt

As at 30 June					*Revised*	*Budget*	*Estimates*		
	2001 *$m*	*2002* *$m*	*2003* *$m*	*2004* *$m*	*2005* *$m*	*2006* *$m*	*2007* *$m*	*2008* *$m*	*2009* *$m*
Gross Debt									
Borrowings	10,847	10,815	10,164	10,795	11,978	11,754	11,655	11,680	11,513
Advances Received	2,041	1,826	1,808	1,681	1,633	1,499	1,461	1,413	1,363
Deposits Held	61	64	53	68	67	67	68	69	68
	12,949	12,705	12,025	12,544	13,678	13,320	13,184	13,162	12,944
Financial Assets[(a)]									
Cash	1,096	1,719	1,091	1,869	1,413	953	1,150	1,302	1,012
Investments	3,950	4,409	6,289	6,723	7,796	7,387	7,049	6,933	7,268
Advances	1,442	1,521	1,401	1,359	1,268	1,289	1,253	1,251	1,215
	6,488	7,649	8,781	9,951	10,477	9,629	9,452	9,486	9,495
Underlying Net Debt	**6,461**	**5,056**	**3,244**	**2,593**	**3,201**	**3,691**	**3,732**	**3,675**	**3,449**

(a) 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 net debt reduction. Asset sales proceeds have assisted, though to a lesser extent.

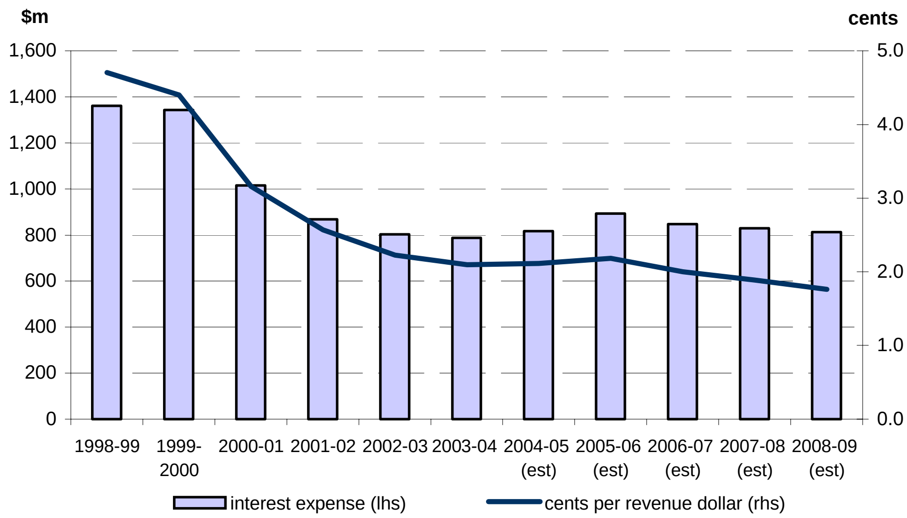
Chart 4.6: General Government Sector Underlying Net Debt as percentage of Gross State Product, as at 30 June



The interest expense on gross debt is expected to fall from $1,362 million to $813 million between 1998-99 and 2008-09. The fall in interest expense is due to ongoing reductions in 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 1998-99, for every revenue dollar received, 4.7 cents was required to meet loan interest payments. By 2008-09 it is expected that 1.8 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



4.6 UNFUNDED SUPERANNUATION

General government sector underlying unfunded superannuation liabilities at 30 June 2005 are projected to decrease by $137 million (around 1 percent) to $12,473 million compared to the previous year.

However, as shown in Table 4.5, unfunded liabilities in 2005-06 increase by $5,509 million to $17,982 million, which then gradually increases by an average 1.5 percent per annum during the forecast period.

About $5,050 million (92 percent) of this increase is due to the adoption of new accounting standard AASB119 on 1 July 2005. The balance of the increase is largely due to projected Pooled Fund investment returns in 2005-06 (7.3 percent) being lower than actual returns in 2004-05.

The new standard has this adverse impact because it requires the discount rate for valuing superannuation liabilities to be equal to the estimated long-term government bond rate as at valuation date.

An estimated long-term government bond rate of 6 percent has been used to calculate the unfunded liabilities, based on advice from the fund actuary, Mercer Human Resources. Last year's Budget Estimates, which were based upon the previous accounting standard, used a discount rate of 7.3 percent, which is the estimated long-term Pooled Fund investment earnings rate.

Table 4.5 shows the superannuation liabilities and assets as well as the reserves held in the General Government Liability Management Fund (GGLMF) that make up the projected underlying net unfunded liabilities to 30 June 2009.

GGLMF reserves are projected to steadily build up to around $6.5 billion by 2006-07. During 2006-07, these reserves will be transferred into the Pooled Fund.

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

As at 30 June	2001 $m	2002 $m	2003 $m	2004 $m	Revised 2005 $m	Budget 2006 $m	Estimates 2007 $m	2008 $m	2009 $m
Liabilities	30,190	30,389	31,873	33,633	34,957	40,349	41,505	42,542	44,544
Less:									
Assets	20,884	18,991	17,153	18,172	18,497	17,140	23,251	22,912	23,487
Reserves held in General Government Liability Management Fund	...	...	1,651	2,852	3,988	5,227	...	1,069	2,256
Underlying Net Unfunded Liabilities[(a)]	**9,306**	**11,398**	**13,069**	**12,609**	**12,473**	**17,982**	**18,254**	**18,561**	**18,801**
Assets (including GGLMF Reserves) as proportion of Liabilities (%)	**69**	**62**	**59**	**63**	**64**	**55**	**56**	**56**	**58**

(a) *Includes assets and liabilities of employers. 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.*

SUPERANNUATION FUNDING PLAN

Despite the significant increase in reported superannuation liabilities resulting from the introduction of AASB119, recent actuarial advice confirms that the general government sector unfunded liabilities for the Pooled Fund schemes are expected to be fully funded by 2030 based on current planned employer cash contribution levels. In this context, "fully funded" means that by 2030 no further employer contributions will need to be made. The amount of reserves at that time, plus expected investment returns for the remainder of the life of the Pooled Fund schemes will be sufficient to fund future expected benefit payments.

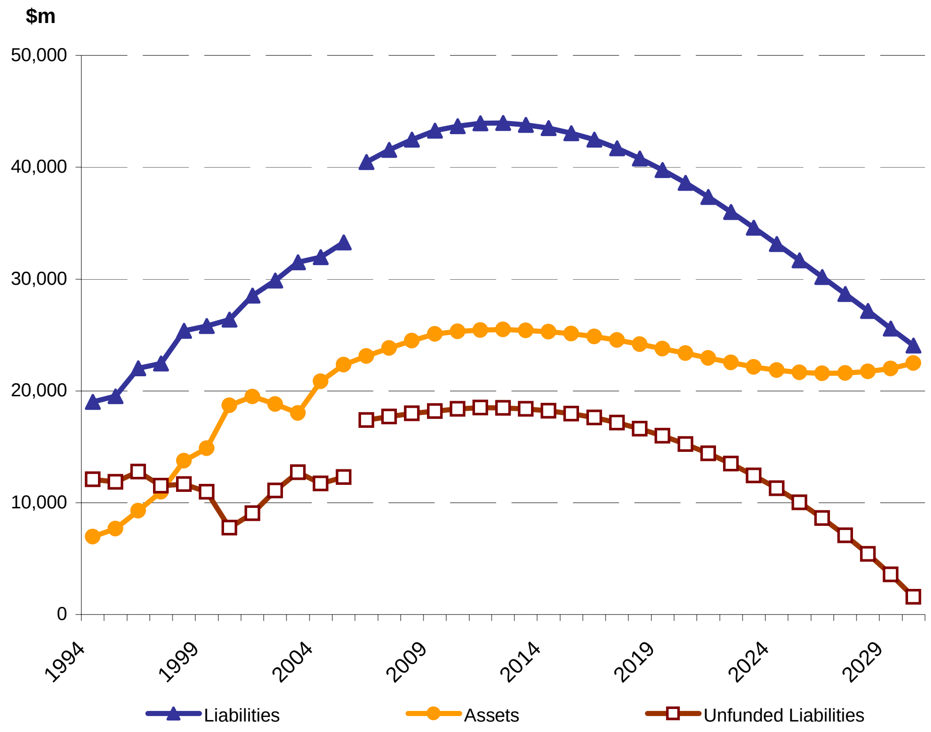
Chart 4.8 illustrates the long-term position of general government sector superannuation liabilities. It shows that gross liabilities will continue to grow to 2012, and then gradually decline due to the retirement of active members and continued budget contributions up to 2030. By 2030, gross liabilities will be about $24 billion.

As noted in the 2004-05 Budget, unfunded superannuation liabilities will now be calculated on two bases. The first basis is for balance sheet recognition purposes and follows AASB119 requirements with respect to the assumed discount rate. The second basis is a funding basis and is used for funding purposes and is in accordance with accounting standard AAS 25.

Calculating superannuation liabilities on a funding basis provides a more meaningful assessment of the budgetary impact of unfunded liabilities. It is more consistent with how the Pooled Fund trustee reports the schemes' funding position. This is because superannuation schemes remain subject to the existing accounting standard AAS 25 when AEIFRS comes into effect.

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

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



Note Series break in 2005-06 as a result of the adoption of Australian Equivalent International Financial Reporting Standards. It has the effect of increasing the reported level of net superannuation liabilities.

For most of the period prior to the current Government's tenure, superannuation was largely funded on a "pay-as-you-go" basis. This meant that cash contributions were made to match emerging benefit payments to beneficiaries.

Over the last ten years or so, contributions have been considerably greater than benefit payments. Table 4.6 shows that this disciplined approach to funding has resulted in the situation where earnings on fund assets now enable annual total State sector contributions to be less than annual benefit payments, with the difference being reallocated to core government service provision. Over the five years to 30 June 2009, estimated cumulative contributions ($6.5 billion) are $5.2 billion less than estimated benefit payments ($11.7 billion).

Table 4.6: Total State Sector Superannuation Contributions compared to Forecast Benefits Payments

	Revised	*Budget*	*Estimates*			
	2004-05 *$m*	*2005-06* *$m*	*2006-07* *$m*	*2007-08* *$m*	*2008-09* *$m*	*Total* *$m*
Benefit Payments	2,044	2,169	2,336	2,493	2,647	11,689
Employer Contributions[(a)]	1,246	1,271	1,295	1,321	1,379	6,512
Difference	798	898	1,041	1,172	1,268	5,177

(a) Includes Crown contributions into the GGLMF which will be periodically transferred into the Pooled Fund.

An important factor in fully funding superannuation liabilities is the investment return earned on Pooled Fund assets. The cumulative average real rate of return on Australian equities from 1900 to 2004 was 7.6 percent per annum. The lowest cumulative average at the end of any decade was 7.3 percent (1920). International equity returns were also high, with real rates of return in the United States of 6.6 percent, Japan 4.2 percent and United Kingdom 5.4 percent. The average annual return on State sector defined benefit scheme assets over the last 50 years was around 8 percent.

4.7 INSURANCE

Insurance net liabilities are comprised primarily of the net financial liabilities of the Treasury Managed Fund (TMF), 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. It 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 assist member agencies in reducing risk exposures, and thus maximising resources available to support their core business activities. The TMF provides "hindsight adjustments" to member premiums to encourage best management practices within member agencies.

TMF Claim Management Tender

On 30 June 2005 the contract for management of the TMF will expire. Treasury has taken this opportunity to implement fundamental reforms to how insurance services are provided. In particular, it was decided to move away from a single claims management provider.

Essentially Treasury has a target of developing a more open, competitive market for delivering claims management services to the TMF. After 1 July 2005, three workers compensation providers, Employers Mutual Limited, Allianz Australia Limited and GIO Australia Limited, will handle claims management. The claims management of the Department of Health and other liability claims has been awarded to GIO. There will also be separate long-term contracts for risk management, reinsurance and actuarial services.

The key objectives of this new structure are to improve TMF performance through generating cost savings and efficiency gains; reducing the systemic risk associated with a single provider; and enabling comparison and benchmarking between providers.

It has been estimated that the new management arrangements will generate savings of 2.5 percent per annum from 2006-07 for workers' compensation and 1 percent per annum from 2006-07 for legal liability.

Table 4.7: General Government Insurance Estimates

As at 30 June	Actual	Revised	Budget	Estimates		
	2004	*2005*	*2006*	*2007*	*2008*	*2009*
	$m	*$m*	*$m*	*$m*	*$m*	*$m*
Outstanding Claim Liabilities						
Treasury Managed Fund	4,087	4,463	4,383	4,745	5,207	5,693
Other (closed schemes)[(a)]	354	329	308	284	263	243
HIH	270	188	169	131	103	82
Dust Diseases	1,307	1,327	1,341	1,352	1,360	1,365
WorkCover Authority	256	256	142	136	132	127
Other (self funded schemes)[(b)]	5	5	5	5	5	5
	6,279	6,568	6,347	6,653	7,069	7,516
Assets[(c)]						
Treasury Managed Fund[(d)]	4,402	4,980	5,339	5,528	6,039	6,655
Other (closed schemes)	62	41	308	284	263	243
Dust Diseases	1,307	1,327	1,341	1,352	1,360	1,365
WorkCover Authority[(e)]	240	285	186	158	156	162
Other (self funded schemes)	5	5	5	5	5	5
	6,016	6,638	7,179	7,327	7,823	8,430
Assets as proportion of claim liabilities (%)	**96**	**101**	**113**	**110**	**111**	**112**

(a) Closed schemes include the Transport Accident Compensation Fund and the Government Workers Fund.

(b) Waterways Authority has 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 with Australian Bureau of Statistics standards.

(d) Projected increase in TMF financial assets has been reduced to maintain approximately 110 percent funding level. Forecast transfers back to the Consolidated Fund are - 2006-07: $500 million, 2007-08: $250 million, 2008-09: $250 million.

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

The TMF is a fully funded scheme, with the financial assets of the fund exceeding its claim liabilities. This favourable funding position has resulted in the 2005-06 total premium being reduced by 3.2 percent.

The major reason for this overall premium reduction is the reduction in liability claim expenses, particularly legal costs, following the Government’s tort reform legislation. As a result, TMF agencies’ public liability premiums will decrease by 12.6 percent in 2005-06. This is only the second time that the liability premium has decreased in the Fund’s 16-year history.

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. This is expected to reduce to $188 million by 30 June 2005. During 2004-05, claim payments to previous HIH policyholders and those entitled to third party compensation will be approximately $70 million.

The continuing decline in HIH claim liabilities and the anticipated increase in TMF financial assets are expected to reduce net liabilities over the forward estimates period. Insurance assets as a proportion of liabilities are forecast to rise from 96 percent in 2004 to 112 percent in 2009 (Table 4.7).

COMMUNITY AND OTHER INSURANCE ISSUES

The availability of insurance in the local and international market reduced in 2001 due to the collapse of the HIH Insurance Group and the tragic events of September 2001. These events compounded the effect of the insurance market cycle entering a period of premium increases after 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 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 2002*, 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*. This Act introduced 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; and to provide for self-defence against civil action for a citizen arising from the conduct of another person whose action would have been unlawful but for the fact that the person was suffering from a mental illness.

Provisions to introduce proportionate liability were included in the *Civil Liability (Personal Responsibility) Amendment Act 2002*. These provisions commenced on 1 December 2004.

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 increase the availability of liability insurance, including the provision of $316,000 funding to The Council of Social Service of New South Wales to establish a bulk buying insurance scheme for the community sector.

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

Since the launch of CCUA in December 2002 over 6,000 groups have registered, 4,000 quotes have been issued and over 1,800 policies have been issued to not-for-profit organisations around Australia. Of these, 1,350 policies have been issued to not-for-profit organisations in New South Wales.

PROFESSIONAL INDEMNITY INSURANCE

New South Wales has attended 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. As a result of these deliberations, all states and territories have introduced nationally consistent professional standards legislation to improve the affordability and availability of professional indemnity insurance.

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

The nationally consistent approach incorporates flexibility to allow an entity to vary its contractual liability cap to meet the concerns of large purchasers of professional services by applying to its professional standards association.

New South Wales enacted its *Professional Standards Act* in 1994. This Act was amended in 2004 to achieve consistency with the nationally agreed approach to professional standards legislation.

4.8 OTHER NET FINANCIAL LIABILITIES

Table 4.8 shows other liabilities of the general government sector are estimated to be $2,756 million as at 30 June 2005 and a negative $833 million as at 30 June 2006. The equivalent figures for the total State sector are $7.2 billion and $7.7 billion, respectively.

The main components of other liabilities are employee entitlements and working capital requirements. General government long service leave liabilities are estimated to be $4.2 billion and annual leave liabilities $1.2 billion as at 30 June 2005. The equivalent liabilities for the State sector are $4.9 billion and $1.6 billion, respectively.

Table 4.8 records negative other liabilities for the general government sector from 2005-06 onward. This arises following the adoption of the Australian Equivalent of International Financial Reporting Standards, specifically the standard relating to the measurement of deferred income tax liabilities. This standard requires the general government sector to record an additional tax receivable when assets are revalued by public trading enterprises. When assets are revalued within the PTE sector, the increased tax liability that would arise if the asset was sold is recognised by both the public trading enterprise and the general government sector (which receives tax equivalents from public trading enterprises). Previously a liability to pay tax was not triggered by asset revaluations.

The public trading enterprise sector deferred tax liability is $3.6 billion in 2005-06. As an offset, the general government sector records a $3.6 billion receivable from the public trading enterprise sector and a reduction in PTE equity of a similar amount. As other net financial liabilities include the tax receivable but not PTE equity, it decreases by $3.6 billion.

The deferred tax liability of the public trading enterprise sector is eliminated on consolidation at the State sector level and therefore the new income tax accounting standard has no impact on total State sector liabilities.

The national tax equivalent regime requires the State's public trading enterprises to apply the income tax laws of the Commonwealth in calculating tax payable. These tax equivalents are paid to the Consolidated Fund.

The income tax receipts of the general government sector shown in Table 3.7 exclude any deferred tax liability arising under the new accounting standard.

Table 4.8: Net Other Liabilities Estimates

	Actual	*Revised*	*Budget*	*Estimates*		
As at 30 June	*2004* *$m*	*2005* *$m*	*2006* *$m*	*2007* *$m*	*2008* *$m*	*2009* *$m*
General Government Sector						
Annual Leave	1,146	1,230	1,286	1,298	1,307	1,315
Long Service Leave	3,895	4,197	4,367	4,479	4,592	4,689
Other Liabilities	4,680	4,027	4,372	4,313	4,315	4,330
	9,721	9,454	10,025	10,090	10,214	10,334
Other Financial Assets (a)	6,411	6,698	10,858	10,895	11,062	11,241
Total	**3,310**	**2,756**	**(833)**	**(805)**	**(848)**	**(907)**
State Sector						
Annual Leave	1,491	1,582	1,641	1,663	1,680	1,697
Long Service Leave	4,650	4,895	5,050	5,186	5,319	5,438
Other Liabilities	7,114	6,280	6,744	6,701	6,643	6,697
	13,255	12,757	13,435	13,550	13,642	13,832
Other Financial Assets (a)	5,478	5,561	5,720	5,809	5,929	6,059
Total	**7,777**	**7,196**	**7,715**	**7,741**	**7,713**	**7,773**

(a) Other financial assets do not include cash and deposits, advances paid, or investments, loans and placements.

4.9 FINANCIAL ASSET MANAGEMENT

THE ROLE OF ASSETS IN FINANCIAL MANAGEMENT

The maintenance and expansion of core government services is possible due to the State’s strong balance sheet, allowing the Government to cope with volatility of taxation revenues and investment markets.

The Government has increased the level of financial assets in order to achieve its fiscal targets of reducing the State’s net financial liabilities to 6 percent of gross state product by 2015, to maintain general government underlying net debt as a proportion of gross state product at or below its level as at 30 June 2005 and to eliminate total State sector unfunded superannuation liabilities by 30 June 2030. Investment income for the general government sector is expected to continue growing as a proportion of total budget revenues until 2006-07, when the General Government Liability Management Fund balance is transferred to the superannuation Pooled Fund.

FINANCIAL ASSETS: WHY THE GOVERNMENT MAINTAINS THESE BALANCES

The Government's approach is to hold financial assets to meet liabilities as they fall due. Hence assets are held in superannuation and the General Government Liability Management Fund to enable the Government to meet future State pension and other lump sum superannuation entitlements.

Assets are accumulated at the time a liability is incurred rather than using the assets available when a liability is to be paid. This is to ensure the taxpayers of the time the liability is incurred meet the cost of the liability rather than burdening the taxpayers at the time the liability needs to be paid.

The TMF holds assets to ensure workers' compensation and public liability claims are met in full. These asset reserves ensure that future levels of agency service provision are not adversely impacted by liability payments.

Financial assets held to meet future liabilities generate revenue for the Government to meet these liabilities rather than relying on taxation revenue. The investment income from financial assets is a significant proportion of Budget revenue, as shown in Table 4.9.

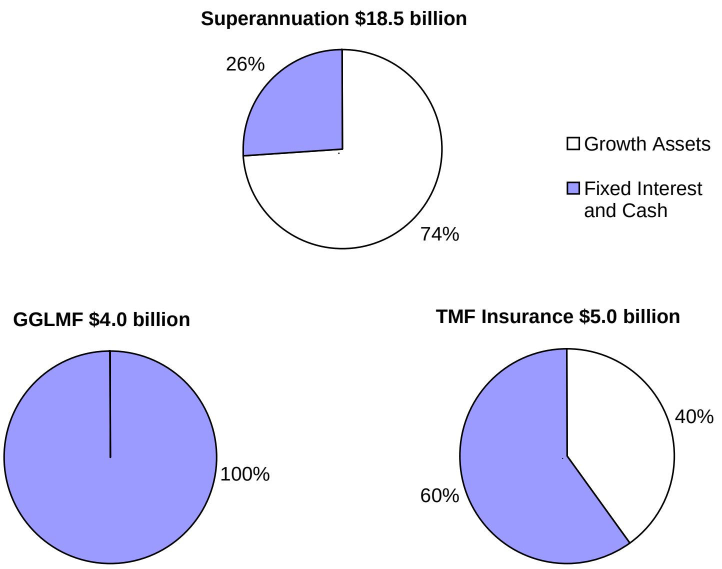
Table 4.9: Investment Income as Proportion of Total Budget Revenue

	Actual				*Revised*	*Budget*	*Estimates*		
	2000-01 $m	*2001-02 $m*	*2002-03 $m*	*2003-04 $m*	*2004-05 $m*	*2005-06 $m*	*2006-07 $m*	*2007-08 $m*	*2008-09 $m*
Investment Income	471	282	440	862	924	971	909	824	947
Budget Revenue	32,118	33,752	36,029	37,663	38,685	40,860	42,401	43,992	46,148
Income % of Revenue	1.5%	0.8%	1.2%	2.3%	2.4%	2.4%	2.1%	1.9%	2.1%

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. Thus a higher growth allocation implies greater risk. In choosing an appropriate asset allocation the Government balances the risks and returns inherent in particular types of financial assets. The strategic asset allocations of the major asset portfolios held in the general government sector are shown in Chart 4.9.

Chart 4.9: Major asset portfolios' forecast strategic asset allocations, as at 30 June 2005



4.10 FINANCIAL RISK MANAGEMENT

The major financial liabilities of the State, which also represent the major financial risks, are centrally managed.

INSURANCE MANAGEMENT

The TMF provides insurance for all general government budget dependent agencies and those non-budget dependent agencies that have chosen to join the Fund. It is Government policy to self-insure insurance risks because of the significant cost savings compared to private sector premium charges. The TMF covers all agency risks, except terrorism: such unlimited coverage would not be available from the insurance market. All material exposures are covered by appropriate reinsurance.

As a result of significant government capital contributions and reasonable investment returns in recent years, the TMF is now fully funded. The TMF portfolio value is expected to approximate $5 billion as at 30 June 2005.

Bonds represent 60 percent of investments on average, with the remainder in equity, listed property and a small cash allocation. 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 Treasury details investment policies and procedures and sets benchmarks for each asset class.

Investment performance is monitored by the Crown Entity Asset Management Committee, which 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 Crown and the Roads and Traffic Authority debt portfolios together represent over 90 percent of general government debt. These portfolios are managed by TCorp. Debt management has two long-term objectives; first to minimise the market value of debt within specified risk constraints, and second to minimise the cost of debt. TCorp uses an active management style that aims to add value relative to a benchmark portfolio.

During 2004-05, the benchmark portfolio for Crown debt was reviewed by an independent adviser, Ernst and Young. This review assessed whether the current benchmark remained appropriate for the Crown debt portfolio, and recommended minor changes to the current benchmark. Treasury aims to undertake reviews of the benchmark every three years to ensure it stays relevant.

Memoranda of understanding between Treasury, the Roads and Traffic Authority and TCorp govern the management of the portfolios. They 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 Roads and Traffic Authority, 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 and some public trading enterprises. These schemes are now closed to new entrants.

The trustee reviews the STC Pooled Fund’s strategic asset allocation annually. Currently, the amount invested in growth assets is approximately 74 percent with the balance in bonds and cash.

The Crown employer contributions to defined benefit superannuation schemes are currently being invested through the General Government Liability Management Fund (GGLMF). These funds are invested in a fixed interest portfolio managed by TCorp under a memorandum of understanding with Treasury. The balance of the General Government Liability Management Fund will be paid to the STC Pooled Fund in 2006-07 to ensure appropriate Pooled Fund liquidity is maintained.

PUBLIC AUTHORITIES (FINANCIAL ARRANGEMENTS) ACT 1987

The *Public Authorities (Financial Arrangements) Act 1987* (PAFA Act) contains controls to manage risks resulting from government agencies' financial arrangements. It 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 reviews the risk management policies and procedures of randomly selected agencies. These reviews examine the adequacy of an agency's staff, computer systems, internal reporting procedures and other arrangements in light of the PAFA Act powers and approvals given to the agency. External risk management advisers assist Treasury in conducting these reviews.

The PAFA Act has been updated on an incremental basis since 1987 to reflect particular changes in financial risk management. A broad review of the PAFA Act framework will commence in 2005-06 to refine the risk management measures contained in it.

CHAPTER 5: PUBLIC TRADING ENTERPRISE SECTOR

- The public trading enterprise (PTE) sector consists of a range of businesses which supply basic services to the NSW community, such as electricity, water, public transport and public housing.
- The PTE sector is in a strong capital investment period with expenditure of over $18 billion expected over the next four years. The historically high level of expenditure is to continue to ensure reliability of electricity supply; balance supply and demand for water; and provide safe, reliable and comfortable public transport.
- As a result of increased capital expenditure, net debt for the PTE sector is forecast to rise substantially, although still within prudent levels of risk. An appropriate mix of debt and equity imposes disciplines on PTEs to ensure they operate efficiently.
- Net cash flows from operations of the PTE sector are expected to remain strong, averaging around $3.3 billion per annum in real terms over the forecast period.
- Over the next four years, operating earnings (net operating surplus before interest, dividends and tax) are projected to grow strongly due to steady revenue growth in water and electricity and achieving better performance in the rail sector.

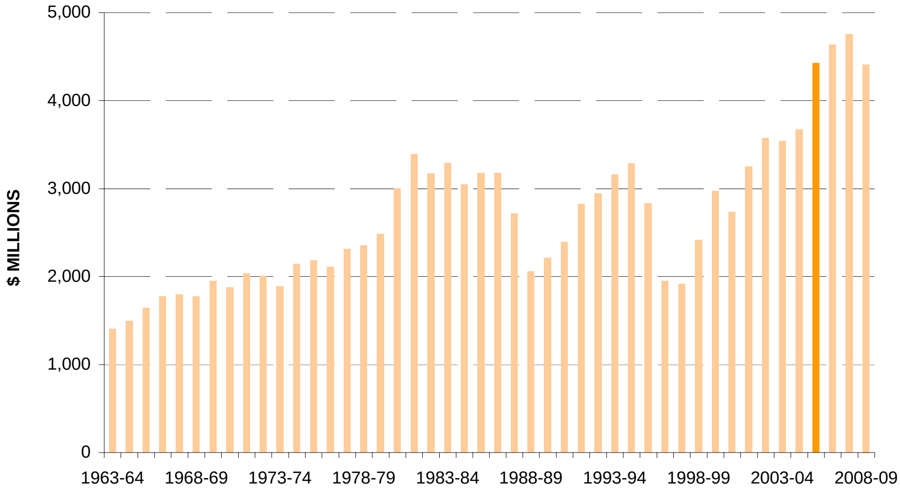
5.1 INTRODUCTION

The PTE sector includes a diverse range of businesses providing the State with electricity, transport, housing, ports and water and related infrastructure. The PTE sector includes commercial businesses (e.g. electricity) that are profitable and provide a return to the Government, as shareholder. Other entities in the PTE sector address important social policy objectives (e.g. transport and housing) and therefore receive support from the Government through grants and subsidies.

The PTE sector plays a major role in the provision of State infrastructure and is currently in a period of strong capital expenditure as shown in Chart 5.1. Spending on infrastructure in 2004-05 grew by 6 per cent from the previous year and spending in 2005-06 is expected to increase by a further 24 per cent. Over the four years to 2008-09, spending on State infrastructure is projected to total over $18 billion and represent its highest level ever in real terms.

Investment in the rail, electricity transmission and distribution, and water sectors is expected to account for most PTE capital investment over the next four years. More detail on the capital investment plans of the PTE sector is outlined in Budget Paper No. 4.

Chart 5.1: PTE Sector New Fixed Capital Expenditure, 1963-64 to 2008-09, real 2005-06 dollars



ENERGY

The State owns the major NSW electricity utilities:

- three generators: Macquarie Generation, Delta Electricity and Eraring Energy;
- the bulk transmission corporation, TransGrid; and
- three distribution and retail businesses: EnergyAustralia, Integral Energy, and Country Energy (including Australian Inland Energy Water Infrastructure).

Including the NSW share of Snowy Hydro Ltd, the State-owned generators have approximately 14,000 megawatts of installed capacity. These assets generate around 65,000 gigawatt hours per year. The NSW distributors have approximately 3 million network customers.

As announced by the Government in November 2004, Australian Inland will be merged with Country Energy, effective 1 July 2005, to create Australia's largest electricity distribution network covering 90 per cent of the State.

Investment in the Electricity Networks

NSW electricity network businesses (transmission and distribution) are experiencing a period of high capital expenditure. This reflects the pressures of an ageing asset base, increasing summer peak demand from the use of air conditioners, customer growth with high numbers of new connections, improving occupational health and safety and tightening regulatory requirements.

