



**Treasurer of New South Wales
Australia**

2006-07

Half – Yearly

Budget Review

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OVERVIEW

Since 1995, the Government's fiscal strategy has been to strengthen State finances so as to enable a steady growth in service delivery to be maintained in the face of fluctuations in revenues. This strategy has included strengthening the State's balance sheet – focussing on reducing net financial liabilities and net debt.

General government net financial liabilities have declined from 19.3 per cent of Gross State Product (GSP) (\$32.8 billion) in June 1995 to 8.5 per cent of GSP (\$27.1 billion) in June 2006. General government underlying net debt has fallen from 7.1 per cent of GSP (\$12.2 billion) in June 1995 to 0.4 per cent (\$1.2 billion) in June 2006. Based on this, Standard and Poor's has recently confirmed New South Wales' AAA credit rating.

Over the four years to 2006-07 revenue growth is expected to average around 4 per cent per annum, compared with a longer term average growth of 5 per cent per annum. On the other hand, the growth in expenses has averaged around 6 per cent growth per annum, reflecting increased expenditure on improving essential services including transport, health and drought relief.

The general government budget result for 2006-07 is expected to be a deficit of \$497 million, which is \$199 million better than the budget estimate of a \$696 million deficit. This change reflects:

- an increase in projected investment income of \$235 million in part due to the ongoing strength of the equity markets;
- a decrease of \$149 million in insurance expenses due to the impact of the Government's workers' compensation and tort law reforms; and
- an increase in expenses to enhance a range of government services and programs including \$43 million to meet the cost of higher than anticipated enrolments in government schools, \$39 million to meet higher demand for First Home Owners grants and additional funding for various drought related programs.

As projected at Budget time, there is a trend of improving budget results in the forward years with the 2009-10 budget result now projected to be a surplus of \$845 million. The projected 2007-08 Budget surplus of \$386 million is very close to the Budget time estimate of \$378 million. The budget results for 2008-09 and 2009-10, however, are below the Budget time estimates by \$269 million and \$254 million, respectively.

The budget results in 2008-09 and 2009-10 are lower than the Budget time projections due to various initiatives announced by the Premier in the NSW Government Urban Transport Statement in November 2006. In particular, the forward estimates now incorporate accelerated funding for the North West, South West, Second Harbour Crossing and Richmond rail lines. Capital grants to the rail agencies to fund these projects are an expense within the General Government Sector.

Despite the negative impact on the Budget from recent increases in interest rates, the change in the Budget position is largely explained by the Government's decision to fund these rail projects from the Budget.

The Budget estimates also reflect the impact of moving to 3-year averaging of land values for land tax purposes which is now expected to cost \$40 million in 2006-07.

Projected General Government Budget Results

	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m
Budget Time (June 2006)	-696	378	707	1,099
Half-Yearly Budget Review	-497	386	438	845
Half-Yearly Budget Review before rail projects ^(a)	-497	442	684	1,520

(a) Budget result excluding accelerated funding for the North West, South West, Second Harbour Crossing and Richmond rail lines

To assist in redirecting expenditure to higher priorities, the Government will increase the agency efficiency dividend by \$100 million in 2008-09 to \$300 million and extend the dividend to 2009-10 focusing on reducing unnecessary overheads. This is in accordance with the recommendation in the February 2006 NSW Audit of Expenditure and Assets Report that the efficiency dividends be extended indefinitely to promote a culture of ongoing, long term efficiency improvement.

Projected State taxation revenues have been revised marginally downwards since the budget time. Land tax revenues are expected to be lower by \$80 million in 2007-08, \$104 million in 2008-09 and \$105 million in 2009-10 reflecting the flow on impact of lower than anticipated land valuations in 2006. This cost is partially offset by increased revenues from a range of State taxes arising from an investment in anti-avoidance programs.

Since the Budget, projected net financial liabilities have been revised upwards from 2007-08 due to an increase in the projected net lending deficit (i.e. the combined impact of budget results and capital expenditure) and a revaluation of superannuation liabilities by \$1 billion in 2006-07, offset in part by a better than expected net lending result in 2005-06. However, net financial liabilities will remain a constant share of GSP before starting to decline in 2009-10.

Projected General Government Net Financial Liabilities

	30 June			
	2007	2008	2009	2010
2006-07 Budget				
- \$m	29,044	30,492	31,694	32,100
- % of GSP	8.6	8.5	8.4	8.0
Half – Yearly Budget Review				
- \$m	29,008	30,729	32,409	33,082
- % of GSP	8.7	8.7	8.7	8.4

Projections of net debt are lower than the Budget time estimate for each year as a result of three factors. Firstly, cash transfers to the superannuation fund trustee will be less than anticipated at Budget time. Despite this, the Government remains on track to eliminate Total State Sector unfunded superannuation liabilities by 30 June 2030, as legislated for in the *Fiscal Responsibility Act 2005*. Secondly, a better than expected budget result was achieved in 2005-06 and finally as a result of technical adjustments related to the implementation of international accounting standards.

Projected General Government Underlying Net Debt

	30 June			
	2007	2008	2009	2010
2006-07 Budget				
- \$m	6,190	7,781	8,770	9,133
- % of GSP	1.8	2.2	2.3	2.3
Half – Yearly Budget Review				
- \$m	3,981	5,779	7,064	7,844
- % of GSP	1.2	1.6	1.9	2.0

The Government remains on track to deliver the record capital expenditure program announced in the 2006-07 Budget. The main variances since the Budget flow from the new bus contracting arrangements which see any new bus being considered to be acquired by the general government sector under a finance lease (and therefore capital expenditure) and changes in the timing of Commonwealth funded RTA road expenditure.

Projected General Government Capital Expenditure

	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m
2005-06 Budget	4,387	4,528	4,782	4,590
Half – Yearly Budget Review	4,575	4,668	4,520	4,654

Growth in the NSW economy will remain below the national average in 2006-07 reflecting the greater impact of higher interest rates in New South Wales and the worsening drought. The drought is estimated to reduce the growth in NSW GSP by at least 0.5 per cent in 2006-07. Employment growth should be around trend, while the unemployment rate should be stable. Any further interest rate increases would have a significant negative impact on the NSW economy. Each 0.25 per cent rise in interest rates reduces NSW GSP by around one quarter of a percentage point.

1. STRATEGIC DIRECTION AND ENVIRONMENT

1.1 STRATEGIC PERSPECTIVE

A strong balance sheet allows government services to be maintained and, over time, expanded in the face of fluctuations in the growth of revenues and other temporary fiscal shocks. The government's medium-term strategy has involved strengthening the State's balance sheet, controlling the growth in expenses and maintaining a tax regime that is conducive to business investment - thereby enabling New South Wales to be competitive with other states and territories.

Adhering to the medium-term fiscal strategy has allowed significant balance sheet gains to be made since 1995. General government net financial liabilities have declined from 19.3 per cent of GSP (\$32.8 billion) in June 1995 to 8.5 per cent of GSP (\$27.1 billion) in June 2006. General government underlying net debt has fallen from 7.1 per cent of GSP (\$12.2 billion) in June 1995 to 0.4 per cent (\$1.2 billion) in June 2006.

In recent years revenue growth has been subdued and below the growth in expenses. Over the four years to 2006-07, revenue growth is expected to average around four per cent per annum while the growth in expenses has averaged around six per cent per annum. The growth in expenses reflects priority spending in areas such as transport, health and drought relief.

The projected budget result for 2006-07 has improved, from an estimated operating deficit of \$696 million at budget time to a deficit of \$497 million. The Budget is expected to return to surplus over the forward estimates period, with a budget surplus of \$386 million projected for 2007-08, a surplus of \$438 million in 2008-09 and a surplus of \$845 million in 2009-10.

The forward estimates of the budget result in 2008-09 and 2009-10 have been revised since Budget time to reflect the costs of various initiatives announced by the Premier in the NSW Government Urban Transport Statement in November 2006, including accelerated funding of the North West, South West, Second Harbour Crossing and the Richmond rail lines.

MEDIUM-TERM FISCAL TARGETS

New South Wales' strong balance sheet will ensure that essential government services are maintained despite the State currently experiencing a period of weaker revenue growth, in part, as a result of recent increases in interest rates and the drought. Slower growth in revenue, combined with a substantial increase in capital expenditure, will see net financial liabilities remain broadly constant as a share of Gross State Product over the forward estimates period. The Government's medium-term fiscal strategy is, however, designed specifically to accommodate short term deviations from the longer term fiscal objectives. The forecast strengthening in the operating result over the forward estimates will assist in restoring a trend improvement in the State's balance sheet.

The improvement in the operating result over the forward estimates will be achieved through a reduction in the growth of expenses. To help achieve this, the 2006-07 Budget included an efficiency dividend of around \$300 million per annum in the period to 2007-08 and a further \$200 million in 2008-09 focused on reducing unnecessary agency overheads.

