Budget Statement

2007-08

New South Wales

Budget Paper No. 2

TABLE OF CONTENTS

Table of Contents - *continued*

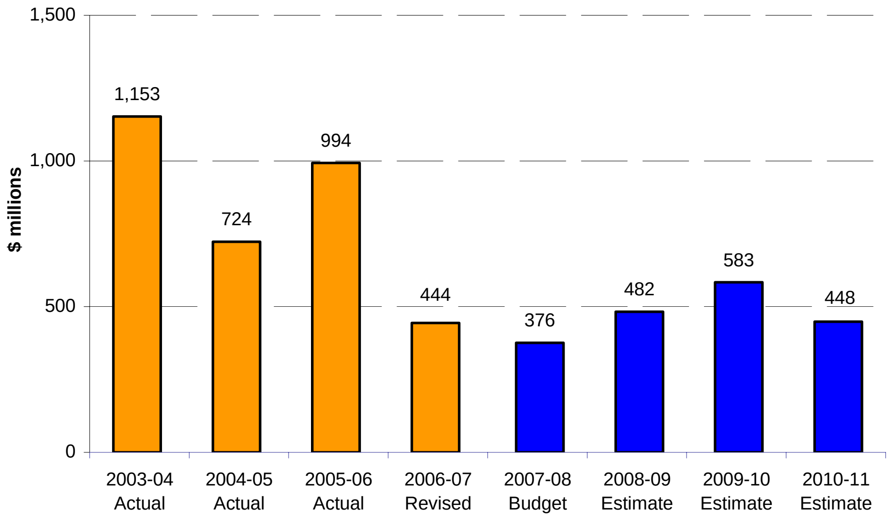
BUDGET OVERVIEW

FISCAL POSITION AND OUTLOOK

The NSW balance sheet is strong and net financial liabilities in the general government sector will decline further as a share of the economy over the forward estimates period. The 2007-08 Budget provides for a twelfth consecutive operating surplus, capital expenditure of $12.5 billion and tax reductions worth $343 million in 2007-08.

The budget result for 2007-08 is expected to be a surplus of $376 million, with surpluses averaging around $500 million over the forward estimates period after providing more than $2 billion for priority rail infrastructure projects, including the planned expansion of the rail network, $2.6 billion in tax cuts and fully funding all election commitments. Stabilisation of the budget result at 2006-07 levels will be achieved by matching expenses and revenue growth. Expenses increased by 6.5 per cent a year over the four years to 2006-07, but are forecast to slow to an average of 4.2 per cent a year over the forward estimates period. Revenue growth is also forecast to slow, from an average of 5.4 per cent a year over the four years to 2006-07 to an average of 4.2 per cent a year over the forward estimates period.

Chart 1: Budget Result, 2003-04 to 2010-11



The NSW economy is expected to strengthen in 2007-08, with continued solid support from public investment and consumer demand, moderate recoveries in dwelling and business investment, an assumed recovery from drought in the rural sector and an improvement in exports. NSW employment growth is expected to remain above trend and the unemployment rate to test new multi-decade lows, amidst a stable inflation and interest rate environment.

EXPENSES

General government expenses are estimated to increase by 1.3 per cent in 2007-08 (or 3.6 per cent excluding the $960 million rail debt reduction payment in 2006-07), and to grow by 4.2 per cent a year on average over the forward estimates period.

Expenses increased by 6.5 per cent a year over the four years ending 2006-07 - one percentage point faster than revenues. Expense levels in 2006-07, however, included a $960 million rail debt reduction payment - in particular, debt associated with construction of the Epping to Chatswood rail link. Excluding this grant, expenses increased by 5.9 per cent in 2006-07 - only marginally above the forecast in the 2006-07 Budget (5.7 per cent) - and averaged 5.9 per cent over the four years to 2006-07.

The growth in underlying expenses over the past four years has been driven by growth in the cost, volume and quality of services provided in health, transport, social security and welfare, and public order and safety. Non-employee related expenses increased by an average of 6.8 per cent a year over the past four years. Employee-related expenses increased by 6.2 per cent a year over the same period, with increased real wages and increases in front-line positions.

Expenses are forecast to increase by 1.3 per cent in 2007-08, or by 3.6 per cent excluding the $960 million rail debt reduction payment in 2006-07. Looking forward, expenses are forecast to increase by 4.2 per cent a year on average over the forward estimates period, with stronger annual growth in 2010-11 reflecting an increase in rail capital grants. The 2007-08 and forward estimates growth rates for expenses in the 2007-08 Budget are consistent with the forward estimates in the 2006-07 Budget. Constraining the growth in expenses will be achieved by delivering the State Plan within a cost-neutral framework, targeted savings and efficiency measures, and managing public sector wage and conditions outcomes consistent with the Government's wages policy.

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

	2003-04 Actual	2004-05 Actual	2005-06 Actual	2006-07 Revised	2007-08 Budget	2008-09 Est	2009-10 Est	2010-11 Est
In $ billions								
Employee-related	18.4	19.5	20.7	21.5	22.4	23.3	23.9	24.7
Maintenance & other operating	8.3	8.6	8.3	9.0	9.4	9.8	10.2	10.6
Grants & subsidies	7.1	7.3	8.3	10.0	9.1	9.3	9.7	10.6
Finance, Depreciation, Other	2.7	3.1	3.3	3.5	3.8	4.1	4.3	4.6
TOTAL EXPENSES	**36.5**	**38.5**	**40.7**	**44.0**	**44.6**	**46.4**	**48.1**	**50.5**
Growth Rate (%)	6.5	5.5	5.7	8.2	1.3	3.9	3.8	4.8
Growth Rate (%) excluding $960 milion Rail Grant in 2006-07	6.5	5.5	5.7	5.9	3.6	3.9	3.8	4.8
As % of GSP	12.5	12.6	12.7	13.1	12.6	12.3	12.1	12.0

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

Expenditure allocations in this Budget incorporate all policy commitments announced prior to the March 2007 election, and reflect priorities outlined in the State Plan. The focus of the 2007-08 Budget includes expenditure in the following key areas.

- *Health* – developing *Healthy Communities* is a specific goal for the State Plan. To meet this goal, total expenditure by NSW Health will increase by $830.9 million to $12.5 billion in 2007-08. In the 2007-08 Budget, the Government will increase its focus on prevention and early intervention strategies, including investments in breast screening, state-wide eyesight pre-schooler screening and the Healthy at Home program to assist the elderly to stay out of hospital. The Budget also provides for additional funding for nurse training and development, improved information systems, and additional ambulance staff. The Government will also continue to invest in meeting growing demand for acute hospital services, mental health services, dental services, renal services, cancer services and after-hours GP clinics.

- *Education and Training* – implementing the Government's election commitments of the *Best Start* for literacy programs ($82 million); connected classrooms ($39 million recurrent and $119 million capital funding); support for beginning teachers ($22 million); the transition to Year 7 initiative ($12 million) and school sport ($8 million). Education and training expenses in 2007-08 will be $10.6 billion.

- *Community and disability services* – improving options for people with disabilities, providing increased support for carers (including respite and attendant care services), and expanding prevention and early intervention services. The implementation of the Government’s record $1.3 billion *Stronger Together* package will expand in 2007-08, including continuation of programs to strengthen families, promote community inclusion and improve existing services.

- *Public Transport and Roads* – the Government’s $660 million *Urban Transport Statement* highlights new and accelerated initiatives to address Sydney’s present and future transport needs, including further duplication of the Richmond line beyond Schofields, as originally planned, to Riverstone by 2010 and Vineyard by 2012, fast tracking planned extensions to the CityRail network, additional bus priority works and improved traffic management systems to eliminate congestion and bottlenecks. Programs to improve capacity, safety and reliability of the rail network, including the Rail Clearways Program and procuring 626 new carriages under a Public Private Partnership (PPP), will also continue.

Concessions and tax expenditures, while not necessarily entailing a direct budget outlay have a budget cost of forgone revenue. They have budgetary and welfare effects in the same way as direct outlays. This Budget provides for concessions of $1,305 million and tax expenditures worth $3,960 million in 2007-08. Tax expenditures are mainly on economic services (such as through transfer duty and payroll tax exemptions), while the bulk of concessions are for education and social security and welfare. Chapter 7 provides estimates of tax expenditures and concessions by policy area and by type of tax.

CAPITAL EXPENDITURE

Capital expenditure by the State will rise substantially in 2007-08 and remain at high levels over the forward estimates period. In the four years to 2010-11 total State capital expenditure will rise by 55.8 per cent on the preceding four years.

Total State capital spending of $12.5 billion in 2007-08 will be 28.8 per cent higher than the $9.7 billion spending in 2006-07. This comprises $4.9 billion in capital expenditure by the general government sector (15.5 per cent higher than 2006-07) and $7.6 billion by the public trading enterprise (PTE) sector (39.3 per cent higher than 2006-07).

Over the four years to 2010-11 total State capital expenditure is estimated to be $49.6 billion – 55.8 per cent higher than for the four years to 2006-07, which was in turn 34.7 per cent higher than the preceding four year period.

Capital expenditure will be $18.4 billion in the general government sector (an increase of 23.3 per cent) and $31.2 billion in the PTE sector (an increase of 84.5 per cent).

In the general government sector, the increased capital expenditure in 2007-08 includes fast-tracking of land acquisitions for the planned rail expansion program, and additional funding for the Pacific, Hume and Prince's Highways upgrades, M5 East Tunnel Filtration, duplication of the Alford's Point Bridge and the F3 Sydney to Newcastle Freeway.

Major new projects commencing in 2007-08 (with the estimated total cost) include:

- 31 major new school projects (including new schools at Hamlyn Terrace, Ropes Crossing, Second Ponds Creek, Tullimbar and Denison Secondary College Kelso Campus) and 11 new TAFE projects ($463 million);

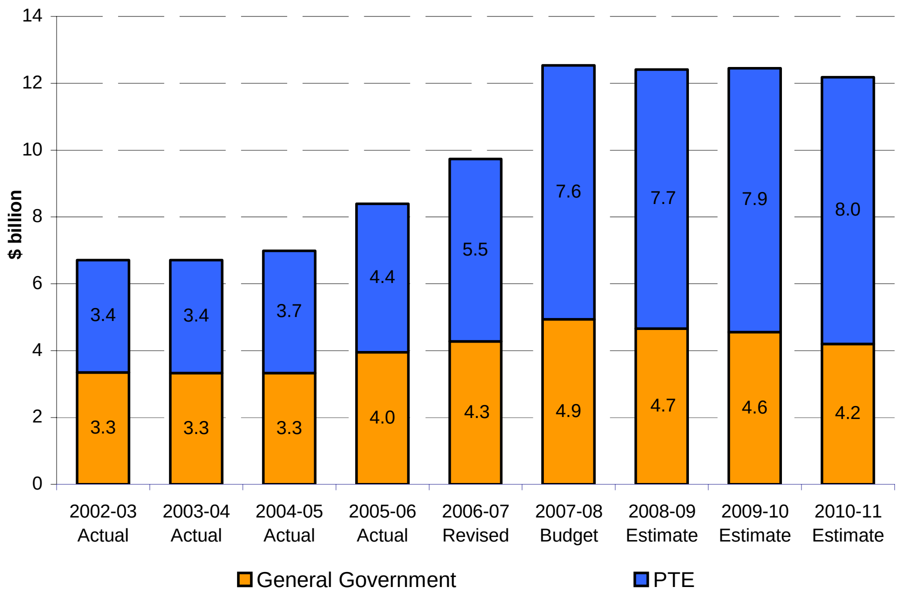
- Mater Hospital at Newcastle as a privately financed project ($157 million) and the Department of Health's Medical Imaging Project ($62.9 million);

- Network Management "pinch point" strategy ($100 million) and Victoria Road upgrades ($100 million);

- Three new police stations at Bowral, Camden and Leichhardt ($47.7 million); and

- Purchase of 265 new buses for use by the State Transit Authority and private bus operators in the metropolitan and outer metropolitan regions ($120.7 million) as well as implementation of a real-time bus operations management system ($23.7 million).

Chart 2: Total State Capital Expenditure by Sector, 2002-03 to 2010-11



The 39.3 per cent increase in capital expenditure in the PTE sector in 2007-08 is primarily due to commencement of construction of the Sydney Water desalination plant and increased levels of expenditure by the electricity generators, distributors and Transgrid to meet growth in demand and to enhance system reliability.

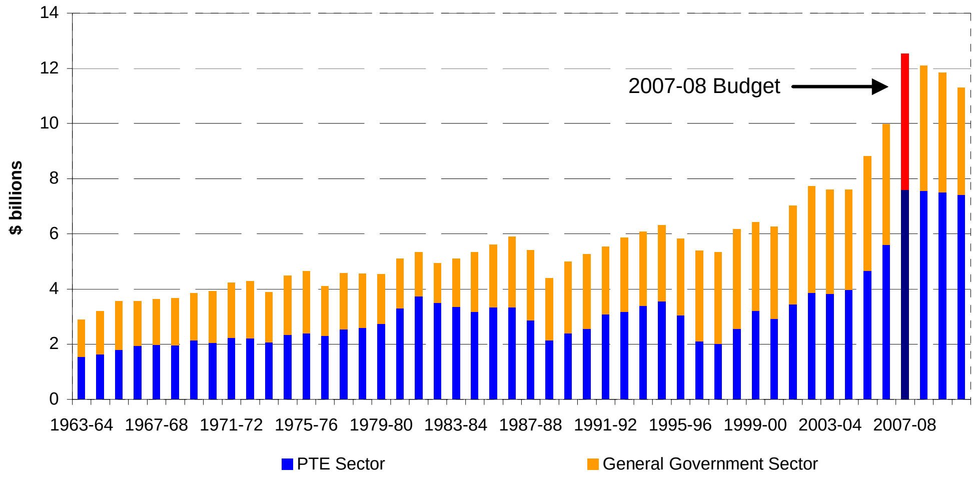
Major new projects commencing in 2007-08 include:

- Sydney Water's desalination plant ($1.9 billion) and Hunter Water's Tillegra dam ($298 million);
- Schofields-Vineyard Rail Line Duplication ($316 million) and expansion of the rail network to growth areas of Sydney ($56 million for investigation and planning);
- 667 megawatt open cycle gas turbine generating plant located at Lake Munmorah due for completion in November 2009 and 90 megawatt capacity upgrade of Mount Piper power station;
- 1,378 new units of general public housing, community housing and crisis accommodation ($224.7 million); and
- Port Botany Expansion and new Intermodal Logistics Centre at Enfield in Sydney (total costs are subject to approval and/or under tender process) and a multi-purpose berth at Newcastle Port ($22 million).

Chart 3 shows that the level of total State capital expenditure in New South Wales in real terms in 2007-08 will be at record levels, more than double the average level of the 1990s.

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

Chart 3: State Capital Expenditure Program,1963-64 to 2010-11 *(real 2007-08 dollars)*



REVENUE TRENDS AND COMPOSITION

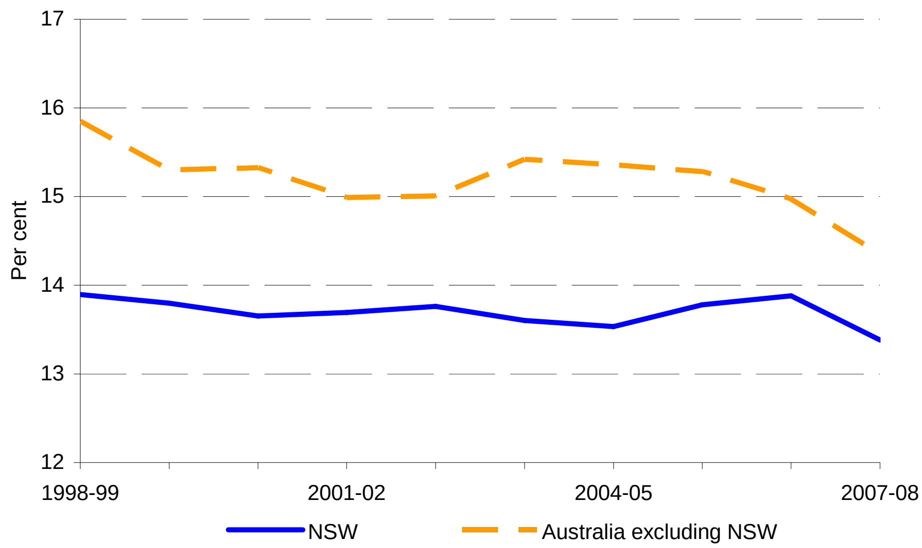
General government sector revenue is expected to grow by 1.1 per cent in 2007-08 following growth of 6.7 per cent in 2006-07. The slower growth in 2007-08 reflects the high base in 2006-07 due to extraordinary taxation accruals in that year and an expected decline in investment income. Total revenue growth is forecast to strengthen over the course of the forward estimates, averaging 4.2 per cent per annum.

Over the four years to 2006-07, total revenue grew by an average of 5.4 per cent per annum. However, abstracting from extraordinary revenues that will accrue in 2006-07 but do not reflect ongoing revenue influences, growth averaged 4.8 per cent – below the long-run average.

The strong growth in total revenue in 2006-07 (6.7 per cent) is expected to give way to a modest 1.1 per cent rise in 2007-08, mainly reflecting a return to normal investment returns, and a return to normal levels of revenue from high value commercial property sales. With growth in underlying revenue in 2006-07 of 4.1 per cent and 3.7 per cent in 2007-08, revenue is expected to strengthen over the course of the forward estimates, averaging 4.2 per cent a year.

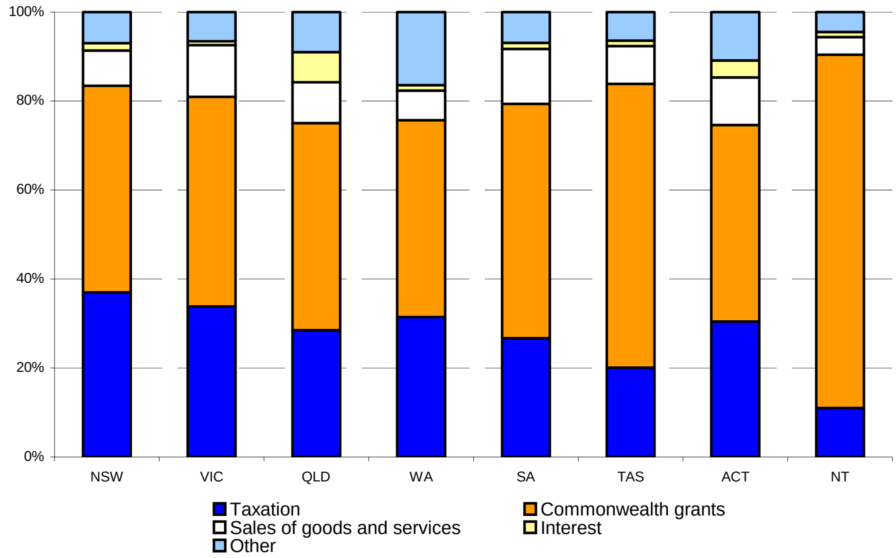
With total revenue growing at rates slower than the economy, however, the ratio of total revenue as a share of gross state product (GSP) in New South Wales has declined over time, and has been lower than the average of the other States (Chart 4). This is expected to continue over the forward estimates period, as further taxes are abolished (details below) and investment income returns to its long-run trend.

Chart 4: Total Revenue as a Ratio to Gross State Product, NSW and Other States



As well as having a relatively low share of total revenue to GSP, New South Wales differs from other States in revenue composition (Chart 5).

Chart 5: Composition of Total Revenue, All States, 2007-08



New South Wales receives the lowest level of GST revenue grants per capita of all States (see Table 3.2 in Chapter 3). This reflects the impact of horizontal fiscal equalisation on the distribution of GST grants across the States. Chapter 8 provides more details on the distribution of GST revenue.

The 2007-08 Budget provides the following tax reductions which will assist the New South Wales economy.

- The land tax rate will be cut to 1.6 per cent from 1.7 per cent for the 2008 land tax year, beginning 1 January 2008. This will reduce revenue by $467 million over four years.
- Mortgage duty will now be abolished in three stages, commencing with the abolition of duty on mortgages of owner-occupied residences from 1 September 2007, at a cost to revenue of $1.4 billion over four years.
- A full rebate will be provided for the cost of registering one work vehicle for every new apprentice hired by small businesses during 2007-08, at a cost of $6 million over four years.
- Stamp duty on hire of goods will be abolished from 1 July 2007 and on leases from 1 January 2008. These cuts are estimated to reduce revenue by $570 million over four years.

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

	2003-04 Actual	2004-05 Actual	2005-06 Actual	2006-07 Revised	2007-08 Budget	2008-09 Est	2009-10 Est	2010-11 Est
In $ billions								
STATE REVENUES	33.0	34.3	36.1	38.6	39.6	41.0	43.0	45.1
- Taxation	15.0	15.3	15.9	17.8	17.6	18.4	19.3	20.4
- Commonwealth Grants								
- General Purpose	9.9	10.2	10.7	11.0	11.9	12.8	13.5	14.3
- Specific Purpose	5.6	6.0	6.4	6.8	7.2	6.8	7.0	7.0
- Financial Distributions	1.6	1.6	1.8	1.8	1.8	1.8	2.0	2.1
- Other	0.9	1.2	1.3	1.2	1.2	1.2	1.2	1.3
OPERATING REVENUES	4.6	4.9	5.6	5.9	5.4	5.9	5.7	5.8
TOTAL REVENUES	**37.6**	**39.2**	**41.7**	**44.5**	**45.0**	**46.9**	**48.7**	**50.9**
Growth Rate (%)	4.5	4.2	6.3	6.7	1.1	4.1	4.0	4.5
As % of GSP	12.9	12.8	13.0	13.2	12.7	12.5	12.2	12.1

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

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

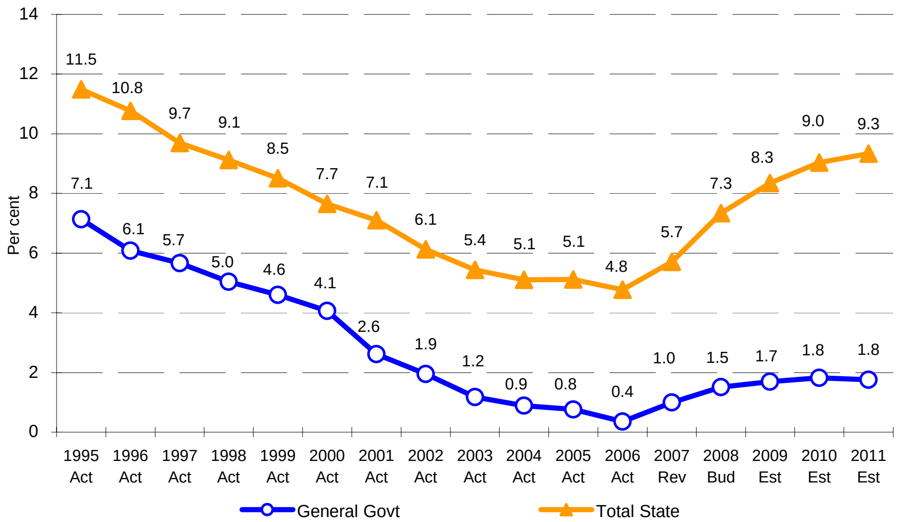
DEBT

Total State sector net debt will increase substantially over the forward years, principally to fund the large PTE capital spending program. Underlying net debt of the general government sector is projected to increase over the forward years, but stabilise at low and sustainable levels.

The level of net debt in the general government sector has increased since June 2006 (Chart 6), rising by an estimated $2.2 billion to $3.3 billion as at June 2007 (1.0 per cent of GSP). This is, however, lower than was expected in the 2006-07 Budget because of lower contributions to superannuation, better than expected cash result in 2005-06 and the surplus in 2006-07. Debt will increase in the 2007-08 Budget year and over the forward estimates, reaching $7.4 billion by June 2011 (1.8 per cent of GSP), to partially fund ongoing high levels of general government and non-commercial PTE capital expenditure.

Total State sector net debt is projected to increase more than in the general government sector, reflecting the PTE sector's significant capital expenditure plans over the forward estimates period. Total State net debt is forecast to rise to $39.3 billion (9.3 per cent of GSP) at June 2011 - despite a $960 million grant to reduce rail debt in 2006-07. This significant rise reflects the lumpy nature of capital delivery in areas such as water, electricity and rail. The bulk of the rise in PTE debt will be supported by revenue growth that covers the expenses associated with the higher debt (see Chapter 5).

Chart 6: Net Debt as a Percentage of Gross State Product at June 1995 to June 2011[(a)]



(a) Excluding the impacts of prepayment/deferral of superannuation contributions.

NET FINANCIAL LIABILITIES

General government sector net financial liabilities will fall as a share of gross state product (GSP) over the forward estimates period. Total State sector net financial liabilities are forecast to rise in dollar terms and as a share of GSP as a result of an increase in PTE sector debt.

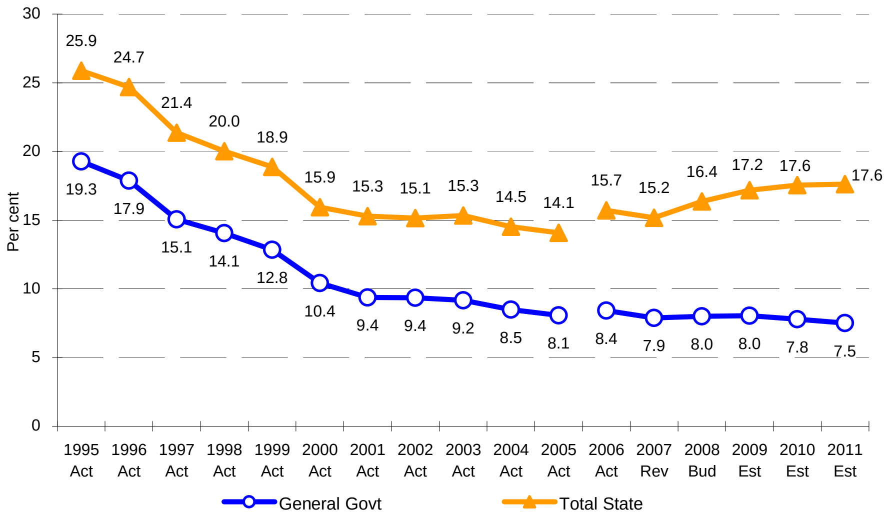
Estimates of net financial liabilities as at June 2007 are significantly less than the estimates contained in last year's budget papers. For the general government sector this reflects the surplus result for 2006-07, higher returns on superannuation assets (partly offset by higher than expected growth in gross liabilities) as well as an improved cash outcome in 2005-06. For the PTE sector, the improved expected outcome mirrors operating results in 2005-06 and 2006-07 and the $960 million rail debt payment.

General government net financial liabilities as a share of the economy are expected to be stable over the next two years before resuming a downward trajectory. At 7.8 per cent of GSP in June 2010 they will be slightly above the medium-term target of 7.5 per cent of GSP contained in the *Fiscal Responsibility Act 2005* but are forecast to reach 7.5 per cent of GSP ($31.7 billion) as at June 2011. The principal cause of the deviation from the target is higher general government net debt to partially fund the current high levels of capital expenditures in the sector and the provision of capital grants to the non-commercial PTE sector.

Total State sector net financial liabilities, after declining substantially over the past decade, are projected to increase as a share of the economy over the forward estimates period, due mainly to the large increase in infrastructure related borrowings, mostly by the PTE sector.

New South Wales' fiscal fundamentals remain strong, with international credit rating agencies again reaffirming the State's triple-A rating in 2006-07.

Chart 7: Net Financial Liabilities, at June 2003 to June 2011 (Percentage of Gross State Product)[(a)]



(a) Series break in 2006 results from the adoption of Australian Equivalents to International Financial Reporting Standards. It has the effect of increasing the reported level of net financial liabilities.

LONG TERM FISCAL PRESSURES

In addition to the usual budget reporting on the immediate effects of policy initiatives, the Government now provides an assessment as to whether policy changes in each budget will widen or narrow the long-term fiscal gap as reported in 2006-07 Budget Paper No. 6.

The 2006-07 Budget provided a benchmark estimate of the long-term fiscal pressures that New South Wales may face. It was estimated that demographic and other pressures could lead to a fiscal gap[1] of around 3.4 per cent of GSP over the 40 year horizon.

The estimated long-term fiscal impact of the 2006-07 Budget measures was an increase of the fiscal gap by 0.1 percentage points to 3.5 per cent of GSP.

New policy changes since the 2006-07 Budget, reflected in the 2007-08 Budget and forward estimates, will have no significant impact on the fiscal gap.

- Expense policy changes have no impact, with increases being offset by the extension of the efficiency dividend on agency discretionary expenditures.

- Revenue policy changes announced in the Budget do not have a significant impact on the fiscal gap. The abolition of the mortgage duty was included in last year's estimates and the change in timing has no discernible impact on the fiscal gap. Changes to land tax rates do widen the fiscal gap, but the impact is small (0.03 percentage points).

[1] *The fiscal gap is the difference between the base period primary balance as a share of GSP and the primary balance as a share of GSP at the end of the projection period. The primary balance is the gap between spending and revenue excluding interest transactions but including net capital expenditure. A positive gap implies that fiscal pressures will be building over the projection period.*

CHAPTER 1: FISCAL STRATEGY, POSITION AND OUTLOOK

- The Government's medium-term fiscal strategy is designed to:
  - support expenditure priorities within sustainable aggregate expenditure growth;
  - maintain a competitive tax regime that is conducive to business investment; and
  - maintain net debt and other financial liabilities at sustainable levels.
- The 2006-07 Budget surplus is estimated to be $444 million, compared with an estimated deficit of $497 million in the 2006-07 Half-Yearly Budget Review, and an estimated deficit of $696 million in the 2006-07 Budget. The stronger outcome largely reflects significantly higher than projected revenues and expenses aligning closely to the budget estimate (excluding the $960 million rail debt reduction payment, the drought and other one-off factors).
- General government sector net worth increased by $6.4 billion from $127.6 billion at June 2006 to $134.0 billion at June 2007.
- The outlook is for a budget surplus of $376 million in 2007-08, and surpluses of $482 million in 2008-09, $583 million in 2009-10 and $448 million in 2010-11.
- Major taxation policies announced in this Budget, or commencing in 2007-08, will reduce revenue by $343 million in 2007-08, and $845 million by 2010-11.
- General government net debt will increase by $4.1 billion over the next four years, rising to 1.8 per cent of GSP ($7.4 billion) to support high levels of capital investment.
- Net financial liabilities of the general government sector are expected to remain stable as a share of the economy over the next two years at 8.0 per cent, but then decline to 7.5 per cent of GSP in 2010-11.
- The 2007-08 Budget will have no significant impact on the long-term fiscal gap, with expense policy changes being offset by the extension of the efficiency dividend on agency discretionary expenditures.

1.1 FISCAL STRATEGY

The objective of the Government's medium-term fiscal strategy is to maintain service delivery, notwithstanding economic and fiscal shocks. By maintaining a low level of net financial liabilities, the State can absorb the effects of adverse revenue or expenditure fluctuations by allowing a temporary increase in borrowings rather than having to reduce services. The strength of the balance sheet therefore reflects the State's capacity to deliver and expand services in the future.

The State's balance sheet has improved substantially over the last decade with both debt and net financial liabilities declining substantially as a share of the economy in both the general government and total State sectors. In recent years, however, a number of cyclical and structural issues have emerged and provided a challenge to the fiscal strategy. The cyclical slowing in underlying transfer duty payments since 2003-04, the structural challenge from the redistribution of GST revenues away from New South Wales, tax cuts from the NSW Government, significant pay increases for key front-line staff and a large infrastructure program have all placed pressure on the budget result and the balance sheet. The balance sheet remains strong and has allowed the Government to respond to these pressures, while maintaining service delivery.

A strong balance sheet remains in prospect, though there are significant pressures to which the Government is responding. As discussed in detail in last year's Budget Papers, the ageing of the population will exert increasing pressure on public finances over the next four decades. Further pressure will come from the underlying growth in demand for government services, driven by rising living standards and community expectations. Government services also face pressures with the cost of new technology continuing to outstrip general inflation. Environmental issues, such as drought, could place extra demands on the State's finances.

Increased infrastructure spending in the general government and non-commercial public trading enterprise sectors will also require significant budget surpluses if the State's strong balance sheet, and triple-A credit rating, are to be maintained.

New South Wales continues to hold a triple-A credit rating. The Government has recognised that the triple-A credit rating is important not only as an indicator of budgetary flexibility, but also to business and investor confidence. Accordingly, maintaining the triple-A credit rating is one of the 34 priorities announced in the State Plan in 2006.

The Government's fiscal strategy is guided by a set of fiscal principles and targets, which are set out in the *Fiscal Responsibility Act 2005.* Performance against those principles and targets is discussed in section 1.7 and covered in detail in Appendix A.

Although most of the Government's fiscal targets and principles are focussed on the general government sector, the fiscal strategy also takes into account the financial position of the State sector. The general government sector receives particular attention because services are usually provided free of charge to the user, and therefore the services and any associated net debt must be paid for by taxpayers, rather than by the users of the services directly. In contrast, net debt in the commercial part of the PTE sector (which includes agencies providing electricity and water) is supported by assets that generally earn revenues to cover expenses associated with debt, although non-commercial PTEs (e.g. public transport and housing) receive support from the Budget through grants and subsidies. Therefore, a complete picture of the fiscal position requires a 'Total State' focus.

1.2 RECENT FISCAL DEVELOPMENTS

Over the past several years, the growth in expenses has exceeded the growth in revenue by around one percentage point per annum, with significant increases in expenditure to improve the delivery of key services (especially in health, transport, social security and welfare, and public order and safety). Expenses increased by 6.5 per cent per annum over the four years to 2006-07 (or by 5.9 per cent excluding the $960 million rail debt reduction payment), while revenue grew by 5.4 per cent per annum.

2006-07 BUDGET RESULT

The budget result for 2006-07 is an estimated surplus of $444 million, compared to the original budget estimate of a deficit of $696 million, and the half-yearly review estimate of a deficit of $497 million. This significant improvement is a result largely of revenue exceeding the budget estimate by $2.3 billion, and by expenses aligning closely to the budget estimate (excluding a $960 million rail debt reduction payment). Details of variations from the 2006-07 Budget estimates are in Appendix D.

Total revenue increased by an estimated 6.7 per cent in 2006-07, compared to the 2.4 per cent estimate at budget time last year, because of some extraordinary revenue outcomes, including very strong investment income returns.

- Taxation revenues are expected to be $1.1 billion higher than originally estimated, largely due to transfer duty revenues ($751 million higher), and land tax revenue ($249 million higher). The increased level of transfer duty revenue is from high-value commercial property transactions being much higher than in previous years. In particular, nearly two thirds of this increase is attributable to one accrued transaction. Revenue from residential property market sales has been consistent with budget estimates. The higher than expected land tax revenues in 2006-07 are a result of clearing a backlog of assessments from the previous two land tax years, and faster processing of assessments this year. This has been partly offset by the three-year averaging policy for land tax introduced in the 2006-07 Budget, which is estimated to have saved taxpayers approximately $42 million in 2006-07 compared with the previous policy.

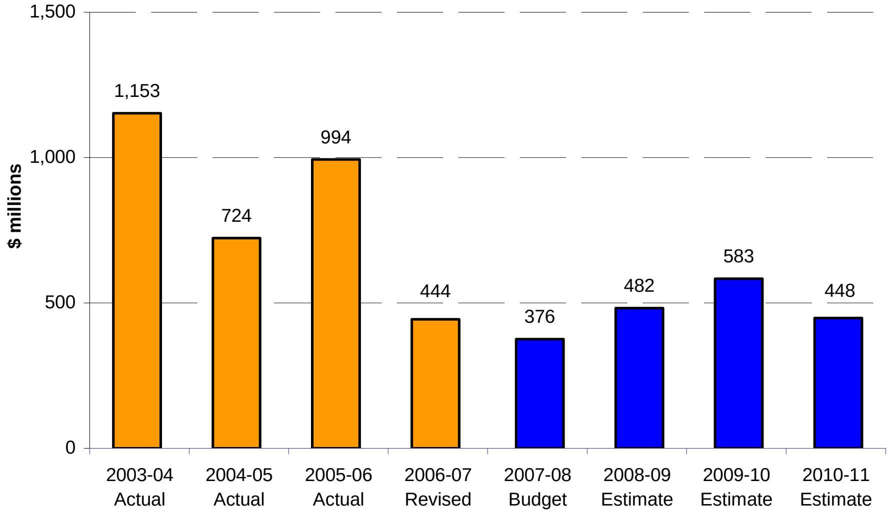
- Operating revenues are expected to be $835 million higher than budget-time estimates, following strong growth in investment income. The forecasting assumption is that investment income will grow at its long-run average, but it has exceeded this in recent years.

These extraordinary influences do not represent ongoing revenue influences. Abstracting from identifiable one-off factors, revenue increased by 4.1 per cent in 2006-07, below the long-run average growth in revenue[1].

Expenses are estimated to have grown by 8.2 per cent in 2006-07. This includes a $960 million rail debt reduction payment, which if excluded would reduce expense growth to 5.9 per cent, marginally higher than estimated in the 2006-07 Budget (5.7 per cent). The rail debt reduction payment was used to fund construction of the Epping to Chatswood rail link.

[1] *Long-run average revenue growth was calculated using ABS GFS total revenue data over a 20-year period. Average growth in real terms of 2.5 per cent over this period is equivalent to nominal growth of 5 per cent currently.*

Chart 1.1: Budget Result 2003-04 to 2010-11



2007-08 Budget and Forward Estimates

The budget result is expected to be slightly less in 2007-08 than 2006-07. The largest contributor to this is the return to average projected investment income. The stabilisation of the budget result at these levels means expense growth rates will match revenue growth rates over the forward estimates period.

Total revenue growth is expected to average 4.2 per cent per annum over the forward estimates period, with growth picking up towards the end of the period. Expenses are also forecast to increase by an average of 4.2 per cent per annum over this period, with stronger annual growth rates in 2010-11 reflecting larger rail capital grants for the planned expansion of the rail network.

Importantly, even though there will be significant rail grants over the coming four years, the one percentage point gap in the growth rates of expenses and revenues evident in the four years to 2006-07 will be closed over the budget and forward estimates period. This will maintain the budget balance at around 2006-07 levels.

Expenditure allocations in this Budget incorporate all policy commitments announced prior to the March 2007 election, and reflect priorities outlined in the State Plan. To meet the expenditure commitments of the State Plan over the next four years within the context of overall expenditure limits will require a reprioritisation of agencies' spending over the forward estimates period.

As announced in the 2006-07 Half-Yearly Budget Review, the program of efficiency dividends outlined in the Government's *Economic and Financial Statement* in February 2006 has been extended. These savings will assist in slowing the growth in expenses over the budget and forward estimates period. Key savings initiatives include:

- an efficiency dividend on agency discretionary[2] expenditures in 2007-08, saving $300 million, and further efficiency dividends of $300 million per annum within the forward estimates. These dividends are targeted at back-office efficiency and procurement savings. Including the efficiency dividends implemented in 2005-06 and 2006-07, the cumulative benefit to the Budget will be around $6 billion over the six years to 2010-11.

  A range of strategies are being implemented to help agencies meet the above efficiency dividends, including reforming procurement practices to capitalise on the expertise of the State Contracts Control Board and the buying power of the State, reducing rental costs through more efficiently managing space, and reducing the cost of corporate services through benchmarking performance.

- a reduction in employee costs by removing up to 5,000 public sector positions over two years is assisting in the achievement of efficiency dividends. As at February 2007, 98 per cent of the positions to be removed by June 2008 have been identified, with 50 per cent of the target already achieved. Employee costs also will be addressed through the application of the Government's wages policy.

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[2] *Excludes finance costs, depreciation, defined benefit superannuation and other non-discretionary expenditures*

1.3 TRENDS IN EXPENSES AND REVENUE

EXPENSES

Expenses have increased by 6.5 per cent a year on average over the four years to 2006-07, with significant increases to meet the growth in the cost, volume and quality of services provided in health, transport, community and disability services, and police and justice. For example, priority areas such as mental health have received significant increases in funding, there has been improved access to health services, including intervention and prevention; increased police numbers and higher numbers of inmates; expanded services in early intervention and out-of-home care; and more assistance for people with disabilities. Expenditure in 2006-07, however, includes a $960 million rail debt reduction payment. Abstracting from the rail payment, the growth in underlying expenses has averaged 5.9 per cent per annum over the past four years. The increase in underlying expenses in 2006-07 of 5.9 per cent is marginally higher than forecast in the 2006-07 Budget (5.7 per cent).

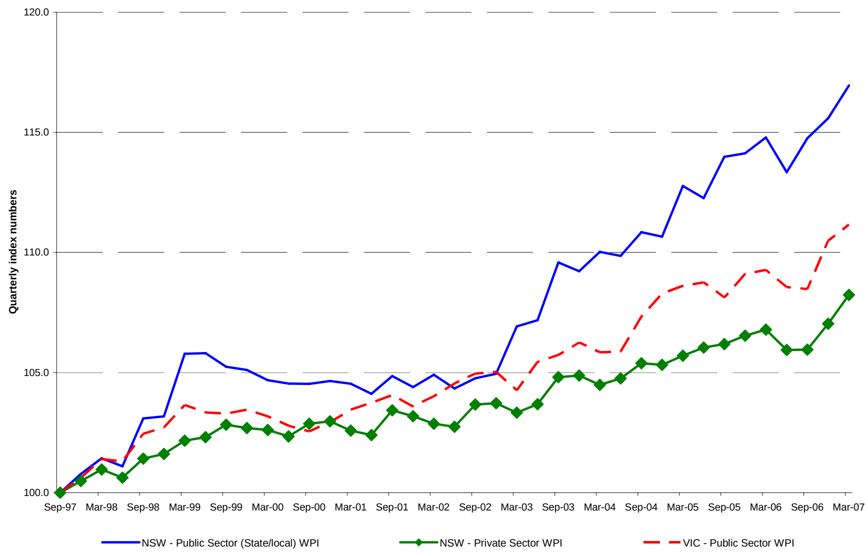
Excluding the rail debt reduction payment in 2006-07, expenses are estimated to grow by 3.6 per cent in 2007-08. Total expenses are then forecast to grow by around 4 per cent a year in 2008-09 and 2009-10, before increasing by 4.8 per cent in 2010-11, with the increase in growth in that year largely attributable to additional rail expenditure.

WAGES POLICY

The single most important influence on the level and future growth of total expenses, and therefore the budget result, is employee-related expenses. They account for almost half of government expenses, and each one per cent increase in employee expenses – from increases in rates of pay, numbers of staff, or from progression of staff to higher pay scales and upward reclassification of positions – costs over $224 million per annum.

Over the past twelve years (June 1995 to June 2007), public sector wages in New South Wales have increased by 66 per cent – twice the rate of inflation. The ABS Wage Cost Index – which commenced in the September quarter 1997 – makes it possible to compare and contrast wages growth in the NSW public sector with other state public sectors and with the private sector. Since September 1997, NSW public sector wages have grown at an annualised rate of 4.2 per cent, compared with average growth of 3.7 per cent for the public sector in the rest of Australia and 3.4 per cent in the private sector in New South Wales. Chart 1.2 shows that, after allowing for the effects of inflation, public sector wages in New South Wales have increased by around 6 per cent more in real terms since September 1997 than they have in the rest of Australia (state/territories) and 8.7 per cent more than private sector wages in New South Wales.

Chart 1.2: ABS Wage Price Index, Real Growth, September Quarter 1997 to March Quarter 2007



As indicated in the Government's *Economic and Financial Statement* in February 2006, while above-inflation wage increases were necessary in the past to attract and retain staff in key front-line areas, the balance has been redressed. The Government's wages policy is to maintain those real wage improvements. Therefore, future wage increases will be limited to a net cost of 2.5 per cent[3] per annum, with any additional increases tied to negotiated productivity savings. Savings will be in addition to those already being achieved under the efficiency dividend on agency discretionary expenditures and other savings measures announced in the *Economic and Financial Statement*.

REVENUE

Over the four years to 2006-07, total revenue grew at below the long-run average rate of 5 per cent per annum. This abstracts from some extraordinary revenues that accrued in 2006-07, which boosted the level of revenue in that year but do not represent ongoing revenue influences.

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[3] *The average annual CPI inflation rate has been 2.5 per cent over the past decade; it is also the mid-point of the RBA's inflation target band; and it is the NSW Treasury's medium-term inflation parameter.*

After underlying growth of 4.1 per cent in 2006-07 and 3.7 per cent in 2007-08, total revenue is forecast to strengthen over the course of the forward estimates period, averaging 4.2 per cent per annum. This reflects:

- Taxation revenue increased by 4.9 per cent per annum on average over the four years to 2006-07, excluding identifiable one-off tax revenues that do not accurately represent ongoing revenues. Taxation revenue growth is forecast to strengthen to an average of 5.2 per cent per annum over the forward estimates period.

- Commonwealth grants grew by an average of 4.1 per cent per annum over the four years to 2006-07. They are estimated to increase more strongly in 2007-08 (6.9 per cent) because of an increase in the total pool of GST revenue, from which New South Wales receives an allocation, an increase in New South Wales' share of GST grants as a result of the 2007 Grants Commission report, and an increase in specific purpose grants (SPPs). However, New South Wales will still cross subsidise other states (except Victoria and Western Australia) by $2.4 billion in 2007-08, and will have received around $840 million less in GST grants than was expected when the GST was introduced in 2000. In the forward years, Commonwealth grants are expected to grow at a more modest 3.6 per cent per annum, mainly due to slower growth in SPPs.

- Investment income has grown at exceptionally high rates in recent years, averaging 33.1 per cent per annum in the four years to 2006-07, adding over one-half percentage point to total revenue growth. This growth has resulted from a strong overall equity market performance. Investment income is expected to decline by 43.4 per cent in 2007-08, reflecting an assumed return to normal investment yields and a reduction in funds invested with the General Government Liability Management Fund.

- Revenue from the sales of goods and services (user charges) has grown by 5.5 per cent in the four years to 2006-07, but is expected to slow to 3.0 per cent in 2007-08, and 3.2 per annum over the forward estimates period.

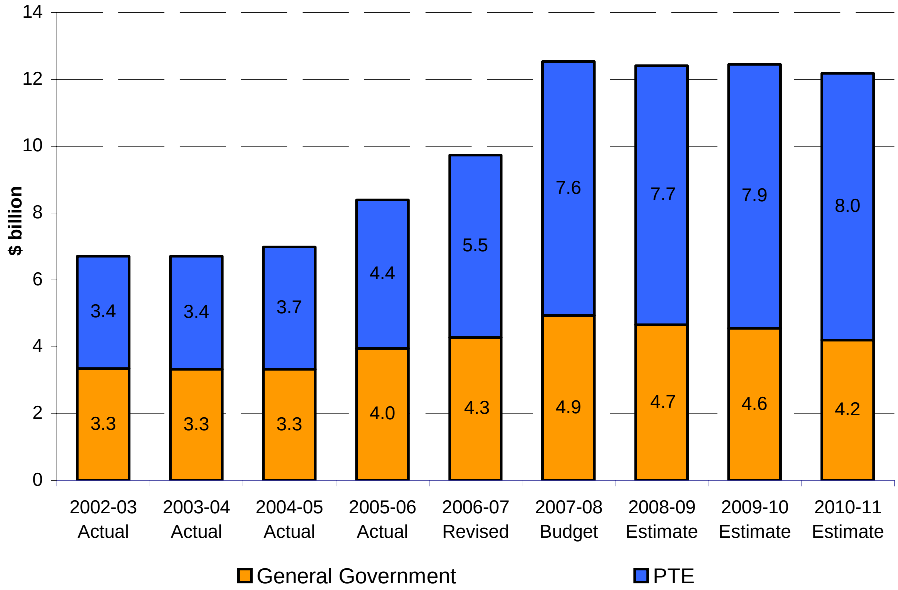
A detailed discussion of revenue trends can be found in Chapter 3.

1.4 CAPITAL EXPENDITURE

Infrastructure plays an integral role in the State's ability to deliver services. In last year's State Infrastructure Strategy (SIS), the Government outlined a substantial program of capital projects over the next decade to address service requirements resulting from population growth and distribution, ageing and longevity, technological change, industrial and commercial developments, cost pressures, infrastructure renewal, and the environment. Since the publication of the SIS there have been a number of major infrastructure initiatives announced by the Government in the areas of water, rail and road transport, and electricity infrastructure.

While total State infrastructure spending has already increased by around 35 per cent in the four years to 2006-07 compared to the previous four years, it is projected to rise further in the coming four years. In 2007-08, total State infrastructure spending is estimated to be $12.5 billion, an increase of 28.8 per cent on spending of $9.7 billion in 2006-07. This consists of $4.9 billion expenditure by the general government sector (15.5 per cent higher than 2006-07) and $7.6 billion by the PTE sector (an increase of 39.3 per cent on 2006-07).

Chart 1.3: Total State Capital Expenditure by Sector, 2002-03 to 2010-11



Infrastructure spending will continue at around $12.3 billion a year over the forward years, bringing total State spending on infrastructure over the four years to 2010-11 to an estimated $49.6 billion – 55.8 per cent higher than estimated total spending in the four years ending June 2007.

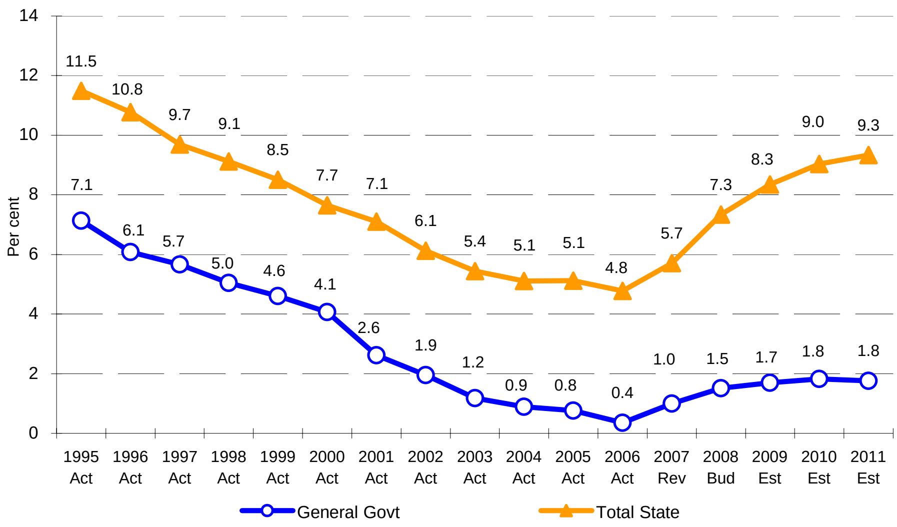
In the general government sector, spending on infrastructure over the next four years is estimated to be $18.4 billion, 23.3 per cent higher than the preceding four years, partially funded by an increase in net debt of $4.1 billion. Capital expenditure in the PTE sector is expected to increase by 84.5 per cent over the next four years, totalling $31.2 billion, with more than half funded by a $17.3 billion increase in PTE net debt. Investment in water, electricity and rail are the main contributors to the significant increase in PTE capital expenditure.

1.5 NET DEBT AND NET FINANCIAL LIABILITIES

NET DEBT

General government sector net debt has declined considerably over the past decade - from $12.2 billion in 1995 (7.1 per cent of GSP) to $1.1 billion in June 2006 (0.4 per cent of GSP). Over that period, total State net debt has declined by the same share of GSP, from 11.5 per cent to 4.8 per cent of GSP.

Chart 1.4: Net Debt as a Percentage of Gross State Product at June 1995 to June 2011[(a)]



(a) Excluding the impacts of prepayment/deferral of superannuation contributions.

Source: NSW Treasury for net debt; GSP from ABS (actual) and NSW Treasury for estimates from 2005-06.

The level of net debt has increased since June 2006, rising by an estimated $2.2 billion in the general government sector to $3.3 billion as at June 2007 (1.0 per cent of GSP). This is, however, lower than was expected in the 2006-07 Budget because of lower contributions to superannuation, following changes in tax legislation, a better than expected cash result in 2005-06 and the surplus in 2006-07. Net debt will continue to increase in 2007-08 and over the forward estimates period, to partly fund ongoing high levels of general government capital expenditure, as outlined in the State Infrastructure Statement. High levels of capital expenditure in the non-commercial PTE sector (especially for rail infrastructure) need to be funded through the Budget via capital grants and will also contribute to the increase in net debt in the general government sector. In the general government sector, net debt is projected to increase by $4.1 billion over the four years to 2010-11, reaching $7.4 billion by June 2011. As a share of the economy, general government net debt will rise through to 2009-10, but stabilise at 1.8 per cent of GSP in 2010-11.

Total State sector net debt is projected to increase more significantly than in the general government sector, reflecting the PTE sector's significant capital expenditure plans over the forward estimates period, which in part reflects the lumpy nature of investment in the PTE sector, particularly in electricity and water. From a low of 4.8 per cent of GSP ($15.3 billion) at June 2006, total State net debt is projected to increase to 9.3 per cent of GSP at June 2011 ($39.3 billion). This is despite a $960 million grant to reduce rail debt in 2006-07. The bulk of the rise in PTE debt will be supported by revenue growth that covers the expenses associated with the higher debt (see Chapter 5).

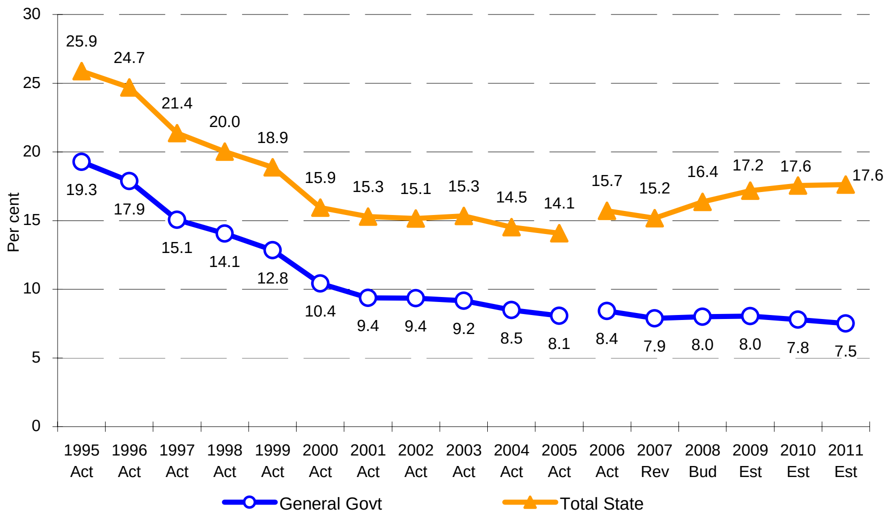
NET FINANCIAL LIABILITIES

In addition to debt, the State carries a number of other types of financial liabilities. Net debt represents around 10 per cent of general government net financial liabilities. The largest component is government employees' unfunded superannuation liabilities, which account for another 60 per cent of net financial liabilities. The remainder is accounted for by insurance and other liabilities (such as long-service leave entitlements). Net financial liabilities, therefore, is the broadest measure of the State's financial position. Accordingly, when the Government, in 2005, reviewed the range of fiscal targets and principles that help guide the conduct of fiscal policy, it included net financial liabilities and made it the main target in the *Fiscal Responsibility Act 2005.*

As debt declined over the past decade, so did net financial liabilities. In the general government sector they fell as a share of the economy from 19.3 per cent of GSP ($32.8 billion) at June 1995 to 8.4 per cent of GSP ($26.9 billion) at June 2006 (see Chart 1.5). General government net financial liabilities, after falling as a share of the economy in 2006-07, are estimated to be stable at 8.0 per cent over the next two years before resuming a downward trajectory, reaching 7.5 per cent of GSP ($31.7 billion) as at June 2011.

Total State sector net financial liabilities, after declining substantially over the past decade, are projected to increase as a share of GSP over the forward estimates. The increase in the ratio of net financial liabilities in 2005-06 from 14.1 per cent to 15.7 per cent of GSP was largely caused by a change in accounting standards. After declining in 2006-07, total State net financial liabilities are set to increase as a share of the economy over the forward estimates, due mainly to the large increase in infrastructure related borrowings, mostly by the PTE sector.

Chart 1.5: Net Financial Liabilities of the General Government Sector and the Total State Sector as a Percentage of Gross State Product at June 1995 to June 2011 [(a)]



Source: NSW Treasury for net financial liabilities; GSP from ABS (actual) and NSW Treasury (estimates from 2006-07).

(a) Series break in 2005-06 as a result of the adoption of Australian Equivalents to International Financial Reporting Standards. It has the effect of increasing the reported level of net financial liabilities.

1.6 FISCAL OUTLOOK: RISKS AND UNCERTAINTIES

There are always risks and uncertainties attached to budget projections. While not all risks are able to be identified *ex-ante,* the major foreseeable risks attached to the fiscal outlook are:

- Most major wage agreements for public sector employees are due to expire in 2008. With employee expenses accounting for around half of total expenses, public sector wage increases above the Government's wages policy would cause a structural deterioration in the fiscal position.

  As wage agreements tend to be over several years, higher than expected wage increases would constrain the Government's capacity to manage expenditure growth within aggregate expenditure targets for several years. For example, an additional service-wide 1 per cent wage increase over three years would lead to a structural deterioration in the budget position of $700 million within three years.

- Expenses growing in excess of the long-run sustainable growth in revenue would place the Budget under pressure. Ageing of the population, general increases in the cost and quality of services that the community demands (i.e. non-demographic pressures), and environmental issues, such as drought, could all place extra demands on the State's spending.

- The size of the capital expenditure program can pose another risk to the medium-term fiscal outlook and to the State's triple-A credit rating. The risk arises because capital expenditure (net of depreciation and asset sales) has to be funded by the budget result, with any shortfall required to be funded by higher debt.

  To the extent that there is a strong capital spending program, there needs to be a commensurately strong budget result in order to constrain growth in debt to sustainable levels. In addition, non-commercial PTE sector capital spending (e.g. rail and housing) will place pressure on the budget result to the extent that capital grants are required. The significant increase in general government and non-commercial PTE sector capital investment is expected to extend beyond the forward estimates period.

1.7 FISCAL TARGETS AND PRINCIPLES: PROGRESS

The Government reports every year in the budget papers on the progress achieved against the fiscal targets and principles that underlie the Government's fiscal strategy.

The key fiscal target in the *Fiscal Responsibility Act 2005* (FRA) is to reduce net financial liabilities in the general government sector as a share of the economy to 7.5 per cent or less by June 2010, and to 6.0 per cent or less by June 2015. At these levels the State's balance sheet will be strong enough to allow the Government flexibility in responding to potentially significant future fiscal pressures, such as the ageing of the population. Net financial liabilities are projected to be slightly above the 2010 target, at 7.8 per cent of GSP, but are on a downward trajectory and will reach 7.5 per cent in 2010-11. Relative to when the target was set two years ago, the principal cause for deviating from the target is higher general government net debt, discussed below.

The FRA also contains a net debt target, to maintain general government underlying net debt at or below its share of the economy at 30 June 2005, which was 0.8 per cent of GSP. The target permits debt to grow in line with the economy. Net debt is expected to grow at a faster rate than the economy for the next few years but to stabilise at around 1.8 per cent of GSP by the end of the forward estimates period. Increases in expenditure on key services, below trend revenue growth and strong growth in capital expenditures explain the departure from the debt target.

Adherence to the debt target in the short term is not consistent with the Government's fiscal strategy, as it would require unnecessarily harsh cutbacks in service delivery or increases in taxation. The overall strength of the balance sheet permits time for a progressive structural improvement. Indeed, the deviation from the broader, and hence more important, net financial liabilities target is less pronounced, suggesting that a full response to the breaching of the debt target is not required.

Appendix A summarises the progress achieved against each of the fiscal targets and fiscal principles, and assesses the achievability of fiscal targets and principles in the future.

1.8 IMPACT OF 2007-08 BUDGET ON THE LONG-TERM FISCAL GAP

The 2006-07 Budget provided a benchmark estimate of the long-term fiscal pressures that New South Wales may face by comparing the actual budget outcomes for 2004-05 to the projected budget outcome for 2043-44. It was estimated that demographic and other pressures could lead to a fiscal gap[4] of around 3.4 per cent of GSP over the 40 year horizon.

One feature of the *Fiscal Responsibility Act 2005* is a requirement to report in every budget the long-term fiscal consequences of expenditure and revenue measures. Thus, in addition to the usual budget reporting on the immediate effects of policy initiatives, the Government now provides an assessment as to whether policy changes will widen or narrow the long-term fiscal gap as reported in 2006-07 Budget Paper No. 6. This reporting considerably increases fiscal transparency.

In coming years, the impact on the fiscal gap for each policy change will be reported. This requires a significant investment in both the capacity to model policy changes as well as cost their impact on different age cohorts. While such capabilities are being developed, this year's report (as was the case last year) relies on the impact of policy changes on aggregate revenues and expenses. The methodology employed is to compare the fiscal gap projected using the current budget and forward estimates with the projected fiscal gap if there had been no policy changes to revenues or expenses since the 2006-07 Budget. The difference between these estimates is the impact of the Budget on the long-term fiscal gap.