To ensure the continued reliability in the supply of electricity across the network, NSW network businesses have significantly increased their planned capital expenditure over the next few years.

In June 2004, the Independent Pricing and Regulatory Tribunal (IPART) approved proposed capital expenditure of $4.8 billion and operating expenditure of $3.9 billion (total of $8.7 billion) over five years from 2004-05 to 2008-09 for the electricity distribution network in New South Wales. In April 2005, the Australian Consumer and Competition Commission approved $1.4 billion for investment in the transmission network over the same five year period with an allowance of over $700 million to meet operational requirements.

Energy Reforms

Full Retail Competition

Since 1 January 2002, all NSW gas and electricity customers have a choice of energy supplier. Competition encourages retailers to generate improved and more innovative retail services, and applies downward pressure on prices. Over one million negotiated contracts have now been entered into by NSW households and small businesses.

Reliability of supply is unaffected as the same State-owned companies are responsible for operating and maintaining the poles and wires that deliver electricity under regulated service standards.

Energy Market Reforms

The NSW Government is currently working with other jurisdictions through the Ministerial Council on Energy to progress reform of the electricity market. The Council of Australian Governments has endorsed a comprehensive package of recommendations for energy reform: Two of the key recommendations include:

- streamlining and improving the quality of regulation across energy markets; and
- reviewing the institutional and regulatory arrangements to improve the planning and development of transmission networks and create a stable framework for new investment.

Two new statutory commissions have been created to achieve the first recommendation. The Australian Energy Market Commission is responsible for rule-making and market development and the Australian Energy Regulator is responsible for market regulation.

Investment in Generation – The NSW Energy Directions Green Paper

New South Wales has sufficient generation capacity for the immediate future. However ongoing growth in demand for electricity means that capital expenditure will be needed in new peak generation in the next three to four years and in new baseload generation within the next decade.

Private sector investment in new generation requires certainty about environmental planning policies, greenhouse policy and electricity retail price regulation. In addition, changes to the current market structure could be made to better support private developments and risk exposure.

The Government has taken the initiative by releasing an Energy Directions Green Paper in December 2004, outlining options for reform. Over 400 submissions were received which the Government is considering. An Energy Directions White Paper will soon be released that will clearly indicate policy directions.

TRANSPORT

The Transport Sector incorporates:

- Rail services – Rail Corporation New South Wales (RailCorp), responsible for passenger rail services (CityRail and CountryLink) and Rail Infrastructure Corporation (RIC), which manages the country regional network. The Transport Infrastructure Development Corporation (TIDC) is a construction authority managing major transport infrastructure projects, including the Epping to Chatswood Rail Line. The State Rail Authority (SRA), formerly responsible for passenger services, is being wound up.

- Bus services - State Transit Authority provides passenger bus services in Sydney and bus and ferry services in Newcastle.

- Ferry services - Sydney Ferries Corporation operates passenger services on Sydney Harbour and the Parramatta River.

- Port facilities - three Port Corporations, Sydney, Newcastle and Port Kembla, manage the State's major ports, including navigation and on-shore facilities.

Transport regulation is undertaken by the Independent Transport Safety and Reliability Regulator, responsible for accrediting rail operators and monitoring the safety and reliability performance of rail, bus and ferry transport.

Financing of the Transport Sector

Table 5.1 presents a summary of the Budget support in the Transport Sector. Over the period, Budget grants have increased by $866 million, or 41 percent.

In 2005-06, Budget grants to RailCorp for CityRail and CountryLink services, will exceed $1.3 billion. This includes a general operating subsidy, funding for major maintenance and subsidies for fare concessions to pensioners and students. A further $167 million will be available to the Rail Infrastructure Corporation, including $110 million for maintenance of the country regional network.

Capital investment will be supported by a $587 million capital program for RailCorp and a $434 million capital program for TIDC, both financed by a combination of Budget grants and borrowings. Capital spending will focus on new rollingstock, improvements to safety, security and customer amenity and the continuation of works on the $2 billion Epping to Chatswood Rail Line, due for completion in 2008.

Table 5.1: Budget Support for the Transport Sector[(a)]

	Actual 2001-02 $m	*Actual 2002-03 $m*	*Actual 2003-04 $m*	*Revised 2004-05 $m*	*Budget 2005-06 $m*
Rail Services					
Operating grants[(b)]	1,101	1,290	1,369	1,380	1,520
Capital grants (plus asset sale proceeds)	421	477	496	581	628
Sub-total	1,522	1,767	1,865	1,961	2,148
Less: Dividend Payments	33	...	...	...	...
Sub-total – Rail Services	1,489	1,767	1,865	1,961	2,148
Bus and Ferry Services					
Operating grants[(b)]	211	239	242	287	290
Capital grants	23	3	...	5	5
Private Operators/Community Groups	410	438	463	486	556
Sub-total – Bus and Ferry Services	644	680	705	778	851
Total Net Budget Funding: Transport	2,133	2,447	2,570	2,739	2,999

(a) The Budget also supports borrowings by transport agencies to fund capital works.

(b) Figures for operating grants above include fare concessions for pensioners and students.

Transport Reform

Rail services

The NSW rail network is one of the world's most complex. Every day CityRail moves close to one million passengers between 306 stations in a fleet of more than 1,500 carriages, covering over 2,000 kilometres of track.

Recent reforms in the rail sector include:

- the lease of the State's major interstate rail network, including the Hunter Valley corridor, to the Australian Rail Track Corporation (ARTC), effective from 4 September 2004. The ARTC also manages the balance of the country regional network. The ARTC and the Commonwealth have given major commitments to New South Wales to upgrade rail infrastructure as part of the arrangements; and

- creation of an integrated passenger railway entity, RailCorp, from 1 January 2004, combining the passenger rail services previously provided by SRA with the metropolitan track infrastructure owned by RIC.

Major operational initiatives designed to produce sustainable improvements in rail services include:

- a rail improvement plan developed from the 127 recommendations of the Special Commission of Inquiry into the Waterfall Rail Accident. The first stage of implementation is expected to cost around $250 million;

- the more than $1 billion Rail Clearways Program, which will untangle the network's 14 interconnected lines into five rail clearways capable of independent operation;

- the development of a new timetable from the second half of 2005; and

- development of a "Tcard", a smart card integrated ticketing system for all public transport operators in the greater Sydney region.

Bus services

Major reforms to bus services are now being introduced 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.

As a result, the bus network and service planning arrangements, including the identification of strategic bus corridors and new service planning guidelines have been revised. Contract arrangements, based around 15 new regions, have also been revised. There will be an improved focus on local transport needs.

Another key initiative of the Review is the equalisation of fares across the metropolitan area, including the extension of the Pensioner Excursion Ticket to services provided by private operators.

Ports

Port reforms are focused around the implementation of the Ports Growth Plan. The Plan includes review of a proposal by Sydney Ports Corporation for expansion of Port Botany, to meet the rapid growth of container movements. Another initiative of the Plan is the progressive movement of cargos from Sydney Harbour to Port Kembla once existing leases have expired.

The Plan also includes nominating Newcastle as the site of a future major container terminal once Port Botany reaches its capacity and developing a smaller multi-purpose terminal in the interim (subject to commercial viability). Newcastle remains the largest coal port in the world with a capacity approaching 90 million tonnes per annum. The Newcastle Port Corporation is working as part of the coal logistics chain to significantly increase capacity in the light of unprecedented coal demand.

WATER

The State owns five commercial water delivery businesses:

- Sydney Water Corporation provides water, sewerage and some stormwater drainage services in Sydney, the Illawarra and the Blue Mountains.

- Sydney Catchment Authority is responsible for Sydney's drinking water catchment and its infrastructure, and supplies bulk water to Sydney Water and some councils in the Sydney catchment area.

- Hunter Water Corporation is a vertically integrated bulk and retail water and wastewater business in the Hunter region.

- State Water Corporation is a bulk water business in rural New South Wales whose main customers are irrigation corporations and some country towns. From 1 January 2005, State Water also includes Fish River Water Supply authority which is a small bulk water business whose main customers include Delta Electricity, Sydney Catchment Authority and local councils in the Oberon-Lithgow area.

Australian Inland, now merged with Country Energy, is also a water retailer in far western New South Wales. Urban water and wastewater services in country New South Wales and the central coast are the responsibility of local councils.

Water Reforms

Metropolitan Water Plan

The Government released the Metropolitan Water Plan in October 2004. It addresses the current drought and the longer-term imbalance between water demand and supply, including the impacts of improved environmental river flows in the Sydney system. As a result, the Sydney Catchment Authority's capital expenditure program is increasing significantly because of the infrastructure required to supplement Sydney's water supply.

Specific measures in the Plan include:

- *Increasing supply* through accessing deep water in Nepean/Avon and Warragamba dams (predominantly a drought measure but which also has long term supply benefits), contingency plans for desalination and groundwater field trials if the drought continues, and introducing a scheme to transfer water from the Shoalhaven River to the Sydney system when river flows are high as a long term supply measure;

- *Reducing demand* through Government regulation - a range of measures affecting households including the water efficiency labelling scheme, a $30 million per annum water savings fund, and investigating increased water recycling; and

- *Environmental flows:* An initial commitment to modest flows from the upper Nepean dams reaching 24-30 gigalitres per annum by 2010, with a decision on flows from Warragamba dam by 2015.

The Plan is available at www.dipnr.nsw.gov.au.

IPART is currently reviewing water prices for the State owned water businesses, including the provision of adequate funding to implement the Plan.

IPART has flagged that it may introduce a two-tier price structure for Sydney, whereby households that use more than a certain amount of water each year pay significantly higher prices. The new pricing structure would provide a strong signal to very high water users but is not expected to increase Sydney Water's overall revenue as there would be a corresponding decrease in the fixed component of water prices.

Investing in Water Infrastructure

Like the energy sector, the water businesses are experiencing a period of high capital expenditure from implementing the Metropolitan Water Plan, customer growth from new urban land release areas in greater Sydney and an ageing asset base.

The water businesses are expecting to invest $3.7 billion in water infrastructure over the next four years as they focus on balancing demand and supply. Ultimately, the size of the program depends on what IPART allows to be recovered through water prices.

Future Structure of the Water Industry

During 2005-06, IPART will finish its investigation into the industry structure for water and wastewater services in Sydney.

The need for the industry review has arisen because of the National Competition Council's recommendation that third parties should be given access to Sydney Water Corporation's sewerage infrastructure.

To ensure the best outcomes, the Government is determining the appropriate overarching policy framework for competitive reform in the water industry rather than having reform driven by one-off proposals.

The IPART investigation will allow systematic consideration of a range of options to increase competition and private sector participation. The existing market structure and pricing arrangements will only be changed if there are net benefits to the community.

SOCIAL HOUSING

The Department of Housing, classified as part of the PTE sector, manages the NSW Government's social housing portfolio and develops broader housing strategies. It provides tenancy and property management for just under 129,000 public housing homes. The Department charges market rents for its properties. However, around 90 per cent of tenants cannot afford market rents and are eligible for a subsidy. These tenants pay a subsidised rent based on a percentage of the total income of the household.

The NSW Government has released *Reshaping Public Housing*, a new policy approach which makes major changes to public housing in New South Wales. The changes are designed to ensure a fairer public housing system that promotes responsibility and meets needs well into the future.

From 1 July 2005, the length of time a tenant can stay in public housing will be matched to their need for public housing. Assistance to households on low incomes, which have problems finding suitable affordable housing in the private market, will be targeted. Consistent with the new policy, rent subsidy levels in public housing will be revised to better reflect tenants' circumstances.

Over the next five to ten years, the Government will work with Fairfield City Council, the private sector and the local community to renew the public housing estate in Bonnyrigg. This is part of the Living Communities' program to renew high-need public housing estates in New South Wales.

The Department of Housing will draw down approximately $100 million from a $125 million loan facility in 2005-06 to pilot a Maintenance Reform Program. Anticipated cost savings and efficiencies from the Program will fund interest costs and support loan repayments.

5.2 PERFORMANCE OF THE PUBLIC TRADING ENTERPRISE SECTOR

THE COMMERCIAL POLICY FRAMEWORK

PTEs are expected to operate efficiently under the Commercial Policy Framework. This Framework replicates appropriate disciplines and incentives that lead private sector businesses towards efficient commercial practices.

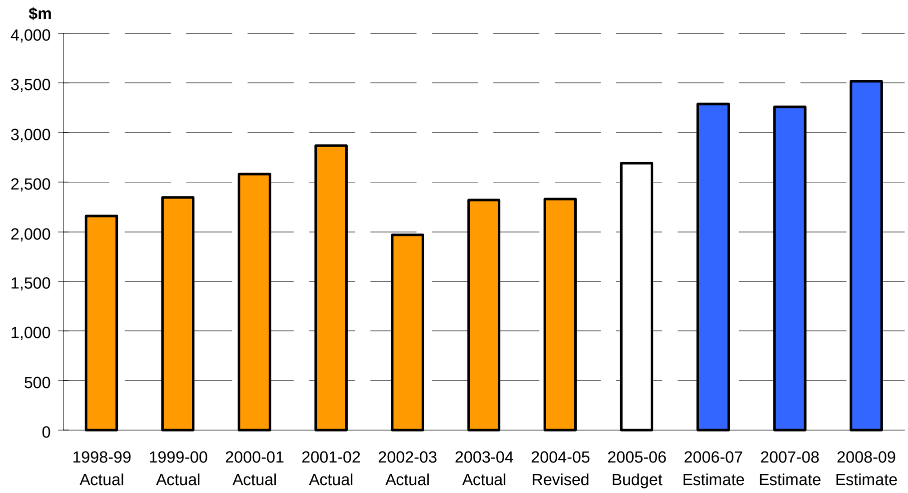
The Framework and its commercialisation principles have improved the incentives for sound performance and undoubtedly contributed to the turnaround in financial performance in the PTE sector. Since the Framework's introduction in the early 1990s, there has been a consistent pattern of large cash operating surpluses.

Net cash flows from operating activities have consistently been above $2.8 billion in the last four years and are forecast to average around $3.3 billion in real terms over the next four years. The Government continues to refine the Framework and seek efficiencies in the PTE sector.

OPERATING STATEMENT

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 in the private sector. Chart 5.2 shows the net operating surplus before interest, dividends and taxes for the PTE sector in the period 1998-99 to 2008-09 (with Olympic impacts removed).

Chart 5.2: Net Operating Surplus before Interest, Dividends and Taxes



Earnings in the PTE sector are projected to grow strongly over the next two years with the operating surplus before dividends, interest and taxes projected to grow at an average 19 per cent per annum after which earnings are stable. This is due to a combination of steady revenue growth in water and electricity and achieving better performance in the rail sector.

The net operating surplus before interest, dividends and taxes is expected to remain relatively flat from 2003-04 to 2004-05 primarily due to a decline in performance in the rail sector. Improving reliability, passenger safety and passenger comfort increased costs in the rail sector while the Government decided not to increase fares on the CityRail network until operating performance improves. In addition, revenue streams were reduced and one-off costs incurred as rail entities were restructured for long term efficiencies. Performance in the water sector was muted as a result of lower water sales from water restrictions due to the drought. Redundancy costs related to the completion of the wind-up of the Residual Business Management Corporation (the former Pacific Power) were also incurred.

NET LENDING AND CAPITAL STRUCTURE

Borrowings in the PTE sector and the resulting capital structure (the mix of debt and equity) help to ensure PTEs operate with robust decision-making and efficient use of capital. This is achieved through imposing the financial disciplines of debt and optimising capital structure with gearing levels comparable to private sector counterparts in the relevant industry.

As detailed in Tables 9.5 and 9.8 of Chapter 9, net debt in the PTE sector is forecast to grow significantly to 2009 primarily due to increased capital expenditure in the electricity network, water and rail sectors. Allowing PTEs to borrow during periods of heavy capital expenditure is critical to the principles of the Commercial Policy Framework. Using a mix of debt and equity to fund infrastructure helps to ensure PTEs face the same types of disciplines as private firms, including taking into account the cost of funds for new projects, and thus make appropriate investment decisions based on commercially sound principles. Such capital expenditure decisions by PTEs will generate revenues to support the sector's debt levels and related increased interest expense.

While debt is forecast to grow, the capital structure of the PTE sector is forecast to remain within commercially appropriate levels for each PTE and within prudent parameters of financial risk.

BUDGET ESTIMATES AND REVISED OUTCOMES FOR 2004-05

The net operating deficit of the PTE sector is revised down to $62 million compared to a budget of $213 million, as shown in Table 5.2. The $151 million improvement is mostly due to lower operating expenses, excluding employee costs. Reduced revenues mainly reflect lower than budgeted consumption of electricity in the energy sector.

During 2004-05 the PTE sector invested $3.6 billion in infrastructure projects, lower than a budget of $3.9 billion. The $300 million difference is due to rescheduling of capital expenditure.

Delays in awarding contracts for new underground works in the Epping, Macquarie University, Macquarie Park and Delhi Road stations and the Parramatta Transport Interchange are the major contributors to capital works rescheduling in the transport sector. Capital expenditure in the Bondi Junction turnback, as part of the Rail Clearways Program, has also been moved to 2005-06.

As a result of the above, the projected Net Borrowing Result for the PTE sector is expected to be $1,712 million, a decrease from the Budget estimate of $1,915 million.

Table 5.2: Public Non-financial Corporation Sector Operating Statement[(a)]

			Budget 2004-05 $m	Revised Estimates 2004-05 $m	Budget 2005-06 $m
	Revenue				
	Sales of goods and services		10,463	10,173	10,804
	Current grants and subsidies		1,518	1,700	1,817
	Capital grants		763	770	768
	Interest income		62	68	48
	Other		835	835	848
	Total revenue		**13,641**	**13,546**	**14,285**
less	**Expenses**				
	Employee expenses		3,035	3,275	3,352
	Depreciation		2,170	2,081	2,123
	Other operating expenses		6,059	5,730	5,999
	Interest expenses		885	850	919
	Other property expenses		1,573	1,540	1,820
	Current transfers		132	120	119
	Capital transfers		...	12	…
	Total expenses		**13,854**	**13,608**	**14,331**
equals	**Net operating balance**		**(213)**	**(62)**	**(46)**
less	**Net acquisition of non-financial assets**				
		Purchase of non-financial assets	3,852	3,575	4,425
		Sales of non-financial assets	(213)	(150)	(211)
	less	Depreciation	(2,170)	(2,081)	(2,123)
	plus	Change in inventories	101	166	46
	plus	Other movements in non-financial assets			
		- finance leases	...	...	…
		- other	132	140	206
	equals	**Total net acquisition of non-financial assets**	**1,702**	**1,650**	**2,343**
equals	**Net lending / (Borrowing)**		**(1,915)**	**(1,712)**	**(2,389)**

(a) The public non-financial corporation sector is also referred to as the public trading enterprise (PTE) sector.

CHAPTER 6: THE ECONOMY AND RISKS TO BUDGET OUTCOMES

Economic Situation and Outlook

NSW state final demand growth of 3½ percent in 2004-05 will be a little firmer than expectations in the 2004-05 Budget. Net exports are likely to be weaker than expected, and as a result gross state product growth will be below Budget.

- Business investment increased much more strongly than in 2003-04. This partially offset slower growth in household consumption, and a downturn in housing investment.
- Imports picked up, reflecting the shift in composition of demand towards business equipment. A higher exchange rate restrained manufactured and service exports, although a rise in wheat production and a strong coal market helped the commodities sector.

The forecasts for 2005-06 assume that the housing cycle will stabilise and begin a modest recovery and business investment will continue expanding at a solid rate. Global growth, although easing a touch, should remain strong, boosting net exports.

- NSW state final demand is forecast to increase by 3½ percent, and gross state product by 2¾ percent.
- NSW employment is projected to increase by 1¼ percent, while the unemployment rate will be steady at 5¼ percent.

Risks to Budget Outcomes

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

- interest rates, which might be forced up (at a time of high household debt) by rising global inflation or by excess domestic demand or wages growth;
- stresses in the world economy, particularly global growth imbalances, high oil prices, and high prices for other non-rural commodities; and
- domestic economic uncertainties, including capacity constraints, the response of wages to tight labour supply, and the drought.

Budget estimates are framed on the basis of no change in government policy and other parameters. Key factors which could affect Budget outcomes include Commonwealth policy on intergovernmental financial relations.

6.1 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 2005-06 Budget estimates are presented in Section 6.2.

The sensitivity of budget outcomes to change in underlying factors is considered in Section 6.3. These factors include changing economic circumstances, unanticipated policy and regulatory decisions, changed demand for services, and the realisation of contingent liabilities.

6.2 THE ECONOMIC SITUATION AND OUTLOOK

At this time last year there was considerable uncertainty in the outlook for the housing cycle, the drought, the emergence of global imbalances and oil prices. Despite those risks, developments in 2004-05 unfolded much as anticipated. World growth was underpinned by strong expansion in the United States and China, though growth in Europe disappointed. The buoyant global economy boosted world commodity prices and Australia's terms of trade. Domestic demand slowed much as anticipated but net exports were a larger than expected drag on growth.

In 2005-06, while world growth is expected to moderate, global conditions are expected to remain favourable and strong business investment should ease export capacity constraints. A modest turnaround in the housing sector is likely to assist domestic activity through the year. Employment growth and the unemployment rate should remain steady, while wage and price pressures may be a bit stronger.

RECENT PERFORMANCE [1]

The NSW domestic economy performed broadly in line with Budget expectations during 2004-05. Compared to Budget forecasts, state final demand growth in 2004-05 was slightly stronger while gross state product was weaker (due to high imports). In the labour market, employment growth met expectations, while unemployment came down further than anticipated. On the inflation front, consumer prices rose in line with expectations, but wages growth was more moderate than expected. This was a year of transition, characterised by slower consumer spending and house building with increased business investment setting up the economy for stronger output and employment growth in years ahead.

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[1] *Unless otherwise indicated, the sources for statistical information in this chapter are ABS (Australian Bureau of Statistics) data releases and NSW Treasury estimates. Economic estimates are based on data available as at mid-May 2005, which included: results to June 2004 for gross state product; to December 2004 for state final demand; to March 2005 for consumer prices and the wage price index; and to April 2005 for employment.*

Table 6.1: Revised 2004-05 Estimates

(Year average percent change, unless otherwise indicated)

	2004-05 Budget	*Half Yearly Review*	*Current Estimate*
State final demand	3	3	3½
Gross state product	3¼	3	2
Employment	1¼	1¼	1¼
Unemployment rate (year average, percent)	5½	5¼	5¼
CPI (Sydney)	2½	2¾	2½
Wages (wage price index, ordinary time)	3¾	3¾	3½

In the *domestic economy* household consumption was softer than anticipated, dwelling investment was in line with expectations, while business investment was considerably stronger.

Growth in *consumer spending* eased during 2004-05. The downturn in dwelling construction reduced demand for household goods, and falling house valuations did not assist, while high mortgage debt, higher interest rates and rising petrol prices constrained household budgets. Partly offsetting these factors, consumer spending was buoyed by the strong Australian dollar, flat or falling international prices, and lower tariffs on motor vehicles.

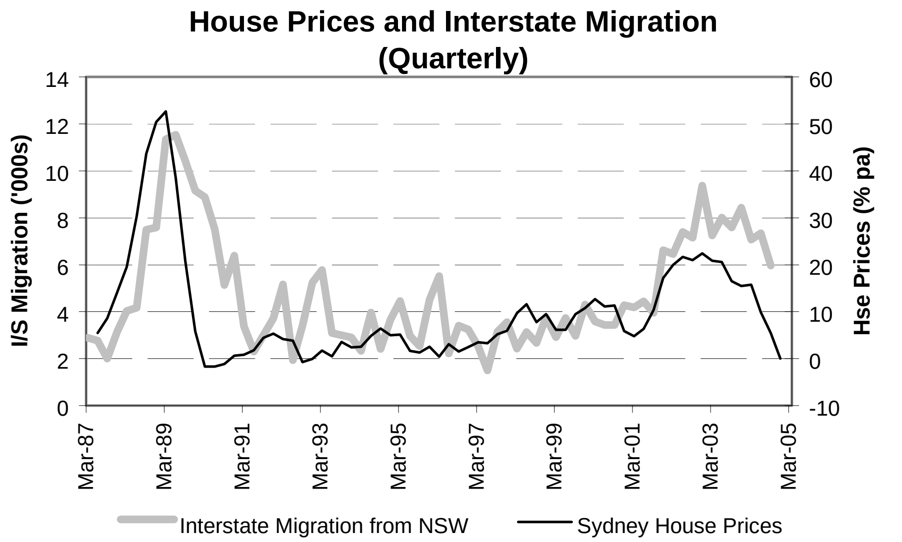
Dwelling construction experienced a moderate downturn in 2004-05. This cyclical decline followed three years of very strong growth and rising house prices during which investor activity (partly speculative) had increasingly supplanted owner-occupiers as the market driver. Despite fears, the housing bubble did not collapse but gradually deflated in 2004-05. The decline in dwelling investment, of around 10 percent, was moderate compared to previous downturns. Sydney house prices (established homes)[2] eased by about 3½ percent across the three quarters to December 2004.

Business investment strengthened markedly in 2004-05 from an already high base, buoyed by strong profits, high capacity utilisation and robust global economic conditions. NSW business investment continued to be supported by Privately Financed Projects (PFP) infrastructure outlays which are estimated to have increased by over 30 percent in 2004-05.

[2] *The ABS House Price Index (established homes) is based on a stratified sample of prices reported at settlement. Series compiled by other organisations (such as the Real Estate Institute of NSW, Residex, and Australian Property Monitors) use different methodologies, and their results may differ.*

Box 6.1: Population growth

During the four years ending 2001-02, NSW population growth averaged 1.2 percent per annum. In the following two years NSW growth slowed to an average 0.8 percent. National population growth remained more or less steady.



Source: ABS

The slowdown reflected an increase in net interstate migration from New South Wales to other States, from 12 thousand in 1997-98 to over 30 thousand in both 2002-03 and 2003-04. Factors that may explain this upswing include:

- a rise in the cost of housing in Sydney (discussed in last year's Budget) discouraged some would-be interstate immigrants while encouraging some residents to move interstate. Recent data (refer graph) suggests this effect may have begun to reverse, causing net interstate migration from New South Wales to slow; and

- the sectoral composition of recent economic growth, which favoured resource-intensive States over those more reliant on growth in services and manufactures.

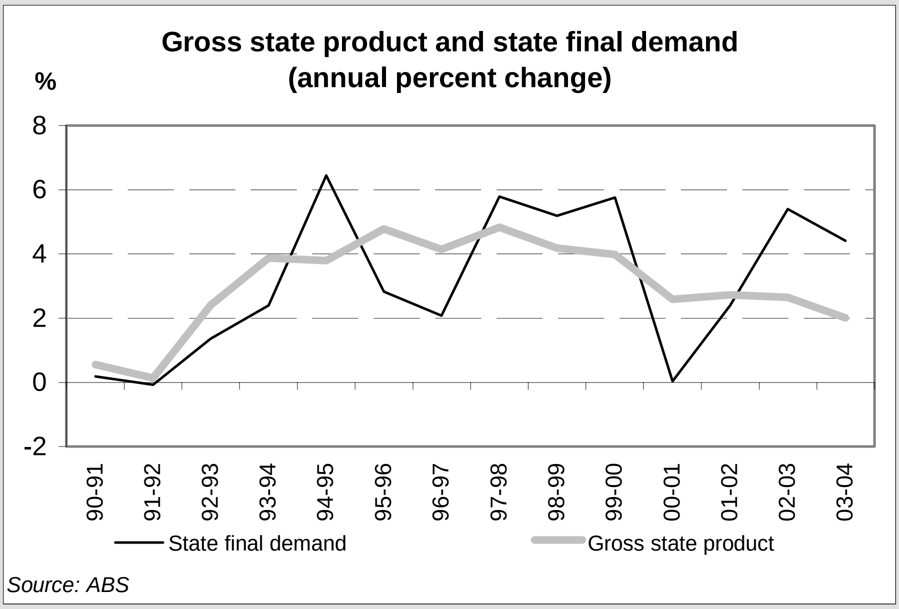
While state final demand increased broadly in line with Budget expectations, gross state product was weighed down by high imports and lacklustre exports. Nevertheless some exports improved strongly:

- Agricultural exports were helped by further gains in crop production, with a 3 percent increase in winter crop production, and a 28 percent increase in the area planted to summer crops. In calendar year 2004 the value of NSW cereals exports increased by 136 percent or more than $500 million.

- Strong world energy demand boosted NSW coal exports, which increased by 42 percent or more than $1 billion in calendar year 2004.

Box 6.2: Gross state product and state final demand

Gross state product (GSP) is the value of total State output. For consistency with generally accepted practice, the Budget uses nominal GSP as a benchmark for fiscal indicators – e.g. net debt / GSP ratios. But the usefulness of real GSP as a measure of economic performance is limited by its reliance on synthetic data (interstate trade is estimated with a model, rather than measured from collected statistics), problems in attribution (the original supplier of export value-added, and end-user of import value are never known), sensitivity of real GSP measures to estimates for price deflators, susceptibility to revision, and low frequency of release (once only per annum). This is why, after nearly 25 years of publication, the ABS still characterises these estimates as "experimental." Currently the ABS is developing an alternative "production based" framework with a view to improving the reliability of the GSP estimates.



State final demand (SFD) includes consumption and investment (for private and public sectors). It is a measure of spending (rather than output) in the State. This information is reported quarterly. In estimating SFD components the ABS is able to draw on more robust data collections, although SFD components are occasionally subject to large revisions. Although it measures spending rather than output (and therefore excludes net exports) it does tend to correlate well with aggregate employment and wage movements and responds to economic forces such as monetary policy. It provides a more timely and accurate picture of the health of the NSW economy than GSP.

The *labour market* made further gains, with NSW employment rising by an estimated 1¼ percent and the unemployment rate declining to 5¼ percent[3]. In year average terms to the March quarter 2005, employment growth was strongest in mining, construction, and personal services. It was weakest in the utilities sector, transport and storage, and agriculture.

Inflationary pressures increased only marginally in 2004-05. Exchange rate appreciation (reflecting stronger export prices) kept downward pressure on prices of most traded items. World commodity prices (petroleum and metals) moved higher. The pace of increase was faster for non-traded items, reflecting tighter capacity as well as higher costs of inputs (such as petroleum).

Skilled labour shortages may have put pressure on wages in some sectors (particularly construction), but this is yet to be reflected in aggregate wage measures. Annual average wage price growth in New South Wales slowed from 3.9 percent in March 2004 to 3.5 percent in March 2004 – reflecting the fading effect of significant public sector wage increases a year earlier. Annual average private sector wage price growth remained steady at 3.3 percent over the same period.