To assist in redirecting expenditure into areas of highest priority, the Government has increased the level of required efficiency improvements by agencies in 2008-09 by \$100 million to \$300 million and will require agencies to deliver further efficiency improvements of \$300 million in 2009-10. This is in accordance with the recommendation in the February 2006 NSW Audit of Expenditure and Assets Report that the efficiency dividends be extended indefinitely to promote a culture of ongoing, long term efficiency improvement.

The increase in net debt and net financial liabilities over the next few years is being driven principally by large increases in General Government spending on infrastructure. Capital expenditure is projected to be \$18,417 million over the four years to 2009-10, compared to \$13,967 million over the previous four years, an increase of 32 per cent. Major increases in spending are in the areas of health, education, roads and public transport.

Since the Budget, projected net financial liabilities have been revised upwards due to an increase in the projected net lending deficit (i.e. the combined impact of budget results and capital expenditure), and a revaluation of superannuation liabilities by approximately \$1 billion in 2006-07, offset in part by a better than expected net lending result in 2005-06. General government net financial liabilities as a share of GSP in June 2007 are expected to be 8.7 per cent and remain at that level in 2007-08 and 2008-09 before declining to 8.4 per cent in 2009-10. Net financial liabilities will be higher than the 2010 fiscal target of 7.5 per cent, but will be trending lower.

General government underlying net debt is projected to increase over the next three years, from 0.4 per cent of GSP in June 2006 to 2.0 per cent of GSP in June 2010. This level of debt is lower than expected at Budget time (2.3 per cent in 2010) because of revisions to the level of cash transfers to the superannuation fund trustee. However, the Government remains on track to eliminate Total State Sector unfunded superannuation liabilities by 30 June 2030, as legislated for in the *Fiscal Responsibility Act 2005*.

There remain a number of uncertainties and challenges for the budget outlook over the medium term:

- The extent and timing of a recovery in the housing cycle, particularly in light of recent increases in interest rates and further uncertainty in this area;
- Delivery of improvements in key services, particularly in transport, health and disabilities;
- The duration and extent of the drought; and
- The share of GST revenue distributed to New South Wales as recommended by the Grants Commission, along with the size of the GST pool. Updated estimates will be made by the Commonwealth Grants Commission in February 2007.

New South Wales continues to receive AAA credit ratings from international credit rating agencies. Standard and Poor's most recent credit rating report on New South Wales, issued in September 2006, noted that "*New South Wales' fiscal strategy is prudent, and the government remains committed to the most important elements of it. Compliance with the strategy is likely to be consistent with the preservation of the AAA rating.*"

1.2 ECONOMIC OUTLOOK

In line with Budget expectations, the global economy will remain robust in 2006-07 with strong growth in Japan and Europe offsetting a slowdown in the United States. This will continue to boost Australian output and household incomes.

Growth in the NSW economy will remain below the national average in 2006-07 reflecting the greater impact of higher interest rates on New South Wales, the burden of a worsening drought which is estimated to reduce the growth in NSW GSP by at least 0.5 per cent in 2006-07 and the impact of the resources boom on growth in Western Australia and Queensland. Nevertheless, the economy should experience trend growth in employment and stable unemployment although inflation will edge higher.

In New South Wales, consumer spending growth should remain firm, however, dwelling investment is not expected to recover until mid-2007, in part, due to recent increases in interest rates. Business investment will ease back, after several years of strong growth, but remain at historically high levels adding significantly to the State's productive capacity. Public demand growth will be firm.

Notwithstanding the above, any further interest rate increases would have a significant negative impact on the NSW economy. Each 25 basis point rise in interest rates is estimated to reduce NSW GSP by around one-quarter percentage point.

Table 1.1: Economic Performance and Outlook ^(a)

	Actual 2005-06 Outcome	Budget 2006-07 Forecast	Revised 2006-07 Forecast	Medium Term Projection
New South Wales				
State final demand	2.2	2½	1½	
Gross state product	1.4	2½	1½	3¼
Employment	1.6	1¼	1¼	1¼
Unemployment rate (year average, per cent)	5.3	5¼	5¼	
Sydney CPI	3	2¾	3	2½
Wage price index	4.1	4	4	3½
Australia				
Non-farm GDP deflator	3.8	2¾	3¾	
Ten year bond rate (year average, per cent)	5.4	5¾	5¾	5¾

(a) Per cent change, year average, unless otherwise indicated

World Economy

World economic growth in 2006 has strengthened somewhat since the Budget, and appears likely to remain firm (though slightly more moderate) in 2007, as indicated by recent upgrades to IMF and OECD forecasts for the global economy. The driver of global growth is moving from the United States to Europe, with growth remaining very strong in China and other Asian economies. A solid global economy should help sustain Australian exports and real household incomes, much as expected in the 2006-07 Budget.

It is possible, however, that the global resources boom may be nearing a peak, due to slowing United States demand and expanding global mining capacity. Other risks in the global outlook include the possibility of a steeper than expected downturn in the United States housing market, a rise in protectionism following failure of the Doha round of world trade negotiations, the possibility of further spikes in oil prices, and the risk to financial markets from accumulated global payments imbalances.

Australian Economy

National output growth remained subdued in the year to September. Factors weighing on the economy in the first half of 2006-07 were two further interest rate increases by the Reserve Bank of Australia (August and November), sharply elevated petrol prices and a significant deterioration in drought-affected agriculture. After several years of strong expansion, the business investment cycle showed signs of levelling out. Exports remained sluggish, reflecting the lag between new investment and output.

On the positive side, household spending power was buoyed by strong equity markets, gains in real income and strong growth in employment. Higher petrol prices and the impact of weather events on agriculture produced a spike in consumer prices in the June and September quarters, but wage pressures remained well anchored. While the RBA retained a mild tightening bias in its November *Statement on Monetary Policy*, the case for further rate moves appeared to be weakening with the flow of softening economic data.

The conundrum of slow output growth alongside firm employment growth has continued in the period since the Budget. At the half-way mark through 2006-07, trend labour market indicators appear to be providing a more accurate representation of the state of the economy than traditional output indicators.

New South Wales Economy

State final demand increased by 0.8 per cent through the year to September 2006, a more moderate result than the national average and a slowdown from NSW growth in earlier periods. While private consumption and public investment remain robust, private sector investment has softened.

Private consumption has held up well despite shocks from higher mortgage interest payments and petrol prices. Consumer spending accelerated to 2.5 per cent in the year to September, up from growth of less than 2 per cent during the preceding four quarters. Consumers are responding favourably to positive trends in the employment market, real wage growth, rising equity prices and the fallback in oil prices since July.

While the housing market was showing signs of recovery in early 2006, interest rates increases since then have delayed any substantial lift in activity. A sustained upswing in the dwelling sector seems increasingly unlikely to get under way before mid-2007. That said, building approval trends appear to have stabilised and perhaps neared a turning point in recent months. Softening house prices and firm growth in employment and earnings are improving affordability for new owner-occupiers. Preconditions for improved investor activity are in place with vacancy rates at low levels and rental prices rising.

After very strong growth of 61 per cent in the four years to 2005-06, business investment slowed in 2006. This may reflect competitiveness pressures from the rising Australian dollar and investment cost pressures from skilled labour shortages due to the resources boom. It also reflects the completion or near completion of major state infrastructure public-private partnership (PPP) projects such as the cross city tunnel, the M7 and the Lane Cove tunnel. Even so, business investment will remain at historically high levels and will make significant additions to the State's capital stock and productive capacity.

Stronger public investment has partly compensated for weaker trends in the private sector. Growth in investment by government and public enterprises strengthened to 8.8 per cent per annum in September 2006, from 3.1 per cent a year earlier. Real public sector investment was \$11.9 billion in the year ending September, compared to \$11.2 billion the previous year.

NSW exports performance kept pace with the national economy, rising by 5.7 per cent through the year to September. The outlook for the remainder of 2006-07, however, has weakened due to the drought. Contrasting with Budget time predictions of a small rise in agricultural production, ABARE forecasts issued in December expect that NSW winter crop production in 2006-07 will be 72 per cent less than a year earlier – even more severe than the 62 per cent downturn expected in national crop production. ABARE and the Australian Bureau of Statistics have estimated that the drought's direct impact will detract between 0.5 and 0.7 of a percentage point from national GDP growth.

Employment growth averaged 1.4 per cent in annual terms during the first five months of 2006-07. The unemployment rate remained low in historical terms, averaging 5.3 per cent from July through November. Employment growth therefore should be in line with Budget time expectations for 2006-07 as a whole. NSW will continue to have a higher percentage of full-time employees than the national average. The year average unemployment rate is likely to be around 5¼ per cent, in line with the Budget forecast. The participation rate is expected to rise slightly from current historically high levels.

Despite tight national labour market conditions, particularly in the construction and resources sectors, wage pressures in New South Wales remained well contained at the beginning of 2006-07. Annual growth in the NSW wage price index was 3.8 per cent in the year to September, compared to 4.2 per cent a year earlier.