The estimated long-term fiscal impact of the 2006-07 Budget measures was an increase of the fiscal gap by 0.1 percentage points from 3.4 per cent of GSP to 3.5 per cent of GSP.

New policy changes since the 2006-07 Budget, reflected in the 2007-08 Budget and forward estimates, will increase the fiscal gap, though the impact is not significant and the estimate of the fiscal gap remains at 3.5 per cent of GSP. Expenses policy changes have no impact on the fiscal gap with increases being offset by the extension of general savings measures. On the revenue side, the abolition of the mortgage duty was included in last year's estimates and the change in timing has no impact on the fiscal gap. Changes to land tax rates do widen the fiscal gap, but the impact is small (0.03 percentage points).

[4] *The fiscal gap is the difference between the base period primary balance as a share of GSP and the primary balance as a share of GSP at the end of the projection period. The primary balance is the gap between spending and revenue excluding interest transactions but including net capital expenditure. A positive gap implies that fiscal pressures will be building over the projection period.*

Table 1.1: Key Fiscal Indicators NSW 1997-98 to 2010-11 (per cent)

	1997-98 Actual	1998-99 Actual	1999-00 Actual	2000-01 Actual	2001-02 Actual	2002-03 Actual	2003-04 Actual	2004-05 Actual	2005-06 Actual	2006-07 Revised	2007-08 Budget	2008-09 Est	2009-10 Est	2010-11 Est
General Government Sector														
Revenue/GSP	13.3	13.3	13.2	13.0	13.0	13.1	12.9	12.8	13.0	13.2	12.7	12.5	12.2	12.1
Revenue Growth - Nominal	4.8	5.8	5.5	5.1	5.5	6.5	4.5	4.2	6.3	6.7	1.1	4.1	4.0	4.5
Revenue Growth - Real [(a)]	3.5	5.4	3.3	0.7	3.1	3.5	0.2	0.4	1.3	2.1	(1.4)	1.6	1.4	2.0
Tax Revenue/GSP	6.3	6.5	6.6	5.4	5.1	5.2	5.2	5.0	5.0	5.3	4.9	4.9	4.8	4.9
Tax Revenue Growth - Nominal	10.0	9.4	7.6	(12.2)	(1.0)	7.1	6.2	2.0	3.8	11.7	(1.2)	4.5	5.0	6.0
Tax Revenue Growth - Real[(a)]	8.6	9.0	5.3	(15.8)	(3.2)	4.1	1.8	(1.6)	(1.2)	6.9	(3.7)	2.0	2.5	3.5
Expenses/GSP	12.6	12.9	12.3	12.4	12.4	12.5	12.5	12.6	12.7	13.1	12.6	12.3	12.1	12.0
Expenses Growth - Nominal	3.0	7.1	2.2	7.2	5.5	6.3	6.5	5.5	5.7	8.2	1.3	3.9	3.8	4.8
Expenses Growth - Real [(a)]	1.7	6.7	0.1	2.8	3.1	3.2	2.1	1.7	0.7	3.5	(1.2)	1.4	1.3	2.3
Net Operating Result/GSP	0.6	0.5	0.9	0.6	0.6	0.6	0.4	0.2	0.3	0.1	0.1	0.1	0.1	0.1
Net Operating Result /Revenue	4.8	3.6	6.6	4.6	4.6	4.9	3.1	1.8	2.4	1.0	0.8	1.0	1.2	0.9
Gross Capital Expenditure/GSP	1.3	1.4	1.2	1.2	1.2	1.2	1.1	1.1	1.2	1.3	1.4	1.2	1.1	1.0
Net Lending/GSP	(0.2)	(0.1)	0.6	0.2	0.2	0.2	0.0	(0.1)	(0.2)	(0.3)	(0.5)	(0.4)	(0.2)	(0.1)
Net Lending/Revenue	(1.6)	(0.5)	4.3	1.6	1.7	1.3	0.1	(0.5)	(1.2)	(2.6)	(3.7)	(3.4)	(1.8)	(1.0)
Net Debt/GSP [(b)]	5.0	4.6	4.1	2.6	1.9	1.2	0.9	0.8	0.4	1.0	1.5	1.7	1.8	1.8
Net Debt/Revenue [(b)]	38.0	34.5	30.8	20.2	15.0	9.0	6.9	5.9	2.7	7.5	11.9	13.6	14.9	14.6
Interest/Revenue	5.4	4.7	4.4	3.2	2.6	2.2	2.1	2.7	2.8	2.8	2.9	3.2	3.4	3.5
Net Financial Liabilities/GSP	14.1	12.8	10.4	9.4	9.4	9.2	8.5	8.1	8.4	7.9	8.0	8.0	7.8	7.5
Net Financial Liabilities/Revenue	106.0	96.4	79.0	72.2	71.8	69.8	65.8	63.0	64.6	59.8	63.2	64.5	63.6	62.2

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

(b) Net debt excludes the impacts of prepayment/deferral of superannuation contributions.

Table 1.1: Key Fiscal Indicators NSW 1997-98 to 2010-11 (per cent) (cont)

	1997-98 Actual	*1998-99 Actual*	*1999-00 Actual*	*2000-01 Actual*	*2001-02 Actual*	*2002-03 Actual*	*2003-04 Actual*	*2004-05 Actual*	*2005-06 Actual*	*2006-07 Revised*	*2007-08 Budget*	*2008-09 Est*	*2009-10 Est*	*2010-11 Est*
Total State Sector														
Net Operating Result/GSP	0.9	0.6	1.2	0.9	0.9	0.6	0.4	0.1	0.5	0.6	0.1	0.2	0.3	0.4
Net Operating Result /Revenue	5.6	3.4	6.8	5.4	5.8	4.0	2.7	0.7	3.2	3.7	0.5	1.4	2.0	2.7
Gross Capital Expenditure/GSP	2.2	2.4	2.4	2.2	2.3	2.4	2.3	2.3	2.6	2.9	3.5	3.3	3.1	2.9
Net Lending/GSP	(0.0)	(0.3)	0.3	0.5	0.0	(0.2)	(0.3)	(0.7)	(0.7)	(0.8)	(2.0)	(1.7)	(1.3)	(1.1)
Net Lending/Revenue	(0.1)	(1.9)	1.8	2.7	0.2	(1.5)	(2.1)	(4.5)	(4.2)	(5.3)	(12.8)	(11.0)	(8.8)	(7.3)
Net Debt/GSP [(b)]	9.1	8.5	7.7	7.1	6.1	5.4	5.1	5.1	4.8	5.7	7.3	8.3	9.0	9.3
Net Debt/Revenue [(b)]	54.3	51.1	45.2	41.1	37.9	33.7	32.3	32.5	30.2	35.8	47.5	54.7	59.8	62.4
Interest/Revenue	6.8	5.4	5.1	4.5	3.7	3.7	3.6	4.4	4.4	4.5	4.9	5.4	6.0	6.3
Net Financial Liabilities/GSP	20.0	18.9	15.9	15.3	15.1	15.3	14.5	14.1	15.7	15.2	16.4	17.2	17.6	17.6
Net Financial Liabilities/Revenue	119.3	113.4	94.2	88.5	93.6	95.1	91.9	89.5	99.4	95.1	105.9	112.4	116.3	117.8

Source: NSW Treasury for expenses, revenue and liabilities, GSP from ABS (actual) and NSW Treasury (estimates from 2005-06).

Table 1.2: Key Fiscal Indicators NSW 1997-98 to 2010-11 ($m)

	1997-98 Actual	*1998-99 Actual*	*1999-00 Actual*	*2000-01 Actual*	*2001-02 Actual*	*2002-03 Actual*	*2003-04 Actual*	*2004-05 Actual*	*2005-06 Actual*	*2006-07 Revised*	*2007-08 Budget*	*2008-09 Est*	*2009-10 Est*	*2010-11 Est*
General Government Sector														
Total Revenue	27,344	28,929	30,512	32,057	33,813	36,017	37,639	39,205	41,681	44,485	44,994	46,855	48,711	50,899
Tax Revenue	12,903	14,122	15,191	13,343	13,216	14,153	15,026	15,332	15,910	17,775	17,562	18,354	19,275	20,439
Total Expenses	26,035	27,891	28,509	30,570	32,247	34,265	36,486	38,482	40,687	44,041	44,618	46,373	48,128	50,451
Net Operating Result	1,309	1,038	2,003	1,487	1,566	1,752	1,153	724	994	444	376	482	583	448
Gross Capital Expenditure	2,760	3,002	2,734	2,859	3,102	3,349	3,331	3,331	3,954	4,275	4,937	4,664	4,555	4,197
Net Lending/Borrowing	(428)	(135)	1,322	525	573	461	41	(178)	(516)	(1,166)	(1,675)	(1,604)	(881)	(497)
Net Debt	10,403	9,990	9,385	6,461	5,056	3,244	2,593	2,321	1,131	3,348	5,354	6,380	7,261	7,407
Interest Expenses	1,490	1,362	1,343	1,016	868	803	788	1,060	1,182	1,226	1,321	1,491	1,657	1,760
Net Financial Liabilities	28,989	27,883	24,101	23,132	24,293	25,158	24,783	24,686	26,920	26,616	28,439	30,215	30,987	31,666
Total State Sector														
Total Revenue	34,636	36,143	39,059	42,597	41,982	44,275	46,098	48,100	50,517	53,746	54,847	57,381	60,039	62,987
Total Expenses	32,681	34,912	36,386	40,297	39,565	42,524	44,838	47,749	48,879	51,770	54,586	56,576	58,817	61,285
Net Operating Result	1,955	1,232	2,673	2,301	2,416	1,751	1,260	351	1,638	1,975	261	805	1,222	1,702
Gross Capital Expenditure	4,436	5,142	5,460	5,365	6,080	6,697	6,705	6,982	8,383	9,728	12,534	12,401	12,442	12,175
Net Lending/(Borrowing)	(18)	(678)	687	1,152	81	(653)	(986)	(2,163)	(2,106)	(2,843)	(7,035)	(6,295)	(5,295)	(4,570)
Net Debt	18,801	18,460	17,664	17,499	15,904	14,930	14,875	15,638	15,257	19,257	26,044	31,359	35,933	39,313
Interest Expenses	2,342	1,960	1,981	1,900	1,562	1,623	1,668	2,134	2,201	2,396	2,705	3,112	3,587	3,991
Net Financial Liabilities	41,304	40,985	36,813	37,680	39,304	42,108	42,367	43,067	50,218	51,127	58,092	64,511	69,828	74,175
Gross State Product (current prices)	206,261	217,046	230,894	246,351	259,434	274,441	291,540	305,859	319,541	337,122	354,818	375,726	397,820	421,242

1.9 KEY BUDGET AGGREGATES AND SCOPE OF THE BUDGET PAPERS

KEY BUDGET AGGREGATES

Budget reporting complies with the accrual based government financial statistics (GFS) principles developed by the Australian Bureau of Statistics.

The budget result is based on the GFS net operating result. The GFS net operating result reports the difference between the full cost of general government service delivery in the year (excluding new capital expenditure but including depreciation of the existing stock of fixed assets) and the revenues earned in that year to fund those services.

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 financial obligations (including debt, unfunded superannuation liabilities, insurance liabilities and employee related liabilities) less its financial assets (including cash and investments).

Appendix B provides estimates for the Budget Sector Operating Statement and Balance Sheet over the period from 1998-99 to 2010-11.

SCOPE OF THE BUDGET PAPERS

The Budget Papers principally report on the financial and service delivery performance of the general government sector.

General government agencies typically deliver public services or are regulatory in nature. Budget Paper No. 3 Budget Estimates, provides details of the performance of each general government sector agency. Budget Paper No. 3 estimates are shown in accordance with accounting standards.

The general government sector forms one part of the total State sector. The remainder of the total State sector is comprised of commercially focussed entities (public trading enterprises (PTE) and public financial enterprises (PFE)). These agencies do not impact on the budget result, other than through payment of dividends and tax equivalents (e.g. from energy and water corporations) and where they receive funding to provide services on a subsidised basis (e.g. to Rail Corporation New South Wales and the Department of Housing). However, for completeness, an overview of the financial performance of the PTE sector is included in Chapter 5.

More detail on the structure of the total State sector, together with the classification of agencies, is contained in Appendix C.

1.10 GENERAL GOVERNMENT SECTOR OPERATING STATEMENT

The general government sector financial statements for 2007-08 and forward years are prepared in accordance with government finance statistics (GFS) principles.

2007-08 BUDGET

For 2007-08, the budget result is expected to be an operating surplus of $376 million.

The budget result is expected to remain in surplus in the forward years with surpluses of $482 million in 2008-09, $583 million in 2009-10 and $448 million in 2010-11 (see Table 1.3).

Revenue

Total revenues for 2007-08 are estimated to be $44,994 million, an increase of $509 million (or 1.1 per cent) over the revised estimate for 2006-07.

Taxation revenue, which accounts for 39 per cent of total revenues in 2007-08, is expected to decrease by $213 million to $17,562 million in 2007-08, a decrease of 1.2 per cent from the 2006-07 revised estimate. This decline reflects the abolition of hire of goods duty, lease duty and mortgage duty on owner-occupied residences and the reduction in the land tax rate (from 1.7 to 1.6 per cent). In addition, transfer duty revenue on high value commercial property sales is expected to return to normal levels in 2007-08.

Commonwealth general purpose grants are estimated to be $11,926 million in 2007-08, an increase of 8.1 per cent on the 2006-07 revised estimate. The growth in revenue results from an increase in the GST pool and an improved share of funds following the 2007 Commonwealth Grants Commission Report.

Nevertheless, the NSW Budget continues to be adversely impacted by Commonwealth funding decisions. The GST has not been a windfall for New South Wales. In 2006-07, New South Wales again received less in GST revenue grants than was expected when the GST was introduced in 2000-01, the only State to do so. Between 2000-01 and 2007-08, the cumulative loss to New South Wales is around $840 million. New South Wales will subsidise the other States and Territories (except Victoria and Western Australia) by $2.4 billion in 2007-08 through the distribution of GST grants.

The annual average growth in total revenue for New South Wales is broadly unchanged in the five years before and after the introduction of the GST.

Commonwealth specific purpose grants are expected to increase to $7,190 million, a rise of $344 million, or 5.0 per cent, from the 2006-07 revised estimate. The growth in specific purpose payments from the Commonwealth Government continues to be below the underlying growth in the cost of service delivery.

Commonwealth general and specific purpose grants will account for 42.5 per cent of total revenues in 2007-08.

Financial distributions from public trading enterprises at $1,764 million in 2007-08 are expected to be broadly the same as in 2006-07.

Total operating revenues are expected to decrease to $5,363 million in 2007-08, a decrease of 8.4 per cent from the 2006-07 revised estimate. This reflects the expectation that the extraordinary investment returns experienced in 2006-07 will not continue and that revenues will return to normal levels in 2007-08.

Full details of revenue estimates are provided in Chapter 3.

Expenses

Total expenses in 2007-08 are estimated to be $44,618 million, an increase of 1.3 per cent on the 2006-07 revised estimates or 3.6 per cent after excluding the impact of the rail debt reduction payment of $960 million in 2006-07.

Tighter expenditure control has seen actual agency expenses in both 2005-06 and 2006-07 very close to budget. A rigorous expenditure review process has ensured that agencies manage within their budgets and deliver efficiency dividends. Annual savings of around $300 million per annum have now been delivered through efficiency dividends in each of the last two years. A further efficiency dividend of $300 million is budgeted in 2007-08.

Insurance expenses have been significantly curtailed through the impact of the Government's workers compensation and tort law reform legislation and improvements in occupational health and safety management within major agencies.

The focus of the 2007-08 Budget includes the key areas of:

- *health* – directing programs towards the health of children and mothers, expanding mental health services, prioritising quality health care through reforming work practices and patient management, emphasising promotion, prevention and early intervention, integrating primary health care facilities, continuing to expand nurse numbers and enhance their clinical expertise and improving information systems to support clinical care.

- *education and training* – implementation of election commitments including the *Literacy (The Best Start)* initiative, *Connected Classrooms*, *Support for Beginning Teachers*, the *Transition to Year 7* initiative, *School Sport* and the *Training our Workforce* and *Learn or Earn* initiatives.

- *disability services* – improving options for people with disabilities, providing increased welfare and support for carers, and expanding prevention and early intervention services; and

- *transport and roads* – the Government's $660 million *Urban Transport Statement* highlights new and accelerated initiatives to address Sydney's present and future transport needs, including a number of new rail lines, additional bus priority works and improved traffic management systems to eliminate congestion and bottlenecks. Programs to improve capacity, safety and reliability of the rail network will also continue.

Employee related expenses (excluding superannuation) in 2007-08 are estimated to increase by $1,125 million over the 2006-07 revised estimate, an increase of 6.0 per cent. The increase in employee related expenses has been impacted by revaluations of workers compensation insurance liabilities in 2006-07. Without these revaluations, growth in employee related expenses would be 4.7 per cent.

The increase in employee related expenses partly reflects increases in key frontline service staffing numbers. The increase in the nursing workforce since January 2002 will continue in 2007-08. Similarly the 2007-08 expenses will reflect the full year cost of the increase of 750 police officers, achieved in January 2007.

Superannuation expenses in 2007-08 are estimated to decrease by $245 million over the 2006-07 revised estimate, a fall of 9.2 per cent, reflecting income earned following the transfer of $7.2 billion from the General Government Liability Management Fund to the SAS Trustee Corporation (the State Super Fund) in 2006-07.

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

Table 1.3: General Government Sector Operating Statement

	2005-06 Actual	2006-07 Budget	2006-07 Revised	2007-08 Budget	2008-09	2009-10 Forward Estimate	2010-11
	$m	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*
State Revenues							
Taxation	15,910	16,719	17,775	17,562	18,354	19,275	20,439
Commonwealth Grants							
- General Purpose	10,720	10,946	11,034	11,926	12,766	13,530	14,270
- Specific Purpose	6,368	6,679	6,846	7,190	6,833	7,000	6,973
Financial Distributions	1,836	1,664	1,768	1,764	1,833	1,971	2,081
Fines, Regulatory Fees & Other	1,278	1,167	1,206	1,189	1,166	1,245	1,303
Total State Revenues	**36,112**	**37,175**	**38,629**	**39,631**	**40,952**	**43,021**	**45,066**
Operating Revenues							
Sale of Goods and Services	3,037	2,999	3,332	3,433	3,573	3,670	3,779
Investment Income	1,298	914	1,380	781	803	848	887
Grants and Contributions	809	789	775	824	812	842	860
Other	425	319	369	325	715	330	307
Total Operating Revenues	**5,569**	**5,021**	**5,856**	**5,363**	**5,903**	**5,690**	**5,833**
Total Revenues	**41,681**	**42,196**	**44,485**	**44,994**	**46,855**	**48,711**	**50,899**
Expenses							
Employee Related							
- Superannuation	2,743	2,600	2,654	2,409	2,451	2,485	2,516
- Other	18,004	18,202	18,875	20,000	20,811	21,405	22,175
Other Operating	8,330	9,760	8,991	9,165	9,623	9,991	10,472
Depreciation and Amortisation	2,127	2,245	2,276	2,429	2,564	2,685	2,796
Current Grants and Subsidies	6,681	7,179	7,310	7,429	7,446	7,649	7,873
Capital Grants	1,620	1,670	2,709	1,650	1,827	2,096	2,699
Finance [(a)]	1,182	991	1,226	1,321	1,491	1,657	1,760
Recurrent Treasurer's Advance	...	245	...	215	160	160	160
Total Expenses	**40,687**	**42,892**	**44,041**	**44,618**	**46,373**	**48,128**	**50,451**
BUDGET RESULT - SURPLUS/(DEFICIT)	**994**	**(696)**	**444**	**376**	**482**	**583**	**448**
Capital Expenditure [(b)]	3,954	4,387	4,275	4,937	4,664	4,555	4,197

(a) *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 above the Budget time estimate.*

(b) *Includes assets acquired under finance leases.*

Capital Expenditure

In 2007-08, capital expenditure in the general government sector will total $4,937 million, an increase of 15.5 per cent over the 2006-07 revised estimate of $4,275 million. Expenditure in 2007-08 is projected to be a record in real terms and reflects the Government's commitment to improve service delivery in priority areas.

Capital expenditure by the Department of Education and Training will total $617 million in 2007-08, an increase of 6.6 per cent over the 2006-07 revised estimate. The program includes 5 new schools, 24 major new building projects at schools and 11 new TAFE projects.

The Department of Health has a capital expenditure program in 2007-08 of $654 million compared to $573 million in 2006-07, an increase of 14.2 per cent. The program includes significant hospital and community health redevelopment, investment in information and communication technology and the value of the privately financed project for the Mater Hospital in Newcastle.

The capital program for the Roads and Traffic Authority will increase by 23 per cent to $1,910 million in 2007-08. The increase in expenditure results mainly from expanded programs on the Pacific, Hume, Princes Highways and the Central Coast. Additional funds have also been allocated to the M5 East Tunnel Filtration, duplication of the Alford's Point Bridge and the F3 Sydney to Newcastle Freeway.

The Minister Administering the Environmental Planning and Assessment Act will have a capital program of $309 million in 2007-08, compared to $77 million in 2006-07 for the Sydney Regional Development Fund, an increase of over 300 per cent. This principally reflects the ongoing purchase of rail corridors.

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

FORWARD ESTIMATES

The GFS operating statement shows budget operating surpluses of $482 million in 2008-09, $583 million in 2009-10 and $448 million in 2010-11.

Revenue

Total revenue is estimated to rise by an average 4.2 per cent per annum over the three years to 2010-11.

Taxation revenue is expected to increase by an average of 5.2 per cent per annum while financial distributions are projected to grow by an average of 5.7 per cent per annum. Commonwealth specific purpose grants are expected to decrease by 1 per cent per annum reflecting the expiry of some existing agreements. Commonwealth general purpose grants, funded by the GST, are expected to increase by an average of 6.2 per cent per annum.

Investment income is expected to decrease by 43.4 per cent in 2007-08, and then increase by an average of 4.3 per cent in the following three years. This reflects a return to normal investment yields and the transfer of the balance of the General Government Liability Management Fund to the SAS Trustee Corporation (State Super).

Other operating revenue will increase in 2008-09 by 120 per cent due principally to the completion and transfer of the Tugun Bypass to the State.

Expenses

From 2008-09 through to 2010-11, growth in expenses is expected to average 4.2 per cent per annum.

Slower spending growth will be achieved by implementing a range of efficiency savings and productivity reforms, setting spending priorities while maintaining real wages. Further details of savings initiatives are outlined in Chapter 2.

Agency initiatives impacting the forward estimates are detailed in Chapter 2 and in Budget Paper No. 3 Budget Estimates.

Capital Expenditure

Capital expenditure in the general government sector is expected to total $18.4 billion in the four years to June 2011, an increase of 23.3 per cent or $3.5 billion over spending in the previous four year period. When added to capital expenditure in the PTE sector, total State sector capital expenditure for the four years to 2010-11 totals nearly $50 billion. This represents an increase of $17.8 billion or 55.8 per cent compared to the previous four year period.

1.11 GENERAL GOVERNMENT SECTOR BALANCE SHEET

The general government sector balance sheet for 2007-08 and forward years are prepared in accordance with government finance statistics (GFS) principles.

Table 1.4: General Government Sector Balance Sheet, 2006 to 2011, as at 30 June (GFS Basis)

	2006 Actual	2007 Revised	2008 Budget	2009	2010 Estimate	2011
	$m	$m	$m	$m	$m	$m
ASSETS						
Financial Assets						
Cash and Deposits	2,461	2,210	2,933	3,049	3,136	2,968
Advances Paid	840	892	926	980	1,012	1,053
Investments, Loans and Placements	13,959	7,162	7,043	7,517	8,021	8,552
Other Non-Equity Assets	9,572	10,009	10,176	9,702	10,072	10,026
PTE/PFE Equity	63,915	66,899	67,770	68,704	71,554	73,748
Other Equity Assets	1,490	1,569	1,666	1,780	1,847	1,896
Total Financial Assets	**92,237**	**88,741**	**90,514**	**91,732**	**95,642**	**98,243**
Non-Financial Assets						
Land and Fixed Assets	89,588	92,599	95,459	98,467	100,961	103,049
Other Non-Financial Assets	1,038	1,124	1,214	1,311	1,409	1,492
Total Non-Financial Assets	**90,626**	**93,723**	**96,673**	**99,778**	**102,370**	**104,541**
TOTAL ASSETS	**182,863**	**182,464**	**187,187**	**191,510**	**198,012**	**202,784**
LIABILITIES						
Deposits Held	129	93	94	94	93	93
Advances Received	920	893	865	837	816	797
Borrowing	12,035	12,626	15,297	16,995	18,521	19,090
Provisions	36,268	29,513	30,196	30,886	31,458	32,081
Other Non-Equity Liabilities	5,890	5,333	4,731	4,431	4,187	4,100
TOTAL LIABILITIES	**55,242**	**48,458**	**51,183**	**53,243**	**55,075**	**56,161**
NET WORTH	**127,621**	**134,006**	**136,004**	**138,267**	**142,937**	**146,623**
Net Debt[(a)]	**1,131**	**3,348**	**5,354**	**6,380**	**7,261**	**7,407**
- as a % of GSP	**0.4**	**1.0**	**1.5**	**1.7**	**1.8**	**1.8**
Net Financial Liabilities[(b)]	**26,920**	**26,616**	**28,439**	**30,215**	**30,987**	**31,666**
- as a % of GSP	**8.4**	**7.9**	**8.0**	**8.0**	**7.8**	**7.5**

(a) *Excludes transactions associated with the General Government Liability Management Fund.*

(b) *Excluding PTE/PFE equity.*

Net Worth

Net worth is estimated to be $134.0 billion at 30 June 2007, an increase of $6.4 billion over the previous year. The increase is the result of asset revaluations, improvements in unfunded superannuation and a budget surplus in 2006-07.

During 2007-08, net worth is expected to increase by $2.0 billion to $136.0 billion.

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 Infrastructure Statement.

Net Financial Liabilities

Despite the increase in net debt to fund the State's record capital program, net financial liabilities in June 2007 are expected to fall to $26.6 billion from $26.9 billion at 30 June 2006. As a share of GSP, net financial liabilities will decrease to 7.9 per cent in June 2007 from the 8.4 per cent in June 2006.

The reduction in net financial liabilities results from a conscious government policy to fully fund superannuation liabilities by 2030. Further, the Government's workers compensation liabilities have been reduced as a direct result of tort law reforms and improvements in occupational health and safety management within major agencies.

In June 2008, net financial liabilities are expected to increase to $28.4 billion, marginally increasing from 7.9 to 8.0 per cent as a share of GSP.

Chapter 4 provides a detailed analysis of net financial liabilities.

Net Debt

Net debt is estimated to be $3.3 billion in June 2007, an increase of $2.2 billion from June 2006, and increasing from 0.4 per cent to 1.0 per cent of GSP. In June 2008, net debt is expected to increase to $5.4 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 $10.4 billion between June 2007 and June 2011. This reflects the Government's capital expenditure program totalling $18.4 billion over the period offset by depreciation of $10.5 billion and by asset sales.

Investments will steadily increase by $1.5 billion from June 2008 to June 2011.

Provisions are expected to increase steadily in the following years as liabilities for long service leave and superannuation accrue.

Net worth is expected to increase to $146.6 billion at June 2011, an increase of $10.6 billion (or 7.8 per cent) over the June 2008 level.

Net financial liabilities will increase by around $3.2 billion to $31.7 billion during the period June 2008 to June 2011. As a share of GSP, they are projected to fall from 8.0 per cent to 7.5 per cent.

From June 2008, net debt is expected to increase by $2.1 billion to $7.4 billion at June 2011, increasing from 1.5 per cent of GSP at 2008 to 1.8 per cent of GSP at June 2011.

1.12 GENERAL GOVERNMENT SECTOR CASH FLOW STATEMENT

Table 1.5 shows the net cash flow of the general government sector from operating, investing and financing activities.

The net cash flow from operating activities in 2006-07 is some $2.0 billion higher than budget mainly due to the better than expected budget result (after excluding the one-off revenue accrual) and lower superannuation contributions.

For 2007-08 the net cash flow from operating activities is expected to be a surplus of $2.5 billion, an increase of $6.4 billion from the result in 2006-07. This primarily reflects the payment of $7.2 billion towards unfunded superannuation made in 2006-07.

Improving cash results are forecast in the forward years. A cash deficit of $2.0 billion is forecast for 2007-08, and deficit of $1.1 billion in 2008-09, $841 million in 2009-10 and $95 million in 2010-11.

Table 1.6 shows GFS cash results from 1991-92 to 2010-11.

Table 1.5: General Government Sector Cash Flow Statement (GFS Basis)

	2005-06 Actual $m	2006-07 Budget $m	2006-07 Revised $m	2007-08 Budget $m	2008-09 Estimate $m	2009-10 Estimate $m	2010-11 Estimate $m
Cash Receipts from Operating Activities							
Taxes Received	15,972	16,574	17,254	17,569	18,790	19,297	20,486
Receipts from sales of goods & services	3,421	3,259	3,618	3,710	3,849	3,970	4,139
Grants/Subsidies Received	18,588	17,976	18,221	19,249	19,741	20,727	21,704
Other Receipts	6,532	6,068	6,795	5,750	6,036	6,257	6,455
Total Cash Receipts from Operating Activities	**44,513**	**43,877**	**45,888**	**46,278**	**48,416**	**50,251**	**52,784**
Cash Payments from Operating Activities							
Payments for goods & services	(28,481)	(39,003)	(37,787)	(32,890)	(34,101)	(35,241)	(36,503)
Grants & Subsidies Paid	(6,769)	(7,285)	(8,482)	(7,384)	(7,540)	(8,024)	(8,825)
Interest Paid	(1,005)	(977)	(871)	(956)	(1,057)	(1,204)	(1,230)
Other Payments	(2,599)	(2,518)	(2,642)	(2,570)	(2,529)	(2,548)	(2,568)
Total Cash Payments from Operating Activities	**(38,854)**	**(49,783)**	**(49,782)**	**(43,800)**	**(45,227)**	**(47,017)**	**(49,126)**
Net Cash Flows from Operating Activities	**5,659**	**(5,906)**	**(3,894)**	**2,478**	**3,189**	**3,234**	**3,658**
Cash Flows from Investments in Non-Financial Assets							
Purchases of New Non-Financial Assets	(3,863)	(4,371)	(4,181)	(4,695)	(4,356)	(4,496)	(4,207)
Sale of Non-Financial Assets	430	476	467	486	409	484	520
Total Cash Flows from Investments in Non-Financial Assets	**(3,433)**	**(3,895)**	**(3,714)**	**(4,209)**	**(3,947)**	**(4,012)**	**(3,687)**
Cash Flows from Investments in Financial Assets							
Financial Assets for Policy Purposes	56	203	163	58	43	(10)	19
Financial Assets for Liquidity Purposes	(1,851)	6,258	6,767	39	(495)	(525)	(530)
Total Cash Flows from Investments in Financial Assets	**(1,795)**	**6,461**	**6,930**	**97**	**(452)**	**(535)**	**(511)**
Cash Flows from Financing Activities							
Advances Received (net)	(134)	(47)	(46)	(51)	(50)	(55)	(53)
Borrowing (net)	647	3,341	516	2,408	1,370	1,459	427
Deposits Received (net)	32	...	(37)	(0)	(2)	(2)	(2)
Other financing (net)	...	...	(1)	...	(1)	(1)	...
Total Cash Flows from Financing Activities	**545**	**3,294**	**432**	**2,357**	**1,317**	**1,401**	**372**
Net Increase/(Decrease) in Cash held	**976**	**(46)**	**(246)**	**723**	**107**	**88**	**(168)**
Net Cash from Operating Activities and Investments in Non-Financial Assets	**2,226**	**(9,801)**	**(7,608)**	**(1,731)**	**(758)**	**(778)**	**(29)**
Assets acquired under finance leases	(81)	(15)	(131)	(245)	(313)	(63)	(66)
Surplus/(Deficit)	**2,145**	**(9,816)**	**(7,739)**	**(1,976)**	**(1,071)**	**(841)**	**(95)**
Impact of prepaid superannuation contributions							
Liability Management Fund	(1,307)	5,235	5,308	...	...	...	...
Adjusted Surplus/(Deficit)	**838**	**(4,581)**	**(2,431)**	**(1,976)**	**(1,071)**	**(841)**	**(95)**

Table 1.6: General Government Cash Results (GFS basis), 1991-92 to 2010-11 [(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***
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							36,209	40,272	**4,063**	(3,193)	485	(1,150)	**205**
2005-06							38,854	44,513	**5,659**	(3,944)	430	(1,307)	**838**
2006-07 (est)							49,782	45,888	**(3,894)**	(4,312)	467	5,308	**(2,431)**
2007-08 (est)							43,800	46,278	**2,478**	(4,940)	486	...	**(1,976)**
2008-09 (est)							45,227	48,416	**3,189**	(4,669)	409	...	**(1,071)**
2009-10 (est)							47,017	50,251	**3,234**	(4,559)	484	...	**(841)**
2010-11 (est)							49,126	52,784	**3,658**	(4,273)	520	...	**(95)**

(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.

1.13 GENERAL GOVERNMENT SECTOR OPERATING STATEMENT- 2006-07 RESULT

The budget surplus for 2006-07 is estimated to be $444 million, compared with an estimated deficit of $497 million at the time of the Half-Yearly Budget Review, and the original budget deficit estimate of $696 million (see Table 1.7).

Revenue

Total revenues in 2006-07 are projected to be $44,485 million, which is $2,289 million higher than the budget estimate of $42,196 million.

Transfer duty is expected to be $751 million higher than budget as a result of a much greater than usual number of large commercial transactions (including a large one-off revenue accrual). Residential transfer duty has grown in line with expectations, and is expected to continue to record steady growth over the forward estimates period. Large transactions are expected to return to normal levels in 2007-08 and in the forward estimates, leading to a steadier growth profile.

Land tax revenue is $249 million higher than the 2006-07 budget due to better data and systems improvements, leading to faster assessment processing.

Payroll tax revenue is expected to be $131 million higher than budget because of stronger than expected labour market conditions.

Investment income is projected to be $466 million above budget due to continuing strength of the financial markets.

Expenses

Total expenses in 2006-07 are projected to be $1,149 million higher than budget. The result was significantly impacted by a number of one-off events in 2006-07.

A payment of $960 million is being made to the rail agencies to repay debt associated with the Epping to Chatswood Rail Line.

There is an increase in expenses of $132 million resulting from the provision of personnel services to government agencies outside the general government sector. These were not reflected in the 2006-07 Budget and are offset by an equivalent increase in revenues.

Rural Assistance Authority expenses increase by $249 million, mainly for drought relief which is largely offset by Commonwealth funding.

Favourable claims experience is still being observed following the Government's Tort law reform in 2001-02. The reform introduced, among other things, limits on the legal costs in small personal injury damages claims, structured settlements and prescribed general principles that apply to negligence placing more personal responsibility on claimants for their actions. The 2006-07 projections include an unbudgeted reduction in outstanding claims of $227 million. Cumulative savings to the Budget resulting from these reforms since inception are estimated at $950 million.

Workers compensation liabilities have been reduced by $231 million in 2006-07. The reduction is largely due to fewer weekly benefit payments as a result of the new multi claims managers model, improved agency occupation health and safety and the continued favourable impact from workers compensation legislation changes.

Excluding these one-off transactions, 2006-07 total expenses which included the cost of the Government's election commitments, are projected to be close to budget.

Further details of variations in 2006-07 are highlighted in Appendix D.

Table 1.7: General Government Sector 2006-07 Operating Statement - Estimated Result

BUDGET RESULT

	2006-07		
	Budget *$m*	*Revised* *$m*	*Variation* *$m*
State Revenues			
Taxation	16,719	17,775	1,056
Commonwealth Grants			
- General Purpose	10,946	11,034	88
- Specific Purpose	6,679	6,846	167
Financial Distributions	1,664	1,768	104
Fines, Regulatory Fees & Other	1,167	1,206	39
Total State Revenues	**37,175**	**38,629**	**1,454**
Operating Revenues			
Sale of Goods and Services	2,999	3,332	333
Investment Income	914	1,380	466
Grants and Contributions	789	775	(14)
Other	319	369	50
Total Operating Revenues	**5,021**	**5,856**	**835**
Total Revenues	**42,196**	**44,485**	**2,289**
Expenses			
Employee Related			
- Superannuation	2,600	2,654	54
- Other	18,202	18,875	673
Other Operating	9,760	8,991	(769)
Depreciation and Amortisation	2,245	2,276	31
Current Grants and Subsidies	7,179	7,310	131
Capital Grants	1,670	2,709	1,039
Finance [(a)]	991	1,226	235
Recurrent Treasurer's Advance	245	...	(245)
Total Expenses	**42,892**	**44,041**	**1,149**
BUDGET RESULT - SURPLUS/(DEFICIT)	**(696)**	**444**	**1,140**
Capital Expenditure	4,387	4,275	(112)

(a) 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 above the Budget time estimate.

CHAPTER 2: GENERAL GOVERNMENT EXPENDITURE

- The Government's key State Plan priorities encompass:
  - *rights, respect and responsibility* - the justice system and services that promote community involvement and citizenship;
  - *delivering better services* - key services to the whole population including health, education and transport;
  - *fairness and opportunity* - services that promote social justice and reduce disadvantage;
  - *growing prosperity* - activities that promote productivity and economic growth, particularly in rural and regional New South Wales; and
  - *environment for living* - planning for housing and jobs, environmental protection, arts and recreation.
- Expenditure allocations in this Budget incorporate all policy commitments announced prior to the March 2007 election, and support the priorities outlined in the State Plan. To meet State Plan expenditure commitments over the next four years will require a reprioritisation of agencies' spending over the forward years.
- There is a growing demand for improved services driven by population and economic growth, changing demographics and technology.
- The Government's strategy is to meet these priorities, while staying within prudent fiscal limits, based on:
  - managing the front-line public sector wage outcomes;
  - managing infrastructure that is intrinsic to service delivery, including setting the level of maintenance necessary to preserve its functionality;
  - capitalising on new technology to deliver productivity benefits as well as meet growing community expectations for improved services and outcomes;
  - improving the efficiency of service delivery, including improved purchasing arrangements for information and communications technology, centralised procurement and property management, and agency amalgamations;
  - identifying priority areas and ensuring that finite Government resources are focussed on those areas;
  - implementing a new performance management and budgeting system focussed on setting clear priorities, driving efficiency, strengthening accountability and, most importantly, testing value for money by measuring the results delivered; and
  - maintaining the State's triple-A credit rating.

2.1 INTRODUCTION

The NSW Government is in the business of delivering high quality public services for the benefit of the whole community.

Some services, like water, electricity, waste and ports services, can be provided on a commercial basis by public trading enterprises (PTE sector). For these services, consumers meet the cost of service provision and, importantly, the cost of new infrastructure necessary to meet demand, as well as the cost of maintaining existing infrastructure.

COMMON FEATURES OF BUDGET FUNDED SERVICES

Many public services–such as health, education, policing, transport, welfare and environmental protection–are significantly funded through the Budget. These services have a number of common features:

- They are generally labour intensive–teachers, nurses, police officers and train crew. The general government sector in New South Wales employs some 370,000 people, equivalent to about 300,000 full-time employees. In addition, the transport businesses employ a further 21,000 equivalent full-time employees.

- They use long-life physical infrastructure–schools, hospitals, rail systems and roads.

- While technology has lifted service quality and improved productivity– for example, advanced medical diagnostics, new generation trains, police communications and school intranets–the fundamental delivery models, which rely on personal service, have not changed.

- Services are generally provided on a universal basis without discrimination (other than on the basis of need) and therefore are funded by taxation. Access is often free (public education or hospitals) or at a heavily subsidised price (public transport).

- Service demand is growing at a rate greater than general population growth. A key driver is not only changing demographics but also changing expectations linked to increases in real disposable income.

EXPENDITURE STRATEGY

It is against this background that the Government must frame an expenditure strategy which:

- makes provision for growing demand for services and changing priorities;
- provides for and manages the growing cost of labour;
- factors in ongoing and achievable productivity savings, both in support functions and in service delivery;
- promotes the efficient maintenance and utilisation of existing infrastructure and provides for its replacement;
- allows for the acquisition of new technology to improve service delivery; and
- meets the key strategic priorities identified in the State Plan within a cost neutral framework.

In particular, the 2007-08 Budget aims to:

- provide for a modest and sustainable increase in expenditure to ensure the Government delivers on its election commitments;
- deliver a budget surplus in 2007-08, consistent with the medium term fiscal targets and maintaining the State's triple-A credit rating; and
- fund capital expenditure of $4.9 billion in the general government sector.

THE PERFORMANCE MANAGEMENT AND BUDGETING SYSTEM

Last year's Budget set out the Government's commitment to strengthening the budget system by implementing a new performance management and budgeting system for the 2008-09 Budget.

This section reports on progress with system development and implementation.

A Stronger Planning Framework

To focus agencies on service delivery, the Government has established a whole-of-government planning framework to ensure it is able to make informed choices between competing priorities, and to assess ongoing and expected performance.

This framework comprises:

- the Fiscal Strategy, which sets out principles and financial targets that allow the Government to maintain service delivery growth in the face of fiscal shocks; and
- the State Plan, which sets out service delivery priorities and measurable targets that allow the Government to assess and monitor progress.

The Fiscal Strategy is described in Chapter 1.

Central to the Government's medium-term fiscal strategy are budget management strategies that will keep expenditure growth within limits that both meet service delivery needs and which are sustainable in the long run.

This means sustained operating surpluses and establishing expenditure management tools that will ensure achievement of:

- efficiency improvements currently factored into the forward estimates; and
- re-prioritisation of expenditures to meet Government priorities.

In November 2006, the Government released *The State Plan: A New Direction for NSW*.

The State Plan sets clear priorities and targets for Government action and establishes new accountability structures to deliver on the priorities.

These new accountability structures include:

- the Cabinet Standing Committee on State Plan Performance to monitor progress against State Plan priorities and targets;
- allocation of State Plan priorities and targets to Lead and Partner Ministers and Agencies;
- preparation of Priority Delivery Plans to coordinate Lead and Partner agency service delivery strategies; and
- the establishment of a Functional Review Unit to review agencies and programs to identify opportunities to re-prioritise expenditures.

To underpin the new accountability structures, Chapter 7 of the State Plan sets out how the State Plan is being established as the keystone of a streamlined performance management and budgeting system (PMBS).

Developing and Implementing the System

Since the release of the State Plan, the Government has been integrating the State Plan with priority setting and decision making in the Budget cycle.

In developing the new PMBS, the Government is keeping a focus on three objectives:

- Building on existing planning and reporting processes. It is important that the new system maximises value from the investment the Government has already made in better strategic planning and improved performance measurement. Consistent with the State Plan priority to reduce red tape, the new system will avoid imposing additional reporting obligations on agencies.

- Ensuring that all performance continues to be assessed and monitored. Agencies will need to demonstrate how their resource use and service delivery strategies contribute to achieving Government priorities.

- Strengthening the Budget process so resources can be directed to those activities that most effectively contribute to achievement of State Plan priorities. The State Plan delivery framework allocates clear accountabilities to Lead and Partner agencies, including the need for greater collaboration across service delivery agencies. At the same time, the Government is committed to planning within the forward estimates. This means the Budget process must support the Government to review existing funding allocations to deliver State Plan priorities within a cost neutral framework.

To achieve these objectives, the PMBS strengthens the linkages between planning, and the funding, monitoring and reporting elements of the performance management cycle.

These system improvements will be fully developed during 2007-08 and progressively implemented over the course of 2008-09. The discussion that follows sets out the key elements of the system when fully implemented.

Planning

The planning phase aligns agency budgets and business plans with the priorities and targets set out in the State Plan.

Agencies will be required to ensure clear 'line of sight' between the State Plan (whole-of-government priorities and targets) and:

- Priority Delivery Plans (cross-agency action plans for delivering State Plan priorities);

- Results and Services Plans (agency funding and service delivery plans) and Total Asset Management Plans (agency capital and maintenance plans); and

- agency business plans (internal agency project and resource plans).

Line of sight means that goals, key performance indicators and budgets are cascaded into agency business plans to drive service delivery and allow progress to be reported and monitored.

Funding

The funding phase quantifies and assesses the impact of Budget submissions on the services that an agency is able to deliver within its existing approved Budget.

All budget dependent agencies prepare a Results and Services Plan and a Total Asset Management Plan. These plans are used to inform Government decisions about the level of agency funding.

The Budget cycle will enable delivery of State Plan priorities by:

- integrating review of State Plan priorities and long term infrastructure requirements into early scene setting stages of the Budget process;

- establishing a streamlined 'business case' process that requires Lead agencies to make Budget submissions using their Results and Services Plan to identify how existing funding could be better applied to State Plan priorities; and

- ensuring longer term capital and maintenance planning by agencies is integrated with resource allocation decision making in the Budget process, including earlier and more strategic review of capital projects to enhance project risk management and prioritisation.

At the end of the Budget cycle, the Results and Services Plan will set out an agency's planned level of service delivery and results achievement within the funding approved by the Government. Budget Paper No. 3 Budget Estimates will set out the key performance expectations that will enable the Government to monitor agency performance over the Budget and forward years.

Monitoring

The monitoring phase uses the service costs and key performance indicators agreed in the Results and Services Plan to monitor agencies' actual performance against that planned for the Budget year.

Within State Plan accountability structures, integrated planning will allow service delivery performance to be tracked and improved at different levels.

The new Cabinet Standing Committee on State Plan Performance will monitor progress against State Plan priorities (as set out in Priority Delivery Plans) and the Cabinet Standing Committee on Expenditure Review will continue to monitor the effectiveness of agencies' budget allocations and the scope for achieving better value for money (as set out in Results and Services Plans).

The work of both Committees will be supported by the new Functional Review Unit, the role of which will be to scrutinise activities and expenditures and to identify opportunities for reallocation.

Reporting

The reporting phase improves accountability for performance by moving towards a common framework for reporting agency financial and non-financial performance in Budget Papers and Annual Reports.

Again, consistent with State Plan accountability structures, performance will be reported at different levels.

At the whole-of-government level, the Government will regularly publish performance data on progress against State Plan priorities on the State Plan website. The Government will also publish a State Plan Annual Report each year.

At the organisational level, an agency's Annual Report will report the actual performance achieved against the estimates set out in Budget Paper No. 3 Budget Estimates.

2.2 GENERAL GOVERNMENT EXPENSES

Total general government expenses for the 2007-08 Budget are $44.6 billion. This is an increase of 1.3 per cent on the revised estimate for 2006-07, reflecting both the payment of $960 million to the rail sector for the repayment of debt (for debt associated with the construction of the Epping to Chatswood Rail Line) and significant expenditure restraint in 2007-08. After adjusting for the rail payment, the increase in total expenses in 2007-08 is expected to be 3.6 per cent in nominal terms.

Table 2.1: General Government Total Expenses, 2003-04 to 2010-11

		Actual			*Revised*	*Budget*	*Forward Estimates*		
		2003-04	*2004-05*	*2005-06*	*2006-07*	*2007-08*	*2008-09*	*2009-10*	*2010-11*
Total Expenses	($m)	36,486	38,482	40,687	44,041	44,618	46,373	48,128	50,451
Year on Year Change	%	6.5	5.5	5.7	8.2	1.3	3.9	3.8	4.8
4 year average growth %					6.5				3.5

Expenses have increased 6.5 per cent per annum on average over the four years to 2006-07 (or 5.9 per cent after allowing for the debt reduction payment to rail in 2006-07). However, year on year growth rates are volatile, reflecting the timing of new initiatives, the winding down of some programs, the inflow of tied Commonwealth funding, lumpiness in capital grants and the timing of wage increases.

Further, it should be noted that the more modest growth rate for 2007-08 reflects income earned following the transfer of $7.2 billion from the General Government Liability Management Fund to the SASS Trustee Corporation (the State Super Fund) in 2006-07.

Generally, the growth in expenditure over the past four years has been driven by several related factors:

- a significant increase in funding for priority areas, including large increases in rail grants;
- real wage growth, particularly for front-line employees, as well as increased front-line positions for police, nurses and teachers; and
- increased higher depreciation expense in line with the growth in the general government capital expenditure program.

Over the past four years, health, education and transport accounted for a significant portion of total expenditure increases, both because of the size of these portfolios relative to the general government sector and because of absolute rates of growth which reflected the policy priorities of the Government.

The 2007-08 Budget begins a process of reallocating expenditure to those areas identified as key policy priorities in the State Plan, but within overall expenditure constraints consistent with revenue growth. The budget outlook is largely dependent on a slowing in the growth of expenses from an average 5.9 per cent per annum in the four years ending 2006-07 (after excluding the payment to the rail sector for debt repayment in 2006-07), to 3.5 per cent per annum over the four years ending 2010-11.

At the same time, expenditure pressures will continue as a result of:

- the ageing of the population;
- an increase in the demand for government services as living standards and community expectations continue to rise;
- the impact of the demand for the introduction of new technologies on the cost of service delivery;
- a range of environmental issues such as the drought; and
- higher infrastructure spending funded through increases in debt in the general government sector and grants to public trading enterprises.

In response, the Government has embraced a range of significant structural reforms to ensure that a higher quality and quantity of front-line services can be delivered more efficiently and at a sustainable level of expenditure growth, including:

- adopting a wages policy which seeks to moderate the growth in employee costs while maintaining the gains made in key sectors;
- the ongoing application of efficiency dividends and productivity reforms (with savings of around $300 million in 2007-08, with total savings of around $6 billion between 2005-06 and 2010-11);
- a rigorous approach to asset maintenance and procurement which minimises the long-term real cost of infrastructure and hence service provision;
- a prudent approach to procuring new technology; and
- a renewed focus on agency performance through a new performance management and budgeting system.

EMPLOYEE COSTS

Employee expenses account for around 50 per cent of total expenses over the four year period to 2006-07. Future growth will be tempered by a combination of a reduction in the reported superannuation expense and moderation of the rate of wages growth.

Table 2.2: General Government Employee Expense Growth, 2003-04 to 2010-11

	Actual			*Revised*	*Budget*	*Forward Estimates*		
	2003-04	*2004-05*	*2005-06*	*2006-07*	*2007-08*	*2008-09*	*2009-10*	*2010-11*
Employee – other	16,048	17,079	18,004	18,875	20,000	20,811	21,405	22,175
Employee Superannuation	2,307	2,443	2,743	2,654	2,409	2,451	2,485	2,516
Total Employee Expenses ($m)	18,355	19,522	20,746	21,529	22,409	23,262	23,890	24,690
Year on Year Change %	8.4	6.4	6.3	3.8	4.1	3.8	2.7	3.3
4 year average growth %				6.5				3.5

The Government has confirmed a range of initiatives to manage employee costs. These included:

- maintaining the cost of wage rates in real terms following the expiry of existing agreements. As detailed in Chapter 1, future wage increases will be limited to a net cost of 2.5 per cent per annum, with any additional increases tied to negotiated productivity savings. Each additional per cent increases employee expenses by $224 million;
- managing displaced employees. Displaced staff may, as a last and unavoidable resort where an alternative position is not found within 12 months, be made redundant. Senior Executive Service officers are only able to be on the unattached list for a period of four weeks;
- reducing workers' compensation costs by implementing WorkCover's strategy for improving public sector occupational health and safety and injury management. Benchmark targets for savings are in the order of $66 million per annum from 2008-09;
- reducing sick leave and overtime payments. The target is to reduce average sick leave taken from eight days per annum to seven days per annum, and overtime payments by 5 per cent, by 2008-09. This is estimated to save around $65 million per annum, principally from front-line agencies that are required to cover absentees; and
- better managing leave – including a two week closure over the Christmas period for non-front-line services.

The Government announced its intention to reduce the overall size of the public sector by removing up to 5,000 public sector positions over two years. As at February 2007, 98 per cent of the positions to be removed by June 2008 have been identified, with 50 per cent of the target already achieved.

EFFICIENCY REFORMS

An efficiency dividend on total discretionary expenses will be delivered by agencies in 2007-08. Discretionary expenses exclude items an agency cannot directly control like depreciation, the pass through of Commonwealth grants and interest. Further efficiency dividends of $300 million per annum will apply within the forward estimates. Including the efficiency dividends implemented in 2005-06 and 2006-07, the benefit to the Budget will be around $6 billion over the six years to 2010-11.

The efficiency dividends have been set at a level which agencies can absorb through the iterative reform of their processes while not impacting front-line service delivery. The 2005-06 and 2006-07 dividends (of around $300 million per annum) were successfully implemented through the budget process.

The Government is also implementing a range of further reforms to reduce costs. These include:

- reducing the cost, and improving the effectiveness, of information and communications technology (ICT). A State-wide ICT plan will be fully implemented within three years. The approach will yield recurrent savings of $140 million in the four years to 2010-11; and

- better managing government property by establishing the State Property Authority, providing recurrent savings of over $50 million per annum by 2010-11 and capital savings rising to around $300 million in 2010-11.

In addition, a range of strategies are being implemented to help agencies meet the above efficiency dividends:

- reforming procurement practices to capitalise on the expertise of the State Contracts Control Board and the buying power of the State. The target is a 5 per cent reduction on total procurement costs, or in excess of $250 million on government expenditure on goods and services in the four years to 2009-10;

- reducing rental costs through more efficiently managing space, especially in high rent precincts;

- reducing the cost of corporate services through benchmarking performance. All agencies are required to meet Government benchmarks. Those agencies currently performing below benchmarks are required to produce plans for achieving the benchmarks over two years. In addition, a new Shared Services strategy has been developed to support the realisation of potential savings in the order of $170 million per annum; and

- agency amalgamations to achieve efficiencies and better coordination. The Government has already created a revamped Department of State and Regional Development, a new Department of Arts, Sport and Recreation and a new Department of Premier and Cabinet. In addition, a new Department of Environment and Climate Change has been formed, as well as a new Department of Water and Energy. The Government supports in principle reducing the number of budget dependent agencies where benefits include an improvement in overall resource allocation as well as operational cost savings.

ASSET MANAGEMENT AND MAINTENANCE

The Government is further developing and implementing a series of reforms designed to better manage its physical asset base, including more effective maintenance. The objective is to both minimise the whole-of-life cost of assets (including depreciation and maintenance expenses) and to reduce dependency on asset intensive solutions and hence the overall cost of service delivery. These include:

- linking agencies' Total Asset Management (TAM) planning more closely to the Budget process. TAM aims to align agency asset planning with operational needs, for more efficient, effective service delivery. The submission of agencies' TAM plans will be more closely coordinated with their Results and Services Plans;

- integrating agency TAM planning more closely into the *State Infrastructure Strategy* (SIS), a ten year rolling plan. This will enable better evaluation and prioritisation of proposed projects, for sustainable long-term infrastructure investment;

- earlier and more rigorous assessment of proposed asset acquisitions and infrastructure investments, including closer review of agency business cases and procurement processes;

- more robust asset maintenance planning, aimed at better whole-of-life management of existing assets, taking into account their inherent risks to business operations and service delivery. This will also enable agencies to better balance the demand for extra assets with maintaining existing assets; and

- a change in physical asset reporting, which separates land from buildings and also provides for more comprehensive and consistent reporting of maintenance expenses, enabling better comparative analysis of agencies' maintenance spend.

2.3 MAJOR PRIORITY AREAS

Table 2.3 shows the overall expenditure growth in major priority areas over the last four years:

Table 2.3: Growth in Expenses for Priority Areas - 2003-04 to 2007-08

	2003-04 Actual $ million	*2007-08 Budget $ million*	*Growth in Expenses (per cent)*
Health	9,697	12,529	29.2
Education and Training	8,752	10,563	20.7
Public Transport and Roads	4,892	5,688	16.3
Police and Justice	3,552	4,341	22.2
Community and Disability Services	2,315	3,288	42.0
Environment and Natural Resources [(a)]	n/a	2,267	…

(a) Comparison year not provided due to agency restructures.

HEALTH

The NSW health system aims to keep people healthy by delivering high quality health care and providing the health care that people need. A wide range of health services such as inpatient hospital care, emergency care, community health and mental health are delivered through eight Area Health Services and State-wide services such as the Ambulance Service of NSW.

Healthy Communities is a specific goal for the State Plan. Key priorities include: improved access to quality health care (S1); improved survival rates and quality of life for people with potentially fatal or chronic illness (S2); improved health through reduced obesity, smoking, illicit drug use and risk drinking (S3); improved outcomes in mental health (F3); and reduced avoidable hospital admissions (F5).

Health outcome indicators point to a NSW health system that is world class. Life expectancy at birth in New South Wales is 78.9 years for males and 83.7 years for females. Outside Australia, only males born in Iceland, and females born in Japan, France and Spain can expect to live longer.

Public access to quality health care is an ongoing priority of the Government. To meet this commitment, total expenditure by the NSW Health will reach $12.5 billion in 2007-08. This is an increase of $831 million or 7.1 per cent on the 2006-07 Budget. Health spending represents around 28 per cent of the total NSW Budget, up from around 24 per cent in 1996-97.

NSW Health has been provided with substantial real funding increases for priorities such as mental health, improved access to services, early intervention and prevention. Expenses have grown by an annual average rate of 6.6 per cent from 2003-04 to the 2007-08 Budget.

Funding provided in recent budgets and service improvements introduced by NSW Health have enabled the health system to continue to improve performance during 2006-07, despite a significant increase in demand and activity. For example, emergency department attendances for the nine months to March 2007 were up by 73,694 patients or 5.6 per cent compared to the same period last year.

Even with this increase in demand, considerable improvements have been realised in health service performance and productivity. For example, the number of patients waiting longer than 12 months for elective surgery has declined from 10,364 in March 2005 to only 72 in March 2007. Emergency admission performance measured by the proportion of patients admitted within eight hours of attendance at emergency departments has improved, increasing to 79 per cent for the nine months to March 2007 compared with 75 per cent for the same period last year.

The public health system continues to face increasing demand pressures driven by an ageing and growing population, worldwide workforce shortages, rising consumer expectations and technological change. These pressures require a Government policy response that manages expenditure growth, ensures best value for money and directs resources to areas of the highest clinical need.

To address these demographic and technological challenges, NSW Health has set strategic directions for the health system over the next ten to twenty years that include making prevention everybody's business, strengthening primary health and continuing care in the community, making smart choices about the costs and benefits of health services and building a sustainable health workforce. *The State Health Plan – Towards 2010* outlines programs and priorities across these strategic directions.

Some of the key programs and strategies for NSW Health in 2007-08 are:

- continuing the focus on improving hospital productivity, reforming services in light of evidence and best practice, investing in early intervention and prevention activities and increasing the emphasis on health care at home;

- directing programs at the health of our children and mothers including the election commitments of: $14.2 million over four years for the New South Wales *Statewide Eyesight Pre-Schooler Screening* program that will enable all children to have access to vision screening before they attend school; $3.5 million over four years for the *Safe Start* program to screen maternity patients for risk of postnatal depression; and $1.4 million over four years to provide up to date parenting information;

- targeting a range of initiatives and programs directly at healthy lifestyles under the banner of *Live Life Well*. This will include contributing $6.5 million over four years to support a national campaign to promote the importance of physical activity and healthy diet in reducing chronic disease, and implementing the NSW Diabetes Action Plan released at the Council of Australian Governments' meeting in April 2007;

- implementing the *Healthy at Home Program*, an election commitment to assist the elderly stay out of hospital by intervening early. NSW Health will build on pilots in the Queanbeyan, Hornsby, Greater Newcastle and St George areas and $18 million will be provided over four years to expand the program;

- establishing additional after-hours GP clinics to address the lack of access to affordable GP services after-hours, as announced at the recent election. This will involve expenditure of $8 million over four years. After-hours GP clinics can be particularly important for local communities where the hospital emergency department and ambulance service are the only 24-hour health care services;

- continuing to expand nurse numbers and enhance their clinical expertise. Funding will be provided for: 1,600 scholarships for enrolled nurses and registered nurses at a cost of $8 million over four years; an additional 30 nurse practitioner positions in nursing and midwifery at a cost of $6 million over four years; and expansion of the *Invest in Nursing in Schools* program to provide high school students with a head start in becoming nurses at a cost of $2.8 million over four years;

- improving information systems to support clinical care and effective patient flow through hospitals. Progressive implementation of medical imaging and patient and clinical systems over the next four years at a cost of $121.7 million will provide clinicians with information to manage patients more effectively and safely in the hospital environment. The Business Information Strategy project, with an estimated total cost of $35.9 million over four years, will provide tools to support decision-making by front-line clinicians and health service managers across the State; and

- investing $714 million in the 2007-08 capital works program, including $138 million for the redevelopment of Auburn, Bathurst, Liverpool and Royal North Shore Hospitals; $67 million for improved mental health facilities; $15 million for the upgrade and replacement of ambulance infrastructure; $66 million for Information and Communication Technology; $57 million to redevelop or upgrade 13 rural hospitals; and $24 million for other rural projects.

EDUCATION AND TRAINING

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.

Continued improvements in educational outcomes are key priorities in the State Plan and include: increasing levels of attainment for all students (S4); more students complete Year 12 or recognised vocational training (S5); more people participating in education and training throughout their life (P4); and better access to training in rural and regional New South Wales to support local economies (P7).