Monetary policy remained on hold during 2004 as the RBA monitored the extent of the slowing in the housing sector. In late 2004 and early 2005, however, RBA statements expressed increasing concern over a widening imbalance between total (domestic and foreign) demand, and Australian productive capacity. At the same time evidence emerged of a stabilisation in the housing slowdown. In a much anticipated move, the RBA raised the cash rate by ¼ of a percentage point to 5.5 percent at its March 2005 meeting “in order to reduce the risk of an unacceptable rise in inflation in the medium term.” While monetary policy was left unchanged in April and May, the RBA maintained a tightening bias, noting that “it would be surprising if interest rates did not have to increase further at some stage of the current expansion”[4].

OUTLOOK FOR 2005-06

World economic growth is expected to remain strong in 2005-06. Australian exports and terms of trade should record further gains. The prolonged upswing in the global economy is expected to bring higher world interest rates, albeit from low levels.

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[3] *The unemployment rate was 5.1 percent in April 2005.*

[4] *Reserve Bank of Australia, Statement on Monetary Policy, 6 May 2005.*

The NSW economy will accelerate a notch, reflecting further solid business investment and the beginnings of a recovery in the housing sector. State employment growth will maintain a steady pace and the unemployment rate will be stable.

Wages and prices will increase a bit faster. Monetary policy will push interest rates slightly higher.

The main uncertainties for the economy in 2005-06 are associated with unbalanced global growth, oil prices, and monetary policies (both domestic and foreign).

Table 6.2: Economic Performance and Outlook

(Percent change, year average, unless otherwise indicated)

	Outcomes 2003-04	*Estimates 2004-05*	*Forecasts 2005-06*
New South Wales			
State final demand	4.7	3½	3½
Gross state product	2	2	2¾
Employment	1.4	1¼	1¼
Unemployment rate (year average, percent)	5.6	5¼	5¼
Sydney CPI	2.1	2½	3
Wage price index	3.8	3½	3¾
Australia			
Non-farm GDP deflator	3.5	4	4½
Ten year bond rate (year average, percent)	5.7	5½	6

Following very strong global expansion in 2004 (output increased by 5 percent and trade expanded by 10 percent), activity is expected to moderate, though remain solid, during the next two years. The International Monetary Fund (IMF) expects global output growth of about 4½ percent and world trade growth of about 7½ percent in both 2005 and 2006[5]. The balance of uncertainties is weighted to the down side, however. The possibility of higher interest rates, falling asset prices, depreciation of the U.S. dollar, higher oil prices and an unbalanced pattern of growth (strong expansion in the United States and China, but underperformance in Europe) all add to the fragility of the current global expansion.

[5] *International Monetary Fund,* World Economic Outlook*, April 2005.*

The NSW economy will continue its transition to a more balanced expansion path, with business investment again expected to grow strongly, although the household sector will play more of a role. *State final demand* [6] will continue to expand at around 3½ percent in 2005-06, with slightly stronger private consumption and a modest rebound in the dwelling sector as the year progresses. While more moderate than the exceptional pace of the previous year, business investment growth will remain robust.

- After slowing in 2004-05, *household consumption* growth is expected to improve a little in 2005-06. Consumption will be helped by lower income tax rates, stable petrol prices, steady employment gains, and slightly faster wages growth.

- *Fixed investment* growth is expected to be slightly more moderate in 2005-06.

  - *Dwelling investment* fell sharply in the December quarter 2004 and is expected to ease further into 2005. Trends in dwelling approvals and finance through early 2005 suggest activity was close to a trough, although the RBA interest rate increase in March adds some uncertainty to that assessment. Underlying demand, in terms of wages and employment, remains supportive and population growth may be less of an inhibiting factor than in the recent past. In year average terms, dwelling investment is likely to ease about 10 percent in 2004-05 and to edge up only fractionally in 2005-06.

  - *Business investment* will continue to expand at a robust pace in 2005-06, though a little slower than the previous year. Private capital expenditure intentions in New South Wales point to nominal growth of about 11 percent in building expenditure and 12 percent in plant and equipment expenditure in 2005-06**.** The boost to private business investment from cash outlays by privately financed public (PFP) transport and social infrastructure projects[7] will be a touch smaller in 2005-06.

  - Growth in *public demand* is expected to be firm though slightly slower than in 2004-05. Infrastructure spending recorded strong growth in 2004-05 in line with the measures introduced in last year's Budget.

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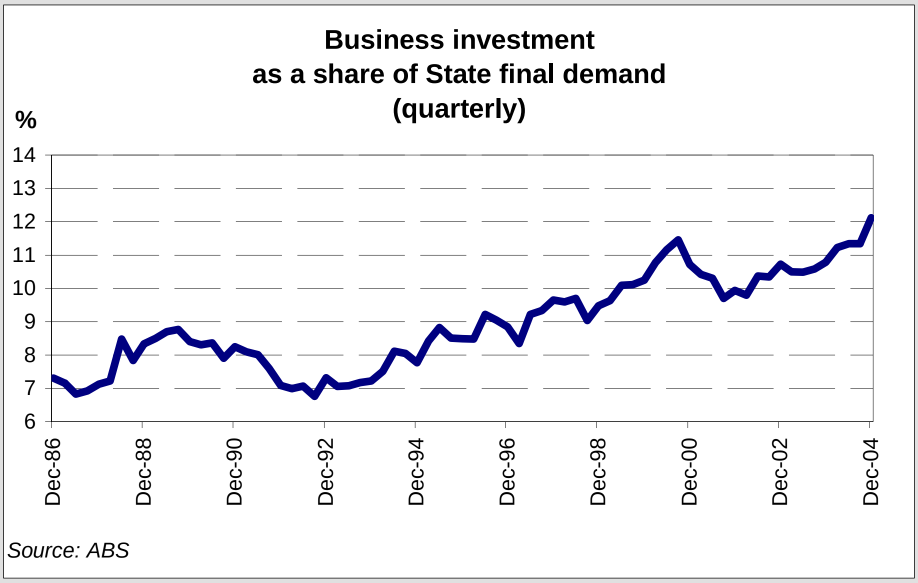
[6] *State final demand is the sum of private consumption, dwelling investment, business investment, ownership transfer costs, and public consumption and investment.*

[7] *Work by the private sector on Privately Financed Projects (PFP) is estimated to peak in 2004-05 with completion of the Cross City Tunnel. Major PFP work during the next four years will include the Lane Cove Tunnel, Western Sydney Orbital, Chatswood Transport Interchange, Newcastle Multi-Purpose Terminal, and Railcorp Rollingstock Renewal Project.*

Box 6.3: Outlook for Business Investment

Business investment in New South Wales increased by an average 10 percent per annum in 2002-03 and 2003-04, with strong (8 percent) growth in machinery and equipment and very strong (22 percent) growth in building.

More recent trends point to another substantial acceleration in 2004-05. Business investment climbed to a record 12.1 percent of state final demand in December 2004.



Fundamentals are supportive of further solid growth in investment:

- profitability is strong;
- capacity utilisation ratios are high;
- capital costs remain moderate; and
- PFPs continue to provide strong support to private sector investment in New South Wales.

The outlook is corroborated by surveyed business investment intentions. Capital expenditure expectations point to solid growth, with increases of 8.1 percent nationally and 11.5 percent in New South Wales between comparable estimates for 2004-05 and 2005-06. Services and infrastructure (the "other sectors" in the Capital Expenditure Survey) rather than mining and manufacturing, have tended to be the key drivers of NSW business investment in recent years.

- Net *exports* should detract less from growth than the previous year, reflecting further gains in rural production, a further strengthening in world demand for NSW minerals, and less drag on competitiveness from the exchange rate.

  - In line with ABARE forecasts for the national economy,[8] it is assumed that the volume of farm production will increase by around 2 to 3 percent in 2005-06. Stronger world production will weaken unit export prices, however, reducing the net value of farm production by around 12 percent.

  - On the basis of price increases secured for the 2005-06 Japanese financial year, ABARE forecasts that thermal coal exports will increase by 7 percent in volume and 18.5 percent in value during 2005-06.

  - Manufacturing and service exports will be assisted by continued solid world growth and less pressure on competitiveness from exchange rate appreciation.

NSW *employment growth* is expected to remain steady at around 1¼ percent (near the long-term average) in 2005-06, with better dwelling construction offsetting more moderate growth in other sectors. This growth rate of employment should be sufficient to keep the NSW *unemployment rate* steady at a historically low 5¼ percent.

Wage growth in the private sector is expected to be slightly higher, reflecting continued tight supply of skilled workers. The $20 per week increase in the minimum wage proposed in the State and Territory Governments submission to the 2005 national wage case[9] would represent 2.5 percent of the NSW average ordinary time wage rate.

Inflation, as measured by the *Sydney CPI*, is expected to increase in 2005-06 as higher world inflation, a more stable exchange rate, and solid domestic demand continue to flow through to production costs and seller margins.

With inflation likely to be edging towards the top of its 2 to 3 percent target band, the RBA is expected to raise interest rates another notch to prevent inflationary pressures from gaining a firmer foothold. In Australia, however, the policy adjustment task is nearly complete, while in the United States and some other countries it has some distance yet to run.

[8] *Australian Bureau of Agricultural and Resource Economics (ABARE),* Australian Commodities*, March quarter 2005.*

[9] *Australian Industrial Relations Commission, Safety Net Review 2005*

Box 6.4: Addressing Skills Shortages

The NSW Government is moving to head off potential skills shortages that would otherwise restrain the NSW economy. A detailed plan released on 20 March 2005 will focus government training resources on skill shortages. It will produce more trained and job ready workers in the areas where the economy needs them most. The **Securing our Skilled Workforce Plan** includes:

- an extra $1.6 million to double the accommodation allowance for around 5,000 apprentices who need to travel from regional and rural areas;
- a $100 rebate on the cost of car registration for first and second year apprentices in NSW, as an added incentive for young people considering an apprenticeship as part of their career;
- an extra $2 million for a new 12-month pilot scheme called **TradeStart** which will allow 450 apprentices to complete the equivalent of a year's TAFE training in just 16 weeks;
- a job matching service to link TradeStart graduates to employers;
- investing an extra $1 million in group training, placing 800 new apprentices with employers who need them most. This will support small business and get workers into regional and rural areas;
- a new reporting system to ensure that 20 percent of trade work on government construction projects worth more than $2.5 million is performed by apprentices; and
- looking at more ways to fast-track adult training.

This plan complements other measures already underway to prepare young people for work, including:

- a further $3.5 million in 2005 creating 2,400 pre-apprenticeship places;
- putting on additional TAFE courses in areas of skill shortage as well as emerging areas such as digital media, aged care and environmental construction; and
- providing vocational training to 40 percent of year 11 and 12 students.

MEDIUM TERM OUTLOOK

Prospects for the economy beyond 2005-06 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 2005-06 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 6.3: Economic Parameters Beyond 2005-06

(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)	6

6.3 RISKS TO 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.

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

[10] *Key source publications and their release dates are reported in the footnote on page 6-2.*

ECONOMIC RISKS

Risks to the economic outlook for 2004-05 include:

Interest rates

While the forecasts assume that interest rates will increase by no more than a quarter of a percentage point beyond the 5½ percent level fixed by the Reserve Bank in March 2005, the outlook faces both global and domestic risks:

- High oil prices, in conjunction with high global prices for coal, iron ore and base metals, have increased upstream inflation in many economies, including Australia. If upstream inflation feeds through to retail prices and wages – a likely situation if demand increases more strongly than expected – a sharper and more destabilising monetary response might follow.

- Aggregate measures of wage growth remained well contained during 2004-05, despite anecdotal evidence of tight skilled labour supply across a number of industries. If world growth remains strong and domestic activity rebounds, then labour supply conditions could tighten further. Should this occur, it would increase the risk of a marked acceleration in wage pressures beyond that assumed in the Budget. This would erode business profitability, increase pressure on prices, and risk tighter RBA interest rate settings.

Mortgage interest rates are still near historical lows, despite the cumulative 1¼ point rise in the cash rate since May 2002. Rapid growth in mortgage borrowing, however, has pushed the household debt servicing ratio to the highest levels yet recorded. Therefore any further interest rate increase now would have a far greater impact on household disposable income, consumption and the economy than in the past.

Global imbalances

The more worrying aspect of global growth, according to the IMF, is the continuing divergent pattern of growth. While the United States and China are growing strongly, the euro area is lagging.

Unbalanced growth is contributing to increased current account imbalances. These imbalances are increasing the pressures on the financial system, including exchange rates, and are feeding the forces of protectionism as countries seek to compensate for reduced competitiveness by raising trade barriers.

They also add to the fragility of world growth, which has become increasingly reliant on the performance of just two countries (China and the United States).

World oil prices

The price of West Texas Intermediate (WTI) rose sharply from an average US$33.70 per barrel in 2003-04 to an average $50 or more in 2004-05 with spikes close to $60 in the final quarter of the year.

Factors behind these increases are China's sustained rapid economic growth and the strong US recovery (both economies have high oil intensities), augmented by speculative covering in commodity markets. The risk of a further increase in oil prices is substantial.

According to the IMF, per capita incomes in both China and India are now approaching the stage where demand for motor vehicle transport typically accelerates. Global oil production capacity (particularly outside OPEC) is tightening. Therefore oil prices may trend higher and become more volatile. The world economy has the flexibility to adjust to gradual change. But there is a risk that the abrupt 2004-05 upswing, if sustained, will feed inflation and reduce world growth. There also is the risk of further upward spikes in oil prices that might disrupt activity.

Drought

While the forecasts assume normal climatic conditions will prevail in 2005-06, the area of the State affected by drought has increased sharply in recent months. In early May the Bureau of Meteorology rated the chance of an El Niño event occurring in 2005 year at between 30 and 50 percent, which meant that the risk was around double what might normally be expected at that time of year. Agriculture directly accounted for only two percent of State output in 2003-04. But the sector's extreme volatility in response to drought events, and the flow-on to agricultural supplier and user industries, can significantly affect aggregate State economic performance[11].

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 6.4.

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.

[11] *The potential impact on Budget expense is discussed in section "Drought relief assistance" below.*

Table 6.4: Sensitivity of Fiscal Aggregates to Changes in Selected Economic Parameters, 2005-06

(Effect of a one percent increase, unless otherwise indicated)

Parameter	*Effect on the 2005-06 Budget Result ($m)* [(a)]
A. Factors affecting tax revenue	
Dwelling sales (price or volume)	33
Motor vehicle sales	16
Private sector employment	53
Private sector wages	54
Household disposable income	10
B. Factors affecting grant revenue	
Household consumption [(b)]	104
C. Factors affecting expenses	
Public sector wages and salaries	-202
Prices of goods and services	-105
Interest rates [(c), (d)]	-18

Parameter	*Effect on 2005-06 Net Financial Liabilities ($m)* [(e)]
D. Factors affecting Superannuation Liabilities	
Public sector wages and salaries	185
Sydney CPI	170
Investment return [(c)]	-135
Discount rate [(c)]	-3,700

(a) *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.*

(b) *Projected GST receipts are $10,374 million.*

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

(d) *Excluding the impact of actuarial adjustments to net financial liabilities.*

(e) *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).*

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 household consumption (and its influence on GST revenue).

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 **Commonwealth general purpose and specific purpose payments** to the States are described in Chapter 8.

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.

Net financial liabilities may be affected by accounting adjustments as well as operating results. With the introduction of the new accounting standard AASB1119 from 2005-06, superannuation liabilities must be recalculated each year using a market-determined discount rate. This may lead to significant fluctuations in the General Government Sector's unfunded liability position.

[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 6.4 provides estimates only for the dwellings component.*

OTHER RISKS TO 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 affect the revenue streams of government-owned transport, electricity and water businesses.
- Outcomes may be affected by unforeseen events such as natural disasters where the Government intervenes in the public interest.

Expenditure Risks

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 education 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 2005-06, the Treasurer's Advance is $175 million for recurrent services, and $95 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 60.5 percent at the beginning of January 2005 to 87 percent at the start of May 2005.

The Government's drought relief initiatives include transport subsidies, community support measures, interest subsidies and various rent and fee arrangements. Actual expenditure on drought relief assistance in 2005-06 will depend on the duration and severity of the drought.

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 and forward estimates are 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 $202 million. In addition, a 1 percent pay rise adds an estimated $57 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. The wages policy implies nominal pay rises of up to 3 percent per year through negotiated settlements.

Recent settlements with the Public Service Association and the Health Services Union have been negotiated at 4 percent per annum for four years. The reason these settlements have been above the wages policy is that they incorporate an additional 1 percent increase per annum for four years in return for: the Unions withdrawing existing work value cases before the NSW Industrial Relations Commission (IRC); extinguishing all claims for work value up to 1 July 2004; and agreeing to no further salary or conditions claims until 30 June 2008.

These negotiated settlements, while at a significant cost to the Budget, nevertheless take away some of the uncertainties that decisions arbitrated in the NSW IRC have led to in recent years. In coming months settlements will need to be negotiated for other major employee groups, including public hospital nurses (award expired 1 January 2005), police (award expires 1 July 2005) and public school and TAFE teachers (award expires 1 January 2006).

As nurses and teachers have received arbitrated work value increases from the NSW IRC in recent years, negotiations are centred on the wages policy of up to 3 percent per annum. At this stage, there remains considerable risk to budget outcomes unless settlements are consistent with the Government's wages policy.

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 2003-04 Report, Note 19 identifies total quantifiable contingent liabilities of $469 million as at 30 June 2004. The main quantifiable items are known claims including legal proceedings against NSW Police of $111 million, and NSW Treasury Corporation's bonds on loan (less securities held) of $21 million. The general government sector component of total quantifiable contingent liabilities is $237 million.

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

NON-TAX REVENUE RISKS

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 NSW' 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 2010. However, the Commission's annual updates prior to 2009 could also lead to significant changes in States' funding. That said, the CGC's 2005 annual update had a negligible effect.

At the March 2005 Ministerial Council for Commonwealth-State Financial Relations, the Commonwealth proposed that the States abolish certain business stamp duties that were to be the subject of review this year under the Intergovernmental Agreement. New South Wales rejected the Commonwealth's proposal. There are unquantifiable, but potentially significant, risks to revenue from 2006-07 resulting from this disagreement (see Chapter 8 for details).

Commonwealth Specific Purpose Payments

Specific Purpose Payment agreements are typically re-negotiated every three to five years. As each of these agreements has a limited duration, New South Wales does not have long-term certainty over this significant proportion (about 14 percent) of total budget revenues.

Public Trading Enterprise (PTE) Financial Performance

Many PTEs operate in markets where future costs and revenues are subject to significant uncertainty. Unexpected variations in PTE profits affect the Budget by changing the amount of tax equivalents and dividends they contribute to the Budget. For PTEs not profitable on a stand-alone basis, their performance variations may affect the level of capital and operating subsidies required from the Budget.

OTHER RISKS

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 and the Australian Competition and Consumer Commission (determines prices for electricity transmission). These determinations may affect the Budget by changing the size of tax equivalent and dividend payments received from the businesses, or subsidies paid to the businesses.

The Tribunal is currently conducting a price review for:

- water, sewerage and stormwater services supplied by Sydney Catchment Authority, Sydney Water Corporation, Hunter Water Corporation and Gosford and Wyong councils – completion is expected in August 2005; and
- for bulk water supply to farmers, industry and town water suppliers, from water sources managed by State Water Corporation and the Department of Infrastructure, Planning and Natural Resources – completion is expected in June 2005.

The Tribunal's 2004-05 determination for State Transit Authority (STA) bus fares harmonised public and private metropolitan bus fares from 4 January 2005. This increased the price of some STA bus fares whilst reducing the price of many private fares. The impact on financial performance and budget funding requirements will be adjusted through new metropolitan contracts negotiated during 2005.

The Tribunal is expected to make its next fare determinations for metropolitan buses and Sydney Ferries Corporation before the end of 2005.

The Tribunal made no determination on CityRail fares in 2004-05, and has not specified when it will conduct its next review. CityRail's operations are subsidised from the Budget.

The Tribunal's determination on electricity retail prices to certain consumers only lasts until 2006-07. These consumers are those who use less than 160MW of electricity per year and have not accepted a competitive offer from another electricity supplier.

TransGrid's current profit forecasts for 2005-06 to 2008-09 are based on the Commission's April 2004 Draft Determination, on the PTE's maximum allowable electricity transmission revenues for 2004-05 to 2009-10. TransGrid's forecasts do not yet include the Commission's final determination, released in late April 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 7: TAX EXPENDITURE AND CONCESSIONS STATEMENT

- Tax expenditures in 2005-06 are estimated at $3,972 million (compared with $3,567 million in 2004-05) and concessions are estimated at $732 million in 2005-06 (compared with $730 million in 2004-05).
- The main factor driving the increase in tax expenditures in 2005-06 is higher insurance tax expenditures of $308 million. The increased cost of tax expenditures reflects the retention of concessional rates for some insurance categories in contrast to the increase in the general stamp duty rate on insurance.

7.1 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 is the transfer duty exemption provided to eligible 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.

7.2 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.

7.3 TAX EXPENDITURES

The estimates of tax expenditures in this statement are for the years 2003-04, 2004-05 and 2005-06 except for the estimates for land tax, which are for the 2004, 2005 and 2006 land tax years (land tax years commence at midnight, 31 December).

Table 7.1 provides a summary of major ($1 million or greater) tax expenditures for each type of tax.

Table 7.1: Major Tax Expenditures by Type of Tax

Tax	2003-04		2004-05		2005-06	
	$m	*% of tax revenue*	*$m*	*% of tax revenue*	*$m*	*% of tax revenue*
Purchaser Transfer Duty	1,114	28.4	739	24.4	785	24.2
Vendor Transfer Duty	1	43.9	391	114.9	413	115.3
General and Life Insurance Duty	281	66.4	300	72.3	608	112.4
Mortgage Duty	180	44.6	163	49.4	139	36.7
Payroll Tax	665	15.3	693	14.3	732	14.3
Land Tax	432	31.9	476	29.9	488	29.9
Taxes on Motor Vehicles	265	14.9	304	16.5	298	15.4
Parking Space Levy	10	20.8	18	38.3	16	36.4
Gambling and Betting Taxes	463	35.3	483	33.6	493	31.8
Total	**3,411**	**22.7**	**3,567**	**23.3**	**3,972**	**24.4**

Quantifiable tax expenditures (valued at more than $1 million) are estimated at $3,567 million in 2004-05, representing 23.3 percent of total tax revenue. Tax expenditures should increase to $3,972 million, or 24.4 percent of tax revenue, in 2005-06.

Tax expenditures are spread across all major tax bases. By value, tax expenditures in 2005-06 are highest in transfer duty (purchaser and vendor), payroll tax, and general and life insurance duty, which account for more than 60 percent of total measurable expenditures.

Purchaser transfer duty tax expenditures are predicted to increase moderately in 2005-06 following a reduction of $375 million in 2004-05 due to lower tax expenditures for corporate reconstructions that more than offset the increase in exemptions for first home buyers.

Vendor duty tax expenditures in 2004-05 and 2005-06 exceed revenue raised from the tax due to the many tax concessions and exemptions provided.

Tax expenditures for both general and life insurance are expected to increase by $308 million in 2005-06. This reflects the retention of concessional rates for categories such as motor vehicles and disability income relative to the increased benchmark rate from 5 percent to 9 percent from 1 September 2005.

Mortgage duty tax expenditures are expected to decrease by $24 million in 2005-06. The decline in the cost of the tax expenditures reflects the impact of the base broadening measure announced from 1 August 2005, more than offsetting slight increases in mortgage duty exemptions for first home buyers.

Tax expenditures for payroll tax are expected to increase in 2005-06 by $39 million mainly due to higher exemptions for public hospitals and Area Health Services.

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 and will do so further as the changes are phased in over the next seven years. As a consequence, gambling and betting tax expenditures as a percentage of revenue are falling.

Table 7.2 provides a functional classification of tax expenditures.

Table 7.2: Tax Expenditures by Function

Function	*2003-04*		*2004-05*		*2005-06*	
	$m	*% of Expenses*	*$m*	*% of Expenses*	*$m*	*% of Expenses*
Public Order and Safety	4	0	4	0	4	0
Education	99	1	102	1	108	1
Health	375	4	390	4	412	4
Social Security and Welfare	369	13	433	15	433	14
Housing and Associated Amenities	218	21	465	47	488	47
Environmental Protection	...	...	...	...	...	...
Recreation and Culture	469	74	490	80	500	83
Agriculture, Forestry, Fishing and Hunting	309	45	412	89	425	113
Transport	16	0	24	1	27	1
Other Economic Activities	1,376	112	1,073	108	1,390	132
Other Purposes	176	6	174	5	185	5
Total	**3,411**	**9**	**3,567**	**9**	**3,972**	**10**

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 Housing and Associated Amenities (including transfer duty and mortgage duty exemptions for first home buyers).

The distribution of tax expenditures by function is broadly similar between 2004-05 and 2005-06, with the exception of Other Economic Activities. The increase of $317 million mainly reflects part year increases in the value of general insurance tax expenditures following the increase in the stamp duty rate from 1 September 2005.

7.4 CONCESSIONS

Table 7.3 classifies the major concessions provided by the NSW Government by function. The total value of major concessions in 2005-06 is expected to be consistent with previous years, at $732 million, or 2 percent of expenses, the same proportion of expenses as in 2004-05.

Table 7.3: Concessions by Function

Function	*2003-04*		*2004-05*		*2005-06*	
	$m	*% of Expenses*	*$m*	*% of Expenses*	*$m*	*% of Expenses*
General Public Services	...	...	...	...	...	...
Public Order and Safety	...	...	...	...	...	...
Education	119	1	124	1	132	1
Health	88	1	90	1	91	1
Social Security and Welfare	271	9	258	9	240	8
Housing and Associated Amenities	250	24	252	26	262	25
Environmental Protection	...	...	...	...	...	...
Recreation and Culture	3	0	3	0	3	0
Agriculture, Forestry, Fishing and Hunting	4	1	4	1	4	1
Transport	...	...	...	...	...	...
Other Economic Activities	...	...	...	...	...	...
Other Purposes	...	...	...	...	...	...
Total	**735**	**2**	**730**	**2**	**732**	**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 8: FINANCIAL ARRANGEMENTS WITH THE COMMONWEALTH

- GST revenue grants to New South Wales are estimated to increase by 4.9 percent in 2005-06 to $10.4 billion.
- New South Wales is estimated to receive less in GST revenue in 2005-06 than was expected at the time of the GST's introduction due to the effect of changes in the Commonwealth Grants Commission's relativities.
- The Commonwealth Government's proposal on abolishing the Intergovernmental Agreement listed taxes would have an unacceptably large impact on the New South Wales' Budget.
- New South Wales continues to cross subsidise the other States due to the operation of horizontal fiscal equalisation.
- New South Wales considers the current system of Commonwealth-State funding is overdue for reform and will actively contribute to the 2010 Review which seeks to refine and simplify the Commonwealth Grants Commission's methodology.

8.1 INTRODUCTION

The NSW Government now depends on Commonwealth grants for around 40 percent of its revenue, compared with slightly over one-third of its revenue before the introduction of the GST. Consequently, financial relations with the Commonwealth significantly influence the financial position of the State. The high degree of vertical fiscal imbalance in Australia, compared with other federations, inevitably results in fiscal conflict between the levels of government and results in confused accountability among the community.

This chapter explains the financial arrangements between the Commonwealth and the States, including recent developments. Section 8.2 details grants under the current framework for Commonwealth-State financial relations.

Section 8.3 discusses the review of State taxes under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations.*

Section 8.4 discusses the outcome of the Commonwealth Grants Commission's 2005 data update.

Issues in intergovernmental finances, including vertical and horizontal fiscal imbalance, are addressed in Section 8.5.

The need for reform of the current system of Commonwealth-State funding is highlighted in Section 8.6, along with the Treasurers' Conference decision to review the current way in which the Commonwealth Grants Commission implements horizontal fiscal equalisation.

8.2 COMMONWEALTH-STATE FINANCIAL ARRANGEMENTS

The *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (IGA) 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 8.1 provides estimates of Commonwealth payments to New South Wales for the period to 2008-09.

Table 8.1: Commonwealth Grants

	Actual	*Budget*	*Revised*	*Budget*	*Forward Estimates*		
	2003-04	*2004-05*	*2004-05*	*2005-06*	*2006-07*	*2007-08*	*2008-09*
	$m	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*
GST Revenue Grants	9,667	9,648	9,856	10,374	11,007	11,572	12,155
Budget Balancing Assistance Payments	72	...	...	...	...	...	...
Compensation for GST Deferral	...	96	64	37	5	5	5
Guaranteed Minimum Amount/GST	**9,739**	**9,744**	**9,920**	**10,410**	**11,012**	**11,577**	**12,159**
National Competition Policy Payments	204	260	234	265	...	...	...
Total General Purpose Payments	**9,942**	**10,004**	**10,153**	**10,675**	**11,012**	**11,577**	**12,159**
Total Specific Purpose Payments	**5,551**	**5,756**	**5,849**	**6,121**	**6,277**	**6,373**	**6,588**
Total Grants	**15,493**	**15,760**	**16,002**	**16,796**	**17,289**	**17,950**	**18,747**

GST REVENUE GRANTS AND BUDGET BALANCING ASSISTANCE

GST revenue grants constitute the majority of the untied general purpose assistance grants from the Commonwealth. Prior to 2004-05, New South Wales also received Budget Balancing Assistance as a supplement to the GST revenue grants, in keeping with the Commonwealth's funding commitment under the IGA.

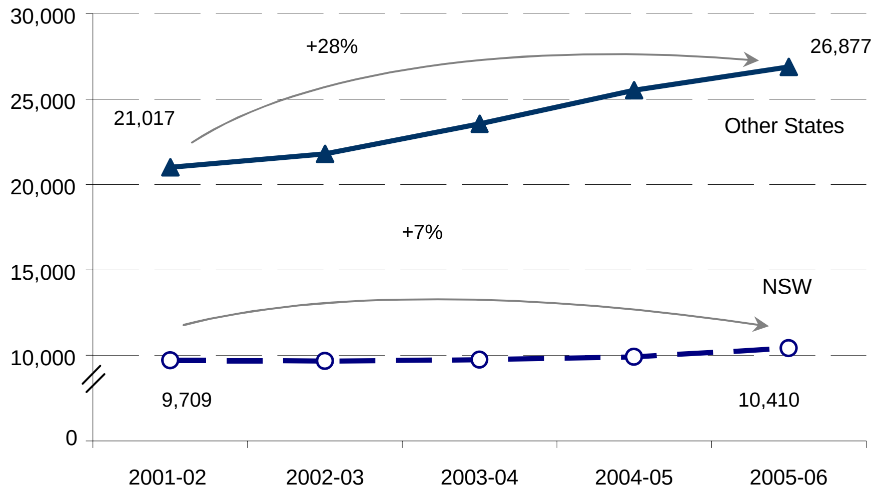
In 2004-05, for the first time, New South Wales expects to receive GST revenue grants in excess of what would have been received under the previous set of funding arrangements, the Guaranteed Minimum Amount (GMA). Hence no Budget Balancing Assistance (BBA) will be received for 2004-05. New South Wales was the last State to receive top-up payments under the GMA arrangements.