A spike in world oil prices and weather-affected agricultural prices led to large CPI increases in the June and September quarters 2006. While prices for these commodities will fall back in coming months, year average CPI inflation will be above Budget expectations.

Interest Rates

Based on their assessment in the November *Statement on Monetary Policy*, the Reserve Bank of Australia (RBA) is assumed to leave the cash rate on hold at 6¼ per cent through the remainder of 2006-07. The step-down in economic growth rates documented in the June and September quarter National Accounts, the weak state of the housing sector and the intensifying drought should weigh against further monetary policy tightening. Long bond rates are expected to average 5¾ per cent during 2006-07, in line with the Budget.

2. FISCAL POSITION AND OUTLOOK

2.1 PROJECTED RESULTS FOR 2006-07

Table 2.1: General Government Sector 2006-07 Operating Statement

	2005-06	2006-07		Variance \$m	4 Months to
	Actual \$m	Budget \$m	Projection \$m		31/10/2006 Actual \$m
State Revenues					
Taxation	15,917	16,719	16,714	(5)	5,534
Commonwealth Grants	17,088	17,625	17,767	142	5,982
Financial Distributions	1,844	1,664	1,675	11	564
Fines, Regulatory Fees & Other	1,278	1,167	1,192	25	416
Total State Revenues	36,127	37,175	37,348	173	12,496
Operating Revenues					
Sale of Goods and Services	3,042	2,999	3,220	221 ^(a)	1,120
Investment Income	1,268	914	1,149	235	502
Grants and Contributions	835	789	746	(43)	258
Other	355	319	338	19	137
Total Operating Revenues	5,500	5,021	5,453	432	2,017
TOTAL REVENUES	41,627	42,196	42,801	605	14,513
Expenses					
Employee Related					
- Superannuation	2,720	2,600	2,647	47	871
- Other	17,788	18,202	18,615	413 ^(a)	6,133
Other Operating	8,549	9,760	9,588	(172) ^(b)	2,877
Depreciation and Amortisation	2,120	2,245	2,270	25	743
Current Grants and Subsidies	6,664	7,179	7,257	78	2,480
Capital Grants	1,569	1,670	1,744	74	410
Finance	1,183	991	1,177	186 ^(b)	298
Treasurer's Advance	...	245	...	(245)	...
Total Expenses	40,593	42,892	43,298	406	13,812
BUDGET RESULT	1,034	(696)	(497)	199	701
Capital expenditure	3,956	4,387	4,575	(188)	1,156

(a) The increase in Sale of Goods and Services and Other Employee Related Expenses includes \$181 million resulting from the impact of the WorkChoices Insulation Legislation.

(b) Under international accounting standards certain transactions that were previously classified as other operating expenses are now classified as finance costs. This is the principal reason that finance costs for 2006-07 are \$186 million above the Budget time estimate and other operating expenses are \$172 million below the Budget time estimate.

BUDGET RESULT

Revenues

Total revenue is projected to be \$42,801 million. This is \$605 million, or 1.4 per cent, higher than at budget time. This mainly reflects higher operating revenues (up 8.6 per cent or \$432 million) and Commonwealth grants (up 0.8 per cent or \$142 million). However after allowing for the impact of the State's WorkChoices Insulation legislation and higher Commonwealth funding for the drought total revenue has increased by \$218 million or 0.5 per cent.

Taxation revenue is expected to be close to the Budget estimate. However, there are some offsetting changes that underpin this outlook. Table 2.2 provides details of the revised taxation revenue estimates.

Table 2.2: Taxation Revenue

	2005-06	2006-07		2007-08	2008-09	2009-10
	Actual \$m	Budget \$m	Revised \$m	Forward Estimates \$m		
Stamp Duties						
Purchaser Transfer Duty	3,144	3,250	3,250	3,490	3,780	4,100
Other Stamp Duties	1,683	1,742	1,727	1,703	1,701	1,652
Payroll Tax	5,179	5,438	5,432	5,862	6,222	6,597
Land Tax	1,717	1,793	1,848 ^(a)	1,773	1,847	1,959
Taxes on Motor Vehicle Ownership and Operation	1,341	1,397	1,402	1,474	1,550	1,624
Gambling and Betting	1,520	1,671	1,665	1,624	1,685	1,775
Other Tax Revenues	1,346	1,428	1,390	1,463	1,548	1,612
Total Tax Revenue	15,930	16,719	16,714	17,389	18,333	19,319

(a) The increase in Land tax revenues comprises additional revenue from the 2006 land tax year of \$144 million offset by lower revenues from the 2007 Land Tax Year of \$89 million.

Assessments for the 2006 land tax year issued after 30 June 2006 are included in 2006-07 revenue estimates. Thus land tax revenue accrued in the 2006-07 financial year will be a combination of revenue from the 2006 and 2007 land tax years.

Land tax in 2006-07 is projected to be \$55 million higher than budget. While land values for the 2007 land tax year are lower than expected, the reduction in revenue associated with those lower land values (\$89 million) is more than offset by the higher than expected number of assessments relating to the 2006 land tax year (\$144 million).

The three year averaging policy introduced in the 2006-07 Budget will save taxpayers approximately \$40 million in 2006-07, compared with the previous policy.

The transfer duty estimate has been maintained at \$3,250 million in 2006-07. Residential property market activity has been slightly lower than expected following the impact of interest rate increases on the household sector this year. In contrast, revenue from high value commercial property sales has been stronger than expected.

Other tax revenues are \$38 million lower, reflecting downward revisions to the estimates of Workcover and Workers' Compensation (Dust Diseases) Board revenue. The \$15 million reduction in other stamp duties is mainly due to lower estimates of insurance duty and motor vehicle registration certificates duty.

Commonwealth grants revenue is projected to exceed the budget estimate by \$142 million. The major changes since budget have been higher Specific Purpose Payments (SPPs) for drought assistance and lower SPPs for land transport and health. However, there are offsetting expenditures changes associated with most of these SPPs. The estimate of GST revenue grants is unchanged.

Financial distributions are \$11 million higher than their budget estimates, with a \$34 million increase in income tax equivalents and \$23 million decrease in dividends.

Operating revenues are expected to be \$432 million higher than budgeted, reflecting a number of factors including higher than expected returns on investments and inclusion of personnel services revenue following the State's response to the Commonwealth's WorkChoices legislation. There are offsetting expenditure increases associated with the personnel services revenue.

Expenses

Expenses are projected to exceed the budget estimate by 0.9 per cent, or \$406 million. However, after adjusting for the impact of the State's WorkChoice Insulation legislation and Commonwealth funded drought expenditure, total expenses have only increased by 0.04 per cent or \$19 million. Additional resources have been made available to the following priority areas:

- The continuation of the drought is projected to result in Exceptional Circumstances support paid by Rural Assistance Authority increasing by \$227 million. Commonwealth grants will meet 90 per cent of this additional expenditure.
- The transport agencies will receive an additional funding to reduce debt levels and to fund the replacement of timber bridges on the State's road network. Additional transport expenses will total \$140 million in 2006-07.
- Higher than expected government school enrolments (\$43 million), the impact of additional school capital expenditure late 2005-06 on depreciation expenses (\$10 million) and higher school revenues (\$24 million) will result in the expenses of the Department of Education and Training being higher than budgeted.
- The Department of Corrective Services expects cost increases of \$23 million. This reflects additional spending associated with increased inmate numbers (\$9 million), the expansion of the Community Offender Services (\$6 million) and the continuation of the Drug Court program (\$2 million).
- The number of First Home Owners Grant Scheme applications is greater than originally expected at Budget time. The estimated additional cost is \$39 million in 2006-07.

The more significant reductions in expenses offsetting the above increases are:

- The Motor Accident Authority has identified reductions of \$24 million in outstanding HIH claims. Claims are being settled at lesser amounts than originally forecast.
- The NSW Self Insurance Corporation expects to reduce expenses by \$149 million. The main factors are significant reductions in the outstanding claims of the public liability and workers' compensation portfolios. The reductions are based on continued better than expected claims experience and the effectiveness of Government's workers compensation and tort law legislative reforms.

Some of the above increases in expenses have been offset by a drawdown from the Treasurer's Advance.

CAPITAL EXPENDITURE

Capital expenditure is projected to be \$188 million higher than budget mainly due to an accounting adjustment associated with the acquisition of buses under the new metropolitan bus contracting regime. Under the new contracting framework, new bus purchases are recognised as assets acquired under a finance lease.