The 2007-08 total expenses for the Department of Education and Training will be $10.5 billion. This is an increase of $471 million, or 4.7 per cent, on the 2006-07 Budget and includes an additional $376 million for government schools, $40 million for non-government schools and $55 million for TAFE NSW and related services.

Overall, New South Wales students perform strongly against national literacy and numeracy benchmarks. Scores achieved for maths in the Trends in International Mathematics and Science Study (TIMSS) being amongst the highest in Australia for Year 4 and the highest for Year 8, with scores for science being the highest in Year 8. In addition, New South Wales students rank highly in international maths, science and literacy tests, with 15 year old students near the top of the international rankings for reading.

The following election commitments provide additional funding over four years to further improve educational outcomes for all students, and increase participation, completion and access to training:

- $82 million for the *Literacy (The Best Start)* initiative to introduce a consistent literacy and numeracy assessment to all students in public schools in their first year of schooling to guide the learning of these students;

- $39 million recurrent funding (excluding depreciation) and $119 million capital funding for the *Connected Classrooms* initiative, focused on the use of videoconferencing and interactive whiteboards, and tools that enable the sharing of information in interactive environments;

- $8 million recurrent funding (excluding depreciation) and $50 million capital for the *School Sport* initiative to improve sport facilities and equipment in government schools;

- $22 million for the *Support for Beginning Teachers* initiative to enhance the quality and retention of permanent new teachers;

- $12 million for the *Transition to Year 7* initiative to provide support for students' transition from primary to secondary schools. The program will be phased in commencing with 30 schools in 2007-08 and progressing to 463 secondary schools state wide by 2010-11;

- $47 million for the *Training our Workforce* initiative to generate 33,253 additional training opportunities, including establishing a network of ten NSW Skill Centres; and

- $50 million recurrent funding (excluding depreciation) and $19 million capital funding for the *Learn or Earn* initiative to improve trade skills by increasing take up and completion of apprenticeships, including the establishment of 15 additional trade schools.

In addition, under the Government's *Building Better Schools* initiative, an additional $280 million capital funding will be provided over four years to substantially upgrade NSW government schools, including 800 science laboratories; construction of a further 18 primary school halls and 10 high school gyms; and additional toilet upgrades, electrical upgrades and security fences.

These initiatives will result in more than $2 billion being spent over the next four years - the largest public education and training capital works program ever undertaken in New South Wales. In 2007-08, $256 million will be spent on school and TAFE maintenance, which includes the additional $30 million per annum targeting school backlog maintenance

Since 2003-04, additional expenditure of around $950 million has also targeted a broad range of educational improvements including literacy and numeracy programs, improving teacher quality, reducing class sizes in the early years, an expanded range of support options for students with disruptive behaviour, equity programs for disadvantaged students, improving learning outcomes for Aboriginal school students, school maintenance and technology initiatives, including computers in schools and faster access to the internet. An additional 1,500 teacher positions have been created to reduce class sizes in K-2 to state-wide averages of 20, 22 and 24 children, respectively.

The growth in education expenditure has been tempered slightly by declining student numbers in government schools. The longer term outlook is for more modest education expenditure growth mainly due to a projected decline in student numbers over the total primary and secondary education system.

Public Transport and Roads

The public transport and roads area has two components: the management of the road system and users undertaken by the Roads and Traffic Authority (RTA) and the provision of public transport which is funded through the Ministry of Transport.

An efficient transport system is intrinsic to a productive state economy as well as connecting individuals to the community and maintaining their well-being.

The State Plan has identified three related priorities: increasing the share of peak hour journeys on a safe and reliable public transport system (S6); improving the efficiency of the road network (E7); and safer roads (S7).

Forecast budget expenses by transport agencies in 2007-08 (including grants to transport operators) are $5.7 billion. This is a 16.1 per cent increase on the 2006-07 forecast (after deducting for the payment to rail for debt repayment of $960 million). Over the period from 2003-04 to the 2007-08, transport expenses have increased by 16.3 per cent.

Growth in expenses over the period to 2007-08 predominantly reflects a series of steps up in the level of support for public transport, which comprises approximately 55 per cent of total transport expenses. The major component of this increase has been used to improve the performance of rail services. There also has been significant additional funding provided for bus reform, which will lead to improved services.

In November 2006, the Government released its *Urban Transport Statement.* This statement included a package of new and accelerated projects to address Sydney's present and growing transport challenges. This program includes road, rail and bus projects costing $660 million over the next four years.

Overall, RTA's expenses will decline by around 1 per cent in 2007-08 (to around $2.33 billion), after having grown by 3.5 per cent per annum over the last four years (and 7 per cent in 2006-07). This reflects a year-on-year volatility as RTA revenues (vehicle taxes, Commonwealth grants and other budget funding– linked to the consumer price index and vehicle registrations) are switched between capital and recurrent projects.

Budgeted grants for passenger rail services (including grants to RailCorp and to the Transport Infrastructure Development Corporation) have grown by an average of 16 per cent per annum over the four years from 2003-04 to 2006-07. They are budgeted to decline by 11 per cent next year compared to the 2006-07 Budget to around $1.93 billion. This is mainly due to a decline in grants for the Epping to Chatswood Rail Line (from $152 million in 2006-07 to $18.9 million in 2007-08), which will be completed in the second half of 2008. The FreightCorp sale in February 2002, and the lease in September 2004 of the interstate and Hunter Valley rail networks to the Australian Rail Track Corporation, has reduced budget funded spending for freight services.

Overall, the growth in funding for passenger rail services reflects several related factors including:

- the growth in budget grants for capital spending for rail, almost doubling from $331 million in 2000-01 to $648 million in 2006-07, due to recent major acquisitions (new Millennium and outer suburban rolling stock and the Epping Chatswood Rail Line).

- the steep increase in funding for City Rail maintenance commencing in 2000-01;

- the stagnation of City Rail revenue relative to expenses. Over the period from 2000-01 to 2006-07, regulated fare revenue increased by around 2.3 per cent per annum on average despite expenses increasing by an average of around 7 per cent per annum;

- major service initiatives including recruiting and training 600 transit officers and recruiting new drivers and guards (around 350 since January 2004);

- implementation of the Rail Clearways program – which will eventually cost in the order of $1.8 billion—to increase operational flexibility and capacity;

- initiatives to improve the capital structure of transport businesses, including debt reduction; and

- commencement in 2006-07 of a private public partnership to deliver and maintain 626 new rail cars (with a total contract value of $3.6 billion).

The focus of the additional funding is not merely to maintain current performance, but to lay a foundation to secure the improved performance of City Rail into the next decade and to contribute towards meeting the State Plan priorities.

Current initiatives appear to have improved performance. For example, there has been a significant reduction in infrastructure incidents causing delays (from around 20 per month in March 2004 to around 5 per month in March 2007). Signalling failures have fallen by 17 per cent over the same period. Overall, on time running in 2006-07 (to April 2007) is above the target of 92 per cent. These improvements have coincided with a new timetable introduced in September 2005.

Funding for government and private bus services and other private transport, including the School Student Transport Scheme, will increase 2.9 per cent to $834 million in 2007-08. This compares to $684 million in 2004-05 immediately prior to the commencement of bus reform (or a rate of growth of an average of 6.9 per cent per annum over three years from 2004-05 to 2007-08). The new contractual funding arrangements for bus services have improved funding transparency, particularly for the cost of school student transport. Overall, reform has resulted in an increase in the fleet, securing the financial position of private bus operators and allowing the extension of senior concessions across the metropolitan region.

The future rate of growth of transport expenditure will be impacted by several factors:

- the lumpy nature of rail and road capital spending which in turn may result in changed recurrent grants (in the case of rail) or a switch between recurrent and capital expenditure (in the case of the RTA);
- the completion of budget funding for the Epping to Chatswood Rail Line, including the delivery of the new Parramatta Interchange ($152 million in grants in 2006-07 and $18.9 million in 2007-08);
- expenditure on new rail lines servicing growth areas ($2.1 billion over four years);
- the delivery of major new rail initiatives, including 626 new passenger carriages and the Rail Clearways program, which will be financed by a private public partnership and from RailCorp's borrowings respectively; and
- in the longer term, a more stable operating environment for the rail system as the major components of the rail improvement plan are rolled out including timetable changes, progressive delivery of the first of the Rail Clearways projects and new generation rolling stock.

The overall rate of expenditure growth on roads is linked to the level of hypothecated funding (vehicle taxes and charges), with the portion of budget funding also tied to growth in the consumer price index and vehicle registrations. However, a major factor in the longer term, which will impact road expenditures, is the planned implementation (post 2009-10) of the second five year road funding arrangement with the Commonwealth ("Auslink 2").

State road expenditure may be directly impacted by the level of maintenance funding provided by the Commonwealth, contributions required by the Commonwealth from New South Wales towards projects on the national network and other conditions attached to grants.

POLICE AND JUSTICE

The police and justice area includes the activities of agencies in the criminal justice system.

Keeping People Safe and *Building Harmonious Communities* are specific goals for the State Plan. Key priorities include: reducing rates of crime, particularly violent crime (R1); reducing re-offending (R2); and reducing levels of antisocial behaviour (R3).

The services and performance of criminal justice agencies are often sequential and interdependent. The key results of one agency can be influenced by the performance of other agencies as a person moves through the criminal justice system from one agency to another until their matter is finalised.

Since 2003-04, expenditure in the police and justice area has grown steadily. Over this period, expenditure has increased by 22.2 per cent to $4.3 billion, mainly due to increased police numbers and higher numbers of inmates in the correctional system.

Over the next four years, the following new initiatives will further enhance the achievement of State Plan priorities in the police and justice sector:

- $130.1 million recurrent funding and $4.1 million capital funding to recruit an additional 750 police officers by December 2011;
- $7.9 million for counter-terrorism initiatives including a new Community Early Warning System, a permanent buildings database, the operating expenses of two Community Liaison Units within the New South Wales Police Force's Counter-Terrorism Coordination and Special Tactics Command, and a Spheron digital imaging system;
- $20.7 million recurrent and $3.2 million capital for robotic DNA analysis, a mobile forensic laboratory, and outsourcing of DNA processing to reduce arrears;
- $1.9 million recurrent to re-investigate old ("cold case") murders and other serious offences, and a feasibility study to establish a best practice forensic model;
- $0.5 million recurrent and $0.7 million capital to trial a vehicle immobilisation ("wheel clamping") system as an alternative to impounding motor vehicles;
- $16.9 million recurrent and $0.6 million capital for youth crime programs including Youth Conduct Orders, an Intensive Supervision Program for young offenders, and Community Conferencing for Young Adults;
- $19.9 million recurrent and $13.6 million capital for domestic violence programs including the Staying Home, Leaving Violence Program, the Women's Domestic Violence Court Assistance Scheme, additional remote witness facilities in courts, and equipping first response police motor vehicles and police stations with audio-visual evidence kits; and

- $0.1 million in 2007-08 for the New South Wales Sentencing Council to conduct a survey of community perceptions on sentencing.

In response to community concerns, the Government has increased average authorised police strength from 14,454 at 30 June 2003 to 15,206 officers as at 31 January 2007. Police authorised strength will be increased by a further 750 positions to 15,956 by December 2011.

Additional police have been deployed to specialised operations and taskforces such as the Highway Patrol, Middle Eastern Organised Crime Squad and the Counter-Terrorism Coordination and Special Tactics Command. Other policing operations include high visibility policing such as Viking Operations. In the 16 months from January 2006 until March 2007, around 23,000 additional police shifts were dedicated to Viking Operations, resulting in the laying of more than 9,000 charges.

The NSW Police Force's budget represents approximately 52 per cent of the police and justice area and is a major driver, both directly and indirectly, of expenditure growth, with an increase of 20.5 per cent between 2003-04 and the 2007-08 Budget. In addition to increasing police numbers, the growth in the Force's expenditure provides recurrent funding for that supports police operations, including equipment, maintenance and costs associated with the upgrade of information technology.

Increased policing activities and investigations have impacted on the courts system. Since 2003, the number of criminal cases finalised in the Supreme, District and Local Courts has increased by 12.4 per cent, with the largest increase occurring in the Local Court.

The flow-on effect from legislative changes and the level of activity in the criminal courts is an increase in the number of inmates within correctional centres and offenders on community based programs. Between June 2003 and April 2007, the number of full time adult inmates has increased from 8,113 to in excess of 9,640, reflecting recent legislative amendments that impose longer prison sentences and make obtaining bail more difficult. Changes in bail laws have increased the number of people on remand from 1,864 in June 2003 to 2,439 in April 2007. Expenditure by the Department of Corrective Services has increased by 29.2 per cent from 2003-04 to the 2007-08 Budget.

Legislative amendments have also increased the number of juveniles in detention. Total juvenile admissions have risen from an average of 3,403 in 2003-04 to an estimated 4,220 in 2006-07, with around 90 per cent on remand. The growing trend is expected to peak in 2007-08, with a progressive decline thereafter as the diversionary and rehabilitation programs in the Department of Juvenile Justice start to take effect.

The latest crime statistics released by the Bureau of Crime Statistics and Research (BOCSAR) show a significant downward trend in violent and serious crimes over the past fifteen years. Robberies with firearms have dropped by 51 per cent, while murders have fallen by 34 per cent.

Households are also considerably safer with burglary offences at their lowest level in the past 15 years. Motor vehicle thefts also have reduced by 55 per cent over this period.

COMMUNITY AND DISABILITY SERVICES

The Government provides community and disability services to support those who are most disadvantaged in our community or who need support during times of crisis. There are a wide range of responsive services, including accommodation for people with a disability, support and intervention to help families and children at risk, and community based services to assist frail older people and people with a disability to participate in community life and live at home.

Access to community and disability services that improve opportunities for the most disadvantaged and vulnerable is a priority for the Government. To meet this commitment, total expenditure in this area will reach $3.3 billion in 2007-08. Expenses have grown by an annual average rate of 9.2 per cent from 2003-04 to the 2007-08 Budget.

Understanding key demand factors is important to develop services that respond to and manage community need. Population growth and ageing, demographic trends such as smaller households and changing community expectations reflected in legislation explain increases in demand for community and disability services. A range of services across the spectrum from prevention, early intervention, community based and specialist services is being put in place to respond to these demand pressures.

Interventions early in a person's life or early in the life-cycle of a problem can improve overall outcomes and reduce the severity of later problems. Well targeted early childhood interventions have been shown to have lasting effects on learning and future outcomes. Successful community based prevention programs can delay or avoid escalation to more expensive institutional care. The Government is developing a policy framework to tackle disadvantage increasingly through early intervention and prevention.

The actions of government agencies in this priority area are inter-related and are increasingly being coordinated through inter-agency protocols and programs, and through service agreements with non-government organisations. People, who are assisted by more than one agency at times of crisis or at different stages of their lives, expect seamless and responsive services.

Specific State Plan priorities which support the delivery of these broad outcomes include: improved health and education outcomes for Aboriginal people (F1); increased employment and community participation for people with disabilities (F2); increased proportion of children with skills for life and learning at school entry (F6); and reduced rates of child abuse and neglect (F7).

The Department of Community Services promotes the safety and wellbeing of children, young people and their families and provides services that support and strengthen the community.

In December 2002, the Government provided the Department of Community Services with a $1.2 billion funding package over five full years to 30 June 2008. This major funding boost has increased the Department's expenses from around $600 million in 2001-02 to over $1.2 billion projected in 2007-08. A major focus has been on building caseworker numbers and enhancing responses to child protection notifications. The Department has dealt with an increase in child protection reports, from reports concerning 85,000 children in 2001-02 to reports concerning more than 120,000 children estimated in 2006-07, an increase of over 40 per cent for the period.

Some of the key programs and strategies for the Department of Community Services in 2007-08 are:

- establishing another 275 caseworker positions to reach the Reform Package target of an additional 1,025 caseworkers over five full years;

- expanding the *Brighter Futures* early intervention program to help vulnerable families and help to reduce child abuse and neglect;

- expanding family and domestic violence programs including the *Staying Home, Leaving Violence* program which ensures victims can stay safely at home while the perpetrator moves to alternative accommodation ($4.8 million over four years), and the *Integrated Case Management* program which supports victims through the legal process ($12 million over four years);

- continuing the roll out of the Government's Preschool Investment and Reform Plan, with an additional $85.5 million from 2005-06 to 2009-10 to improve access to preschool for children in the year before school; and

- implementing the election commitment to new *Families NSW* programs with the introduction of the *Triple P: Positive Parenting Program* for parents with children aged three to eight ($5.2 million over four years) and a 24 hour parent advice line ($2.4 million over four years).

The Department of Ageing, Disability and Home Care is responsible for delivering programs and policies that assist older people, people with a disability and their carers to participate in community life.

In 2006-07, the Government committed a record $1.3 billion in new funding from 2006-07 over a five-year period to support the strategy, *Stronger Together: A new direction for disability services*. The Department will use these funds to manage demand pressures from the impact of ageing carers and improved life expectancies for people with a disability. *Stronger Together* will provide more assistance for people with disabilities to live in their own home and increase the range of specialist accommodation services for those unable to live at home.

Some of the key programs and strategies for the Department of Ageing, Disability and Home Care in 2007-08 include:

- providing $5 million over four years for intensive assistance to 410 children and their families with managing problem behaviours, both at home and at school; and $500,000 over four years to keep children with autism spectrum disorder at school;

- expanding community support programs, resulting in additional places for post school programs for disabled people who leave school but are unable to enter the workforce ($38.3 million in 2007-08), additional attendant care places offering intensive in-home support ($6.6 million in 2007-08), and new flexible respite places ($8.2 million in 2007-08); and

- expanding supported accommodation with additional supported accommodation places ($70.6 million in 2007-08), and alternative models of support for young people living in nursing homes ($10.1 million in 2007-08).

Aboriginal people within the community remain disadvantaged with various economic and social indicators showing considerable disparity in outcomes. The Government's continued commitment to Aboriginal communities is reflected in the following priorities for 2007-08:

- the $40 million four year *Two Ways Together* Package will continue to target health and education priorities and the $240 million *Aboriginal Communities Development Program* will continue to improve housing and infrastructure in Aboriginal communities; and

- there will be a strengthened focus on improving the safety and wellbeing of Aboriginal children, particularly through the implementation of the Government's response to the Aboriginal Child Sexual Assault Taskforce report.

ENVIRONMENT AND NATURAL RESOURCES

The environment and natural resources area contrasts with other portfolios, which primarily deliver immediate services such as public transport, schools and hospitals to an identifiable set of clients. Environmental and related natural resource management strategies aim to protect and sustain the natural environment - water, air, land and biodiversity - for the benefit of both current and future generations.

Specific State Plan priorities that support the environment and conserve our natural resources include: a secure and sustainable water supply for all users (E1); a reliable electricity supply with increased use of renewable energy (E2); cleaner air and progress on greenhouse gas reductions (E3); and better outcomes for native vegetation, biodiversity, land, rivers and coastal waterways (E4).

Expenditure in this priority area is not demand driven. It is influenced by: the changing values of the community; the absolute condition of the environment and the natural resource base; the severity and type of environmental and natural resource threats; the need to strike a balance between economic growth and environmental and natural resource protection; and the opportunities available to the Government to generate positive change.

The 2007-08 total expenses for the environment area will be $2.3 billion. This includes $977 million for the newly established Department of Environment and Climate Change. The following election commitments provide additional funding to safeguard the natural environment:

- $160 million over four years to extend the *Country Towns Water Supply and Sewerage Scheme* - assisting local water utilities to raise water and sewerage service levels, supporting further projects in country towns across New South Wales;

- $4.9 million in 2007-08 for park establishment and management costs associated with recently acquired lands, including the Lower Hunter and Goulburn Comprehensive Regional Assessment lands; and

- $2 million over four years to assist the Nature Conservation Trust to work with landowners to improve conservation management on private lands.

Further, the 2007-08 Budget provides funding to deliver on the following election commitments:

- $58 million to local councils to protect iconic waterways and coastlines including $20 million over three years for the *Urban Waterways–Priority Catchments* program;
- $6 million to clean up former contaminated industrial areas, contaminated sediments and old petrol stations and gasworks;
- $2.7 million to reduce the amount of waste going to landfill and encourage recycling by working with local councils in the Hunter, Illawarra and Central Coast; and
- $310 million to form a Climate Change Fund by combining the Energy and Water Savings Funds with other accounts. The Fund will deliver on six key projects:
  - $100 million in rebates for installing energy and water efficient washing machines, energy-efficient solar and gas hot water systems, energy-efficient insulation and rainwater tanks;
  - $100 million to implement a *Recycling and Stormwater Harvesting* program to assist the private sector to complete the Sydney Recycled Water Grid;
  - $40 million to implement a *Renewable Energy Development* program for pilot and demonstration projects, such as solar and geothermal power stations;
  - $30 million to help schools, hospitals, libraries and playing fields save energy and water through the Public Facilities Fund;
  - $20 million to provide all New South Wales schools with a rainwater tank for non-drinking purposes; and
  - $20 million to install efficient lighting and grants for solar, gas and heat-pump hot water systems in schools through the *Energy Efficient Schools* program.

New South Wales' Catchment Management Authorities (CMAs) will spend $285 million in 2007-08 on administering and implementing natural resource management programs, primarily funded from the Commonwealth and New South Wales Governments. The State's CMAs are regional bodies that work in partnership with farmers, local groups, Aboriginal communities, local government, industry and State Government agencies to develop and implement the best policies and programs for natural resource management at a catchment level.

The 2007-08 Budget also continues support for the development of profitable primary industries that enhance the New South Wales economy through the sustainable use of natural resources. The Department of Primary Industries (DPI) will spend $449.7 million in 2007-08 including $139.7 million on its *Science and Research* program, which includes research into building regional innovation strategies.

The waste levy will be extended to liquid waste to drive down emissions and encourage innovation in liquid waste minimisation techniques. Further, load-based licensing fees will be increased in order to target air polluters.

The 2007-08 Budget also provides funding for the implementation of a two per cent ethanol fuel mandate, as a first step to increasing the proportion to ten per cent by 2011.

In recent years, the Government has pursued a broad range of initiatives targeted at reducing environmental degradation and pollution, conserving the State's natural and cultural heritage, fostering sustainable consumption, resource use and waste management and improving the management of the key natural resources of land and water and of the coastal environment.

CHAPTER 3: GENERAL GOVERNMENT SECTOR REVENUES

- The NSW Government has undertaken substantial tax reductions since August 2005, including the abolition of vendor duty, reduced club gaming machine duty rates and major changes to land tax.
- The 2007-08 Budget provides further tax cuts.
  - The land tax rate will be cut to 1.6 per cent from 1.7 per cent for the 2008 land tax year, beginning 1 January 2008.
  - Mortgage duty will now be abolished in three stages, commencing with the abolition of duty on mortgages of owner-occupied residences from 1 September 2007.
  - A full rebate will be provided of the cost of registering one work vehicle for every new apprentice hired by small businesses during 2007-08.
  - Stamp duty on hire of goods will be abolished from 1 July 2007 and on leases from 1 January 2008.
- Additionally, the 2007-08 Budget:
  - harmonises payroll tax administration with Victoria; and
  - implements the Government's election commitment to extend first home buyer stamp duty exemptions and concessions available under First Home Plus to first home buyers using shared equity schemes.
- Tax changes in the 2007-08 Budget together with other measures taking effect in the forward years will reduce taxation revenue by $343 million in 2007-08 and by $610 million in 2008-09.
- Underlying revenue is expected to grow by 3.7 per cent in 2007-08, following growth of 4.1 per cent in 2006-07.

3.1 INTRODUCTION

Table 3.1 summarises the revenue estimates, while Chart 3.1 outlines the composition of total revenue in 2007-08.

Table 3.1: Summary of Revenues

	Actual	*Budget*	*Revised*	*Budget*	*Forward Estimates*		
	2005-06	*2006-07*	*2006-07*	*2007-08*	*2008-09*	*2009-10*	*2010-11*
	$m	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*
State Revenues							
Taxation	15,910	16,719	17,775	17,562	18,354	19,275	20,439
Commonwealth Grants							
General Purpose Payments	10,720	10,946	11,034	11,926	12,766	13,530	14,270
Specific Purpose Payments	6,368	6,679	6,846	7,190	6,833	7,000	6,973
Dividends and Tax Equivalents	1,836	1,664	1,768	1,764	1,833	1,971	2,081
Other	1,278	1,167	1,206	1,189	1,166	1,245	1,303
	36,112	**37,175**	**38,629**	**39,631**	**40,952**	**43,021**	**45,066**
Operating Revenues							
Sale of Goods and Services	3,037	2,999	3,332	3,433	3,573	3,670	3,779
Investment Income	1,298	914	1,380	781	803	848	887
Grants and Contributions	809	789	775	824	812	842	860
Other	425	319	369	325	715	330	307
	5,569	**5,021**	**5,856**	**5,363**	**5,903**	**5,690**	**5,833**
Total Revenues	**41,681**	**42,196**	**44,485**	**44,994**	**46,855**	**48,711**	**50,899**

Total revenue comprises State revenue and operating revenue. Both components of total revenue recorded significantly stronger growth in 2006-07 than was expected at the time of the 2006-07 Budget.

In underlying terms total revenue grew by 4.1 per cent in 2006-07, and it is expected to increase by 3.7 per cent in 2007-08.

State revenue comprises revenue from State taxes, Commonwealth grants, public trading enterprise dividends and tax equivalent payments, and licences, fees, fines, levies and royalties.

In underlying terms tax revenue grew by 7.7 per cent in 2006-07 and is estimated to increase by 2.5 per cent in 2007-08, reflecting the impact of tax reductions.

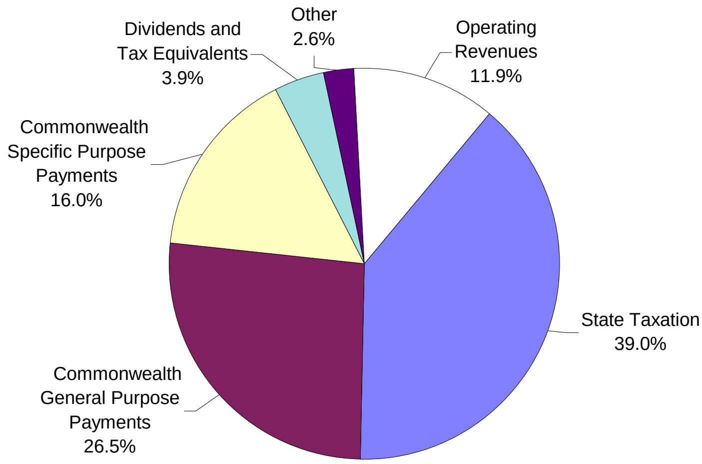
A number of one-off factors added to headline tax revenue in 2006-07, including much higher than average transfer duty revenue accrued from large commercial transactions and a higher than usual number of land tax assessments that related to previous years.

These factors are discussed further in Section 3.4.

GST revenue grants are estimated to grow by $0.9 billion, or 8.1 per cent, reflecting growth in the Australia-wide GST pool and a slight increase in New South Wales' relativity. New South Wales continues to cross-subsidise the other States (except Victoria and Western Australia) in the distribution of GST revenue grants – by $2.4 billion in 2007-08 – and by 2007-08 will have received around $840 million less than expected at the time the GST was introduced.

Operating revenue mainly consists of sales of goods and services and investment income. Investment income recorded significant growth in 2006-07 because of the sharp increase in equity prices during 2006-07. Investment income is budgeted to decline by $0.6 billion in 2007-08 mainly reflecting expected long-term returns.

Chart 3.1: Composition of Total Revenue, New South Wales, 2007-08

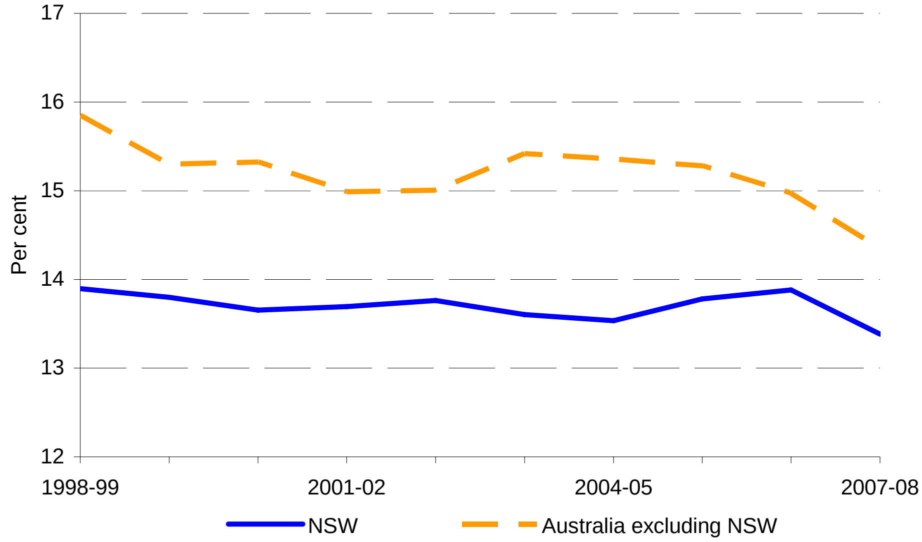


Section 3.2 compares the composition of total revenue in New South Wales with that in the other States. Section 3.3 provides information on State taxation policy measures in the 2007-08 Budget and since the last budget. Section 3.4 details the estimates for State revenue in 2007-08, while the outlook for operating revenue is presented in Section 3.5.

3.2 REVENUE TRENDS AND COMPOSITION

New South Wales' total revenue as a ratio to gross state product (GSP) is lower than the average of the other States (see Chart 3.2[1]). This ratio is also expected to decline in 2007-08, reflecting trends in the various components of total revenue. New South Wales also has a lower level of total revenue per capita than the average of the other States (see Chart 3.3).

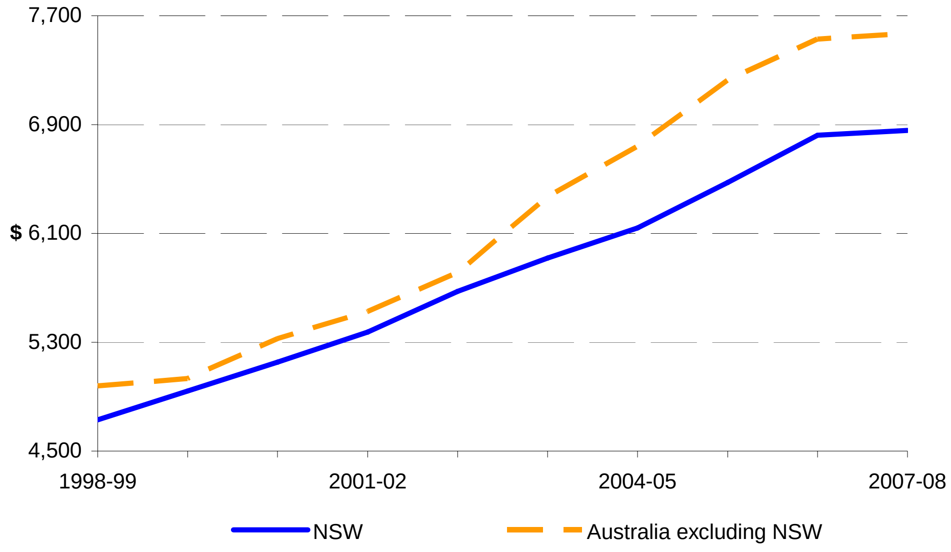
Chart 3.2: Total Revenue as a Ratio to Gross State Product, NSW and Other States



Revenue as a share of GSP is expected to decline over the forward estimates period, as taxes are abolished and investment income returns to long term trend.

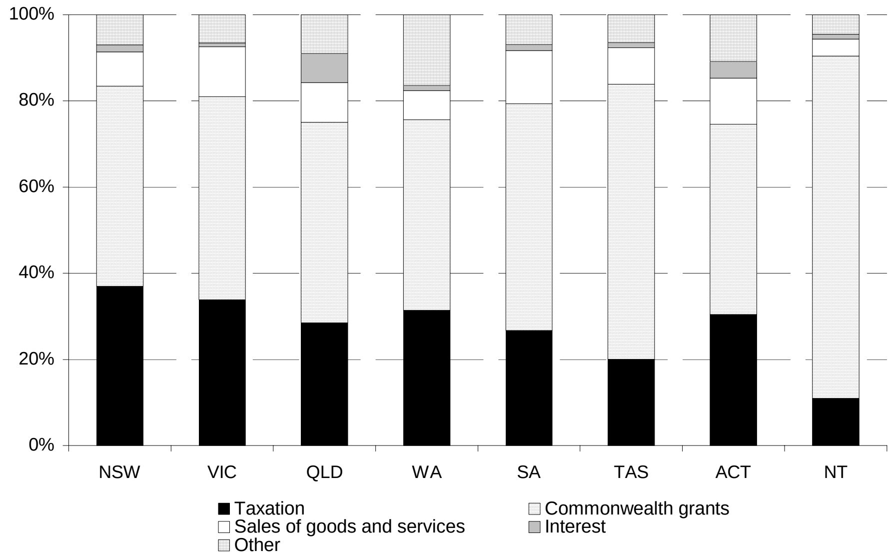
[1] *To ensure consistency of comparison across the States, Charts 3.2, 3.3 and Table 3.2 are based on States' Uniform Reporting Framework GFS revenue figures as reported in State budgets.*

Chart 3.3: Total Revenue per Capita, NSW and Other States



As well as having a relatively low share of total revenue to GSP and low level of total revenue per capita, New South Wales has different revenue composition to other States. (Chart 3.4).

Chart 3.4: Composition of Total Revenue, All States, 2007-08



New South Wales receives the lowest level of GST revenue grants per capita. This reflects the impact of horizontal fiscal equalisation on the distribution of GST grants across the States and means that New South Wales receives a lower proportion of its total revenue from Commonwealth grants than most other States.

The operation of horizontal fiscal equalisation means that New South Wales will cross-subsidise the other States (except Victoria and Western Australia) by an estimated $2.4 billion in 2007-08. For every $1 of GST revenue generated in New South Wales, only about 83 cents is returned to the State.

When total revenue is considered, New South Wales has the second lowest level of total revenue per capita of all the States. However, New South Wales has the third highest level of tax revenue per capita of the States, after the Australian Capital Territory and Western Australia and the lowest GST revenue per capita. (see Table 3.2).

Chapter 8 provides more details on the distribution of GST revenue.

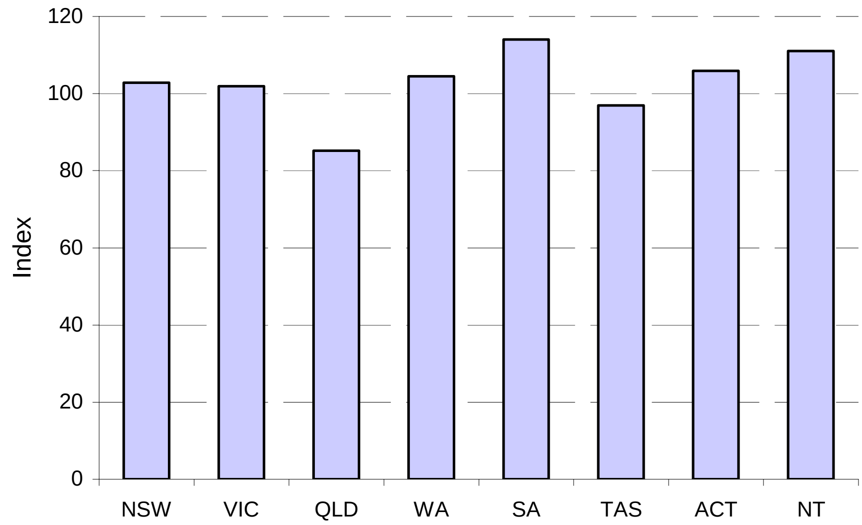
Table 3.2: State Tax Revenue, GST Revenue Grants and Total Revenue per capita, All States, 2007-08

	State Tax Revenue per Capita	*GST Revenue Grants per Capita*	*Other Revenue per Capita*	*Total Revenue per Capita*
	$	$		$
New South Wales	2,535	1,721	2,602	6,858
Victoria	2,229	1,760	2,603	6,592
Queensland	2,226	2,013	3,575	7,814
Western Australia	2,614	1,866	3,841	8,321
South Australia	2,060	2,449	3,203	7,712
Tasmania	1,525	3,338	2,734	7,597
Australian Capital Territory	2,770	2,466	3,875	9,111
Northern Territory	1,737	10,050	4,016	15,803

While New South Wales raises relatively more tax revenue per capita than most of the other States, this does not necessarily mean that tax rates are higher than the other States.

The Commonwealth Grants Commission (CGC) produces annual figures on the ‘tax effort’ of the States, comparing actual tax collections in a State to the estimated revenue that would be raised if a State applied the all-State average tax rates. The Commission’s figures show that NSW’ overall tax rates are around the average of all the States. (Chart 3.5).

Chart 3.5: Commonwealth Grants Commission Tax Effort Index, All States, 2005-06



New South Wales' relatively higher tax revenue per capita reflects higher incomes and the greater wealth of NSW taxpayers. For example, relatively high land prices contribute to higher land tax and transfer duty revenues. This means that for a given tax rate, New South Wales can raise relatively more revenue than other States.

New South Wales' capacity to raise more tax revenue, for a given tax rate, is a factor which leads to lower GST revenue grants for New South Wales.

3.3 TAXATION POLICY MEASURES

There have been substantial tax reductions since August 2005, including the abolition of vendor duty, reduced club gaming machine duty rates and major changes to land tax.

The 2007-08 Budget introduces further reductions in taxation:

- from 1 January 2008, the rate of land tax will be reduced to 1.6 per cent; and
- mortgage duty will be abolished in advance of the schedule confirmed in last year's budget, commencing with the abolition of duty on mortgages of owner-occupied residences from 1 September 2007.

Tax changes in the 2007-08 Budget, will reduce taxation revenue by $343 million in 2007-08 and by $610 million in 2008-09. The measures are summarised in Table 3.3.

A further significant reduction in revenue will result from the abolition of transfer duty on non-land business assets from 1 July 2012. In 2006-07 this tax raised $180 million in revenue.

Table 3.3: Tax Measures Commencing in 2007-08 or the Forward Estimates Period

Measure	*Revenue Impact* [(a)]			
	2007-08 $m	*2008-09 $m*	*2009-10 $m*	*2010-11 $m*
Reduce the land tax rate from 1.7 per cent to 1.6 per cent from the 2008 land tax year	-110	-116	-117	-124
Abolish mortgage duty starting from 1 September 2007[(b)]	-138	-302	-440	-476
Vehicle Registration – Small Business Work Vehicle Rebate	-4	-1	-1	…
Abolish hire of goods duty, from 1 July 2007[(c)]	-70	-78	-79	-81
Abolish lease duty, from 1 January 2008[(c)]	-21	-76	-80	-85
Abolish unquoted marketable securities duty, from 1 January 2009[(d)]		-37	-77	-79
Total	**-343**	**-610**	**-794**	**-845**

(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.

(b) This is the total revenue impact of abolishing mortgage duty. The additional cost compared to the schedule announced in the 2006-07 Budget is $138 million in 2007-08, $302 million in 2008-09, $334 million in 2009-10 and $123 million in 2010-11.

(c) Announced in the 2006-07 Budget for implementation in the 2007-08 year.

(d) Announced in the 2006-07 Budget for implementation in the 2008-09 year.

Land Tax – Rate Reduction

From the 2008 land tax year, beginning on 1 January 2008, the land tax rate will be reduced to 1.6 per cent, from 1.7 per cent. At a flat 1.6 per cent rate and with a tax-free threshold indexed each year to movements in land values, New South Wales has the most efficient and simple land tax design compared to the multi-rate schedules and non-indexed thresholds of most other States. The increase in the threshold and three year averaging announced in last year's Budget are estimated to save taxpayers around $48 million in 2007-08.

The reduction in the land tax rate is estimated to reduce land tax revenue by $110 million in 2007-08 and by $116 million in 2008-09.

For a land tax payer with land valued at $500,000 and eligible for the tax-free threshold, the rate reduction will mean a saving of around $140, or 5.6 per cent; for land valued at $1,000,000, the saving will be around $640, or 5.8 per cent. Principal places of residence are not liable for land tax.

Mortgage Duty – Abolition

The Government will now abolish mortgage duty in three stages, starting 2¼ years earlier than the schedule in the 2006-07 Budget and ending with total abolition 1½ years in advance of the previous schedule.

In the 2006-07 Budget the Government confirmed that mortgage duty would be abolished in two stages, with the duty rate halved from 1 January 2010 and the duty abolished entirely from 1 January 2011.

Under the new schedule, mortgage duty will be abolished:

- from 1 September 2007, for individuals taking out mortgages of owner-occupied residences;
- from 1 July 2008, for individuals taking out mortgages of non-owner-occupied residences; and
- from 1 July 2009, total abolition of mortgage duty.

The accelerated abolition of mortgage duty will reduce revenue by $138 million in 2007-08 and by $302 million in 2008-09. On the average NSW mortgage of $250,000, this will produce a saving in 2007-08 of $941; for a mortgage of $500,000, the saving will be $1,941.

Vehicle Registration – Small Business Work Vehicle Rebate

To encourage more employment opportunities for apprentices, small business owners will receive a full rebate of the cost of registering one work vehicle for every new apprentice hired during 2007-08.

The rebate will be payable from 1 July 2007. It will apply to small businesses that are not liable to pay payroll tax, i.e. where total taxable wages and interstate wages paid or payable by the employer during 2007-08 are less than $600,000.

For the first year of the apprentice's employment, the rebate will cover the vehicle's registration fee and weight tax. For the second and third years of the same apprentice's employment, the rebate will cover the vehicle's registration fee.

The estimated cost of the rebate is $4 million in 2007-08.

Hire of Goods and Lease Duty – Abolition

The NSW Government will abolish stamp duty on the hire of goods from 1 July 2007 and on leases from 1 January 2008. Abolition of these two duties will reduce revenue by $91 million in 2007-08 and $154 million in 2008-09.

Payroll Tax – Inter-State Harmonisation

The 2007-08 Budget implements the NSW Government's commitment to harmonise payroll tax administration with Victoria. New South Wales also remains committed to the payroll tax harmonisation process currently progressing with all States and Territories. However, harmonisation with Victoria covers issues not yet the subject of the multilateral process.

On 26 February 2007, the NSW and Victorian Treasurers jointly announced that the two States would harmonise payroll tax laws, exemptions and administrative arrangements from 1 July 2007. Both States will continue to set their own payroll tax rates and tax-free thresholds.

Harmonisation will directly reduce compliance costs for the 8,000 businesses operating in both States. It will allow the use of common payroll tax forms and revenue rulings. It also will provide common legislative treatments and definitions in areas such as the grouping of businesses, contractor provisions and the value of fringe benefits for payroll tax purposes.

The changes also will indirectly benefit those employers operating in only one jurisdiction through streamlined administrative arrangements and the expected development of standardised payroll tax software for use by businesses in New South Wales and Victoria.

Under the harmonisation New South Wales will adopt a number of exemptions from payroll tax currently provided in Victoria. From 1 July 2007, the following employer payments will be exempt from payroll tax:

- payments for maternity and adoption leave;
- employer contributions to portable long service leave, redundancy or severance schemes, provided they are not taxable for fringe benefit tax purposes; and
- non-monetary superannuation contributions.

Some specific exemptions have to be removed in New South Wales to achieve the harmonisation with Victoria sought by business. However, it is expected their removal will have little practical effect or can be offset by the introduction of payroll tax rebates in New South Wales. From 1 July 2007:

- the specific exemption for wages paid to financial planners under relevant contract provisions will be removed. However, most financial planners will continue to be exempt under other general exemptions;
- the exemption for payments under a contract exceeding $800,000 will be removed. In addition, the exemption for contractors providing services to the public generally will be amended to require those services to the public to be provided in the same financial year;
- the exemption provided to employment agents that on-hire staff to a client with wages below the $600,000 tax-free threshold will be removed. However, end users employing on-hired staff will be exempt from payroll tax on the wages paid by the employment agent.

In addition, the general exemption for wages of apprentices/trainees will be removed from 1 July 2008, with an exemption provided only in relation to not-for-profit group apprenticeship schemes. However, the current exemption for employer payments in respect of single employer apprentices/trainees and for-profit group apprenticeship schemes will be replaced by a rebate.

Overall, this State initiative will reduce business compliance costs and is expected to have no significant impact on total payroll tax revenue.

In their respective 2007-08 State Budgets, Queensland and Tasmania have announced their intention to harmonise payroll tax arrangements with New South Wales and Victoria from 1 July 2008.

First Home Plus One

On 23 February 2007, the Treasurer announced the extension of first home buyer stamp duty exemptions and concessions available under *First Home Plus* to first home buyers using shared equity schemes.[2]

Under shared equity schemes, first home buyers purchase a home in conjunction with an equity partner. Eligibility rules for *First Home Plus* meant that exemptions or concessions on transfer and mortgage duty generally were available only where all purchasers of a home or vacant land had not previously owned residential property in Australia.

For contracts exchanged on or after 1 May 2007, first home buyers purchasing a home in conjunction with equity partners who have previously owned residential property in Australia are eligible for proportional transfer duty concessions and full mortgage duty concessions under *First Home Plus One*. First home owners are required to have at least a 50 per cent share in the property.

For transfer duty, access to the first home purchaser concession is in proportion to the first home buyer's equity share in the property. Where a first home buyer and an equity partner purchase a home valued below $500,000, the first home buyer will pay no transfer duty, while the equity partner will pay a share of the transfer duty based on their share of the property. For a home valued at $600,000 or above, no first home buyer transfer duty concessions are available, as is currently the case under *First Home Plus*.

MEASURES INTRODUCED SINCE THE 2006-07 BUDGET

The Government has introduced several minor tax policy changes since the 2006-07 Budget mainly designed to reduce tax liabilities or ease the tax compliance burden for land developers and builders. The measures were contained in the *State Revenue Amendment (Tax Concessions) Act 2006*. The measures are estimated to have had no significant impact on total transfer duty revenue.

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[2] *Under First Home Plus, first home buyers purchasing homes valued less than $500,000 and vacant land valued less than $300,000 receive a full exemption from transfer and mortgage duty. Above these amounts concessional duty applies until home values reach $600,000 and land values reach $450,000.*

Transfer Duty – Aggregation of Transactions

The Government amended the *Duties Act 1997* so that the practice by the Office of State Revenue of aggregating related transactions for assessment of transfer duty only applies if the vendor(s) of adjoining land parcels is the same person or are associated persons. This will reduce the duty payable in some cases by builders and developers.

Transfer duty is levied according to a progressive rate scale based on the value of the transaction. Where two or more dutiable transactions relate to essentially one arrangement, the transactions are aggregated for the purposes of assessing duty. Aggregation prevents transactions being split to reduce liability for duty.

In reviewing aggregation, the Office of State Revenue found that it could apply to arrangements where developers or builders in the normal course of business purchase adjoining blocks of land from unrelated vendors. In that case, aggregation had the effect of imposing a higher rate of duty on the transactions. Not aggregating such transactions will reduce transfer duty payable by developers or builders.

Call Option Assignment Duty – Assignment by Builders

The Government amended the *Duties Act 1997* to provide an exemption from duty for the assignment by a builder to a home buyer of an option for the purchase of land.

Call option assignment duty was introduced in June 2005 to prevent avoidance of transfer duty by the use of put and call options as an alternative to an agreement for the sale of dutiable property.[3]

Put and call options are used by builders and developers as a legitimate business practice unrelated to duty avoidance. Options are primarily required by developers as a means of allowing the builder to construct a home for sale, or enter into a building contract with a home buyer, though the builder has no intention to acquire the land. However, if the transaction results in an assignment of the call option to the home buyer, the builder would be liable to call option assignment duty.

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[3] *A call (put) option is a security that gives its owner the right, but not the obligation, to buy (sell) a financial or real asset at a specified price on or before a specified date.*

The Government also amended the *Duties Act 1997* to exempt from call option assignment duty intra-group transfers of call options, where the assignee and assignor are corporations that are members of a group.

When consolidating land for redevelopment, it is common for one company to acquire call options over the land with the intention that another, related company would actually develop the land. Assignment of the options to the second company would be liable to call option assignment duty, but may be eligible for an exemption from transfer duty for corporate reconstructions.

A specific exemption for intra-group transfers of call options relieves builders of the administrative and compliance burden of applying to the Chief Commissioner of State Revenue for exemption as a corporate reconstruction.

Transfer Duty – Equity Withdrawal for Aged Home Owners

For transactions from 29 June 2006, the Government reduced from 65 years to 60 years the minimum age for eligibility for an exemption from transfer duty for aged home owners participating in approved equity release schemes.

The Government introduced an exemption from transfer duty for approved equity release schemes for aged home owners in October 2004. Equity release schemes provide elderly home owners with cash in exchange for the scheme's operator receiving a share of the proceeds when their home is sold in the future.

Equity release schemes can require – as collateral – a contract between the scheme operator and the home owner framed as a term of sale. In the absence of an exemption, such a contract would normally attract transfer duty immediately, even though the actual sale of the home may not take place for some years.

TAX RESTRAINT

Fiscal Principle 10 of the *Fiscal Responsibility Act 2005* requires that any changes to legislated tax rates, thresholds and bases be made with the maximum possible restraint having regard to the effect of these changes on the overall level of tax revenue, and that changes should be consistent with a reasonable degree of predictability and stability of tax rates, thresholds and bases for future years.

One indicator of tax restraint is the cumulative impact of policy decisions taken over a period of time on revenue collections in any one year, as shown in Table 3.3. That table shows that major tax policy changes taking effect in 2007-08 and over the forward estimates will reduce revenue by $343 million in 2007-08 and by $845 million in 2010-11.

Another measure of tax restraint is the discrete impact on revenue in any one year only of those measures that take effect for the first time in that year. Under this approach, the revenue impact of measures taking effect part way through a financial year will be shown in two financial years: the part year revenue impact shown in the first year and the difference between the full year and part year revenue impacts in the year of introduction flowing into the following financial year. Table 3.4 shows the impact of tax changes on this basis.

Table 3.4 shows that revenues will be reduced by an average of $210 million per year over the four years from 2007-08 to 2010-11 by tax policy changes implemented for the first time in each of those years. Tax policy changes over the ten years to 2007-08 have reduced tax revenue in nine of those years, with an average annual revenue reduction of $183 million for the whole decade.

Table 3.4: Impact of Revenue Policy Changes (a)

Year	*Annual Contribution of New Policy Changes to Revenue Collections* [(b)] *$m*
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	(-) 10
2006-07	(-) 10
2007-08	(-) 330
2008-09	(-) 270
2009-10	(-) 190
2010-11	(-) 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 each year, and from 2004-05 annual indexation of the parking space levy is treated as a discrete tax change each year; (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; (4) 2000-01 to 2005-06 excludes those State taxes abolished with the introduction of the GST where the revenue loss from abolishing those taxes was compensated by the Commonwealth through Budget Balancing Assistance.

3.4 ESTIMATES OF STATE REVENUE

TAXATION

Table 3.5 provides detailed estimates of taxation revenue for the period to 2010-11.

The two largest sources of state taxation are payroll tax and transfer duty (see Chart 3.6). While payroll tax collections are relatively stable, transfer duty can vary significantly from year to year as it is affected by both fluctuations in the volume of property transactions and property prices.

Chart 3.6: Composition of Tax Revenue, 2007-08

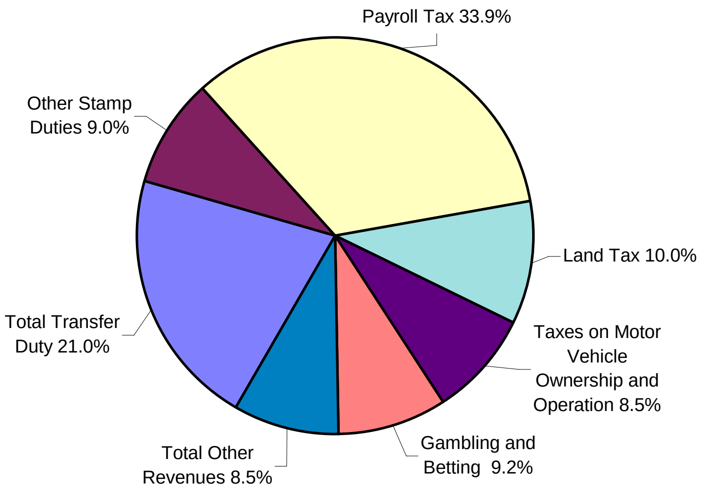


Table 3.5: Taxation Revenue

	Actual	Budget	Revised	Budget	Forward Estimates		
	2005-06	2006-07	2006-07	2007-08	2008-09	2009-10	2010-11
	$m	$m	$m	$m	$m	$m	$m
Stamp Duties							
Transfer Duty							
Purchaser Transfer Duty	3,144	3,250	4,000	3,695	3,970	4,270	4,610
Vendor Transfer Duty	92	...	1	...	...	...	...
Total Transfer Duty	3,236	3,250	4,001	3,695	3,970	4,270	4,610
Other Stamp Duties							
Insurance	523	609	600	616	643	672	703
Mortgages	324	348	355	243	110	2	...
Marketable Securities	46	57	94	74	39	...	...
Motor Vehicle Registration Certificates	548	575	550	582	608	635	664
Hire of Goods	77	79	75	6	...	...	...
Leases	71	72	94	51	...	...	...
Other	...	2	2	2	3	3	3
	4,825	**4,992**	**5,771**	**5,269**	**5,373**	**5,582**	**5,980**
Payroll Tax	**5,180**	**5,438**	**5,569**	**5,960**	**6,369**	**6,754**	**7,161**
Land Tax	**1,717**	**1,793**	**2,042**	**1,750**	**1,797**	**1,875**	**1,988**
Taxes on Motor Vehicle Ownership and Operation							
Weight Tax	1,057	1,105	1,114	1,176	1,233	1,293	1,356
Vehicle Registration and Transfer Fees	257	265	268	280	290	307	319
Other Motor Vehicle Taxes	26	27	28	30	31	32	34
	1,340	**1,397**	**1,410**	**1,486**	**1,554**	**1,632**	**1,709**
Gambling and Betting							
Racing	150	160	155	160	165	170	176
Club Gaming Devices	569	655	660	623	644	674	706
Hotel Gaming Devices	417	454	446	438	461	505	553
Lotteries and Lotto	283	296	283	293	300	307	315
Casino	93	98	94	86	88	91	93
Other Gambling & Betting	8	9	8	9	9	10	10
	1,520	**1,672**	**1,646**	**1,609**	**1,667**	**1,757**	**1,853**

Table 3.5: Taxation Revenue (cont)

	Actual	Budget	Revised	Budget	Forward Estimates		
	2005-06 $m	2006-07 $m	2006-07 $m	2007-08 $m	2008-09 $m	2009-10 $m	2010-11 $m
Other Revenues							
Health Insurance Levy	108	111	119	123	129	136	142
Insurance Protection Tax	68	69	69	69	69	69	69
Parking Space Levy	45	45	52	51	52	54	55
Fire Brigades Levy	351	358	349	363	367	366	366
Bush Fire Services Levy	103	124	124	146	147	150	154
Waste and Environment Levy	118	175	154	214	258	300	337
Government Guarantee of Debt	105	100	110	130	152	180	205
Private Transport Operators Levy	11	12	14	12	13	13	13
Pollution Control Licences	44	44	42	48	49	52	50
Other Taxes	375	389	304	332	358	355	357
	1,328	**1,427**	**1,337**	**1,488**	**1,594**	**1,675**	**1,748**
Total Tax Revenue	**15,910**	**16,719**	**17,775**	**17,562**	**18,354**	**19,275**	**20,439**

Total taxation revenue, after adjusting for the one off influences in 2006-07, is estimated to increase by 2.5 per cent, following growth of 7.7 per cent in 2006-07. The slower underlying growth in 2007-08 reflects the abolition of hire of goods duty, lease duty and mortgage duty on owner-occupied residences and the reduction in the land tax rate.

Transfer Duty

Transfer duty is the largest component of stamp duty revenue, accounting for around two thirds of total stamp duty collections. It is also the most volatile component of stamp duties, with annual changes varying between minus 30 per cent and plus 97 per cent in the period from 1978-79 to 2006-07.

Purchaser transfer duty in 2006-07 is estimated to be $750 million higher than expected at budget time last year. This reflects the different performance of the residential and large commercial sectors.

Revenue from residential and small commercial property market sales has been consistent with the budget estimate, with revenue estimated to be 1.8 per cent higher than expected in the Budget.

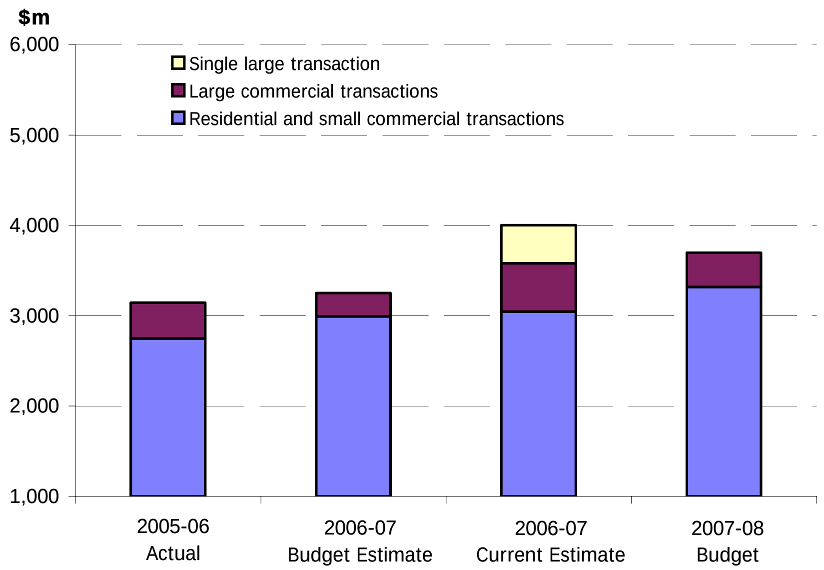
Revenue from high value commercial property sales has been much higher than expected. Nearly two-thirds of the additional revenue is related to a single large transaction for which an assessment has been issued, but payment will not be received in 2006-07. As a receivable, this amount must be accrued in 2006-07.

However, even excluding this one large transaction, revenue from other large transactions (transactions where duty exceeds $1 million) grew during 2006-07.

In total, almost $1 billion is expected to be received from large transactions in 2006-07, compared with $398 million in the previous year and an average of $254 million over the previous five years.

Underlying purchaser transfer duty revenue is expected to grow by 3.2 per cent in 2007-08. This reflects a return to normal levels of revenue from high value commercial property sales and continued growth in the residential property market (see Chart 3.7).

Chart 3.7: Composition of Purchaser Transfer Duty Revenue



Large commercial transactions are those on which more than $1 million in purchaser transfer duty is payable.

Interest rates will continue to have a significant bearing on the outlook for purchaser transfer duty. As explained in section 6.2, there is a risk that higher domestic demand could lead to interest rate increases. If this occurs, property market activity, and hence purchaser duty, could be significantly lower than forecast.

Other Stamp Duties

Other stamp duty revenue is estimated to decline by 11.1 per cent in 2007-08 following a rise of 11.4 per cent in 2006-07.

The decline reflects the abolition of hiring duty, mortgage duty on owner-occupied residences and lease duty during 2007-08. Unquoted marketable securities duty is also expected to decline as revenue from large transactions, which has been much stronger than expected during 2006-07, returns to normal levels.

Payroll Tax

Collections for 2006-07 are expected to be 2.4 per cent (or $131 million) higher than forecast at budget time. The higher than anticipated outcome is chiefly due to a stronger than anticipated labour market particularly in the latter half of 2006.

Payroll tax revenue growth is expected to moderate from 7.5 per cent in 2006-07 to 7.0 per cent in 2007-08, in line with employment and wage growth.

Land Tax

Land tax is assessed on a calendar year basis and is based on the three-year average of unimproved land values as at 1 July each year as determined by the NSW Valuer General. Notices of assessment are issued throughout the year, with most issued in either January or February.

Land tax revenue accrued in a financial year depends on the issue date of assessments and land values. For the 2007-08 financial year, land tax revenue accrued will be a combination of revenue from assessments for the 2007 and 2008 land tax years.