GST revenue grants to New South Wales are estimated to increase by 4.9 percent in 2005-06, following an increase of 1.9 percent (relative to the 2003-04 GMA) in 2004-05. However, New South Wales' aggregate general purpose grants have grown much more slowly over time than those of the other States. This slow growth profile reflects the operation of the Commonwealth Grants Commission on New South Wales' share of grants.

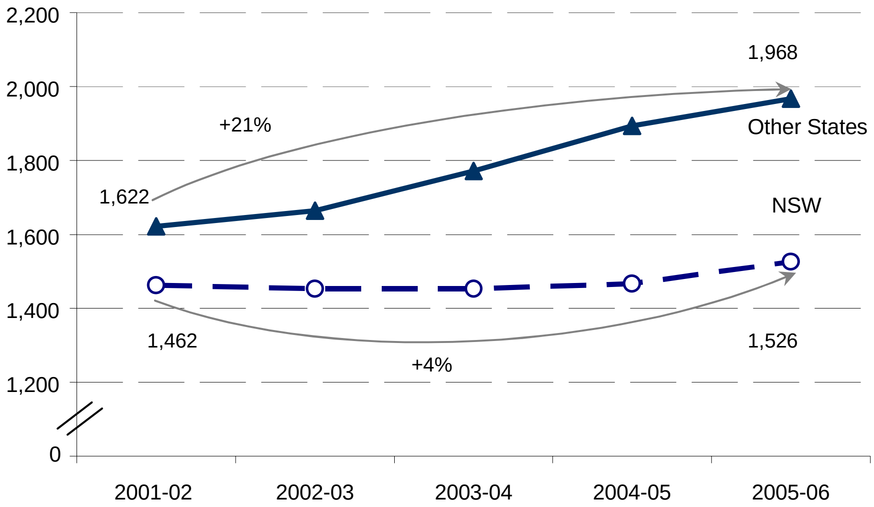
In nominal terms GST grants to New South Wales in 2005-06 are estimated to be only 7 percent higher than the sum of GST grants and BBA four years earlier. In real per capita terms, this represents a decline of 5 percent, in contrast to an increase of 10 percent for the other States in aggregate. Chart 8.1 shows trends in these grants in absolute, per capita and real per capita terms.

Chart 8.1:

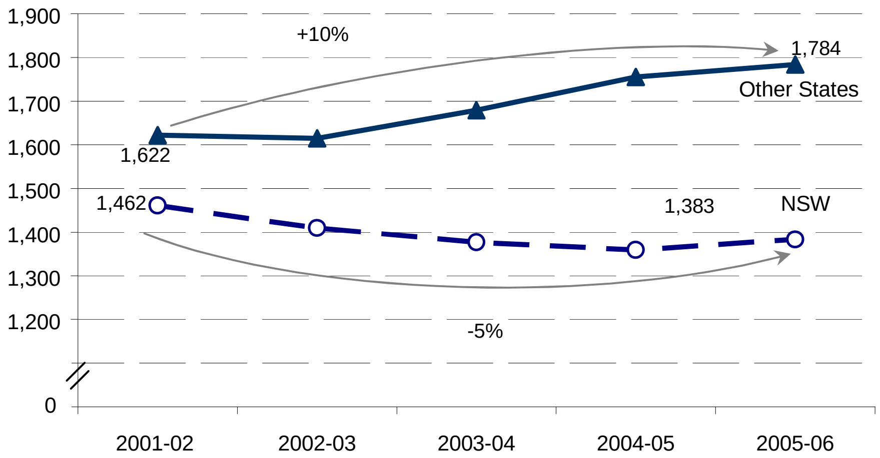
(a) General Purpose Grants $m



(b) General Purpose Grants $ per capita



(c) General Purpose Grants Real $ per capita



Movements in the general purpose grants reflect two component elements:

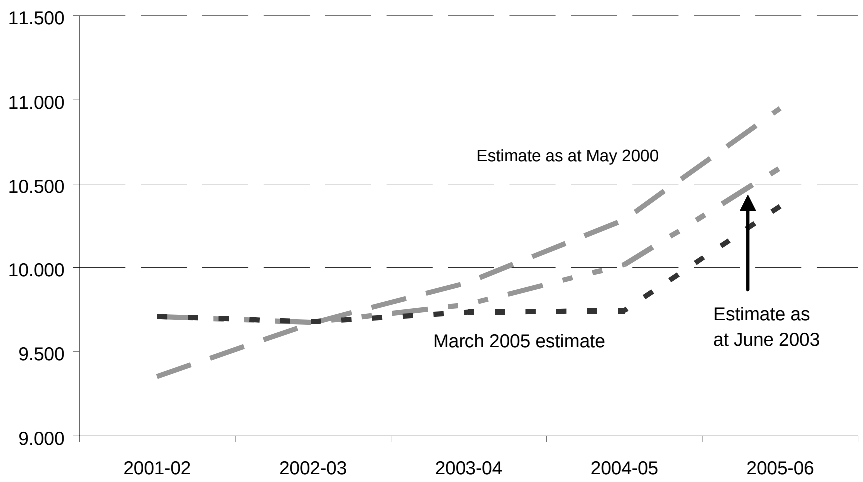
- the GMA, and
- any amount in excess of the GMA.

The Guaranteed Minimum Amount

The GMA represents what the States would have received under the previous financial arrangements. However, the GMA itself is not an unchanging baseline.

A major component of the GMA is the financial assistance grants that the States previously received. These grants are also affected by the relativities calculated by the Commonwealth Grants Commission. In fact, New South Wales' GMA has been revised downwards over time as the relativities have declined.

Chart 8.2: Downwards Revisions in the NSW GMA, $b



Due to the downward revisions over time, New South Wales received $178 million less in grants in 2003-04 than was expected when the IGA was implemented in 2000. In 2004-05, New South Wales GMA was $544 million less than was estimated in 2000; even after allowing for the fact that GST revenue exceeded the GMA in 2004-05, New South Wales actually received $367 million less than was expected when the IGA took effect in 2000.

The other States have all received general purpose grants in excess of their original GMA estimates since 2000-01, and are forecast to again exceed the initial estimates in 2005-06. Only New South Wales is estimated to receive less in 2005-06 than its initial GMA estimate for that year. The shortfall is estimated to be $538 million in 2005-06. Table 8.2 provides details of the differences across the States.

Table 8.2: Difference Between Initial Grants Estimates and Outcomes, $m [(a)]

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT
2000-01	102	79	148	3	62	24	6	3
2001-02	357	191	350	80	144	68	28	22
2002-03	8	11	382	76	112	99	10	60
2003-04	-178	188	685	249	219	180	29	134
2004-05	-367	438	1,080	539	270	176	13	98
2005-06	-538	487	1,020	525	248	166	11	37

(a) Defined as the difference between the initial estimates for State and Territory general purpose grants (GST and BBA) and the actual outcomes and latest estimates.

GST in excess of the GMA

New South Wales is estimated to receive GST revenue in excess of the GMA for the first time in 2004-05 (refer to Table 8.3), making it the last State not to require top-up funding.

This reflects the fact that New South Wales lost significantly more revenue from abolished State taxes and abolished Commonwealth grants (in addition to facing new costs) than the GST revenue grants which replaced these revenue sources. This has required the Commonwealth to provide assistance to make up this shortfall to the GMA to meet their commitment in the Intergovernmental Agreement that no State would be worse off as a consequence of the new financial arrangements.

Table 8.3: Amount of GST above GMA, $m

	NSW	*Vic*	*Qld*	*WA*	*SA*	*Tas*	*ACT*	*NT*	*Total ex NSW*
Actual:									
2000-01	*nil*	*nil*	*nil*	*nil*	*nil*	*nil*	*nil*	*nil*	*nil*
2001-02	*nil*	*nil*	*nil*	*nil*	*nil*	*nil*	*nil*	*nil*	*nil*
2002-03	*nil*	*nil*	76	*nil*	*nil*	*nil*	*nil*	10	86
2003-04	*nil*	112	502	150	95	70	39	110	1,077
Estimated:									
2004-05	177	273	737	252	160	101	54	137	1,713
2005-06	43	200	580	235	161	96	54	137	1,463
2006-07	266	376	728	316	218	113	67	135	1,952
2007-08	561	624	908	432	283	129	85	134	2,595
2008-09	872	906	1,071	547	347	142	101	130	3,244
Total	**1,919**	**2,491**	**4,602**	**1,931**	**1,264**	**650**	**399**	**793**	**12,130**
$ Per capita	284	497	1,172	965	822	1,343	1,230	3,935	900

Source: Budget Papers, and estimates contained in Australian Government Proposal to eliminate IGA taxes, Commonwealth Treasurer's press release No 023, 23 March 2005.

Based on current estimates, New South Wales expects to receive $284 per capita in net gains from the GST over the period 2000-01 to 2008-09. This is the lowest gain of all the States and is less than one-third of the average for the other States.

NATIONAL COMPETITION POLICY PAYMENTS

National competition policy and related reforms were codified in agreements in 1995 that require States to apply principles of competitive neutrality to government-owned businesses, reform public monopolies and review legislation that restricts competition.

Much of the fiscal dividend from the economic growth stimulated by competition policy accrues to the Commonwealth Government through personal and company income taxes.

If the States implement the agreed competition policy reforms (with State performance assessed by the National Competition Council), some of the resulting economic gains are distributed across the community through Commonwealth national competition policy payments to the States.

In 2004-05, New South Wales received $233.6 million. This amount takes into account suspensions of $52.0 million for non-compliance in the areas of water sharing plans, poultry meat growing fees and domestic rice marketing arrangements, and reimbursement of $25.4 million for a 2003-04 suspension for outstanding legislation reviews.

The maximum payment available to New South Wales in 2005-06 is $265 million.

The Commonwealth has previously stated that the existing national competition policy payments to the States will cease after 2005-06, with the Commonwealth Government deciding to divert its budget allocations to the Australian Water Fund, administered by the National Water Commission. However, the outlook for these payments beyond 2005-06 is now uncertain as the Commonwealth Budget stated that the future of national competition payments is to be reviewed by the Council of Australian Governments in 2005.

The Commonwealth Government's previously announced unilateral decision to cease payments will reduce New South Wales' budget revenue by approximately $271 million in 2006-07 and $278 million in 2007-08. These amounts had been included in New South Wales' forward estimates in previous budgets on the grounds that the States had believed that these arrangements were designed to continue as long as the NCP arrangements were in place and the reform agenda continued to provide a revenue boost to the Commonwealth.

SPECIFIC PURPOSE PAYMENTS

Specific purpose payments from the Commonwealth to the States are grants that are tied to specific types of expenditures.

The Commonwealth offers specific purpose payments for a variety of reasons, including:

- implementing national priorities in areas of state constitutional responsibility (for example, gun control);
- implementing national priorities in areas that cross state borders (for example, national land transport, salinity and water quality);
- complying with international obligations (for example, world heritage properties); and
- compensating states for policies in areas of Commonwealth constitutional responsibility that adversely impact state finances (for example, liberalising access to Commonwealth pensioner concessions).

In 2005-06, New South Wales will receive specific purpose payments totalling $6.1 billion, an increase of 4.7 percent over 2004-05, for more than 50 different specific purposes. Table 3.7 in chapter 3 includes a list of the major payments to New South Wales.

Specific purpose payments provide about 14 percent of New South Wales' total budget revenues. The conditions under which the grants are paid to states are documented in agreements that are typically renegotiated every three to five years. Because these agreements each have a limited duration, New South Wales does not have long-term certainty over this significant portion of total budget revenues.

In most of the agreements, the Commonwealth requires New South Wales to spend further amounts on the same specific purpose, proportionate to the value of the Commonwealth grant. These matching requirements limit budget flexibility for funding New South Wales' priorities in service delivery.

New South Wales participated in negotiating the following specific purpose payment agreements during 2004-05:

- national land transport (AusLink)
- supported accommodation assistance
- government schools
- vocational education and training.

During 2004-05 the Commonwealth has sought to include conditions in some agreements being renegotiated that would incorporate the National Code of Practice for the Construction Industry and access to Australian Workplace Agreements. Negotiations on these matters are continuing.

The following specific purpose payment agreements are due for renegotiation over the forward estimates period:

- public housing (expires 30 June 2008)
- health care (expires 30 June 2009).

8.3 IGA REVIEW OF CERTAIN STATE TAXES

The *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* required all States to review by 2005 the need to retain certain business stamp duties, listed in Table 8.4.

Table 8.4: NSW Revenue from Selected Taxes ($m)

	Budget 2005-06	Forward estimates 2006-07	2007-08	2008-09
Stamp duties				
Non-residential property transfers	813	883	963	1,031
Mortgages and loan securities	379	424	467	504
Hire of goods	77	79	80	81
Leases of premises	62	65	68	71
Unlisted marketable securities	55	56	57	58
Total	**1,386**	**1,507**	**1,635**	**1,745**

The need to retain these taxes was reviewed and a report prepared for the March 2005 Treasurers' Conference.

The Commonwealth argued that the GST revenues being received by the States are now significantly higher than they would have received under the old tax system, which provides the States with the financial capacity to direct the excess GST towards the abolition of the IGA taxes.

The States argued that the IGA provides that the GST revenue grants will be freely available for use by the States. All States have met the requirements under the IGA to abolish certain taxes, and NSW also abolished debits tax three and a half years early. The States also argued that fiscal policy considerations – such as presented by the future of NCPs, SPP funding issues, and growing expenditure demands in areas like health - dictate the need for the States to have flexibility in regard to the timing and magnitude of any further tax cuts, to ensure that such cuts are sustainable.

At the Treasurers’ Conference, the Commonwealth Treasurer maintained that, the review having been carried out, the States now had to abolish the IGA listed taxes, beginning in 2006-07, or they would be judged by the Commonwealth to be in breach of the IGA.

The Commonwealth’s proposal included a timetable for abolition as follows:

- 1 July 2006 – stamp duty on: non-quotable marketable securities; leases; mortgages, bonds, debentures and other loan securities; credit arrangements, instalment purchase arrangements and rental arrangements; and, cheques, bills of exchange and promissory notes.

- 1 July 2007 – stamp duty on business conveyances other than real property.

- Stamp duty on business conveyances of real property would cease to apply at a date to be determined by the Treasurers’ Conference on the basis that no State would be worse off in any year.

New South Wales has the least financial capacity of any State to abolish the IGA taxes due to the weak growth recorded in general purpose grants and the small size of any GST gains above the GMA. At the 2005 Treasurers’ Conference, the Commonwealth offered New South Wales top up funding of $330 million over the two years 2006-07 and 2007-08 in response to the abolition of taxes that are expected to generate revenue of around $900 million in 2006-07. This proposal would generate large net costs to the New South Wales even after allowing for the top-up funding.

The Commonwealth’s 2005-06 Budget (released on 10 May 2005) contained an updated proposal to abolish the IGA taxes. However, this proposal was fundamentally unchanged from the previous proposal. While the Commonwealth’s offer of top-up funding to NSW was increased to $563 million over the period 2006-07 to 2008-09, NSW was still expected to utilise all of its net GST gains towards the abolition of the taxes. The proposal imposes significant and unsustainable cost to the NSW Budget.

Table 8.5 details the cost to the Budget of these proposals.

Table 8.5: Net Cost to NSW Budget of Commonwealth Proposals ($m) (a)

	Commonwealth Proposal at Treasurers' Conference	*Commonwealth Proposal in 2005-06 Budget*
2006-07	266	198
2007-08	561	500
2008-09	851	778

(a) Defined as the total revenue foregone from abolished taxes, less the effect of the change in the Grants Commission GST relativities due to the abolition of taxes by all States, less budget balancing assistance from the Commonwealth.

All States, with the exception of New South Wales and Western Australia, made a counter-offer to the Commonwealth on 20 April 2005, which proposed a longer and more flexible timetable for the abolition of the taxes (with the exception of the real property component of business conveyances).

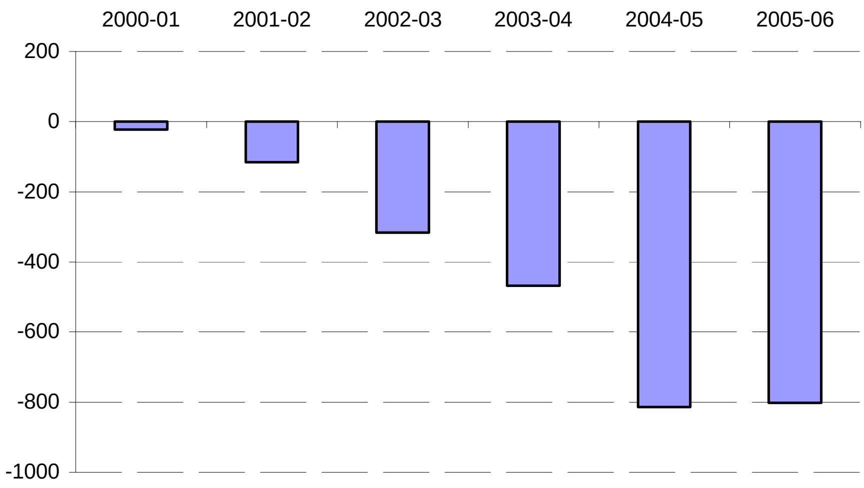
8.4 COMMONWEALTH GRANTS COMMISSION'S 2005 UPDATE

The Commonwealth allocates the goods and services tax revenues between the states on a per capita basis adjusted for States' relative revenue capacities and relative expense needs.

The Commonwealth Grants Commission estimates the total redistribution of goods and services tax revenues between States (compared with an equal per capita distribution) to be $3,005 million in 2004-05 and $3,179 million in 2005-06.

Over the six years since the introduction of the goods and services tax, New South Wales' cumulative loss from changes in relativities now exceeds $800 million annually (see Chart 8.3).

Chart 8.3: NSW' cumulative annual loss from changing relativities ($m)



The Commonwealth Grants Commission reviews its methods of assessing State relativities every five years and updates these relativities with new data annually.

Table 8.6 shows for all States the revenue impact of the 2005 annual data update compared with the relativities established by the 2004 review of assessment methods. While the net impact of the data update on New South Wales was small, the data update had significant fiscal impact for some other States.

Table 8.6 isolates the impact of the 2005 data update on State relativities by assuming for the purpose of this calculation that the size of the total goods and services tax revenue pool is unchanged. Hence it does not measure the change in the actual goods and services tax revenue grants to States.

Table 8.6: Effect of 2005 data update on the States in 2005-06

	NSW	*Vic*	*Qld*	*WA*	*SA*	*Tas*	*ACT*	*NT*
$ m	12.0	106.2	- 93.7	- 24.0	- 3.2	- 6.8	9.2	0.3
% of GST grants	0.1	1.4	- 1.2	- 0.6	- 0.1	- 0.5	1.3	…
% General Government revenue	…	0.4	- 0.4	- 0.2	…	- 0.2	0.4	…

Table 8.7 lists the major adjustments the Commonwealth Grants Commission made to its assessments for New South Wales in its 2005 data update compared with the assessments it made in its 2004 review of assessment methods. While the net fiscal impact on New South Wales was small, there were significant changes in individual assessments.

Table 8.7: Major changes in the 2005 data update

Factor	*$ million*
Insurance duty	- 46.2
Land tax	- 36.8
Public safety user charges	- 19.0
Inpatient services	31.0
Wages input costs	81.7

New South Wales is judged by the CGC to have an above average capacity to raise **insurance duty**. This capacity increased due to the use of a new data collection framework in the 2005 update, leading to the loss in grant share.

The CGC calculated that New South Wales' capacity to raise **land tax** rose in the 2005 data update due to a larger than average increase in land values in this State compared to the national average. This caused the loss in grant share.

The loss due to **public safety user charges** was attributed to the same factors as led to the loss in grant share for insurance taxes.

New South Wales saw an increase in the **inpatient services** assessment because the proportion of people in New South Wales likely to use inpatient services rose, moving closer to the national average.

The CGC recognises that public sector **wage costs** are higher in New South Wales than the Australian average. This is due to non-policy influences such as the cost of living and location where the work is performed. An increase in the underlying wage costs led to an increase in New South Wales' relative cost of providing services.

8.5 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 over 80 percent of the taxation revenue (including the GST), but is responsible for around 54 percent of own-purpose outlays. The States collect around 16 percent of taxation revenue and account for around 39 percent of own-purpose outlays. Commonwealth grants now account for around 40 percent of New South Wales' revenues, 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.[1]

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.

[1] *Commonwealth Grants Commission Report on State Revenue Sharing Relativities 2005 Update, page 4. This is the same definition as applied in the 2004 Review Report.*

Comparison with Equal Per Capita Funding

In 2005-06, New South Wales will receive $10,410 million of the total GST pool of $37,287 million.[2] But New South Wales receives significantly less in GST revenue grants than if funding were based solely on population shares (see Table 8.8).

- New South Wales' GST revenue grants in 2005-06 will be $1,526 per capita or 16 percent less than the average of all the States;
- The average GST revenue grant in 2005-06 for New South Wales and Victoria (the donor States) will be $1,537 per capita, compared with an average of $2,211 per capita for the recipient States.

Table 8.8: GST Revenue Grants Per Capita, 2005-06

State/Territory	*GST Revenue Grants (In $ per capita)*
New South Wales	1,526
Victoria	1,553
Western Australia	1,879
Queensland	1,923
Australian Capital Territory	2,215
South Australia	2,229
Tasmania	3,074
Northern Territory	8,993
Average, 2 donor States	**1,537**
Average, 6 recipient States	**2,211**
AUSTRALIAN AVERAGE	**1,820**

In 2005-06, New South Wales and Victoria will subsidise the recipient States by $3,363 million, compared with an equal per capita distribution. New South Wales alone will transfer $2,010 million, or $295 per capita, to the recipient States.

Total cross subsidies for 2005-06 reflecting the 2005 Update relativities compared with an equal per capita distribution of GST revenue are in Table 8.9 (negative figures indicate donor States).

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[2] *These figures include compensation for GST deferral.*

Table 8.9: Cross Subsidies, Per Capita Basis, 2005-06

	NSW	*Vic*	*Qld*	*WA*	*SA*	*Tas*	*ACT*	*NT*
Total, $m	(2,010)	(1,352)	413	119	631	611	128	1,461
$ per capita	(295)	(267)	103	58	408	1,254	394	7,173

The New South Wales' cross subsidy is distributed to the subsidised States as shown in Table 8.10.

Table 8.10: NSW' Cross Subsidy Distribution, 2005-06

	Qld	*WA*	*SA*	*Tas*	*ACT*	*NT*	*Total*
Total, $m	247	71	377	365	77	874	2,010
$ per capita	36	10	55	54	11	128	295

COMPARISON WITH GST GENERATED BY STATES

An alternative method of measuring the level of transfers from donor to recipient States is to compare GST revenue grants with the amount of GST generated by activity in each State[3] .

On this basis, activity in New South Wales is estimated to generate around $13.2 billion in GST revenue in 2005-06, while receiving GST revenue grants of around $10.4 billion. This is a cross-subsidy to other States of around $2.8 billion, or $407 per capita. New South Wales receives around 79 cents for every $1 in GST generated in this State.

Table 8.11 shows the difference between the level of GST revenue estimated to be generated by each State, and the amounts of GST grants received by each State, for 2005-06.

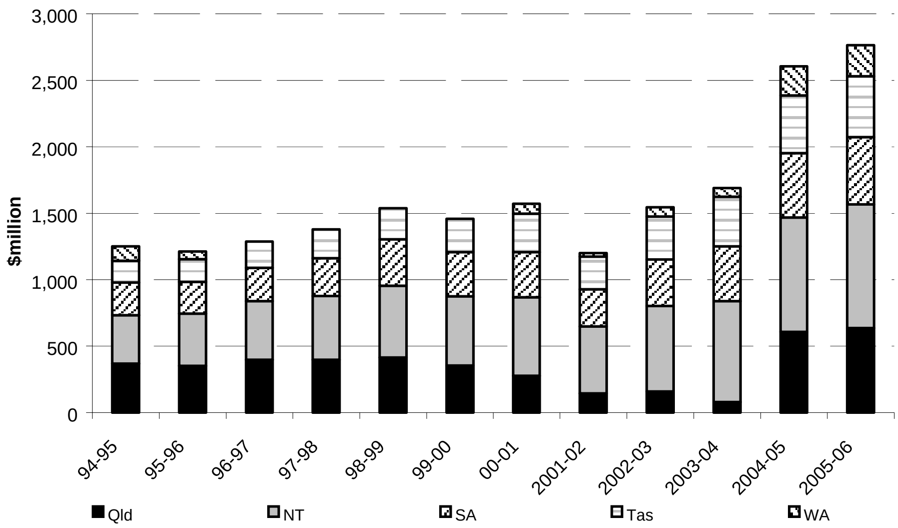
[3] *State contributions to GST revenue are estimated by NSW Treasury based on the GST generating activity in each State. Data have been sourced from ABS Cat No 5220.0, Australian National Accounts: State Accounts 2003-04. The estimates are not based on the location of the businesses remitting GST revenue. On that basis, the cross-subsidy from NSW would be much larger.*

Table 8.11: GST Generated and GST Grants, 2005-06

	NSW	*Vic*	*Qld*	*WA*	*SA*	*Tas*	*ACT*	*NT*
Generated $b	13.2	9.6	6.7	3.4	2.6	0.8	0.7	0.3
Grants $b	10.4	7.9	7.7	3.8	3.4	1.5	0.7	1.8
Cross Subsidy $b	(2.8)	(1.7)	1.0	0.4	0.8	0.7	...	1.5

Chart 8.4 shows the growth in New South Wales' cross subsidy since 1994-95.

Chart 8.4: NSW Cross Subsidy to Recipient States



For the period prior to the introduction of the GST, 1994-95 to 1999-2000, the cross subsidy is based on the difference between financial assistance grants (FAGS) and a share of the combined FAG/unquarantined health care grant pool equivalent to New South Wales' share of income tax payments.[4] 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.[5]

[4] *Sourced from Commonwealth Budget Paper No. 3 for each year.*
[5] *Note that the ACT is not shown on this chart as the amounts involved are small.*

8.6 THE NEED FOR REFORM

The *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* provides that the Commonwealth will distribute goods and services tax revenue grants among the states in accordance with horizontal fiscal equalisation principles.

The Commonwealth Grants Commission has interpreted the *Intergovernmental Agreement* to mean that its approach must be based on the definition of horizontal fiscal equalisation in place at the time the *Intergovernmental Agreement* came into effect – the Commission's 1999 definition.

New South Wales advocates reform of the current system of horizontal fiscal equalisation.

New South Wales has long argued that the Commonwealth Grants Commission's assessment processes are too complex, make too great a demand on the available data, rely too heavily on judgement and produce counter-intuitive results.

The Commonwealth Grants Commission's method of equalisation covers 37 revenue component assessments and 359 expense factor assessments. While there are a large number of assessments, many redistribute relatively small amounts. Of the 359 factors assessed for the 2004 review, 172 involved a redistribution of $5 million or less each.

The Commonwealth Grants Commission said in its 2004 review:

> "It is not obvious that increasing detail is producing a better equalisation outcome. Our processes are stretching the available data to the limit."
>
> "Particularly towards the end of this review, we observed large changes in relativities for some States flowing from the application of new data sets. The extent of the changes could not readily be explained by changes in the underlying circumstances of the States. If the data we are using are not consistently reflecting the circumstances of the States, the quality of our results is compromised."
>
> "We think it essential to have confidence in the quality of the data we are using. If we cannot have a high level of confidence in the data, we are strongly of the view that methods should be changed, rather than relying on data that might be inadequate for the purpose."

At the 2004 Treasurers' Conference, a majority of States, supported by the Commonwealth, agreed to a review of the way the Commonwealth Grants Commission applied horizontal fiscal equalisation principles. The review did not examine the underlying principle of horizontal fiscal equalisation.

The report from this review was presented to the 2005 Treasurers' Conference.

The review recommended draft terms of reference which were accepted by the Treasurers' Conference. The terms of reference require the Commonwealth Grants Commission to simplify its assessments by aggregating existing assessments, eliminating assessments found unreliable because of unsatisfactory data or method and applying a materiality threshold to assessments.

The terms of reference require the Commission to consider other ways to simplify its assessments by addressing issues relating to the quality and fitness for purpose of the data it uses, undertake a program of continuous quality improvement and review the use of more general indicators of revenue capacity and expense need.

The terms of reference require the Commonwealth Grants Commission report:

- to the 2006 meeting of the Treasurers' Conference on its conclusions concerning the elimination of unreliable assessments and the application of a materiality threshold; and

- to the 2007 meeting of the Treasurers' Conference on its conclusions concerning the aggregation of assessments and issues relating to the quality and fitness for purpose of the data it uses.

The review also recommended that the next Commonwealth Grants Commission review of assessment methods be deferred from 2009 to 2010.

New South Wales will support the progress and implementation of the simplification review. However, this review had a narrow agenda and was not able to examine the underlying principle of horizontal fiscal equalisation.

New South Wales supports the principle of equalisation and redistribution towards those States with genuine needs - Tasmania, South Australia and the Northern Territory. New South Wales will continue to argue for more fundamental reform of the current system.

CHAPTER 9: 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 2008-09 for the general government, public trading enterprise and consolidated sectors.
- There has been a break in the time series denoted on the UPF tables by a vertical dotted line. Prior to 2005-06 transactions have been recognised and measured in accordance with Australian Accounting Standards. From 2005-06, they have been recognised in accordance with Australian Equivalents to International Financial Reporting Standards (AEIFRS).
- The Loan Council allocation estimate for 2005-06 is a deficit of $2,282 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.

9.1 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.

[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".*

The financial aggregates presented in this chapter serve a number of purposes including:

- allowing comparisons between the financial position of Australian Governments on a consistent basis;
- facilitating time series comparisons since they are relatively unaffected by changes in public sector administrative structures; and
- permitting an assessment of the impact of NSW public sector transactions on the economy by providing data classified by economic type.

Section 9.2 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 9.3.