Table 2.4: 2006-07 Statement of Financial Position

	June 2006 Actual \$m	June 2007 Budget \$m	June 2007 Projection \$m	Variance \$m	October 2006 Actual \$m
ASSETS					
Financial Assets					
Cash and Deposits	2,395	1,036	2,298	1,262	4,548
Advances Paid	852	1,255	891	(364)	839
Investments, Loans and Placements	13,959	8,373	7,156	(1,217)	13,463
Other Non-Equity Assets	9,479	9,470	9,373	(97)	9,652
PTE/PFE Equity	63,990	65,134	65,735	601	64,314
Other Equity Assets	1,456	697	1,522	825	1,456
Total Financial Assets	92,131	85,965	86,975	1,010	94,272
Non-Financial Assets					
Land and Fixed Assets	89,752	88,619	92,146	3,527	89,744
Other Non-Financial Assets	1,214	1,600	1,128	(472)	1,084
Total Non-Financial Assets	90,966	90,219	93,274	3,055	90,828
TOTAL ASSETS	183,097	176,184	180,249	4,065	185,100
LIABILITIES					
Deposits Held	92	86	93	7	72
Advances Received	920	1,467	890	(577)	918
Borrowing	12,045	15,301	13,343	(1,958)	14,395
Provisions	23,155	28,179	30,466	2,287	35,371
Other Non-Equity Liabilities	19,067	4,841	5,456	615	5,710
TOTAL LIABILITIES	55,279	49,874	50,248	374	56,466
NET WORTH	127,818	126,310	130,001	3,691	128,634
Underlying Net Debt ^(a)	1,158	6,190	3,981	(2,209)	2,041
Net Financial Liabilities ^(b)	27,138	29,044	29,008	(36)	26,508

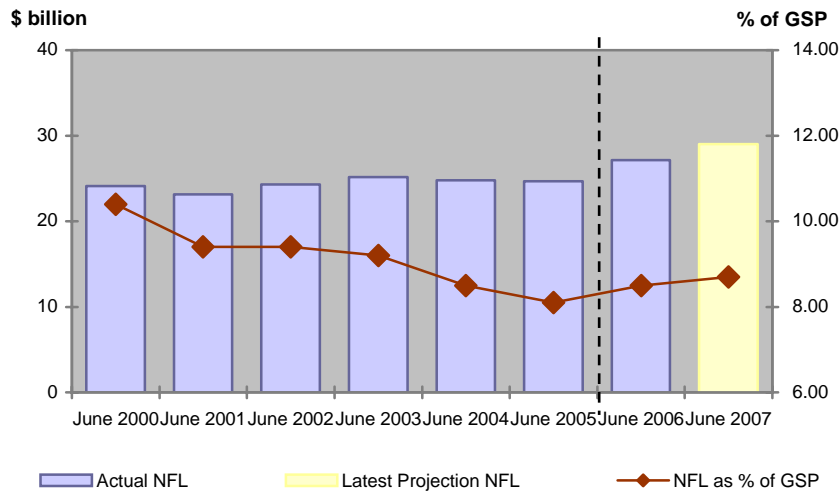
(a) Underlying Net Debt in June 2006 excludes financial assets held by the Liability Management Fund.

(b) Excludes PTE/PFE Equity.

NET FINANCIAL LIABILITIES

Net financial liabilities are expected to be \$29,008 million at 30 June 2007, which is close to the Budget time estimate of \$29,044 million.

Figure 2.1: General Government Net Financial Liabilities (NFL) ^(a)

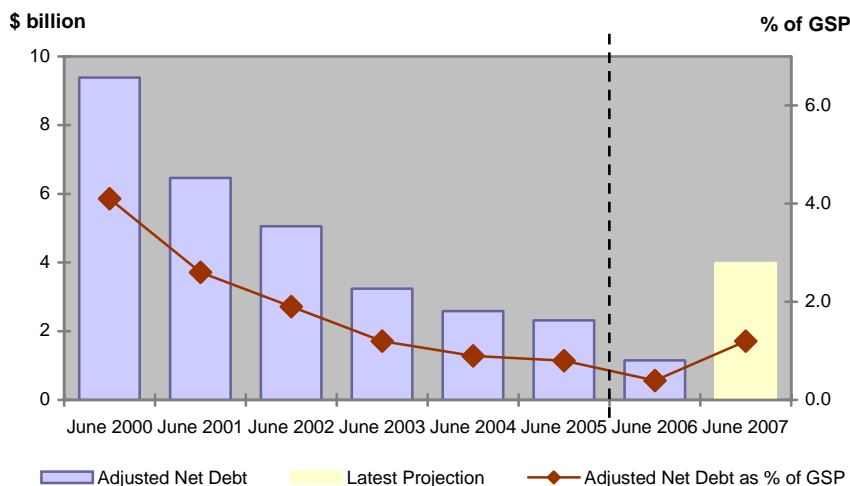


(a) Statements have been prepared assuming existing Australian Accounting Standards (AGAAP) for all years up to and including 2004-05 and Australian Equivalents to International Financial Reporting Standards (AEIFRS) for 2005-06 and all forward years.

NET DEBT

Underlying net debt at June 2007 is projected to be \$3,981 million, which is \$2,209 million lower than the budget time estimate of \$6,190 million. This is largely due to a reduction in expected cash superannuation contributions and the better than expected cash result for 2005-06.

Figure 2.2: General Government Underlying Net Debt ^(a)



(a) Statements have been prepared assuming existing Australian Accounting Standards (AGAAP) for all years up to and including 2004-05 and Australian Equivalents to International Financial Reporting Standards (AEIFRS) for 2005-06 and all forward years.

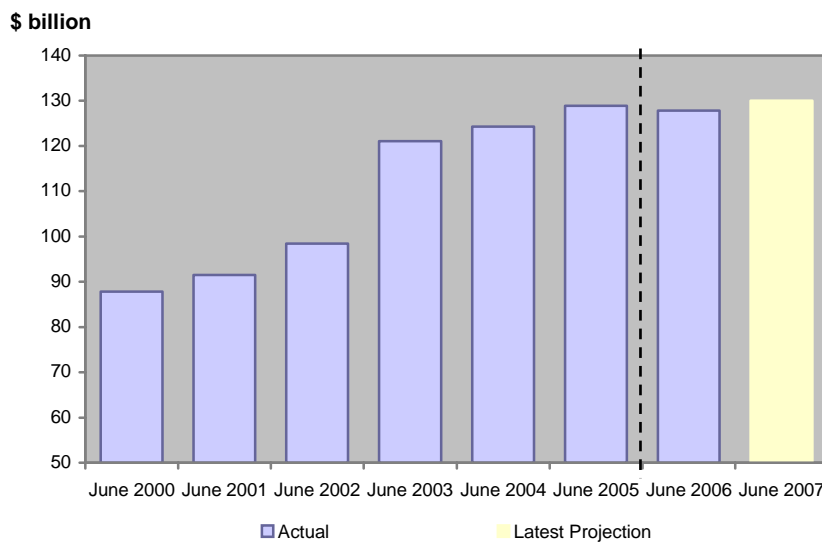
NET WORTH

General government sector net worth is projected to be \$130,001 million as at June 2007. This is \$3,691 million higher than the budgeted figure of \$126,310 million.

The majority of the improvement in net worth occurred between the June 2006 budget time projection and the actual June 2006 result (\$3,648 million).

Assets increased from revaluations in the general government sector of \$3,249 million (Education and Training, Roads and Traffic Authority, Health, Environmental Planning and Assessment Act) and \$1,552 million in the Public Trading Enterprise sector (Sydney Opera House and the Electricity sector). These were offset by the write down of \$1,497 million in the Housing and Water sectors.

Figure 2.3: Net Worth of the General Government Sector ^(a)



(a) Statements have been prepared assuming existing Australian Accounting Standards (GAAP) for all years up to and including 2004-05 and Australian Equivalents to International Financial Reporting Standards (AEIFRS) for 2005-06 and all forward years.

