



The
Treasury

UPDATE TO THE
STATEMENT OF UNCOMMITTED FUNDS

27 January 2011

This page left blank intentionally.

Preface

When I released the Statement of Uncommitted Funds on 15 December 2010, I indicated that it was my intention to update the Statement should there be any significant change in the financial circumstances of the State prior to the 2011 State Election.

There are broadly two categories of material change since that time:

- business asset transactions
- announced government commitments

The nature and impact of these changes are addressed separately in the following pages.



Michael Schur
Secretary
NSW Treasury
27 January 2011

1. Business Asset Transactions

Since the finalisation of the Statement of Uncommitted Funds, which was released on 15 December 2010, the Government has announced significant business asset transactions in both the electricity and waste services sectors.

Impact on Net Financial Liabilities and Net Debt

In aggregate the electricity and waste services transactions result in gross proceeds of \$5.5 billion and, at the time of financial close, reduce the level of net financial liabilities and net debt by \$5.1 billion and improve the cash position of the non-financial public sector after the repayment of electricity debt by \$4.2 billion.

The following table updates the estimates of net financial liabilities and net debt for the non-financial public sector for June 2011 published in the 2010-11 Half-Yearly Review for the impact of these transactions.

<i>Net Financial Liabilities and Net Debt Impact</i>	<i>June 2011</i>	
	<i>Net Financial Liabilities^(a) \$b</i>	<i>Net Debt^(a) \$b</i>
Half-Yearly Review	94.3	41.9
Business Asset Transactions	-5.1	-5.1
Revised Estimates^(b)	89.2	36.7

(a) Before transfer of funds to superannuation.

(b) Discrepancies between totals and sums of components reflect rounding.

Impact on the Budget Result

The proceeds from the electricity and waste services transactions can be allocated in a number of ways. The following table provides details of the expected impact on the Budget Result of the electricity and waste services transactions over the period from 2010-11 to 2013-14 compared with estimates published in the Half-Yearly Review where the bulk of the available proceeds are used to reduce unfunded superannuation liabilities.

Under such a scenario, the reduction in net debt shown in the previous table is reduced to \$1.2 billion as financial assets are moved out of the State sector. In the case of net financial liabilities, the State is required to pay to the Australian Government a superannuation contributions tax of 15 per cent and therefore the reduction in net financial liabilities is reduced to \$4.5 billion.

<i>Budget Result Impact</i>	<i>2010-11 \$m</i>	<i>2011-12 \$m</i>	<i>2012-13 \$m</i>	<i>2013-14 \$m</i>	<i>Total^(d) \$m</i>
Reduction in Superannuation Expenses ^(a)	96	297	322	347	1,061
Loss of Financial Distributions and Government Guarantee Fees ^(b)	-34	-321	-263	-123	-740
Availability Liquidated Damages, Separation Costs and Other Costs ^(c)	-49	29	-104	-39	-164
Budget Impact^{(d) (e)}	+12	+4	-44	+185	+157

(a) Based on gross proceeds of \$5,520m less repayment of entity debt (\$1,352m) and provision of additional working capital (\$227m), and an earnings rate of 8.6 per cent after allowing for Australian Government tax obligations.

(b) Dividends, tax equivalents and the margin between the cost of debt for a standalone entity and triple-A rated debt.

(c) Separation costs are largely associated with labour and information technology as a result of conditions attached to the transactions.

(d) Transaction costs were included in the Half-Yearly Review estimates.

(e) Discrepancies between totals and sums of components reflect rounding.

Impact on spending capacity

While the reduction in net financial liabilities and net debt associated with the business asset transactions provides additional fiscal flexibility and an increased capacity to absorb fiscal shocks, this reduction does not equate to an equivalent increase in the capacity of the State to incur financial commitments. This is because the physical assets, which have now been converted into a financial asset (thereby reducing net financial liabilities and net debt), previously generated a financial return to the State. As with the sale of a rental property (together with the associated loss of rental income), the capacity to spend sustainably does not equate to the value of the property or the value of the mortgage discharged.

In aggregate, the electricity and waste services transactions result in a benefit to State finances of \$1,000 million in net present value terms (NPV). This allows an equivalent financial commitment to be made by the State.

Any financial commitment must be measured taking into account both upfront capital costs and any additional net operating expenditures (ie after allowing for any revenues generated). For example, a project with a capital cost of \$200 million with ongoing operating costs in perpetuity of \$48 million per annum equates to a financial commitment of around \$1 billion (NPV). Similarly a grant program involving payments of around \$60 million per annum in perpetuity equates to a financial commitment of around \$1 billion (NPV).

The following table provides illustrative examples of financial commitments with a net present value of \$1 billion. It should be noted that different scenarios result in different impacts on the published Budget Result.

Possible Expenditure Scenarios

Scenario	General Government Capital Expenditure	Additional Net Expenses (excluding interest)	Net Present Value @ 6 per cent	Average Annual Budget Result Impact over first four years (including Interest) ^(b)
1	0	\$60m per annum (in perpetuity)	\$1,000m	-\$66m
2	\$1,000m	Nil ^(a)	\$1,000m	-\$66m
3	0	\$289m per annum (for 4 years only)	\$1,000m	-\$316m
4	\$200m	\$48m per annum (in perpetuity)	\$1,000m	-\$66m
5	Bring forward by four years \$900m of capital expenditure	\$235m per annum (over four years only)	\$1,000m	-\$316m

(a) An example of this would be a new hospital where the recurrent costs are able to be funded within NSW Health growth funds or a project that generated operating cash flows sufficient to offset costs excluding interest.

(b) Gross impact of spending decision.

2. Other announced commitments

The Government has announced the following material financial commitments since the release of the 2010-11 Half-Yearly Review and the Statement of Uncommitted Funds.

<i>Expenses</i>	<i>2010-11 \$m</i>	<i>2011-12 \$m</i>	<i>2012-13 \$m</i>	<i>2013-14 \$m</i>
Deferral of Public Transport Fare increases due on 1 January 2011 (announced on 20 December 2010)	23.0	23.0	0	0
Public Funding of Election Campaigns (passed through Parliament in November – estimates now confirmed)	0.1	38.6	5.7	5.7
Total Change in Expenses ^(a)	23.1	61.6	5.7	5.7

(a) Discrepancies between totals and sums of components reflect rounding.

Impact of Recent Floods

The Budget each year sets aside funds for natural disaster relief. While the recent floods have been widespread, funding arrangements with the Australian Government significantly reduce the impact on State finances of large events. Preliminary estimates show that the recent floods are likely to worsen State Budget outcomes, after allowing for Australian Government assistance under the Natural Disaster Relief and Recovery Arrangements, by a total of around \$70 million over the next four years.