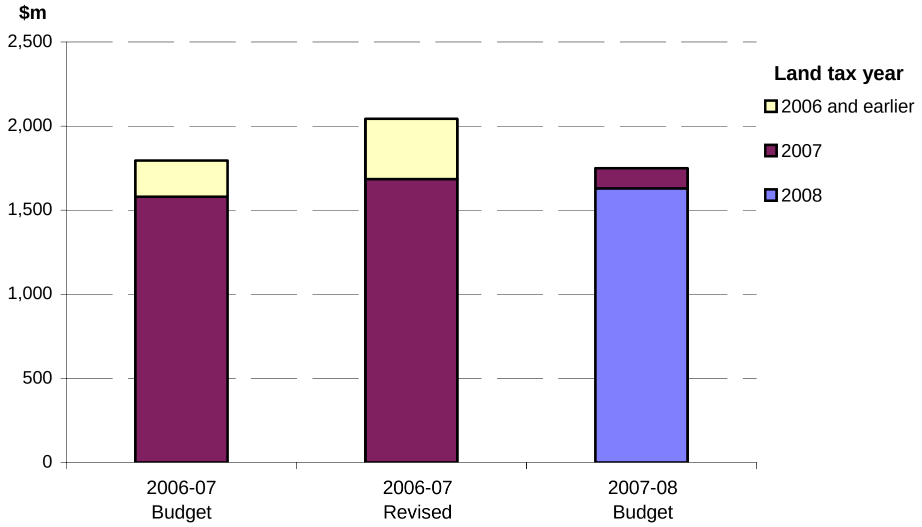
Land tax revenue in 2006-07 is estimated to be 13.9 per cent ($249 million) higher than expected in the 2006-07 Budget.

Underlying revenue is estimated to be around 5 per cent ($89 million) less than expected because of lower than expected growth in land values.

Improved administrative processes at the Office of State Revenue, including better data on land ownership and systems improvements leading to faster processing, cleared a backlog of assessments relating to previous years and will result in faster processing of assessments in the future. These improvements underpin a one-off increase in assessments issued in 2007.

Revenue in 2007-08 is expected to be 14.3 per cent lower than in 2006-07. This reflects a reduction in the tax rate to 1.6 per cent for the 2008 land tax year onwards and an unwinding of the one-off boost to revenue in 2006-07 from clearing assessments related to the 2006 and earlier land tax years (see Chart 3.8). The estimates assume average land values across the state will grow by 2.4 per cent over the year to 1 July 2007.

Chart 3.8: Composition of Land Tax Revenue



Taxes on Motor Vehicle Ownership and Operation

Motor vehicle weight tax and vehicle registration fees are the two largest components of this category, representing around 96 per cent of revenue in 2006-07. Also included are motor vehicle registration transfer fees and miscellaneous motor vehicle taxes.

Continued growth in the motor vehicle fleet and indexation of fees results in revenue growth of 5.4 per cent in 2007-08.

Motor vehicle weight tax comprises 36.1 per cent of the Roads and Traffic Authority's cash allocation in 2007-08.

Gambling and Betting Taxes

Gambling tax revenue in 2006-07 is expected to be 8.3 per cent higher than in 2005-06. This chiefly reflects increases in household disposable income and changes in club and hotel gaming machine duty rates.

Gambling revenue is expected to decline by 2.2 per cent in 2007-08 due to the impact of smoking bans on club and hotel gaming machine duty and casino duty.

COMMONWEALTH GRANTS

Table 3.6 provides estimates of Commonwealth payments to New South Wales for the period to 2010-11.

Table 3.6: Commonwealth Grants

	Actual	*Budget*	*Revised*	*Budget*	*Forward Estimates*		
	2005-06 $m	*2006-07 $m*	*2006-07 $m*	*2007-08 $m*	*2008-09 $m*	*2009-10 $m*	*2010-11 $m*
GST Revenue Grants	10,391	10,941	11,034	11,926	12,766	13,530	14,270
Compensation for GST Deferral	37	5	…	…	…	…	…
National Competition Policy Payments	292	…	…	…	…	…	…
Total General Purpose Payments	**10,720**	**10,946**	**11,034**	**11,926**	**12,766**	**13,530**	**14,270**
Specific Purpose Payments							
Companies Regulation	54	57	57	59	61	61	61
Technical and Further Education	363	406	435	416	422	428	436
Schools	902	894	936	954	902	918	951
Highly Specialised Drugs	159	185	183	197	202	208	208
Australian Health Care Grants	2,796	2,943	2,927	3,077	3,208	3,360	3,520
Home and Community Care	266	291	285	308	333	358	384
Supported Accommodation Assistance	57	58	59	60	62	63	63
Assistance to Disabled	196	201	210	216	208	213	215
Pensioner Concessions	69	70	70	72	76	78	80
Debt Redemption Assistance	74	…	…	…	…	…	…
Environmental	48	40	87	61	8	8	…
Public Housing	243	247	245	248	248	248	248
National Land Transport (Auslink)	480	695	664	830	688	708	452
Housing	37	38	38	38	38	38	38
Other	623	555	649	655	378	311	316
Total Specific Purpose Payments	**6,368**	**6,679**	**6,846**	**7,190**	**6,833**	**7,000**	**6,973**
Total Grants	**17,088**	**17,625**	**17,880**	**19,116**	**19,599**	**20,530**	**21,243**

In 2007-08, Commonwealth general purpose payments are forecast to grow by 8.1 per cent. This reflects a combination of growth in the Australia-wide GST pool of 5.8 per cent and a slight increase in New South Wales' share of GST grants. However, New South Wales is still receiving less in GST grants than originally expected. GST revenue grants received by New South Wales in the period 2000-01 to 2007-08 are estimated to be around $840 million less than expected at the time the GST was introduced.

Specific purpose payments are predicted to increase by $344 million, or 5.0 per cent, in 2007-08. Higher National Land Transport Grants are expected to be partially offset by an unwinding of the 2005-06 increase in rural assistance grants (within the Environmental payments category).

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 under the *Commercial Policy Framework*, which was introduced in the early 1990s. Requiring a return on the Government's equity investment in the form of dividends, and the payment of income tax equivalents, ensures competitive neutrality with the private sector and encourages public trading enterprises to make commercial investment decisions.

Dividend and tax equivalent payments are an important source of revenue to the State Budget. Since the introduction of the *Commercial Policy Framework*, dividend and tax payments from public trading enterprises (PTE) have significantly helped in the funding of public services such as health, education and law and order. Without dividends from the PTE sector, Government revenue would fall, requiring higher taxes or borrowing to fund existing public services, or a reduction in expenditure in the general government sector.

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 a contingency for financial flexibility.

Table 3.7 provides estimates of dividends and tax equivalents for the period to 2010-11.

Table 3.7: Dividend and Tax Equivalent Revenue from Public Trading and Financial Enterprises

	Actual	*Budget*	*Revised*	*Budget*	*Forward Estimates*		
	2005-06 $m	*2006-07 $m*	*2006-07 $m*	*2007-08 $m*	*2008-09 $m*	*2009-10 $m*	*2010-11 $m*
Dividends							
Electricity	799	744	767	741	738	817	867
Water, Property and Resources	356	283	278	306	346	403	428
Financial Services	11	29	35	36	38	41	43
Ports	28	23	26	26	16	18	35
Other	31	37	36	36	35	36	36
	1,225	**1,116**	**1,142**	**1,145**	**1,173**	**1,315**	**1,409**
Income Tax Equivalents							
Electricity	372	364	436	408	392	379	397
Water, Property and Resources	190	124	131	144	197	203	206
Financial Services	11	10	12	13	13	15	15
Ports	26	35	32	39	43	44	39
Other	12	15	15	15	15	15	15
	611	**548**	**626**	**619**	**660**	**656**	**672**
Total Dividends and Tax Equivalent Revenue	**1,836**	**1,664**	**1,768**	**1,764**	**1,833**	**1,971**	**2,081**

Total dividend and tax equivalent revenue in 2006-07 is forecast to be 6.3 per cent, or $104 million, above 2006-07 Budget Estimates. The major contributor is higher than expected profits in the electricity sector as a result of higher sales volumes and the sale of Country Energy's share in DirectLink. In 2007-08, total dividend and tax revenue is expected to remain at similar levels to 2006-07.

Over the forward estimates period, dividend and tax revenues are estimated to rise on average by 5.7 per cent a year. Contributing factors include earnings growth in the water and electricity sectors, and profit on the sale of land developments in Sydney. This is against annual capital expenditure in the PTE sector of around $8 billion over the forward estimates period.

As discussed in Chapter 5, the forecast earnings growth for water and electricity depends to a large extent on the Independent Pricing and Regulatory Tribunal (IPART) endorsing the recovery of capital expenditure in its pricing determinations.

OTHER STATE REVENUES

Licences

About 80 per cent 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, with revenue expected to be lower in 2007-08.

Fees

This category is made up of a variety of fees such as boat registrations, security industry fees, NSW Fisheries fees and motor vehicle dealers' fees. The majority of fees are charged annually and therefore growth in revenue is relatively stable. The increase in revenue in 2007-08 mostly reflects the introduction of three year building licences in lieu of the current annual licence with subsequently lower fee revenue expected in the following two years.

Fines

The main item – over 90 per cent – in this category relates to motor traffic fines. An improvement in recovery of unpaid fines in 2005-06 resulted in increased revenue in that year. The outlook in the 2006-07 Budget was that fine collections would decrease to a lower, normal level but implementation of better business processes by the State Debt Recovery Office has resulted in total fine revenue in 2006-07 being 12.7 per cent higher than the Budget estimate. This improved recovery level is broadly anticipated to be maintained in the forward years.

Table 3.8: Other State Revenues

	Actual	*Budget*	*Revised*	*Budget*	*Forward Estimates*		
	2005-06 $m	*2006-07 $m*	*2006-07 $m*	*2007-08 $m*	*2008-09 $m*	*2009-10 $m*	*2010-11 $m*
Licences	161	105	115	104	129	170	183
Fees	131	143	143	171	151	145	176
Fines	273	221	249	244	254	261	270
Royalties	504	501	501	480	445	480	480
Fire Brigades Levy on Local Government	57	60	58	61	61	61	61
Other State Revenues	152	137	140	129	126	128	133
Total Other Revenue	**1,278**	**1,167**	**1,206**	**1,189**	**1,166**	**1,245**	**1,303**

Royalties

Royalties are dependent upon commodity prices and sales volumes. Revenue in 2006-07 is on budget. In 2007-08, the rising Australian dollar means that many coal producers with contracts negotiated in US dollars will receive lower Australian dollar revenues leading to an estimated 4.2 per cent fall in royalty revenue. Expected price movements from negotiated contracts drive revenue growth in the forward years.

3.5 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 2010-11.

Table 3.9: Operating Revenues

	Actual	*Budget*	*Revised*	*Budget*	*Forward Estimates*		
	2005-06 *$m*	*2006-07* *$m*	*2006-07* *$m*	*2007-08* *$m*	*2008-09* *$m*	*2009-10* *$m*	*2010-11* *$m*
Sales of Goods and Services							
Rents and leases	147	146	149	155	161	164	169
Fees for Service	194	140	282	295	303	312	323
Entry Fees	27	29	26	27	28	29	30
Patient Fees and Other Hospital Charges	704	698	787	805	836	857	878
Department of Veterans' Affairs	313	305	305	307	314	322	330
Court Fees	167	162	174	175	179	184	189
Road Tolls	77	84	84	89	92	95	97
Other Sales of Goods and Services	1,408	1,435	1,525	1,580	1,660	1,707	1,763
	3,037	**2,999**	**3,332**	**3,433**	**3,573**	**3,670**	**3,779**
Investment Income	1,298	914	1,380	781	803	848	887
Grants and Contributions	809	789	775	824	812	842	860
Other Operating Revenues	425	319	369	325	715	330	307
Total Operating Revenue	**5,569**	**5,021**	**5,856**	**5,363**	**5,903**	**5,690**	**5,833**

SALES OF GOODS AND SERVICES

Sales of goods and services revenue comes from the use of government assets as well as revenue generated by agencies in their normal trading activities. From 2006-07, the fees for service item includes payments for the supply of employee services from general government agencies to certain non-budget agencies and public trading enterprises such as WorkCover Authority.

This changed accounting treatment arose out of the Government's employment restructure in March 2006 aimed at protecting public sector employees from the Commonwealth's WorkChoices legislation. There is a corresponding expense in the accounts of these statutory authorities, some of which are a part of the public trading enterprise sector.

Revenue from sales of goods and services other than fees for service is estimated to be $191 million higher in 2006-07 than estimated with the largest contributor being $89 million from hospital patient fees.

For 2007-08, total revenue from sales of goods and services is expected to increase by 3.0 per cent.

INVESTMENT INCOME

Investment income includes income from NSW Treasury Corporation Hour-Glass facilities and bond portfolios, interest on advances to public trading enterprises and interest on private sector deposits.

Investment income in 2006-07 exceeded the original budget estimate by $466 million (or 51.0 per cent) mainly reflecting the sharp increase in equity prices during 2006-07. Investment returns for some of the largest funds are estimated at 10.3 per cent for 2006-07 compared to the long run estimate of 7.0 per cent. The General Government Liability Management Fund also held assets for longer than anticipated during 2006-07, contributing to the higher investment earnings.

Investment revenue of $781 million in 2007-08 reflects expected long term returns applied to lower expected asset balances. The decline in asset balances is due to the transfer of approximately $7.2 billion from the General Government Liability Management Fund to the State Super Fund, to be paid by 30 June 2007.

GRANTS AND CONTRIBUTIONS

This item consists mainly of contributions from residents, private businesses and councils. The largest contributions relate to schools and hospitals. In 2006-07, this item is expected to be lower than budget mainly because the inclusion of the Cancer Institute NSW within the General Government sector for the first time has meant that its payments to the Department of Health are no longer recognised as revenues from outside the Government sector.

For 2007-08, grants and contributions revenue is expected to grow marginally to $824 million.

OTHER OPERATING REVENUE

In 2006-07, other operating revenue is expected to be $50 million higher than initially projected. This result largely reflects additional insurance recoveries from the HIH Insurance administrator. The increase in 2008-09 represents the completion and transfer of the Tugun Bypass to the State.

CHAPTER 4: ASSETS, LIABILITIES AND NET WORTH

- A strong State balance sheet has allowed a record capital works program to be planned whilst State net debt remains at prudent levels.
- The value of infrastructure system assets for the State sector will increase to $106.3 billion in June 2011, up from an estimated $80.3 billion in June 2007.
- General government capital expenditure for the four year period to 2006-07 is estimated to be $14.9 billion. Over the next four years, capital expenditure is projected to be $18.4 billion which is an increase of 23 per cent. Most of the increase is in the transport, health and education sectors, reflecting the Government's priorities.
- Forecast State sector net debt will represent 9.3 per cent of gross state product in June 2011, with interest expense being 6.3 per cent of total revenue.
- General government net debt is forecast at June 2011 to be 1.8 per cent of gross state product with interest expense representing only 3.5 per cent of total revenue.
- The *Fiscal Responsibility Act 2005* provides the framework for the conduct of fiscal policy in New South Wales. The Act established a medium term fiscal target to reduce the level of general government net financial liabilities as a proportion of gross state product to 7.5 per cent or less by June 2010.
- Net financial liabilities of the general government sector as a percentage of gross state product are forecast to be fall over the next four years to 7.5 per cent by June 2011.
- In accordance with the State's funding plan, defined benefit superannuation liabilities will be fully funded by 2030. No further Crown cash employer contributions will need to be made after that time.
- Following changes to Commonwealth Legislation, the contribution to defined benefit superannuation liabilities was reduced from $8.7 billion to $7.2 billion in 2006-07.
- Treasury Managed Fund public liability insurance premiums will reduce by 3.4 per cent in 2007-08. This will be the fourth successive year that premiums have been reduced. Reforms to public liability have not only benefited the Budget but also the community generally with both the affordability and availability of public liability insurance continuing to improve.

4.1 INTRODUCTION

A strong balance sheet allows public services to be delivered on a sustainable basis in the face of short term or cyclical fluctuations in revenue.

The *Fiscal Responsibility Act 2005* established a medium term fiscal target to reduce the level of general government net financial liabilities to 7.5 per cent of gross state product by 2010 and 6.0 per cent by 2015. Despite increased borrowing to fund a record capital works program, net financial liabilities as a percentage of gross state product will fall over the forward estimates period.

The value of infrastructure system assets for the State sector will increase to $106.3 billion in June 2011, up from an estimated $80.3 billion in June 2007. Forecast State sector net debt will remain at a prudent level, represent 9.3 per cent of gross state product in June 2011. General government net debt is forecast in June 2011 to be 1.8 per cent of gross state product, with interest expense representing 3.5 per cent of total revenue.

In accordance with the State's funding plan, superannuation liabilities will be fully funded by 2030. No further Crown cash employer contributions will need to be made into State Super defined benefit schemes after that time.

The Treasury Managed Fund (TMF) self insurance liabilities remain fully funded. Liabilities have declined significantly during 2006-07 as a direct result of the Government's workers compensation and tort reform legislation, and improvements in occupational health and safety management within major agencies.

TMF public liability agency premiums will reduce by 3.4 per cent in 2007-08. This will be the fourth successive year that agency public liability premiums have been reduced. Reforms in this area have not only benefited the Budget but also the community generally with both the affordability and availability of public liability insurance continuing to improve.

4.2 GENERAL GOVERNMENT SECTOR NET DEBT

The general government sector provides basic services such as schools, hospitals and policing and is primarily financed from State taxation and Commonwealth grants. Any long-term increases in net debt in this sector are limited by the capacity to service this debt within current limits to State revenue-raising powers.

Over the forward estimates period, net debt will increase but remain at sustainable levels, with low net debt to gross state product and interest expense to revenue ratios. Net debt of the general government sector will increase by $4.1 billion over the next four years. This will be more than offset by an increase in the value of infrastructure and other fixed assets of $10.5 billion.

Table 4.1: General Government Sector Net Debt

As at 30 June	Actual			Revised	Budget	Estimate		
	2004 $m	2005 $m	2006 $m	2007 $m	2008 $m	2009 $m	2010 $m	2011 $m
Gross Debt								
Borrowings	10,796	11,392	12,035	12,626	15,297	16,995	18,521	19,090
Advances Received	1,681	1,641	920	893	865	837	816	797
Deposits Held	68	98	129	93	94	94	93	93
	12,545	13,131	13,084	13,612	16,256	17,926	19,430	19,980
Financial Assets[(a)]								
Cash	1,869	1,465	2,461	2,210	2,933	3,049	3,136	2,968
Investments	6,724	8,041	8,652	7,162	7,043	7,517	8,021	8,552
Advances	1,359	1,304	840	892	926	980	1,012	1,053
	9,952	10,810	11,953	10,264	10,902	11,546	12,169	12,573
Net Debt[(a)]	**2,593**	**2,321**	**1,131**	**3,348**	**5,354**	**6,380**	**7,261**	**7,407**
% of GSP	**0.9**	**0.8**	**0.4**	**1.0**	**1.5**	**1.7**	**1.8**	**1.8**

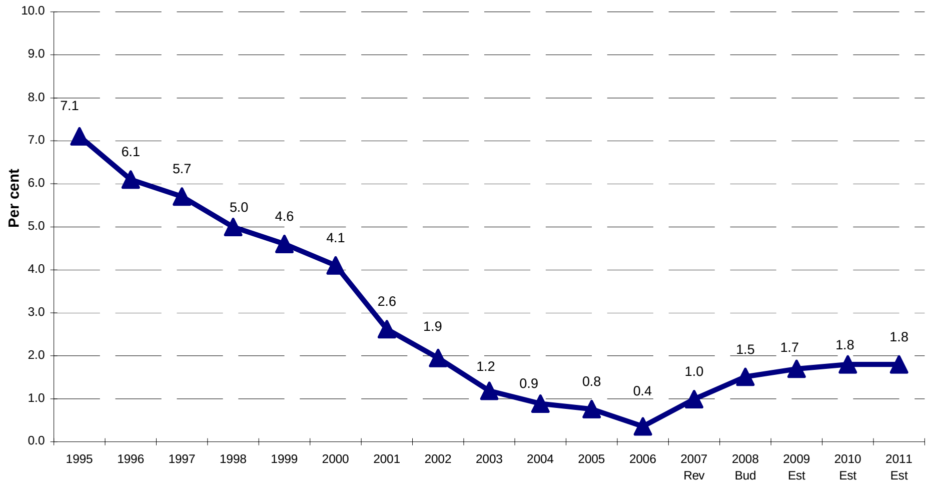
(a) *Includes financial assets which have been allocated to fund insurance claims, but excludes balances held in the General Government Liability Management Fund (GGLMF).*

Estimated net debt of $3.3 billion in June 2007 is $2.8 billion less than estimated at the time of last year's Budget. This is a result of lower contributions to superannuation following changes in Commonwealth tax legislation and better than expected cash results in 2005-06 and 2006-07. The changes in Commonwealth tax legislation are discussed in Section 4.6.

The level of net debt in the general government sector will rise above the target in the *Fiscal Responsibility Act 2005* over the forward estimates period. Section 6 and 7 of the *Fiscal Responsibility Act 2005* requires general government net debt to be at or below its 30 June 2005 level as a percentage of gross state product, unless the increase in net debt is used to reduce another financial liability.

Projected net debt at June 2008 is 1.5 per cent of gross state product, which is 0.7 percentage points above the June 2005 level of 0.8 per cent of gross state product. The increase in net debt will partially fund high levels of capital expenditure.

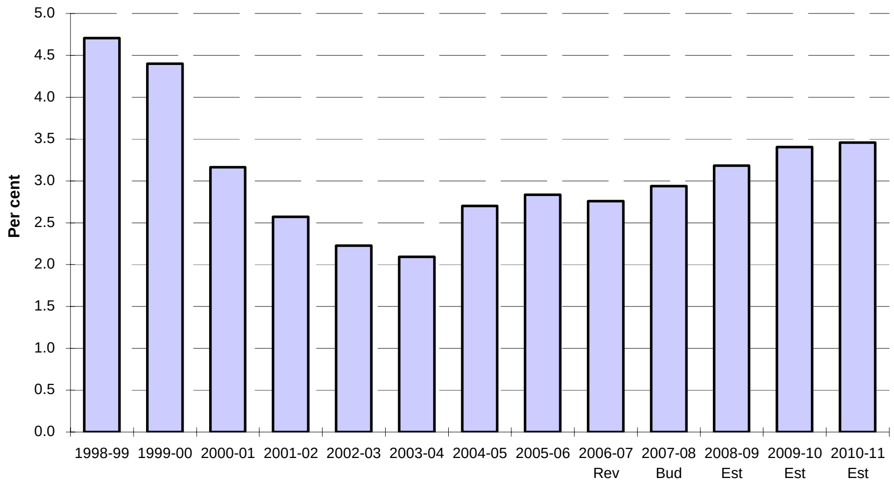
Chart 4.1: General Government Sector Net Debt as a Percentage of Gross State Product, as at 30 June[(a)]



(a) Net debt has been adjusted to exclude the impact of prepaid superannuation contributions and transactions of the General Government Liability Management Fund.

The interest expense on debt is expected to rise from $1.23 billion to $1.76 billion between 2006-07 and 2010-11 but remain at prudent levels being only 3.5 per cent of general government revenue in 2010-11 compared with 2.8 per cent in 2006-07 and 4.7 per cent in 1998-99. The rise in interest expenses is due to higher interest rates and additional borrowing required to finance the higher capital expenditure.

Chart 4.2: General Government Sector Interest Expense as a Percentage of Budget Revenue



The level of general government net debt will increase by $4.1 billion from June 2007 to June 2011. The increase in net debt will be used to partially fund the general government sector's record capital works program. Table 4.2 shows sources of funding for the general government capital program.

Table 4.2: Estimated Funding Sources for the General Government Capital Program

	4 years to June	
	2007 $m	*2011 $m*
Capital Expenditure	**14,890**	**18,353**
Funded by:		
Operating Surplus (net of depreciation)	11,639	12,363
Asset Sales	1,735	1,882
Increase in Net Debt[(a)]	104	4,059
Other[(b)]	1,412	49
Total Sources of Funding	**14,890**	**18,353**

(a) The change in net debt excludes transactions of the General Government Liability Management Fund.

(b) Includes public trading enterprise regearing, proceeds from privatisations, assumptions of debt and various accruals.

Table 4.2 shows that debt will fund around 22 per cent of general government capital expenditure over the next 4 years.

4.3 PUBLIC TRADING ENTERPRISE NET DEBT

The public trading enterprise (PTE) sector provides economic services in areas such as water, electricity, transport and housing. It is mainly funded by user charges and operates under commercial disciplines described in the Government's *Commercial Policy Framework*.

Table 4.3: Public Trading Enterprise Net Debt

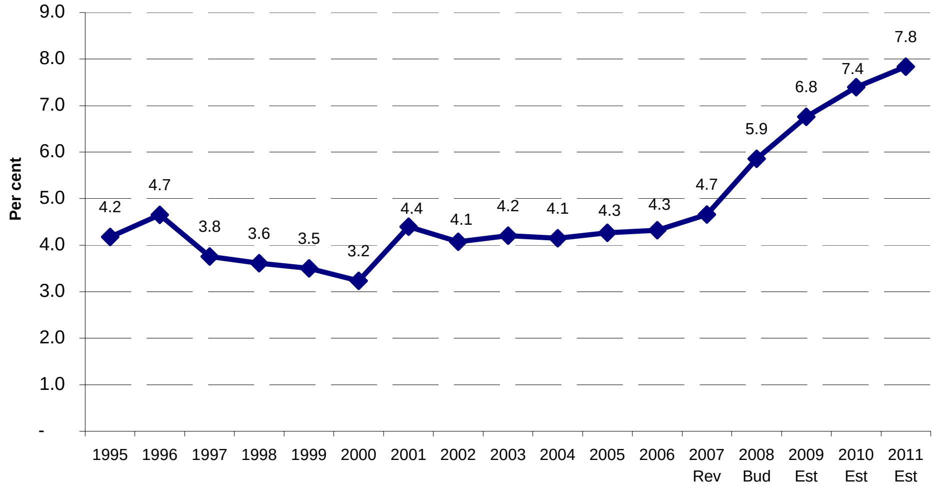
As at 30 June	Actual			Revised	Budget	Estimate		
	2004 $m	2005 $m	2006 $m	2007 $m	2008 $m	2009 $m	2010 $m	2011 $m
Gross Debt								
Borrowings	12,568	13,676	15,365	16,793	21,508	26,052	30,135	33,557
Advances Received	1,088	1,041	599	581	567	553	538	765
Deposits Held	156	166	177	195	203	192	194	196
	13,812	14,883	16,141	17,569	22,278	26,797	30,867	34,518
Financial Assets[(a)]								
Cash	1,202	1,435	1,812	1,315	962	824	821	819
Investments	518	397	527	548	531	585	629	689
	1,720	1,832	2,339	1,863	1,493	1,409	1,450	1,508
Net Debt [(a)]	**12,092**	**13,051**	**13,802**	**15,706**	**20,785**	**25,388**	**29,417**	**33,010**
% of GSP	**4.1**	**4.3**	**4.3**	**4.7**	**5.9**	**6.8**	**7.4**	**7.8**

(a) Includes financial assets which have been allocated to fund insurance claims.

Total PTE sector net debt is forecast to reach $20.8 billion in June 2008, rising to $33 billion in June 2011. The rise in net debt, together with higher operating results, is financing the capital expenditure program over the next four years. Compared with the last year's Budget, capital expenditure has substantially increased, particularly for water and transport infrastructure. More details on capital expenditure are provided in Chapter 5 and in Budget Paper 4 Infrastructure Statement.

As a percentage of gross state product, PTE sector net debt is forecast to rise from 4.7 per cent in 2006-07 to 5.9 per cent in 2007-08 and to 7.8 per cent in 2010-11.

Chart 4.3: Public Trading Enterprise Net Debt as a Percentage of Gross State Product, as at 30 June



The PTE sector can be split into commercial PTEs (businesses which generate commercial returns - primarily electricity, water and ports) and non-commercial PTEs (housing and transport businesses) which achieve important social objectives.

Capital expenditure in both sectors is increasing. Expenditure by commercial PTEs account for most of the increase in net debt. Higher debt is also funding some capital expenditure by non-commercial PTEs, but most capital expenditure is directly funded by grants from the Budget.

As set out in Chapter 5, borrowing by commercial PTEs to fund capital investments is an important part of imposing commercial disciplines.

Chart 4.4 demonstrates that net debt is expected to rise in both the commercial and non-commercial PTE sector in line with the forecast record levels of capital expenditure.

Chart 4.4: PTE Sector Net Debt, as at 30 June

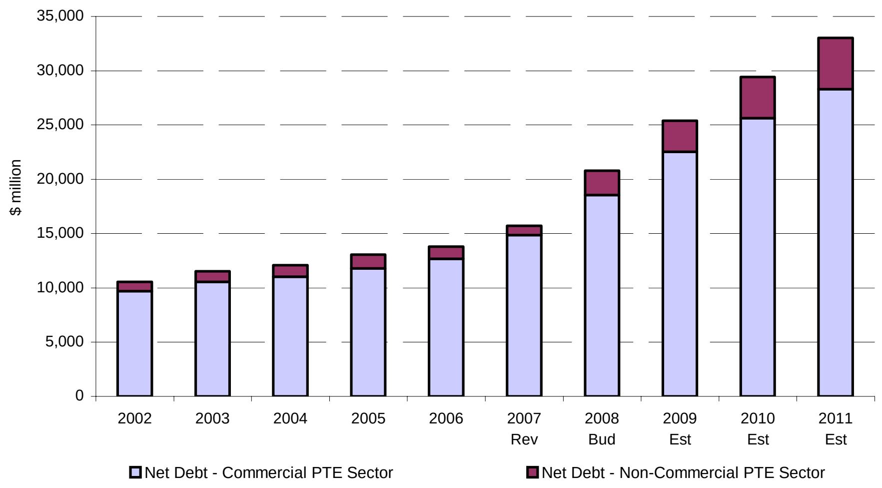


Table 4.4 shows how overall PTE expenditure is being funded.

Table 4.4: PTE Capital Spending and Net Debt

	4 years to June	
	2007 $m	*2011 $m*
Capital Expenditure	**16,927**	**31,226**
Funded by:		
Operating Surplus (net of depreciation)	10,633	12,407
Asset Sales	1,031	1,490
Increase in Net Debt	4,172	17,304
Other	1,091	25
Total Sources of Funding	**16,927**	**31,226**

Over the next four years PTE capital expenditure is expected to almost double. With this increase in capital expenditure, net debt of the PTE sector will increase by $17.3 billion in the four years to June 2011.

4.4 STATE SECTOR NET DEBT

State sector debt is used to finance capital expenditure in both the general government and public trading enterprise sectors. The NSW Government's fiscal strategy is different for each sector and is based on the use to which funds are put in each sector and whether they generate future income.

An explanation of the movement in the general government sector debt is provided in section 4.2, while for the public trading enterprise sector an explanation is provided in section 4.3.

Table 4.5 shows the movements in the components of net debt for the State sector. The net debt of the State sector will increase by $20 billion over the next four years. This will be more than offset by an increase in infrastructure and other fixed assets totalling $35 billion. Major areas of investment include roads, hospitals, schools, electricity, rail, ports, housing and water infrastructure.

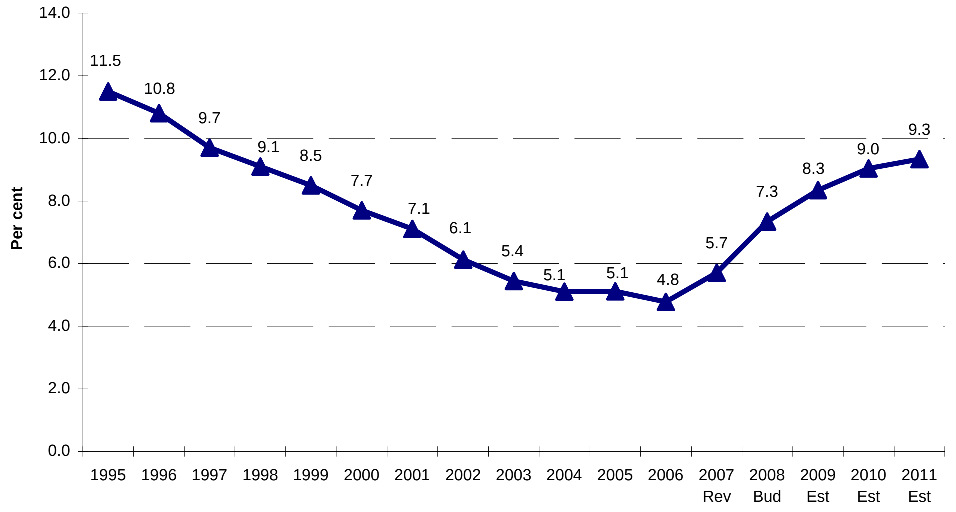
Budget Paper No 4 Infrastructure Statement provides details of the projects that make up the State capital program.

Table 4.5: State Sector Net Debt

	Actual			*Revised*	*Budget*	*Estimate*		
As at 30 June	*2004 $m*	*2005 $m*	*2006 $m*	*2007 $m*	*2008 $m*	*2009 $m*	*2010 $m*	*2011 $m*
Gross Debt								
Borrowings	26,444	29,012	29,387	31,285	38,649	44,872	50,594	54,858
Advances Received	1,681	1,641	923	893	865	837	816	797
Deposits Held	1,283	1,618	1,214	1,246	1,256	1,242	1,264	1,260
	29,408	32,271	31,524	33,424	40,770	46,951	52,674	56,915
Financial Assets[(a)]								
Cash	3,696	3,217	4,328	3,614	3,992	3,987	4,076	3,908
Investments	10,562	13,123	11,694	10,241	10,374	11,177	12,191	13,405
Advances	275	293	245	312	360	428	474	289
	14,533	16,633	16,267	14,167	14,726	15,592	16,741	17,602
Net Debt[(a)]	**14,875**	**15,638**	**15,257**	**19,257**	**26,044**	**31,359**	**35,933**	**39,313**
% of GSP	**5.1**	**5.1**	**4.8**	**5.7**	**7.3**	**8.3**	**9.0**	**9.3**

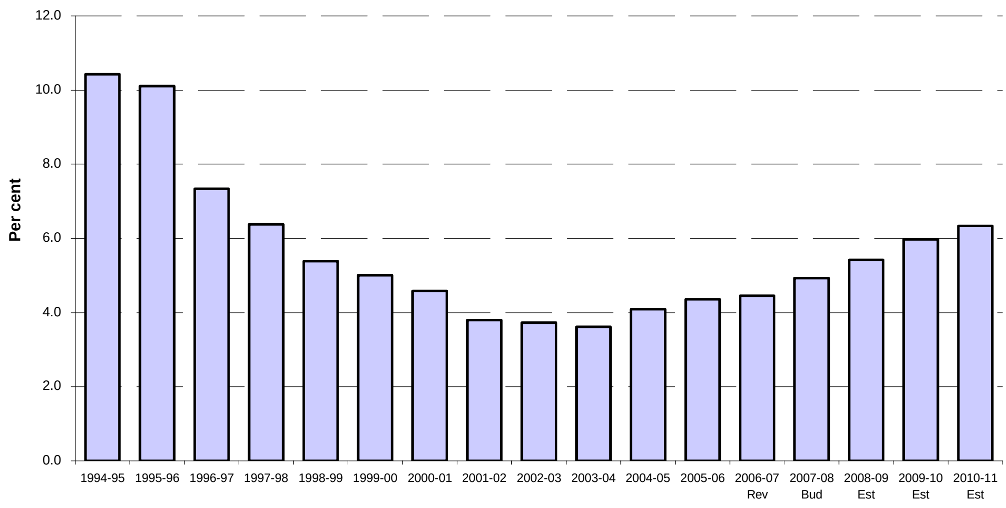
(a) Includes financial assets which have been allocated to fund insurance claims, but excludes balances held in the General Government Liability Management Fund (GGLMF).

Chart 4.5: State Sector Net Debt as a Percentage of Gross State Product, as at 30 June



Higher interest rates and the increased borrowing program have resulted in a rising proportion of revenue spent on interest as shown in Chart 4.6. The level of forecast debt interest expense will rise to 6.3 per cent of total revenue in 2010-11 but remains well below levels of the mid-1990's.

Chart 4.6: State Sector Gross Debt Interest Expense as a Percentage of Total Revenue



4.5 NET FINANCIAL LIABILITIES

State and general government sector net financial liabilities will fall as a percentage of gross state product in 2006-07, as shown in Table 4.6, despite the increase in net debt partially funding the State's record capital works program. Superannuation and other net financial liabilities continue to fall in line with established funding policies and high investment returns achieved in 2006-07.

Table 4.6: Net Financial Liabilities by Sector

As at 30 June	*Actual*				*Revised*
	2003	*2004*	*2005*	*2006*	*2007*
	$m	*$m*	*$m*	*$m*	*$m*
GENERAL GOVERNMENT SECTOR					
Gross Debt	12,025	12,545	13,131	13,084	13,612
Cash, Advances and Investments(a)	8,781	9,952	10,810	11,953	10,264
Net Debt(a)(b)	3,244	2,593	2,321	1,131	3,348
Unfunded Superannuation(b)(c)	13,069	12,609	12,461	17,822	16,111
Insurance Claims	5,881	6,279	6,805	6,483	6,462
Other(d)	2,964	3,302	3,099	1,484	695
Net Financial Liabilities(e)	**25,158**	**24,783**	**24,686**	**26,920**	**26,616**
% of GSP	**9.2**	**8.5**	**8.1**	**8.4**	**7.9**
PUBLIC TRADING ENTERPRISE SECTOR					
Gross Debt	13,265	13,812	14,883	16,141	17,569
Cash, Advances and Investments(a)	1,731	1,720	1,832	2,339	1,863
Net Debt(a)	11,534	12,092	13,051	13,802	15,706
Unfunded Superannuation(c)	736	391	29	428	(103)
Insurance Claims	386	398	433	446	195
Other(d)	3,879	4,362	4,527	8,403	8,586
Net Financial Liabilities	**16,535**	**17,243**	**18,040**	**23,079**	**24,384**
% of GSP	**6.0**	**5.9**	**5.9**	**7.2**	**7.2**
State Sector(f)					
Net Debt(a)(b)	14,930	14,875	15,638	15,257	19,257
Unfunded Superannuation(b)(c)	13,805	13,000	12,490	18,250	16,007
Insurance	6,267	6,722	7,276	6,961	6,713
Other Liabilities(d)	7,106	7,770	7,663	9,750	9,150
Net Financial Liabilities	**42,108**	**42,367**	**43,067**	**50,218**	**51,127**
% of GSP	**15.3**	**14.5**	**14.1**	**15.7**	**15.2**

(a) Gross amount of insurance assets is included in accordance with Australian Bureau of Statistics net debt calculation standards. Excludes General Government Liability Management Fund assets.

(b) General Government Liability Management Fund assets are excluded from net debt and offset against unfunded superannuation.

(c) Unfunded superannuation liabilities increased in 2006 due to the adoption of accounting standard AASB 119 from 2005-06 for reporting purposes.

(d) Mainly represented by employee entitlements, such as long service leave and offset by other non-equity financial assets such as receivables including tax receivable and payable.

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

(f) The state sector is the sum of the general government, public trading and public financial enterprise sectors.

Over the forward estimates period net financial liabilities for the State sector, as a percentage of gross state product, are expected to increase, reflecting higher borrowings to fund the State's record capital works program, as shown in Table 4.7 and Chart 4.7. Other net financial liabilities will fall as a percentage of gross state product, partly offsetting the increase in net debt.

Estimates of net financial liabilities as at June 2007 are significantly less than the estimates contained in last year's budget papers. For the general government sector this reflects the better than expected budget result for 2006-07, higher returns on superannuation assets (partly offset by higher than expected growth in gross liabilities) as well as an improved cash outcome in 2005-06. For the PTE sector, the improved expected outcome mirrors better operating results in 2005-06 and 2006-07.

Table 4.7: Net Financial Liabilities Estimates

As at 30 June	*Revised*	*Budget*	*Estimate*		
	2007	*2008*	*2009*	*2010*	*2011*
	$m	*$m*	*$m*	*$m*	*$m*
GENERAL GOVERNMENT SECTOR					
Gross Debt	13,612	16,256	17,926	19,430	19,980
Cash, Advances and Investments[(a)]	10,264	10,902	11,546	12,169	12,573
Net Debt[(a)]	3,348	5,354	6,380	7,261	7,407
Unfunded Superannuation	16,111	16,441	16,713	16,917	17,050
Insurance Claims	6,462	6,591	6,891	7,199	7,600
Other[(b)]	695	53	231	(390)	(391)
Net Financial Liabilities[(c)]	**26,616**	**28,439**	**30,215**	**30,987**	**31,666**
% of GSP	**7.9**	**8.0**	**8.0**	**7.8**	**7.5**
PUBLIC TRADING ENTERPRISE SECTOR					
Gross Debt	17,569	22,278	26,797	30,867	34,518
Cash, Advances and Investments[(a)]	1,863	1,493	1,409	1,450	1,508
Net Debt[(a)]	15,706	20,785	25,388	29,417	33,010
Unfunded Superannuation	(103)	(104)	(114)	(133)	(163)
Insurance Claims	195	203	210	217	225
Other[(b)]	8,586	8,656	8,681	9,214	9,310
Net Financial Liabilities	**24,384**	**29,540**	**34,165**	**38,715**	**42,382**
% of GSP	**7.2**	**8.3**	**9.1**	**9.7**	**10.1**
State Sector[(d)]					
Net Debt[(a)]	19,257	26,044	31,359	35,933	39,313
Unfunded Superannuation	16,007	16,336	16,599	16,784	16,887
Insurance	6,713	7,119	7,749	8,391	9,156
Other Liabilities[(b)]	9,150	8,593	8,804	8,720	8,819
Net Financial Liabilities	**51,127**	**58,092**	**64,511**	**69,828**	**74,175**
% of GSP	**15.2**	**16.4**	**17.2**	**17.6**	**17.6**

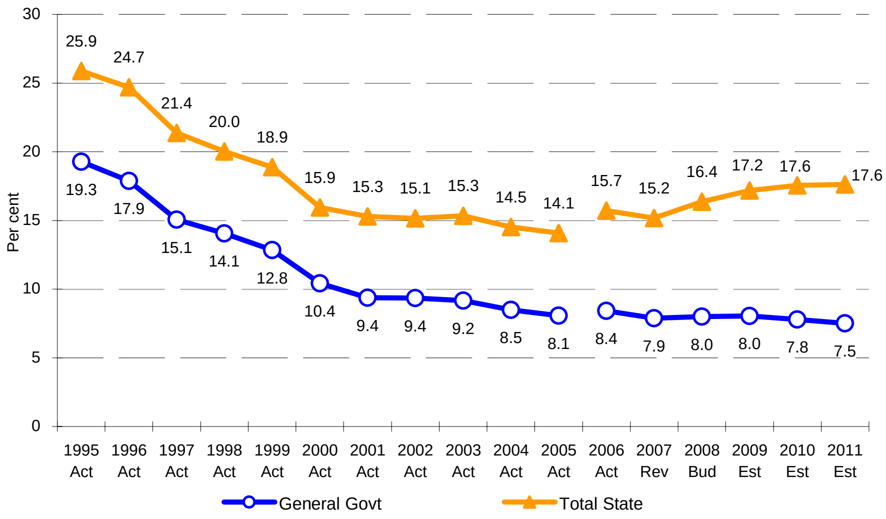
(a) *Gross amount of insurance assets is included in accordance with Australian Bureau of Statistics net debt calculation standards.*

(b) *Mainly represented by employee entitlements, such as long service leave and offset by other non-equity financial assets such as receivables including tax receivable and payable.*

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

(d) *The state sector is the sum of the general government, public trading and public financial enterprise sectors.*

Chart 4.7: Net Financial Liabilities of the General Government Sector and the Total State Sector as a Percentage of Gross State Product at June 1995 to June 2011[(a)]



(a) Series break in 2005-06 as a result of the adoption of Australian Equivalents to International Financial Reporting Standards. It has the effect of increasing the reported level of net financial liabilities.

The *Fiscal Responsibility Act 2005* provides the framework for the conduct of the New South Wales Government's fiscal policy. The Act established a medium term fiscal target to reduce the level of general government net financial liabilities as a proportion of gross state product to 7.5 per cent or less by June 2010.

As shown in Table 4.7, general government sector net financial liabilities, as a percentage of gross state product, are forecast to fall over the next four years, and meet the fiscal target by June 2011.

4.6 UNFUNDED SUPERANNUATION

Unfunded superannuation liabilities of current and former members of New South Wales public sector defined benefit superannuation schemes is comprised of the present value of future benefits that have accrued during past service (the gross liability) which are not covered by the market value of superannuation fund assets.

Unfunded liabilities can vary significantly over time and are actuarially calculated based on numerous economic and demographic assumptions, including salary growth rates, consumer price index forecasts, liability discount rates, scheme exit rates and the type of benefit taken (pension or lump sum).

Net unfunded superannuation liabilities (shown in Table 4.8) are estimated to be $16.1 billion in June 2007. They are projected to increase by an average 1.4 per cent per annum to $17.1 billion over the four years to June 2011.

The $5.4 billion increase in unfunded superannuation liabilities in 2006 is largely due to a change in accounting rules. Prior to 2006, superannuation liabilities were reported on a “funding basis” (AAS 25) which meant that liabilities were discounted by the assumed long-term investment return on superannuation assets.

With the introduction of AASB 119 *Employee Benefits* for the financial year ended 30 June 2006, liabilities are required to be shown on a “reporting basis” which requires using a discount rate equal to the actual long-term government bond rate as at 30 June. Currently, this rate is assumed to be 5.9 per cent and is 1.7 per cent less than the assumed long term investment return. This lower discount rate results in reported higher net unfunded liabilities of approximately $6.8 billion as at 30 June 2007.

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

As at 30 June	*Actual*			*Revised*	*Budget*	*Estimate*		
	2004 *$m*	*2005* *$m*	*2006* *$m*	*2007* *$m*	*2008* *$m*	*2009* *$m*	*2010* *$m*	*2011* *$m*
Liabilities (reporting basis)	33,632	34,959	44,065	45,790	47,081	48,201	48,860	49,312
Less:								
Assets	18,172	18,497	20,936	29,679	30,640	31,488	31,943	32,262
Reserves held in General Government Liability Management Fund	2,851	4,001	5,307	...	...	...	...	...
Net Unfunded Liabilities[(a)]	**12,609**	**12,461**	**17,822**	**16,111**	**16,441**	**16,713**	**16,917**	**17,050**

(a) *Includes assets and liabilities of employers and employees. Includes STC Pooled Fund schemes, Parliamentary Contributory Superannuation Scheme and Judges’ Pension Scheme. The large increase in unfunded liabilities in June 2006 is due to the adoption of AASB 119.*

The General Government Liability Management Fund was established in 2002. Crown contributions to superannuation as well as funds from other sources have been paid into the General Government Liability Management Fund and invested in fixed interest securities. The balance of the General Government Liability Management Fund, approximately $7.2 billion, will be paid to the State Super Fund before 30 June 2007.

TRIENNIAL REVIEW

The actuarial firm, Mercer Human Resource Consulting, was appointed by the SAS Trustee Corporation to undertake the triennial review of the four defined benefit schemes that make up the State Super Fund. The schemes are the State Superannuation Scheme, the State Authorities Superannuation Scheme, the Basic Benefit Scheme and the Police Superannuation Scheme.

The actuary carried out a comprehensive review of the demographic experiences over the three year period to June 2006 and the long-term economic assumptions underlying the triennial review calculations.

In summary, the review resulted in a number of changes to underlying assumptions used by the Trustee to calculate unfunded superannuation liabilities (on a funding basis) including:

- the investment return assumption on assets funding pension liabilities was increased from 7.0 per cent to 7.7 per cent reflecting their tax free status. Approximately half of the State Superannuation Fund assets fund pension liabilities;

- the weighted average liability discount rate was also increased, from 7.0 per cent to 7.3 per cent, to reflect this changed assumption; and

- higher pensioner mortality and longer deferral of retirement (both reducing liabilities) and an increased rate of disability in respect of the Police Superannuation Scheme and the increased assumed rate of employees taking pensions (both increasing liabilities).

In addition to the above, the actuary also found that over the triennium to June 2006, salary increases and superannuation fund investment returns were higher than the long-term actuarial assumptions. These were all reflected in the actuary's June 2006 liability valuation.

SUPERANNUATION FUNDING PLAN

The Government's long-term funding plan addresses State Super Scheme liabilities calculated on a funding basis, which is the basis on which trustees of State Superannuation defined benefit schemes are required to report the financial position of their schemes.

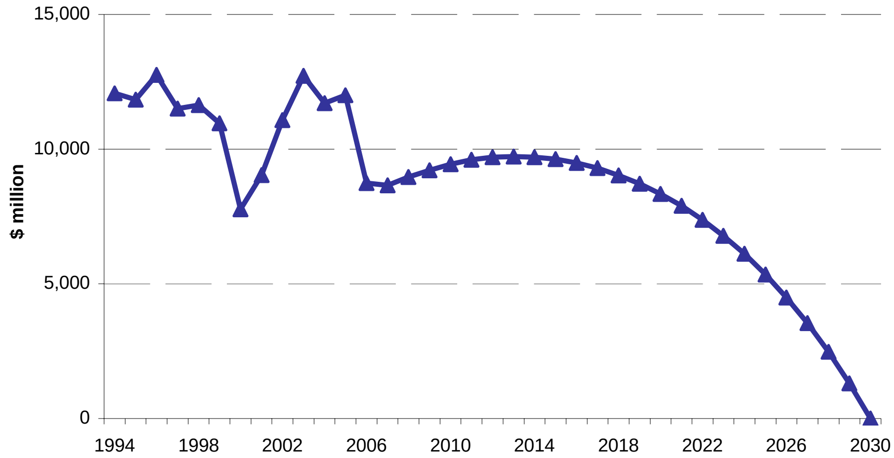
With the help of the State Super fund actuary, Mercer Human Resource Consulting, planned employer cash contributions are currently set at a level where general government sector net unfunded superannuation liabilities should peak in 2013 and will be fully funded by 2030.

The assets represented by this level of funding, plus future expected investment returns, should ensure that no further Crown employer contributions will be required because future expected investment returns will be sufficient to fund scheme benefit payments.

Chart 4.8 shows the State's long-term superannuation funding plan relating to the four defined benefit superannuation schemes that make up the State Super Fund (also know as the Pooled Fund).

The plan is calculated on a funding basis because it accurately reflects the level of liabilities that need to be funded. Based on this measure, gross liabilities as at 30 June 2007 are expected to be 77 per cent funded.

Chart 4.8: General Government Sector State Super Fund Unfunded Liabilities (Funding Basis), as at 30 June



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 actual benefit payments.

In 2006-07, the Government will transfer the balance of the General Government Liability Management Fund to the State Super Fund. The transfer of these funds will realise the Government's remaining pre-July 1988 funding credits entitlement under Commonwealth income tax legislation. As part of the 2006-07 Budget it had been assumed that contributions totalling $8.7 billion would be made in 2006-07. Following changes in Commonwealth tax legislation this contribution was revised down to $7.2 billion.

Table 4.9 demonstrates the financial benefits of the Government policy of moving to full funding of superannuation liabilities. From 2007-08 onwards, general government cash contributions to the State Super Fund are significantly below actual benefits paid to members. If the Government had adopted a "pay-as-you-go" approach, contributions would have had to equal benefits paid.

Table 4.9: Total State Sector Contributions into the State Super Fund compared to Forecast Benefits Payments

	Revised	*Budget*	*Estimate*			
	2006-07 $m	*2007-08 $m*	*2008-09 $m*	*2009-10 $m*	*2010-11 $m*	*4 year Total $m*
Benefit Payments	2,290	2,488	2,673	3,118	3,275	11,554
Contributions[(a)]	7,176	902	925	948	971	3,746
Cash Saving	(4,886)	1,586	1,748	2,170	2,304	7,808

(a) Includes Crown contributions into the General Government Liability Management Fund which will be transferred into the Pooled Fund during 2006-07.

An important factor in funding superannuation liabilities is the investment return earned on State Superannuation fund assets. It not only affects fund assets but it also has a significant impact on liabilities. As mentioned earlier, the discount rate used to calculate liabilities on a funding basis is equal to the assumed long term superannuation fund earning rate.

4.7 INSURANCE

SELF INSURANCE

Self insurance liabilities arise primarily from the operations 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 WorkCover 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 thereby maximise resources available to support their core business activities. The TMF provides incentive "hindsight adjustments" to member agency premiums to encourage best management practices.

Table 4.10: General Government Insurance Estimates

	Actual	*Revised*	*Budget*	*Estimate*		
	2005-06 $m	*2006-07 $m*	*2007-08 $m*	*2008-09 $m*	*2009-10 $m*	*2010-11 $m*
Outstanding Claim Liabilities						
Treasury Managed Fund	4,212	4,001	4,296	4,646	4,995	5,432
Dust Diseases	1,551	1,569	1,583	1,593	1,600	1,604
WorkCover Authority[(a)]	224	229	129	127	126	127
Managed closed schemes[(b)]	264	253	238	234	231	229
HIH	177	138	98	68	43	23
Crown Finance Entity[(c)]	...	217	192	168	149	130
Police & Fire Death and Disability Schemes	51	51	51	51	51	51
Other (self funded schemes)[(d)]	4	4	4	4	4	4
	6,483	6,462	6,591	6,891	7,199	7,600
Assets[(e)]						
Treasury Managed Fund[(f)]	5,162	4,925	5,054	5,471	5,912	6,359
Dust Diseases	1,551	1,569	1,583	1,593	1,600	1,604
WorkCover Authority	355	342	237	230	224	217
Managed closed schemes	266	260	248	242	237	235
Police & Fire Death and Disability Schemes	23	38	45	53	61	69
Other (self funded schemes)	4	4	4	4	4	4
	7,361	7,138	7,171	7,593	8,038	8,488
Assets as proportion of claim liabilities (%)	**114**	**110**	**109**	**110**	**112**	**112**

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

(b) Closed schemes include the Transport Accident Compensation Fund, Government Workers Fund and the Pre Managed Fund Reserve

(c) The workers compensation insurance liabilities of the State Rail Authority assumed by the Crown Finance Entity

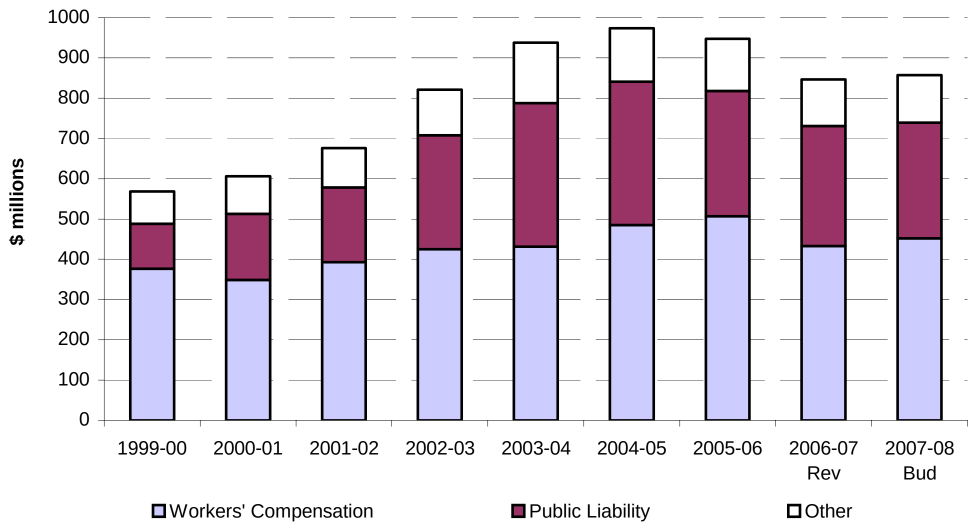
(d) Waterways Authority has a closed fund of the workers compensation liabilities of the former Maritime Services Board incurred between 1989 and 1995

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

(f) TMF financial assets after forecast transfer of surplus reserves.

The TMF target premium for 2007-08 is $857.3 million which is 1.3 per cent higher than for 2006-07. Major variations arise from workers compensation premiums (up 4.3 per cent or $18.6 million) and public liability premiums (down 3.4 per cent or $10.2 million). Chart 4.9 shows the major components of TMF premium revenue.

Chart 4.9: Total TMF Premiums by Line of Business



The small rise in total target premiums in 2007-08 follows two consecutive years of significant premium reductions. For public liability, this is the fourth year that premiums have been reduced. The 3.4 per cent fall in 2007-08 will follow a 4.2 per cent fall in 2006-07, a 12.6 per cent fall in 2005-06 and a 0.2 per cent fall in 2004-05. These results are in large part due to favourable impacts of the Government's tort reform legislation.

Since 1 July 2005, workers compensation claims management of the TMF has been distributed between three claims managers, Employers Mutual Limited, Allianz Insurance Limited and GIO General Limited. The claims management for all other general insurances is provided by GIO.

There are also separate long term contracts for risk management (Suncorp), reinsurance (Benfield) and actuarial services (PricewaterhouseCoopers and Taylor Fry).

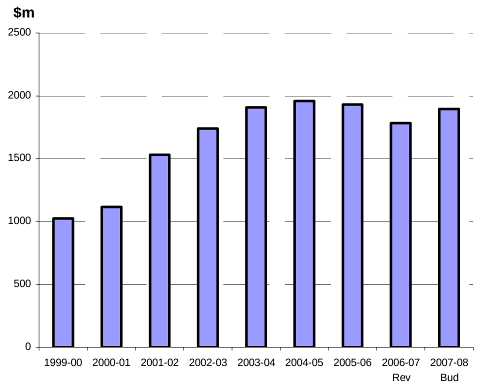
This new claims management model allows for more active in-house management and effectively reduces the systemic risk associated with a single provider. This in turn provides a more competitive environment.

From 1 July 2007, the State Rail Authority will be wound up with its outstanding workers compensation insurance liabilities becoming the responsibility of the Crown Finance Entity. Allianz Insurance Australia has been appointed the claims management provider.

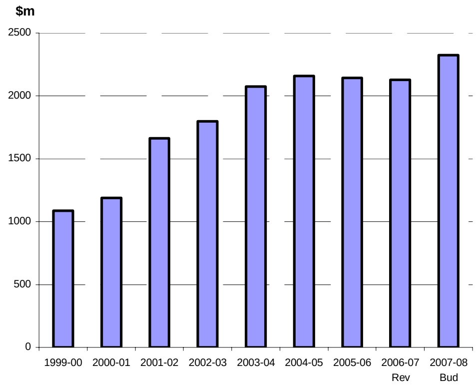
The TMF actuary has projected a small increase in workers compensation liabilities in 2007-08 but overall the trend over the last five years has been stable as shown in Chart 4.10. Public liability actuarial forecasts for 2007-08 reflect expected resumption of claims growth.

Chart 4.10: TMF Outstanding Claims Liabilities

Workers Compensation



Public Liability



Moderate growth in liabilities under the Dust Diseases Scheme is expected over the forward estimates period. These liabilities are fully offset by an asset receivable which recognises the Dust Diseases Board's legislative power to adjust employer premiums in order to fund future claims.

Other insurance liabilities are expected to fall reflecting the closed nature of these schemes.

INSURANCE RESERVE POLICY

In March 2006, Treasury established an Insurance Reserve Policy that dictates an appropriate level of reserves for the TMF. This policy sets TMF's reserve at 10 per cent above outstanding claims liabilities, plus the amount of reinsurance retention that the fund would retain for a single loss. The surplus is reviewed based on the financial results as at 31 December each year.

Following the review of the fund as at 31 December 2006, a surplus above the insurance reserve requirement was identified. The net surplus assets position allowed for a transfer of $910 million to the Consolidated Fund. This follows an injection of $1 billion to the General Government Liability Management Fund in the previous year.

Based on current net asset forecasts and investment returns, a further transfer to the Consolidated Fund of surplus funds in 2007-08 of $200 million is projected.

COMMUNITY AND OTHER INSURANCE ISSUES

HIH Liquidation

In order to maintain the community's confidence in the insurance industry, the NSW Government assumed in excess of $700 million in claims liabilities since the collapse of the HIH/FAI Insurance Group in 2001.

The Government assumed liability for the outstanding compulsory third party motor vehicle policies in force with HIH prior to 31 December 2000, and home warranty insurance policies in force with HIH prior to 15 March 2001.

The assumption of HIH liabilities by the Government ensures that persons injured in a motor vehicle accident and persons with home warranty claims against HIH can seek recourse for compensation in respect of their injuries and losses.

Outstanding HIH liabilities are expected to reduce to $138 million by 30 June 2007 with payments made to policyholders and those entitled to third party compensation estimated to be approximately $52 million.

During 2006-07, the Government received $94 million from the HIH liquidators. A further $20 million is expected in 2007-08.

The HIH collapse also had an adverse impact on a number of local councils insured with HIH. The NSW Government negotiated with the Commonwealth to provide financial assistance to local councils which had judgements against them that would have been met by HIH policies.

The NSW Government has provided assistance to Evans Shire Council, Balranald Shire Council, Ballina Shire Council, Berrigan Shire Council, Copmanhurst Shire Council, Clarence Valley Council and Nundle Shire Council. By 30 June 2007, the NSW Government will have paid $12 million to local councils who suffered financial difficulty meeting HIH debts.

Public Liability Insurance Availability

Following the NSW Government's tort law reform that saw the implementation of the *Civil Liability Act 2002*, the *Civil Liability Amendment (Personal Responsibility) Act 2002* and the *Civil Liability Amendment Act 2003*, the insurance industry continues to display signs of recovery with both the affordability and availability of public liability insurance continuing to improve.