The accrual uniform presentation framework estimates are presented in Section 9.4. 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 9.5 presents estimates of the State's Loan Council allocation (LCA) for 2005-06 and compares this to the original LCA bid provided to the March 2005 Treasurers' Conference. Information is also presented in Section 9.6 on new infrastructure projects for 2004-05 and 2005-06 in accordance with Loan Council reporting requirements.

Chapter 5 of Budget Paper No. 2 provides a brief commentary on the operations of the PTE sector.

9.2 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*[4] is calculated as GFS revenue minus GFS expenses. *GFS net lending*[5] 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.

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2 *GFS revenue differs from accounting revenues. GFS revenues include all (mutually agreed) transactions that increase net worth. Revaluations, included in accounting revenues, are not considered mutually agreed transactions, and so are excluded from GFS revenues. 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. Revaluations, included in accounting expenses, are not considered mutually agreed transactions, and so are excluded from GFS expenses. Included in this revaluations category are asset write-offs.*

4 *The net operating balance is equivalent to the budget result shown elsewhere in the budget papers.*

5 *Commonwealth Treasury has adopted the term "fiscal balance".*

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;

- receivables are presented on a gross basis (i.e. excluding all allowances 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)[6] and public trading enterprise (PTE)[7] 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.

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[6] 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".*

[7] *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".*

Net financial worth 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.

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 2000-01), 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 the accounting framework than a holding company model; and
- allowance for doubtful debts is excluded from balance sheets presented on a GFS basis.

Break in Time Series – Introduction of AEIFRS

There has been a break in the UPF time series. Prior to 2005-06 transactions have been recognised and measured in accordance with Australian Accounting Standards. From 2005-06 the underlying information has been recognised in accordance with Australian Equivalents to International Financial Reporting Standards (AEIFRS).

This break in the UPF series between 2004-05 and 2005-06 is denoted by a vertical dotted line.

Refer to Appendix F in Budget Paper No.2 for further detail on the implementation strategies and financial impacts of AEIFRS on the NSW public sector.

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 finance statistics publication (Catalogue No. 5512.0).

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

The ABS has recognised the accounting difficulties of their approach. Given this, a compromise has been reached and all jurisdictions and the ABS have departed from GFS principles on this matter and record the premium as a negative interest payment in the final year of the loan.

9.3 CLASSIFICATION FRAMEWORK

The economic type classification adopted in this budget paper follows international conventions as outlined in the ABS information paper, *Australian System of Government Finance Statistics: Concepts, Sources and Methods*, Catalogue Number 5514.0.55.001.

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.

9.4 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 9.1 through to 9.12 of this Section provide estimates on a comparable basis to those which the ABS will be publishing.

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Table 9.1: NSW General Government Sector Operating Statement (ABS Basis)

		Actual 1999-2000 $m	*Actual 2000-01 $m*	*Actual 2001-02 $m*	*Actual 2002-03 $m*	*Actual 2003-04 $m*	*Revised 2004-05 $m*	*Budget 2005-06[(a)] $m*	*Forward Estimates 2006-07[(a)] $m*	*Forward Estimates 2007-08[(a)] $m*	*Forward Estimates 2008-09[(a)] $m*
	GFS Revenue										
	Taxation revenue[(b)]	15,191	13,343	13,216	14,153	15,026	15,306	16,269	17,319	18,248	19,205
	Current grants and subsidies[(b)]	10,098	13,741	15,873	16,475	16,905	17,429	18,379	18,843	19,594	20,329
	Capital grants	889	866	891	914	900	1,100	1,068	1,071	987	1,053
	Sales of goods and services	2,792	2,659	2,699	2,914	3,006	3,022	3,134	3,257	3,342	3,511
	Interest income	476	471	282	440	862	924	971	909	824	947
	Other	2,452	2,545	2,558	2,865	2,961	3,085	3,365	3,328	3,323	3,430
	Total Revenue	**31,898**	**33,625**	**35,519**	**37,761**	**39,660**	**40,866**	**43,186**	**44,727**	**46,318**	**48,475**
less	**GFS Expenses**										
	Employee expenses	12,824	13,283	13,877	15,313	16,486	17,758	18,762	19,510	20,336	21,128
	Depreciation	1,472	1,402	1,638	1,779	1,927	1,991	2,087	2,138	2,183	2,222
	Other operating expenses	8,296	8,757	9,667	10,085	10,313	10,481	10,907	11,303	12,097	12,902
	Nominal superannuation interest expense	479	438	564	745	860	903	1,224	1,098	962	1,051
	Other interest expenses	1,343	1,016	868	803	788	817	894	848	829	813
	Other property expenses	...	...	...	...	...	...	...	...	...	...
	Current transfers	4,488	4,955	5,475	5,942	6,882	6,905	7,523	7,720	7,921	8,026
	Capital transfers	993	2,287	1,864	1,342	1,258	1,442	1,486	1,629	1,446	1,368
	Total Expenses	**29,895**	**32,138**	**33,953**	**36,009**	**38,514**	**40,297**	**42,883**	**44,246**	**45,774**	**47,510**
equals	**GFS Net Operating Balance**	**2,003**	**1,487**	**1,566**	**1,752**	**1,146**	**569**	**303**	**481**	**544**	**965**

Table 9.1: 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	Actual 2003-04 $m	Revised 2004-05 $m	Budget 2005-06 (a) $m	Forward Estimates 2006-07 (a) $m	2007-08 (a) $m	2008-09 (a) $m
less	**Net Acquisition of Non-financial Assets**											
	Purchases of non-financial assets (c)		2,450	2,569	2,745	3,004	3,019	3,423	3,730	3,855	3,876	4,062
	less	Sales of non-financial assets	(681)	(372)	(596)	(366)	(406)	(479)	(547)	(454)	(463)	(454)
	less	Depreciation	(1,472)	(1,402)	(1,638)	(1,779)	(1,927)	(1,991)	(2,087)	(2,138)	(2,183)	(2,222)
	plus	Change in inventories	(3)	11	...	4	21	(8)	(2)	(8)	(5)	(5)
	plus	Other movements in non-financial assets										
		- finance leases (c)	284	290	351	345	312	167	95	95	95	...
		- other	103	(134)	125	81	88	69	93	108	121	134
	equals	**Total Net Acquisition of Non-financial Assets**	**681**	**962**	**987**	**1,289**	**1,107**	**1,181**	**1,282**	**1,458**	**1,441**	**1,515**
equals	**GFS Net Lending / (Borrowing)**		**1,322**	**525**	**579**	**463**	**39**	**(612)**	**(979)**	**(977)**	**(897)**	**(550)**

Notes:

(a) 2005-06 and forward years are based on underlying data that has been recognised and measured in accordance with Australian Equivalents to International Financial Reporting Standards (AEIFRS). Prior to 2005-06 transactions were recorded in accordance with Australian Accounting Standards. Refer to Appendix F for further information on the financial impact of AEIFRS.

(b) Impacted by the introduction of the Goods and Services Tax (GST) and the processing arrangements from 2001-02.

(c) Elsewhere in the Budget Papers reference is made to Capital Expenditure, which comprise purchases of non-financial assets and assets acquired under finance lease arrangements.

Table 9.2: NSW Public Non-financial Corporation Sector Operating Statement[(a)] (ABS Basis)

		Actual 1999-2000 $m	Actual 2000-01 $m	Actual 2001-02 $m	Actual 2002-03 $m	Actual 2003-04 $m	Revised 2004-05 $m	Budget 2005-06[(b)] $m	*Forward Estimates* 2006-07[(b)] $m	2007-08[(b)] $m	2008-09[(b)] $m
	GFS Revenue										
	Sales of goods and services	9,234	11,564	9,347	9,371	9,874	10,173	10,804	11,347	11,869	12,327
	Current grants and subsidies	1,101	1,071	1,072	1,404	1,693	1,700	1,817	1,914	2,029	2,067
	Capital grants	602	771	925	690	698	770	768	923	778	744
	Interest income	97	142	78	85	83	68	48	42	40	46
	Other	1,167	844	870	827	768	835	848	920	898	856
	Total Revenue	**12,201**	**14,392**	**12,292**	**12,377**	**13,116**	**13,546**	**14,285**	**15,146**	**15,614**	**16,040**
less	**GFS Expenses**										
	Employee expenses	2,888	3,360	3,005	2,972	2,999	3,275	3,351	3,288	3,428	3,508
	Depreciation	1,389	1,514	1,563	2,068	2,164	2,081	2,123	2,219	2,261	2,346
	Other operating expenses	5,391	6,638	4,676	5,248	5,507	5,730	5,999	6,255	6,557	6,568
	Interest expenses	692	825	813	823	787	850	919	1,057	1,203	1,332
	Other property expenses	1,215	981	1,294	1,244	1,487	1,540	1,820	1,788	1,827	1,882
	Current transfers	70	73	78	85	106	120	119	97	99	101
	Capital transfers	63	56	92	32	18	12	...	...	8	...
	Total Expenses	**11,708**	**13,447**	**11,521**	**12,472**	**13,068**	**13,608**	**14,331**	**14,704**	**15,383**	**15,737**
equals	**GFS Net Operating Balance**	**493**	**945**	**771**	**(95)**	**48**	**(62)**	**(46)**	**442**	**231**	**303**

Table 9.2: NSW Public Non-financial Corporation Sector Operating Statement[a] (ABS Basis) (cont)

		Actual 1999-2000 $m	Actual 2000-01 $m	Actual 2001-02 $m	Actual 2002-03 $m	Actual 2003-04 $m	Revised 2004-05 $m	Budget 2005-06[b] $m	Forward Estimates 2006-07[b] $m	Forward Estimates 2007-08[b] $m	Forward Estimates 2008-09[b] $m
less	**Net Acquisition of Non-financial Assets**										
	Purchases of non-financial assets	2,729	2,510	2,989	3,352	3,378	3,575	4,425	4,753	4,999	4,750
	less Sales of non-financial assets	(388)	(315)	(302)	(332)	(201)	(150)	(211)	(346)	(338)	(374)
	less Depreciation	(1,389)	(1,514)	(1,563)	(2,068)	(2,164)	(2,081)	(2,123)	(2,219)	(2,261)	(2,346)
	plus Change in inventories	252	(651)	58	47	47	166	46	180	15	83
	plus Other movements in non-financial assets										
	- finance leases	...	...	...	...	...	...	...	...	...	...
	- other	97	159	166	119	78	140	206	237	207	196
	equals Total Net Acquisition of Non-financial Assets	**1,301**	**189**	**1,348**	**1,118**	**1,138**	**1,650**	**2,343**	**2,605**	**2,622**	**2,309**
equals	**GFS Net Lending / (Borrowing)**	**(808)**	**756**	**(577)**	**(1,213)**	**(1,090)**	**(1,712)**	**(2,389)**	**(2,163)**	**(2,391)**	**(2,006)**

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) 2005-06 and forward years are based on underlying data that has been recognised and measured in accordance with Australian Equivalents to International Financial Reporting Standards (AEIFRS). Prior to 2005-06 transactions were recorded in accordance with Australian Accounting Standards. Refer to Appendix F for further information on the financial impact of AEIFRS.

(c) The underlying Net Lending / (Borrowing) has been adjusted to exclude 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	2008-09
GFS Net Lending / (Borrowing)	***(808)***	***756***	***(577)***	***(1,213)***	***(1,090)***	***(1,712)***	***(2,389)***	***(2,163)***	***(2,391)***	***(2,006)***
adjustment to exclude SOCOG and SPOC	*274*	*(974)*	*(11)*	*...*	*...*	*...*	*...*	*...*	*...*	*...*
Underlying Net Lending/ (Borrowing)[c]	***(534)***	***(218)***	***(588)***	***(1,213)***	***(1,090)***	***(1,712)***	***(2,389)***	***(2,163)***	***(2,391)***	***(2,006)***

Table 9.3: NSW Non-financial Public Sector Operating Statement (ABS Basis)

		Actual 1999-2000 $m	*Actual 2000-01 $m*	*Actual 2001-02 $m*	*Actual 2002-03 $m*	*Actual 2003-04 $m*	*Revised 2004-05 $m*	*Budget 2005-06[(a)] $m*	*Forward Estimates 2006-07[(a)] $m*	*Forward Estimates 2007-08[(a)] $m*	*Forward Estimates 2008-09[(a)] $m*
	GFS Revenue										
	Taxation revenue[(b)]	14,547	12,656	12,597	13,437	14,218	14,635	15,570	16,601	17,506	18,443
	Current grants and subsidies[(b)]	10,122	13,769	15,852	16,442	16,841	17,394	18,348	18,821	19,574	20,313
	Sales of goods and services	11,900	14,007	11,933	12,179	12,728	13,046	13,789	14,452	15,054	15,676
	Capital grants	833	805	886	908	900	1,093	1,066	1,069	986	1,051
	Interest income	507	549	306	473	892	941	963	884	782	897
	Other	2,362	2,174	2,092	2,426	2,296	2,384	2,375	2,415	2,358	2,388
	Total Revenue	**40,271**	**43,960**	**43,666**	**45,865**	**47,875**	**49,493**	**52,111**	**54,242**	**56,260**	**58,768**
less	**GFS Expenses**										
	Employee expenses	15,709	16,640	16,892	18,292	19,509	20,929	22,111	22,795	23,762	24,635
	Depreciation	2,860	2,916	3,201	3,847	4,091	4,072	4,210	4,357	4,443	4,567
	Other operating expenses	12,894	14,481	13,607	14,502	14,856	15,378	16,037	16,634	17,727	18,538
	Nominal superannuation interest expense	479	438	564	745	860	903	1,224	1,098	962	1,051
	Other interest expenses	1,971	1,778	1,627	1,574	1,523	1,616	1,756	1,839	1,950	2,049
	Other property expenses	...	...	...	...	...	...	...	...	...	...
	Current transfers	3,607	3,919	4,467	4,611	5,267	5,420	5,822	5,909	5,992	6,068
	Capital transfers	243	1,559	962	638	575	673	695	687	649	592
	Total Expenses	**37,763**	**41,731**	**41,320**	**44,209**	**46,681**	**48,991**	**51,855**	**53,319**	**55,485**	**57,500**
equals	**GFS Net Operating Balance**	**2,508**	**2,229**	**2,346**	**1,656**	**1,194**	**502**	**256**	**923**	**775**	**1,268**

Table 9.3: NSW Non-financial Public Sector Operating Statement (ABS Basis) (cont)

	Actual 1999-2000 $m	Actual 2000-01 $m	Actual 2001-02 $m	Actual 2002-03 $m	Actual 2003-04 $m	Revised 2004-05 $m	Budget 2005-06[a] $m	Forward Estimates 2006-07[a] $m	Forward Estimates 2007-08[a] $m	Forward Estimates 2008-09[a] $m
less Net Acquisition of Non-financial Assets										
Purchases of non-financial assets[c]	5,176	5,075	5,729	6,352	6,394	6,995	8,152	8,606	8,873	8,810
less Sales of non-financial assets	(1,063)	(687)	(898)	(698)	(607)	(629)	(758)	(801)	(801)	(828)
less Depreciation	(2,860)	(2,916)	(3,201)	(3,847)	(4,091)	(4,072)	(4,210)	(4,357)	(4,443)	(4,567)
plus Change in inventories	249	(641)	58	51	67	158	44	173	10	77
plus Other movements in non-financial assets										
- finance leases[c]	284	290	351	345	312	167	95	95	95	...
- other	199	27	291	200	167	210	299	345	328	329
equals Total Net Acquisition of Non-financial Assets	**1,985**	**1,148**	**2,330**	**2,403**	**2,242**	**2,829**	**3,622**	**4,061**	**4,062**	**3,821**
equals GFS Net Lending / (Borrowing)	**523**	**1,081**	**16**	**(747)**	**(1,048)**	**(2,327)**	**(3,366)**	**(3,138)**	**(3,287)**	**(2,553)**

Notes:

(a) 2005-06 and forward years are based on underlying data that has been recognised and measured in accordance with Australian Equivalents to International Financial Reporting Standards (AEIFRS). Prior to 2005-06 transactions were recorded in accordance with Australian Accounting Standards. Refer to Appendix F for further information on the financial impact of AEIFRS.

(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 reference is made to Capital Expenditure which comprise purchases of non-financial assets and assets acquired under finance lease arrangements.

(d) The underlying Net Lending / (Borrowing) has been adjusted to exclude the impact of the 2000 Olympic and Paralympic Games on the results.

GFS Net Lending / (Borrowing)	***523***	***1,081***	***16***	***(747)***	***(1,048)***	***(2,327)***	***(3,366)***	***(3,138)***	***(3,287)***	***(2,553)***
adjustment to exclude SOCOG and SPOC	*273*	*(975)*	*(12)*	*...*	*...*	*...*	*...*	*...*	*...*	*...*
Underlying Net Lending/ (Borrowing)[d]	***796***	***106***	***4***	***(747)***	***(1,048)***	***(2,327)***	***(3,366)***	***(3,138)***	***(3,287)***	***(2,553)***

Table 9.4: NSW General Government Sector Balance Sheet (ABS Basis)

	Actual	Actual	Actual	Actual	Actual	Revised	Budget	Forward Estimates		
	June 2000	*June 2001*	*June 2002*	*June 2003*	*June 2004*	*June 2005*	*June 2006* [(a)]	*June 2007* [(a)]	*June 2008* [(a)]	*June 2009* [(a)]
	\$m	*\$m*	*\$m*	*\$m*	*\$m*	*\$m*	*\$m*	*\$m*	*\$m*	*\$m*
Assets										
Financial assets										
Cash and deposits	481	1,096	1,719	1,091	1,869	1,413	953	1,150	1,302	1,012
Advances paid	1,696	1,442	1,521	1,401	1,359	1,268	1,289	1,253	1,251	1,216
Investments, loans and placements	3,859	3,950	4,409	7,940	9,575	11,784	12,614	7,049	8,003	9,524
Other non-equity assets	4,525	4,854	5,172	5,358	5,840	6,099	10,219	10,207	10,331	10,467
Equity	46,596	47,501	48,337	66,780	68,067	68,367	63,588	64,091	64,373	64,947
Total Financial Assets	**57,157**	**58,843**	**61,158**	**82,570**	**86,710**	**88,931**	**88,663**	**83,750**	**85,260**	**87,166**
Non-financial assets										
Land and fixed assets	64,710	66,306	73,916	78,936	80,402	81,234	82,335	83,999	85,540	87,382
Other non-financial assets	754	847	952	1,047	1,175	1,475	1,577	1,650	1,775	1,887
Total Non-financial Assets	**65,464**	**67,153**	**74,868**	**79,983**	**81,577**	**82,709**	**83,912**	**85,649**	**87,315**	**89,269**
Total Assets	**122,621**	**125,996**	**136,026**	**162,553**	**168,287**	**171,640**	**172,575**	**169,399**	**172,575**	**176,435**

Table 9.4: 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	Actual June 2004 $m	Revised June 2005 $m	Budget June 2006[(a)] $m	Forward Estimates June 2007[(a)] $m	June 2008[(a)] $m	June 2009[(a)] $m
Liabilities										
Deposits held	90	61	65	53	68	67	67	68	69	68
Advances received	2,142	2,041	1,826	1,808	1,681	1,633	1,499	1,461	1,413	1,363
Borrowing	15,440	12,026	10,814	10,164	10,796	11,978	11,754	11,655	11,680	11,513
Superannuation liability [(b)]	5,686	8,127	11,398	14,720	15,460	16,461	23,209	18,254	19,630	21,058
Other employee entitlements and provisions	8,223	9,185	9,982	11,155	12,128	12,677	12,669	13,089	13,653	14,206
Other non-equity liabilities	3,203	3,055	3,511	3,611	3,871	3,344	3,703	3,654	3,629	3,644
Total Liabilities	**34,784**	**34,495**	**37,596**	**41,511**	**44,004**	**46,160**	**52,901**	**48,181**	**50,074**	**51,852**
NET WORTH	**87,837**	**91,501**	**98,430**	**121,042**	**124,283**	**125,480**	**119,674**	**121,218**	**122,501**	**124,583**
Net Financial Worth [(c)]	**22,373**	**24,348**	**23,562**	**41,059**	**42,706**	**42,771**	**35,762**	**35,569**	**35,186**	**35,314**
Net Debt [(d)]	**11,636**	**7,640**	**5,056**	**1,593**	**(258)**	**(787)**	**(1,536)**	**3,732**	**2,606**	**1,192**

Notes:

(a) June 2006 and forward years are based on underlying data that has been recognised and measured in accordance with Australian Equivalents to International Financial Reporting Standards (AEIFRS). Prior to 2005-06 transactions were recorded in accordance with Australian Accounting Standards. Refer to Appendix F for further information on the financial impact of AEIFRS.

(b) Comprises net unfunded obligations.

(c) Net financial worth equals total financial assets minus total liabilities.

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

(e) Adjusted for prepaid superannuation in the years 1999 to 2001, and Crown deposits to the Liability Management Fund and fund earnings in the years 2003 to 2009 inclusive.

GFS Net Debt [(d)]	***11,636***	***7,640***	***5,056***	***1,593***	***(258)***	***(787)***	***(1,536)***	***3,732***	***2,606***	***1,192***
Impact of prepayment of superannuation	*(2,251)*	*(1,179)*	...	...	...	...	...	...	...	...
Impact of deposits to the Liability Management Fund	...	...	...	*1,651*	*2,851*	*3,988*	*5,227*	...	*1,069*	*2,257*
Underlying Net Debt [(e)]	***9,385***	***6,461***	***5,056***	***3,244***	***2,593***	***3,201***	***3,691***	***3,732***	***3,675***	***3,449***

Table 9.5: NSW Public Non-financial Corporation Sector Balance Sheet[(a)] (ABS Basis)

								Forward Estimates		
	Actual June 2000 $m	Actual June 2001 $m	Actual June 2002 $m	Actual June 2003 $m	Actual June 2004 $m	Revised June 2005 $m	Budget June 2006[(b)] $m	June 2007[(b)] $m	June 2008[(b)] $m	June 2009[(b)] $m
Assets										
Financial assets										
Cash and deposits	1,324	960	1,289	1,163	1,202	1,003	963	1,026	1,094	1,035
Investments, loans and placements	875	920	900	568	518	300	321	297	352	418
Other non-equity assets	2,701	2,349	2,358	2,183	2,507	2,568	2,642	2,683	2,738	2,785
Equity	63	139	77	56	32	29	33	60	50	46
Total Financial Assets	**4,963**	**4,368**	**4,624**	**3,970**	**4,259**	**3,900**	**3,959**	**4,066**	**4,234**	**4,284**
Non-financial assets										
Land and fixed assets	58,883	61,720	62,616	82,892	84,777	86,599	87,939	90,622	93,321	95,725
Other non-financial assets	295	304	246	262	294	310	891	904	830	837
Total Non-financial Assets	**59,178**	**62,024**	**62,862**	**83,154**	**85,071**	**86,909**	**88,830**	**91,526**	**94,151**	**96,562**
Total Assets	**64,141**	**66,392**	**67,486**	**87,124**	**89,330**	**90,809**	**92,789**	**95,592**	**98,385**	**100,846**

Table 9.5: 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	Actual June 2004 $m	Revised June 2005 $m	Budget June 2006[(b)] $m	Forward Estimates June 2007[(b)] $m	Forward Estimates June 2008[(b)] $m	Forward Estimates June 2009[(b)] $m
Liabilities										
Deposits held	40	49	85	93	156	206	175	157	156	160
Advances received	1,379	1,155	1,153	1,116	1,088	1,045	1,009	983	956	930
Borrowing	8,254	11,309	11,522	12,056	12,568	13,699	15,843	18,186	20,731	22,547
Superannuation liability/ (prepaid contributions) [(c)]	(402)	(150)	325	736	391	429	1,039	1,054	1,061	1,061
Other employee entitlements & provisions	3,843	3,814	4,139	4,242	4,741	4,949	8,914	8,971	9,091	9,216
Other non-equity liabilities	3,859	2,397	2,144	2,262	2,558	2,394	2,572	2,577	2,512	2,546
Total Liabilities	**16,973**	**18,574**	**19,368**	**20,505**	**21,502**	**22,722**	**29,552**	**31,928**	**34,507**	**36,460**
Shares and other contributed capital [(d)]	47,168	47,818	48,118	66,619	67,828	68,087	63,237	63,664	63,878	64,386
NET WORTH [(d)(e)]	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**...**
Net Financial Worth [(d)(f)]	**(59,178)**	**(62,024)**	**(62,862)**	**(83,154)**	**(85,071)**	**(86,909)**	**(88,830)**	**(91,526)**	**(94,151)**	**(96,562)**
Net Debt [(g)]	**7,474**	**10,633**	**10,571**	**11,534**	**12,092**	**13,647**	**15,743**	**18,003**	**20,397**	**22,184**

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) *June 2006 and forward years are based on underlying data that has been recognised and measured in accordance with Australian Equivalents to International Financial Reporting Standards (AEIFRS). Prior to 2005-06 transactions were recorded in accordance with Australian Accounting Standards. Refer to Appendix F for further information on the financial impact of AEIFRS.*

(c) *Comprises net unfunded obligations.*

(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 $64.4 billion in 2009 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) *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.*

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

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

Table 9.6: 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	Actual June 2004 $m	Revised June 2005 $m	Budget June 2006[(a)] $m	Forward Estimates June 2007[(a)] $m	Forward Estimates June 2008[(a)] $m	Forward Estimates June 2009[(a)] $m
Assets										
Financial assets										
Cash and deposits	1,805	2,056	3,008	2,254	3,070	2,415	1,915	2,176	2,396	2,047
Advances paid	315	286	368	285	271	222	280	270	295	286
Investments, loans and placements	4,727	4,870	5,309	8,506	10,092	12,084	12,934	7,345	8,353	9,940
Other non-equity assets	4,578	4,725	4,666	4,566	4,872	4,928	5,030	5,044	5,132	5,222
Equity	(510)	(179)	296	218	271	310	385	487	545	608
Total Financial Assets	**10,915**	**11,758**	**13,647**	**15,829**	**18,576**	**19,959**	**20,544**	**15,322**	**16,721**	**18,103**
Non-financial assets										
Land and fixed assets	123,593	128,026	136,532	161,828	165,179	167,832	170,274	174,621	178,861	183,108
Other non-financial assets	1,053	1,151	1,198	1,318	1,474	1,803	2,484	2,568	2,617	2,734
Total Non-financial Assets	**124,646**	**129,177**	**137,730**	**163,146**	**166,653**	**169,635**	**172,758**	**177,189**	**181,478**	**185,842**
Total Assets	**135,561**	**140,935**	**151,377**	**178,975**	**185,229**	**189,594**	**193,302**	**192,511**	**198,199**	**203,945**

Table 9.6: 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	Actual June 2004 $m	Revised June 2005 $m	Budget June 2006[a] $m	Forward Estimates June 2007[a] $m	Forward Estimates June 2008[a] $m	Forward Estimates June 2009[a] $m
Liabilities										
Deposits held	121	110	149	146	224	272	243	225	225	228
Advances received	2,142	2,041	1,826	1,808	1,681	1,633	1,499	1,461	1,413	1,363
Borrowing	23,686	23,334	22,337	22,218	23,362	25,676	27,593	29,841	32,409	34,059
Superannuation liability [b]	5,284	7,978	11,723	15,456	15,851	16,891	24,247	19,308	20,691	22,119
Other employee entitlements & provisions	10,095	11,182	12,014	13,167	14,148	14,649	14,572	15,029	15,622	16,211
Other non-equity liabilities	6,396	4,789	4,898	5,138	5,680	4,993	5,474	5,429	5,338	5,382
Total Liabilities	**47,724**	**49,434**	**52,947**	**57,933**	**60,946**	**64,114**	**73,628**	**71,293**	**75,698**	**79,362**
Shares and other contributed capital	...	...	...	...	...	...	...	...	...	...
NET WORTH	**87,837**	**91,501**	**98,430**	**121,042**	**124,283**	**125,480**	**119,674**	**121,218**	**122,501**	**124,583**
Net Financial Worth [c]	**(36,809)**	**(37,676)**	**(39,300)**	**(42,104)**	**(42,370)**	**(44,155)**	**(53,084)**	**(55,971)**	**(58,977)**	**(61,259)**
Net Debt [d]	**19,102**	**18,273**	**15,627**	**13,127**	**11,834**	**12,860**	**14,206**	**21,736**	**23,003**	**23,377**

Notes:

(a) June 2006 and forward years are based on underlying data that has been recognised and measured in accordance with Australian Equivalents to International Financial Reporting Standards (AEIFRS). Prior to 2005-06 transactions were recorded in accordance with Australian Accounting Standards. Refer to Appendix F for further information on the financial impact of AEIFRS.

(b) Comprises net unfunded obligations.

(c) Net financial worth equals total financial assets minus total liabilities.

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

(e) Adjusted for prepaid superannuation in the years 1999 to 2001 and Crown deposits to the Liability Management Fund and fund earnings in the years ending June 2003 to 2009 inclusive.