Table 2.5: 2006-07 GFS Cash Results

	2005-06	2006-07		Variance \$m	4 Months to 31/10/2006
	Actual \$m	Budget \$m	Projection \$m		Actual \$m
Cash Receipts from Operating Activities					
Taxes Received	15,971	16,574	16,613	39	5,522
Receipts from sales of goods & services	3,398	3,259	3,537	278	1,205
Grants/Subsidies Received	20,940	17,976	18,101	125	6,070
Other Receipts	6,395	6,068	6,450	382	2,388
Total Cash Receipts from Operating Activities	46,704	43,877	44,701	824	15,185
Cash Payments from Operating Activities					
Payments for goods & services	(28,414)	(39,003)	(37,911)	1,092	(11,513)
Grants & Subsidies Paid	(9,051)	(7,285)	(7,471)	(186)	(2,399)
Interest Paid	(1,005)	(977)	(909)	68	(234)
Other Payments	(2,561)	(2,518)	(2,655)	(137)	(768)
Total Cash Payments from Operating Activities	(41,031)	(49,783)	(48,946)	837	(14,914)
Net Cash Flows from Operating Activities	5,673	(5,906)	(4,245)	1,661	271
Cash Flows from Investments in Non-Financial Assets					
Purchases of New Non-Financial Assets	(3,863)	(4,371)	(4,404)	(33)	(1,234)
Sale of Non-Financial Assets	438	476	511	35	129
Total Cash Flows from Investments in Non-Financial Assets	(3,425)	(3,895)	(3,893)	2	(1,105)
Cash Flows from Investments in Financial Assets					
Financial Assets for Policy Purposes	47	203	158	(45)	...
Financial Assets for Liquidity Purposes	(1,994)	6,258	6,759	501	475
Total Cash Flows from Investments in Financial Assets	(1,947)	6,461	6,917	456	475
Cash Flows from Financing Activities					
Advances Received (net)	(135)	(47)	(49)	(2)	18
Borrowing (net)	653	3,341	1,174	(2,167)	293
Deposits Received (net)	(5)	...	(37)	(37)	(34)
Other Financing (net)	(1)	...	1	1	(3)
Total Cash Flows from Financing Activities	512	3,294	1,089	(2,205)	274
Net Increase/(Decrease) in Cash Held	813	(46)	(132)	(86)	(85)
Net Cash from Operating Activities, Investments in Non-Financial Assets and Distributions Paid	2,248	(9,801)	(8,138)	1,663	(834)
Assets acquired under finance leases	(81)	(15)	(178)	(163)	(33)
Surplus/(Deficit)	2,167	(9,816)	(8,316)	1,500	(867)
Impact of prepaid superannuation contributions					
Liability Management Fund	(1,307)	5,235	5,307	72	80
Adjusted Surplus/(Deficit)	860	(4,581)	(3,009)	1,572	(787)

The projected underlying cash deficit for 2006-07 of \$3,009 million is a \$1,572 million improvement compared with budget. This is due to the reduction in superannuation contributions transferred to the superannuation fund trustee.

2.2 FORWARD ESTIMATES 2007-08 TO 2009-10

Table 2.6: General Government Sector Operating Statement - 2006-07 to 2009-10

	2006-07 Latest Projection \$m	2007-08 Estimate \$m	2008-09 Estimate \$m	2009-10 Estimate \$m
State Revenues				
Taxation	16,714	17,389	18,333	19,319
Commonwealth Grants	17,767	18,762	19,247	20,224
Financial Distributions	1,675	1,952	1,930	2,097
Fines, Regulatory Fees & Other	1,192	1,156	1,171	1,245
Total State Revenues	37,348	39,259	40,681	42,885
Operating Revenues				
Sale of Goods and Services	3,220	3,379	3,507	3,579
Investment Income	1,148	749	784	831
Grants and Contributions	746	749	753	750
Other	339	271	654	289
Total Operating Revenues	5,453	5,148	5,698	5,449
TOTAL REVENUES	42,801	44,407	46,379	48,334
Expenses				
Employee Related				
- Superannuation	2,647	2,455	2,493	2,506
- Other	18,615	19,025	19,711	20,269
Other Operating	9,588	10,161	10,484	10,794
Depreciation and Amortisation	2,270	2,408	2,534	2,655
Current Grants and Subsidies	7,257	7,264	7,706	7,778
Capital Grants	1,744	1,394	1,556	1,915
Finance	1,177	1,314	1,457	1,572
Total Expenses	43,298	44,021	45,941	47,489
BUDGET RESULT	(497)	386	438	845
Capital expenditure	4,575	4,668	4,520	4,654
Adjusted Cash Surplus/(Deficit) ^(a)	(3,009)	(1,604)	(1,352)	(707)
Adjusted Net Debt ^(b)	3,981	5,779	7,064	7,844
Net Financial Liabilities ^(c)	29,008	30,729	32,409	33,082

(a) The Adjusted Surplus/(Deficit) includes the cash flows associated with transfers to the Liability Management Fund.

(b) Adjusted Net Debt excludes financial assets held by the Liability Management Fund.

(c) Excludes PTE/PFE Equity.

FORWARD ESTIMATES

The 2006-07 projections are discussed in section 2.1 of this Review. The revised results for 2007-08 onwards are driven by a number of post budget developments, the most significant of which are:

- Increased funding to the Transport agencies for initiatives announced by the Premier in NSW Government Urban Transport Statement in November 2006 including accelerated funding of the North West, South West, Second Harbour Crossing and Richmond rail lines;
- Changes in the timing of expenditure by the Catchment Management Authorities on the protection of land and water resources;
- Variations in the timing of expenditure by the Roads and Traffic Authority on the Hume and Pacific Highways (impacting the timing of revenue recognition)¹ and the completion and transfer of the Tugun Bypass to the State in 2008-09;
- The flow on of lower than anticipated land valuations for the 2007 land tax year on land tax revenues in future years; and
- An increase in agency efficiency dividends by \$100 million to \$300 million in 2008-09 and the introduction of a \$300 million dividend in 2009-10.

Table 2.7: Budget Results

	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m
Budget Time	-696	378	707	1,099
Half-Yearly Budget Review	-497	386	438	845
Half-Yearly Budget Review before rail projects ^(a)	-497	442	684	1,520

(a) Budget result excluding accelerated funding for North West, South West, Second Harbour Crossing and the Richmond rail lines

NET FINANCIAL LIABILITIES

Net financial liabilities are expected to increase from \$29.0 billion as at June 2007 to \$33.1 billion as at June 2010, due to projected net lending deficits and the revaluation of superannuation liabilities by approximately by \$1 billion in 2006-07. However, as a proportion of GSP, net financial liabilities will decline from 8.7 per cent to 8.4 per cent.

¹ Under a ruling by the Australian Bureau of Statistics, revenues associated with the accelerated development of the Hume and Pacific Highways are recognised at the time the funds are spent.

APPENDIX A: UNIFORM PRESENTATION OF GOVERNMENT FINANCE STATISTICS

A Uniform Presentation Framework (UPF) for financial aggregates has been agreed between the Commonwealth, State and Territory Governments.

As part of the Framework, each jurisdiction is to publish a mid year report, i.e. a Half-Yearly Budget Review, by the end of February each year. The financial data in this report is consistent with the Australian Bureau of Statistics (ABS) Government Finance Statistics (GFS). This UPF report is prepared on an accrual basis and includes operating statements, balance sheets and cash flow statements for NSW General Government Sector, Public Non-Financial Corporation Sector and Total Non-Financial Public Sector. In the GFS classification scheme each state public sector body is categorised into one of three sectors:

- General Government (GG), which covers all agencies that are generally engaged in the production of goods and services outside the normal market mechanisms;
- Public Non-financial Corporations (PNFC)^(a) which are largely self-funded from user charges and have been given a specific charter to run their businesses on commercial lines, including the achievement of a commercial rate of return on the resources employed (PNFCs are responsible for supplying public infrastructure services, including electricity, ports, water and public transport); and
- Public Financial Corporations (PFC)^(b) which may accept demand time or savings deposits and/or have the authority to incur liabilities and acquire financial assets in the market on their own account (an example of a PFC is NSW Treasury Corporation).

The Half-Yearly Budget Review presents revised fiscal estimates for the current Budget year and the three following years for the GG Sector. In addition, revised estimates are presented for the PNFC Sector and the Total Non-financial Public Sector (i.e. a consolidation of the GG Sector and the PNFC Sector). These revised estimates take into account fiscal and economic developments since the commencement of the budget year.

The Half-Yearly Budget Review also includes a revised estimate of the Loan Council Allocation.

TREATMENT OF CERTAIN COMMONWEALTH PAYMENTS

The estimates in this appendix differ from those contained in the main body of the Review because of the treatment of selected Commonwealth payments.

For certain Commonwealth payments (e.g. non-government schools and local government road funding) the State essentially acts as an agent of the Commonwealth. Despite the fact that the State has no control over these payments and is not involved in any negotiations concerning them, GFS conventions require their inclusion in the State sector.

While the inclusion of these payments does not distort the underlying financial position, the growth in expenditure in these areas can be significantly different than for the remainder of the State sector. In light of these considerations, certain Commonwealth grants classified as passing through (rather than to) the State in the Commonwealth Budget are excluded from the tables in the main body of this review.

Notes:

(a) The PNFC sector was formerly known as the Public Trading Enterprise or PTE sector.

(b) The PFC sector was formerly known as the Public Financial Enterprise or PFE sector.

PUBLIC NON-FINANCIAL CORPORATIONS SECTOR PERFORMANCE

The commercial policy framework that applies to the Public Non-financial Corporation (PNFC) Sector is designed to promote the appropriate management of financial risk and shareholder value. Therefore it is to be expected that the performance of the sector will reflect reasonable commercial outcomes, while being mindful of the constraints under which a number of New South Wales PNFCs operate.

The considerations influencing the management of financial liabilities of PNFCs differ from those relevant to the General Government Sector. The financial liabilities of commercial enterprises, for the most part, support assets that earn a financial return in addition to providing public services. In contrast, assets held by the General Government Sector do not earn market returns and are funded from taxation revenue.

The amount of debt held by PNFCs should generally reflect typical gearing levels of private firms in the relevant industries, in order to provide incentives for public enterprises to use their resources efficiently. Net debt of the PNFC Sector will increase over the forward estimates period, reflecting the continuing shift to commercially comparable gearing levels and new investment in electricity networks, water and sewerage systems, rail and other infrastructure.