Long Term Care

The *Motor Accidents (Lifetime Care and Support) Act 2006* established a scheme for people who suffer catastrophic injuries resulting from motor vehicle accidents. The Act extends the NSW Compulsory Third Party (CTP) scheme to provide lifetime care and support for persons who are catastrophically injured. The scheme replaces lump sum damages awards for medical treatment and care on a 'no-fault' basis. That is, a person will not be required to prove negligence in order to be eligible for the scheme. It guarantees lifetime support and care regardless of who is at fault, and removes the financial burden on victims' families and communities.

The scheme began for children under the age of 16 years injured in motor accidents from 1 October 2006 and will cover adults from 1 October 2007. It is managed by the Motor Accidents Authority which is funded by an average $65 levy on NSW CTP premiums.

4.8 OTHER NET FINANCIAL LIABILITIES

Other net financial liabilities of the general government sector are estimated to be $53 million at June 2008. The principal components are employee entitlements and other liabilities mainly comprising accounts payable offset by other financial assets such as accounts receivable, prepayments and net equity assets. General government long service leave liabilities are estimated to be $4.7 billion and annual leave liabilities are estimated to be $1.6 billion at June 2008.

At the State level, other net financial liabilities are projected to reduce to $8.6 billion in June 2008. This level is higher than for the general government sector due to the inclusion of public trading enterprise and public financial enterprise accounts payables and receivables, and the elimination, in accordance with Australian Equivalents to International Financial Reporting Standards, of general government assets associated with deferred income tax receivables from the public trading enterprise sector.

Table 4.11: Other Net Financial Liabilities Estimates

As at 30 June	Actual	Revised	Budget	Estimate		
	2006 $m	2007 $m	2008 $m	2009 $m	2010 $m	2011 $m
General Government Sector						
Annual Leave	1,440	1,529	1,632	1,646	1,615	1,620
Long Service Leave	4,433	4,585	4,718	4,787	4,860	4,926
Other Liabilities	6,673	6,159	5,545	5,281	5,054	4,985
	12,546	12,273	11,895	11,714	11,529	11,531
Other Financial Assets[(a)]	11,062	11,578	11,842	11,483	11,919	11,922
Total	**1,484**	**695**	**53**	**231**	**(390)**	**(391)**
Public Trading Enterprise						
Annual Leave	358	368	379	389	399	410
Long Service Leave	920	926	933	963	995	1,031
Other Liabilities	10,048	10,157	10,205	10,275	10,954	11,111
	11,326	11,451	11,517	11,627	12,348	12,552
Other Financial Assets[(a)]	2,923	2,865	2,861	2,946	3,134	3,242
Total	**8,403**	**8,586**	**8,656**	**8,681**	**9,214**	**9,310**
State Sector						
Annual Leave	1,798	1,897	2,011	2,035	2,014	2,031
Long Service Leave	5,353	5,512	5,652	5,751	5,856	5,958
Other Liabilities	9,952	9,671	8,960	8,746	8,759	8,792
	17,103	17,080	16,623	16,532	16,629	16,781
Other Financial Assets[(a)]	7,353	7,930	8,030	7,728	7,909	7,962
Total	**9,750**	**9,150**	**8,593**	**8,804**	**8,720**	**8,819**

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

4.9 NET WORTH

State sector net worth is forecast to increase by $12.6 billion between June 2007 and June 2011. Also, over the forward estimates period the value of physical assets is expected to increase by $35 billion.

Table 4.12: State Sector Net Worth

As at 30 June	Actual 2006 $m	Revised 2007 $m	Budget 2008 $m	Estimate 2009 $m	2010 $m	2011 $m
Assets						
Non-Financial Assets						
Land and Buildings[(a)]	86,042	88,544	90,684	92,583	94,476	96,341
Plant and Equipment	10,199	10,446	10,882	11,039	11,275	11,634
Infrastructure Systems	76,053	80,291	86,388	92,833	100,598	106,288
Inventories & Other	3,788	3,943	4,085	4,152	4,089	4,039
Other Non-Financial Assets	1,757	1,909	2,057	2,170	2,328	2,496
Total Non-Financial Assets	**177,839**	**185,133**	**194,096**	**202,777**	**212,765**	**220,798**
Financial Assets						
Cash and Deposits	4,328	3,614	3,992	3,987	4,076	3,908
Advances paid	245	312	360	428	474	289
Investments, Loans & Placements[(b)]	17,002	10,241	10,374	11,177	12,191	13,405
Other Non-Equity Assets	5,823	6,315	6,276	5,829	5,931	5,911
Equity Assets	1,530	1,615	1,754	1,899	1,978	2,051
Total Financial Assets	**28,928**	**22,097**	**22,756**	**23,320**	**24,650**	**25,564**
TOTAL ASSETS	**206,767**	**207,230**	**216,852**	**226,097**	**237,415**	**246,362**
Liabilities						
Deposits Held	1,214	1,246	1,256	1,242	1,264	1,260
Advances Received	923	893	865	837	816	797
Borrowing	29,387	31,285	38,649	44,872	50,594	54,858
Superannuation[(b)]	23,557	16,007	16,336	16,599	16,784	16,887
Other Employee Entitlements	15,558	15,622	16,181	16,980	17,737	18,656
Other Non-Equity Liabilities	8,507	8,171	7,561	7,301	7,283	7,281
TOTAL LIABILITIES	**79,146**	**73,224**	**80,848**	**87,831**	**94,478**	**99,739**
NET WORTH	**127,621**	**134,006**	**136,004**	**138,267**	**142,937**	**146,623**

(a) *Excludes RTA land under roads.*

(b) *Decrease between 2006 and 2007 is due to the transfer of $7.2 billion of investments to State Superannuation to fund superannuation liabilities.*

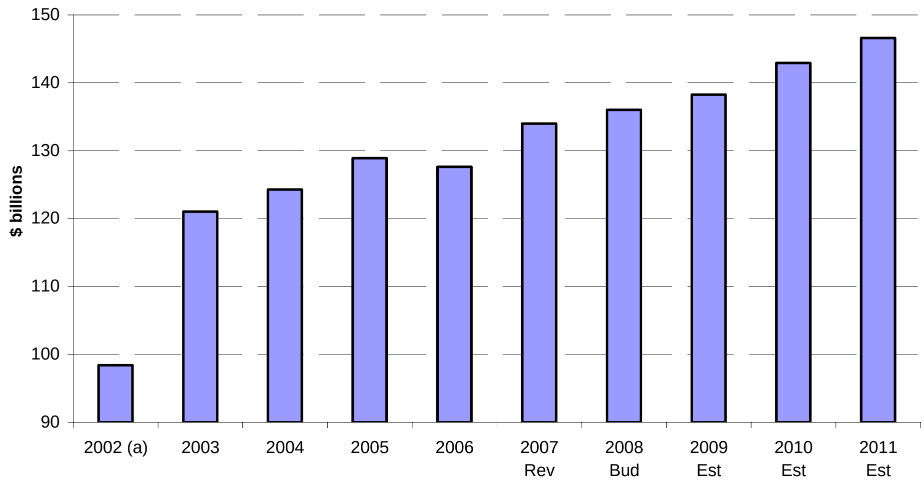
State sector net worth is expected to increase by $2.0 billion in 2007-08. Non-financial assets are expected to increase by $9.0 billion from $185.1 billion to $194.1 billion. Gross borrowings are expected to increase by $7.4 billion.

Over the four year period to June 2011, State sector net worth is expected to increase by $12.6 billion. Non-financial assets are expected to increase by $35.7 billion while gross borrowings will increase by $23.6 billion.

In the four years to 30 June 2011, capital expenditure is expected to total $49.6 billion compared to $31.8 billion in the four years to 30 June 2007, an increase of 55.8 per cent.

Chart 4.11 shows that the net worth of New South Wales is projected to increase by approximately $48.2 billion between 30 June 2002 and 30 June 2011.

Chart 4.11: Total State Sector Net Worth, as at 30 June



(a) *The significant increase between 2002 and 2003 is due to net valuation increments of $15.3 billion for land and buildings and infrastructure systems. The increase is also caused by rail infrastructure asset write backs of $7.8 billion as a result of a change in accounting policy on adoption of AASB 1041 Revaluation of Non-Current Assets.*

In 2007-08, the State will spend a record $12.5 billion on capital works - a 28.8 per cent increase compared with forecast expenditure of $9.7 billion in 2006-07.

Capital expenditure in the general government sector in 2007-08 will total $4.9 billion supporting public services such as health, education, roads and public order and safety. NSW general government sector capital expenditure will increase by 23.3 per cent to $18.4 billion over the four years to 2010-11, relative to the prior four years.

The balance of the 2007-08 capital expenditure program, over $7.6 billion, will be expended by public trading enterprises, and provide major economic infrastructure in water, electricity, ports, public housing and public transport. Capital expenditure by the public trading enterprise sector is expected to increase by 84.5 per cent over the four years to 2010-11, relative to the prior four years, representing an increase of $14.3 billion. Public trading enterprise capital expenditure is lumpy in nature, and is currently experiencing a period of rapid growth and renewal. Current forecasts see capital expenditure increasing to 2010-11.

In aggregate, net debt of the total State sector will rise by $20 billion over the next four years, primarily reflecting the timing of high levels of infrastructure spending by public utilities.

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

4.10 FINANCIAL ASSET MANAGEMENT

THE ROLE OF ASSETS IN FINANCIAL MANAGEMENT

The State accumulates financial assets in order to meet employee superannuation and the Government's insurance liability costs as they fall due rather than place an undue burden on future generations.

There are two major asset portfolios being the State Superannuation Fund (State Super) and the Treasury Managed Fund (TMF). Recent portfolio investment returns have been high as shown in Table 4.13. Forward budget estimates assume investment returns will return to long term trend levels of 7.6 per cent for State Super and 7.0 per cent for the TMF. The higher return for State Super reflects a greater weighting in growth assets in line with the longer term nature of liabilities.

The Government manages the level of its financial assets with a view to achieving the key fiscal targets in the *Fiscal Responsibility Act 2005*, namely reducing the general government sector's net financial liabilities to 6 per cent of gross state product by 2015, and eliminating total State sector unfunded superannuation liabilities by June 2030.

Table 4.13: Average Investment Returns

to 30 June 2007	*State Super* %	*TMF* %
Average 2 Years	14.4	10.1
Average 3 Years	14.1	10.0
Average 5 Years	6.3	7.0

INVESTMENT INCOME

The forecast for investment income from the portfolio financial assets is shown in Table 4.14.

Table 4.14: Forecast Investment Income

	Budget	Revised	Budget	Estimate		
	2006-07 $m	2006-07 $m	2007-08 $m	2008-09 $m	2009-10 $m	2010-11 $m
State Super	1,783	3,190	2,207	2,273	2,321	2,349
TMF	391	589	355	380	407	434

In accordance with International Accounting Standard AASB 119 *Employee Benefits*, State Super investment income is offset against superannuation expenses in the budget estimates. Further, the Standard requires the use of a constant investment return rate irrespective of actual investment returns during the year. Therefore, recent higher than budgeted investment returns on superannuation assets impact the budget results through an assumed return on higher asset balances during the forward estimates period.

In 2006-07 earnings on State Super investments are higher than budgeted reflecting returns on equities expected this financial year. In 2007-08, State Super investment income will be impacted by the transfer of $7.2 billion from the General Government Liability Management Fund during 2006-07.

Forecast 2007-08 TMF income declines due to lower assumed investment returns and the impact of the transfer of $910 million in surplus funds to the Consolidated Fund in 2006-07.

PORTFOLIO MANAGEMENT

As a result of a significant reduction in insurance claim expenses and strong investment returns in recent years, the TMF remains fully funded. The TMF financial asset portfolio is expected to approximate $4.9 billion as at 30 June 2007 after allowing for the NSW Self Insurance Corporation (SICorp) surplus above reserves, and the consequent transfer of $910 million to the Consolidated Fund.

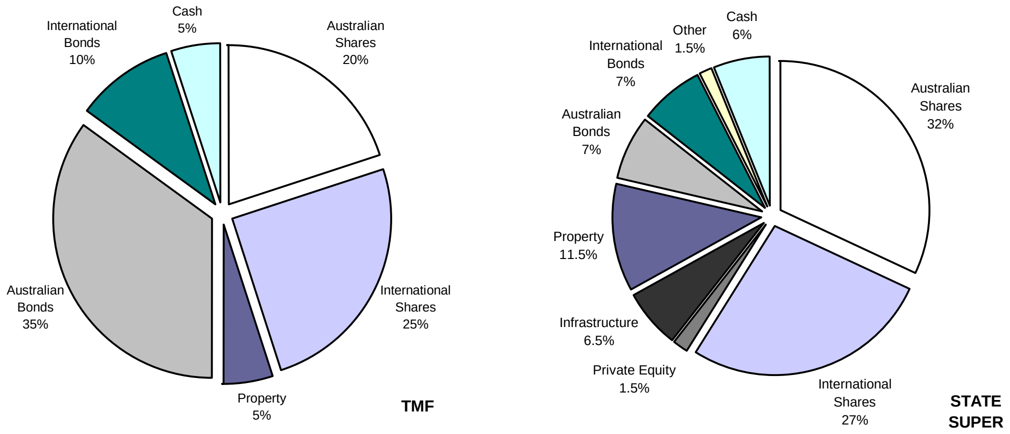
Growth assets, equities and property currently represent about 48 per cent of investments in TMF on average, with the remainder in bonds and a small cash allocation. The investments are held by the NSW Treasury Corporation (TCorp) in its TCorp HourGlass facilities or directly in a managed bond portfolio. A memorandum of understanding between TCorp and Treasury details investment policies and procedures and sets benchmarks for each asset class.

By 31 December 2007, growth assets will approximate 50 per cent of the portfolio. Investment performance is monitored by the Crown Entity Asset Management Committee, which co-ordinates the management of large amounts of funds held centrally by the State. The Committee has representatives from both Treasury and TCorp.

State Super assets are managed by an independent trustee, SAS Trustee Corporation. Given the long term nature of the liabilities, a growth strategy has been adopted.

The strategic asset allocation of the TMF and State Super is shown in Chart 4.12.

Chart 4.12: Strategic Asset Allocation



4.11 FINANCIAL RISK MANAGEMENT

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

INSURANCE MANAGEMENT

TMF agencies have no exposure to reinsurance failure and are not affected by exclusions to reinsurance or gaps in the cover reinsurers provide (e.g. terrorism). The TMF purchases a comprehensive reinsurance program to protect its exposure to catastrophic events. For property, $3 billion cover is placed for any one loss in excess of a self insured retention of $20 million while $500 million liability cover is in place for a loss in excess of $25 million. Separate covers are also in place in regard to Workers Compensation, Fine Arts and the risk of Terrorism.

In accordance with the new multiple provider model, SICorp recognised the need to have a single repository for all relevant information. As a result, the TMF data warehouse was established.

With the establishment of the data warehouse, SICorp, in consultation with risk manager provider Suncorp, is able to provide analysis and identify areas of risk within an agency or particular lines of business and design risk management strategies that target areas of high or increasing risk.

The Treasury Managed Fund Advisory Board also assists in assessing the responsiveness of agencies to the risk management philosophy of the fund. The Board is representative of the broad spectrum of agencies participating in the Fund and includes representatives from seven agencies as well as a representative of the Public Sector Risk Management Association and Treasury. Members are generally from the finance area or occupational health and safety area of their agencies.

The Board's role includes recommending the allocation of TMF risk management resources, monitoring the performance of sponsored projects and assisting with the monitoring of fund managers' performance in accordance with contract undertakings and service level agreements.

Debt Management

The Crown debt portfolio comprises core, strategic and tactical portfolios. TCorp, as debt manager, adopts a passive approach except for the tactical portfolio where an active management style aims to add value relative to a benchmark portfolio. 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.

The memorandum of understanding between Treasury and TCorp governs the management of the portfolios. It includes 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.

Treasury and TCorp have recently appointed a consultant to conduct a debt management assignment to review the current benchmarks, the debt management processes and the risk and performance reporting.

Superannuation Management

The unfunded superannuation liability for the defined benefit schemes is the difference at balance date between the present value of forecast employees' accrued benefits and the estimated net market value of the superannuation schemes' assets.

Each year, an actuary assesses the liability using data maintained by Pillar Administration (the contracted scheme administrator) for the SAS Trustee Corporation, and the most recent Triennial Review actuarial economic assumptions.

In calculating the liability, forecasts are made for:

- expected future wage and salary levels;
- expected future investment earning rates;
- consumer price index (CPI) growth rate;
- experience of employee departures; and
- periods of service.

The Crown employer contributions to defined benefit superannuation schemes have previously being invested through the General Government Liability Management Fund. The balance of the General Government Liability Management Fund will be paid to the State Super fund in 2006-07 to ensure appropriate fund liquidity is maintained. From 2007-08 onwards, annual Crown employer contributions will be made direct to State Super.

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 and its PAFA risk management advisor, Deloitte, review the risk management policies and procedures of selected agencies based on an assessment of their risk levels. High risk agencies are reviewed annually and medium risk agencies every two years, whilst for low risk agencies reliance is placed on Audit Office annual audits.

The number of PAFA risk reviews expected to be undertaken by Deloitte and Treasury, in 2007-08, are shown in the following table.

Table 4.15: PAFA Risk Review Program: Number of Reviews

Reviewed by	*2006-07*	*2007-08*
Deloitte:		
Mainly public trading enterprises and public financial corporations	33	35
Treasury:		
Mostly general government agencies	30	32

The PAFA Act has been updated on an incremental basis since 1987 to reflect particular changes in financial risk management.

An amendment of the Act to update, simplify and strengthen the regulatory framework is currently being prepared. The objective of the proposed amendments is to enhance the prudential measures of the New South Wales public sector and to provide an updated and flexible legislative framework.

CHAPTER 5: PUBLIC TRADING ENTERPRISE SECTOR

- The public trading enterprise (PTE) sector consists of businesses operating in a diverse range of industries, including electricity, water and sewerage, transport, public housing, ports, property, forestry and waste services.
- Commercial PTEs (e.g, electricity, water and ports) are profitable and provide a return on the assets invested on behalf of the community. Non-commercial PTEs (e.g. transport and public housing) provide important social services and are supported by the Budget through the provision of grants and subsidies.
- Total assets of commercial PTEs are estimated to increase from $52.9 billion in 2007-08 to $65.6 billion in 2010-11. For non-commercial PTEs, the asset base is estimated to increase from $48.9 billion in 2007-08 to $55.4 billion in 2010-11.
- Earnings in the PTE sector are projected to grow strongly over the forward estimates period, with the net operating surplus before interest, tax, depreciation, dividends and amortisation growing at an average 17.4 per cent per annum from 2007-08 to 2010-11, reaching $8.2 billion by 2010-11. The earnings growth primarily reflects increased budget grants to fund capital expenditure in the rail sector and expected higher revenues in water and electricity to meet increased depreciation and interest expenses associated with record capital expenditure.
- Cash flows from operations are also expected to grow strongly, from $3.5 billion in 2007-08 to $6.1 billion in 2010-11, a growth rate of 20.4 per cent per annum. This increase reflects the higher budget grants to the rail sector and the expected revenue increases in water and electricity.
- Reflecting the increased profitability of the commercial PTEs and against a record investment of $21.5 billion over the forward estimates period, dividends and tax equivalent payments to the State Budget are estimated to increase from $1.8 billion in 2007-08 to $2.1 billion in 2010-11.
- The PTE sector represents more than half of the total State sector's infrastructure program, and continues to be in a very strong capital investment phase. Capital expenditure is expected to increase from $5.5 billion in 2006-07 to $7.6 billion in 2007-08 and reach $8 billion by 2010-11. In total, expenditure of about $31 billion is expected over the next four years, up from $17 billion over the four years to 2006-07. The substantial increase is driven primarily by the planned upgrading of Sydney's rail system, securing future water supplies in the greater metropolitan region, growth in demand for electricity and ensuring continued electricity network reliability.
- Net debt grows significantly over the forward estimates period, as a result of the increased capital expenditure. However, gearing remains at prudent levels, reaching 43.1 per cent for commercial PTEs by 2010-11.

5.1 INTRODUCTION

The public trading enterprise (PTE) sector is comprised of businesses operating in a diverse range of industries. This sector includes commercial businesses (e.g. electricity, water, waste services and ports) that are profitable and provide a return on the assets invested on behalf of the community. The sector also includes non-commercial businesses that address important social policy objectives (e.g. public transport and housing). Non-commercial PTEs receive budget support through grants and subsidies, but they differ from general government budget dependent agencies in that they have significant other independent sources of income (e.g. fare revenue).

The efficiency of PTEs and their ability to meet defined service delivery objectives have a major impact on the NSW economy and community well-being.

5.2 OVERALL PERFORMANCE OF THE SECTOR

THE COMMERCIAL POLICY FRAMEWORK

PTEs are not subject to debt and equity market monitoring in the same manner as private sector businesses. They are, however, subject to the Government's *Commercial Policy Framework*, which was introduced in the early 1990s. The framework attempts to replicate private sector disciplines and incentives that promote efficient commercial practice. This framework applies to all PTEs including State owned corporations which are governed by the *State Owned Corporations Act 1989*. Under the *Commercial Policy Framework*, PTEs are expected to enhance the wealth of NSW citizens through efficient resource allocation and effective financial management.

The *Commercial Policy Framework* has contributed to improved financial performance in the PTE sector. The book value of the government's equity investment in the PTE sector has grown from $48.1 billion in 2001-02 to an estimated $67.9 billion in 2007-08. Over the same period the return on assets achieved by the electricity and water businesses has increased from 6 per cent to an estimated 6.9 per cent.

Since the introduction of the framework PTEs, after funding their own operational and capital expenditure requirements, have provided significant dividend, tax equivalent and government guarantee fee payments to help fund general government sector services such as health, education and law and order.

Under the *Financial Distribution Policy for Government Businesses*, commercial businesses are expected to make dividend payments from available residual cash after allowing for working capital, funding of investments, and providing an appropriate contingency for financial flexibility, while maintaining a level of gearing consistent with industry norms. Tax equivalent and government guarantee fee payments replicate normal private sector business costs and place commercial PTEs on a level playing field with the private sector.

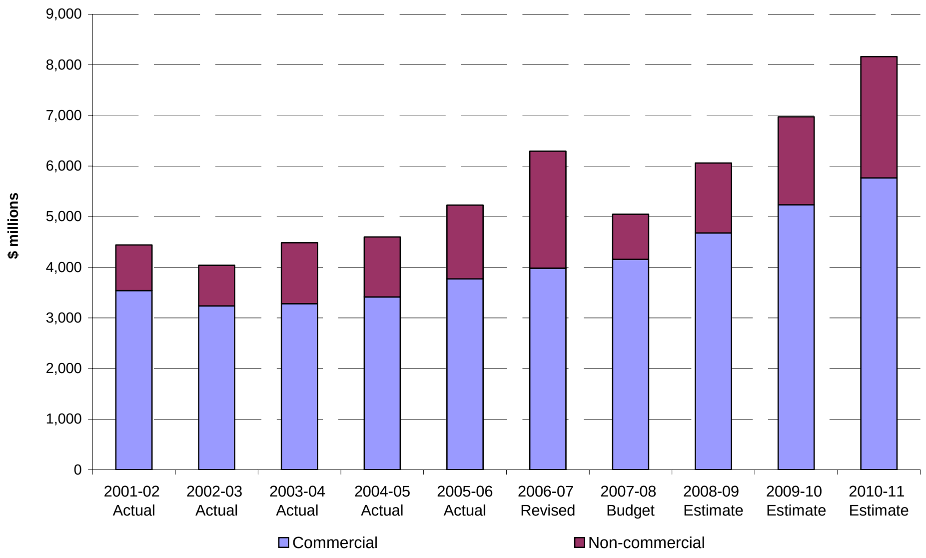
The *Capital Structure Policy for Government Businesses* outlines how commercial PTEs are to be financed by a commercially prudent debt and equity mix. This policy sets the general requirement for government businesses to retain an investment grade credit rating and provide an appropriate stream of dividends. Under this policy, borrowings can move within an approved range, recognising the lumpy nature of capital expenditure.

The Government continues to refine the *Commercial Policy Framework* and seeks efficiencies in PTE operations to improve overall returns for the community from its investment.

OPERATING PERFORMANCE

Under the accrual government finance statistics (GFS) framework, a good measure of PTE sector financial performance is the net operating surplus before interest, tax, depreciation, dividends and amortisation (termed *adjusted net operating surplus*). This measure is equivalent to earnings before interest, tax, depreciation and amortisation (EBITDA) commonly used in the private sector. Chart 5.1 shows the adjusted net operating surplus for the PTE sector in the period 2001-02 to 2010-11.

Chart 5.1: Adjusted Net Operating Surplus, 2001-02 to 2010-11



In 2006-07, the adjusted net operating surplus is inflated by a payment of $960 million to the rail sector to retire debt. The resultant reduction in interest expense will reduce future operating subsidies to the rail sector. However, capital grants to the rail sector are expected to increase over the forward estimates period, as discussed below.

The adjusted net operating surplus in the PTE sector is projected to grow strongly at an average 17.4 per cent per annum from 2007-08 to 2010-11. This growth reflects higher grants from the State Budget to fund capital works in the rail sector (capital grants are recorded as revenues in PTEs). Growth in the adjusted net operating surplus also stems from the expected recovery of capital expenditure in the water and electricity sectors through IPART pricing determinations.

The adjusted net operating surplus of the transport sector is forecast to increase from $582 million in 2007-08 to $2 billion in 2010-11, driven by the increased budget grants. The underlying trend (i.e. excluding capital grant revenues) shows expenses growing faster than fare revenue. CityRail's fare revenue as a proportion of operating expenses (excluding depreciation) has fallen from 30 per cent in 2001-02 to an estimated 23 per cent in 2007-08.

The adjusted net operating surplus of the water sector is expected to increase at an average 21.1 per cent per annum between 2007-08 and 2010-11. This increase reflects the expectation that IPART's next pricing determination will result in higher revenue to meet increased depreciation and interest expenses associated with higher capital expenditure required to secure future water supplies.

The adjusted net operating surplus of the electricity sector is expected to increase by 3.1 per cent per annum over the same period. This growth can be largely attributed to:

- earnings growth from the regulated electricity distribution and transmission sectors, expected to be endorsed by the Australian Energy Regulator, to recover increased capital expenditure requirements;
- forecast electricity demand growth; and
- retail electricity prices expected in IPART's 2007 determination.

The adjusted net operating surplus of the housing sector is forecast to increase by 10.1 per cent per annum across the forward estimates period from $309 million in 2007-08 to $412 million in 2010-11. This growth largely reflects higher budget grants as part of the *Reshaping Public Housing* reforms announced in 2005.

Strong PTE sector earnings growth is reflected in:

- return on total assets[1] (excluding housing and transport) improving from 5.3 per cent in 2007-08 to 6.0 per cent in 2010-11; and
- tax and dividend payments to the State Budget increasing from $1.8 billion in 2007-08 to $2.1 billion in 2010-11.

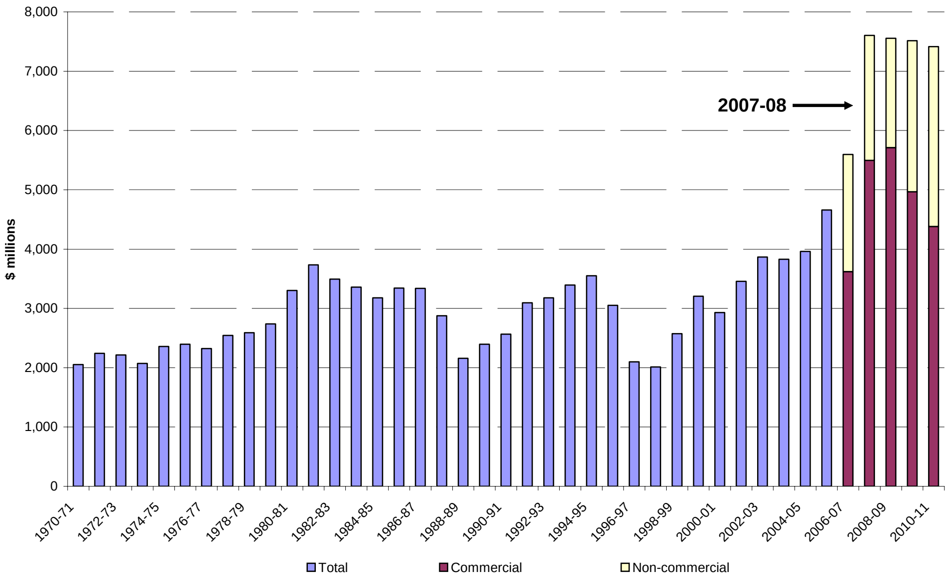
CAPITAL EXPENDITURE

Trends in Capital Expenditure

The PTE sector is a major provider of State infrastructure, accounting for more than half of the total State sector's capital expenditure over the next few years. Total PTE capital expenditure tends to be cyclical due to the lumpy nature of infrastructure investments. The capital program grew significantly in the early 1980s reflecting growth in electricity generation and transmission, rail and ports infrastructure. It peaked again in the mid 1990s, driven by increased expenditure in transport and housing. Chart 5.2 shows the cyclical nature of the program, after removing the effect of inflation.

[1] *net operating surplus before interest and taxes divided by total assets*

Chart 5.2: PTE Sector Capital Expenditure, 1970-71 to 2010-11, in real 2007-08 dollars[(a)]



(a) Figures converted to real dollars using the NSW State & Local Public Gross Fixed Capital Formation Deflator, provided by the Australian Bureau of Statistics.

The PTE sector is currently in a period of record capital expenditure levels, with expenditure anticipated to remain at high levels over the forward estimates period. Investment in water, electricity, transport and ports infrastructure are the main contributors to the significant ramping up in PTE capital expenditure.

Capital Expenditure in the Forward Estimates Period

In *nominal* terms, PTE capital expenditure is expected to grow by 39.3 per cent in 2007-08 to $7.6 billion, compared with $5.5 billion in 2006-07. Expenditure continues to grow over the forward estimates period, reaching $8 billion by 2010-11.

Capital expenditure in the electricity sector is expected to grow by 24.2 per cent in 2007-08 from $2.3 billion to $2.9 billion. Expenditure is expected to peak in 2008-09 at $3.2 billion, then decrease in the following two years. The main focus of this capital expenditure is expanding and upgrading the high voltage and distribution networks in order to meet demand growth and enhance continued reliability and security in electricity supply across the State by meeting new reliability standards.

Investment in the water sector is expected to increase significantly over the coming years. Capital expenditure is expected to rise in 2007-08 by 129 per cent from $938 million to $2.2 billion, falling to $1.6 billion by 2010-11. The main drivers behind the capital spending increase include recycling projects and urban growth in Sydney, the Kurnell desalination plant, and the new Tillegra dam in the Hunter region.

Rail investments, including the Rail Clearways Program, new rollingstock purchases and the planned expansion of the Sydney network substantially boost capital spending plans in the transport sector from $1.5 billion in 2007-08 to $2.5 billion by 2010-11.

Capital expenditure by Sydney Ports Corporation on the Port Botany expansion is the major contributor to the substantial increase in capital expenditure in the ports sector from $191 million in 2007-08 to its peak of $378 million in 2009-10.

Investment in the housing sector increases by 7.6 per cent in 2007-08 to $613 million, and then peaks at $681 million in 2009-10. The increase is a result of the Department of Housing's State-wide, long term plan to reconfigure public housing assets to address changing demographics and smaller sized family units.

Table 5.1: PTE Capital Expenditure by Sector

	Revised	*Budget*	*Forward Estimate*			
Sector [(a)]	*2006-07 $m*	*2007-08 $m*	*2008-09 $m*	*2009-10 $m*	*2010-11 $m*	*Total $m*
Electricity	2,314	2,873	3,167	3,121	2,964	**14,439**
Water	938	2,150	2,129	1,597	1,634	**8,448**
Transport	1,356	1,485	1,297	1,909	2,456	**8,503**
Ports	81	191	344	378	175	**1,169**
Housing	570	613	600	681	642	**3,106**
Property	103	188	132	108	57	**588**
Other	97	104	75	99	56	**431**
Total	**5,459**	**7,604**	**7,743**	**7,894**	**7,985**	**36,684**

(a) More detail on PTE infrastructure plans is outlined in Budget Paper No. 4. PTEs have been classified according to their primary function. For example, Country Energy's Broken Hill water operations have been classified in the Electricity sector. Classifications may not align with the PTE classifications used in Budget Paper No. 4.

Since last year's Budget a number of new capital expenditure projects have been announced in the PTE sector. As a result, PTE capital expenditure is considerably higher than that projected in last year's Budget.

Over the four year Budget period (2007-08 to 2010-11), total PTE capital expenditure is forecast to be approximately $8.2 billion higher than that estimated over last year’s Budget period (2006-07 to 2009-10).

The $3.3 billion increase in the water sector is mainly due to the inclusion of new projects in the 2007-08 Budget including the Kurnell desalination plant ($1.9 billion), groundwater borefields ($207 million), Tillegra Dam ($245 million) and recycling projects including the Western Sydney return flows scheme ($321 million). There has also been a significant increase in growth works to service new urban development in the North-West and South-West of Sydney ($194 million).

In the transport sector, the majority of the $2.7 billion increase reflects the planned expansion of the rail network (around $2.1 billion), as well as costs related to the acquisition of 626 new air-conditioned rail carriages and the extension to the Rail Clearways Program to duplicate the Richmond Line to Vineyard.

The $1.4 billion electricity sector increase is mainly due to costs associated with the growth in electricity demand. An additional $50 million is projected to be spent by Macquarie Generation on river pumps to assist with drought mitigation, while $50 million relates to the re-phasing of expenditure on the gas fired power plant at Lake Munmorah.

The remaining $800 million increase in the PTE sector includes capital expenditure increases in the housing sector ($434 million), property sector ($91 million) and the Port Botany expansion.

It is anticipated that additional capital expenditure in the regulated water, electricity network and ports sectors (approximately $4.9 billion), will earn a commercial rate of return primarily through regulatory pricing determinations.

CAPITAL STRUCTURE

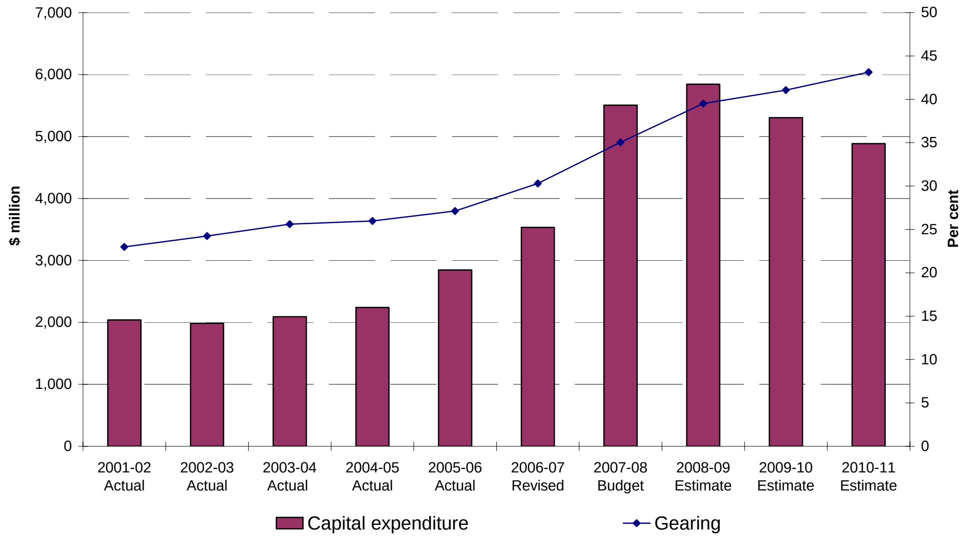
Commercial PTEs such as electricity, water, and ports are financed by a commercially prudent mixture of debt and equity. The transport and housing sectors are not subject to commercial capital structures as capital expenditures in these sectors are largely Budget funded.

As detailed in Chapter 4, net debt in the PTE sector is forecast to grow significantly to 2010-11, due to increasing capital expenditure levels. Borrowing by commercial PTEs to finance capital investments is an important part of applying commercial discipline. Non-commercial PTEs have less debt, as capital grants from the State Budget are the primary source of finance for capital expenditure.

Gearing levels for the commercial PTEs (i.e. excluding transport and housing) are projected to increase from 35.1 per cent in 2007-08 to 43.1 per cent in 2010-11. Although this increase is significant, it remains well within commercially prudent levels. As a guide, for price-regulated electricity and water businesses (which account for most of the borrowings by commercial PTEs), gearing levels of less than 50 per cent are consistent with a strong investment grade credit rating.

The appropriate gearing ranges for individual businesses are assessed according to the Government's *Capital Structure Policy for Government Businesses.*

Chart 5.3: PTE capital expenditure and Gearing[(a)] (excluding housing and transport), 2001-02 to 2010-11



(a) Gearing is defined as the ratio of Net Debt to Total Assets

Within the commercial PTE sector, efficient investment decisions require a return which covers the cost of capital. Hence capital investments generate revenues to support the sector's debt levels, and pay a return on the Government's equity investment.

Investment in the regulated electricity network and water businesses accounts for over 80 per cent of capital expenditure by commercial PTEs. Prices charged by these businesses are set by independent regulators, who allow for a commercial rate of return on efficient capital expenditures.

Due to increased debt levels, net operating surplus interest coverage (defined as adjusted net operating surplus divided by interest expense) for the commercial PTE sector is projected to fall from 4 to 3.3 times over the forward estimates period.

During periods of high debt funded capital expenditure, it is expected that growth in interest expense will outstrip growth in earnings in the short to medium term. This is consistent with the Government's *Capital Structure Policy*, which allows for borrowings (and resulting debt servicing capacity) to move within a prudent range during phases of the investment cycle. With capital expenditures expected to generate returns above the cost of capital, overall shareholder returns will continue to increase.

5.3 MAJOR FUNCTIONAL AREAS

ELECTRICITY

The State owns the major NSW electricity utilities:

- three *generators* – Macquarie Generation, Delta Electricity and Eraring Energy;
- the high voltage *transmission* corporation – TransGrid; and
- three *distribution and retail* businesses – EnergyAustralia, Integral Energy and Country Energy.

In total, State-owned generators have approximately 12,000 megawatts of installed capacity, generating around 68,000 gigawatt hours per year. NSW distributors have approximately 3.1 million network customers. The State also owns a 58 per cent share in the hydro electricity generator, Snowy Hydro Limited, which has a capacity of 3,700 megawatts, and generates around 4,000 gigawatt hours per year.

Directions in Electricity

Balancing Supply and Demand

Demand for electricity in New South Wales continues to grow. A key driver is population growth, particularly in the North-West and South-West of Sydney, and the North coast and the South coast of New South Wales, resulting in more new households being connected to the network.

In addition, peak demand is growing at a faster rate than average demand. Since electricity cannot be stored, generators must be available to meet the peak demand when it occurs, and the network must be able to carry the peak load for the few days of the year when it occurs. Historically, the NSW peak demand occurred in winter. However, with the rapid increase in the number of households with air conditioning, peak demand is now more likely to occur in summer.

The National Electricity Market Management Company has forecast a tightening of the demand-supply balance such that New South Wales will require additional peak generating capacity from around 2010-11 to maintain reserve capacity. Reserve capacity is generating capacity that is on standby so that demand can still be met if another generator ceases to generate.

The Minister for Energy revised the licence conditions for the three NSW distributors in 2005 to ensure that they maintained reliability and network performance for their customers. The standards include design planning criteria for various network components, and indices of the average number of interruptions to supply per customer and the average duration of interruptions to supply per customer.

Abolition of the Electricity Tariff Equalisation Fund

In 2005 the Government announced that the Electricity Tariff Equalisation Fund (ETEF) will be progressively phased out. The Government introduced ETEF in 2001 to enable retail electricity prices to be regulated without exposing retailers or the Government to unacceptable financial risk. As retail competition has developed, fewer customers remain on regulated electricity prices. When ETEF commenced, approximately 35 per cent of total electricity demand in NSW was sold on regulated tariffs, and hence subject to ETEF. With the introduction of full retail competition from 1 January 2002, all NSW customers have a choice of retail supplier at negotiated prices. Consequently, the proportion of total load that is subject to ETEF has now fallen to approximately 21 per cent.

Currently, 100 per cent of regulated retail load is supported by the ETEF. From September 2008, the level of support will reduce to 80 per cent and then to 60 percent in March 2009, 40 per cent in September 2009 and 20 per cent in March 2010, with ETEF fully phased out by June 2010.

Investment in the Electricity Networks

The NSW electricity network businesses (transmission and distribution) are driving the high capital expenditure levels in the electricity sector. Over the next four years, distribution and transmission businesses are forecasting capital expenditure of around $10.7 billion. This reflects customer growth, with high numbers of new connections, increasing summer peak demand, renewal of the asset base and stringent regulatory requirements.

The network businesses have also significantly increased their planned capital expenditure to maintain continued reliability in electricity supply across the network, in response to the licence conditions introduced in 2005.

Investment in Generation

Delta Electricity is constructing a 667 megawatt gas fired power plant at Lake Munmorah on the Central Coast. This power plant will cater for growing peak energy demand and is expected to be completed by 2009-10. Delta Electricity will also upgrade the capacity of Mount Piper power station near Lithgow by up to 180 megawatts by 2008-09.

The private sector is also committed to investing in gas fired generation, with a 434 megawatt plant at Tallawarra near Wollongong due to be completed in winter 2008.

In May 2007 the Government appointed Professor Anthony Owen to advise on the future baseload electricity needs in New South Wales. The Owen Inquiry into Electricity Supply in New South Wales will provide advice on the actions required to ensure timely investment in generation capacity that addresses greenhouse gas emissions while maintaining New South Wales' triple-A credit rating. Public submissions to the Inquiry close on 29 June 2007 and Professor Owen is expected to report to the Government by 31 August 2007.

TRANSPORT

The transport sector incorporates:

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

- *Bus services* - State Transit Authority (STA) provides passenger bus services in metropolitan Sydney and bus and ferry services in Newcastle;

- *Ferry services* - Sydney Ferries operates passenger services on Sydney Harbour and the Parramatta River; and

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

The sector also includes the Public Transport Ticketing Corporation, responsible for the development of a smart card ticketing system for all public transport operators in the greater Sydney region.

Financing the Transport Sector

Table 5.2 presents a summary of the budget support provided to the transport PTEs.

The projected Budget support of $3.1 billion in 2007-08 is an increase of $544 million or 21 per cent over 2003-04 grants of $2.6 billion. In 2007-08 budget grants will decline, reflecting the debt reduction payment made in 2006-07 and a higher proportion of the rail capital program being funded by debt with the ramping up of the Rail Clearway Program and winding down of the Epping to Chatswood Rail Line. Overall capital spending by Rail Corporation will increase by $118 million or 14.3 per cent.

In 2007-08, Rail Corporation plans to spend $2.4 billion on operating costs (excluding depreciation) on CityRail and CountryLink services. Operating costs will be financed by budget grants of $1.5 billion (which includes a contribution to concessional rail travel provided to students and pensioners), farebox revenue of $590 million and miscellaneous income. Capital investment by Rail Corporation is projected at $948 million, an increase of $118 million or 14.3 per cent on last year, financed by budget grants of $390 million, borrowings and internal funds.

Table 5.2: Budget Support for the PTE Transport Sector[(a)]

	Actual 2003-04 $m	*Actual 2004-05 $m*	*Actual 2005-06 $m*	*Revised 2006-07 $m*	*Budget 2007-08 $m*
Rail Services					
Operating grants	1,471	1,518	1,683	1,692	1,722
Capital grants (plus asset sale proceeds)	394	530	673	674	465
Debt reduction payment	...	...	...	960	...
Sub-total – Rail Services	**1,865**	**2,048**	**2,356**	**3,326**	**2,187**
Bus and Ferry Services					
Operating grants	240	282	290	337	328
Capital grants	...	5	...	...	...
Private Operators / Community Groups	458	455	521	572	592
Sub-total – Bus and Ferry Services	**698**	**742**	**811**	**909**	**920**
Total Net Budget Funding: Transport	**2,563**	**2,790**	**3,167**	**4,235**	**3,107**

(a) The Budget also supports borrowings by transport agencies to fund capital works. Operating grants also include fare concessions for pensioners and students. From 2007-08, grants for acquisition of new buses by the STA are reflected through the Ministry of Transport capital program.

Rail Infrastructure Corporation will receive $201 million in budget grants in 2007-08, including $130 million for maintenance of the country regional network and $50 million for works on the interstate and Hunter Valley networks.

TIDC will spend over $350 million in 2007-08 including $297 million on the Epping to Chatswood Rail Line, due for completion in the second half of 2008, and $56 million for investigation and planning for the proposed expansion of the Sydney rail network.

Payments for bus and ferry services are estimated at $920 million, an increase of $11 million, or 1.2 per cent on 2006-07.

Directions in Transport

Rail services

Every day CityRail moves one million passengers between 304 stations in a fleet of more than 1,500 carriages, covering over 1,300 kilometres of track.

Significant structural reforms have been implemented in the rail sector since 2004.

Rail Corporation was established as the single passenger rail entity, combining passenger operations (formerly undertaken by SRA), with ownership and responsibility for maintenance of the metropolitan track network (formerly undertaken by the Rail Infrastructure Corporation). Integration enables greater emphasis on network operations, safety, reliability and customer service.

Contractual arrangements implemented with the Australian Rail Track Corporation (ARTC) include a 60 year lease of the interstate and Hunter Valley coal networks and a 60 year regional network management agreement over the remaining country rail corridors. The ARTC and the Commonwealth have given major commitments to New South Wales to upgrade rail infrastructure as part of the arrangements.

These structural reforms, together with recent initiatives, underpin a significant increase in capital investment in both metropolitan and regional rail services, which includes:

- the $1.8 billion Rail Clearways Program, to reduce congestion and improve network capacity for more services;

- a large rollingstock investment program including the $3.6 billion acquisition and maintenance of 626 new carriages for the suburban rail network under a Public Private Partnership, 122 new outer suburban carriages for the intercity lines and 14 new Hunter Valley carriages;

- construction of the Epping to Chatswood Rail Line, with three new underground stations, to provide services and connections for commuters;

- the planned expansion of the rail network into the growth areas of Sydney ($2.1 billion allocated over four years); and

- upgrades to safety and network management systems to improve passenger safety and amenity.

Rail Infrastructure Corporation is undertaking signalling and train control improvements for the country regional network to improve system safety and meet operational needs.

Bus services

With the introduction of Metropolitan and Outer Metropolitan Bus System Contracts, the Ministry funds bus services in Sydney, Newcastle, Wollongong and the Blue Mountains through seven year service contracts. These contracts, based on specified service levels, provide greater long-term funding certainty for operators and improved service delivery.

State Transit Authority (STA) of New South Wales is the government owned authority responsible for the operations of Sydney and Newcastle buses and ferries. The Authority services more than 200 million passengers every year, with the largest fleet of buses in Australia, comprising more than 1,900 buses. The Authority also operates ferry services in Newcastle.

Contracted service payments for State Transit Authority bus services are budgeted at $281.3 million in 2007-08, an increase of $13.7 million over 2006-07. This funding will support a $72.7 million capital works program in 2007-08. In addition, 139 buses, comprising 60 standard CNG and 74 Euro 5 diesel buses for the Sydney and Newcastle networks (at a cost of $63.4 million) and five super metro CBD buses (at a cost of $4.3 million) will be acquired for use by the STA, but financed by the Ministry of Transport as part of its 2007-08 capital program.

Ports

Port reforms are focused around the implementation of the Ports Growth Plan. The Plan includes Sydney Ports Corporation expanding Port Botany to meet the rapid growth of container movements.

A major redevelopment program is underway to transform Port Kembla into Australia’s leading car import centre. A new cargo facility and third berth are under construction to enable Port Kembla to handle nearly 240,000 vehicles a year, along with increased containers and general cargo. This will provide a significant economic boost to the region.

The Plan also includes nominating Newcastle as the site of a future major container terminal once Port Botany reaches its capacity. In the short term, a smaller multi-purpose terminal will be completed in 2008.

Newcastle remains the largest coal port in the world with the privately operated loader having a capacity in excess of 100 million tonnes per annum. Ongoing development at the existing private terminals, and the construction of a newly approved private terminal, will significantly expand coal loading facilities. This planned expansion is being delivered by those private parties and will not require any major changes to the existing infrastructure (including channels) maintained by the Newcastle Port Corporation. Further, the augmentation of supporting rail infrastructure will be undertaken by the Australian Rail Track Corporation (ARTC), the lessee of the Hunter Valley Rail Network. ARTC is a trading corporation owned and controlled by the Commonwealth.

WATER

The State owns four commercial water 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; and
- *State Water Corporation* is a bulk water business in rural New South Wales, whose main customers are irrigation companies and country towns.

Country Energy's main business is energy distribution and retailing but it also provides water and wastewater services in Broken Hill. Urban water and wastewater services in the rest of regional New South Wales (including the Central Coast) are the responsibility of local councils.

Directions in Water Planning

Balancing Supply and Demand

The Government's 2006 *Metropolitan Water Plan* addressed the challenge of meeting Sydney's normal water needs as they grow over time, and securing supplies in the face of drought.

The Water Plan assessed that with the range of supply and demand side measures currently in place, Sydney has enough water to meet its growth needs until at least 2015.

The Water Plan aimed to secure water supplies in drought by both diversifying water supplies by increased recycling and having contingency plans to invest in non-rainfall dependent sources such as groundwater and desalination.

Since the release of the 2006 *Metropolitan Water Plan*, Sydney's dam levels have fallen significantly and the Government has committed to building a desalination plant at Kurnell and developing bore fields at the Upper Nepean, Leonay and Wallacia.

In the Hunter region, a decision has been made to bring forward the construction of a new dam at Tillegra and improve the connectivity between the Hunter and Central Water regions. This represents a broader regional solution and ensures supply security for both regions for the next 60 years.

Increasing Competition

The Sydney and Hunter regions are being opened to water and wastewater competition. The *Water Industry Competition Act 2006* allows third parties to access water and wastewater infrastructure. Increased competition is expected to encourage new investment and innovation in the metropolitan water industry, while continuing to protect public health, the environment and consumers. Access arrangements are based on a negotiate/arbitrate model and will be regulated by IPART.

Licensing for new entrants is an essential component of the new framework. New entrants will need to obtain a retail licence to provide water or wastewater services and/or a network licence for water or wastewater infrastructure.

Investing in Water Infrastructure

Total capital expenditure for Sydney Water, Sydney Catchment Authority and Hunter Water for the four year period to 2010-11 is forecast to reach $7.3 billion, an increase of $4.5 billion or 155 per cent over the preceding four year period. This growth is driven by measures aimed at ensuring water supplies will meet current and future demand in both regions.

The increased capital program will add to water agency debt levels but is not expected to lead to an inappropriate deterioration in the underlying financial position. Stand alone credit ratings remain above investment grade. Regulatory outcomes are expected to ensure the businesses receive a commercial rate of return on capital investments.

In Sydney, the impacts of the current drought on dam storage levels has resulted in government decisions to proceed with a number of major projects including a desalination plant at Kurnell, at a capital cost of around $1.9 billion.

Sydney Water's capital program over the four year forward estimates period totals $5.9 billion. This is an increase of $3.7 billion or 164 per cent over the preceding four year period. Sydney Water's program is driven by:

- the Kurnell desalination plant;
- a number of recycling schemes including the Western Sydney return flows scheme at a cost of $708 million;
- providing for growth in North West and South West Sydney; and
- asset renewals.

Sydney Catchment Authority's capital program over the four year forward estimates period totals $502 million. This is an increase of $222 million or 79 per cent over the preceeding four year period. The Authority's program is being driven by Metropolitan Water Plan projects including:

- developing borefields at the Upper Nepean, Leonay and Wallacia in response to continuing drought at a cost of $207 million;
- infrastructure to enable environmental flow releases from the Upper Nepean and Tallowa dams at a cost of $52 million; and
- Shoalhaven transfer infrastructure improvements at a cost of $36 million.

Hunter Water's capital program over the four year forward estimates period totals $946 million. This is an increase of $583 million or 160 per cent over the preceding four year period. Hunter Water's program is driven by:

- the 450 billion litre dam at Tillegra at a cost of $245 million;
- the continuing upgrade of a pipeline and pumps connecting the Hunter and the Central Coast, at a cost of $5.5 million;
- the Kooragang Island recycling project at a cost of $26.3 million;
- water and wastewater treatment works (at Morpeth, Raymond Terrace, Dora Creek, Belmont, Boulder Bay, Newcastle and Paxton) at a cost of $142.7 million;

- providing for urban growth; and
- the renewal of existing assets.

SOCIAL HOUSING

The Department of Housing manages the State's social housing portfolio and develops broader housing strategies. The Department provides tenancy and property management for around 130,000 public housing dwellings. Total recurrent expenditure in 2007-08 is estimated at $1.35 billion, with a further $601 million for capital works. The Department will receive a grant of $491 million from the budget in 2007-08.

While the Department sets market rents for its properties, around 90 per cent of current tenants are eligible for a subsidy. These tenants pay a subsidised rent based on a percentage of the total income of the household. In 2007-08, the value of the Department's rental subsidies is estimated at $683 million.

The NSW Government is continuing implementation of the *Reshaping Public Housing* reforms announced in 2005. These reforms ensure a fairer and sustainable public housing system that promotes responsibility and better aligns with community needs. Changes have included revisions to the eligibility and length of tenure to better reflect tenant circumstances, and a staged reconfiguration of the housing portfolio to more accurately meet the tenant profile.

In 2007-08, reconfiguration of the housing portfolio, including community housing stock, will result in 1,199 new one and two bedroom dwellings to suit changing demographics and smaller sized family units. This includes 262 dwellings to suit the elderly under the *New Directions in Social Housing for Older People* initiative, and 216 dwellings adaptable or specifically built for people with disabilities.

In accordance with the *NSW Housing and Human Services Accord* released in April 2007, cross-agency partnerships will also be developed to provide housing and support services for tenants with complex needs.

As announced in March 2007, the NSW Government will expand affordable housing initiatives. This will include a boost in funds to community housing providers, and the provision of long term leases over certain public housing stock to attract private investment. The plan also includes the establishment of a $49.8 million Affordable Housing Innovations Fund, including funding to provide 70 new rental properties on the ADI St Mary's site in Western Sydney.

Over the next five to ten years, the Government will work with local councils, the private sector and the local community to renew public housing estates in Bonnyrigg and Minto. This is part of the *Living Communities* program to renew high-need public housing estates in New South Wales. In addition, a staged plan will be implemented over the next three years to transform the West Dubbo Estate and provide better, more appropriate housing for clients in the area.

The Department of Housing is continuing to trial the Maintenance Reform program across a number of pilot areas. The objective of the program is to establish a new direction in the maintenance of public housing through a more cost effective, systematic, lifecycle planning approach.

CHAPTER 6: THE ECONOMY AND RISKS TO BUDGET OUTCOMES

Economic Situation and Outlook

The NSW economy is expected to strengthen in 2007-08, with continued solid support from public investment and consumer demand, moderate recoveries in dwelling and business investment, and an improvement in exports, and an assumed recovery in the rural sector.

Developments in the national and NSW labour markets have supported a low-inflation economy. Increases in female and older-age male participation are improving labour supply. This has helped aggregate wages growth remain stable despite continued above-trend employment growth and record low unemployment rates. While wage pressures have risen in sectors where skills shortages have emerged, these pressures have not been transmitted to other sectors. Reflecting these developments, in 2007-08, NSW employment growth is expected to remain above trend and the unemployment rate to test new multi-decade lows, amidst a stable inflation and interest rate environment.

Risks to Budget Outcomes

The Budget is sensitive to variations between actual and expected outcomes for the economy. Risks to the economic outlook include a housing-led US economic downturn undermining global economic growth; higher and more volatile global oil prices; stronger than expected national demand growth putting interest rate stability at risk; and continuation of the drought.

Budget estimates are framed on the basis of no change in government policy and other parameters. Risks to Budget outcomes include outcomes inconsistent with the Government's wages policy; capital expenditure overruns; realisation of contingent liabilities; and change to Commonwealth intergovernmental financial arrangements.

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 2007-08 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, the general economic outlook was moderately positive with world growth expected to remain robust. The boost from higher terms of trade was expected to continue flowing through the Australian economy, leading to further gains in corporate profits, household income and spending. The NSW economy was expected to strengthen, with steady growth in state final demand and improved net exports.

While world growth has met or even exceeded expectations, developments in the national and NSW economies during 2006-07 have been more subdued than expected due to drought, high oil prices and further increases in interest rates. The severe drought reduced crop production by 70 per cent[1]. Two additional interest rate increases (in August and November 2006) limited the dwelling sector recovery[2]. A spike in petrol prices buffeted consumers early in the year. The long lead time for resource investment to come on stream meant a second year of modest national non-rural exports growth, despite strong commodity prices.

In 2007-08, global conditions are expected to remain favourable. Economic growth in New South Wales should improve with gains in all of the major components of state final demand including dwelling construction, business investment, private consumption and a further strong contribution from public sector investment. Farm output growth is assumed to be boosted by a return to more normal seasonal conditions. Employment growth will remain firm, allowing a further marginal decline in the historically low unemployment rate.

[1] *The drought is estimated to have reduced GSP growth by about ½ a percentage point.*

[2] *Each ¼ of a percentage point increase in the cash rate is estimated to have reduced GSP growth by about ¼ of a percentage point.*

RECENT PERFORMANCE [3]

The NSW economy faced headwinds similar to those facing the national economy in 2006-07, with both exports and dwelling investment weaker than expected. The severe drought detracted heavily from farm output and exports, while tighter monetary policy rates limited the recovery in dwelling investment. In contrast to more resource-oriented states, New South Wales received little direct boost from higher commodity prices and resource sector investment, while its non-resource exporters and import-competing manufacturers bore the brunt of the commodity-driven rise in the exchange rate. After four years of record investment NSW business investment eased back, broadly in line with forecasts, though remaining at a high level. NSW population growth edged higher, and NSW employment growth was steady. The average unemployment rate remained around three-decade lows.

Table 6.1: Revised 2006-07 Estimates

(Year average percent change, unless otherwise indicated)

	2006-07 Budget	*Half Yearly Review*	*Current Estimate*
State final demand	2½	1½	2½
Gross state product	2½	1½	1½
Employment	1¼	1¼	1¾
Unemployment rate (year average, percent)	5¼	5¼	5¼
CPI (Sydney)	2¾	3	2¾
Wages (wage price index, ordinary time)	4	4	4

Population growth accelerated to 0.9 per cent in calendar year 2006 from 0.8 per cent in calendar year 2005 due to higher overseas migration. Population growth is expected to remain steady through June 2007, providing some underlying support for employment, consumption and housing investment.

Consumer spending was stronger than expected in 2006-07 despite high oil prices at the start of the year and further interest rate rises. Spending was supported by firm wage growth, gains in employment, a strong share market, a decline in inflation and lower taxes. The trend in retail sales through April 2007 suggests that the pace of consumption growth maintained its momentum as the year progressed.

[3] *Unless otherwise indicated, the sources for statistical information in this chapter are ABS (Australian Bureau of Statistics) data releases and NSW Treasury estimates. Economic estimates are based on data available as at early June 2007, which included: results to June 2006 for gross state product; to December 2006 for population; to March 2007 for state final demand, consumer prices and the wage price index; and to April 2007 for employment.*

Dwelling construction continued to decline in year average terms in 2006-07, although there were some signs of the downturn levelling out from the December quarter 2006. Leading indicators of dwelling investment (house prices, housing finance and dwelling approvals) remained subdued in early 2007 - although strong auction clearance rates and a tight rental market improved preconditions for a recovery in 2007-08. The three official interest rate increases in May, August and November 2006 led to a decline in housing affordability and rises in mortgage arrears and personal bankruptcies and limited the recovery in housing construction. Based on RBA research[4], each quarter percentage point increase in the interest rate is likely to reduce aggregate output growth by about ¼ of a percentage point. Housing is the most interest sensitive component of output.

Business investment eased during 2006-07 from the record levels reached a year earlier – although spending improved in the December quarter[5]. An easing in investment growth was expected, given the massive 61 per cent increase in the preceding four years which included completion of several major PPP infrastructure projects. However, business investment remained at historically high levels and continued to add strongly to the capital stock during 2006-07. Investment prospects appear to be firming in 2007, with a solid rise in non-residential building approvals and improving trends in business expectations surveys[6].

Though a much smaller share of the economy than business investment, *Public investment* (reflecting the Government's infrastructure program) provided a solid boost to NSW economic growth in 2006-07, rising by 19 per cent in the six months to December 2006 compared to the same period a year earlier.

With stronger private consumption and public investment offsetting the moderate performance of dwelling and business investment, *State final demand* is estimated to have increased by 2½ per cent in 2006-07 – up from 2.1 per cent growth in the previous year.

The *severe drought* reduced crop production by around 70 per cent and cut farm output by perhaps 20 per cent. The fall in rural production translated into steep declines in exports. Overall, the direct and indirect impacts of the drought are estimated to have subtracted at least ½ a percentage point from gross state product in 2006-07.