	June 2000	June 2001	June 2002	June 2003	June 2004	June 2005	June 2006	June 2007	June 2008	June 2009
GFS Net Debt [d]	***19,102***	***18,273***	***15,627***	***13,127***	***11,834***	***12,860***	***14,206***	***21,736***	***23,003***	***23,377***
Impact of prepayment of superannuation	*(2,251)*	*(1,179)*	...	...	...	...	...	...	...	
Impact of deposits to the Liability Management Fund	...	...	...	*1,651*	*2,851*	*3,988*	*5,227*	...	*1,069*	*2,257*
Underlying Net Debt [d] [e]	***16,851***	***17,094***	***15,627***	***14,778***	***14,685***	***16,848***	***19,433***	***21,736***	***24,072***	***25,634***

Table 9.7: 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	Actual 2003-04 $m	Revised 2004-05 $m	Budget 2005-06[(b)] $m	Forward Estimates 2006-07[(b)] $m	Forward Estimates 2007-08[(b)] $m	Forward Estimates 2008-09[(b)] $m
Cash Receipts from Operating Activities										
Taxes received[(c)]	15,193	13,170	13,341	13,952	14,979	15,301	16,245	17,284	18,235	19,191
Receipts from sales of goods and services	2,845	2,516	2,638	3,032	2,836	3,063	3,097	3,249	3,332	3,505
Grants/subsidies received[(c)]	10,978	14,608	16,762	17,587	17,853	18,280	19,447	19,913	20,582	21,382
Other receipts	2,829	4,027	3,665	4,208	5,107	4,981	5,181	5,654	5,369	5,608
Total Receipts	**31,845**	**34,321**	**36,406**	**38,779**	**40,775**	**41,625**	**43,970**	**46,100**	**47,518**	**49,686**
Cash Payments for Operating Activities										
Payment for goods and services[(d)]	(20,969)	(21,242)	(21,768)	(23,966)	(25,645)	(27,435)	(28,748)	(36,347)	(31,331)	(33,006)
Grants and subsidies paid	(5,273)	(6,013)	(6,809)	(6,881)	(7,499)	(7,893)	(8,514)	(8,817)	(8,802)	(8,839)
Interest paid	(1,284)	(1,067)	(848)	(818)	(863)	(781)	(1,070)	(849)	(741)	(800)
Other payments	(272)	(1,672)	(1,868)	(1,697)	(2,360)	(2,025)	(1,978)	(2,042)	(2,028)	(2,056)
Total Payments	**(27,798)**	**(29,994)**	**(31,293)**	**(33,362)**	**(36,367)**	**(38,134)**	**(40,310)**	**(48,055)**	**(42,902)**	**(44,701)**
Net Cash Flows from Operating Activities	**4,047**	**4,327**	**5,113**	**5,417**	**4,408**	**3,491**	**3,660**	**(1,955)**	**4,616**	**4,985**
Net Cash Flows from Investments in Non-financial Assets										
Sales of non-financial assets	626	344	424	497	408	513	563	472	481	453
Purchases of non-financial assets	(2,510)	(2,590)	(2,787)	(3,052)	(2,902)	(3,314)	(3,713)	(3,854)	(3,896)	(4,053)
Net Cash Flows from Investments in Non-financial Assets	**(1,884)**	**(2,246)**	**(2,363)**	**(2,555)**	**(2,494)**	**(2,801)**	**(3,150)**	**(3,382)**	**(3,415)**	**(3,600)**
Net Cash Flows from Investments in Financial Assets for Policy Purposes	**(42)**	**3,228**	**756**	**839**	**186**	**92**	**142**	**202**	**132**	**60**

Table 9.7: 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	Actual 2003-04 $m	Revised 2004-05 $m	Budget 2005-06[(b)] $m	Forward Estimates 2006-07[(b)] $m	Forward Estimates 2007-08[(b)] $m	Forward Estimates 2008-09[(b)] $m
Net Cash Flows from Investments in Financial Assets for liquidity purposes[(d)]	**(257)**	**(354)**	**(575)**	**(1,115)**	**(1,542)**	**(2,207)**	**(836)**	**5,545**	**(951)**	**(1,521)**
Net Cash Flows from Financing Activities										
Advances received (net)	(133)	(85)	(220)	(31)	(139)	(13)	(136)	(37)	(48)	(48)
Borrowing (net)	(2,279)	(4,480)	(2,122)	(1,017)	367	1,071	(141)	(176)	(184)	(168)
Deposits received (net)	28	(25)	(5)	(8)	6	(1)	...	...	(1)	(1)
Other financing (net)	...	...	...	...	(1)	...	...	...	...	...
Net Cash Flows from Financing Activities	**(2,384)**	**(4,590)**	**(2,347)**	**(1,056)**	**233**	**1,057**	**(277)**	**(213)**	**(233)**	**(217)**
Net Increase / (Decrease) in Cash Held	**(520)**	**365**	**584**	**1,530**	**791**	**(368)**	**(461)**	**197**	**149**	**(293)**
SURPLUS / (DEFICIT)										
Net Cash from Operating Activities and Investments in Non-financial Assets	**2,163**	**2,081**	**2,750**	**2,862**	**1,914**	**690**	**510**	**(5,337)**	**1,201**	**1,385**
Finance leases and similar arrangements	(284)	(290)	(351)	(345)	(312)	(167)	(95)	(95)	(95)	...
SURPLUS / (DEFICIT)	**1,879**	**1,791**	**2,399**	**2,517**	**1,602**	**523**	**415**	**(5,432)**	**1,106**	**1,385**

Notes:

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

(b) 2005-06 and forward years are based on underlying data that has been recognised and measured in accordance with Australian Equivalents to International Financial Reporting Standards (AEIFRS). Prior to 2005-06 transactions were recorded in accordance with Australian Accounting Standards. Refer to Appendix F for further information on the financial impact of AEIFRS.

(c) Impacted by the introduction in 2000-01 of the Goods and Services Tax (GST) and the processing arrangements.

(d) In 2006-07 the government will be contributing $6,478 million from the Liability Management Fund to reduce its superannuation liabilities.

(e) Deposits by the Crown to the Liability Management Fund and the fund's earnings have been set aside to meet future superannuation contributions.

	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
GFS SURPLUS / (DEFICIT)	***1,879***	***1,791***	***2,399***	***2,517***	***1,602***	***523***	***415***	***(5,432)***	***1,106***	***1,385***
Impact of prepayment of superannuation	*(1,005)*	*(1,058)*	*(1,134)*	*...*	*...*	*...*	*...*	*...*	*...*	
Impact of deposits to the Liability Management Fund[(e)]	*...*	*...*	*...*	*(1,651)*	*(1,200)*	*(1,137)*	*(1,239)*	*5,227*	*(1,069)*	*(1,188)*
UNDERLYING SURPLUS / (DEFICIT) (after adjusting for the timing of superannuation contributions)	***874***	***733***	***1,265***	***866***	***402***	***(614)***	***(824)***	***(205)***	***37***	***197***

Table 9.8: NSW Public Non-financial Corporation Sector Cash Flow Statement[(a) (b)] (ABS Basis)

	Actual 1999-2000 $m	Actual 2000-01 $m	Actual 2001-02 $m	Actual 2002-03 $m	Actual 2003-04 $m	Revised 2004-05 $m	Budget 2005-06[(c)] $m	Forward Estimates 2006-07[(c)] $m	Forward Estimates 2007-08[(c)] $m	Forward Estimates 2008-09[(c)] $m
Cash Receipts from Operating Activities										
Receipts from sales of goods and services	9,591	10,765	9,431	9,653	10,049	10,552	11,040	11,782	12,425	12,914
Grants/subsidies received	1,866	1,957	2,022	2,124	2,404	2,472	2,593	2,846	2,815	2,819
Other receipts	1,261	1,932	1,961	2,149	2,295	2,084	2,075	2,187	2,254	2,256
Total Receipts	**12,718**	**14,654**	**13,414**	**13,926**	**14,748**	**15,108**	**15,708**	**16,815**	**17,494**	**17,989**
Cash Payments for Operating Activities										
Payment for goods and services	(8,352)	(9,367)	(7,645)	(8,002)	(8,524)	(9,480)	(9,756)	(9,778)	(10,492)	(10,541)
Grants and subsidies paid	(70)	(144)	8	(99)	(120)	(119)	(118)	(96)	(98)	(100)
Interest paid	(711)	(722)	(820)	(809)	(814)	(835)	(913)	(1,052)	(1,198)	(1,328)
Other payments	(248)	(1,852)	(1,846)	(1,776)	(1,853)	(1,710)	(1,874)	(2,249)	(2,204)	(2,287)
Total Payments	**(9,381)**	**(12,085)**	**(10,303)**	**(10,686)**	**(11,311)**	**(12,144)**	**(12,661)**	**(13,175)**	**(13,992)**	**(14,256)**
Net Cash Flows from Operating Activities	**3,337**	**2,569**	**3,111**	**3,240**	**3,437**	**2,964**	**3,047**	**3,640**	**3,502**	**3,733**
Net Cash Flows from Investments in Non-financial Assets										
Sales of non-financial assets	391	282	358	280	207	117	242	350	343	379
Purchases of non-financial assets	(2,867)	(2,414)	(2,945)	(3,343)	(3,376)	(3,568)	(4,309)	(4,860)	(5,015)	(4,740)
Net Cash Flows from Investments in Non-financial Assets	**(2,476)**	**(2,132)**	**(2,587)**	**(3,063)**	**(3,169)**	**(3,451)**	**(4,067)**	**(4,510)**	**(4,672)**	**(4,361)**
Net Cash Flows from Investments in Financial Assets for Policy Purposes	**(1)**	**(6)**	**579**	**134**	**(1)**	**(14)**	**(5)**	**(28)**	**(2)**	**(8)**
Net Cash Flows from Investments in Assets for Liquidity Purposes	**383**	**(69)**	**49**	**273**	**54**	**220**	**(18)**	**23**	**(55)**	**(66)**

Table 9.8: NSW Public Non-financial Corporation 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	Actual 2003-04 $m	Revised 2004-05 $m	Budget 2005-06[(c)] $m	Forward Estimates 2006-07[(c)] $m	Forward Estimates 2007-08[(c)] $m	Forward Estimates 2008-09[(c)] $m
Net Cash Flows from Financing Activities										
Advances received (net)	(22)	(3,230)	(798)	(578)	(165)	(116)	(196)	(187)	(148)	(42)
Borrowing (net)	(110)	3,253	640	591	505	1,099	2,134	2,348	2,547	1,818
Deposits received (net)	1	10	42	4	16	16	2	(3)	2	1
Distributions paid	(824)	(758)	(671)	(738)	(666)	(931)	(944)	(1,220)	(1,105)	(1,135)
Other financing (net)	(33)	25	(19)	3	5	(14)	...	...	...	...
Net Cash Flows from Financing Activities	**(988)**	**(700)**	**(806)**	**(718)**	**(305)**	**54**	**996**	**938**	**1,296**	**642**
Net Increase / (Decrease) in Cash Held	**255**	**(338)**	**346**	**(134)**	**16**	**(227)**	**(47)**	**63**	**69**	**(60)**
SURPLUS / (DEFICIT)										
Net Cash from Operating Activities and Investments in Non-financial Assets	**861**	**437**	**524**	**177**	**268**	**(487)**	**(1,020)**	**(870)**	**(1,170)**	**(628)**
Distribution paid	(824)	(758)	(671)	(738)	(666)	(931)	(944)	(1,220)	(1,105)	(1,135)
Finance leases and similar arrangements	...	...	...	...	...	...	...	...	...	...
SURPLUS / (DEFICIT)	**37**	**(321)**	**(147)**	**(561)**	**(398)**	**(1,418)**	**(1,964)**	**(2,090)**	**(2,275)**	**(1,763)**

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) 2005-06 and forward years are based on underlying data that has been recognised and measured in accordance with Australian Equivalents to International Financial Reporting Standards (AEIFRS). Prior to 2005-06 transactions were recorded in accordance with Australian Accounting Standards. Refer to Appendix F for further information on the financial impact of AEIFRS.

(d) The underlying surplus / (deficit) has been adjusted to exclude the impact of the 2000 Olympic and Paralympic Games on the results.

GFS SURPLUS / (DEFICIT)	***37***	***(321)***	***(147)***	***(561)***	***(398)***	***(1,418)***	***(1,964)***	***(2,090)***	***(2,275)***	***(1,763)***
Reversing the impact of SOCOG and SPOC operations	*(343)*	*340*	*68*	*...*	*...*	*...*	*...*	*...*	*...*	*...*
UNDERLYING SURPLUS / (DEFICIT) adjusted to exclude SOCOG & SPOC[(d)]	***(306)***	***19***	***(79)***	***(561)***	***(398)***	***(1,418)***	***(1,964)***	***(2,090)***	***(2,275)***	***(1,763)***

Table 9.9: NSW Non-financial Public Sector Cash Flow Statement[(a)] (ABS Basis)

	Actual 1999-2000 $m	Actual 2000-01 $m	Actual 2001-02 $m	Actual 2002-03 $m	Actual 2003-04 $m	Revised 2004-05 $m	Budget 2005-06[(b)] $m	Forward Estimates 2006-07[(b)] $m	Forward Estimates 2007-08[(b)] $m	Forward Estimates 2008-09[(b)] $m
Cash Receipts from Operating Activities										
Taxes received [(c)]	14,543	12,569	12,522	13,397	14,291	14,610	15,543	16,568	17,494	18,429
Receipts from sales of goods and services	12,300	13,068	12,051	12,531	12,690	13,472	13,986	14,877	15,600	16,258
Grants/subsidies received [(c)]	11,027	14,602	16,738	17,557	17,777	18,240	19,415	19,890	20,560	21,364
Other receipts	2,969	4,714	4,712	5,162	6,479	5,750	5,797	5,920	5,758	5,939
Total Receipts	**40,839**	**44,953**	**46,023**	**48,647**	**51,237**	**52,072**	**54,741**	**57,255**	**59,412**	**61,990**
Cash Payments for Operating Activities										
Payment for goods and services[(d)]	(28,571)	(29,778)	(28,609)	(31,272)	(33,302)	(35,976)	(37,643)	(45,209)	(40,908)	(42,625)
Grants and subsidies paid	(3,494)	(4,199)	(4,897)	(4,867)	(5,223)	(5,634)	(6,027)	(6,070)	(6,074)	(6,106)
Interest paid	(1,931)	(1,723)	(1,614)	(1,575)	(1,626)	(1,564)	(1,927)	(1,834)	(1,858)	(2,031)
Other payments	(299)	(3,152)	(3,336)	(3,025)	(3,916)	(3,374)	(3,381)	(3,679)	(3,563)	(3,649)
Total Payments	**(34,295)**	**(38,852)**	**(38,456)**	**(40,739)**	**(44,067)**	**(46,548)**	**(48,978)**	**(56,792)**	**(52,403)**	**(54,411)**
Net Cash Flows from Operating Activities	**6,544**	**6,101**	**7,567**	**7,908**	**7,170**	**5,524**	**5,763**	**463**	**7,009**	**7,579**
Net Cash Flows from Investments in Non-financial Assets										
Sales of non-financial assets	1,011	626	781	778	615	630	806	822	823	833
Purchases of non-financial assets	(5,364)	(5,001)	(5,745)	(6,376)	(6,283)	(6,880)	(8,022)	(8,713)	(8,907)	(8,790)
Net Cash Flows from Investments in Non-financial Assets	**(4,353)**	**(4,375)**	**(4,964)**	**(5,598)**	**(5,668)**	**(6,250)**	**(7,216)**	**(7,891)**	**(8,084)**	**(7,957)**
Net Cash Flows from Investments in Financial Assets for Policy Purposes	**(88)**	**(7)**	**537**	**395**	**22**	**(14)**	**(57)**	**(29)**	**(20)**	**6**
Net Cash Flows from Investments in Financial Assets for liquidity purposes[(d)]	**126**	**(423)**	**(526)**	**(842)**	**(1,488)**	**(1,987)**	**(854)**	**5,568**	**(1,006)**	**(1,586)**

Table 9.9: NSW Non-financial Public Sector Cash Flow Statement[a] (ABS Basis) (cont)

	Actual 1999-2000 $m	Actual 2000-01 $m	Actual 2001-02 $m	Actual 2002-03 $m	Actual 2003-04 $m	Revised 2004-05 $m	Budget 2005-06[b] $m	Forward Estimates 2006-07[b] $m	Forward Estimates 2007-08[b] $m	Forward Estimates 2008-09[b] $m
Net Cash Flows from Financing Activities										
Advances received (net)	(110)	(85)	(230)	(70)	(135)	(25)	(136)	(37)	(48)	(48)
Borrowing (net)	(2,388)	(1,227)	(1,472)	(387)	867	2,159	1,991	2,188	2,366	1,654
Deposits received (net)	29	(14)	38	(4)	22	15	1	(3)	1	...
Distributions paid	...	...	...	...	...	...	...	...	...	...
Other financing (net)	(31)	25	(19)	3	4	(14)	...	...	...	...
Net Cash Flows from Financing Activities	**(2,500)**	**(1,301)**	**(1,683)**	**(458)**	**758**	**2,135**	**1,856**	**2,148**	**2,319**	**1,606**
Net Increase / (Decrease) in Cash Held	**(271)**	**(5)**	**931**	**1,405**	**794**	**(592)**	**(508)**	**259**	**218**	**(352)**
SURPLUS / (DEFICIT)										
Net Cash from Operating Activities and Investments in Non-financial Assets	**2,191**	**1,726**	**2,603**	**2,310**	**1,502**	**(726)**	**(1,453)**	**(7,428)**	**(1,075)**	**(378)**
Distribution paid	...	...	...	...	...	...	...	...	...	...
Finance leases and similar arrangements	(284)	(290)	(351)	(345)	(312)	(167)	(95)	(95)	(95)	...
SURPLUS / (DEFICIT)	**1,907**	**1,436**	**2,252**	**1,965**	**1,190**	**(893)**	**(1,548)**	**(7,523)**	**(1,170)**	**(378)**

Notes:

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

(b) 2005-06 and forward years are based on underlying data that has been recognised and measured in accordance with Australian Equivalents to International Financial Reporting Standards (AEIFRS). Prior to 2005-06 transactions were recorded in accordance with Australian Accounting Standards. Refer to Appendix F for further information on the financial impact of AEIFRS.

(c) Impacted by the introduction in 2000-01 of the Goods and Services Tax (GST) and the processing arrangements.

(d) In 2006-07 the government will be contributing $6,478 million from the Liability Management Fund towards reducing its superannuation liabilities.

(e) Deposits by the Crown to the Liability Management Fund and the fund's earnings have been set aside to meet future superannuation contributions.

(f) The underlying surplus / (deficit) has been adjusted to exclude 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	2008-09
GFS SURPLUS / (DEFICIT)	***1,907***	***1,436***	***2,252***	***1,965***	***1,190***	***(893)***	***(1,548)***	***(7,523)***	***(1,170)***	***(378)***
Impact of prepayment of superannuation	*(1,005)*	*(1,058)*	*(1,134)*	...	...	...	...	...	...	...
Impact of deposits to the Liability Management Fund [d] [e]	...	...	...	*(1,651)*	*(1,200)*	*(1,137)*	*(1,239)*	*5,227*	*(1,069)*	*(1,188)*
Impact of SOCOG and SPOC operations [f]	*(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***	***(10)***	***(2,030)***	***(2,787)***	***(2,296)***	***(2,239)***	***(1,566)***

Table 9.10: NSW General Government Sector Taxes (ABS Basis)

	Revised 2004-05 $m	Budget 2005-06 [(a)] $m
Taxes on employers' payroll and labour force	**4,852**	**5,114**
Taxes on property		
Land taxes	1,591	1,633
Stamp duties on financial and capital transactions	4,030	4,313
Financial institutions' transaction taxes	...	...
Other	59	67
Total taxes on property	**5,680**	**6,013**
Taxes on the provision of goods and services		
Excises and levies	...	...
Taxes on gambling	1,438	1,549
Taxes on insurance	1,289	1,444
Total taxes on the provision of goods and services	**2,727**	**2,993**
Taxes on use of goods and performance of activities		
Motor vehicle taxes	1,846	1,940
Franchise taxes	7	7
Other	194	202
Total taxes on use of goods and performance of activities	**2,047**	**2,149**
Total GFS Taxation Revenue	**15,306**	**16,269**

Table 9.11: NSW General Government Sector Expenses by Function (ABS Basis)

	Revised 2004-05 $m	Budget 2005-06 [(a)] $m
General public services	1,387	1,441
Defence	...	...
Public order and safety	4,297	4,433
Education	10,941	11,458
Health	10,339	10,907
Social security and welfare	2,916	3,137
Housing and community amenities	1,414	1,581
Recreation and culture	914	903
Fuel and energy [(b)]	(15)	63
Agriculture, forestry, fishing and hunting	469	377
Mining, manufacturing and construction	158	129
Transport and communications	4,472	4,725
Other economic affairs	853	858
Other purposes [(c)]	2,152	2,871
Total GFS Expenses	**40,297**	**42,883**

(a) 2005-06 and forward years are based on underlying data that has been recognised and measured in accordance with Australian Equivalents to International Financial Reporting Standards (AEIFRS). Prior to 2005-06 transactions were recorded in accordance with Australian Accounting Standards. Refer to Appendix F for further information on the financial impact of AEIFRS.

(b) 2004-05 impacted by a $64 million write back in provisions expense due to reduced coal compensation liabilities.

(c) 2005-06 includes $160 million Advance to the Treasurer which will be allocated across functions as the funds are spent in the Budget Year; and $321 million increase in nominal interest on superannuation mainly due to AEIFRS.

Table 9.12: NSW General Government Sector Purchases of Non-Financial Assets [(a)]

	Revised 2004-05 $m	Budget 2005-06 [(b)] $m
General public services	352	316
Defence	...	...
Public order and safety	380	467
Education [(c)]	411	482
Health	571	649
Social security and welfare	61	94
Housing and community amenities	68	152
Recreation and culture	115	135
Fuel and energy	1	...
Agriculture, forestry, fishing and hunting	33	34
Mining, manufacturing and construction	13	2
Transport and communications	1,307	1,245
Other economic affairs	45	23
Other purposes [(d)]	66	131
Total GFS Expenses	**3,423**	**3,730**

(a) Includes land and secondhand assets, however excludes assets acquired under finance leases.

(b) 2005-06 and forward years are based on underlying data that has been recognised and measured in accordance with Australian Equivalents to International Financial Reporting Standards (AEIFRS). Prior to 2005-06 transactions were recorded in accordance with Australian Accounting Standards. Refer to Appendix F for further information on the financial impact of AEIFRS.

(c) Excluded from Education is finance lease expenditure of $58 million in 2004-05 (nil in 2005-06).

(d) 2005-06 includes $95 million Advance to the Treasurer which will be allocated across functions as the funds are spent in the Budget Year.

9.5 LOAN COUNCIL REPORTING REQUIREMENTS

Table 9.13 presents estimates of the State's Loan Council allocation (LCA) for 2005-06.

The 2005-06 estimated NSW Loan Council allocation is a deficit of $2,282 million compared to an original deficit allocation of $1,932 million.

Table 9.13: 2005-06 Loan Council Allocation Estimates, NSW

		Loan Council Allocation 2005-06 $m	*Budget-time Estimate 2005-06 $m*
General government sector cash deficit / (surplus)		(691)	(415)
Public Non-financial Corporations sector cash deficit / (surplus)		2,060	1,964
Non-financial public sector cash deficit / (surplus) [(a)]		**1,370**	**1,548**
Minus	Net cash flows from investments in financial assets for policy purposes [(b)]	46	57
Plus	Memorandum items [(c)]	516	677
Loan Council Allocation		**1,932**	**2,282**

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.*

9.6 PRIVATE SECTOR INFRASTRUCTURE PROJECTS

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 Loan Council Allocations.

CONTRACTS EXPECTED TO BE ENTERED INTO IN 2004-05

Chatswood Transport Interchange

Project Description:

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

- Elevated twin "island" platforms for the North Shore and Epping-Chatswood lines;
- A rail concourse beneath the platforms; and
- A new bus and taxi interchange.

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

A short list of pre-qualified construction contractors has been established. Detailed proposals from consortia to deliver the interchange and associated development have been invited. Closing date for the Detailed Proposals was 19 July 2004. Contracts are expected to be executed by June 2005.

The Government contribution to the project is limited to around $64 million. At this stage no contingent liability is expected under the draft contract term.

Government Contingent Liability	To Be Determined

Sunshine Electricity Co-Generation Joint Venture

Project Description:

The Sunshine Electricity Joint Venture will build 30MW electricity co-generation plants at the Broadwater and Condong sugar mills in the Northern Rivers Region of NSW. The project also includes an existing 8MW co-generation plant at the Broadwater sugar mill.

Each of the 30MW plants is expected to produce around 210 GWh of electricity and 210,000 Renewable Energy Certificates per annum for sale to electricity retailers to meet their obligations under the Renewable Energy (Electricity) Act 2000. Delta Electricity will sell the Electricity and Renewable Energy Certificates generated by the joint venture under a Power Purchase Agreement. The Power Purchase Agreement includes a minimum electricity charge.

Sunshine Electricity Joint Venture is an unincorporated joint venture between Delta Electricity Australia Pty Ltd, a subsidiary of Delta Electricity, and a subsidiary of the NSW Sugar Milling Co-operative. The project is planned to reach financial close in May 2005 and construction is expected to commence early in 2005-06. The total project cost of the joint venture is $215 million. The project is funded by the sale of electricity and Renewable Energy Certificates under the Power Purchase Agreement.

Government Contingent Liability	NIL

CONTRACTS EXPECTED TO BE ENTERED INTO IN 2005-06

Newcastle Multi-Purpose Terminal

Project Description:

This involves the construction of a Multi-Purpose Terminal (MPT) located on the former BHP Steelworks site, adjacent to the Hunter River in the Port of Newcastle, which currently totals 45 hectares in area.

The first stage of the project is to deliver a container terminal, which is compatible with an ultimate size capacity of at least 1 million TEU (Twenty Foot Equivalent Units) per annum. Future stages may include a general cargo handling facility and possible expansion of both container and general cargo operations across the site.

Expressions of Interest are being evaluated for the design, construction, financing, operation and maintenance of a container and general cargo terminal at the site.

Government Contingent Liability	To Be Determined

Royal Prince Alfred Hospital Car Park

Project Description:

Detailed proposals have been submitted by the private sector to finance and build a new 1,000 space car park on the Royal Prince Alfred Hospital campus. The total construction cost for the project is estimated to be $13.5 million. The successful proponent will, under a 20 or 25 year licence, operate and collect user charges from around 1,300 campus car park spaces, including the 1,000 new spaces.

The form of the arrangement is expected to be similar to that for the Randwick and St George Hospital Car Parks. At this time no government liability is anticipated based on the termination provisions of the draft contract.

Government Contingent Liability	To Be Determined

APPENDIX A: GENERAL GOVERNMENT SECTOR ACCOUNTING FINANCIAL STATEMENTS

Refer to Chapter 9 (Section 9.2) 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 9 which follow the government finance statistics convention.

Refer to Appendix F for information on the impact of Australian Equivalent to International Financial Reporting Standards which are effective from 2005-06.

Table A.1: General Government Sector Operating Statement

	Actual	*Budget*	*Revised*	*Budget*	*Estimate*		
	2003-04	*2004-05*	*2004-05*	*2005-06*[(a)]	*2006-07*[(a)]	*2007-08*[(a)]	*2008-09*[(a)]
	$m	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*
State Revenues							
Taxation	**15,002**	**15,513**	**15,298**	**16,260**	**17,310**	**18,238**	**19,195**
Commonwealth Grants	**15,494**	**15,760**	**16,002**	**16,796**	**17,289**	**17,950**	**18,747**
Financial Distributions	**1,480**	**1,612**	**1,588**	**1,848**	**1,817**	**1,857**	**1,912**
Fines, Regulatory Fees & Other	**901**	**969**	**1,058**	**1,083**	**1,009**	**995**	**1,048**
Total State Revenues	**32,877**	**33,854**	**33,946**	**35,987**	**37,425**	**39,040**	**40,902**
Operating Revenues							
Sale of Goods and Services	**2,619**	**2,751**	**2,653**	**2,818**	**2,998**	**3,092**	**3,220**
Investment Income	**964**	**873**	**1,002**	**1,076**	**1,032**	**937**	**1,058**
Grants and Contributions	**599**	**583**	**659**	**644**	**663**	**596**	**625**
Other	**347**	**227**	**356**	**338**	**364**	**397**	**396**
Total Operating Revenues	**4,529**	**4,434**	**4,670**	**4,876**	**5,057**	**5,022**	**5,299**
Expenses							
Employee Related							
- Superannuation[(b)]	**1,474**	**2,711**	**2,102**	**2,857**	**2,800**	**2,713**	**2,868**
- Other	**15,415**	**16,255**	**16,429**	**17,143**	**17,800**	**18,549**	**19,282**
Other Operating	**10,362**	**7,665**	**7,651**	**8,060**	**8,467**	**9,159**	**9,860**
Maintenance	**1,381**	**1,350**	**1,380**	**1,442**	**1,448**	**1,482**	**1,535**
Depreciation and Amortisation	**1,924**	**1,861**	**1,991**	**2,087**	**2,138**	**2,183**	**2,222**
Current Grants and Subsidies	**5,945**	**5,799**	**5,947**	**6,505**	**6,736**	**6,987**	**7,148**
Capital Grants	**1,213**	**1,327**	**1,371**	**1,400**	**1,542**	**1,359**	**1,280**
Borrowing Costs	**784**	**790**	**822**	**898**	**852**	**832**	**818**
Total Expenses	**38,498**	**37,758**	**37,693**	**40,392**	**41,783**	**43,264**	**45,013**
Net Cost of Services	**(33,969)**	**(33,324)**	**(33,023)**	**(35,516)**	**(36,726)**	**(38,242)**	**(39,714)**
Surplus/(Deficit) for the Year [(c)]	**(1,092)**	**530**	**923**	**471**	**699**	**798**	**1,188**

Notes:

(a) 2005-06 and forward years are based on underlying data that has been recognised and measured in accordance with Australian Equivalents to International Financial Reporting Standards (AEIFRS). Prior to 2005-06 transactions were recorded in accordance with Australian Accounting Standards. Refer to Appendix F for further information on the financial impact of AEIFRS.

(b) 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.

(c) The accounting based surplus/deficit differs from the GFS based net operating result, as GFS excludes valuation adjustments.