The PNFC Operating Statement is reported in Table A-2. The 2006-07 Net Operating Balance is projected to be a \$386 million surplus compared to the \$39 million budget estimate. This improvement of \$347 million represents a variance of slightly more than 2 per cent compared to budgeted total expenses.

During 2006-07 PNFCs will be investing approximately \$6 billion in transport, power, water and other infrastructure.

The Sector's Net Borrowing result for the year is projected to be \$3,408 million compared to the budget of \$3,145 million. This is a result of the revised Net Operating Balance, offset by the increase in spending on infrastructure. The projected increase in Net Borrowing is also affected by changes in inventory levels. Revised projections include higher inventory levels held by Landcom due to property acquisitions in preparation for further development.

The equity of the PNFC Sector, reported in Table A-5, is expected to be \$65,894 million by June 2007, which is slightly more than budget.

Table A-8 reports a projected cash deficit for the PNFC Sector of \$3,559 million compared to the budgeted deficit of \$3,200 million. This is primarily explained by the factors outlined above for the Net Borrowing result.

Table A-1: NSW General Government Sector Operating Statement (ABS Basis)

	Budget 2006-07 \$m	Revised Estimates 2006-07 \$m	Forward Estimates		
			2007-08 \$m	2008-09 \$m	2009-10 \$m
GFS Revenue					
Taxation revenue	16,719	16,714	17,389	18,333	19,319
Current grants and subsidies	19,144	19,323	20,107	20,860	21,777
Capital grants	1,333	1,308	1,521	1,241	1,273
Sales of goods and services	3,259	3,495	3,642	3,808	3,912
Interest income	914	1,148	749	784	831
Other	3,229	3,215	3,401	3,755	3,623
Total revenue	44,598	45,203	46,809	48,781	50,735
less GFS Expenses					
Employee expenses	19,927	20,144	20,665	21,378	21,934
Depreciation	2,245	2,270	2,408	2,534	2,655
Other operating expenses	11,244	10,894	11,403	11,751	12,114
Nominal superannuation interest expense	652	794	549	556	563
Other interest expenses	991	1,177	1,314	1,457	1,572
Other property expenses	...	...	...	...	...
Current transfers	8,488	8,600	8,614	9,033	9,060
Capital transfers	1,747	1,821	1,470	1,634	1,992
Total expenses	45,294	45,700	46,423	48,343	49,890
equals GFS net operating balance	(696)	(497)	386	438	845
less Net acquisition of non-financial assets					
Purchases of non-financial assets	4,371	4,397	4,491	4,197	4,595
less Sales of non-financial assets	(459)	(476)	(427)	(403)	(462)
less Depreciation	(2,245)	(2,270)	(2,408)	(2,534)	(2,655)
plus Change in inventories	(3)	4	(2)	(4)	2
plus Other movements in non-financial assets					
- finance leases ^(a)	16	178	177	323	59
- other	90	70	59	437	78
equals Total net acquisition of non-financial assets	1,770	1,903	1,890	2,016	1,617
equals GFS Net lending / (Borrowing)^(b)	(2,466)	(2,400)	(1,504)	(1,578)	(772)

Notes:

(a) Elsewhere in the 2006-07 Half-Yearly Budget Review references are made to Capital Expenditure which comprises purchases of non-financial assets and assets acquired under finance lease arrangements.

(b) Also known as Fiscal Balance.

**Table A-2: NSW Public Non-financial Corporation Sector Operating Statement
(ABS Basis)**

	Budget 2006-07 \$m	Revised Estimates 2006-07 \$m	Forward Estimates		
			2007-08 \$m	2008-09 \$m	2009-10 \$m
GFS Revenue					
Sales of goods and services	10,773	10,801	11,517	12,172	13,009
Current grants and subsidies	2,111	2,072	2,182	2,318	2,338
Capital grants	983	1,101	786	1,064	1,431
Interest income	61	80	60	59	60
Other	694	708	762	714	729
Total revenue	14,622	14,762	15,307	16,327	17,567
less GFS Expenses					
Employee expenses	3,401	3,449	3,426	3,555	3,690
Depreciation	2,238	2,198	2,379	2,520	2,680
Other operating expenses	6,132	5,853	6,074	6,184	6,541
Interest expenses	1,040	1,026	1,179	1,460	1,637
Other property expenses	1,553	1,598	1,840	1,814	1,977
Current transfers	219	252	214	219	195
Capital transfers	...	...	7	...	...
Total expenses	14,583	14,376	15,119	15,752	16,720
equals GFS net operating balance	39	386	188	575	847
less Net acquisition of non-financial assets					
Purchase of non-financial assets	5,559	5,961	6,488	6,637	6,527
less Sales of non-financial assets	(295)	(273)	(384)	(435)	(387)
less Depreciation	(2,238)	(2,198)	(2,379)	(2,520)	(2,680)
plus Change in inventories	15	174	106	14	77
plus Other movements in non-financial assets					
- finance leases ^(a)	...	...	...	...	...
- other	143	130	117	114	117
equals Total net acquisition of non-financial assets	3,184	3,794	3,948	3,810	3,654
equals GFS Net lending / (Borrowing) ^(b)	(3,145)	(3,408)	(3,760)	(3,235)	(2,807)

Notes:

(a) Elsewhere in the 2006-07 Half-Yearly Budget Review references are made to Capital Expenditure which comprises purchases of non-financial assets and assets acquired under finance lease arrangements.

(b) Also known as Fiscal Balance.

Table A-3: NSW Non-financial Public Sector Operating Statement (ABS Basis)

	Budget 2006-07 \$m	Revised Estimates 2006-07 \$m	Forward Estimates		
			2007-08 \$m	2008-09 \$m	2009-10 \$m
GFS Revenue					
Taxation revenue	16,014	15,992	16,631	17,535	18,490
Current grants and subsidies	19,013	19,188	19,990	20,744	21,691
Sales of goods and services	13,889	14,077	14,940	15,754	16,690
Capital grants	1,333	1,308	1,514	1,240	1,273
Interest income	926	1,163	745	779	826
Other	2,343	2,305	2,287	2,623	2,339
Total revenue	53,518	54,033	56,107	58,675	61,309
less GFS Expenses					
Employee expenses	23,320	23,589	24,087	24,929	25,620
Depreciation	4,482	4,468	4,788	5,053	5,335
Other operating expenses	16,511	15,780	16,438	16,879	17,548
Nominal superannuation interest expense	652	801	555	555	562
Other interest expenses	1,983	2,129	2,424	2,854	3,145
Other Property expenses	...	...	...	...	...
Current transfers	6,490	6,668	6,538	6,709	6,794
Capital transfers	737	709	702	683	613
Total expenses	54,175	54,144	55,532	57,662	59,617
equals GFS net operating balance	(657)	(111)	575	1,013	1,692
less Net acquisition of non-financial assets					
Purchase of non-financial assets	9,925	10,352	10,974	10,828	11,116
less Sales of non-financial assets	(754)	(748)	(810)	(838)	(849)
less Depreciation	(4,482)	(4,468)	(4,788)	(5,053)	(5,335)
plus Change in inventories	12	178	105	10	79
plus Other movements in non-financial assets					
- finance leases ^(a)	15	178	177	323	59
- other	233	200	175	550	195
equals Total net acquisition of non-financial assets	4,949	5,692	5,833	5,820	5,265
equals GFS Net lending / (Borrowing) ^(b)	(5,606)	(5,803)	(5,258)	(4,807)	(3,573)

Notes:

(a) Elsewhere in the 2006-07 Half-Yearly Budget Review references are made to Capital Expenditure which comprises purchases of non-financial assets and assets acquired under finance lease arrangements.

(b) Also known as Fiscal Balance.

Table A-4: NSW General Government Sector Balance Sheet (ABS Basis)

	<i>Budget</i>	<i>Revised</i>	<i>Forward Estimates</i>				
			<i>June 2007</i>	<i>June 2007</i>	<i>June 2008</i>	<i>June 2009</i>	<i>June 2010</i>
			<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>
Assets							
Financial assets							
Cash and deposits	1,036	2,299	2,220	1,958	1,844		
Advances paid	1,255	891	930	985	1,022		
Investments, loans and placements	8,373	7,156	7,587	8,091	8,589		
Other non-equity assets	9,470	9,373	9,556	9,469	9,819		
Equity	65,831	67,257	68,430	69,770	72,561		
Total financial assets	85,965	86,976	88,723	90,273	93,835		
Non-financial assets							
Land and fixed assets	88,619	92,146	96,051	98,989	101,784		
Other non-financial assets	1,600	1,128	1,218	1,315	1,413		
Total non-financial assets	90,219	93,274	97,269	100,304	103,197		
Total assets	176,184	180,250	185,992	190,577	197,032		
Liabilities							
Deposits held	86	93	94	94	93		
Advances received	1,467	890	863	835	806		
Borrowing	15,301	13,344	15,559	17,169	18,400		
Superannuation liability ^(a)	14,883	17,133	17,440	17,729	17,952		
Other employee entitlements and provisions	13,296	13,333	13,686	14,102	14,456		
Other non-equity liabilities	4,841	5,456	4,965	4,658	4,423		
Total liabilities	49,874	50,249	52,607	54,587	56,130		
NET WORTH	126,310	130,001	133,385	135,990	140,902		
Net Financial Worth ^(b)	36,091	36,727	36,116	35,686	37,705		
Net debt ^(c)	6,190	3,981	5,779	7,064	7,844		

Notes:

(a) Comprises unfunded obligations.