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[4] *RBA estimates of the impact of a 1 percentage point increase in the cash rate on economic output (as reported in their Research Discussion Paper series) are in the range of 1.0 (RDP 2005-11) to 1.3 (RDP 2007-01) of a percentage point.*

[5] *March quarter 2007 results for business investment and public investment are distorted by Telstra's shift from the public to the private sector in the ABS economic accounts.*

[6] *Refer to Box 6.2 for further discussion.*

As a major gateway for national imports, but a comparatively modest supplier of national exports, New South Wales usually records a net deficit on *overseas trade*. In 2006-07, NSW manufactured and service exports remained weighed down by a rising exchange rate, while rural exports were severely affected by the drought. Annual growth in merchandise export volumes slowed from 11 per cent in March 2006 to -1.2 per cent in March 2007. Annual growth in merchandise import volumes, by contrast, increased from 7.7 per cent in March 2006 to 13.8 per cent in March 2007.

Overseas trade, along with balancing items (interstate trade, inventory and statistical discrepancy), may have detracted around one percentage point from *gross state product*, which is estimated to have increased by about 1½ per cent in 2006-07.

The *labour market* made further gains, with NSW employment increasing by 1¾ per cent and the unemployment rate remaining steady at 5¼ per cent[7]. In year average terms, employment growth to the March quarter 2007 was strongest in mining, wholesale trade and cultural and recreational services.

Consumer price inflation eased back marginally in year average terms from 3 per cent in 2005-06 to 2¾ per cent in 2006-07. Severe transitory shocks (cyclone Larry on fruit prices, and the Israel-Lebanon war on petrol prices) boosted the CPI early in the year, but with a return to more normal conditions, inflation fell equally sharply. On a through-the-year basis, Sydney CPI inflation fell from 3.8 per cent in June 2006 to 2.2 per cent in March 2007 and is likely to fall below 2 per cent in June 2007. Underlying inflation (which nets out transitory spikes) also slowed during the year. The RBA's preferred measures of underlying inflation recorded a step-down in quarterly growth from 0.9 per cent in June 2006 to 0.5 per cent in both December 2006 and March 2007.

Wage pressures eased somewhat during 2006-07 despite very low unemployment and skilled labour shortages in some sectors. Wage pressures were contained within the resources and infrastructure sectors and did not flow on to the broader economy. On a through-the-year basis, wage growth in New South Wales, as measured by the Wage Price Index, eased from 4.0 per cent in March 2006 to 3.8 per cent in March 2007. Wage growth was 3.6 per cent in the private sector and 4.2 per cent in the public sector through the year to March 2007.

[7] *The ABS has foreshadowed forthcoming revisions to the labour force statistics (not factored into this analysis) which are likely to lower the estimated unemployment rate, particularly for New South Wales, in past periods as well as in future releases.*

Monetary policy was tightened three times during 2006 (in May, August and November). In its May 2007 *Statement on Monetary Policy*, the RBA commented that inflation was running at a somewhat lower rate than previously expected. The RBA concluded that while strong growth and limited capacity were still likely to raise inflationary pressures over time, benign recent inflation outcomes and the current mildly restrictive stance of policy provided adequate time to respond if needed. Therefore, the RBA seems not to intend raising rates again in the near term.

OUTLOOK FOR 2007-08

Global growth is expected to remain robust in 2007-08 though slightly less so than in 2006-07. In its April 2007 *World Economic Outlook*, the International Monetary Fund projects world growth at 4.9 per cent in both 2007 and 2008, down from 5.4 per cent in 2006. In 2007, growth is expected to slow in the United States, but strengthen in Japan, Brazil and the United Kingdom, while remaining robust in China. In 2008, growth should pick up again in the United States while slowing in China.

The boost from the once-in-a-generation lift in the terms of trade will continue to flow through the Australian economy in 2007-08, again underwriting strong corporate profits and household income and spending.

Employment growth is likely to remain mildly above trend in 2007-08, reflecting solid business conditions and improved dwelling investment - although a high exchange rate will affect trade-sensitive sectors such as manufacturing and tourism. In other sectors, such as resources and infrastructure, shortage of skilled labour will remain a constraint. However, as has been the case in recent years, wage pressures are not likely to become generalised and, helped by lower import costs, this should maintain inflation within the RBA's 2 to 3 per cent target band[8]. Therefore, for Budget formulation purposes, the RBA is assumed to not increase interest rates – although monetary policy is a negative risk factor in the outlook, should national demand pick up more quickly than expected.

The NSW economy will strengthen further during 2007-08, although growth will remain less than in the resource States while the current commodity boom continues.

[8] *Refer to Box 6.3 for further discussion.*

Table 6.2: Economic Performance and Outlook

(Year average per cent change, unless otherwise indicated)

	Outcomes 2005-06	*Estimates 2006-07*	*Forecasts 2007-08*
New South Wales			
State final demand	2.1	2½	3½
Gross state product	1.4	1½	2½
Employment	1.6	1¾	1½
Unemployment rate (year average, percent)	5.3	5¼	5
Sydney CPI	3	2¾	2½
Wage price index	4.1	4	4
Australia			
Non-farm GDP deflator	5	4½	2½
Ten year bond rate (year average, percent)	5.4	5¾	5¾

NSW economic output (GSP) growth is expected to strengthen from 1½ per cent in 2006-07 to 2½ per cent in 2007-08. State final demand growth will improve from 2½ to 3½ per cent.

In the year ahead there is likely to be more balance among the drivers of growth, with continued solid support from public investment and consumer demand, moderate recoveries in dwelling and business investment, and an improvement in exports as the State recovers from drought.

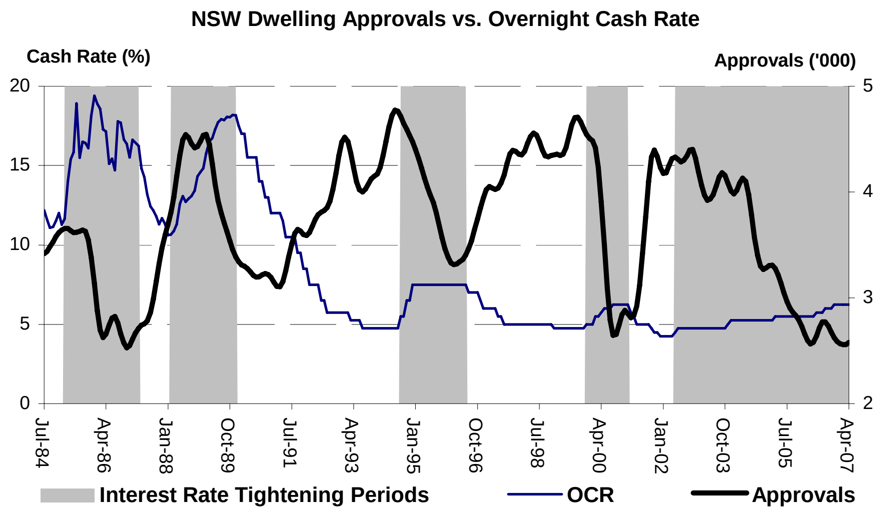
Private consumption growth should remain solid in 2007-08. Consumers will respond positively to continuing steady growth in employment and wage rates, improved purchasing power from the strong exchange rate, lower tax rates and gains in share market related income and wealth. However, household spending will remain constrained by mildly restrictive interest rate settings, high oil prices, high rental costs and little improvement in home equity.

Dwelling investment should improve in 2007-08. Demand is likely to be led by owner-occupiers. The RBA's May 2007 shift to a more neutral policy stance will lessen the interest rate uncertainty which deterred home purchasers during most of 2006-07. Low vacancy rates, rising rental prices, and cyclically low house prices, will persuade more households to shift from rental accommodation to home ownership. These factors should also encourage a return of investors to the housing market.

Box 6.1: Dwelling Investment

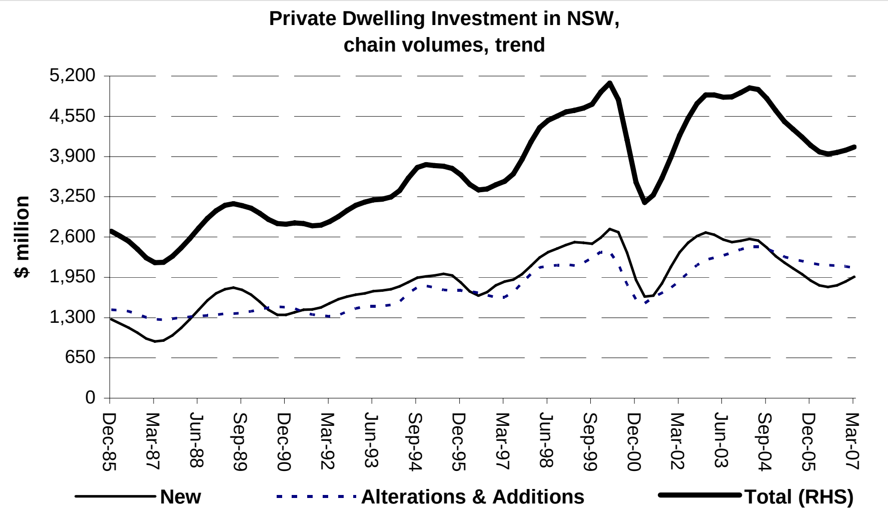
While several of the factors likely to contribute to a rebound in housing construction activity (such as improving population growth, low unemployment, rising real wages, declining vacancy rates and rising rental prices) were in place, the sector remained subdued in 2006-07. The three interest rate rises in 2006 appear to have limited the recovery. As the chart below indicates, in the previous four cycles, a recovery in activity in the housing sector has not occurred until the beginning of monetary easing.

While an easing of interest rates is not likely in the forecast horizon, firm population growth, stabilising house prices, stable interest rates and firm growth in incomes should see affordability improve for owner-occupiers. Demand for housing loans by first home buyers is already running at above long-run average levels. The combination of low vacancy rates, rising rents and stabilising house prices should improve rental yields and also see improved investor demand as 2007-08 progresses. This expectation of a recovery in housing investment is also shared by private sector analysts such as Access Economics, BIS-Shrapnel and Econtech.



Box 6.1: Dwelling Investment (cont)

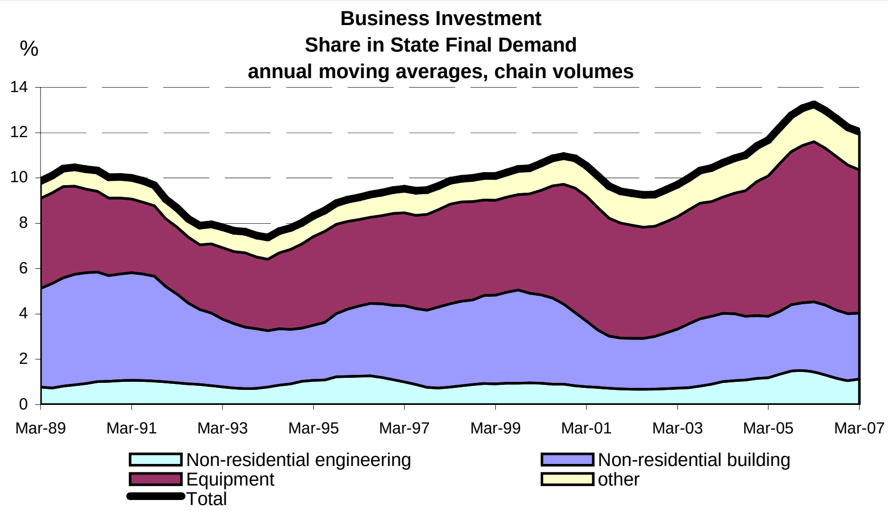
While the number of dwelling approvals is currently at historically low levels, this is not the case for the volume of dwelling investment. This is a reflection of the improvement in the quality and value of new dwellings over time and the growing importance of alterations and additions. As shown in the chart below, alterations and additions now account for over half of total dwelling investment in New South Wales and are expected to contribute to growth in investment in 2007-08.



Business investment is expected to grow in 2007-08 after easing in 2006-07, following four years of record investment. With strong demand, high profits, low capital costs and strong equity markets, conditions for investment remain favourable. Factors specific to New South Wales include the assumed rural recovery, continued strong global demand for thermal coal, and demand generated by the resources boom for NSW industrial outputs and financial and business services.

Box 6.2: Business Investment

After four years of strong growth to 2005-06, during which business investment grew by 61 per cent, activity slowed a little in 2006-07. The slowing in private business investment has been largely due to a decline in engineering construction activity with the completion of major infrastructure PPP projects and a slowdown in plant and equipment investment.



A lift in business investment in 2007-08 is suggested by several indicators of investment intentions:

- The annual ABS survey of state-level private sector capital expenditure expectations released in March 2007 shows that business investment intentions for 2007-08 are 3 per cent higher than for 2006-07 with mining investment expectations particularly strong. Building investment expectations are 13 per cent higher than a year earlier, although equipment investment expectations are slightly lower[9].

- Private non-residential building approvals increased by 11.0 per cent in the twelve months to April 2007 with the largest contribution from aged care facilities, offices and retail and wholesale trade.

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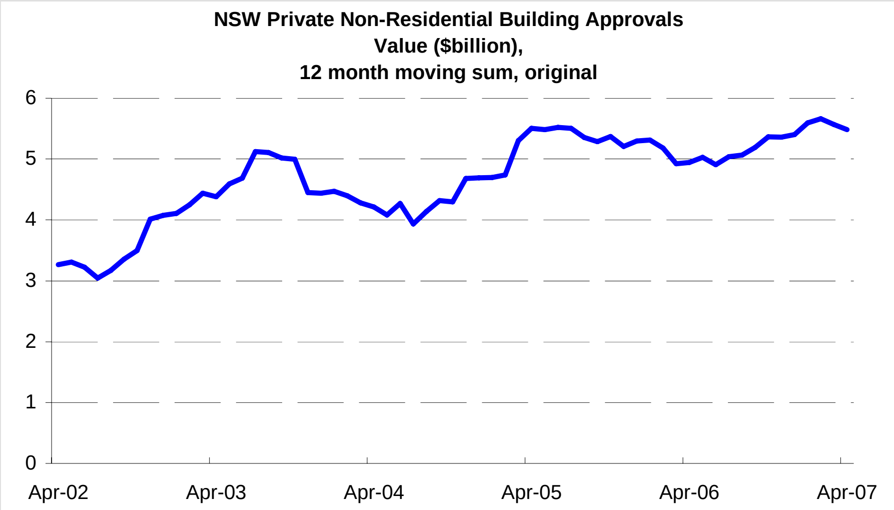
9 *Revised private capital expectations data published at end-May 2007 point to an even stronger recovery in business investment in 2007-08, although this may be affected by Telstra's reclassification from the public to the private sector in the latest release.*

Box 6.2: Business Investment (cont)



- The Access Economics Investment Monitor reports that the NSW investment shelf (the shelf is the total value of projects under way and planned) at March 2007 was 17 per cent larger than a year earlier, compared to a national increase of 11 per cent.

Public sector investment will rise strongly, supported by a large increase in total State infrastructure spending, as discussed in Chapter 1 and Budget Paper No. 4. The share of public investment in total state final demand (4.1 per cent) is around one-third that of private business investment (12.2 per cent), in calendar year 2006. Thus even with the strong rise expected in 2007-08, the State's infrastructure program will not be a significant contributor to inflationary pressures.

After detracting heavily from output growth in 2006-07, *net exports* performance should improve in 2007-08. Exports growth will be assisted by the farm sector's recovery from the drought and by continued strong North Asian demand for thermal coal. Net exports performance also will benefit from slower growth in plant and equipment investment, which has a large imported component.

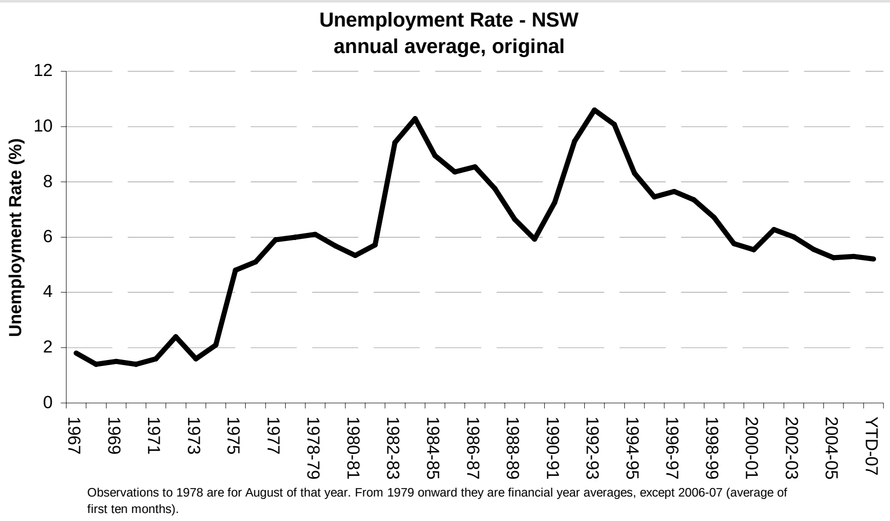
In line with improving economic output, *NSW employment* is likely to grow at an above-trend rate again in 2007-08. The unemployment rate is likely to remain at generational lows of around 5 per cent.

Box 6.3: The Labour Market

New South Wales has received less of a direct stimulus from the commodity price boom than Queensland and Western Australia and population growth has been below national rates since 2002. Reflecting these factors New South Wales employment growth has been slightly less than national employment growth in recent years.

The labour market in New South Wales, however, is very robust. Employment growth has been stronger than growth in the working age population for the last five years with the employment ratio[10] rising to a record 59.7 per cent in the first ten months of 2006-07. The participation rate is at record highs and rising, while over the last three years the unemployment rate has remained at low levels that have not been achieved on such a consistent basis for thirty years (see chart below).

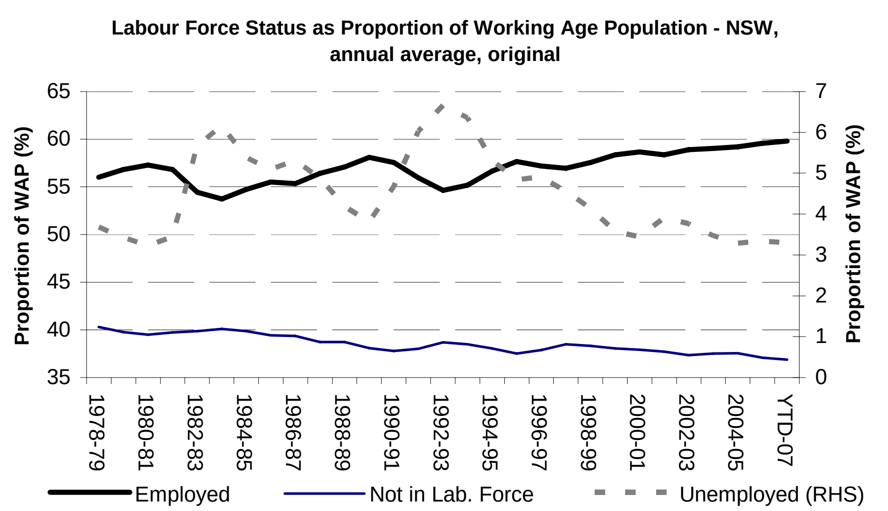
Notwithstanding this robustness, generalised wages pressures have not emerged. Rather, the pressures remain contained to those areas where national skills shortages have emerged.



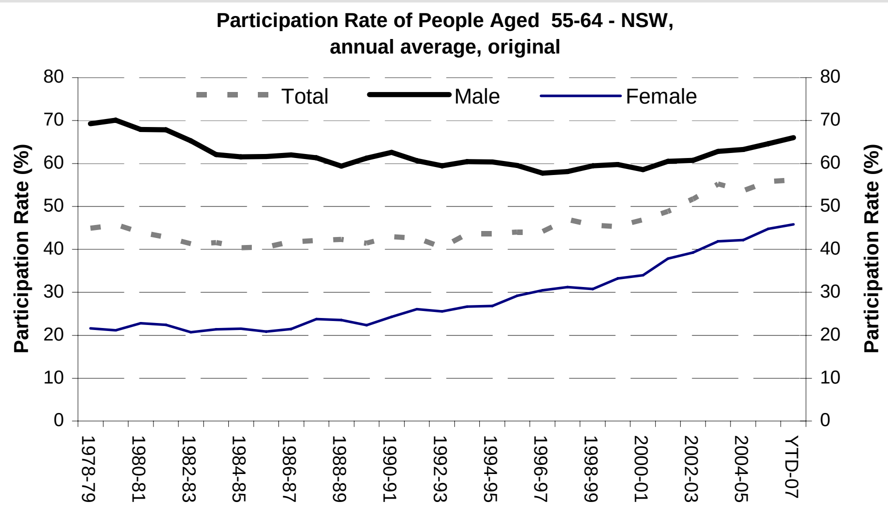
As the chart below shows, in recent years the employment ratio has risen to record levels, while the proportion of unemployed has declined. Overall, the total share of the labour force has grown. A record low 36.9 per cent of the working age population are not in the labour force in the first ten months of 2006-07, the mirror reflection of the rising aggregate participation rate.

10 *Ratio of employed persons to total working age population.*

Box 6.3: The Labour Market (cont)



While participation rates for most age cohorts have been steady or increasing, the largest increase has occurred in the 55-64 years group. As the chart below shows, this has been driven by an ongoing increase in the participation rate for women in this age group and more recently by a rise in the male participation rate.



Some reasons put forward to explain the increased participation amongst older people are changes in work preferences by 'baby-boomers' as they move into the 55-64 cohort[11]; and improvements in health and longevity that make people feel they need to work longer to provide for their retirement.

[11] *Kennedy, S. and Da Costa, A.,* Older Men Bounce Back: the re-emergence of older male workers, *in Economic Roundup, Spring 2006, Commonwealth Treasury, pp.31-43*

Box 6.3: The Labour Market (cont)

In the NSW Long-Term Fiscal Pressures Report, 2006-07 Budget Paper No. 6, one implication of an ageing population discussed was the projected slowing of GSP per capita growth from 2.1 per cent per annum in the 1990s to 1.6 per cent per annum in the decade to 2044. One assumption for this projection was little change in participation by age cohort. If the emerging trend of rising participation in older age cohorts continues (so that in future more older people work for longer), aggregate participation rates and GSP per capita growth may not fall as much as projected. Further, a rise in aggregate participation may also lower the fiscal gap reported in the Budget Paper[12] .

Although the New South Wales labour market has tightened in the last few years, wages growth (as measured by the wage price index) has not accelerated. For the year ending March 2007, wages growth across all industries actually slowed to 3.8 per cent per annum from 4 per cent per annum for the year ending March 2006 (on an annual average basis). Areas which have had strong employment growth and emerging national skills shortages, such as construction, have seen wages accelerate. However, these pressures have not been transmitted to other sectors of the economy. Of the 13 industry sectors for which NSW data is available, seven have had wages growth at rates less than the state average in the last 12 months and eight sectors have experienced a deceleration in wages growth.

MEDIUM TERM OUTLOOK

Prospects for the NSW economy in the first few years beyond 2007-08 will depend on the strength of the global economy, the business cycle, domestic policy settings and productivity trends. Because these factors cannot be accurately predicted more than a short period ahead, the Budget estimates beyond 2007-08 are based on economic parameters reflecting expectations for their average performance during the out years of the Budget.

Table 6.3: Economic Parameters Beyond 2007-08

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

	Medium Term
Gross state product	3¼
Population	1
Employment	1¼
Sydney CPI	2½
Wage price index	3½
Ten year bond rate (year average, per cent)	5¾

12 *Changes to other demographic factors including fertility, migration and life expectancy will also affect the fiscal gap.*

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[13].

This section considers the sensitivity of budget outcomes to changing economic circumstances, and 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 critical factors for economic and fiscal outcomes often were unanticipated or deemed improbable when the forecasts were assembled.

ECONOMIC RISKS

Risks to the supportive economic outlook for 2007-08 include a US housing-led downturn, volatility in world oil markets, delayed recovery from drought, and higher national domestic demand growth putting upward pressure on inflation and interest rates.

US Housing Market

The United States economy weakened markedly during 2006 and early 2007. The US Federal Reserve (Fed) attributes much of the recent US economic slowdown to the housing market[14]. Sales of both new and existing homes have dropped sharply, the inventory of unsold homes has risen substantially, and single-family housing starts are down by roughly one-third from a year earlier. Although a levelling-off of sales in late 2006 suggested housing demand was stabilising, there was a further step-down in new and existing home sales in the first quarter of 2007. Rising mortgage arrears, particularly for subprime loans, have forced consolidations among related financing institutions, and tighter lending criteria across the sector. While anticipating further rises in delinquencies and foreclosures, the Fed expects the effect on the broader housing market to be limited, without significant spill-overs from the subprime market to the rest of the economy or financial system. Were the slowdown to spread more broadly across the US economy, especially to consumer and business spending, there would be implications for global growth.

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[13] *Key source publications and their release dates are reported in footnote 3 to this chapter.*

[14] *Federal Reserve Chairman Ben Bernanke,* The Subprime Mortgage Market*, remarks to FRB Chicago Conference, 17 May 2007.*

World oil prices

While the US$63 average price per barrel of West Texas Intermediate (WTI) crude oil in 2006-07 was about the same as the previous year, it was double the price three years earlier. Oil prices were volatile during the 2006-07 year, moving from US$77 in July during the Israel-Lebanon conflict to US$50 in January and back to the mid - US$60s in the June quarter. This contributed to volatility in consumer prices, adding 0.7 points to the CPI in the June quarter 2006, and subtracting 0.9 points from the CPI in the December quarter 2006.

Factors behind this volatility include China's sustained rapid economic growth, cyclical swings in US growth (both economies have high oil intensities), weather related events, geopolitical uncertainties regarding supplier countries, and speculative covering in commodity markets. The risk of further oil price increases and volatility remains high.

Strong domestic demand

At the national level, the Budget forecasts for 2007-08 assume trend growth in domestic demand, no significant tightening in the labour market, no increase in wage pressures and inflation around the middle of the RBA's target band. On that basis, monetary policy is expected to remain on hold in the year. Stable interest rates are crucial to the recovery in housing investment in NSW that is forecast to take place through 2007-08, as well as ongoing strength in NSW consumer spending.

Sixteen years of unbroken economic expansion have narrowed spare capacity in the Australian economy, as reflected in record low unemployment rates, high capacity utilisation, and (since 2000) declining productivity growth. In this environment, above trend growth in national domestic demand from further improvements in the terms of trade or federal fiscal stimulus could see inflationary pressures emerge that lead to further increases in interest rates.

Drought

Normal weather conditions are expected in 2007-08, in line with Bureau of Meteorology (BOM) climate projections. In April, the BOM revised its three-month rainfall projection from below-average to normal for much of New South Wales, with a possibility of above-average rainfall (a so-called La Niña episode) in the year ahead. Nonetheless, over 90 per cent of the State remained in drought or marginal in May 2007. With ground moisture levels still low, dam storage depleted and river systems severely degraded, restoring agricultural production requires heavy and sustained rainfall. Agriculture directly accounted for less than 2 per cent of State output in 2005-06, but the sector's volatility in response to drought, and the flow-on to agricultural supplier and user industries, can appreciably affect aggregate State economic performance.

Box 6.4: Drought

Severe drought conditions were experienced in major agricultural regions in New South Wales in 2006-07, particularly since August 2006. The outlook for 2007-08, however, is improving. The Bureau of Meteorology has forecast that there is little chance of a return to El Niño conditions in 2007. The Bureau's rainfall outlook released on 23 April 2007 suggests the possibility of above-normal rainfall in parts of northeast New South Wales for the three months to July, with normal rainfall elsewhere in the State.[15]

ABARE's March 2007 Commodity Outlook forecast a significant rebound in national crop production in 2007-08, after an expected contraction of 60 per cent for Australia and 70 per cent for NSW in 2006-07. Under the assumption that the drought will break in the first half of 2007, national crop production is expected to rise by 40 per cent. With the weather outlook improving since the publication's release, crop production could rise further.

Notwithstanding the improved rainfall outlook, there remains uncertainty regarding water allocation. The Prime Minister announced in April 2007 that irrigation water for farmers in the Murray-Darling Basin would be cut off in the absence of significant rain in the next six to eight weeks. Irrigated agriculture covers only about 1.4 per cent of the total land area of the Basin, but accounts for around 36 per cent of the total profit generated from agriculture. Therefore, irrigated agriculture, previously sheltered from dry conditions by guaranteed water supplies, may now be dependent on the rainfall outlook which, although promising, is uncertain.

ABARE and the RBA estimate the drought (direct and indirect effects) will reduce Australia's economic growth by about ¾ of a percentage point in 2006-07. While farm production will decline more in New South Wales, farm output is a smaller share of the economy in New South Wales, so the impact on GSP is likely to be closer to ½ of a percentage point.

Provided that agriculture experiences the normal rebound in the first year following a drought, the farm sector should add between ¼ and ½ of a percentage point to GSP growth in 2007-08.

SENSITIVITY OF THE BUDGET TO ECONOMIC PARAMETERS

A guide to the sensitivity of budget expenses and revenues to variations in economic parameters is provided in Table 6.4.

The table gives a 'rule of thumb' measure 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, and does not capture the linkages between economic variables that characterise changes in the economy.

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[15] *In an update released on 22 May the Bureau stated that the odds of above-normal or below-normal rainfall were evenly balanced for the June to August period.*

Table 6.4: Sensitivity of Fiscal Aggregates to Changes in Economic Parameters, 2007-08

(Effect of a one percent increase, unless otherwise indicated)

Parameter	*Effect on the 2007-08 Budget Result ($m)* [(a)]
A. Factors affecting tax revenue	
Dwelling sales (price or volume)	40
Motor vehicle sales	7
Private sector employment	65
Private sector wages	70
Household disposable income	11
B. Factors affecting grant revenue	
Household consumption [(b)]	119
C. Factors affecting expenses	
Public sector wages and salaries	-224
Prices of goods and services	-94
Interest rates [(c), (d)]	-92
	Effect on 2007-08 Net Financial Liabilities ($m) [(e)]
D. Factors affecting Superannuation Liabilities	
Public sector wages and salaries	-190
Sydney CPI	-200
Investment return [(c)]	235
Discount rate [(c)]	4,300

(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 $10,926 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 adjustment to net financial liabilities (NFL).

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

The table excludes possible policy responses. Changes are assumed to be uniform across the general government sector and across the Budget year.

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, investment returns and household consumption (and its influence on GST revenue).

The main *State taxes* – payroll tax and transfer duty – are sensitive to economic factors. Employment levels and wage rates affect payroll tax collections. Transfer revenue depends on property market activity, with dwelling transactions accounting for about three-quarters of such revenue[16]. 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 parameters. Expenses are significantly affected by public sector wage decisions and to a lesser extent by changes in the prices of goods and services purchased by government. Lower levels of general government net debt have 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 can be affected by accounting adjustments as well as operating results. With the introduction of the new Australian Equivalents to International Financial Reporting Standards (AEIFRS) accounting standard AASB119 from 2006-07, superannuation liabilities must be recalculated at the end of each year using a market-determined discount rate. This can lead to significant fluctuations in the general government sector's unfunded liability position.

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.

[16] *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.*

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

- 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 occur 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, and
- outcomes may be affected by unforeseen events such as natural disaster.

Expenditure Risks

The main factors that influence the expense side of the Budget are discussed below.

Employee-related costs

The Budget and forward estimates are based on assumptions regarding the rate of growth in public sector wages and employee numbers.

Employee-related costs are the largest component of total expenses. In 2007-08, employee-related costs are budgeted at 50.2 per cent of total general government expenses, up from 46.4 per cent in 1996-97. Employee related costs rise if wages rise, numbers employed rise or the average grading of employees increases. Each 1 per cent increase in employee-related costs permanently increases government expenses by around $224 million.

The large occupational groups (e.g. teachers, nurses, and police) are covered by wage agreements that are set to expire from February 2008. Under these agreements, wage increases during the Budget year will average 4 per cent per annum. Following their expiry, the Government's policy is to allow for wage cost increases of 2.5 per cent per annum, with additional increases tied to negotiated productivity.

Any public-sector pay rises in excess of the Government's wages policy will require a response such as reduced levels of employment or lower other operating costs.

Capital Expenditure

The level of total state capital expenditure is increasing significantly and is expected to grow by almost 56 per cent in the four years to 2010-11 compared to the prior four years. The size of the capital program presents a risk to the general government balance sheet since capital expenditure (net of depreciation and asset sales) needs to be funded by the budget result with any shortfall required to be funded by higher debt.

Higher than expected capital cost inflation would lead to higher debt for general government spending and would adversely affect the budget balance for PTE spending (via lower dividends or higher capital grant requirements).

The forward estimates contain a component for new projects yet to be identified or approved. This approach to capital budgeting gives the Government flexibility to respond to new priorities.

Changes in the demand for government services

Government programs and services in health, education and other policy areas are generally provided without price playing a direct role in managing demand. Over time, growth in the demand for government 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 allowing for the possibility of new government policies as well as developments external to the State’s control. The flexibility to respond to circumstances as they occur is critical to effective budget management and is integral to NSW’ fiscal strategy.

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 policy responses that may be required in the budget year. A separate Treasurer’s Advance is provided for capital works. In 2007-08, the Treasurer’s Advance is $215 million for recurrent services, and $110 million for capital works and services. To the extent that unanticipated expenditures are funded from the Treasurer’s Advance there will be no effect on budget outcomes.

Drought relief assistance

The drought has intensified since August 2006 and NSW water storage levels are very low. NSW key crop producing areas have been impacted severely. For example, the summer crop production in 2006-07 will be the lowest in over 25 years[17] but is expected to recover in 2007-08. Reduced irrigation water allocations are already reducing crop planting. The area planted with rice is 89 per cent below the previous year, while cotton is 51 per cent down.[18]

The Government's drought relief initiatives include transport subsidies, community support measures, interest subsidies and various rent and fee arrangements. Government drought relief expenditure increased by 128 per cent in 2006-07 to around $110 million. Drought assistance may increase again in 2007-08 should drought conditions persist.

Technological change

New technologies have the potential to improve the quality of service delivery and/or reduce the cost per unit of service delivery. However, new technologies can also lead to demands for new services, especially in the health sector, with the potential to increase expenses.

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 enable 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.

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[17] *Abare's Australian Crop Report, February 2007.*

[18] *Refer to Box 6.4 for further discussion.*

The Government's main contingent liabilities, both quantifiable and unquantifiable, are identified in the annual *Report on State Finances*. In the 2006-07 Report, Note 26 identifies total quantifiable contingent liabilities of $679 million as at 30 June 2006. The general government sector component of total quantifiable contingent liabilities is $127 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 and Territories is the distribution of goods and services tax (GST) revenues.

Under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (IGA), all GST revenue is returned to the States and Territories. However, it is not returned to where the money was raised. The Commonwealth allocates GST revenue to the States based upon recommendations by the Commonwealth Grants Commission (CGC). It is, however, the Commonwealth Treasurer who, under Section 9 of the *A New Tax System (Commonwealth-State Financial Arrangements) Act 1999* has the ultimate responsibility to determine the grants to the States and Territories.

As explained in Chapter 8, GST receipts are affected by economic variables including population, consumption growth and state relativities which are calculated by the CGC.

The GST grants are affected by the outcome of the Commission's methodology review. The 2004 Review led to a significant loss of revenue for NSW. The next review is due to report in 2010. NSW grants can also be affected by the outcome of the annual data updates.

NSW has fulfilled all of its obligations under the IGA. A number of taxes were abolished or reduced consistent with national tax reforms. In addition, NSW also took part in the review of certain taxes in 2005 in accordance with the IGA. NSW has also announced a schedule for the removal of certain business taxes that were reviewed in 2005. A detailed discussion of IGA taxes is provided in Chapter 8.

Commonwealth Specific Purpose Payments

Specific purpose payment (SPPs) agreements are typically renegotiated every three to five years. As each of these agreements has a limited duration, NSW does not have long-term certainty over this significant source of budget revenues. The matching and maintenance of effort requirements tied to SPPs also have a substantial impact on the State's budget flexibility. The SPPs due for renegotiation over the forward estimates period are set out in Chapter 8.

New National Reform Agenda

The Council of Australian Governments (COAG) has committed to the National Reform Agenda (NRA) encompassing competition, regulation and human capital reforms. As explained in Chapter 8, the main financial risks associated with the NRA include:

- ensuring adequate funding for the NRA; and
- potential delays in funding.

Public Trading Enterprise (PTE) Financial Performance

Many PTEs operate in markets where future costs and revenues are subject to market 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, performance variations may affect the level of capital and operating subsidies required from the Budget. Chapter 5 provides a detailed discussion of the financial performance of the PTE sector.

OTHER RISKS

Pricing Regulation of Government Monopoly Services

Budget impacts can arise from pricing determinations made by economic regulators. Determinations may impact on regulated profit levels, thereby changing the size of tax equivalent and dividend payments received from the businesses, or subsidies paid to them.

The Independent Pricing and Regulatory Tribunal (IPART) oversees regulation of the government-owned water, electricity (retail and distribution networks) and public transport businesses in New South Wales. The Australian Energy Regulator (AER), part of the Australian Competition and Consumer Commission, sets prices for electricity transmission networks within the State. The AER is also expected to take over regulation of Australian electricity distribution networks from 2008.

IPART is expected to release a final determination on regulated electricity retail prices in June 2007. A draft determination was released in April 2007 providing for higher retail electricity prices.

IPART is also expected to make pricing determinations for New South Wales transport businesses (rail, bus and ferries) during 2007-08.

Current pricing determinations for NSW electricity transmission and distribution networks are in place until June 2009.

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. Similarly, changes in matching conditions for shared areas of service responsibility (e.g. public housing) can be significant. The impact of these changes cannot be quantified in advance, but can be sizeable.

Commonwealth Government policy can also have indirect impacts. For example, a change in migration policy, tariff policy, tax 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 CONCESSIONAL CHARGES STATEMENT

- Tax expenditures in 2007-08 are estimated at $3,960 million (compared with $3,970 million in 2006-07) and concessions are estimated at $1,305 million in 2007-08 (compared with $1,265 million in 2006-07).
- The main factors driving the reduction in tax expenditures in 2007-08 are lower land tax and mortgage duty tax expenditures, reflecting the land tax rate reduction for the 2008 land tax year and the abolition of mortgage duty on owner-occupied residences.
- By value, tax expenditures in 2007-08 are highest in payroll tax, purchaser transfer duty and general and life insurance. Together they represent around 57 per cent of total measurable tax expenditures.

7.1 INTRODUCTION

This Chapter estimates revenue forgone from tax expenditures and concessions and discusses definition and measurement issues related to the estimates. Appendix E 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 applies 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 E is to make the nature and estimated cost of tax expenditures and concessions more 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 classified here as tax expenditures. Rather, the different rates are regarded as a design feature of the duty arrangements.

Similarly, the provision of a good or service at varying rates to certain members of the community depending on say, income, is not classed as providing a concession for those charged at the lower rate. Rather, the different rates are regarded as a design feature of the pricing arrangements. For instance, public transport is generally provided at different rates to adults and children. However, the children's rate is not classified here as a concession, but a design feature of the pricing arrangements. (However, where some children receive an exemption from the normal children's fare, that is regarded as a concession).

There is also judgement involved in deciding what concessions funded by explicit budget payments are included in this Chapter and in Appendix E.

Concessions are included where the forgone agency revenue is supplemented from the Budget through Social Program Policy Payments. These concessions are included to make the cost of the concession to the total public sector apparent, regardless of whether an intra-government transfer offsets the cost of the concession for the agency concerned.

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 NSW Budget Papers (www.treasury.nsw.gov.au).

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. 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 transaction or service that enjoys 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 transactions benefiting from a service with a tax expenditure or concession. An example includes the land tax exemption provided to sporting clubs. 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 as:

- 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;

- the overlap of some tax expenditures and concessions means that the elimination of one exemption may not increase a taxpayer's tax liability or a client's liability to pay charges or fees. This means that the revenue forgone under a number of tax expenditures and concessions may be considerably less than the total obtained when 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; and

- removing tax expenditures provided to general government agencies would not represent a saving to the Budget since these agencies would require budget funding to meet their tax obligations and to enable them to provide the same level of service.

7.3 TAX EXPENDITURES

The estimates of tax expenditures in this Chapter are for the years 2005-06, 2006-07 and 2007-08 except for the estimates for land tax, which are for the 2006, 2007 and 2008 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	2005-06		2006-07		2007-08	
	Tax Exp. $m	*Tax Exp. as % of tax revenue collected*	*Tax Exp. $m*	*Tax Exp. as % of tax revenue collected*	*Tax Exp. $m*	*Tax Exp. as % of tax revenue collected*
Purchaser Transfer Duty	731	23.3	766	19.2	767	20.8
Vendor Transfer Duty	143	155.4	5	500.0	...	...
General and Life Insurance Duty	522	99.8	589	98.2	609	98.9
Mortgage Duty	346	106.8	365	102.8	290	119.3
Marketable Securities Duty	156	339.1	101	107.4	103	139.2
Payroll Tax	767	14.8	809	14.5	863	14.5
Land Tax	530	30.9	536	26.2	517	29.5
Taxes on Motor Vehicles	299	15.8	289	14.7	305	14.7
Parking Space Levy	17	37.8	21	40.4	22	43.1
Gambling and Betting Taxes	488	32.1	489	29.7	484	30.1
Total	**3,999**	**25.1**	**3,970**	**22.3**	**3,960**	**22.5**

Quantifiable tax expenditures (valued at more than $1 million) are estimated at $3,970 million in 2006-07, representing 22.3 per cent of total tax revenue. Tax expenditures are estimated to decrease by $10 million, to $3,960 million in 2007-08.

It is worth noting that several taxes show the value of measurable tax expenditures exceeding revenue raised. This is due to the large number of exemptions provided for those particular taxes and the considerable cost they represent.

Mortgage duty tax expenditures are estimated to decrease by $75 million in 2007-08. The decline reflects the Government's abolition of mortgage duty on owner-occupied residences from 1 September 2007. This means that the exemption provided to first home purchases is no longer captured, as mortgages for owner-occupied residences no longer form part of the mortgage duty benchmark.

Tax expenditures for payroll tax are the largest category of measurable tax expenditures, estimated at around 22 per cent of total tax expenditures in 2007-08. The value of tax expenditures for payroll tax is expected to increase in 2007-08 by $54 million. This is due to the higher cost of exemptions for public hospitals and Area Health Services and local councils.

Due to the reduction in the land tax rate from 1.7 per cent to 1.6 per cent for the 2008 land tax year, tax expenditures for land tax are estimated to decrease by $19 million in 2007-08.

The gambling and betting tax expenditures relate to the lower taxation of gaming machines in registered clubs compared to those in hotels. While the value of the tax expenditures in 2007-08 is estimated to decrease by $5 million, the size of the tax expenditures as a percentage of total gambling revenue is estimated to increase marginally. This is because estimated tax revenue from club and hotel gaming machine duty is predicted to fall due to the impact of smoking bans, which commence from 1 July 2007.

Table 7.2 provides a functional classification of tax expenditures.

Table 7.2: Tax Expenditures by Function [(a)]

Function	*2005-06*	*2006-07*	*2007-08*
	$m	*$m*	*$m*
General Public Services	194	203	215
Defence	...	...	...
Public Order and Safety	5	5	5
Education	109	116	124
Health	435	458	482
Social Security and Welfare	465	416	440
Housing and Community Amenities	530	568	558
Recreation and Culture	495	496	491
Fuel and Energy	...	...	...
Agriculture, Forestry, Fishing and Hunting	375	378	366
Mining and Mineral Resources (other than fuels), Manufacturing and Construction	...	...	...
Transport and Communications	34	40	42
Other Economic Affairs	1,352	1,285	1,232
Other Purposes	5	5	5
Total	**3,999**	**3,970**	**3,960**

(a) In past Budgets, this table compared the functional classification of tax expenditures with that of direct expenses. However, with administrative arrangements in some restructured government departments not fully in place, detailed program statements and a functional classification of expenses are not available. Therefore, calculation of tax expenditures by function as a percentage of expenses by function is not possible for the 2007-08 Budget.

In terms of revenue forgone, the largest categories of tax expenditures are Other Economic Affairs (which includes assistance to industry generally rather than a particular type of economic activity) and Housing and Community Amenities (including purchaser transfer duty and mortgage duty exemptions for first home buyers).

Tax expenditures in the Other Economic Affairs function are estimated to decrease in 2007-08, resulting from the expected return of tax expenditures related to corporate reconstructions to more usual levels and the estimated decline in the tax expenditure relating to refinanced loans, due to the abolition of mortgage duty on owner-occupied residences.

7.4 CONCESSIONS

Table 7.3 classifies the major concessions provided by the NSW Government by function. The total value of major concessions in 2007-08 is estimated at $1,305 million in 2007-08, an increase of $40 million from 2006-07.

Table 7.3: Concessions by Function [(a)(b)]

Function	*2005-06*	*2006-07*	*2007-08*
	$m	*$m*	*$m*
General Public Services	...	...	...
Defence	...	...	...
Public Order and Safety	...	...	...
Education	488	499	513
Health	89	93	97
Social Security and Welfare	382	383	391
Housing and Community Amenities	267	279	292
Recreation and Culture	5	7	8
Fuel and Energy	...	...	...
Agriculture, Forestry, Fishing and Hunting	4	4	4
Mining and Mineral Resources (other than fuels), Manufacturing and Construction	...	...	...
Transport and Communications	...	...	...
Other Economic Activities	...	...	...
Other Purposes	...	...	...
Total	**1,235**	**1,265**	**1,305**

(a) In past Budgets, this table compared the functional classification of concessions with that of direct expenses. However, with administrative arrangements in some restructured government departments not fully in place, detailed program statements and a functional classification of expenses are not available. Therefore, calculation of concessions by function as a percentage of expenses by function is not possible for the 2007-08 Budget.

(b) Figures presented in this table cannot be compared to previous Budgets, as 2007-08 Budget figures include subsidies paid to private transport operators, which were not included in the earlier versions of the statement.

Most concessions are concentrated in the Education and Social Security and Welfare functions. They comprise mainly concessional charges to pensioner concession card holders for transport, water and energy and the School Student Transport Scheme.

CHAPTER 8: FINANCIAL ARRANGEMENTS WITH THE COMMONWEALTH

- Fiscal federalism in Australia is characterised by very high vertical fiscal imbalance and overly complex horizontal fiscal equalisation according to the Warren Report.
- By 2007-08, New South Wales will have received around $840 million less in GST grants than was expected when the GST was introduced in 2000.
- New South Wales will abolish the taxes listed for review in the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*, commencing in 2007-08.
- New South Wales continues to cross subsidise other States by almost $2.5 billion in 2007-08, or in excess of $8 billion over four years.
- New South Wales believes that the current horizontal fiscal equalisation system needs fundamental reform, but will continue to contribute to the Grants Commission's 2010 review.

8.1 INTRODUCTION

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

The NSW Government now depends on Commonwealth grants for over 40 per cent of its revenue, compared with around 30 per cent 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 conflict over fiscal matters between the levels of government and results in confused accountability among the community.

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 which constrains their revenue raising capacity 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 fund their expenditure responsibilities.

The introduction of the GST worsened this imbalance because States were then required to abolish a number of their own taxes. The Commonwealth collects around 82 per cent of total national taxation revenue (including the GST), but is responsible for only around 54 per cent of own-purpose expenses.

The States collect around 15 per cent of taxation revenue and account for around 40 per cent of own-purpose expenses.[1] Commonwealth grants now account for over 40 per cent of NSW revenues, compared with around 30 per cent 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 currently defined by the Commonwealth Grants Commission (the Commission) as:

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

Under the current system the share of funding allocated to each State is recommended by the Commission to the Commonwealth Treasurer. The Commonwealth Treasurer determines the relativities factor under Clause 9 of the *A New Tax System (Commonwealth-State Financial Arrangements) Act 1999.*[3]

The Commonwealth Treasurer can accept or reject the Commission's recommendations, and therefore, has the ultimate responsibility to determine the grants to the States.

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[1] *Based on the latest available data from Australian Bureau of Statistics, Government Finance Statistics, Cat No. 5512.0, 2005-06.*

[2] *Commonwealth Grants Commission Report on State Revenue Sharing Relativities 2006 Update, p.4.*

[3] *Clause 9 states; "(1) The relativities factor for a State for a GST year is the factor determined in writing by the Treasurer. The Treasurer must determine the factor before 10 June in the GST year."*

The factors that determine the distribution of the GST revenue among the States matter if Australia is to convert potential efficiency improvements into actual efficiency gains. It makes little sense for New South Wales to be subsidising Queensland in the current environment, and Western Australia previously, when these States are booming.

8.2 THE NEED FOR REFORM – THE WARREN REPORT

New South Wales commissioned an independent review by Associate Professor Neil Warren of the University of New South Wales comparing and benchmarking Australian and international arrangements for the allocation of taxation powers and expenditure responsibilities between central and subnational governments, and mechanisms for fiscal transfers between governments.[4]

Warren found that, "*Australia performs comparatively poorly in international comparisons of intergovernmental fiscal arrangements. A review in the national interest is overdue and essential if Australia is to adequately meet the challenges of an ageing population. International experience shows that comprehensive reform to intergovernmental fiscal arrangements is being undertaken in many federations.*

Australia's system of intergovernmental fiscal arrangements is characterised by very high vertical fiscal imbalance (VFI) due to inadequate State tax powers, and complex and high level equalisation. These arrangements hinder adjustments in the economy that are essential for the economy to develop and grow, as it must if Australia is to meet future challenges." (page xix)

The range of reforms associated with the introduction of the GST increased the degree of vertical fiscal imbalance (VFI) in Australia. There has been a trend towards greater concentration of taxing powers in the hands of the Commonwealth since Federation.

New South Wales believes the current Commonwealth-State financial arrangements (including the GST arrangements which see revenues raised by one level of government allocated to a different level of government) to be unstable in the longer term.

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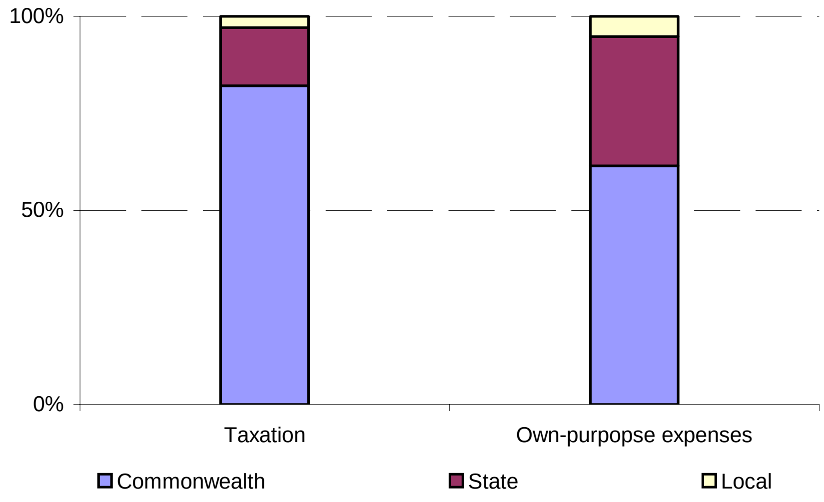
[4] *Warren, N, "Benchmarking Australia's Intergovernmental Fiscal Arrangements", Final Report, May 2006.*

Chart 8.1: Vertical Fiscal Imbalance in Australia

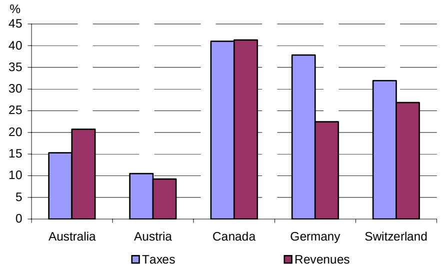


Australia has very high VFI compared to other developed federations. Australian States collect a low proportion of total taxes compared to Canadian, German and Swiss State governments. This means that State governments in Canada, Germany and Switzerland have the financial capacity to fund a much higher proportion of their expenditure from their own revenue sources than in Australia.

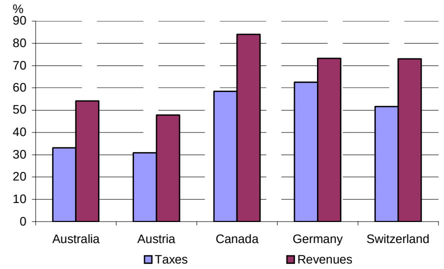
In Australia, Warren found that States' own-source revenue accounts for around 54 per cent of their expenditures (refer to Chart 8.2). State governments in Australia are much more dependent on fiscal transfers from the central government than most of the other federations studied in the Report.

Chart 8.2: International Indicators of Vertical Fiscal Imbalance

State Government own-source taxes / revenues as a percentage of total Government taxes / revenues



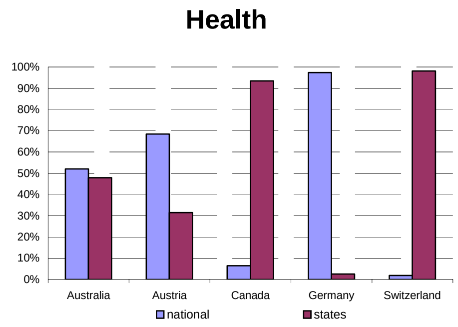
State Government own-source taxes and revenues as a proportion of State Government expenditures

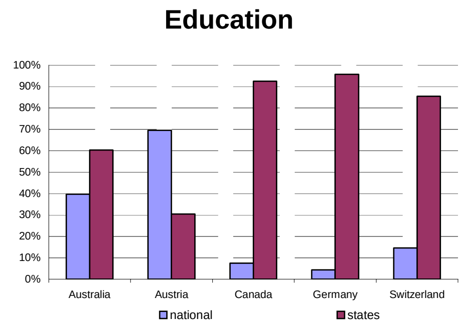


Warren found that expenditure responsibilities are generally allocated between the different levels of government in a relatively consistent fashion in the federations studied. The main points of difference between Australia and the other federations are in health and education.

Health and education funding is shared almost evenly between the Commonwealth and the States. In most other federations those responsibilities are allocated almost exclusively to one level of Government. This is illustrated in Chart 8.3.

Chart 8.3: Health and Education Funding by Level of Government





This division of expenditure responsibilities can result in inefficiency and avoidance of accountability by blaming the involvement of the other level of government.

The high degree of VFI in Australia means that the States are very dependent on the Commonwealth for fiscal transfers. High VFI can lead to reduced public accountability and can hinder the pursuit of economic efficiency.

Warren also found that Australia's system for distributing grants among the States rated poorly when compared to other developed federations.

Warren stated that, *"In relation to domestic and international arrangements for transfers from national to subnational governments, Australia's equalisation mechanism is the most complex and comprehensive of the comparator countries, despite Australia having relatively small economic differences across the States. For example, while Australia attempts to equalise both revenues and expenditures, Canada and Germany equalise on the revenue capacity side only.*

What makes Australia's horizontal fiscal equalisation (HFE) system unique is the degree to which the equalisation objective is pursued at the expense of efficiency. In fact, the system fails to strike a balance in that it strives to achieve full horizontal equalisation without regard to the efficiency costs. Furthermore, there is no objective benchmark to assess whether Australia achieves interstate equity. It would appear that other federations acknowledge more fully than does Australia a likely trade-off between the interjurisdictional equity benchmark and achievement of other benchmarks such as efficiency, transparency and simplicity." (page xxii)

According to Warren, *"Australia arguably has the most complex transfer mechanism of any comparator federation."* There is no evidence that the complex and data intensive nature of the Commonwealth Grants Commission's processes lead to any more reliable outcomes than the less complex and more transparent arrangements of other developed federations.

The key conclusions of Warren's Report are that Australia performs comparatively poorly against many of the criteria which define best practice fiscal federalism. International experience shows that:

- ♦ Australia's federal financial system is clearly in need of review in the national interest;
- ♦ comprehensive reform of intergovernmental financial arrangements has been recently undertaken in many federations; and
- ♦ if reform is necessary this should be possible without significantly disadvantaging any individual jurisdictions.

8.3 COMMONWEALTH GRANTS

The *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (IGA)[5] sets out the current Commonwealth-State financial arrangements.

The GST-based funding arrangements were supposed to provide States and Territories with a better deal than the previous system. It is, however, a myth that there has been a funding windfall to all States and Territories.

States signed the IGA with the understanding that national tax reforms would provide "*an improvement in the financial position of all State and Territory Governments .... relative to that which would have existed had the current arrangements continued.*" [6]

The GST has delivered New South Wales less funding from the Commonwealth than was expected when the new arrangements were implemented in 2000. In the seven years to 2006-07, New South Wales will have received around $980 million less than was expected in 2000. New South Wales has fared worst by far, being the only State to have received less than was initially expected.

The introduction of the GST in 2000-01 has not been accompanied by higher overall State revenue.

The share of all States' total revenue to gross domestic product (GDP) is relatively unchanged since the introduction of the GST (refer to Chart 8.4).

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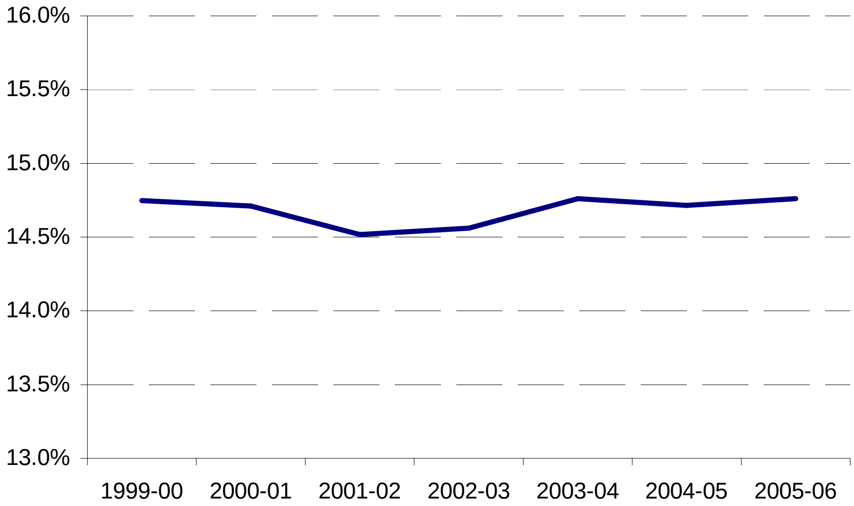
[5] *The Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations was signed in June 1999.*

[6] *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations, Clause 2(iii).*

Chart 8.4: All States' Total Revenue as a Share of GDP, 1999-2000 to 2005-06 [7]



The annual average growth rate for NSW total revenue is broadly unchanged in the five years before and after the introduction of the GST.

Table 8.1 outlines Commonwealth payments to New South Wales for the period from 2005-06 to 2010-11.

Table 8.1: Commonwealth Grants to New South Wales

	Actual	*Budget*	*Revised*	*Budget*	*Forward Estimates*		
	2005-06 $m	*2006-07 $m*	*2006-07 $m*	*2007-08 $m*	*2008-09 $m*	*2009-10 $m*	*2010-11 $m*
GST Revenue Grants	10,391	10,941	11,034	11,926	12,766	13,530	14,270
Compensation for GST Deferral	37	5	...	...	...	...	...
Guaranteed Minimum Amount/GST	**10,428**	**10,946**	**11,034**	**11,926**	**12,766**	**13,530**	**14,270**
National Competition Policy Payments	292	...	...	...	...	...	...
Total General Purpose Payments	**10,720**	**10,946**	**11,034**	**11,926**	**12,766**	**13,530**	**14,270**
Total Specific Purpose Payments	**6,368**	**6,679**	**6,846**	**7,190**	**6,833**	**7,000**	**6,973**
Total Grants	**17,088**	**17,625**	**17,880**	**19,116**	**19,599**	**20,530**	**21,243**

[7] *Total revenue data are sourced from the Australian Bureau of Statistics, Government Finance Statistics, Australia, 2005-06, Cat No. 5512.0. GDP data are from the Australian Bureau of Statistics, Australian National Accounts: State Accounts, 2005-06 (Reissue), Cat No. 5220.0.*

GST Revenue Grants

Commonwealth grants comprise general purpose payments and specific purpose payments.

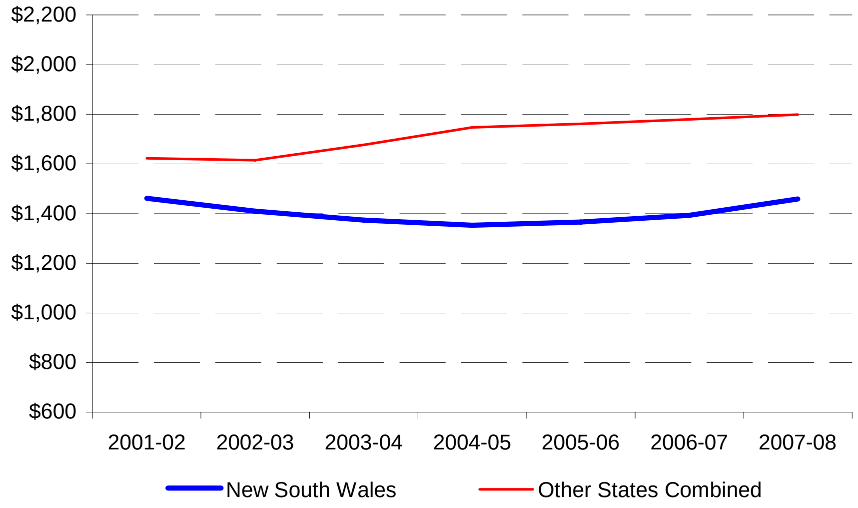
NSW general purpose payments (GST revenue grants and Budget Balancing Assistance (BBA) where applicable) have grown much more slowly over time than those of the other States.