Table A.2: General Government Sector Statement of Changes in Equity

	Actual 2003-04 $m	Budget 2004-05 $m	Revised 2004-05 $m	Budget 2005-06[(a)] $m	Estimate 2006-07[(a)] $m	2007-08[(a)] $m	2008-09[(a)] $m
STATEMENT OF CHANGES IN EQUITY							
Net Asset Valuation Increments/(Decrements)	7,219	38	189	(86)	182	109	323
Adjustments from the adoption of Australian Equivalents to International Financial Reporting Standards (refer Appendix F)	...	...	...	(1,434)	...	...	...
AASB 112 Income Tax Adjustment to Asset Revaluation Reserve	...	...	...	268	44	10	18
Recognition of Unearned Income arising from Public Private Partnership Schemes associated with a change in accounting policy	...	...	...	(370)	...	...	...
Contributions by Owners Made to Wholly Owned Public Sector Agencies (Urgent Issues Group UIG Interpretation 1038)							
- Equity Restructure Payments from Public Trading Enterprises	137	16	76	160	160	121	15
- Transfers of Net Assets on Administrative Restructure[(b)]	...	(2,028)	(264)	...	...	...	...
Net income and expense recognised directly in equity	**7,356**	**(1,974)**	**1**	**(1,462)**	**386**	**240**	**356**
Operating Surplus/ (Deficit)	(1,092)	530	923	471	699	798	1,188
Total recognised income and expense for the period	**6,264**	**(1,444)**	**924**	**(991)**	**1,085**	**1,038**	**1,544**
Opening Balance Equity	50,337	56,990	56,601	57,525	56,534	57,619	58,657
Closing Balance Equity	**56,601**	**55,546**	**57,525**	**56,534**	**57,619**	**58,657**	**60,201**

Notes:

(a) *2005-06 and forward years are based on underlying data that has been recognised and measured in accordance with Australian Equivalents to International Financial Reporting Standards (AEIFRS). Prior to 2005-06 transactions were recorded in accordance with Australian Accounting Standards. Refer to Appendix F for further information on the financial impact of AEIFRS*

(b) *Includes the transfer of net assets to a new PTE, State Water, and the transfer of net assets to the General Government Sector for Redfern-Waterloo Authority and NSW Businesslink.*

Table A.3: General Government Sector Balance Sheet as at 30 June, 2004-2009

	Actual 2004 $m	Budget 2005 $m	Revised 2005 $m	Budget 2006[(a)] $m	Estimate 2007[(a)] $m	2008[(a)] $m	2009[(a)] $m
Current Assets							
Cash Assets	1,820	739	1,413	953	1,150	1,302	1,012
Receivables	2,947	2,889	2,936	3,338	3,217	3,317	3,366
Other Financial Assets	1,088	3,491	1,020	1,018	1,043	1,055	1,095
Inventories	135	115	129	129	128	126	126
Other	106	76	92	90	89	91	91
Non Current Assets Held for Sale	...	...	...	60	40	42	26
Total Current Assets	**6,096**	**7,310**	**5,590**	**5,588**	**5,667**	**5,933**	**5,716**
Non-Current Assets							
Receivables	3,899	3,999	4,077	7,810	7,875	7,888	7,926
Other Financial Assets	9,320	7,680	11,434	12,310	6,771	7,759	9,289
Inventories	39	38	38	36	30	26	21
Investment Properties	...	...	...	643	649	657	655
Property, Plant and Equipment							
Land and Buildings	40,541	39,389	41,236	41,018	41,715	42,157	42,802
Plant and Equipment	5,805	5,859	5,998	6,033	6,093	6,077	5,962
Infrastructure Systems	33,667	33,757	33,857	34,272	35,196	36,326	37,660
Intangibles	...	...	...	205	188	171	155
Other	1,196	1,216	1,455	1,520	1,615	1,737	1,867
Total Non-Current Assets	**94,467**	**91,938**	**98,095**	**103,847**	**100,132**	**102,798**	**106,337**
Total Assets	**100,563**	**99,248**	**103,685**	**109,435**	**105,799**	**108,731**	**112,053**
Current Liabilities							
Payables	2,333	1,832	2,208	2,218	2,216	2,238	2,295
Interest Bearing	2,426	3,917	4,317	1,722	3,140	1,731	1,681
Employee Entitlements and Other Provisions	2,320	2,375	2,366	2,566	2,604	2,667	2,749
Other	607	350	249	196	202	202	200
Total Current Liabilities	**7,686**	**8,474**	**9,140**	**6,702**	**8,162**	**6,838**	**6,925**
Non-Current Liabilities							
Interest Bearing	10,045	7,739	9,294	11,531	9,976	11,362	11,195
Employee Entitlements and Other Provisions	25,252	26,538	26,773	33,313	28,739	30,615	32,515
Other	979	951	953	1,355	1,303	1,259	1,217
Total Non-Current Liabilities	**36,276**	**35,228**	**37,020**	**46,199**	**40,018**	**43,236**	**44,927**
Total Liabilities	**43,962**	**43,702**	**46,160**	**52,901**	**48,180**	**50,074**	**51,852**
NET ASSETS	**56,601**	**55,546**	**57,525**	**56,534**	**57,619**	**58,657**	**60,201**
Equity							
Asset Revaluation Reserves	24,916	21,947	25,129	28,235	28,459	28,577	28,918
Accumulated Funds	31,685	33,599	32,396	28,299	29,160	30,080	31,283
TOTAL EQUITY	**56,601**	**55,546**	**57,525**	**56,534**	**57,619**	**58,657**	**60,201**

Note:

(a) 2005-06 and forward years are based on underlying data that has been recognised and measured in accordance with Australian Equivalents to International Financial Reporting Standards (AEIFRS). Prior to 2005-06 transactions were recorded in accordance with Australian Accounting Standards. Refer to Appendix F for further information on the financial impact of AEIFRS

Table A.4: General Government Sector Statement of Cash Flows

	Actual 2003-04 $m	Budget 2004-05 $m	Revised 2004-05 $m	Budget 2005-06[(a)] $m	Estimate 2006-07[(a)] $m	2007-08[(a)] $m	2008-09[(a)] $m
Cash Flows from Operating Activities							
Receipts							
Taxation	14,886	15,534	15,291	16,235	17,274	18,224	19,179
Commonwealth Grants	15,494	15,489	15,754	16,796	17,289	17,950	18,747
Financial Distributions	1,157	1,360	1,342	1,497	1,916	1,846	1,911
Sale of Goods and Services	2,632	2,785	2,839	2,864	3,041	3,132	3,252
Investment Income	347	307	498	566	544	322	387
Other	3,473	2,775	3,246	3,208	3,187	3,109	3,196
Total Receipts	**37,989**	**38,250**	**38,970**	**41,166**	**43,251**	**44,583**	**46,672**
Payments							
Employee Related[(b)]	(15,749)	(17,082)	(17,214)	(18,002)	(25,365)	(19,679)	(20,552)
Grants and Subsidies	(6,964)	(6,971)	(7,136)	(7,742)	(8,134)	(8,204)	(8,285)
Finance	(774)	(747)	(781)	(885)	(849)	(863)	(799)
Other	(10,485)	(10,202)	(10,836)	(11,144)	(11,355)	(11,896)	(12,658)
Total Payments	**(33,972)**	**(35,002)**	**(35,967)**	**(37,773)**	**(45,703)**	**(40,642)**	**(42,294)**
Net Cash Flows from Operating Activities	**4,017**	**3,248**	**3,003**	**3,393**	**(2,452)**	**3,941**	**4,378**
Cash Flows from Investing Activities							
Proceeds from Sale of Property, Plant and Equipment	447	615	513	563	472	481	454
Proceeds from Sale of Investments[(b)]	2,538	1,200	255	1,230	7,757	1,076	662
Equity Restructure	...	16	76	160	160	121	15
Advance Repayments Received	87	73	69	77	86	91	94
Purchases of Property, Plant & Equipment	(2,932)	(3,474)	(3,284)	(3,702)	(3,843)	(3,889)	(4,047)
Purchase of Investments	(3,561)	(1,469)	(2,000)	(1,616)	(1,713)	(1,474)	(1,573)
Advances Made	(38)	(54)	(59)	(70)	(61)	(62)	(64)
Other	2	2	(55)	(8)	(8)	(3)	(3)
Net Cash Flows from Investing Activities	**(3,457)**	**(3,091)**	**(4,485)**	**(3,366)**	**2,850**	**(3,659)**	**(4,462)**
Cash Flows from Financing Activities							
Proceeds from Borrowings and Advances	998	190	1,518	1,286	80	57	61
Repayments of Borrowings and Advances	(853)	(392)	(419)	(1,774)	(281)	(187)	(268)
Net Cash Flows From Financing Activities	**145**	**(202)**	**1,099**	**(488)**	**(201)**	**(130)**	**(207)**
Net Increase/(Decrease) in Cash	**705**	**(45)**	**(383)**	**(461)**	**197**	**152**	**(291)**
Opening Cash and Cash Equivalents	1,056	761	1,761	1,378	917	1,114	1,266
Reclassification of Cash Equivalents	...	(9)	...	...	...	...	...
CLOSING CASH AND CASH EQUIVALENTS BALANCE	**1,761**	**707**	**1,378**	**917**	**1,114**	**1,266**	**975**

Notes:

(a) *2005-06 and forward years are based on underlying data that has been recognised and measured in accordance with Australian Equivalents to International Financial Reporting Standards (AEIFRS). Prior to 2005-06 transactions were recorded in accordance with Australian Accounting Standards. Refer to Appendix F for further information on the financial impact of AEIFRS*

(b) *In 2006-07 the government will be contributing $6,478 million from the Liability Management Fund to reduce its superannuation liabilities.*

APPENDIX B: TAX EXPENDITURE AND CONCESSIONS STATEMENT

B.1: DETAILED ESTIMATES OF TAX EXPENDITURES

TRANSFER DUTY (INCLUDING VENDOR TRANSFER DUTY AND "LAND RICH" 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 or a transfer of certain indirect interests in real property, 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 were 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, the benchmark tax rate is 2.25 percent (Vendor Transfer Duty).

From 10 November 2004, duty applied to the disposal of indirect interests in land. The same tax base as for Vendor Transfer Duty applies.

Table B.1: Transfer Duty (Including Vendor Duty)

Major Tax Expenditures	*2003-04 $m*	*2004-05 $m*	*2005-06 $m*
PURCHASER TRANSFER 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.	127	352	370
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.	30	31	33
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.*	74	84	90
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.	13	14	15
Exemption for sale to charitable and benevolent institutions where the property is to be used for approved purposes	28	13	14

Major Tax Expenditures	*2003-04 $m*	*2004-05 $m*	*2005-06 $m*
Corporate reconstructions [(a)]			
An exemption is given for corporate reconstructions provided certain qualifying criteria are satisfied.	817	229	246
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	1	1
Other Legislation			
Exemption is granted for certain transfers of dutiable property contained in other legislation.	13	6	7
Aboriginal Land Councils			
Duty is not charged 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	1	1
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.*	6	5	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.
Transfer to beneficiaries of property formerly the principal place of residence of the deceased	n.a.	n.a.	n.a.

(a) Estimate for 2003-04 includes all transactions approved. However, not all approved transactions proceed. As such, duty forgone on approved transactions may overstate the cost of the exemption. The estimate for 2004-05 reflects duty forgone only on actual transactions stamped exempt. In 2004-05 approved transactions that proceeded accounted for around 77 percent of all transactions approved.

Major Tax Expenditures	*2003-04 $m*	*2004-05 $m*	*2005-06 $m*
VENDOR TRANSFER DUTY			
Concession for land-related property sold for less than 115 percent of the purchase price	…	72	76
Exemption for the sale or transfer of primary production properties	…	74	78
Exemption for the sale or transfer of newly constructed buildings	1	123	130
Exemption for the sale or transfer of substantially new buildings	…	15	16
Exemption for the sale or transfer of land subdivided from a principal place of residence or a farm	…	5	5
Exemption for the sale or transfer of vacant land that has been substantially improved by the vendor	…	31	33
Exemption for sale of business that includes land-related property subject to certain conditions	…	20	21
Exemption for the sale or transfer of compulsory acquisitions	…	1	1
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.	…	30	32
Corporate reconstructions			
An exemption is given for corporate reconstructions provided certain qualifying criteria are satisfied	…	20	21
Transfers of matrimonial property consequent upon divorce or break-up of de facto relationships			
Exemption for transfers of former principal places of residence to former partners or spouses on divorce or break-up of de facto relationships	n.a.	n.a.	n.a.
Transfer to beneficiaries of property formerly the principal place of residence of the deceased	n.a.	n.a.	n.a.

Minor Tax Expenditures (< $1 million)

The following are exempt from **purchaser transfer duty**:

- a credit of purchaser transfer duty previously paid is applied to amalgamations of certain Western Lands leases;
- transfers of poker machine permits where there is no change in beneficial ownership;
- Equity Release Scheme – an exemption from purchaser transfer duty on approved equity release schemes for aged home owners was granted from 1 October 2004;
- 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 incorporated legal practices;
- transfer of a liquor licence in certain circumstances under Sections 41, 42 or 61 of the *Liquor Act 1982;* and
- certain transactions by a joint government enterprise that has the function of allocating funds for water saving projects.

The following are exempt from **vendor transfer duty**:

- land subject to a conservation agreement under the *National Parks and Wildlife Act 1974*;
- 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*;
- possessory application or an application to bring land under the *Real Property Act 1900*;
- transfers of gifts of land-related property to charities and government;

- principal places of residence on which there is one other residential occupancy;

- sale of residence by vendor absent for up to 6 years prior to sale;

- land used for incidental business purposes;

- sale of former principal place of residence of a deceased person used as a principal place of residence by another person pursuant to a life estate created by the will of a deceased person; and

- land used by the former spouse of the vendor as his/her principal place of residence following the break-up of the relationship.

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;

- transfers where the NSW Aboriginal Land Council (ALC), a Regional ALC or Local ALC are the liable party; and

- transfers of property between licensed insurers, and between the WorkCover Authority and licensed insurers, under the *Workers Compensation Acts of 1926 and 1987* (NSW).

GENERAL INSURANCE DUTY

The benchmark is defined as all premiums for general insurance policies. The benchmark tax rate is 5 percent of premium paid for contracts or renewals that take effect prior to 1 September 2005 and 9 percent from that date forward.

Table B.2: General Insurance Duty

Major Tax Expenditures	*2003-04 $m*	*2004-05 $m*	*2005-06 $m*
Concessional rates for motor vehicle, aviation, disability income, occupational indemnity, crop and livestock			
From 1 September 2005, a concessional rate of 5 percent applies to certain categories of insurance including motor vehicle (excluding compulsory third party (the 'green slip')), aviation, disability income and occupational indemnity. Crop and livestock insurance is taxed at 2.5 percent.	2	2	123
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.	81	88	148
Marine and cargo insurance			
Exemption for marine insurance covering hulls of commercial ships and the cargo carried by land, sea or by air.	6	6	11
Exemption for WorkCover premiums	122	128	245

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	*2003-04 $m*	*2004-05 $m*	*2005-06 $m*
Superannuation			
An exemption is granted to all group superannuation investment policies that are for the benefit of more than one member.	56	61	66
Annuities			
An exemption is provided to annuities.	14	15	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	*2003-04 $m*	*2004-05 $m*	*2005-06 $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 August 2005 the exemption for refinancing a mortgage up to the previous amount secured will be restricted to amounts not exceeding $1 million.	174	142	115
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 were increased 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.	6	21	24
Mortgage-backed securities			
An exemption is given for financial institutions using pooled mortgages from their lending assets as security for borrowing funds.	n.a.	n.a.	n.a.
Loan-backed securities			
Securities issued backed by cash flow from loans (secured and unsecured) are exempted from duty.	n.a.	n.a.	n.a.
Fund raisings by finance companies through debenture issues			
A concession is given to companies whose sole or principal business is to provide finance to the public. Debentures issued, trust deeds and mortgages executed by "financial corporations" as defined in the legislation are not liable to duty. However, the trust deed is stamped as a Declaration of a Trust.	n.a.	n.a.	n.a.

Major Tax Expenditures	*2003-04 $m*	*2004-05 $m*	*2005-06 $m*
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 given by institutions of charitable or benevolent nature, or for the promotion of the interest of Aborigines;
- mortgages given by 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.

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	*2003-04 $m*	*2004-05 $m*	*2005-06 $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.	12	13	14
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	4
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	36	38
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	*2003-04 $m*	*2004-05 $m*	*2005-06 $m*
Exemption for residential leases			
A residential lease under which a person has a right to occupy any premise as a place of residence for a term not exceeding five years is exempt.	>1	>1	>1

Minor Tax Expenditures (< $1 million)

The following are exempt:

- 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 five years;
- leases executed in accordance with Part 5 of the Commonwealth National Health Act 1953;
- leases executed by an Aboriginal Land Council;
- leases of premises to the Home Care Service of New South Wales; and
- leases (granted by or on behalf of a corporation, society or institution) of residential accommodation for retired and disabled persons.

PAYROLL TAX

The tax benchmark is defined as aggregate annual gross remuneration paid by a single or group taxpayer in excess of a threshold of $600,000. The benchmark tax rate is 6 percent.

Table B.7: Payroll Tax

Major Tax Expenditures	*2003-04 $m*	*2004-05 $m*	*2005-06 $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.	353	366	387
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.	96	99	105
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	9	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.	25	25	27
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.	140	145	154

Major Tax Expenditures	*2003-04 $m*	*2004-05 $m*	*2005-06 $m*
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	10	10
Home Care Service			
Salaries paid to employees of the Home Care Service are exempt.	8	8	8
Apprentices			
Wages paid to apprentices are exempt from payroll tax.	16	16	17
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.	4	9	9
Redundancy payments			
Bona fide redundancy or approved early retirement scheme payments are exempt.	6	6	6

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;
- certain transactions by a joint government enterprise that has the function of allocating funds for water saving projects;

- wages that would be exempt from the payment of income tax by the employee under paragraph 23(z) of the *Income Tax Assessment Act 1936* of the Commonwealth;

- wages paid by the Governor of a State; and

- wages paid to employees while the employees are providing assistance to the State Emergency Services or Rural Fire Brigades.

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 land 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 was defined as the unimproved land 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 were:

- 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.

From midnight on 31 December 2005, the benchmark tax base for land tax will be defined as the unimproved land 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 that has an unimproved capital value above the threshold for that year. The benchmark tax rate is 1.7 percent.

Table B8: Land Tax

Major Tax Expenditures	2003-04 $m	2004-05 $m	2005-06 $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	4	4
Land used for primary production			
An exemption is granted for land used for primary production. Hobby farms in urban areas do not meet the requirement for land used for primary production and therefore do not fall within this exemption.	290	319	327
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.	6	7	7
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	8	8
Public cemeteries and crematoriums			
An exemption is granted for any land used as a public cemetery or crematorium.	10	11	11
Retirement villages			
An exemption is given for land owned and used by retirement villages, and residential parks predominantly occupied by retired persons.	77	85	87
Child care centres			
An exemption is granted for land used as a residential child care centre licensed under the *Children (Care and Protection) Act 1987* (NSW) or a school registered under the *Education Reform Act 1900* (NSW).	3	3	3

Major Tax Expenditures	*2003-04 $m*	*2004-05 $m*	*2005-06 $m*
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	14	15
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.	12	13	14
Religious societies			
An exemption is provided for land owned by or in trust for a religious society if the society is carried on solely for religious, charitable or educational purposes.	9	10	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 (NSW) Code*.	n.a.	n.a.	n.a.
Non-profit societies, clubs and associations			
An exemption is provided where a building (or part thereof) is occupied by a society, club or association not carried on for pecuniary profit.	n.a.	n.a.	n.a.
Charitable and educational institutions			
An exemption is provided for land owned by or in a trust for a charitable or educational institution if the institution is carried on solely for charitable or educational purposes and not for pecuniary profit.	n.a.	n.a.	n.a.
Public gardens, recreation grounds and reserves			
An exemption is provided for land used as a public garden, public recreation ground or public reserve.	n.a.	n.a.	n.a.

Major Tax Expenditures	2003-04 $m	2004-05 $m	2005-06 $m
Sporting clubs			
An exemption is provided for land owned by or in a trust for any club or body of persons where the land is used primarily for the purpose of a game or sport and not used for pecuniary profit of the members of that club or body.	n.a.	n.a.	n.a.
Sydney Light Rail			
An exemption is provided in respect of the land occupied by the Sydney Light Railway.	n.a.	n.a.	n.a.
Land owned and used by a local council	n.a.	n.a.	n.a.

Minor Tax Expenditures (< $1 million)

- concessions for land subject to heritage orders.

The following are exempt:

- certain public trading enterprises;
- 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 owned by a joint government enterprise that has the function of allocating funds for water saving projects;
- 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 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 B9: Vehicle Weight Tax

Major Tax Expenditures	*2003-04 $m*	*2004-05 $m*	*2005-06 $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.	121	127	133
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.	19	19	20
Roadwork equipment – including local government			
An exemption is granted to any motor vehicle or plough, bulldozer, mechanical scoop or shovel, road grader, road roller or similar machinery that is owned by a local council within the meaning of the *Local Government Act 1993* and which is used for the purposes of road construction, road maintenance, road repair, removal of garbage or night soil, bush fire fighting, civil defence work or to any roller, lawn mower or similar machinery used solely or principally for the rolling or maintenance of tennis courts, cricket pitches, lawns or pathways.	5	5	5
State government departments and others			
Any motor vehicle that is registered and falls under Part 16 and 17 of the *Motor Vehicle Taxation Act 1988*.	2	2	2
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	16
Apprentice Rebate			
From 1 July 2005, first and second year apprentices will receive a rebate of $100 of the cost of car registration.	n.a.	n.a.	2

Minor Tax Expenditures (< $1 million)

- A concessional rate of 55 percent of business rates (or 30 percent if outside the Sydney metropolitan area, Newcastle or Wollongong districts) is applied to any motor vehicle 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 authorised under the *Charitable Fundraising Act 1991*;

- any motor vehicle that is used principally as an ambulance except government owned;

- motor vehicles used by the State Emergency Services except government owned;

- any motor vehicle on which a trader's plate is being used in accordance with the *Road Transport (Vehicle Registration) Act 1997 (NSW)* or the regulations under that Act;

- any motor vehicle that is owned by an Aboriginal Land Council; and

- motor vehicles in the name of Consular Employees and Trade Missions.

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 2004-05 were $39 for a one-year licence, $96 for a three-year licence and $129 for a five-year licence.

Table B10: Drivers' Licences

Major Tax Expenditures	*2003-04 $m*	*2004-05 $m*	*2005-06 $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.	19	48	26

VEHICLE TRANSFER FEES

The benchmark is considered to be all transfers of previously registered vehicles. From 1 July 2004 the benchmark rate is $24 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 2004-05 was $47 for most motor vehicles, $209 for trucks with a mass of 5 tonnes or more and $367 for articulated trucks.

Table B11: Motor Vehicle Registration Fees

Major Tax Expenditures	*2003-04 $m*	*2004-05 $m*	*2005-06 $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.	30	30	32

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), 5.8 percent to 33.6 percent (annual rates from 1 July 2004) or 5.7 percent to 36.4 percent (annual rates from 1 July 2005) 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 B12: Gambling and Betting Taxes

Major Tax Expenditures	*2003-04 $m*	*2004-05 $m*	*2005-06 $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.	463	483	493

Minor Tax Expenditures (< $1 million)

- A full rebate of tax is provided to racing clubs operating non-TAB Ltd pools.

PARKING SPACE LEVY

For 2003-04 the benchmark levy was $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 is indexed annually to movements in the Sydney CPI over the year to the previous March quarter.

Table B13: Parking Space Levy

Major Tax Expenditures	*2003-04 $m*	*2004-05 $m*	*2005-06 $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. Exemptions are also granted in all areas for certain unlet casual parking spaces and unlet tenant parking spaces.	9	14	13
Exempt parking spaces in Chatswood, Parramatta, St Leonards and Bondi Junction.			
Parking spaces for customers attached to retail outlets, hotels, motels, clubs, restaurants, medical centres, car sales, repair and wash establishments and funeral parlours are exempt from the levy.	1	4	3

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 B14: Education

Major Concessions	*2003-04 $m*	*2004-05 $m*	*2005-06 $m*
TAFE Fee concession			
Fees are waived for students with disabilities, ATSI, students of Special Access Courses or students receiving nominated pensions or allowances while the fees for apprentices and trainees have been capped.	50	54	60
School transport subsidy scheme			
RailCorp, State Transit Authority and Sydney Ferries 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.)	69	70	72

Table B15: Health

Major Concessions	*2003-04 $m*	*2004-05 $m*	*2005-06 $m*
Ambulance service for pensioners			
Free transport by ambulance is provided for holders of pensioner health benefit cards.	84	85	86
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 funds a rebate for energy costs associated with certain life support systems.	2	3	3

Table B16: Social Security and Welfare

Major Concessions	*2003-04 $m*	*2004-05 $m*	*2005-06 $m*
Public transport concessions for pensioners and welfare beneficiaries			
Pensioners, Seniors and welfare beneficiaries travel for less than full fare on RailCorp, State Transit Authority and Sydney Ferries 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).	239	223	209
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	25	22
Spectacles Program			
Provides free spectacles to people with visual impairment who have low income and assets.	5	5	4
Charitable Goods Transport Subsidy			
Provides reimbursement to 22 charitable organisations for the cost of transporting miscellaneous goods such as donated medicines, trauma teddies, non-perishable food, physiotherapy tables and recycled clothing.	2	2	2
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 B17: Housing and Associated Amenities

Major Concessions	*2003-04 $m*	*2004-05 $m*	*2005-06 $m*
Local council rates concession			
Local council rates are reduced for holders of Pensioner Concession Cards.	73	75	76
Sydney Water Corporation Pensioner Rate Concession			
Holders of Pensioner Concession Cards receive a 100 percent discount on water service (fixed) charge and 74 percent discount on the sewerage charge.	70	70	75

Major Concessions	*2003-04 $m*	*2004-05 $m*	*2005-06 $m*
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 partially exempt from the payment of water charges.	9	9	10
Hunter Water Corporation Water Pensioner Rate Concession			
Holders of Pensioner Concession Cards receive a 50 percent discount on water rates.	8	8	8
Energy Accounts Payment Assistance Scheme			
The Department of Energy, Utilities and Sustainability funds an energy rebate (including gas and electricity) for consumers in financial hardship.	8	8	9
Pensioner Energy Subsidy Scheme			
The Department of Energy, Utilities and Sustainability funds an energy rebate for holders of Pensioner Concession Cards. Under the Scheme, eligible pensioners receive a rebate of $112 per annum on their energy bills.	77	77	79
Crown Land Rent Concessions			
Registered charities and not-for profit organizations receive a discount on Crown Land rents.	5	5	5

Minor Concessions (< $1 million)

- Blue Mountains septic pump-out service for households not connected to the sewerage network.
- Hunter Water Corporation – exempt properties concession.
- Payment Assistance Scheme offered by Sydney Water.
- Payment Assistance Scheme offered by Hunter Water, including connection fees for backlog sewerage.
- Department of Lands – discounted rents for holders of Pensioner Concession Cards.

Table B18: Recreation and Culture

Major Concessions	*2003-04 $m*	*2004-05 $m*	*2005-06 $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 the unemployed, children, pensioners, seniors, students and school groups.

Table B19: Agriculture, Forestry and Fishing

Major Concessions	*2003-04 $m*	*2004-05 $m*	*2005-06 $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	•		•	
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 [5]		•		•
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	•		•	
Corrective Services, Department of	•		•	
Country Energy		•		•
Crime Commission, New South Wales	•		•	
Crown Land Development		•		•
Crown Land Homesites		•		•
Crown Leaseholds	•			•
Crown Property Portfolio	•			•
Crown Finance Entity	•		•	

Agency/Activity	ABS[1] Category		Funding Category[4]	
	General Government[2]	Public Trading Enterprise[3]	Budget Dependent	Non Budget Dependent
Delta Electricity		•		•
Education and Training, Department of	•		•	
Electricity Tariff Equalisation Ministerial Corporation	•			•
EnergyAustralia		•		•
Energy, Utilities and Sustainability, Department of	•		•	
Environment and Conservation, Department of	•		•	
Environmental Planning and Assessment Act	•			•
Environmental Trust	•		•	
Eraring Energy		•		•
Film and Television Office, New South Wales	•		•	
Fire Brigades, New South Wales	•		•	
Fish River Water Supply Authority		•		•
Gaming and Racing, Department of	•		•	
Growth Centres Commission [6]	•			•
Health Care Complaints Commission	•		•	
Health, Department of (including Area Health Services, Ambulance Service of NSW, Corrections Health Service and Westmead Children's Hospital)	•		•	
Heritage Office	•		•	
Historic Houses Trust of New South Wales	•		•	
Home Care Service of New South Wales	•			•
Home Purchase Assistance Fund	•			•
Honeysuckle Development Corporation	•			•
Housing, Department of		•		•
Hunter Water Corporation		•		•
Independent Commission Against Corruption	•		•	
Independent Pricing and Regulatory Tribunal	•		•	
Independent Transport Safety and Reliability Regulator	•		•	
Infrastructure, Planning and Natural Resources, Department of	•		•	
Integral Energy		•		•

Agency/Activity	ABS[1] Category		Funding Category[4]	
	General Government[2]	Public Trading Enterprise[3]	Budget Dependent	Non Budget Dependent
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		•		•
Motor Accidents Authority	•			•
Museum of Applied Arts and Sciences	•		•	
Natural Resources Commission	•		•	
Newcastle Port Corporation		•		•
NSW Food Authority	•			•
NSW Maritime Authority	•			•
NSW Self Insurance Corporation	•			•
Ombudsman's Office	•		•	
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 Trustee NSW	•			•

Agency/Activity	ABS[1] Category		Funding Category[4]	
	General Government[2]	Public Trading Enterprise[3]	Budget Dependent	Non Budget Dependent
Rail Corporation New South Wales		•		•
Rail Infrastructure Corporation		•		•
Redfern-Waterloo Authority	•			•
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	•		•	
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	•			•
Superannuation Administration Corporation	•			•
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		•		•

Agency/Activity	*ABS[1] Category*		*Funding Category[4]*	
	General Government[2]	*Public Trading Enterprise[3]*	*Budget Dependent*	*Non Budget Dependent*
Teacher Housing Authority of NSW		•		•
Tourism, Sport and Recreation, Department of	•		•	
TransGrid		•		•
Transport, Ministry of	•		•	
Transport Infrastructure Development Corporation		•		•
Treasury, NSW	•		•	
Waste Fund	•			•
Waste Recycling and Processing Corporation		•		•
Wollongong Sports Ground Trust		•		•
WorkCover Authority	•			•
Workers' Compensation (Dust Diseases) Board	•			•
Zoological Parks Board of NSW		•		•

Notes:

(a) *This table only includes those agencies which have had information collected directly from them for the Budget Papers. Other agencies not specifically listed may be incorporated within other agencies.*

(b) *The NSW Treasury Corporation, the Fair Trading Administration Corporation and the controlled FANMAC Trusts, all Public Financial Enterprises, provide data that is included in these Budget Papers.*

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[1] *Australian Bureau of Statistics*

[2] *Equates to the scope of the Budget in New South Wales.*

[3] *The Public Trading Enterprise or PTE sector is also referred to by the ABS as the Public Non Financial Corporations (PNFC) Sector.*

[4] *Based on reliance on Consolidated Fund allocations.*

[5] *Will be merged into Country Energy in July 2005.*

[6] *Legislative amendments to establish the agency are expected to be finalized in June 2005.*

APPENDIX D: 2004-05 BUDGET - SUMMARY OF VARIATIONS

Category/Agency	Budget	Revised	Variation	Comment on Major Variations
	$m	$m	$m	
STATE REVENUES				
Taxation				
Stamp Duty:				
Transfer duty	3,880	3,370	(510)	Higher than expected cost of vendor duty exemptions and weaker property market.
Motor Vehicle Registrations	609	575	(34)	Lower than expected new vehicle registrations.
Mortgage Duty	372	330	(42)	Weaker than expected property market.
Other Duties	690	697	7	Higher unlisted share transfer duty, partly offset by lower insurance duty.
Payroll Tax	5,375	5,536	161	Stronger than expected wage and employment growth within firms that are liable for payroll tax.
RTA Taxes	1,243	1,264	21	Motor Vehicle Weight tax revenue higher.
Land Tax	1,450	1,593	143	Higher than expected land values.
Gaming and Racing Taxes	1,023	1,061	38	Higher than expected turnover impacting club and hotel gaming device duty.
WorkCover Authority	182	203	21	Increase in levies due to higher premiums charged by insurers.
Government guarantee of debt levy	134	117	(17)	Revised methodology for calculating payments from commercial entities.
Other Taxes	562	560	(2)	Aggregated net minor variations.
Total Taxation	**15,520**	**15,306**	**(214)**	
Commonwealth Grants				
General Purpose:				
GST Revenue Grants	9,744	9,920	176	Upward revision on Commonwealth estimates of GST revenue.
National Competition Payments	260	234	(26)	Penalties imposed by the Commonwealth.