(b) Net financial worth equals total financial assets minus total liabilities.

(c) Net debt equals the sum of deposits held, advances received and borrowing, minus the sum of cash and deposits, advances paid, and investments, loans and placements.

Table A-5: NSW Public Non-financial Corporation Sector Balance Sheet (ABS Basis)

	Budget	Revised Estimate	Forward Estimates				
			June 2007	June 2007	June 2008	June 2009	June 2010
			\$m	\$m	\$m	\$m	\$m
Assets							
Financial assets							
Cash and deposits	1,071	1,166	998	990	934		
Investments, loans and placements	417	585	643	725	768		
Other non-equity assets	3,101	2,922	2,960	3,047	3,188		
Equity	68	69	83	93	104		
Total financial assets	4,657	4,742	4,684	4,855	4,994		
Non-financial assets							
Land and fixed assets	90,929	91,259	95,778	100,127	105,611		
Other non-financial assets	733	759	784	807	830		
Total non-financial assets	91,662	92,018	96,562	100,934	106,441		
Total assets	96,319	96,760	101,246	105,789	111,435		
Liabilities							
Deposits held	177	184	164	162	165		
Advances received	949	588	575	561	546		
Borrowing	18,436	18,379	21,667	25,071	27,563		
Superannuation liability / (prepaid contributions) ^(a)	90	19	(57)	(140)	(235)		
Other employee entitlements and provisions	8,588	8,430	8,512	8,484	8,945		
Other non-equity liabilities	2,648	3,266	3,413	3,403	3,510		
Total liabilities	30,888	30,866	34,274	37,541	40,494		
Shares and other contributed capital ^(b)	65,431	65,894	66,972	68,248	70,941		
NET WORTH	...	...	...	...	...
Net financial worth ^(c)	(91,662)	(92,018)	(96,562)	(100,934)	(106,441)		
Net debt ^(d)	18,074	17,400	20,765	24,079	26,572		

Notes:

(a) Comprises unfunded obligations or prepaid contribution (assets).

(b) The Australian Bureau of Statistics treats 'shares and other contributed capital' as a liability to the general government sector and deducts it to calculate a zero GFS net worth and negative net financial worth. However, these shares and other contributed capital reflect the value of the government's equity and cumulative earnings over time for the PTE sector.

(c) Net financial worth equals total financial assets minus total liabilities and minus shares and other contributed capital.

(d) Net debt equals the sum of deposits held, advances received and borrowing, minus the sum of cash and deposits, advances paid, and investments, loans and placements.

Table A-6: NSW Non-financial Public Sector Balance Sheet (ABS Basis)

	<i>Budget</i>	<i>Revised</i>	<i>Forward Estimates</i>				
			<i>June 2007</i>	<i>June 2007</i>	<i>June 2008</i>	<i>June 2009</i>	<i>June 2010</i>
			<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>
Assets							
Financial assets							
Cash and deposits	2,107	3,464	3,219	2,948	2,778		
Advances paid	305	307	359	428	480		
Investments, loans and placements	8,790	7,630	8,097	8,661	9,182		
Other non-equity assets	5,140	5,370	5,385	5,417	5,488		
Equity	469	1,433	1,541	1,615	1,724		
Total financial assets	16,811	18,204	18,601	19,069	19,652		
Non-financial assets							
Land and fixed assets	179,548	183,405	191,828	199,116	207,395		
Other non-financial assets	2,330	1,867	1,986	2,107	2,229		
Total non-financial assets	181,878	185,272	193,814	201,223	209,624		
Total assets	198,689	203,476	212,415	220,292	229,276		
Liabilities							
Deposits held	263	277	258	256	259		
Advances received	1,467	894	867	839	810		
Borrowing	33,737	31,611	37,094	42,085	45,787		
Superannuation liability ^(a)	14,974	17,153	17,383	17,589	17,717		
Other employee entitlements and provisions	15,525	15,802	16,023	16,449	16,854		
Other non-equity liabilities	6,413	7,738	7,405	7,084	6,947		
Total liabilities	72,379	73,475	79,030	84,302	88,374		
Shares and other contributed capital	...	...	...	...	...
NET WORTH	126,310	130,001	133,385	135,990	140,902		
Net financial worth ^(b)	(55,568)	(55,271)	(60,429)	(65,233)	(68,722)		
Net debt ^(c)	24,265	21,381	26,544	31,143	34,416		

*Notes:**(a) Comprises unfunded obligations.**(b) Net financial worth equals total financial assets minus total liabilities.**(c) Net debt equals the sum of deposits held, advances received and borrowing, minus the sum of cash and deposits, advances paid, and investments, loans and placements.*

Table A-7: NSW General Government Sector Cash Flow Statement^(a) (ABS Basis)

CASH FLOW	Budget 2006-07 \$m	Revised Estimate 2006-07 \$m	Forward Estimates		
			2007-08	2008-09	2009-10
			\$m	\$m	\$m
Cash receipts from operating activities					
Taxes received	16,574	16,613	17,411	18,362	19,363
Receipts from sales of goods and services	3,259	3,537	3,590	3,777	3,874
Grants/subsidies received	20,378	20,503	21,295	21,795	22,794
Other receipts	6,068	6,450	5,761	6,038	6,205
Total receipts	46,279	47,103	48,057	49,972	52,236
Cash payments for operating activities					
Payment for goods and services ^(b)	(39,003)	(37,912)	(32,441)	(33,457)	(34,506)
Grants and subsidies paid	(9,687)	(9,873)	(9,439)	(9,998)	(10,379)
Interest paid	(977)	(909)	(928)	(1,119)	(1,226)
Other payments	(2,518)	(2,654)	(2,653)	(2,633)	(2,639)
Total payments	(52,185)	(51,348)	(45,461)	(47,207)	(48,750)
Net cash flows from operating activities	(5,906)	(4,245)	2,596	2,765	3,486
Net cash flows from investments in non-financial assets					
Sales of non-financial assets	476	511	446	405	463
Purchases of non-financial assets	(4,371)	(4,404)	(4,469)	(4,199)	(4,597)
Net cash flows from investments in non-financial assets	(3,895)	(3,893)	(4,023)	(3,794)	(4,134)
Net cash flows from investments in financial assets for policy purposes	203	158	30	82	(13)
Net cash flows from investments in financial assets for liquidity purposes	6,258	6,759	(467)	(540)	(542)
Net cash flows from financing activities					
Advances received (net)	(47)	(49)	(52)	(51)	(56)
Borrowing (net)	3,341	1,174	1,893	1,274	1,170
Deposits received (net)	...	(37)	...	(2)	(2)
Other financing (net)	...	1	(2)	...	1
Net cash flows from financing activities	3,294	1,089	1,839	1,221	1,113
Net increase (decrease) in cash held	(46)	(132)	(25)	(266)	(90)
SURPLUS / (DEFICIT)					
Net cash from operating activities and investments in non-financial assets	(9,801)	(8,138)	(1,427)	(1,029)	(648)
Finance leases and similar arrangements	(15)	(178)	(177)	(323)	(59)
SURPLUS / (DEFICIT)	(9,816)	(8,316)	(1,604)	(1,352)	(707)

Notes:

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

(b) In 2006-07 the government will be contributing \$7.2 billion from the Liability Management Fund to reduce its superannuation liabilities.

(c) Deposits by the Crown to the Liability Management Fund have been set aside to meet future superannuation contributions.