From 2001-02 to 2007-08, the annual average growth rate for NSW general purpose payments is estimated at 3.5 per cent. The other States' annual average growth rate of around 6.1 per cent is nearly double that of New South Wales.

Chart 8.5 compares the Commonwealth general purpose payments, in real per capita terms, for New South Wales and all the other States combined for the period from 2001-02 to 2007-08. The chart shows that, in real per capita terms, general purpose payments to New South Wales are consistently much lower than those of all the other States combined.

In real per capita terms, the growth in the Commonwealth general purpose funding to New South Wales is flat from 2001-02 to 2007-08. This contrasts with the other States combined, whose funding is expected to *increase* by around 11 per cent in real per capita terms.

Chart 8.5: General Purpose Payments, Real Per Capita, 2001-02 to 2007-08



Expected GST Revenue and the Guaranteed Minimum Amount

The Guaranteed Minimum Amount (GMA) is supposed to represent what the States would have received under the previous financial arrangements. However, the GMA is not an unchanging baseline because it is affected by Commonwealth Government decisions and Grants Commission relativities.

This has led to a decline in NSW GMA over time reflecting the Commonwealth's 2002 unilateral decision to cease indexation of petroleum revenue replacement payments and as the relativities have declined. As a result, New South Wales has received less in GST revenue grants than was initially expected over the majority of the period since the introduction of the GST.

Table 8.2 shows the difference between the initial estimates of general purpose grants and subsequent general purpose payments to the States.

In 2006-07, New South Wales again received less in GST revenue grants than was expected when the GST was introduced in 2000-01, the only State to do so. Between 2000-01 and 2007-08, the cumulative loss to New South Wales is around $840 million. Other States' cumulative gains are nearly $14 billion over the same period.

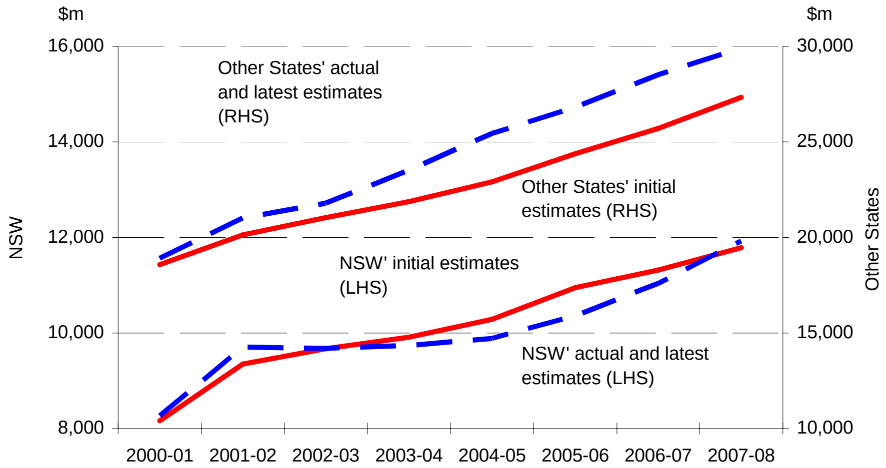
The table clearly shows that the impact of national tax reform has been unevenly distributed across the States. While New South Wales has received less, the other States have received more in funding from the introduction of the GST than was originally estimated.

Table 8.2: Difference between Initial Grants Estimates and Outcomes [8]

	NSW $m	VIC $m	QLD $m	WA $m	SA $m	TAS $m	ACT $m	NT $m
2000-01	103	79	148	3	63	24	6	3
2001-02	356	191	350	80	144	68	28	23
2002-03	8	12	383	75	113	98	10	60
2003-04	(177)	188	647	249	219	180	29	134
2004-05	(403)	422	1,050	523	261	174	11	86
2005-06	(586)	465	1,002	509	247	164	13	38
2006-07	(287)	993	903	468	237	172	13	22
2007-08	143	1,173	748	206	299	159	21	(23)
TOTAL	**(843)**	**3,523**	**5,231**	**2,113**	**1,583**	**1,039**	**131**	**343**

New South Wales is expected to receive marginally more than initially estimated in 2007-08. However, the large cumulative loss remains. As shown in Chart 8.6, New South Wales remains well behind the other States in a comparison between outcomes and initial expectations.

Chart 8.6: GST Revenue − Initial Estimates and Outcomes



[8] *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.*

Though less than expected at the time of introduction of the GST, NSW GST revenue grants were above the GMA for the first time in 2004-05, making it the last State to not require top-up funding (see Table 8.3).

Over the period to 2006-07, New South Wales has received significantly less GST above the GMA than other States. The cumulative amount above GMA to New South Wales was $62 per capita, compared to $459 per capita for the other States.

On current estimates, New South Wales expects to receive $91 per capita in GST above the GMA in 2007-08, the lowest of any State. All other States' amount of GST above the GMA is estimated at $183 per capita in 2007-08.

Table 8.3: Amount of GST above GMA

	NSW	*VIC*	*QLD*	*WA*	*SA*	*TAS*	*ACT*	*NT*	*Total*	*Total exc NSW*
	$m	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*
2000-01	…	…	…	…	…	…	…	…	…	…
2001-02	…	…	…	…	…	…	…	…	…	…
2002-03	…	…	76	…	…	…	…	10	86	86
2003-04	…	112	502	150	95	70	39	110	1,078	1,078
2004-05	209	296	769	250	175	106	56	141	2,002	1,793
2005-06	56	173	604	224	174	102	54	133	1,520	1,464
2006-07	162	450	681	327	203	109	61	119	2,112	1,950
TOTAL	**427**	**1,031**	**2,632**	**951**	**647**	**387**	**210**	**513**	**6,798**	**6,371**
$ per capita	62	201	644	458	415	790	635	2,461	328	459
Expected										
2007-08	631	725	830	429	269	117	82	124	3,207	2,576
$ per capita	91	139	199	203	171	237	246	587	153	183

GMA estimates do not account for the Commonwealth's 2002 unilateral change to transitional payments to the States, by ceasing to index the value of petroleum revenue replacement payments.

Excluding indexation in the calculation of the GMA is not only contrary to the methodology[9] agreed by all Governments for determining the GMA but is also inconsistent with the intent of the IGA that States not be worse off.

[9] *The methodology used to calculate the amounts of the components of the GMA is set out in "Methodology for Estimation of Components of the Guaranteed Minimum Amounts". The method was agreed by the Heads of Treasuries and is specified in the IGA, Appendix C, Clause C8.*

This has cost New South Wales nearly $550 million in revenue forgone from 2002-03 to 2007-08. If petrol indexation had still been included in the calculation of the GMA, New South Wales would have continued to require BBA up to 2005-06.

NATIONAL COMPETITION POLICY PAYMENTS

In 1994, the Council of Australian Governments (COAG) agreed that the Commonwealth would share a proportion of the revenue it gained from National Competition Policy (NCP) with the States and Territories through competition payments. Payments would be conditional on States and Territories making progress against NCP commitments, as assessed by the National Competition Council.

Since the 2005 NCP assessment, the National Water Commission (NWC) assumed responsibility for assessing jurisdictions progress on their water reform obligations under the National Water Initiative.

In 2005, the NWC recommended that the Commonwealth:

- suspend $13.3 million for perceived lack of progress with interstate water trading in the Murray Darling Basin; and
- re-suspend half of the $26 million 2004-05 suspension for lack of transparency and scientific rigour in water planning.

Both water related suspensions are recoverable, subject to assessment by the NWC in 2007. New South Wales awaits the NWC's 2007 assessment and the Commonwealth's response on the suspended $26.3 million.

To further demonstrate compliance with NCP, New South Wales has undertaken an independent peer review of macro water plans. The water sharing plan process has been improved by incorporating scientific information, decisions and community discussion results into background reports for each draft macro water sharing plan.

New South Wales is currently implementing a State-wide *Monitoring, Evaluation and Reporting Strategy* that generates data to inform investment and policy decisions, support adaptive management and inform the evaluation of progress towards natural resource targets recommended by the National Resources Commission.

Given the Commonwealth's 2004 announcement to abolish competition payments after 2005-06, the suspended $26.3 million is the final competition payment available to New South Wales. It is not included in Table 8.1.

SPECIFIC PURPOSE PAYMENTS

Specific purpose payments (SPPs) are grants from the Commonwealth to the States contingent on the States' compliance with certain conditions.

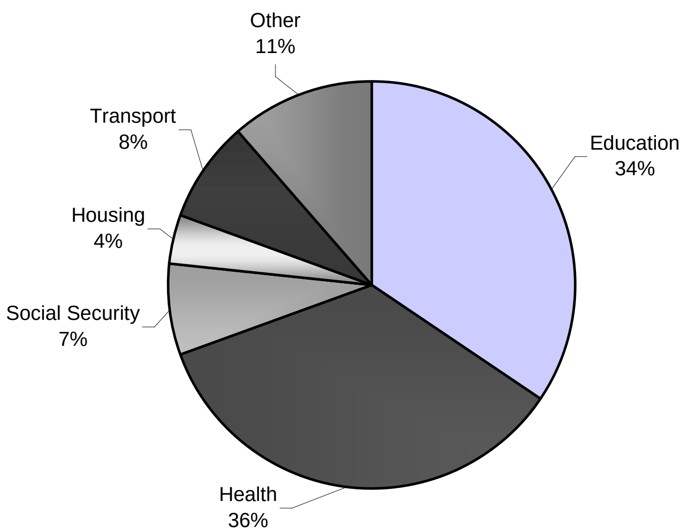
In 2007-08, New South Wales expects to receive $7.2 billion in SPPs, just over a third of total Commonwealth grants to New South Wales.

SPPs commonly have a duration of three to five years depending on the terms of the individual SPP agreements, which are separately negotiated between the Commonwealth and each State. The limited duration of the agreements does not provide certainty over this significant portion of Budget revenues.

A substantial portion of the SPP funding is paid to the States but some Commonwealth payments are also passed on 'through' the States to other bodies, such as local governments and non-government schools.

Chart 8.7 shows the allocation of SPPs across various areas.

Chart 8.7: Composition of Estimated SPPs 'to' & 'through' the States, 2007-08



Source: Commonwealth's 2007-08 Budget[10]

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[10] *Commonwealth's 2007-08 Budget Paper No.3, Federal Financial Relations, Appendix D, p. 49.*

Table 3.6 in Chapter 3 lists the major specific purpose payments to New South Wales.

While SPPs provide about 16.0 per cent of NSW revenues, they have a disproportionate impact on the Budget:

- matching and maintenance of expenditure requirements may dictate that the State dedicate a larger portion of its discretionary expenditure to certain areas by redirecting State funding from higher priorities; and

- while SPPs are indexed to movements in consumer prices and the minimum wage, payments fail to keep up with actual costs.

New South Wales is working closely with the Commonwealth and the other States through the Heads of Treasuries' Specific Purpose Payments Working Group to identify elements in existing SPP arrangements that could be improved.

Table 8.1 assumes no policy change and so the numbers are based on these SPP agreements continuing as they are.

8.4 NEW NATIONAL REFORM AGENDA

In addition to recommitting to the principles in the Competition Principles Agreement under the 1995 National Competition Policy agreement, the Council of Australian Governments agreed at its meeting in April 2007 to:

- Human capital reforms:

  - a new cost-shared package between the Commonwealth, State and Territory Governments of $200 million to address the significant growth in type 2 diabetes;

  - a core set of nationally-consistent teacher standards for literacy and numeracy to be developed by the end of 2007; and

  - an intergovernmental agreement on a national approach to quality assurance and regulations for early childhood and child care to be developed by 2008.

- Regulation reforms:
  - options to be developed in ten cross-jurisdictional regulatory ‘hotspots’;
  - adoption of ‘best practice’ regulatory principles to apply to new and existing government regulations;
  - targeted annual reviews of red tape;
  - benchmarking of the compliance costs of regulation in targeted areas; and
  - completion of the priority legislation reviews required under NCP.
- Further energy market reforms:
  - a National Energy Market Operator for electricity and gas encompassing a new national transmission planning function (subject to certain constraints being imposed on the operation of the new planning function); and
  - a staged national mandated roll out of electricity smart meters to areas where benefits exceed costs.
- National road and rail freight transport reforms:
  - a three-phased road program to provide better price signals for transport freight infrastructure providers and users; and
  - jurisdictions determining their urban congestion strategy using ‘best practice’ principles identified in COAG’s Urban Congestion Review.
- Infrastructure regulation and planning:
  - a simpler and consistent national approach to economic regulation of nationally significant infrastructure;
  - enhanced competitive neutrality principles for government businesses;
  - a national system of access regulation for significant rail networks; and
  - review of regulation and effectiveness of competition in significant ports.

- Climate change:

  - a National Adaptation Framework as the basis for jurisdictional actions on adaptation over the next five to seven years (the framework includes possible actions that jurisdictions could undertake to assist vulnerable sectors and regions, such as agriculture and water resources, to adapt to the impacts of climate change); and

  - a mandatory National Greenhouse Gas Emissions and Energy Reporting System.

- The establishment of the COAG Reform Council (CRC):

  - to monitor and report annually to COAG on progress in forwarding the National Reform Agenda (NRA) more generally as well as monitor the implementation of those specific transport, energy, regulation and infrastructure reforms referred to it by COAG; and

  - to provide COAG with broad 'ex-post' assessments of the costs and benefits of these individual reform packages.

FUNDING THE NRA

The Commonwealth has rejected the idea of 'up-front payments' similar to those NCP style payments which acted as an incentive for States to undertake agreed NCP reforms.

New South Wales considers that the following funding arrangements would provide for more effective reform outcomes under the NRA:

- recognising up-front, ongoing implementation and structural adjustment grants covering the costs of reforms;

- grants reflecting a fair share of the expected economic and fiscal dividends of the NRA; and

- Commonwealth general purpose payments to jurisdictions on achievement of reform milestones (as per NCP payments).

New South Wales has publicly released its Jurisdictional Action Plans which set out human capital reform commitments. These action plans detail significant investment in diabetes, literacy and numeracy and early childhood and child care totalling over $1 billion over the next four years, with significant expenditure in 2007-08.

The plans also align with and address the priorities set out in the NSW State Plan. The commitments have been included in the forward estimates and complement existing NSW Government programs:

- Diabetes – $202 million over the four years between 2007-08 and 2010-11 (plus $35 million in funding from July 2006);
- Literacy and Numeracy – $336 million over the four years between 2007-08 and 2010-11 (plus $12 million in funding from February 2006); and
- Early childhood and child care – $499 million over the four years between 2007-08 and 2010-11 (plus $106 million in funding from February 2006).

The nature of reforms under the NRA generally requires jurisdictions to undertake substantial up-front investments which may take many years for the full benefits to be realised.

New South Wales, like most States and Territories, has a limited fiscal capacity to meet these up-front expenditure commitments, which have a large fiscal burden on the 2007-08 Budget and forward estimates.

Productivity Commission modelling released in February 2007 indicates that the NRA is likely to generate large benefits to the Commonwealth, State and Territory governments through increased economic activity and higher incomes.

Achieving the full potential benefits of the NRA will require further development of human capital reforms, supported by funding commitments from all levels of government.

Significant Commonwealth funding will be required in recognition of the relative size of the likely fiscal benefits flowing to the Commonwealth from these NRA reforms.

The NRA is a substantial addition to the NCP and is expected to boost Australian productivity and workforce participation. However, there is potential to achieve a broader, more ambitious reform program to the overall benefit of the Australian economy. This could include expanding reforms under the three priority areas of the human capital stream, developing better work incentives to generate greater workforce participation, and further reforms to improve the competitiveness of nationally significant industries.

The Commonwealth, State and Territory Governments should continue to work collaboratively through COAG to develop and champion a comprehensive reform program under the NRA banner.

8.5 NSW OBLIGATIONS UNDER THE INTERGOVERNMENTAL AGREEMENT

New South Wales has met all of its commitments to abolish or reduce State taxes specified in the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*.

Taxes to be Abolished Under the IGA

- 1 July 2000 − Bed Taxes (cumulative revenue impact of $592 million to 2006-07);

- 1 July 2001 − Financial Institutions Duty (cumulative revenue impact of $4.3 billion to 2006-07);

- 1 July 2001 − Marketable Securities Duty on listed securities (cumulative revenue impact of $3.8 billion to 2006-07); and

- 1 January 2002 − Debits Tax (3½ years ahead of the schedule in the IGA, cumulative revenue impact of $1.9 billion to 2006-07).

Taxes to be Reviewed Under the IGA

New South Wales took part in the 2005 Ministerial Council Review of the taxes listed in the IGA, namely, stamp duty on non-residential conveyances; unquoted marketable securities; leases; mortgages; debentures, bonds and other loan securities; credit arrangements, instalment purchase arrangements and rental arrangements; and cheques, bills of exchange and promissory notes.

The conclusion reached by the Ministerial Council was that sustainable taxation reform can only be achieved where such measures are consistent with sound fiscal policy.

New South Wales announced a schedule for the phasing out of the remaining stamp duties that were listed for review under the IGA in last year’s Budget.

In addition, the NSW Government has decided to bring forward the abolition of mortgage duty earlier than previously announced.

The revised timetable for the abolition of mortgage duty is:

- 1 September 2007 – for individuals taking out mortgages of owner-occupied residences;
- 1 July 2008 – for individuals taking out mortgages of non-owner-occupied residences; and
- 1 July 2009 – complete abolition.

The Commonwealth is now calling on States to remove stamp duty on business conveyances of real property.

The Commonwealth's call is contrary to the conclusions of the 2005 Ministerial Council Review of the IGA taxes. The IGA does not require the States to abolish stamp duty on business real property, and this tax cannot at this time be abolished in a fiscally responsible manner. The IGA stated that:

"The Ministerial Council will by 2005 review the need for retention of stamp duty on non-residential conveyances; leases; mortgages, debentures, bonds and other loan securities........"[11]

Legal advice from Mr Brett Walker SC also confirmed that New South Wales fulfilled all its obligations under the IGA. This advice stated that:

"The fact that, as a result of the review, New South Wales perceived a need, for the time being, to retain the stamp duties in question cannot possibly on any legal view constitute a breach of the Agreement by New South Wales."[12]

Abolition of this tax according to the Commonwealth's schedule would incur a net cost to New South Wales of around $2.5 billion over the three years from 2007-08 to 2009-10 and would provide a financial disadvantage to purchases of residential property.

Abolition of this tax would lead to a significant reduction in NSW ability to deliver services.

Abolition of this tax raises tax avoidance issues in determining business and non-business use.

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[11] *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations, Clause 5(vii).*

[12] *Legal advice prepared by Brett Walker SC for New South Wales, 4 May 2005, paragraph 28.*

8.6 COMMONWEALTH GRANTS COMMISSION'S 2007 UPDATE

Each year the Commonwealth Grants Commission recommends to the Commonwealth Treasurer the relativities used in the distribution of the GST revenues among the States and Territories. The relativities attempt to take account of changes in States' revenue capacities and relative expenditure needs. It is the Commonwealth Treasurer who ultimately determines the relativities under Clause 9 of the *A New Tax System (Commonwealth-State Financial Arrangements) Act 1999*.

The total GST pool size is estimated at $41.9 billion in 2007-08. The distribution of this revenue has significant implications for States' and Territories' ability to fund services.

The 2007 Update increased NSW relativity in 2007-08. This, however, does little to restore NSW funding following years of relativity decreases, nor does it prevent New South Wales continuing to cross subsidise other States.

Table 8.1 shows that NSW estimated GST revenue grants of $11.9 billion in 2007-08 are $892 million higher than in 2006-07. This increase predominantly reflects growth in the GST pool, as well as population movements and movements in the relativities.

Table 8.4 illustrates the effect of the updated relativities on the share of the GST grant to States and Territories in 2007-08. The table does not include changes in the total GST pool or population estimates on the actual GST revenue grants. That is, it assumes the size of the total GST pool and population remain unchanged.

Table 8.4: Effect of 2007 Data Update on the States in 2007-08

	NSW	*VIC*	*QLD*	*WA*	*SA*	*TAS*	*ACT*	*NT*
Total, $m	277	64	(166)	(272)	69	(5)	13	20
% of each State's GST grants	2.3	0.7	(2.0)	(6.9)	1.8	(0.3)	1.6	0.9

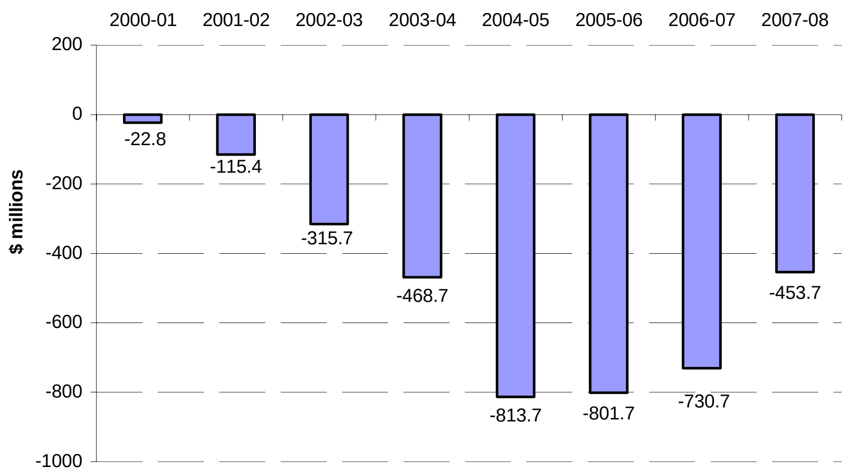
The Commission's 2007 Update shows New South Wales will gain $277 million in GST in 2007-08 as a result of the change in relativities. The gain is the net effect of:

- data revisions for 2001-02 to 2004-05;
- the gradual removal of State taxes on financial transactions and unquoted marketable securities; and
- replacing 2000-01 data with 2005-06 data as part of the Commission's five-year rolling averaging process.

Despite this gain in 2007-08, New South Wales continues to experience a large cumulative annual loss from changes in the relativities since the introduction of the GST.

Chart 8.8 shows that NSW cumulative annual relativity change is $450 million, the highest loss of any State, as a result of changes in relativities between 2000-01 and 2007-08. Over the same period, New South Wales has lost over $3.5 billion in total due to changes in relativities.

Chart 8.8: NSW Cumulative Annual Loss from Changing Relativities, 2000-01 to 2007-08



As the Commission uses a five-year rolling average in calculating the relativities (data from 2001-02 to 2005-06 were used in the 2007 Update), revisions to historical data up to six years prior to the current year can still affect the relativities.

Major changes in the Commission's assessment for New South Wales in the 2007 Update are listed in Table 8.5.

Table 8.5: Major Factors Impacting NSW Relativity – 2007 Update

Factor	*$ million*
Wages Input Costs	(107.7)
Stamp Duty on Conveyances	201.9
Abolition of Certain IGA Taxes	101.9
Population Characteristics	39.4

The replacement of 2001 wages data sourced from the Australian Bureau of Statistics (ABS) Survey of Education and Training (SET) with 2005 ABS SET data showed relatively slower growth in NSW wages compared to the Australian average. The relative decline in NSW wage levels resulted in a reduction in NSW grant share.

The Commission assessed that New South Wales has less capacity to raise revenue from stamp duty on conveyances (or transfer duty) as a result of lower growth in the value of turnover in NSW property market than in the other States.

In 2007-08, taxes on financial transactions (specifically, stamp duties on leases and hire of goods for New South Wales) and unquoted marketable securities will be gradually removed. The Commission considered the 2007-08 relativities should reflect the importance of these IGA taxes on State Budgets in 2007-08.

The progressive removal of these taxes, in which New South Wales had an above average revenue raising capacity (and as a result had previously resulted in a loss of revenue), led to an increase in its grant share.

New South Wales also increased its grant share as a result of a higher proportion of students at government schools and users of vocational education training and inpatient services in hospitals compared to the other States.

GST Per Capita

The current system for distributing the GST revenue between States gives rise to a large cross subsidy from New South Wales to the other States (except for Victoria and Western Australia, which became a donor state in 2007-08). This cross subsidy is clear when the GST revenue grants are compared to an equal per capita distribution or to the amount of GST generated in each State.

In per capita terms, the average GST revenue grant for New South Wales, Victoria and Western Australia, the donor States, will be $1,757 per capita in 2007-08. In comparison, the remaining States' average per capita grant will be 1.4 times higher, at $2,483. The average GST revenue grant for New South Wales will be even lower, at $1,721 per capita in 2007-08 (refer to Table 8.6).

Table 8.6: GST Revenue Grants Per Capita, 2007-08

State/Territory	*GST Revenue Grants ($ per capita)*
New South Wales	1,721
Victoria	1,760
Western Australia	1,866
Queensland	2,013
South Australia	2,449
Australian Capital Territory	2,466
Tasmania	3,338
Northern Territory	10,050
Average, 3 Donor States	**1,757**
Average, 5 Recipient States	**2,483**
AUSTRALIAN AVERAGE	**1,991**

In 2007-08, the three donor States will subsidise the remaining States by $3,335 million compared with an equal per capita basis. Of this, New South Wales will transfer $1,868 million, or $270 per capita, to the recipient States (see Table 8.7).

Table 8.7: Cross Subsidies − Equal Per Capita Benchmark, 2007-08

	NSW	*VIC*	*QLD*	*WA*	*SA*	*TAS*	*ACT*	*NT*
Total, $m	(1,868)	(1,203)	90	(264)	720	664	158	1,703
$ per capita	(270)	(231)	22	(125)	458	1,347	475	8,059

Table 8.8 disaggregates NSW subsidy to the recipient States in 2007-08, on an equal per capita benchmark.

Table 8.8: NSW GST Cross Subsidy − Equal Per Capita Benchmark, 2007-08

	QLD	*SA*	*TAS*	*ACT*	*NT*	*Total*
Total, $m	50	403	372	89	954	1,868
$ per capita	7	58	54	13	138	270

Another way of measuring the transfers from donor to recipient States is to compare GST revenue grants with the amount of GST generated in each State.[13]

Activity in New South Wales is estimated to generate $14.3 billion in GST revenue in 2007-08. New South Wales will receive only about $11.9 billion in GST revenue grants. This is a cross subsidy to the other States (except for Victoria and Western Australia) of around $2.4 billion, or $342 per capita. Alternatively, for every $1 in GST generated in New South Wales, only about 83 cents is returned to this State (see Table 8.9).

[13] *State contributions to GST revenue are estimated by the New South Wales Treasury based on the GST generating activity in each State. Data are sourced from Australian Bureau of Statistics, Australian National Accounts: State Accounts 2005-06, Cat No. 5520.0. The estimates are <u>not</u> based on the location of the business remitting GST revenue. On that basis, the cross subsidy from New South Wales would be much larger.*

Table 8.9: GST Generated and GST Grants, 2007-08

	NSW	*VIC*	*QLD*	*WA*	*SA*	*TAS*	*ACT*	*NT*
Generated, $b	14.3	10.5	8.0	4.0	2.9	0.9	0.8	0.4
Grants, $b	11.9	9.1	8.4	3.9	3.9	1.6	0.8	2.1
Cross Subsidy, $b	(2.4)	(1.4)	0.4	(0.1)	0.9	0.8	…	1.7
Cross Subsidy, $ per capita	(342)	(268)	94	(43)	582	1,586	107	8,169

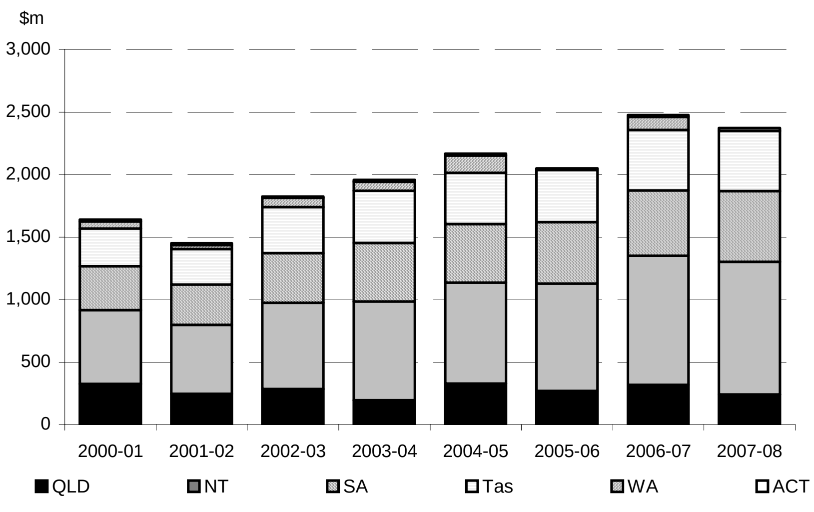
Table 8.10 provides a break up of NSW estimated subsidy to the recipient States in 2007-08, on a GST generated basis.

Table 8.10: NSW GST Cross Subsidy − GST Generated Benchmark, 2007-08

	QLD	*SA*	*TAS*	*ACT*	*NT*	*Total*
Total, $m	241	564	481	22	1,062	2,370
$ per capita	35	81	69	3	153	342

This cross subsidy has been increasing over time (refer to Chart 8.9).

Chart 8.9: NSW Cross Subsidy to Recipient States



8.7 COMMONWEALTH GRANTS COMMISSION'S 2010 REVIEW

Apart from updating the recommended distribution of GST revenue grants among the States and Territories each year, the Commission also undertakes a major review of the method used to calculate the relativities every five or six years. The next methodology review is due to report by 26 February 2010.

The terms of reference for the 2010 Review direct the Commission to:

- aggregate and otherwise simplify its assessments;
- apply a materiality threshold to assessments;
- eliminate unreliable assessments;
- address data quality and quality assurance issues; and
- undertake a program of continuous improvement of assessments (data and methods).

The 2007 report to the Treasurers' Conference outlined the Commission's progress in 2006 on its clean slate, top-down approach to the assessment framework. The report also contained the Commission's proposed preliminary revenue and expense category structures and possible broader measures of the drivers of interstate differences.

The 2010 Review could have provided an excellent opportunity for a fundamental reform of Commonwealth-State financial relations beyond simplifying existing funding arrangements. However, the restricted terms of reference do not permit a broader review of fiscal equalisation.

Nevertheless, New South Wales will continue to participate in this review and to push for a change to the current system, including revisiting the rationale and mechanisms for horizontal fiscal equalisation.

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 2001-02 to 2010-11 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. From 2005-06, transactions have been recognised in accordance with Australian Equivalents to International Financial Reporting Standards (AEIFRS). Prior to 2005-06, transactions have been recognised and measured on a pre-AEIFRS basis.

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 the Uniform Presentation Framework (UPF) agreed by the Australian Loan Council. The format of the aggregates is based on the reporting standards of the Australian Bureau of Statistics (ABS) accrual Government Finance Statistics (GFS) framework.

The Australian Loan Council is presently reviewing the UPF with a view to updating the UPF disclosures on a harmonised GFS-GAAP basis effective from the 2008-09 Budget.

[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 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 a table of general government taxes by type. The tables of general government expenses and purchases of non-financial assets by function are not published, as not all the functional data is available for NSW agencies affected by the administrative restructure of April 2007. This data will be published in July 2007.

Section 9.5 presents estimates of the State's Loan Council Allocation (LCA) for 2007-08 and compares this to the original LCA bid provided to the March 2007 Treasurers' Conference. Information is also presented in Section 9.6 on Privately Financed Projects for 2006-07 and 2007-08 in accordance with Loan Council reporting requirements.

Chapter 5 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 the composition of GFS revenues[2] and expenses[3] as well as 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. Net gains derived from the difference between asset sales proceeds and their written down value, are also considered GFS re-measurement differences and are consequently 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) 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 use the term "PFE".*

Net financial worth measures net holdings of financial assets. It is calculated from the balance sheet as financial assets minus total liabilities (i.e. 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 Financial Worth differs from Net Financial Liabilities used elsewhere in the Budget Papers as it includes the value of general government equity in the PTE and PFE sectors.

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 the establishment of the General Government Liability Management Fund, which commenced operations in 2002-03 and will conclude operations in 2006-07. 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 the operations of the General Government Liability Management Fund.

COMPARISON TO ACCRUAL BASED ACCOUNTING REPORTS

Information reported in the accrual UPF tables is generally consistent with that reported elsewhere in other chapters. 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 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.

The Australian Accounting Standards Board (AASB) has adopted a priority project to harmonise Government Finance Statistics (GFS) and Generally Accepted Accounting Principles (GAAP) reporting. The objective is to achieve Australian accounting standards for a set of government reports which are auditable, comparable between jurisdictions and in which the outcome statements are directly comparable with the relevant budget statements.

The AASB has issued a new standard AASB 1049 *Financial Reporting of General Government Sectors by Governments*, which is applicable from the 2008-09 fiscal year. The AASB is also planning to issue a similar standard for Total Public Sector reporting.

The Australian Loan Council is presently reviewing the UPF with a view to updating the UPF disclosures effective from the 2008-09 Budget.

It is proposed that the updated UPF will be prepared next year on a harmonised GFS-GAAP basis, consistent with the new harmonised accounting standards.

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 its 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 No. 5514.0).

CLASSIFICATION OF PUBLIC SECTOR ENTITIES

Public sector entities in New South Wales can be classified as general government entities (GGEs), public trading enterprises (PTEs) or public financial enterprises (PFEs).

GGEs consist of those public sector entities that provide, in the main, goods and services outside the market mechanism as well as providing for the transfer of income for public policy purposes. The major form of financing of these goods and services is by taxation, imposed by the State or by the Commonwealth and subsequently on-passed to the State. In New South Wales, most government departments and a number of statutory authorities, e.g. WorkCover Authority, fit into this category.

In contrast, PTEs charge for services provided and hence have a broadly commercial orientation. They do not, however, necessarily operate in competitive markets. While PTEs are not required to be fully self-funding, a substantial portion of their costs must be met by user charges. The PTE sector in New South Wales includes for example Eraring Energy, TransGrid, Sydney Water Corporation and Rail Corporation New South Wales.

PFEs are the third category of authorities in the ABS framework. NSW Treasury Corporation is the major entity in New South Wales operating in this sector. PFEs are not included in this chapter as the Uniform Presentation Agreement only requires the publication of PFE data ex-post. Further, forward estimates of financial transactions in this sector are subject to considerable uncertainty.

Appendix C lists NSW public sector entities and their sector classifications.

The non-financial public (NFP) sector is a consolidation of GGEs and PTEs.

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 9.10 of this chapter provides estimates on a comparable basis to those which the ABS will be publishing.

Tables showing a functional dissection of total general government expenses and capital expenditure are not available at this time as a result of recent agency restructures. Functional data will be published in July 2007.

Table 9.1: NSW General Government Sector Operating Statement (ABS Basis)

		Actual 2001-02 $m	Actual 2002-03 $m	Actual 2003-04 $m	Actual 2004-05 $m	Actual 2005-06[(a)] $m	Revised 2006-07[(a)] $m	Budget 2007-08[(a)] $m	Forward Estimates 2008-09[(a)] $m	Forward Estimates 2009-10[(a)] $m	Forward Estimates 2010-11[(a)] $m
	GFS Revenue										
	Taxation revenue	13,216	14,153	15,026	15,332	15,910	17,775	17,562	18,354	19,275	20,439
	Current grants and subsidies	15,873	16,475	16,905	17,659	18,744	19,343	20,597	21,295	22,218	23,196
	Capital grants	891	914	900	1,130	1,153	1,342	1,507	1,273	1,286	1,030
	Sales of goods and services	2,681	2,890	2,979	3,122	3,373	3,631	3,741	3,879	4,010	4,167
	Interest income	282	440	862	1,051	1,298	1,380	781	803	848	887
	Other	2,559	2,875	2,964	3,076	3,532	3,350	3,328	3,773	3,596	3,702
	Total Revenue	**35,502**	**37,747**	**39,636**	**41,370**	**44,010**	**46,821**	**47,516**	**49,377**	**51,233**	**53,421**
less	**GFS Expenses**										
	Employee expenses	14,845	15,865	17,155	18,223	19,451	20,337	21,555	22,405	23,035	23,824
	Depreciation	1,638	1,779	1,927	1,994	2,127	2,276	2,429	2,564	2,685	2,796
	Other operating expenses	8,622	9,417	9,625	9,834	9,758	10,448	10,903	11,316	11,694	12,205
	Nominal superannuation interest expense	564	745	860	919	933	788	501	506	512	518
	Other interest expenses	868	803	788	1,060	1,182	1,226	1,321	1,491	1,657	1,760
	Other property expenses	...	...	...	...	...	...	...	...	...	...
	Current transfers	5,535	6,044	6,870	7,203	7,902	8,517	8,682	8,687	8,872	9,072
	Capital transfers	1,864	1,342	1,258	1,413	1,663	2,785	1,749	1,926	2,195	2,798
	Total Expenses	**33,936**	**35,995**	**38,483**	**40,646**	**43,016**	**46,377**	**47,140**	**48,895**	**50,650**	**52,973**
equals	**GFS Net Operating Balance**	**1,566**	**1,752**	**1,153**	**724**	**994**	**444**	**376**	**482**	**583**	**448**

Table 9.1: NSW General Government Sector Operating Statement (ABS Basis) (cont)

		Actual 2001-02 $m	Actual 2002-03 $m	Actual 2003-04 $m	Actual 2004-05 $m	Actual 2005-06[a] $m	Revised 2006-07[a] $m	Budget 2007-08[a] $m	Forward Estimates 2008-09[a] $m	2009-10[a] $m	2010-11[a] $m
less	**Net Acquisition of Non-financial Assets**										
	Purchases of non-financial assets [b]	2,751	3,004	3,019	3,144	3,873	4,144	4,691	4,351	4,492	4,131
	less Sales of non-financial assets	(596)	(366)	(406)	(491)	(396)	(442)	(469)	(409)	(484)	(520)
	less Depreciation	(1,638)	(1,779)	(1,927)	(1,994)	(2,127)	(2,276)	(2,429)	(2,564)	(2,685)	(2,796)
	plus Change in inventories	...	4	21	(26)	6	...	(2)	(2)	2	1
	plus Other movements in non-financial assets										
	- finance leases [b]	351	345	312	187	81	131	246	313	63	66
	- other	125	83	93	82	72	54	14	397	76	63
	equals Total Net Acquisition of Non-financial Assets	**993**	**1,291**	**1,112**	**902**	**1,509**	**1,611**	**2,051**	**2,086**	**1,464**	**945**
equals	**GFS Net Lending / (Borrowing)**	**573**	**461**	**41**	**(178)**	**(515)**	**(1,167)**	**(1,675)**	**(1,604)**	**(881)**	**(497)**

Notes:

(a) 2005-06 and forward years are based on 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.

(b) Elsewhere in the Budget Papers reference is made to Capital Expenditure, which comprises 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 2001-02 $m	Actual 2002-03 $m	Actual 2003-04 $m	Actual 2004-05 $m	Actual 2005-06[(b)] $m	Revised 2006-07[(b)] $m	Budget 2007-08[(b)] $m	Forward Estimates 2008-09[(b)] $m	Forward Estimates 2009-10[(b)] $m	Forward Estimates 2010-11[(b)] $m
	GFS Revenue										
	Sales of goods and services	9,347	9,371	9,874	10,243	10,417	10,894	11,456	12,190	13,068	13,926
	Current grants and subsidies	1,072	1,404	1,693	1,741	2,152	2,136	2,131	2,311	2,310	2,356
	Capital grants	925	690	698	760	964	2,042	845	1,047	1,433	2,030
	Interest income	78	85	83	72	112	101	68	57	56	62
	Other	870	827	768	719	789	721	720	677	691	721
	Total Revenue	**12,292**	**12,377**	**13,116**	**13,535**	**14,434**	**15,894**	**15,220**	**16,282**	**17,558**	**19,095**
less	**GFS Expenses**										
	Employee expenses	3,017	2,985	3,013	3,177	3,331	3,455	3,600	3,697	3,823	3,941
	Depreciation	1,563	2,068	2,164	2,068	2,076	2,174	2,254	2,477	2,697	2,851
	Other operating expenses	4,664	5,235	5,494	5,636	5,726	5,955	6,341	6,308	6,539	6,777
	Interest expenses	813	823	787	904	832	962	1,203	1,457	1,770	2,071
	Other property expenses	1,294	1,244	1,487	1,496	1,769	1,692	1,716	1,781	1,857	1,954
	Current transfers	78	85	105	106	187	196	228	223	231	224
	Capital transfers	92	32	18	16	2	...	7	...	...	...
	Total Expenses	**11,521**	**12,472**	**13,068**	**13,403**	**13,923**	**14,434**	**15,349**	**15,943**	**16,917**	**17,818**
equals	**GFS Net Operating Balance**	**771**	**(95)**	**48**	**132**	**511**	**1,460**	**(129)**	**339**	**641**	**1,277**

Table 9.2: NSW Public Non-financial Corporation Sector Operating Statement[(a)] (ABS Basis) (cont)

			Actual 2001-02 $m	Actual 2002-03 $m	Actual 2003-04 $m	Actual 2004-05 $m	Actual 2005-06[(b)] $m	Revised 2006-07[(b)] $m	Budget 2007-08[(b)] $m	Forward Estimates 2008-09[(b)] $m	Forward Estimates 2009-10[(b)] $m	Forward Estimates 2010-11[(b)] $m
less	**Net Acquisition of Non-financial Assets**											
	Purchases of non-financial assets		2,989	3,352	3,378	3,655	4,435	5,459	7,604	7,743	7,894	7,985
	less	Sales of non-financial assets	(302)	(332)	(201)	(196)	(264)	(370)	(350)	(429)	(400)	(311)
	less	Depreciation	(1,563)	(2,068)	(2,164)	(2,068)	(2,076)	(2,174)	(2,254)	(2,477)	(2,697)	(2,851)
	plus	Change in inventories	58	47	47	95	(3)	153	83	53	(7)	65
	plus	Other movements in non-financial assets										
		- finance leases	...	...	...	...	...	...	...	...	...	...
		- other	166	119	78	130	148	141	168	166	174	185
	equals	**Total Net Acquisition of Non-financial Assets**	**1,348**	**1,118**	**1,138**	**1,616**	**2,240**	**3,209**	**5,251**	**5,056**	**4,964**	**5,073**
equals	**GFS Net Lending / (Borrowing)**		**(577)**	**(1,213)**	**(1,090)**	**(1,484)**	**(1,729)**	**(1,749)**	**(5,380)**	**(4,717)**	**(4,323)**	**(3,796)**

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 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.*

Table 9.3: NSW Non-financial Public Sector Operating Statement (ABS Basis)

		Actual 2001-02 $m	Actual 2002-03 $m	Actual 2003-04 $m	Actual 2004-05 $m	Actual 2005-06[a] $m	Revised 2006-07[a] $m	Budget 2007-08[a] $m	Forward Estimates 2008-09[a] $m	Forward Estimates 2009-10[a] $m	Forward Estimates 2010-11[a] $m
	GFS Revenue										
	Taxation revenue	12,597	13,437	14,218	14,756	15,226	17,055	16,796	17,545	18,421	19,535
	Current grants and subsidies	15,852	16,442	16,841	17,623	18,656	19,206	20,483	21,184	22,105	23,080
	Sales of goods and services	11,916	12,155	12,702	13,200	13,574	14,291	14,960	15,827	16,831	17,838
	Capital grants	886	908	900	1,130	1,141	1,338	1,500	1,273	1,286	1,030
	Interest income	306	473	892	1,073	1,361	1,431	789	802	843	884
	Other	2,091	2,435	2,297	2,310	2,557	2,394	2,295	2,698	2,473	2,517
	Total Revenue	**43,648**	**45,850**	**47,850**	**50,092**	**52,515**	**55,715**	**56,823**	**59,329**	**61,959**	**64,884**
less	**GFS Expenses**										
	Employee expenses	17,872	18,855	20,193	21,404	22,776	23,781	25,143	26,090	26,846	27,752
	Depreciation	3,201	3,847	4,091	4,062	4,203	4,449	4,683	5,041	5,383	5,648
	Other operating expenses	12,550	13,823	14,154	14,720	14,586	15,446	16,217	16,587	17,144	17,835
	Nominal superannuation interest expense	564	745	860	919	891	783	496	499	503	509
	Other interest expenses	1,627	1,573	1,523	1,914	2,007	2,142	2,468	2,896	3,374	3,776
	Other property expenses	...	...	...	...	...	...	...	...	...	...
	Current transfers	4,526	4,713	5,254	5,559	5,858	6,486	6,696	6,536	6,731	6,873
	Capital transfers	962	638	575	658	689	724	873	859	754	765
	Total Expenses	**41,302**	**44,194**	**46,650**	**49,236**	**51,010**	**53,811**	**56,576**	**58,508**	**60,735**	**63,158**
equals	**GFS Net Operating Balance**	**2,346**	**1,656**	**1,200**	**856**	**1,505**	**1,904**	**247**	**821**	**1,224**	**1,726**

Table 9.3: NSW Non-financial Public Sector Operating Statement (ABS Basis) (cont)

		Actual 2001-02 $m	Actual 2002-03 $m	Actual 2003-04 $m	Actual 2004-05 $m	Actual 2005-06 (a) $m	Revised 2006-07 (a) $m	Budget 2007-08 (a) $m	Forward Estimates 2008-09 (a) $m	Forward Estimates 2009-10 (a) $m	Forward Estimates 2010-11 (a) $m
less	**Net Acquisition of Non-financial Assets**										
	Purchases of non-financial assets(b)	5,735	6,352	6,394	6,795	8,302	9,597	12,289	12,088	12,379	12,109
	less Sales of non-financial assets	(898)	(698)	(607)	(686)	(660)	(812)	(819)	(838)	(884)	(830)
	less Depreciation	(3,201)	(3,847)	(4,091)	(4,062)	(4,203)	(4,449)	(4,683)	(5,041)	(5,383)	(5,648)
	plus Change in inventories	58	51	67	70	3	153	81	50	(6)	66
	plus Other movements in non-financial assets										
	- finance leases(b)	351	345	312	187	81	131	245	313	63	66
	- other	291	202	171	209	221	193	184	564	253	249
	equals Total Net Acquisition of Non-financial Assets	**2,336**	**2,405**	**2,246**	**2,513**	**3,744**	**4,813**	**7,297**	**7,136**	**6,422**	**6,012**
equals	**GFS Net Lending / (Borrowing)**	**10**	**(749)**	**(1,046)**	**(1,657)**	**(2,239)**	**(2,909)**	**(7,050)**	**(6,315)**	**(5,198)**	**(4,286)**

Notes:

(a) 2005-06 and forward years are based on 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.

(b) Elsewhere in the Budget Papers reference is made to Capital Expenditure which comprises purchases of non-financial assets and assets acquired under finance lease arrangements.

Table 9.4: NSW General Government Sector Balance Sheet (ABS Basis)

	Actual June 2002 $m	*Actual June 2003 $m*	*Actual June 2004 $m*	*Actual June 2005 $m*	*Actual June 2006[(a)] $m*	*Revised June 2007[(a)] $m*	*Budget June 2008[(a)] $m*	*Forward Estimates June 2009[(a)] $m*	*Forward Estimates June 2010[(a)] $m*	*Forward Estimates June 2011[(a)] $m*
Assets										
Financial assets										
Cash and deposits	1,719	1,091	1,869	1,465	2,461	2,210	2,933	3,049	3,136	2,968
Advances paid	1,521	1,401	1,359	1,304	840	892	926	980	1,012	1,053
Investments, loans and placements	4,409	7,940	9,575	12,042	13,959	7,162	7,043	7,517	8,021	8,552
Other non-equity assets	5,172	5,364	5,854	6,248	9,572	10,009	10,176	9,702	10,072	10,026
Equity	48,337	66,780	68,067	68,694	65,405	68,468	69,436	70,484	73,401	75,644
Total Financial Assets	**61,158**	**82,576**	**86,724**	**89,753**	**92,237**	**88,741**	**90,514**	**91,732**	**95,642**	**98,243**
Non-financial assets										
Land and fixed assets	73,916	78,936	80,402	84,209	89,588	92,599	95,459	98,467	100,961	103,049
Other non-financial assets	952	1,047	1,176	1,261	1,038	1,124	1,214	1,311	1,409	1,492
Total Non-financial Assets	**74,868**	**79,983**	**81,578**	**85,470**	**90,626**	**93,723**	**96,673**	**99,778**	**102,370**	**104,541**
Total Assets	**136,026**	**162,559**	**168,302**	**175,223**	**182,863**	**182,464**	**187,187**	**191,510**	**198,012**	**202,784**

Table 9.4: NSW General Government Sector Balance Sheet (ABS Basis) (cont)

	Actual June 2002 $m	Actual June 2003 $m	Actual June 2004 $m	Actual June 2005 $m	Actual June 2006 [(a)] $m	Revised June 2007 [(a)] $m	Budget June 2008 [(a)] $m	*Forward Estimates* June 2009 [(a)] $m	June 2010 [(a)] $m	June 2011 [(a)] $m
Liabilities										
Deposits held	65	53	68	98	129	93	94	94	93	93
Advances received	1,826	1,808	1,681	1,641	920	893	865	837	816	797
Borrowing	10,814	10,164	10,796	11,392	12,035	12,626	15,297	16,995	18,521	19,090
Superannuation liability [(b)]	11,398	14,720	15,460	16,462	23,129	16,111	16,441	16,713	16,917	17,050
Other employee entitlements and provisions	9,982	11,155	12,127	13,051	13,139	13,402	13,755	14,173	14,541	15,031
Other non-equity liabilities	3,511	3,617	3,880	3,690	5,890	5,333	4,731	4,431	4,187	4,100
Total Liabilities	**37,596**	**41,517**	**44,012**	**46,334**	**55,242**	**48,458**	**51,183**	**53,243**	**55,075**	**56,161**
NET WORTH	**98,430**	**121,042**	**124,290**	**128,889**	**127,621**	**134,006**	**136,004**	**138,267**	**142,937**	**146,623**
Net Financial Worth [(c)]	**23,562**	**41,059**	**42,712**	**43,419**	**36,995**	**40,283**	**39,331**	**38,489**	**40,567**	**42,082**
Net Debt [(d)]	**5,056**	**1,593**	**(258)**	**(1,680)**	**(4,176)**	**3,348**	**5,354**	**6,380**	**7,261**	**7,407**

Notes:

(a) *June 2006 and forward years are based on data that has been recognised and measured in accordance with Australian Equivalents to International Financial Reporting Standards (AEIFRS). Prior to June 2006 transactions were recorded in accordance with Australian Accounting Standards.*

(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 Crown deposits to the Liability Management Fund and fund earnings in the years 2003 to 2006 inclusive.*

GFS Net Debt [(d)]	***5,056***	***1,593***	***(258)***	***(1,680)***	***(4,176)***	***3,348***	***5,354***	***6,380***	***7,261***	***7,407***
Impact of deposits to the Liability Management Fund	*...*	*1,651*	*2,851*	*4,001*	*5,307*	*...*	*...*	*...*	*...*	*...*
Underlying Net Debt [(e)]	***5,056***	***3,244***	***2,593***	***2,321***	***1,131***	***3,348***	***5,354***	***6,380***	***7,261***	***7,407***

Table 9.5: NSW Public Non-financial Corporation Sector Balance Sheet[a] (ABS Basis)

								Forward Estimates		
	Actual June 2002 $m	*Actual June 2003 $m*	*Actual June 2004 $m*	*Actual June 2005 $m*	*Actual June 2006[b] $m*	*Revised June 2007[b] $m*	*Budget June 2008[b] $m*	*June 2009[b] $m*	*June 2010[b] $m*	*June 2011[b] $m*
Assets										
Financial assets										
Cash and deposits	1,289	1,163	1,202	1,435	1,812	1,315	962	824	821	819
Investments, loans and placements	900	568	518	397	527	548	531	585	629	689
Other non-equity assets	2,358	2,183	2,507	2,691	2,882	2,819	2,774	2,827	3,002	3,088
Equity	77	56	32	30	41	46	87	119	131	155
Total Financial Assets	**4,624**	**3,970**	**4,259**	**4,553**	**5,262**	**4,728**	**4,354**	**4,355**	**4,583**	**4,751**
Non-financial assets										
Land and fixed assets	62,617	82,892	84,777	86,319	86,493	90,618	96,573	102,134	109,470	115,248
Other non-financial assets	245	262	294	163	734	806	862	877	935	1,018
Total Non-financial Assets	**62,862**	**83,154**	**85,071**	**86,482**	**87,227**	**91,424**	**97,435**	**103,011**	**110,405**	**116,266**
Total Assets	**67,486**	**87,124**	**89,330**	**91,035**	**92,489**	**96,152**	**101,789**	**107,366**	**114,988**	**121,017**

Table 9.5: NSW Public Non-financial Corporation Sector Balance Sheet[(a)] (ABS Basis) (cont)

	Actual June 2002 $m	Actual June 2003 $m	Actual June 2004 $m	Actual June 2005 $m	Actual June 2006[(b)] $m	Revised June 2007[(b)] $m	Budget June 2008[(b)] $m	Forward Estimates June 2009[(b)] $m	Forward Estimates June 2010[(b)] $m	Forward Estimates June 2011[(b)] $m
Liabilities										
Deposits held	85	93	156	166	177	195	203	192	194	196
Advances received	1,153	1,116	1,088	1,041	599	581	567	553	538	765
Borrowing	11,522	12,056	12,568	13,676	15,365	16,793	21,508	26,052	30,135	33,557
Superannuation liability / (prepaid contributions) [(c)]	325	736	391	29	428	(103)	(104)	(114)	(133)	(163)
Other employee entitlements & provisions	4,139	4,242	4,741	5,042	8,486	8,254	8,392	8,443	8,912	9,000
Other non-equity liabilities	2,144	2,262	2,558	2,639	3,286	3,391	3,327	3,394	3,653	3,777
Total Liabilities	**19,368**	**20,505**	**21,502**	**22,593**	**28,341**	**29,111**	**33,893**	**38,520**	**43,299**	**47,132**
Shares and other contributed capital [(d)]	48,118	66,619	67,828	68,442	64,148	67,041	67,896	68,846	71,689	73,885
NET WORTH [(d)(e)]	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**...**
Net Financial Worth [(d)(f)]	**(62,862)**	**(83,154)**	**(85,071)**	**(86,482)**	**(87,227)**	**(91,424)**	**(97,435)**	**(103,011)**	**(110,405)**	**(116,266)**
Net Debt [(g)]	**10,571**	**11,534**	**12,092**	**13,051**	**13,802**	**15,706**	**20,785**	**25,388**	**29,417**	**33,010**

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 data that has been recognised and measured in accordance with Australian Equivalents to International Financial Reporting Standards (AEIFRS). Prior to June 2006 transactions were recorded in accordance with Australian Accounting Standards.

(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 2002 from $48.1 billion to a projected $73.9 billion in 2011 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 2002 $m	Actual June 2003 $m	Actual June 2004 $m	Actual June 2005 $m	Actual June 2006 [(a)] $m	Revised June 2007 [(a)] $m	Budget June 2008 [(a)] $m	Forward Estimates June 2009 [(a)] $m	Forward Estimates June 2010 [(a)] $m	Forward Estimates June 2011 [(a)] $m
Assets										
Financial assets										
Cash and deposits	3,008	2,254	3,070	2,900	4,273	3,525	3,895	3,873	3,957	3,787
Advances paid	368	285	271	263	245	311	359	427	474	288
Investments, loans and placements	5,309	8,506	10,092	12,439	14,486	7,645	7,476	7,989	8,520	9,096
Other non-equity assets	4,685	4,575	4,898	5,236	5,347	5,867	5,839	5,397	5,502	5,481
Equity	296	218	271	283	1,298	1,473	1,627	1,758	1,842	1,916
Total Financial Assets	**13,666**	**15,838**	**18,602**	**21,121**	**25,649**	**18,821**	**19,196**	**19,444**	**20,295**	**20,568**
Non-financial assets										
Land and fixed assets	136,532	161,828	165,180	170,528	176,080	183,217	192,032	200,600	210,431	218,296
Other non-financial assets	1,198	1,318	1,474	1,425	1,760	1,909	2,058	2,172	2,329	2,497
Total Non-financial Assets	**137,730**	**163,146**	**166,654**	**171,953**	**177,840**	**185,126**	**194,090**	**202,772**	**212,760**	**220,793**
Total Assets	**151,396**	**178,984**	**185,256**	**193,074**	**203,489**	**203,947**	**213,286**	**222,216**	**233,055**	**241,361**

Table 9.6: NSW Non-financial Public Sector Balance Sheet (ABS Basis) (cont)

	Actual June 2002 $m	Actual June 2003 $m	Actual June 2004 $m	Actual June 2005 $m	Actual June 2006 (a) $m	Revised June 2007 (a) $m	Budget June 2008 (a) $m	Forward Estimates June 2009 (a) $m	Forward Estimates June 2010 (a) $m	Forward Estimates June 2011 (a) $m
Liabilities										
Deposits held	149	146	224	264	306	288	297	285	287	290
Advances received	1,826	1,808	1,681	1,641	923	893	865	837	816	797
Borrowing	22,337	22,218	23,362	25,068	27,401	29,354	36,707	42,935	48,526	52,501
Superannuation liability (b)	11,723	15,456	15,851	16,491	23,557	16,007	16,337	16,599	16,784	16,887
Other employee entitlements & provisions	12,014	13,167	14,149	15,159	15,523	15,565	15,853	16,329	16,760	17,321
Other non-equity liabilities	4,917	5,147	5,699	5,562	8,158	7,834	7,223	6,964	6,945	6,942
Total Liabilities	**52,966**	**57,942**	**60,966**	**64,185**	**75,868**	**69,941**	**77,282**	**83,949**	**90,118**	**94,738**
Shares and other contributed capital	...	...	...	...	...	...	...	...	...	...
NET WORTH	**98,430**	**121,042**	**124,290**	**128,889**	**127,621**	**134,006**	**136,004**	**138,267**	**142,937**	**146,623**
Net Financial Worth (c)	**(39,300)**	**(42,104)**	**(42,364)**	**(43,064)**	**(50,219)**	**(51,120)**	**(58,086)**	**(64,505)**	**(69,823)**	**(74,170)**
Net Debt (d)	**15,627**	**13,127**	**11,834**	**11,371**	**9,626**	**19,054**	**26,139**	**31,768**	**36,678**	**40,417**

Notes:

(a) *June 2006 and forward years are based on data that has been recognised and measured in accordance with Australian Equivalents to International Financial Reporting Standards (AEIFRS). Prior to June 2006 transactions were recorded in accordance with Australian Accounting Standards.*

(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 Crown deposits to the Liability Management Fund and fund earnings in the years ending June 2003 to 2006 inclusive.*

GFS Net Debt (d)	***15,627***	***13,127***	***11,834***	***11,371***	***9,626***	***19,054***	***26,139***	***31,768***	***36,678***	***40,417***
Impact of deposits to the Liability Management Fund	*...*	*1,651*	*2,851*	*4,001*	*5,307*	*...*	*...*	*...*	*...*	*...*
Underlying Net Debt (d) (e)	***15,627***	***14,778***	***14,685***	***15,372***	***14,933***	***19,054***	***26,139***	***31,768***	***36,678***	***40,417***

Table 9.7: NSW General Government Sector Cash Flow Statement[(a)] (ABS Basis)

	Actual 2001-02 $m	Actual 2002-03 $m	Actual 2003-04 $m	Actual 2004-05 $m	Actual 2005-06[(b)] $m	Revised 2006-07[(b)] $m	Budget 2007-08[(b)] $m	Forward Estimates 2008-09[(b)] $m	Forward Estimates 2009-10[(b)] $m	Forward Estimates 2010-11[(b)] $m
Cash Receipts from Operating Activities										
Taxes received	13,341	13,945	14,982	15,043	15,972	17,254	17,569	18,790	19,297	20,486
Receipts from sales of goods and services	2,620	3,008	2,804	3,220	3,421	3,618	3,710	3,849	3,970	4,139
Grants/subsidies received	16,762	17,587	17,853	18,541	20,917	20,556	21,771	22,263	23,248	24,226
Other receipts	3,672	4,210	5,101	5,616	6,532	6,795	5,750	6,036	6,257	6,455
Total Receipts	**36,395**	**38,750**	**40,740**	**42,420**	**46,842**	**48,223**	**48,800**	**50,938**	**52,772**	**55,306**
Cash Payments for Operating Activities										
Payment for goods and services[(c)]	(21,818)	(23,960)	(25,652)	(26,991)	(28,481)	(37,787)	(32,890)	(34,101)	(35,241)	(36,503)
Grants and subsidies paid	(6,809)	(6,881)	(7,499)	(7,972)	(9,098)	(10,817)	(9,906)	(10,062)	(10,545)	(11,347)
Interest paid	(848)	(818)	(863)	(777)	(1,005)	(871)	(956)	(1,057)	(1,204)	(1,230)
Other payments	(1,828)	(1,658)	(2,307)	(2,525)	(2,599)	(2,642)	(2,570)	(2,529)	(2,548)	(2,568)
Total Payments	**(31,303)**	**(33,317)**	**(36,321)**	**(38,265)**	**(41,183)**	**(52,117)**	**(46,322)**	**(47,749)**	**(49,538)**	**(51,648)**
Net Cash Flows from Operating Activities	**5,092**	**5,433**	**4,419**	**4,155**	**5,659**	**(3,894)**	**2,478**	**3,189**	**3,234**	**3,658**
Net Cash Flows from Investments in Non-financial Assets										
Sales of non-financial assets	424	497	408	485	430	467	486	409	484	520
Purchases of non-financial assets	(2,766)	(3,077)	(2,915)	(3,098)	(3,863)	(4,181)	(4,695)	(4,356)	(4,496)	(4,207)
Net Cash Flows from Investments in Non-financial Assets	**(2,342)**	**(2,580)**	**(2,507)**	**(2,613)**	**(3,433)**	**(3,714)**	**(4,209)**	**(3,947)**	**(4,012)**	**(3,687)**
Net Cash Flows from Investments in Financial Assets for Policy Purposes	**756**	**839**	**186**	**130**	**56**	**163**	**58**	**43**	**(10)**	**19**

Table 9.7: NSW General Government Sector Cash Flow Statement[a] (ABS Basis) (cont)

	Actual 2001-02 $m	Actual 2002-03 $m	Actual 2003-04 $m	Actual 2004-05 $m	Actual 2005-06[b] $m	Revised 2006-07[b] $m	Budget 2007-08[b] $m	Forward Estimates 2008-09[b] $m	Forward Estimates 2009-10[b] $m	Forward Estimates 2010-11[b] $m
Net Cash Flows from Investments in Financial Assets for liquidity purposes[c]	**(546)**	**(1,105)**	**(1,522)**	**(2,412)**	**(1,851)**	**6,767**	**39**	**(495)**	**(525)**	**(530)**
Net Cash Flows from Financing Activities										
Advances received (net)	(220)	(31)	(140)	(28)	(134)	(46)	(51)	(50)	(55)	(53)
Borrowing (net)	(2,122)	(1,017)	367	417	647	516	2,408	1,370	1,459	427
Deposits received (net)	(5)	(8)	6	20	32	(37)	...	(2)	(2)	(2)
Other financing (net)	1	(2)	(1)	(18)	...	(1)	...	(1)	(1)	...
Net Cash Flows from Financing Activities	**(2,346)**	**(1,058)**	**232**	**391**	**545**	**432**	**2,357**	**1,317**	**1,401**	**372**
Net Increase / (Decrease) in Cash Held	**614**	**1,529**	**808**	**(349)**	**976**	**(246)**	**723**	**107**	**88**	**(168)**
SURPLUS / (DEFICIT)										
Net Cash from Operating Activities and Investments in Non-financial Assets	**2,750**	**2,853**	**1,912**	**1,542**	**2,226**	**(7,608)**	**(1,731)**	**(758)**	**(778)**	**(29)**
Finance leases and similar arrangements	(351)	(345)	(312)	(187)	(81)	(131)	(245)	(313)	(63)	(66)
SURPLUS / (DEFICIT)	**2,399**	**2,508**	**1,600**	**1,355**	**2,145**	**(7,739)**	**(1,976)**	**(1,071)**	**(841)**	**(95)**

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 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.