Category/Agency	*Budget*	*Revised*	*Variation*	*Comment on Major Variations*
	$m	*$m*	*$m*	
Specific Purpose:				
Rural Assistance Authority	9	52	43	Specific payment for Advancing Australian Agriculture - exceptional circumstances.
Roads & Traffic Authority	529	556	27	Increased funding for national highways development and new bridges.
Department of Education & Training	1,189	1,196	7	Increase in school grants.
Immunisation Program	56	64	8	Increased funding for for immunisation programs
Salinity Programs	20	14	(6)	Decrease in funding due to deferral of some programs by the Catchment Management Authorities.
Other	3,953	3,966	13	Aggregated net minor variations.
Total Commonwealth Grants	**15,760**	**16,002**	**242**	
Financial Distributions	**1,670**	**1,644**	**(26)**	
Fines, Regulatory Fees & Other				
Motor Traffic Fines	207	237	30	Adjustment to projected receivables within the State Debt Recovery Office.
Drivers and Riders Licences	153	132	(21)	Decrease in 5-year drivers licence renewals.
Mining Royalties	300	360	60	Higher than expected coal prices.
Other	319	330	11	Aggregated net minor variations.
Total Fines, Regulatory Fees & Other	**979**	**1,059**	**80**	
TOTAL STATE REVENUES	**33,929**	**34,011**	**82**	
OPERATING REVENUES				
Sales of Goods and Services				
Agencies did not have significant variations				
Total Sales of Goods and Services	**2,729**	**2,733**	**4**	

Category/Agency	Budget	Revised	Variation	Comment on Major Variations
	$m	$m	$m	
Investment Income				
NSW Self Insurance Corporation	314	402	88	Higher than projected financial market returns.
Liability Management Ministerial Corporation	165	179	14	Higher than projected financial market returns.
Building and Construction Industry Long Service Leave Payments Corporation	25	40	15	Higher than projected financial market returns.
Department of Health	34	44	10	Higher than projected financial market returns.
Other	240	259	19	Aggregated net minor variations.
Total Investment Income	**778**	**924**	**146**	
Grants and Contributions				
Roads & Traffic Authority	7	26	19	Further capital grants from Commonwealth for works under the Hawkesbury Nepean Flood Strategy, and also grants from local government and external bodies for specific roadworks.
Department of Energy, Utilities and Sustainability	6	45	39	Change in accounting treatment of grants for the Country Towns Program offset by similar increase in expenses item.
NSW Maritime Authority	23	...	(23)	Deferral of developer contributions in respect of King Street Wharf development.
Department of Education and Training	269	255	(14)	Reduction in school generated revenue from community sources.
Other	296	300	4	Aggregated net minor variations.
Total Grants and Contributions	**601**	**626**	**25**	
Other Revenue				
Crown Leaseholds Entity	...	49	49	Transfers from Reserve Trusts of land that will be leased to other Government agencies or for private or commercial purposes. These transfers were not anticipated in the budget.
Sydney Olympic Park Authority	1	18	17	Change in accounting treatment of long term leases, resulting in an increase in non-cash revenue.
Other	237	324	87	Aggregated net minor variations.
Total Other Revenue	**238**	**391**	**153**	
TOTAL OPERATING REVENUES	**4,346**	**4,674**	**328**	

Category/Agency	Budget	Revised	Variation	Comment on Major Variations
	$m	$m	$m	
EXPENSES				
Department of Health	9,402	9,718	316	Includes additional funding for urgent acute overnight beds and other initiatives to improve patient flow in emergency departments, increases to the general bed capacity, improving access to renal care in hospitals and homes and strategies to reduce the waiting period for elective surgery. Funds were also provided for the buyout of the operating agreement for the Port Macquarie Hospital to return the facilities and management to public ownership, and for award increases for Career Medical Officers and Nurse Qualification Allowances. In addition, there was a reclassification of capital expenditure to expenses, and increases in leave and superannuation provisions to reflect award increases.
Roads & Traffic Authority	1,988	2,161	173	Includes increases in the road safety program, traffic and transport management, driver and vehicle management and additional maintenance works, funded by increased Motor Vehicle Weight taxes and Commonwealth and other grants. Also increase in depreciation following asset valuation review.
Ministry of Transport	2,632	2,808	176	Additional grants to RailCorp to meet operating costs, payments to private bus service operators and to meet management costs associated with the reform of Sydney metropolitan bus services and subsidies to STA and Sydney Ferries to meet redundancy payments associated with the restructures.
Department of Infratsructure, Planning and Natural Resources	259	330	71	Increase in funding for operating expenses following a post restructure review, additional planning work, and costs associated with new land releases.
Department of Energy, Utilities and Sustainability	36	80	44	Change in accounting treatment of grants for the Country Towns Program, offset by similar increase in grants received.
Rural Assistance Authority	25	64	39	Reflects increased payments made to farmers for drought relief and initiatives under the Commonwealth's Advancing Australian Agriculture scheme.
Department of Primary Industries	312	359	47	Includes additional funding for the continuation of drought assistance and drought initiative programs, funding for plague locust control and eradication of red fire ants. The locust control program is funded from industry levies raised in previous years, and further levies to be raised in future years to recover the costs.

Category/Agency	Budget	Revised	Variation	Comment on Major Variations
	$m	$m	$m	
Crown Leaseholds Entity	...	34	34	Lands transferred to Aboriginal communities under the Aboriginal Act and to local government. Also lands transferred to Reserve Trusts that are no longer required for leasing and are more suitably managed as reserves. These transfers were not
Building and Construction Industry Long Service Leave Payments Corporation	73	105	32	Upward revision of long service leave liabilities in line with latest actuarial assessment.
NSW Police	1,577	1,604	27	Mainly costs associated with police numbers above authorised strength.
Department of Community Services	816	842	26	Mainly due to Out of Home Care cost overruns for high-needs children and capital grants to expedite ICT projects.
Department of Ageing, Disability & Home Care	1,108	1,134	26	Includes increased funding for the Adult Training Learning and Support program and additional costs associated with delays in restructuring services in group homes and other accommodation facilities. These increases are partly offset by delays in the Home and Community Care program expenditure.
Department of Corrective Services	611	632	21	Mainly cost overruns caused by delays in implementing workplace reforms and increased costs arising from the transfer of administration of the Kariong Juvenile Justice Centre from the Department of Juvenile Justice.
NSW Maritime Authority	74	91	17	Mainly Homebush Bay remediation expenses brought forward from future years .
Attorney General's Department	488	507	19	Includes additional costs associated with the inquiry into the Waterfall train accident, increased payments to victims of crime, costs of additional core work being undertaken by the Crown Solicitor's Office and increased salaries for Statutory and Other Officers (Judges and Magistrates).
Coal Compensation Board	4	(58)	(62)	A downward revision of the compensation liability.
Catchment Management Authorities	125	106	(19)	A lower level of grants to Catchment Management Authorities than expected for native vegetation and salinity. The responsibility was transferred to Catchment Management Authorities and some delays have occurred as a result of the restructure.

Category/Agency	*Budget*	*Revised*	*Variation*	*Comment on Major Variations*
	$m	*$m*	*$m*	
Treasurer's Advance	240	...	(240)	Increased expenses included in agency data.
NSW Self Insurance Corporation	1,253	1,164	(89)	Significant reduction in claims payments offset by a minor upward revision of liabilities for outstanding claims.
Other	16,415	16,435	20	Aggregated net minor variations.
TOTAL EXPENSES	**37,438**	**38,116**	**678**	
BUDGET RESULT - SURPLUS/(DEFICIT)	**837**	**569**	**-268**	
Capital Expenditure				
Ministry of Transport	16	49	33	Purchase of assets for the Integrated Ticketing project.
Department of Education and Training	389	409	20	Purchase of computers under the procurement policy, funding transferred from Crown Finance Entity, offset by deferral of other IT projects pending further review.
Roads and Traffic Authority	1,212	1,235	23	Additional works funded from increased Commonwealth grants, offset by reclassification of capital expenditure to expenses.
NSW Police	94	119	25	Mainly upgrades to the Police IT Network, as the first stage of the Information Management and Technology strategy.
Crown Finance Entity	73	21	(52)	Provision for the purchase of computers, the increased expenditure included in agency data.
Department of Corrective Services	110	70	(40)	Planning and contractual delays on the Long Bay Hospital development and Western Region Correction Centre, and construction delays on the Mulawa Correctional Centre redevelopment.
Department of Health	600	568	(32)	Reclassification of capital works to expenses and underexpenditure on various projects, mainly the Local Initiatives program and Minor Works.
Treasurer's Advance	60	...	(60)	Increased expenditure included in agency data.
Other	1,060	1,118	58	Aggregated net minor variations.
Total Capital Expenditure	**3,614**	**3,589**	**(25)**	

Category/Agency	*Budget*	*Revised*	*Variation*	*Comment on Major Variations*
	$m	*$m*	*$m*	
Depreciation				
Roads and Traffic Authority	586	700	114	Due to asset revaluation review.
Other	1,275	1,291	16	Aggregated net minor variations.
Total Depreciation	**1,861**	**1,991**	**130**	
Asset Sales				
NSW Maritime Authority	115	1	(114)	Deferral of the sale of the Maritime Centre.
Department of Education and Training	86	35	(51)	Deferral of the sale of Peter Board and Seaforth high schools.
Crown Property Portfolio	43	1	(42)	Deferral of the sale of Fish Markets Pyrmont and Wool Sheds at Alexandria.
Department of Health	50	27	(23)	Delays in sales of the David Madison, Queen Victoria Maternity Hospital Picton, Gladesville Hospital and the Dudley Nursing Home.
Service Improvement and Procurement	30	51	21	Additional fleet vehicles sold and higher prices than expected.
Crown Leaseholds Entity	...	20	20	Sales to the Crown Land Development to be used for residential or commercial purposes. Not previously included in the budget.
Crown Finance Entity	191	206	15	Higher proceeds from sale of motor vehicles.
Department of Ageing, Disability & Home Care	...	11	11	Unbudgeted asset sales.
Other Asset Sales & Movements	72	83	11	Aggregated net minor variations.
Total Asset Sales	**587**	**487**	**(100)**	
Other Movements in Non-Financial Assets	**50**	**69**	**19**	
NET LENDING	**(379)**	**(611)**	**(232)**	

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 9, and statements complying with Australian Accounting Standards (AAS) are contained in Appendix A.

GFS Based Reports

The Budget Result is defined to be equal to the GFS net operating result. The net operating result represents the amount by which the annual operations of Government increase or reduce net worth. In arriving at the net operating result, depreciation (or the cost of wear and tear of agencies' assets arising from the delivery of services) is taken into account.

Under GFS reporting a further fiscal aggregate is the net lending result. It represents the balance available to reduce general government sector net financial liabilities. Consequently, the net lending result broadly approximates the movement in net financial liabilities, and links closely with the Government's focus on balance sheet management.

The principal difference between the budget result (GFS based net operating surplus) and the net lending result is the treatment of capital. The budget result includes a depreciation charge while the net lending 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.

Where GFS results have been impacted by one-off significant discretionary transactions, an underlying or adjusted result has been provided in these Budget Papers. This is provided to assists users compare time series on a consistent basis.

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 for 2004-05. From 2005-06 the statements have been prepared by applying the Australian equivalents to International Financial Reporting Standards (AEIFRS). Discussion of AEIFRS is contained in Appendix F.

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:

- 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.

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. Refer to Appendix F for information on the transition to international accounting standards and its impact on the 2005-06 Budget Papers.

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 2003-04 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;

- certain reserve trusts created under the *Crown Lands Act, 1989* have been excluded. There are approximately 30,000 Crown reserves in New South Wales. Some of these reserves are managed by NSW Government and others by local governments and trusts. A project has commenced to identify and value Crown reserves controlled by the NSW Government. The likely value of the reserves controlled by the NSW Government cannot be estimated with any certainty. First estimates based on preliminary data are that the total value of these reserves may be between $1 billion and $7 billion. However, the total value may even be outside of this range. The NSW Government will recognise the value of Crown reserves it controls in future Total State Sector Accounts once this project is complete. The Auditor-General has also qualified his opinion on the 2003-04 Total State Sector Accounts. In his opinion, "the fair value of the Reserves is required to be recognised by Australian Accounting Standard AAS 31 *Financial Reporting by Governments* because the State has the capacity to benefit from their use and can regulate the access of others to that benefit."; and

- the presentation in Budget Paper No. 3, of agency operating statements, 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 that are normally required under accounting standards. Further there is no disclosure in Budget Paper No.3 of agency changes in equity, as most agencies have minimal changes, aside from their operating results.

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;

- GFS operating statements disclose a reconciliation from the Net Operating Result to Net Lending. As the Budget is now prepared on a Net Operating Result basis, this additional reconciling information (on the Net Acquisition of Non-Financial Assets) has not been reported in the Chapter 1 Operating Statement. However, the relevant information is available for users in Chapter 9 of Budget Paper No.2; 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 three of the above four transactions have, however, been treated in accordance with GFS principles in Chapter 9, *Government Finance Statistics and Uniform Reporting Framework*.

BUDGET SCOPE

The Budget incorporates all general government sector agencies as defined by the Australian Bureau of Statistics (ABS) subject to a materiality threshold. A list of NSW 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 *Assets and Liabilities* includes commentary on the management of total state sector financial assets and liabilities, including net debt and superannuation liabilities.

Similarly, Chapter 9 *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: FINANCIAL IMPACT OF INTERNATIONAL ACCOUNTING STANDARDS

OVERVIEW

Australia is adopting International Accounting Standards from reporting periods beginning on or after 1 January 2005. In addition, the Australian Accounting Standards Board (AASB) has committed to harmonise Government Finance Statistics reporting (GFS) with Accounting Standards as a priority for the public sector.

The New South Wales public sector will apply the Australian equivalents to International Financial Reporting Standards (AEIFRS) from 2005-06. Although not mandatory for budget reporting, the 2005-06 Budget Papers have been prepared assuming:

- existing Australian Accounting Standards (AGAAP) for all years up to and including 2004-05; and

- AEIFRS for 2005-06 and all forward years.

However the Budget Papers have not been adjusted for the impact of the new standard AASB 139 *Financial Instruments* as there are significant unresolved issues currently being addressed by the International Accounting Standards Board. AEIFRS requires initial adjustments be made directly to opening equity at adoption. For Budget 2005-06 the opening equity adjustments are presented effective 1 July 2005 (instead of 1 July 2004 as AEIFRS requires) as the original 2004-05 (and revised projections) are on an AGAAP basis.

AEIFRS does not change the presentation of Government Finance Statistics (GFS) reports prepared for these Budget Papers. It does however slightly modify the presentation of categories in accounting based reports in Budget Paper No.3, and in Appendix A to Budget Paper No.2.

Whilst the format of GFS Reports does not change, AEIFRS requires different measurement treatments from 2005-06 for certain assets and liabilities presented in GFS reports, such that there is a “time series” break between the period up to 2004-05 (prepared on an AGAAP basis), and the 2005-06 and forward years (prepared on the AEIFRS basis).

The primary impact of AEIFRS on the 2005-06 General Government Sector GFS Balance Sheet has been to:

- increase *defined benefit scheme superannuation liabilities* by $5,050 million due to a change in the discount rate adopted for measuring the accrued benefits liabilities; and

- increase *Other Non Equity Assets* by $3,560 million due to an increase in the Crown's accrual of deferred income tax assets from the PTE sector. The balance sheet line *Other Equity Assets* is reduced by an equivalent amount due to a reduction in the PTE sector's net worth from increasing its deferred tax payable to the Crown.

The above balance sheet changes have a direct impact on general government *net financial liabilities*.

There is a historical difference between the GFS based general government balance sheet (Chapters 1 and 9) and the accounting based balance sheet (Appendix A). The GFS based balance sheet also includes the government's investment in the net assets of the PTE and PFE sectors, whereas the accounting based report excludes this "investment" as the accounting based report does not adopt a holding company model. Whilst the abovementioned AEIFRS adjustment to increase the Crown's deferred tax asset has no impact on general government sector net worth (Chapters 1 and 9), because of a compensating fall in the equity investment in the PTE sector, it directly impacts the accounting based total equity (in Appendix A). However, the impact is eliminated in the Total State Sector Accounts balance sheet.

The 2005-06 and forward year GFS Budget results will deteriorate due to AEIFRS adoption (in 2005-06 by $354 million). This occurs primarily due to increases in GFS operating expenses for:

- nominal superannuation interest expense. The expense is calculated from 2005-06 using the higher AEIFRS superannuation liability as a base; and

- superannuation expense. The lower discount rate results in higher annual expenses.

There is no impact on the Budget result from the treatment of *deferred income tax assets* referred to above.

It can be expected that the implementation of AEIFRS will result in greater volatility in the future operating results of the public trading enterprise (PTE) sector, especially on adoption of the financial instruments standard. This volatility, which cannot be readily budgeted for, could indirectly impact the general government sector outcomes through more volatile dividend and tax revenues from PTEs.

The GFS cash result is not impacted by AEIFRS implementation. For example, the measurement under AEIFRS of a higher superannuation liability due to a change in discount rate has no impact on the future dollar contributions that the Government must make. The superannuation liability is being funded by asset reserves which still have the same long term earnings rate, both prior to and post adoption of AEIFRS.

The Public Trading Enterprises sector has been similarly impacted by higher superannuation liabilities, deferred income tax payable (relating to the unrealised tax gains for assets revalued prior to AEIFRS), as well as adjustments specifically relevant to for-profit entities. Some of these adjustments relate to the measurement and valuation of assets. There is the potential for the PTE sector to be impacted by AASB 139 *Financial Instruments* depending upon future decisions to be made by the International Accounting Standards Board.

This appendix outlines the Government's AEIFRS implementation strategy and provides a summary of the financial impact on the 2005-06 Budget.

AEIFRS IMPLEMENTATION STRATEGY

NSW Treasury's strategy to implement AEIFRS and GFS/GAAP convergences includes the following steps:

- analyse and comment to the Australian Accounting Standards Board on all exposure drafts of standards;
- identify and assess the impacts of all significant changes in pending and finalised standards, and make this information available to all agencies;
- keep the Treasurer, the Government, government agencies and all other stakeholders informed;
- develop new or amended policies and guidance as necessary;
- establish and maintain an up-to-date website to keep all stakeholders continuously informed; and

- facilitate a collaborative approach to managing the change by means of an 'IAS Agency Reference Panel'. The Panel includes representatives from a spectrum of public sector agencies including the Audit Office.

  The role of the panel is to assist Treasury in identifying the impacts of the changes, including information and systems changes and to provide Treasury with both input and feedback. The State's electricity authorities are also represented on an industry group that is reviewing specific AEIFRS issues pertaining to the electricity industry;

- implement AEIFRS for the Total State Sector Accounts. This includes reviewing issues from a whole-of-government perspective to ensure that similar transactions are prepared on a consistent basis. Further some standards will require that transactions (such as Treasury Managed Fund self insurance) be treated differently at the Total State Sector, than at the agency level. The capability of information technology systems is also being reviewed for the preparation of the Total State Sector Accounts;

- present training and development seminars to all NSW public sector agencies;

- facilitate agencies, which have primary responsibility for assessing the impacts of AEIFRS on their budgets and financial reports, information needs and required system changes; and

- encourage all agencies to be actively involved and to provide input and feedback to Treasury. Treasury's analysis of standards focuses on the general impact of significant changes on public sector financial reporting. Each agency must assess any additional impacts that are not addressed in Treasury's analysis.

Public sector agencies are managing the transition to the new standards by allocating internal resources and/or engaging consultants to analyse the pending standards and Urgent Issues Group Interpretations to identify key areas regarding policies, procedures, systems and financial impacts affected by the transition.

The larger agencies have each established a project team to manage the implementation. The team leader generally reports through the Chief Finance Officer to the Audit Committee which monitors AEIFRS implementation.

Implementation of the above strategy has identified a number of significant differences in accounting policies that will arise from adopting AEIFRS. Some differences arise because AEIFRS requirements are different from existing AASB requirements. Other differences could arise from options in AEIFRS. To ensure consistency at the whole-of-government level, NSW Treasury has advised agencies of options it is likely to mandate, and will confirm these during 2005-06. The 2005-06 Budget and forward year estimates reflect these likely mandates.

There is also a project to harmonise accounting standards with Government Finance Statistics. This is likely to require the preparation of a general purpose ex-post financial report for the general government sector. This will mean that ex-ante and ex-post budget reporting are brought closer together. To facilitate this, a number of options have been selected by NSW Treasury consistent with GFS, for adoption by individual agencies and the Budget. In addition, it is likely that when finalised, a new GFS/GAAP converged standard will significantly affect the presentation of the operating statement, by adopting a comprehensive income approach.

IMPACT OF AEIFRS ON 2005-06 AGGREGATES

Table F-1: Reconciliation of opening equity under existing Standards (AGAAP) to equity under AEIFRS

	Notes	General Government 1 July 2005 $m	Public Trading Enterprise 1 July 2005 $m
Total accounting based (AGAAP) equity per Appendix A-3		**57,525**	**68,010**
Adjustments to accumulated funds			
Defined Benefit superannuation liability adjustment for change in the discount rate	1	(5,050)	(588)
Group adjustment to the Treasury Managed Fund's insurance liability	2	316	...
Write back the asset revaluation reserve for investment properties	3	162	263
Recognition of asset restoration costs	4	19	1
Effect of valuing assets individually rather than by class	5	(16)	(26)
Write back the asset revaluation reserve for assets recognised at deemed cost	6	...	371
Tax effect adjustment	7	190	(190)
Recognition of developer assets	8	...	182
Derecognition of capitalised interest	9	...	(83)
Grant revenue accrued (for profit entities)	10	...	(35)
Recognition of major inspection costs	11	...	9
Other net adjustments		6	(4)
Adjustments to asset revaluation reserves			
Revalue deferred income tax assets receivable by the Crown from PTEs	7	3,101	(3,101)
Write back the asset revaluation reserve for investment properties to accumulated funds	3	(162)	(263)
Derecognition for impaired property, plant and equipment	12	...	(577)
Write back the asset revaluation reserve for assets recognised at deemed cost	6	...	(371)
Derecognition for capitalised interest	9	...	(128)
Recognition of developer assets	8	...	121
Derecognition and reclassification of intangible assets	13	...	(25)
Effect of valuing assets individually rather than by class	5	...	26
Impact of AEIFRS on Opening Equity		**(1,434)**	**(4,418)**
Total Accounting Based Equity restated for AEIFRS		**56,091**	**63,592**
GFS only adjustments			
June 2005 equity investment in the PTE/PFE sectors		67,769	
AEIFRS adj to *Equity investment in the PTE/PFE sectors*		(4,418)	
Allowance for Doubtful Debts (excluded from GFS Net Worth)		186	
Total GFS Net Worth restated for AEIFRS at 1 July 2005		**119,628**	

Table F-2: Reconciliation of General Government Net Financial Liabilities

	Budget 2006 $m	2007 $m	Estimate 2008 $m	2009 $m
			Year ending 30 June	
Net Financial Liabilities under AEIFRS	**27,187**	**27,834**	**28,457**	**28,859**
Major AEIFRS Adjustments (included in above)				
Increase in superannuation liabilities from revised discount rate	(5,050)	(5,050)	(5,050)	(5,050)
Recognition of deferred income tax assets on on adoption of AASB 112	3,560	3,604	3,614	3,633
Adjusted Net Financial Liabilities under AGAAP	**25,697**	**26,388**	**27,021**	**27,442**

AEIFRS has primarily impacted the general government balance sheet for superannuation and insurance liabilities, deferred tax assets and the value of some physical assets.

However, net debt has not been affected by AEIFRS, as the cash transactions that affect net debt are still identical between AGAAP and AEIFRS.

Notes:

1. *AASB 119* Employee Benefits *requires the defined benefit superannuation obligation to be discounted using the government bond rate as at each reporting date, rather than the long-term expected rate of return on plan assets. Where the superannuation obligation is not assumed by the Crown, this will increase the defined benefit superannuation liability against the opening accumulated funds and change the quantum of the annual superannuation expense.*
2. *The Treasury Managed Fund is a self-insurance arrangement for the general government sector and the Total State Sector Accounts, and AASB137 will therefore apply. AASB137 requires the application of a discount rate that reflects the time value of money adjusted for the risks specific to the liability, rather than the expected rate of return on Fund assets under the previous AASB1023. Further, it is likely that the Treasury Managed Fund's prudential margin will not be recognised for the general government sector and for the Total State Sector Accounts. Prudential margins are required to be recognised under AASB 1023 but not AASB 137.*
3. *Under AASB 140* Investment Property *and Treasury's indicative mandates, investment property will be recognised at fair value. In contrast to their current treatment as property, plant and equipment, investment property recognised at fair value will not be depreciated and changes in fair value will be recognised in the income statement, rather than the asset revaluation reserve. This means that any asset revaluation reserve balances relating to such property will be written back to accumulated funds.*
4. *AASB 116* Property, Plant and Equipment *requires the cost and fair value of property, plant and equipment to be increased to include the estimated restoration costs, where restoration provisions are recognised under AASB 137. These restoration costs must be depreciated and the unwinding of the restoration provision must be recognised as a finance expense. This treatment is not required under current AGAAP.*
5. *AASB 116 Property, Plant and Equipment requires for-profit entities to recognise revaluation increments and decrements on an individual asset basis, rather than a class basis. This change will decrease accumulated funds and increase the asset revaluation reserve.*
6. *Under AASB 1 Treasury has mandated the deemed cost option for for-profit entities, based on a previous AGAAP revaluation at the date of corporatisation or date of establishment. This means that any asset revaluation reserve prior to the date of established corporatisation is written back to accumulated funds.*

7. *AASB 112* Income Taxes *uses a balance sheet approach which requires the differences between the accounting and tax value of assets and liabilities to be identified. Current AGAAP uses an operating statement method that accounts for tax by adjusting accounting profit for temporary and permanent differences to derive taxable income. The AASB 112 approach alters the quantum of tax assets and liabilities recognised. In particular, the balance sheet approach results in the recognition of a deferred tax liability in relation to revalued assets that are not recognised under current AGAAP. This also changes the quantum of the tax expense. However, any such tax liabilities accrued by PTEs would be eliminated against tax assets of the Crown upon consolidation within the NSW Total State Sector Accounts.*

8. *As a result of initial adoption the accounting treatment of some past transactions has been reviewed and amended to be consistent with AEIFRS. This adjustment to retained earnings and asset revaluation reserve mainly relates to a different interpretation under AEIFRS of the treatment of developer assets, than under AGAAP.*

9. *AASB 123* Borrowing Costs *provides the option to expense or capitalise borrowing costs. Current AGAAP requires borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset to be capitalised and other borrowing costs to be expensed.*

10. *AASB 120* Accounting for Government Grants and Disclosure of Government Assistance *for for-profit entities spreads income recognition over the period necessary to match related costs. This has the effect of delaying revenue recognition and increasing liabilities. Under current AGAAP grants are normally recognised on receipt.*

11. *AASB 116* Property, Plant and Equipment *requires major inspection costs to be capitalised, where these were previously expensed. The adoption of AEIFRS will require the fair value and depreciation of the related asset to be re-allocated. The adoption of AASB 138 will also result in certain reclassifications from property, plant and equipment to intangible assets (e.g. computer software and easements).*

12. *AASB 136* Impairment of Assets *requires an entity to assess at each reporting period whether there is any indication that an asset (or cash generating unit) is impaired and if such indication exists, the entity must estimate the recoverable amount. The adoption of AEIFRS has resulted in an adjustment to the opening asset revaluation reserve.*

13. *AASB 138 Intangible Assets requires all research costs to be expensed and restricts the capitalisation of development costs. Current AGAAP permits some research and development costs to be capitalised when certain criteria are met. As a result, some previously recognised intangible assets will need to be derecognised. Further, intangibles can only be revalued where there is an active market, which is unlikely to occur. Therefore, revaluation increments and decrements will need to be derecognised and intangible assets recognised at amortised cost.*

14. *AASB 5* Non-Current Assets Held for Sale and Discontinued Operations *requires non-current assets classified as 'held for sale' to be reclassified as current and recognised at the lower of the carrying amount and the fair value less costs to sell. Unlike current AGAAP, 'held for sale' assets are not depreciated, thereby reducing the depreciation expense. However, at the date of transition there is no material difference in the carrying value of these assets, as selling costs are considered immaterial. Whilst this standard has not resulted in any adjustments to opening equity, assets held for sale have been reclassified to current assets from property, plant and equipment upon implementation of AEIFRS.*

15. *AASB140* Investment Property *requires investment properties to be measured at cost or fair value. NSW Treasury is likely to mandate the adoption of fair value. Investment property classified at fair value is not depreciated, and changes in fair value are recognised in the operating statement. In contrast, the treatment under AGAAP was to classify investment properties within property, plant and equipment.*

    The Crown Property Portfolio has investment properties that generate a rental income. Certain properties of the Crown Property Portfolio are tenanted primarily by general government agencies and therefore are considered owner-occupied (and therefore not investment property) for the general government sector and Total State Sector Accounts. Such owner-occupied properties (estimated at $313 million in June 2006) are accounted for in accordance with AASB116 as property, plant and equipment of the general government sector.

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 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 Operating result and represents the difference between the full cost of general government service delivery in the year and the revenues earned by the Government in the year to fund those services.

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.

FISCAL RESPONSIBILITY BILL 2005

This Bill is to be tabled with the 2005-06 Budget Papers, to become an Act from 1 July 2005. It continues the broad thrust of the *General Government Debt Elimination Act 1995*, which is to be repealed. It contains both medium-term and long term fiscal targets aimed at controlling the level of general government liabilities and a range of fiscal principles to address specific goals such as constraining the growth in expenditure and ensuring ongoing prudent risk management.

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 LENDING RESULT

This measure adjusts the Budget Result by including the cost of new asset acquisitions, less asset sales, rather than including a depreciation expense. It broadly represents the Government's capacity to reduce the State's Net Financial Liabilities.

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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