GFS SURPLUS/ (DEFICIT)	(9,816)	(8,316)	(1,604)	(1,352)	(707)
Impact of deposits to the Liability Management Fund ^(c)	5,235	5,307	...	...	...
UNDERLYING CASH SURPLUS/(DEFICIT)	(4,581)	(3,009)	(1,604)	(1,352)	(707)

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

CASH FLOW	Budget 2006-07 \$m	Revised Estimate 2006-07 \$m	Forward Estimates		
			2007-08 \$m	2008-09 \$m	2009-10 \$m
Cash receipts from operating activities					
Receipts from sales of goods and services	11,117	11,025	11,953	12,552	13,388
Grants/subsidies received	3,099	3,175	2,970	3,384	3,771
Other receipts	2,070	2,258	2,376	2,382	2,433
Total receipts	16,286	16,458	17,299	18,318	19,592
Cash payments for operating activities					
Payment for goods and services	(9,824)	(9,698)	(9,796)	(10,029)	(10,496)
Grants and subsidies paid	(219)	(251)	(213)	(218)	(194)
Interest paid	(1,044)	(1,039)	(1,185)	(1,472)	(1,649)
Other payments	(2,045)	(2,220)	(2,387)	(2,285)	(2,445)
Total payments	(13,132)	(13,208)	(13,581)	(14,004)	(14,784)
Net cash flows from operating activities	3,154	3,250	3,718	4,314	4,808
Net cash flows from investments in non-financial assets					
Sales of non-financial assets	298	278	389	440	391
Purchases of non-financial assets	(5,508)	(5,898)	(6,461)	(6,719)	(6,531)
Net cash flows from investments in non-financial assets	(5,210)	(5,620)	(6,072)	(6,279)	(6,140)
Net cash flows from investments in financial assets for policy purposes	(18)	(19)	...	(19)	5
Net cash flows from investments in financial assets for liquidity purposes	43	(61)	(104)	(112)	(81)
Net cash flows from financing activities					
Advances received (net)	(237)	(195)	(64)	(130)	(16)
Borrowing (net)	3,117	3,108	3,347	3,441	2,529
Deposits received (net)	33	29	(14)	3	3
Distributions Paid	(1,144)	(1,189)	(1,041)	(1,226)	(1,194)
Other financing (net)	...	...	1	...	...
Net cash flows from financing activities	1,769	1,753	2,229	2,088	1,322
Net increase (decrease) in cash held	(262)	(697)	(229)	(8)	(86)
SURPLUS / (DEFICIT)					
Net cash from operating activities and investments in non-financial assets	(2,056)	(2,370)	(2,354)	(1,965)	(1,332)
Distributions Paid	(1,144)	(1,189)	(1,041)	(1,226)	(1,194)
Finance leases and similar arrangements	...	...	...	...	...
SURPLUS / (DEFICIT)	(3,200)	(3,559)	(3,395)	(3,191)	(2,526)

Notes:

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

Table A-9: NSW Non-financial Public Sector Cash Flow Statement^(a) (ABS Basis)

CASH FLOW	Budget 2006-07 \$m	Revised Estimate 2006-07 \$m	Forward Estimates		
			2007-08	2008-09	2009-10
			\$m	\$m	\$m
Cash receipts from operating activities					
Taxes received	15,871	15,891	16,657	17,570	18,537
Receipts from sales of goods and services	14,223	14,333	15,316	16,098	17,025
Grants/subsidies received	20,246	20,367	21,168	21,679	22,707
Other receipts	6,477	6,877	6,504	6,555	6,716
Total receipts	56,817	57,468	59,645	61,902	64,985
Cash payments for operating activities					
Payment for goods and services ^(b)	(47,972)	(46,644)	(41,216)	(42,451)	(43,913)
Grants and subsidies paid	(6,688)	(6,819)	(6,568)	(6,695)	(6,695)
Interest paid	(1,971)	(1,883)	(2,050)	(2,526)	(2,810)
Other payments	(4,075)	(4,285)	(4,532)	(4,374)	(4,466)
Total payments	(60,706)	(59,631)	(54,366)	(56,046)	(57,884)
Net cash flows from operating activities	(3,889)	(2,163)	5,279	5,856	7,101
Net cash flows from investments in non-financial assets					
Sales of non-financial assets	773	789	835	845	854
Purchases of non-financial assets	(9,877)	(10,289)	(10,925)	(10,910)	(11,123)
Net cash flows from investments in non-financial assets	(9,104)	(9,500)	(10,090)	(10,065)	(10,269)
Net cash flows from investments in financial assets for policy purposes	(42)	(74)	(50)	(64)	(41)
Net cash flows from investments in financial assets for liquidity purposes	6,301	6,699	(571)	(652)	(623)
Net cash flows from financing activities					
Advances received (net)	(47)	(46)	(52)	(70)	(56)
Borrowing (net)	6,449	4,297	5,256	4,731	3,716
Deposits received (net)	32	(8)	(14)	1	1
Distributions Paid	...	...	...	...	...
Other financing (net)	...	(23)	(2)	...	6
Net cash flows from financing activities	6,434	4,220	5,188	4,662	3,667
Net increase (decrease) in cash held	(300)	(818)	(244)	(263)	(165)
SURPLUS / (DEFICIT)					
Net cash from operating activities and investments in non-financial assets	(12,993)	(11,663)	(4,811)	(4,209)	(3,168)
Distributions Paid	...	...	...	...	...
Finance leases and similar arrangements	(15)	(178)	(177)	(323)	(59)
SURPLUS / (DEFICIT)	(13,008)	(11,841)	(4,988)	(4,532)	(3,227)
GFS SURPLUS/ (DEFICIT)	(13,008)	(11,841)	(4,988)	(4,532)	(3,227)
Impact of deposits to the Liability Management Fund ^(c)	5,235	5,307	...	...	...
UNDERLYING CASH SURPLUS/(DEFICIT)	(7,773)	(6,534)	(4,988)	(4,532)	(3,227)

Notes:

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

(b) In 2006-07 the government will be contributing \$7.2 billion from the Liability Management Fund to reduce its superannuation liabilities.

(c) Deposits by the Crown to the Liability Management Fund have been set aside to meet future superannuation contributions.

LOAN COUNCIL REPORTING REQUIREMENTS

Table A-10 presents the Budget time estimates of the State's Loan Council Allocation (LCA) for 2006-07 and a revised estimate taking into account fiscal and economic developments since the commencement of the budget year.

As confirmed at the 1997 Loan Council meeting, States are to report their full contingent exposure to infrastructure projects with private sector involvement. Exposure is to be measured by the Government's termination liabilities and disclosed as a footnote to, rather than a component, of LCAs.

Overall, the positive Loan Council Allocation requirement of \$4,838 million for New South Wales for 2006-07 has been revised to positive \$5,118 million. The variance of \$280 million since the 2006-07 Budget is within the tolerance limit. The tolerance limit for 2006-07 is \$1,141 million and is calculated as 2 per cent of cash receipts from operating activities for the Non-Financial Public Sector.

Table A-10: 2006-07 Loan Council Allocation Estimates for NSW

	<i>Budget-time Estimate 2006-07 \$m</i>	<i>Loan Council Revised Estimate 2006-07 \$m</i>
General government sector cash deficit / (surplus)	9,816	8,316
PNFC sector cash deficit / (surplus)	3,200	3,559
Non-financial public sector cash deficit / (surplus) ^(a)	13,008	11,841
Net cash flows from investments in financial assets for policy purposes ^(b)	42	74
Memorandum items ^(c)	(8,212)	(6,797)
Loan Council Allocation ^(d)	4,838	5,118

Notes:

- (a) Does not directly equate to the sum of the General Government and PNFC cash deficits due to intersectoral transfers which are netted out.*
- (b) This item is the negative of net advances paid under a cash accounting framework*
- (c) Memorandum items are used to adjust the ABS deficit to include in LCAs certain transactions – such as operating leases that have many of the characteristics of public sector borrowings but do not constitute formal borrowings. They are also used, where appropriate, to deduct from the ABS deficit certain transactions that Loan Council has agreed should not be included in LCAs – for example, the funding of more than employers' emerging costs under public sector superannuation schemes, or borrowings by entities such as statutory marketing authorities.*
- (d) There are no new private sector infrastructure contracts to report for 2006-07.*

APPENDIX B: GUIDE TO THE 2006-07 HALF-YEARLY BUDGET REVIEW

The 2006-07 Half-Yearly Budget Review reports on the current and projected financial performance of the NSW General Government Sector. The General Government Sector covers all agencies that are generally engaged in the production of goods and services outside the normal market mechanisms.

In practice, this means that entities which operate outside normal market mechanisms (eg Audit Office of New South Wales) and self funded regulatory agencies (eg the WorkCover Authority and the Motor Accidents Authority) are included, as well as agencies which receive an appropriation in the Annual Appropriation Act (eg the Department of Health and the Department of Education and Training).

The *Public Finance and Audit Act 1983* requires the Treasurer to publicly release a statement by 31 December each year containing:

- The latest economic projections for the current financial year and an explanation of any significant variation from the projections contained in the Budget Papers; and
- Budget projections for the current financial year and an explanation of any significant variation in major aggregates from those budget time projections.

The NSW Budget is compiled in accordance with the Government Finance Statistics (GFS) standards. The Half-Yearly Budget Review for 2006-07 meets this legislative requirement, incorporates the financial statements for the General Government Sector for October 2006 and meets the requirements for uniform reporting of State finances agreed to by the Loan Council.

The Review provides:

- The actual financial performance of the General Government Sector for the four months ended 31 October 2006.
- The projected results for 2006-07 compared with the budget estimates; and
- The latest projection of the financial performance for the three subsequent years to 2009-10.