(c) In 2006-07 the government is contributing $7.2 billion from the Liability Management Fund to reduce its superannuation liabilities. Part of this includes contributions of the Health Super-Growth Fund and NSW Self Insurance Corporation.

(d) Deposits by the Crown to the Liability Management Fund and the fund's earnings have been set aside to meet future superannuation contributions.

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
GFS SURPLUS / (DEFICIT)	***2,399***	***2,508***	***1,600***	***1,355***	***2,145***	***(7,739)***	***(1,976)***	***(1,071)***	***(841)***	***(95)***
Impact of prepayment of superannuation	*(1,134)*	*...*	*...*	*...*		*...*	*...*	*...*	*...*	*...*
Impact of deposits to the Liability Management Fund[d]	*...*	*(1,651)*	*(1,200)*	*(1,150)*	*(1,307)*	*5,308*	*...*	*...*	*...*	*...*
UNDERLYING SURPLUS / (DEFICIT) (after adjusting for the timing of superannuation contributions)	***1,265***	***857***	***400***	***205***	***838***	***(2,431)***	***(1,976)***	***(1,071)***	***(841)***	***(95)***

Table 9.8: NSW Public Non-financial Corporation Sector Cash Flow Statement[a] [b] (ABS Basis)

	Actual 2001-02 $m	Actual 2002-03 $m	Actual 2003-04 $m	Actual 2004-05 $m	Actual 2005-06[c] $m	Revised 2006-07[c] $m	Budget 2007-08[c] $m	*Forward Estimates* 2008-09[c] $m	2009-10[c] $m	2010-11[c] $m
Cash Receipts from Operating Activities										
Receipts from sales of goods and services	9,431	9,653	10,049	10,639	10,628	10,947	11,872	12,514	13,329	14,314
Grants/subsidies received	2,108	2,124	2,404	2,511	3,108	4,324	2,976	3,358	3,744	4,386
Other receipts	1,962	2,149	2,295	2,266	2,284	2,244	2,309	2,323	2,475	2,413
Total Receipts	**13,501**	**13,926**	**14,748**	**15,416**	**16,020**	**17,515**	**17,157**	**18,195**	**19,548**	**21,113**
Cash Payments for Operating Activities										
Payment for goods and services	(7,610)	(7,964)	(8,479)	(8,897)	(8,979)	(9,742)	(10,397)	(10,156)	(10,415)	(10,861)
Grants and subsidies paid	(78)	(99)	(120)	(103)	(185)	(196)	(228)	(223)	(231)	(224)
Interest paid	(820)	(809)	(814)	(888)	(873)	(953)	(1,201)	(1,462)	(1,778)	(2,094)
Other payments	(1,508)	(1,417)	(1,526)	(1,747)	(1,511)	(1,536)	(1,841)	(1,764)	(1,878)	(1,846)
Total Payments	**(10,016)**	**(10,289)**	**(10,939)**	**(11,635)**	**(11,548)**	**(12,427)**	**(13,667)**	**(13,605)**	**(14,302)**	**(15,025)**
Net Cash Flows from Operating Activities	**3,485**	**3,637**	**3,809**	**3,781**	**4,472**	**5,088**	**3,490**	**4,590**	**5,246**	**6,088**
Net Cash Flows from Investments in Non-financial Assets										
Sales of non-financial assets	358	280	207	150	308	389	353	431	400	311
Purchases of non-financial assets	(2,945)	(3,342)	(3,376)	(3,555)	(4,313)	(5,431)	(7,566)	(7,806)	(7,852)	(8,007)
Net Cash Flows from Investments in Non-financial Assets	**(2,587)**	**(3,062)**	**(3,169)**	**(3,405)**	**(4,005)**	**(5,042)**	**(7,213)**	**(7,375)**	**(7,452)**	**(7,696)**
Net Cash Flows from Investments in Financial Assets for Policy Purposes	**579**	**134**	**(1)**	**(2)**	**1**	**(12)**	**(33)**	**(52)**	**(7)**	**(30)**
Net Cash Flows from Investments in Assets for Liquidity Purposes	**24**	**273**	**54**	**307**	**60**	**(7)**	**74**	**(34)**	**(18)**	**(60)**

Table 9.8: NSW Public Non-financial Corporation Sector Cash Flow Statement[(a) (b)] (ABS Basis) (cont)

	Actual	Actual	Actual	Actual	Actual	Revised	Budget	Forward Estimates		
	2001-02	2002-03	2003-04	2004-05	2005-06[(c)]	2006-07[(c)]	2007-08[(c)]	2008-09[(c)]	2009-10[(c)]	2010-11[(c)]
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Net Cash Flows from Financing Activities										
Advances received (net)	(798)	(578)	(165)	(116)	(81)	(207)	(100)	(77)	(27)	(58)
Borrowing (net)	640	591	505	1,108	1,281	1,493	4,998	4,567	4,095	3,690
Deposits received (net)	42	4	16	2	(17)	28	...	(12)	2	2
Distributions paid	(1,045)	(1,136)	(1,038)	(1,332)	(1,376)	(1,838)	(1,568)	(1,745)	(1,844)	(1,958)
Other financing (net)	(20)	2	7	(14)	...	...	(1)	...	2	1
Net Cash Flows from Financing Activities	**(1,181)**	**(1,117)**	**(675)**	**(352)**	**(193)**	**(524)**	**3,329**	**2,733**	**2,228**	**1,677**
Net Increase / (Decrease) in Cash Held	**320**	**(135)**	**18**	**329**	**335**	**(497)**	**(353)**	**(138)**	**(3)**	**(21)**
SURPLUS / (DEFICIT)										
Net Cash from Operating Activities and Investments in Non-financial Assets	**898**	**575**	**640**	**376**	**467**	**46**	**(3,723)**	**(2,785)**	**(2,206)**	**(1,608)**
Distribution paid	(1,045)	(1,136)	(1,038)	(1,332)	(1,376)	(1,838)	(1,568)	(1,745)	(1,844)	(1,958)
Finance leases and similar arrangements	...	...	...	...	...	...	...	...	...	...
SURPLUS / (DEFICIT)	**(147)**	**(561)**	**(398)**	**(956)**	**(909)**	**(1,792)**	**(5,291)**	**(4,530)**	**(4,050)**	**(3,566)**

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 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.

Table 9.9: NSW Non-financial Public Sector Cash Flow Statement[a] (ABS Basis)

	Actual 2001-02 $m	Actual 2002-03 $m	Actual 2003-04 $m	Actual 2004-05 $m	Actual 2005-06[b] $m	Revised 2006-07[b] $m	Budget 2007-08[b] $m	Forward Estimates 2008-09[b] $m	Forward Estimates 2009-10[b] $m	Forward Estimates 2010-11[b] $m
Cash Receipts from Operating Activities										
Taxes received	12,522	13,390	14,293	14,458	15,277	16,536	16,823	17,991	18,457	19,585
Receipts from sales of goods and services	12,033	12,507	12,657	13,683	13,824	14,477	15,347	16,129	17,056	18,213
Grants/subsidies received	16,738	17,557	17,777	18,502	20,824	20,416	21,646	22,151	23,134	24,109
Other receipts	4,701	5,178	6,466	6,536	7,462	7,168	6,518	6,620	6,931	6,936
Total Receipts	**45,994**	**48,632**	**51,193**	**53,179**	**57,387**	**58,597**	**60,334**	**62,891**	**65,578**	**68,843**
Cash Payments for Operating Activities										
Payment for goods and services[c]	(28,660)	(31,266)	(33,310)	(35,189)	(36,609)	(46,931)	(42,354)	(43,310)	(44,661)	(46,318)
Grants and subsidies paid	(4,897)	(4,867)	(5,223)	(5,569)	(6,085)	(6,719)	(7,090)	(6,866)	(6,969)	(7,115)
Interest paid	(1,614)	(1,575)	(1,626)	(1,615)	(1,830)	(1,774)	(2,096)	(2,460)	(2,922)	(3,260)
Other payments	(3,296)	(3,032)	(3,861)	(4,204)	(4,528)	(3,915)	(4,336)	(4,322)	(4,036)	(4,395)
Total Payments	**(38,467)**	**(40,740)**	**(44,020)**	**(46,577)**	**(49,052)**	**(59,339)**	**(55,876)**	**(56,958)**	**(58,588)**	**(61,088)**
Net Cash Flows from Operating Activities	**7,527**	**7,892**	**7,173**	**6,602**	**8,335**	**(742)**	**4,458**	**5,933**	**6,990**	**7,755**
Net Cash Flows from Investments in Non-financial Assets										
Sales of non-financial assets	781	778	615	635	738	856	840	839	884	831
Purchases of non-financial assets	(5,705)	(6,416)	(6,288)	(6,648)	(8,171)	(9,607)	(12,255)	(12,155)	(12,341)	(12,206)
Net Cash Flows from Investments in Non-financial Assets	**(4,924)**	**(5,638)**	**(5,673)**	**(6,013)**	**(7,433)**	**(8,751)**	**(11,415)**	**(11,316)**	**(11,457)**	**(11,375)**
Net Cash Flows from Investments in Financial Assets for Policy Purposes	**537**	**395**	**22**	**26**	**(22)**	**(62)**	**(78)**	**(90)**	**(48)**	**(72)**
Net Cash Flows from Investments in Financial Assets for liquidity purposes[c]	**(522)**	**(832)**	**(1,468)**	**(2,105)**	**(1,791)**	**6,759**	**113**	**(529)**	**(543)**	**(591)**

Table 9.9: NSW Non-financial Public Sector Cash Flow Statement[(a)] (ABS Basis) (cont)

	Actual 2001-02 $m	Actual 2002-03 $m	Actual 2003-04 $m	Actual 2004-05 $m	Actual 2005-06[(b)] $m	Revised 2006-07[(b)] $m	Budget 2007-08[(b)] $m	Forward Estimates 2008-09[(b)] $m	Forward Estimates 2009-10[(b)] $m	Forward Estimates 2010-11[(b)] $m
Net Cash Flows from Financing Activities										
Advances received (net)	(230)	(70)	(135)	(29)	(126)	(42)	(51)	(50)	(55)	(53)
Borrowing (net)	(1,472)	(387)	867	1,511	1,926	2,012	7,409	5,940	5,558	4,121
Deposits received (net)	38	(4)	22	23	15	(9)	(1)	(14)	...	...
Distributions paid	...	...	...	...	...	...	...	...	...	...
Other financing (net)	(21)	49	3	(33)	424	(43)	(65)	96	(349)	37
Net Cash Flows from Financing Activities	**(1,685)**	**(412)**	**757**	**1,472**	**2,239**	**1,918**	**7,292**	**5,972**	**5,154**	**4,105**
Net Increase / (Decrease) in Cash Held	**933**	**1,405**	**811**	**(18)**	**1,328**	**(878)**	**370**	**(30)**	**96**	**(178)**
SURPLUS / (DEFICIT)										
Net Cash from Operating Activities and Investments in Non-financial Assets	**2,603**	**2,254**	**1,500**	**589**	**902**	**(9,493)**	**(6,957)**	**(5,383)**	**(4,467)**	**(3,620)**
Distribution paid	...	...	...	...	...	...	...	...	...	...
Finance leases and similar arrangements	(351)	(345)	(312)	(187)	(81)	(130)	(245)	(312)	(64)	(66)
SURPLUS / (DEFICIT)	**2,252**	**1,909**	**1,188**	**402**	**821**	**(9,623)**	**(7,202)**	**(5,695)**	**(4,531)**	**(3,686)**

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 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.*

(c) *In 2006-07 the government is contributing $7.2 billion from the Liability Management Fund to reduce its superannuation liabilities. Part of this includes contributions of the Health Super-Growth Fund and NSW Self Insurance Corporation.*

(d) *Deposits by the Crown to the Liability Management Fund and the fund's earnings have been set aside to meet future superannuation contributions.*

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
GFS SURPLUS / (DEFICIT)	***2,252***	***1,909***	***1,188***	***402***	***821***	***(9,623)***	***(7,202)***	***(5,695)***	***(4,531)***	***(3,686)***
Impact of prepayment of superannuation	*(1,134)*	...	...	...	...	...	...	...	...	...
Impact of deposits to the Liability Management Fund [(c) (d)]	...	*(1,651)*	*(1,200)*	*(1,150)*	*(1,307)*	*5,308*	...	...	...	...
UNDERLYING SURPLUS / (DEFICIT) (after adjusting for the timing of superannuation contributions)	***1,118***	***258***	***(12)***	***(748)***	***(486)***	***(4,315)***	***(7,202)***	***(5,695)***	***(4,531)***	***(3,686)***

Table 9.10: NSW General Government Sector Taxes (ABS Basis)

	Revised 2006-07 $m	*Budget 2007-08 $m*
Taxes on employers' payroll and labour force	**5,569**	**5,960**
Taxes on property		
Land taxes	2,042	1,750
Stamp duties on financial and capital transactions	4,731	4,201
Financial institutions' transaction taxes	...	...
Other	73	74
Total taxes on property	**6,846**	**6,025**
Taxes on the provision of goods and services		
Excises and levies	...	...
Taxes on gambling	1,647	1,608
Taxes on insurance	1,447	1,531
Total taxes on the provision of goods and services	**3,094**	**3,139**
Taxes on use of goods and performance of activities		
Motor vehicle taxes	1,974	2,079
Franchise taxes	6	6
Other	286	353
Total taxes on use of goods and performance of activities	**2,266**	**2,438**
Total GFS Taxation Revenue	**17,775**	**17,562**

9.5 LOAN COUNCIL REPORTING REQUIREMENTS

Table 9.11 presents estimates of the State's Loan Council Allocation (LCA).

The 2007-08 estimated NSW Loan Council Allocation is a deficit of $6,369 million compared to an original deficit allocation of $4,729 million. The variance of $1,640 million exceeds the tolerance limit set by Loan Council. The tolerance limit for 2007-08 is $1,193 million and is calculated as 2 per cent of cash receipts from operating activities for the non-financial public sector. The increase in the Loan Council Allocation requirement has occurred primarily due to higher capital investment by the public trading enterprise sector. Significant infrastructure projects underlying the increased capital expenditure are the Kurnell desalination plant and the accelerated construction of the gas fired Munmorah power station. The former forms part of the Government's response to the impact of the current drought on dam storage levels. The latter project caters for growing peak energy demand, especially during summer.

Table 9.11: 2007-08 Loan Council Allocation Estimates, NSW

	Revised Estimate 2006-07 $m	Loan Council Allocation 2007-08 $m	Budget-time Estimate 2007-08 $m
General government sector cash deficit / (surplus) [(a)]	7,739	1,604	1,976
Public Non-financial Corporations sector cash deficit / (surplus)	1,792	3,395	5,291
Non-financial public sector cash deficit / (surplus) [(b)]	**9,623**	**4,988**	**7,202**
Minus Net cash flows from investments in financial assets for policy purposes [(c)]	62	50	78
Plus Memorandum items [(a) (d)]	(8,346)	(309)	(911)
Loan Council Allocation	**1,339**	**4,729**	**6,369**

Notes:

(a) *In 2006-07 the government is contributing $7.2 billion from the Liability Management Fund to reduce its superannuation liabilities.*

(b) *Does not directly equate to the sum of the general government and PTE cash deficits due to intersectoral transfers which are netted out.*

(c) *This item is the negative of net advances paid under a cash accounting framework.*

(d) *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 PRIVATELY FINANCED PROJECTS

As confirmed at the 1997 Loan Council meeting, States are to report their full contingent exposure to Privately Financed Projects. 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 2006-07

None to be reported.

CONTRACTS EXPECTED TO BE ENTERED INTO IN 2007-08

Liverpool Hospital Car Park Extension

Project Description:

An extension of the existing car park is proposed as part of the Liverpool Hospital redevelopment. The total construction cost for the project is estimated to be $16 million. The private sector will build, finance, operate, collect user charges and maintain the new multi storey facility.

It is anticipated that the duration of the project will be 25 years from financial close, financed by a mix of debt and equity finance. 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 licence agreement. No government grants or loans are envisaged.

Government Contingent Liability	To Be Determined

APPENDIX A: PROGRESS AGAINST *FISCAL RESPONSIBILITY ACT 2005* TARGETS AND PRINCIPLES

Fiscal Target	*Progress Indicator*	*Legislative Target*	*Status*
Fiscal target:			
- **Medium term**	General government sector net financial liabilities	At or below 7.5% GSP by June 2010	General government net financial liabilities estimated to decline from 8.4 per cent of GSP in June 2006 to 7.5 per cent of GSP at 30 June 2011.
	General government sector net debt	Maintain as share of GSP at or below level at June 2005 (0.8 per cent of GSP)	General government net debt estimated to be 1.8 per cent of GSP at 30 June 2011.
- **Long term**	General government sector net financial liabilities	At or below 6% of GSP by June 2015	On target.
	General government sector net debt	Maintain as share of GSP at or below level at June 2005	General government net debt estimated to be 1.8 per cent of GSP at 30 June 2011.
	Total state sector unfunded super-annuation liabilities	Eliminated by 30 June 2030	On target. Employer contributions being assessed periodically to ensure full funding by 2030. Long-term funding plan recognises that gross liabilities will continue to increase, peaking in 2013, and then decline subsequently and be fully funded by 2030. Total state underlying net unfunded superannuation liabilities are estimated to be $16.0 billion in June 2007 (4.7 per cent of GSP), and $16.9 billion in June 2011 (4 per cent of GSP).

Progress against *Fiscal Responsibility Act 2005* Targets (cont)

Fiscal Principle	*Progress Indicator*	*Legislative Target*	*Actual/Status*
1. Keeping the Budget in Surplus	Net Operating Result	Net Operating Result in surplus	Operating result projected to be in surplus in 2007-08, and to remain in surplus over forward estimates.
2. Constrained growth in net cost of services and expenses	Growth in net cost of services (NCOS) and expenses	4-year average annual growth (1) ending with the financial year prior to the Budget year; and (2) for the Budget year and forward estimates, not to exceed long-term average revenue growth	Average annual growth of the following variables for the 4-year periods ending 2006-07 and 2010-11 respectively are: • Total expenses 6.5 per cent and 3.5 per cent. • NCOS is 6.4 per cent and 4.0 per cent. • Long-term average revenue growth is 5 per cent per annum.
3. Managing public sector employee costs	Public sector employee costs	Government policy in negotiating rates of pay and conditions to be consistent with fiscal targets	Current wage agreements of 4 per cent per annum to 2008. Government policy in future is net wage costs not to exceed 2.5 per cent.
4. Evaluation of capital expenditure proposals	Stability of capital project budgets	Capital expenditure proposals to be evaluated in accordance with government procurement policy requirements	Preliminary analysis of construction projects commenced before and after the introduction of procurement reforms (including Gateway Business Case Reviews and enhanced Treasury monitoring) indicate a reduction in the order of 50 per cent in cost over-runs. Recently the emphasis on early stage project planning and consideration of service delivery options was increased with the introduction of mandatory Strategic Gateway reviews for large projects.
5. Managing State finances with a view to long-term fiscal pressures	The long-term fiscal gap	Reporting the impact of the Budget on the long-term fiscal gap	The 2007-08 Budget has no impact on the long-term fiscal gap.
6. General government net worth	General government sector net worth	At least maintain in real terms	General government net worth increased by an average 5 per cent per annum in real terms from June 1997 to June 2007.
7. 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 long-term Fiscal Targets above).

Progress against *Fiscal Responsibility Act 2005* Targets (cont)

Fiscal Principle	*Progress Indicator*	*Legislative Target*	*Actual/Status*
8. Total asset management	Best practice asset maintenance or management policies	Progress reporting in budget papers on measures to implement this principle	Treasury receives Total Asset Management (TAM) plans from agencies responsible for 96 per cent of general government asset holdings. Recent changes to TAM plans will make the TAM plans the agencies' capital funding bid for the current budget year as well as being the instrument for agencies to indicate to Government their longer term asset requirements. These changes will not only help Government to forecast infrastructure requirements and prioritise investments, it will also improve TAM planning and the linkage between physical assets and service delivery.
9. 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	Aggregate risk is managed by Treasury, TCorp and the NSW Self Insurance Corporation. Includes 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* (as updated in 2006) dealing with private sector participation in the provision of public infrastructure.
10. 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	Net effect of all tax policy changes since 1999-00 is to reduce the NSW tax burden in 2007-08 by around $1.4 billion per annum.

APPENDIX B: GENERAL GOVERNMENT SECTOR FINANCIAL STATEMENTS (GOVERNMENT FINANCE STATISTICS)

Table B1: Operating Statement (1998-99 to 2010-11)

	Actual	*Actual*	*Actual*	*Actual*	*Actual*	*Actual*	*Actual*	*Actual*	*Revised*	*Budget*	*Estimate*		
	1998-99	*1999-00*	*2000-01*	*2001-02*	*2002-03*	*2003-04*	*2004-05*	*2005-06* [(a)]	*2006-07* [(a)]	*2007-08* [(a)]	*2008-09* [(a)]	*2009-10* [(a)]	*2010-11* [(a)]
	$m	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*
State Revenues													
Taxation	14,122	15,191	13,343	13,216	14,153	15,026	15,332	15,910	17,775	17,562	18,354	19,275	20,439
Commonwealth Grants													
General Purpose	4,806	5,183	8,421	9,951	9,931	9,940	10,181	10,720	11,034	11,926	12,766	13,530	14,270
Specific Purpose	4,176	4,344	4,550	5,082	5,295	5,553	6,011	6,368	6,846	7,190	6,833	7,000	6,973
Financial Distributions	1,440	1,276	1,231	1,308	1,275	1,614	1,600	1,836	1,768	1,764	1,833	1,971	2,081
Fines, Regulatory Fees and Other	855	835	882	792	853	882	1,152	1,278	1,206	1,189	1,166	1,245	1,303
Total State Revenues	**25,399**	**26,829**	**28,427**	**30,349**	**31,507**	**33,015**	**34,276**	**36,112**	**38,629**	**39,631**	**40,952**	**43,021**	**45,066**
Operating Revenues													
Sale of Goods and Services	2,463	2,566	2,400	2,484	2,686	2,714	2,805	3,037	3,332	3,433	3,573	3,670	3,779
Investment Income	412	476	471	282	440	862	1,051	1,298	1,380	781	803	848	887
Grants and Contributions	342	354	348	316	704	564	675	809	775	824	812	842	860
Other	313	287	411	382	680	484	398	425	369	325	715	330	307
Total Operating Revenues	**3,530**	**3,683**	**3,630**	**3,464**	**4,510**	**4,624**	**4,929**	**5,569**	**5,856**	**5,363**	**5,903**	**5,690**	**5,833**
Total Revenues	**28,929**	**30,512**	**32,057**	**33,813**	**36,017**	**37,639**	**39,205**	**41,681**	**44,485**	**44,994**	**46,855**	**48,711**	**50,899**
Expenses													
Employee Related													
- Superannuation	1,722	1,498	1,690	1,792	2,132	2,307	2,443	2,743	2,654	2,409	2,451	2,485	2,516
- Other	12,071	12,542	12,884	13,945	14,805	16,048	17,079	18,004	18,875	20,000	20,811	21,405	22,175
Other Operating	6,584	6,581	6,928	7,429	8,139	8,329	8,581	8,330	8,991	9,165	9,623	9,991	10,472
Depreciation and Amortisation	1,084	1,472	1,402	1,638	1,779	1,927	1,994	2,127	2,276	2,429	2,564	2,685	2,796
Current Grants and Subsidies	4,035	4,096	4,392	4,743	5,296	5,864	5,949	6,681	7,310	7,429	7,446	7,649	7,873
Capital Grants	1,033	977	2,258	1,832	1,311	1,223	1,376	1,620	2,709	1,650	1,827	2,096	2,699
Borrowing Costs	1,362	1,343	1,016	868	803	788	1,060	1,182	1,226	1,321	1,491	1,657	1,760
Recurrent Treasurer's Advance	...	...	...	...	...	...	...	...	...	215	160	160	160
Total Expenses	**27,891**	**28,509**	**30,570**	**32,247**	**34,265**	**36,486**	**38,482**	**40,687**	**44,041**	**44,618**	**46,373**	**48,128**	**50,451**
BUDGET RESULT - SURPLUS/(DEFICIT)	**1,038**	**2,003**	**1,487**	**1,566**	**1,752**	**1,153**	**724**	**994**	**444**	**376**	**482**	**583**	**448**
Capital Expenditure [(b)]	**3,002**	**2,734**	**2,859**	**3,102**	**3,349**	**3,331**	**3,331**	**3,954**	**4,275**	**4,937**	**4,664**	**4,555**	**4,197**

(a) 2005-06 and forward years are based on 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.

(b) Includes assets acquired under finance leases.

Table B2: Balance Sheet (1999 to 2011)

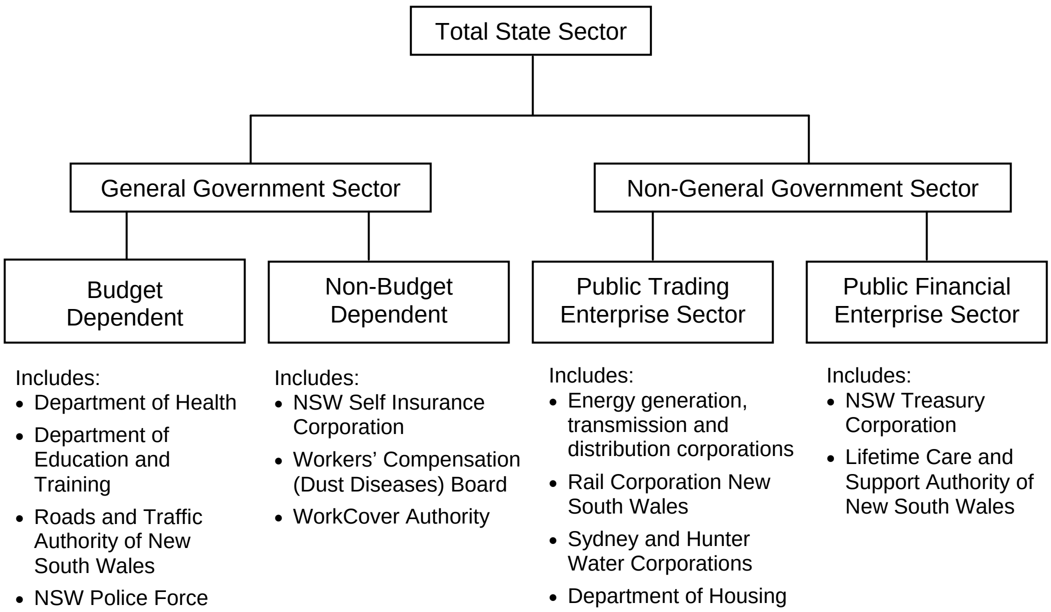
As at 30 June	Actual 1999 $m	Actual 2000 $m	Actual 2001 $m	Actual 2002 $m	Actual 2003 $m	Actual 2004 $m	Actual 2005 $m	Actual 2006 (a) $m	Revised 2007 (a) $m	Budget 2008 (a) $m	Estimate 2009 (a) $m	Estimate 2010 (a) $m	Estimate 2011 (a) $m
ASSETS													
Financial Assets													
Cash and Deposits	1,015	480	1,096	1,719	1,091	1,869	1,465	2,461	2,210	2,933	3,049	3,136	2,968
Advances paid	1,656	1,696	1,442	1,521	1,401	1,359	1,304	840	892	926	980	1,012	1,053
Investments, Loans & Placements	3,658	3,859	3,950	4,409	7,940	9,575	12,042	13,959	7,162	7,043	7,517	8,021	8,552
Other Non-Equity Assets	4,565	4,528	4,854	5,172	5,364	5,854	6,248	9,572	10,009	10,176	9,702	10,072	10,026
PTE/PFE Equity	41,398	46,475	47,480	47,855	66,217	67,496	68,105	63,915	66,899	67,770	68,704	71,554	73,748
Other Equity Assets	102	121	21	482	563	571	589	1,490	1,569	1,666	1,780	1,847	1,896
Total Financial Assets	**52,394**	**57,159**	**58,843**	**61,158**	**82,576**	**86,724**	**89,753**	**92,237**	**88,741**	**90,514**	**91,732**	**95,642**	**98,243**
Non-Financial Assets													
Land and Fixed Assets	64,559	64,710	66,306	73,916	78,936	80,402	84,209	89,588	92,599	95,459	98,467	100,961	103,049
Other Non-Financial Assets	663	754	847	952	1,047	1,176	1,261	1,038	1,124	1,214	1,311	1,409	1,492
Total Non-Financial Assets	**65,222**	**65,464**	**67,153**	**74,868**	**79,983**	**81,578**	**85,470**	**90,626**	**93,723**	**96,673**	**99,778**	**102,370**	**104,541**
TOTAL ASSETS	**117,616**	**122,623**	**125,996**	**136,026**	**162,559**	**168,302**	**175,223**	**182,863**	**182,464**	**187,187**	**191,510**	**198,012**	**202,784**
LIABILITIES													
Deposits Held	59	90	61	65	53	68	98	129	93	94	94	93	93
Advances Received	2,270	2,142	2,041	1,826	1,808	1,681	1,641	920	893	865	837	816	797
Borrowing	17,255	15,441	12,026	10,814	10,164	10,796	11,392	12,035	12,626	15,297	16,995	18,521	19,090
Provisions	15,933	13,909	17,312	21,380	25,876	27,587	29,512	36,268	29,513	30,196	30,886	31,458	32,081
Other Non-Equity Liabilities	3,360	3,204	3,055	3,511	3,617	3,880	3,690	5,890	5,333	4,731	4,431	4,187	4,100
TOTAL LIABILITIES	**38,877**	**34,786**	**34,495**	**37,596**	**41,517**	**44,012**	**46,334**	**55,242**	**48,458**	**51,183**	**53,243**	**55,075**	**56,161**
NET WORTH	**78,739**	**87,837**	**91,501**	**98,430**	**121,042**	**124,290**	**128,889**	**127,621**	**134,006**	**136,004**	**138,267**	**142,937**	**146,623**

(a) 2005-06 and forward years are based on data that has been recognised and measured in accordance with Australian Equivalents to International Financial Reporting Standards (AEIFRS). Prior to 2006 transactions were recorded in accordance with Australian Accounting Standards.

APPENDIX C: TOTAL STATE SECTOR AND CLASSIFICATION OF AGENCIES

In accordance with the Government Finance Statistics framework all entities controlled by the NSW Government are classified as being in either the general government sector or the non-general government sector.

Figure C.1: Structure of the Total State Sector



General government agencies typically deliver public services or are regulatory in nature. There are both budget dependent and non-budget dependent general government agencies which operate under Treasury's Financial Management Framework. Budget dependent agencies receive an appropriation from the Consolidated Fund. Non-budget dependent agencies source funds from regulatory and user charges and in some cases a grant from a budget dependent agency.

Non-general government agencies are generally commercially focussed entities and include public trading enterprises (PTEs) and public financial enterprises (PFEs). They operate under the Government's Commercial Policy Framework which aims to replicate disciplines and incentives that lead private sector businesses towards efficient commercial practices. The commercial agencies in this sector generally pay dividends and tax equivalent payments to the general government sector, in accordance with normal commercial principles.

Some PTEs address important social objectives and provide services to client groups on a subsidised basis. These include Rail Corporation New South Wales and the Department of Housing, which receive substantial grants from the general government sector to provide these services.

The following table lists all material entities controlled by the NSW Government and the sector in which they are classified.

Table C.1: 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, Sport and Recreation, Department of the	•		•	
Attorney General's Department	•		•	
Audit Office of New South Wales	•			•
Australian Museum	•			•
Board of Studies, Office of the	•		•	
Border Rivers-Gwydir Catchment Management Authority	•			•
Building and Construction Industry Long Service Payments Corporation	•			•
Cancer Institute NSW	•			•
Casino Control Authority	•		•	
Centennial Park and Moore Park Trust	•			•
Central West Catchment Management Authority	•			•
Children, Office for	•		•	
City West Housing Pty Ltd		•		•
Coal Compensation Board, NSW	•		•	
Commerce, Department of	•		•	
Community Relations Commission of New South Wales	•		•	
Community Services, Department of	•		•	

Agency/Activity	ABS[1] Category		Funding Category[4]	
	General Government[2]	*Public Trading Enterprise*[3]	*Budget Dependent*	*Non Budget Dependent*
Corrective Services, Department of	•		•	
Country Energy		•		•
Crime Commission, New South Wales	•		•	
Crown Finance Entity	•		•	
Crown Land Homesites		•		•
Crown Leaseholds Entity	•		•	
Crown Property Portfolio	•			•
Delta Electricity		•		•
Education and Training, Department of	•		•	
Electoral Commission, NSW	•		•	
Electricity Tariff Equalisation Ministerial Corporation	•			•
EnergyAustralia		•		•
Environment and Climate Change, Department of	•		•	
Environmental Trust	•		•	
Eraring Energy		•		•
Film and Television Office, New South Wales	•			•
Fire Brigades, New South Wales	•		•	
Food Authority, NSW	•			•
Forests NSW		•		•
Growth Centres Commission	•			•
Hawkesbury-Nepean Catchment Management Authority	•			•
Health Care Complaints Commission	•		•	
Health, Department of (including Area Health Services, Ambulance Service of NSW, Justice Health Service and Westmead Children's Hospital)	•		•	
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		•		•
Hunter-Central Rivers Catchment Management Authority	•			•
Independent Commission Against Corruption	•		•	
Independent Pricing and Regulatory Tribunal	•		•	
Independent Transport Safety and Reliability Regulator	•		•	
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	•		•	
Lachlan Catchment Management Authority	•			•
Land and Property Information New South Wales	•			•
Land Development Working Account		•		•
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		•		•
Lower Murray-Darling Catchment Management Authority	•			•
Luna Park Reserve Trust	•			•
Macquarie Generation		•		•
Maritime Authority of New South Wales	•			•
Minister Administering the Environmental Planning and Assessment Act	•			•
Motor Accidents Authority	•			•
Motor Accidents Authority, Office of the	•			•
Murray Catchment Management Authority	•			•
Murrumbidgee Catchment Management Authority	•			•
Museum of Applied Arts and Sciences	•			•
Namoi Catchment Management Authority	•			•
Natural Resources Commission	•		•	
Newcastle Port Corporation		•		•
Northern Rivers Catchment Management Authority	•			•
NSWbusinesslink Pty Limited	•			•
Ombudsman's Office	•		•	
Parramatta Stadium Trust		•		•
Payments to Other Government Bodies Under the Control of the Minister	•		•	
Planning, Department of	•		•	
Police Force, NSW	•		•	

Agency/Activity	ABS[1] Category		Funding Category[4]	
	General Government[2]	Public Trading Enterprise[3]	Budget Dependent	Non Budget Dependent
Police Integrity Commission	•		•	
Police, Ministry for	•		•	
Port Kembla Port Corporation		•		•
Premier and Cabinet, Department of	•		•	
Primary Industries, Department of	•		•	
Public Prosecutions, Office of the Director of	•		•	
Public Transport Ticketing Corporation		•		•
Public Trustee NSW	•			•
Rail Corporation New South Wales		•		•
Rail Infrastructure Corporation		•		•
Redfern-Waterloo Authority	•			•
Rental Bond Board	•			•
Residual Business Management Corporation		•		•
Roads and Traffic Authority of New South Wales	•		•	
Royal Botanic Gardens and Domain Trust	•		•	
Rural Assistance Authority, NSW	•		•	
Rural Fire Service, Department of	•		•	
Self Insurance Corporation, NSW	•			•
Southern Rivers Catchment Management Authority	•			•
State and Regional Development, Department of	•		•	
State Emergency Service	•		•	
State Library of New South Wales	•			•
State Property Authority	•			•
State Rail Authority		•		•
State Records Authority	•			•
State Sports Centre Trust	•			•
State Transit Authority		•		•
State Water Corporation		•		•
Superannuation Administration Corporation	•			•
Sydney 2009 World Masters Games Organising Committee		•		•
Sydney Catchment Authority		•		•
Sydney Cricket and Sports Ground Trust		•		•
Sydney Ferries		•		•
Sydney Harbour Foreshore Authority		•		•
Sydney Metropolitan Catchment Management Authority	•			•
Sydney Olympic Park Authority	•		•	
Sydney Opera House		•		•
Sydney Ports Corporation		•		•

Agency/Activity	ABS[1] Category		Funding Category[4]	
	General Government[2]	Public Trading Enterprise[3]	Budget Dependent	Non Budget Dependent
Sydney Water Corporation		•		•
Teacher Housing Authority of New South Wales		•		•
TransGrid		•		•
Transport Infrastructure Development Corporation		•		•
Transport Safety Investigations, Office of	•		•	
Transport, Ministry of	•		•	
Treasury	•		•	
Water and Energy, Department of	•		•	
Western Catchment Management Authority	•			•
Western Sydney Parklands Trust	•			•
Wollongong Sports Ground Trust		•		•
WorkCover Authority	•			•
WorkCover Authority, Office of the	•			•
Workers' Compensation (Dust Diseases) Board	•			•
World Youth Day Co-ordination Authority	•		•	
WSN Environmental Solutions		•		•
Zoological Parks Board of New South Wales		•		•

Notes:

(a) *This table lists agencies included in the budget papers. Other government agencies are excluded on the grounds of materiality.*

(b) *The NSW Treasury Corporation, Lifetime Care and Support Authority of New South Wales, the Fair Trading Administration Corporation and the controlled FANMAC Trusts, all public financial enterprises, provide data that is included in these Budget Papers.*

[1] *Australian Bureau of Statistics*

[2] *Equates to the scope of the Budget in New South Wales.*

[3] *The public trading enterprise or PTE sector is also referred to by the ABS as the public non financial corporations (PNFC) sector.*

[4] *Based on reliance on Consolidated Fund allocations.*

APPENDIX D: 2006-07 BUDGET - SUMMARY OF VARIATIONS

Category/Agency	*Budget*	*Revised*	*Variation*	*Comment on Major Variations*
	$m	*$m*	*$m*	
STATE REVENUES				
Taxation				
Stamp Duty:				
Transfer Duty	3,250	4,001	751	Stronger than expected sales of high value commercial properties as well as a large one-off revenue accrual.
Marketable Securities	57	94	37	Higher than expected number of large transactions.
Land Tax	1,793	2,042	249	Higher revenue from better data and systems improvements, leading to faster assessment processing.
Payroll Tax	5,438	5,569	131	Stronger than expected employment growth.
Waste and Environment Levy	175	154	(21)	Volume of waste to landfill has reduced faster than anticipated.
State Lotteries Receipts	296	283	(13)	Lower incidence of major jackpots for Powerball.
Workers Compensation (Dust Diseases) Board	56	23	(33)	Mainly reduction in outstanding contributions due to increase in investment revenues.
Workers Compensation Contributions from Insurers	182	157	(25)	Lower contribution due to reduced premiums as announced by the Government.
Other Duties and Taxes	5,472	5,452	(20)	Aggregated net minor variations.
Total Taxation	**16,719**	**17,775**	**1,056**	
Commonwealth Grants				
General Purpose:				
GST Revenue Grants	10,946	11,034	88	Revisions reflecting higher pool estimates offset by lower population share.
Specific Purpose:				
Rural Assistance Authority	28	235	207	Mainly for funding of drought assistance under the Exceptional Circumstances Scheme and an Assistance Package for Southern Irrigators.
Education and Training	1,354	1,421	67	Mainly a catch up of Commonwealth grants in the vocational education and training area for capital works ($30 million), some additional schools funding ($16 million) particularly for indigenous education programs and a slight bring forward in the Commonwealth's 'Investing in our Schools' program ($20 million).

Category/Agency	*Budget*	*Revised*	*Variation*	*Comment on Major Variations*
	$m	*$m*	*$m*	
Department of Water and Energy and Department of Environment and Climate Change	163	84	(79)	Mainly due to deferral of Groundwater assistance payments because of legal and Commonwealth taxation issues and under expenditure on Catchment Management Authorities' investment programs due to drought and other factors.
Roads & Traffic Authority	721	690	(31)	Accelerated funding for the Hume and Pacific projects provided by the Commonwealth in 2005-06 is being recognised in the years in which the roadworks occur, which resulted in lower income recognition.
Other	4,413	4,416	3	Aggregated net minor variations.
Total Commonwealth Grants	**17,625**	**17,880**	**255**	
Financial Distributions	**1,664**	**1,768**	**104**	Improvement due to price improvements in the Energy Sector.
Total Fines, Regulatory Fees & Other	**1,167**	**1,206**	**39**	Aggregated net minor variances.
TOTAL STATE REVENUES	**37,175**	**38,629**	**1,454**	
OPERATING REVENUES				
Sales of Goods and Services				
Personnel Services Revenue	...	132	132	Revenue from services provided to NSW Government agencies outside the General Government sector. This is offset by an expense variance of the same amount.
Department of Health	1,090	1,181	91	Higher revenue primarily reflects increasing numbers of fee paying patients and grants received.
Other	1,909	2,019	110	Net increase in a range of other agencies.
Total Sales of Goods and Services	**2,999**	**3,332**	**333**	

Category/Agency	Budget	Revised	Variation	Comment on Major Variations
	$m	*$m*	*$m*	
Investment Income				
NSW Self Insurance Corporation	407	607	200	Higher than projected financial market returns.
Liability Management Ministerial Corporation	171	271	100	Higher than projected financial market returns.
Building and Construction Industry Long Service Leave Payments Corporation	33	69	36	Higher than projected financial market returns.
Workers Compensation (Dust Diseases) Board	47	83	36	Higher than projected financial market returns.
WorkCover Authority	15	35	20	Higher than projected financial market returns.
Other	241	315	74	Higher than projected financial market returns in various other agencies.
Total Investment Income	**914**	**1,380**	**466**	
Grants and Contributions				
Department of Education & Training	279	309	30	Mainly due to additional school generated revenues, which is offset by associated expenses.
Department of Health	180	142	(38)	Mainly budgeted payments to the Cancer Institute which is now a General Government Sector agency, offset by increased donations to Area Health Services.
Other	330	324	(6)	Aggregated net minor variations.
Total Grants and Contributions	**789**	**775**	**(14)**	
Other Revenue				
Crown Finance Entity	15	107	92	Mainly higher than expected HIH insurance recoveries.
Roads & Traffic Authority	102	76	(26)	Primarily from lowered emerging interest on road assets built by the Private Sector as a result of changes to Accounting Standards.
Other	202	186	(16)	Aggregated net minor variations.
Total Other Revenue	**319**	**369**	**50**	
TOTAL OPERATING REVENUES	**5,021**	**5,856**	**835**	

Category/Agency	Budget	Revised	Variation	Comment on Major Variations
	$m	$m	$m	
EXPENSES				
Crown Finance Entity	3,002	3,926	924	Principally due to a rail debt reduction payment to the Transport Infrastructure Development Corporation of $960 million.
Rural Assistance Authority	36	285	249	Mainly drought assistance via the Exceptional Circumstances Scheme and compensation to Southern Irrigators for reduced water allocations.
Personnel Services Expenses	...	132	132	Cost of providing personnel services to NSW Government agencies outside the General Government sector. These were not included in the 2006-07 budget and are fully offset by revenue from these agencies.
Department of the Arts, Sport and Recreation	196	313	117	Mainly due to approved grants for Newcastle Stadium, Parramatta Stadium, Penrith Stadium, Drummoyne Oval, Leichhardt Oval, Western Sydney Dragway, Sydney Opera House, Art Gallery of New South Wales, Powerhouse Museum and Australian Museum.
Department of Education and Training	8,866	8,979	113	Mainly higher government school student numbers than forecast and additional Commonwealth funded programs in the schools sector.
Department of Primary Industries	331	405	74	Mainly drought assistance, increased expenditure on industry funded research and bringing forward buyout of commercial fisheries in Marine Parks.
Roads & Traffic Authority	2,247	2,314	67	Additional maintenance works funded by higher than budgeted revenue, proposed capital works now being expensed and payments to the Lane Cove Tunnel operator partially offset by lower superannuation costs related to new accounting standards.
Department of Health	11,143	11,277	134	Costs associated with additional patient fees and Commonwealth funding for cervical cancer immunisation.
Department of Corrective Services	695	738	43	Includes increased inmate numbers, enhanced Community Offender Services Program and continuation of funding for the Drug Court.
Treasury	433	469	36	Higher number of applicants for First Home Owners Grant than anticipated.
NSW Police Force	1,833	1,865	32	Increased operating expenses, including recruit training costs and funding for additional highway patrol officers.
Rental Bond Board	5	35	30	Payment to the Department of Housing for the Affordable Housing Initiative.

Category/Agency	*Budget*	*Revised*	*Variation*	*Comment on Major Variations*
	$m	*$m*	*$m*	
EXPENSES (cont)				
NSW Self Insurance Corporation	1,084	561	(523)	Downward revision in outstanding claims as actuaries recognise recent favourable claims experience due to the effectiveness of the Government's Workers Compensation and Tort Reform legislation.
Motor Accidents Authority	38	(2)	(40)	Reduction in valuation of outstanding HIH liabilities.
Treasurer's Advance	245	...	(245)	Increased expenses included in agency data.
Other	12,738	12,744	6	Aggregated net minor variations.
TOTAL EXPENSES	**42,892**	**44,041**	**1,149**	
BUDGET RESULT - SURPLUS/(DEFICIT)	**(696)**	**444**	**1,140**	
Capital Expenditure (Including finance lease acquisitions)				
Ministry of Transport	11	116	105	Mainly for acquisitions of new buses under finance lease arrangements.
NSW Police	111	134	23	Additional Police ICT projects.
Crown Property Portfolio	82	95	13	Construction of Penrith Government Block.
Environmental Planning and Assessment Act	173	77	(96)	Mainly due to unanticipated reduction in land purchases for the North West and South West rail corridors resulting from lower than expected acceptance of offers by landowners.
Roads and Traffic Authority	1,595	1,542	(53)	Additional expenditure funded by Commonwealth Black Spot Funding offset by slow down in Hume-Pacific Projects.
Department of Corrective Services	128	118	(10)	Reduction to building purchases resulting from delays in Site Acquisition and Planning Approval on Inmate Beds Project.
Treasurer's Advance	110	...	(110)	Expenditures funded by the Treasurer's Advance.
Other	2,177	2,193	16	Aggregated net minor variations.
Total Capital Expenditure	**4,387**	**4,275**	**(112)**	
Depreciation				
Department of Commerce	133	158	25	Revised financing arrangements for the Government's vehicle fleet.
Other	2,112	2,118	6	Aggregated net minor variations.
Total Depreciation	**2,245**	**2,276**	**31**	

Category/Agency	*Budget*	*Revised*	*Variation*	*Comment on Major Variations*
	$m	*$m*	*$m*	
Asset Sales				
Department of Education & Training	48	127	79	The sale of various vacant school sites, particularly the former Peter Board High and Vaucluse sites was achieved with solid return values.
Crown Finance Entity	117	65	(52)	Delays to commencement of activities by the State Property Authority.
Department of Health	48	16	(32)	Lower sales by Department of Health.
Department of Primary Industries	20	3	(17)	Delay in asset sales under the 2020 Program.
Other Asset Sales & Movements	229	231	2	Aggregated net minor variations.
Total Asset Sales	**462**	**442**	**(20)**	
Other Movements in Non-Financial Assets	**90**	**54**	**(36)**	
NET LENDING	**(2,466)**	**(1,167)**	**1,299**	

APPENDIX E: TAX EXPENDITURE AND CONCESSIONAL CHARGES STATEMENT

E1: DETAILED ESTIMATES OF TAX EXPENDITURES

TRANSFER DUTY (INCLUDING VENDOR TRANSFER DUTY AND "LAND RICH" DUTY)

The benchmark tax rates for Purchaser Transfer Duty (other than for the Crown in right of New South Wales or the Commonwealth) are as follows:

- for transfers relating to the **purchase** of **non-residential** property, the benchmark tax rate is defined against marginal tax rates varying from 1.25 to 5.5 per cent; and

- for transfers relating to the **purchase** of **residential** property, the benchmark tax rate is defined against marginal rates varying from 1.25 to 7 per cent.

From 2 August 2005, Vendor Transfer Duty was abolished for all transactions entered into, on or after that date. Prior to that date, the benchmark tax rate was:

- agreements on the sale or transfer of land-related property or declarations of trust over land-related property, sold for a higher price than the purchase price, other than principal places of residence and land used for primary production, were taxed at the benchmark tax rate of 2.25 per cent.

From 10 November 2004, duty applied to the disposal of indirect interests in land. The same tax base as for Vendor Transfer Duty applied up to 2 August 2005.

Table E1: Transfer Duty (Including Vendor Duty)[1]

Major Tax Expenditures	*2005-06 $m*	*2006-07 $m*	*2007-08 $m*
PURCHASER TRANSFER DUTY			
First Home Plus/First Home Plus One			
First Home Plus provides all eligible first home buyers with 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. From 1 May 2007, duty concessions are also provided to eligible first home buyers taking part in shared equity arrangements in proportion to their share of equity in the home.	396	427	456
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.	42	36	39
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.*	113	102	106
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 purchases by charitable and benevolent institutions where the property is to be used for approved purposes	26	12	13
Corporate reconstructions			
An exemption is given for corporate reconstructions provided certain qualifying criteria are satisfied.	132	166	129

[1] *For reference purposes, where "n.a." appears in tables this refers to a tax expenditure estimated to cost more than $1 million, but is not able to be costed due to the lack of available data. Where the table includes reference to an ellipsis (…) this refers to the tax expenditure having a zero value in that year.*

Table E1: Transfer Duty (Including Vendor Duty) (cont)

Major Tax Expenditures	*2005-06 $m*	*2006-07 $m*	*2007-08 $m*
Transfer of property from companies and trusts to individuals			
Exemption for transfer of a principal place of residence from a corporation or a special trust to certain individuals or transfer of any land owned by a special trust from the trust to certain persons provided the land was owned by the corporation on 11 September 1990.	1	1	1
Other Legislation			
Exemption is granted for certain transfers of dutiable property contained in other legislation.	5	5	5
Councils and County Councils			
Duty is not chargeable on the transfer of property to a council or county council under the *Local Government Act 1993.*	3	3	3
'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 of property of deceased to persons entitled to the property in the estate	n.a.	n.a.	n.a.
VENDOR TRANSFER DUTY			
Concession for land-related property sold for less than 115 per cent of the purchase price	49	…	…
Exemption for the sale or transfer by mortgagee or receiver under the power of sale	5	…	…
Exemption for the sale or transfer of newly constructed buildings [2]	41	2	…
Exemption for the sale or transfer of substantially new buildings [2]	7	3	…
Exemption for the sale or transfer of land subdivided from a principal place of residence or a farm	2	…	…

[2] *Figures relate to contracts entered into before abolition of Vendor Transfer Duty from 2 August 2005.*

Major Tax Expenditures	*2005-06 $m*	*2006-07 $m*	*2007-08 $m*
Exemption for the sale or transfer of vacant land that has been substantially improved by the vendor	17	…	…
Exemption for sale of business that includes land-related property subject to certain conditions	7	…	…
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.	8	…	…
Corporate reconstructions			
An exemption is given for corporate reconstructions provided certain qualifying criteria are satisfied.	6	…	…
Exemption from *ad valorem* duty for certain transfers	1	…	…
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)

- A person who has sold his or her property to a local government council because the home was built on flood-prone land, and purchased another home, may pay purchaser transfer duty on the contract by instalment over a five-year period;
- certain instruments relating to superannuation are subject to nominal duty; and
- a credit of purchaser transfer duty previously paid is applied to amalgamations of certain Western Lands leases.

The following are exempt from **purchaser transfer duty**:

- transfers of poker machine permits where there is no change in beneficial ownership;
- Equity Release Scheme – approved equity release schemes for aged home owners;
- 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*;
- no duty is chargeable on the vesting of common property in a body corporate on the registration of a strata plan or strata plan of subdivision under the *Strata Schemes (Freehold Development) Act 1973* or the *Strata Schemes (Leasehold Development) Act 1986*;
- no duty is chargeable on a call option assignment subject to certain conditions;
- transfer of incorporated legal practices;
- transfer of a liquor licence in certain circumstances under Sections 41, 42 or 61 of the *Liquor Act 1982*;
- transfer or property related to allocating funds for water saving projects;
- duty concession for an acquisition of an interest in a land rich landholder for the purpose of securing financial accommodation;
- concession for buy-back arrangements related to unit trust schemes that meet certain criteria; and
- no duty is chargeable on the purchase of a 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.

Prior to 2 August 2005, the following were 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 others;
- transfer or sale of land as a result of a compulsory acquisition;
- transfer of principal places of residence on which there is one other residential occupancy;
- sale of former principal place of residence by vendor absent for up to 6 years prior to sale;
- sale of land used for incidental business purposes as well as principal place of residence;
- 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;
- land used by the former spouse of the vendor as his/her principal place of residence following the break-up of the relationship; and
- land used and occupied by a person under a legal disability (protected person) is taken to be the land used and occupied by the vendor where the vendor does not occupy that property as their principal place of residence. The principal place of residence exemption applies in respect of the vendor duty transaction in the same way as it would apply if the protected person were the vendor in relation to the transaction.

The following are exempt from **purchaser transfer duty** and were exempt from **vendor transfer duty** prior to 2 August 2005:

- transfers back to a former bankrupt by trustee of his or her estate;
- transfers by way of mortgage or discharge of mortgage of old system titled properties;
- transfers 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;
- transfer of property to the NSW Aboriginal Land Council, Regional Aboriginal Land Council, or Local Aboriginal Land Council; 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, except insurance covering only property of the Crown in right of New South Wales. The benchmark tax rate is 5 per cent of premium paid for contracts or renewals that take effect prior to 1 September 2005 and 9 per cent from that date forward.

Table E2: General Insurance Duty

Major Tax Expenditures	*2005-06 $m*	*2006-07 $m*	*2007-08 $m*
Concessional rates for motor vehicle, aviation, disability income, occupational indemnity, crop and livestock			
From 1 September 2005, a concessional rate of 5 per cent 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 per cent. Until 31 January 2010, insurance under the Debtor Insurance Scheme of the Stock and Station Agents Association is also taxed at 2.5 per cent.	103	141	142
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.	122	143	150
Marine and cargo insurance			
Exemption for marine insurance covering hulls of commercial ships and the cargo carried by land, sea or by air.	17	19	20
Exemption for WorkCover premiums	190	192	198
Exemption for medical benefits insurance	n.a.	n.a.	n.a.

Minor Tax Expenditures (< $1 million)

The following are exempt:

- insurance by non-profit charities, benevolent, philanthropic, patriotic organisations and societies or institutions whose resources are used wholly or predominantly for the relief of poverty, the promotion of education, any purpose directly or indirectly connected with defence or the amelioration of the condition of past or present members of the naval or air forces of the Commonwealth or their dependants or any other patriotic object;

- insurance by the NSW Aboriginal Land Council, Regional Aboriginal Land Council and Local Aboriginal Land Council;
- non-commercial ventures of local councils;
- insurance covering mortgages or pools of mortgages acquired for issuing mortgage backed securities;
- separate policies covering loss by fire of labourer's tools;
- redundancy insurance in respect of a housing loan that does not exceed $124,000; and
- reinsurance.

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 E3: Life Insurance Duty

Major Tax Expenditures	*2005-06 $m*	*2006-07 $m*	*2007-08 $m*
Superannuation			
An exemption is granted to all group superannuation investment policies that are for the benefit of more than one member.	74	77	81
Annuities			
An exemption is provided to annuities.	16	17	18

MORTGAGE DUTY

Up to 1 September 2007, the benchmark is defined as all secured loans that affect property in New South Wales, except mortgages given by the Commonwealth or NSW Government or any public statutory body constituted under a law of this State. The benchmark tax rate is $5 up to $16,000 plus $4 per $1,000 or part thereof on the excess.

From 1 September 2007, the benchmark is defined as all secured loans that affect property in New South Wales, with the exception of mortgages for owner-occupied residences, mortgages given by the Commonwealth or NSW Government or any public statutory body constituted under a law of this State. The benchmark tax rate is $5 up to $16,000 plus $4 per $1,000 or part thereof on the excess.

Table E4: Mortgage Duty

Major Tax Expenditures	*2005-06 $m*	*2006-07 $m*	*2007-08 $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 through a different lender was restricted to amounts not exceeding $1 million.	311	325	286
First home purchase mortgage covered by First Home Plus/First Home Plus One			
Mortgages financing a first home purchase eligible under the First Home Plus Scheme are exempt from duty up to certain loan values, phasing out as the mortgage value increases. From 1 May 2007, duty concessions are also provided to eligible first home buyers taking part in shared equity arrangements in proportion to their share of equity in the home.	35	40	4
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.

Table E4: Mortgage Duty (cont)

Major Tax Expenditures	*2005-06 $m*	*2006-07 $m*	*2007-08 $m*
Loan-backed securities			
Securities issued backed by cash flow from loans (secured and unsecured) are exempted from duty.	n.a.	n.a.	n.a.
Fund raisings by finance companies through debenture issues			
A concession is given to companies whose sole or principal business is to provide finance to the public. Debentures issued, trust deeds and mortgages executed by "financial corporations" as defined in the legislation are not liable to duty. However, the trust deed is stamped as a Declaration of a Trust.	n.a.	n.a.	n.a.
Consumer credit contract			
Mortgages securing amounts under a consumer credit contract, where the amount financed is $35,000 or less are exempt from duty.	n.a.	n.a.	n.a.
Instruments creating mortgage-backed securities			
An instrument executed for the purpose of creating, issuing or marketing mortgage-backed securities is exempt from duty.	n.a.	n.a.	n.a.

Minor Tax Expenditures (< $1 million)

The following are exempt:

- duty is not 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;
- mortgages created solely for the purpose of providing security in accordance with a condition imposed on the grant of bail in criminal proceedings;
- a mortgage of any ship or vessel, or of any part, interest, share or property of or in any ship or vessel;
- the refinancing of a loan following divorce or the break up of a de facto relationship;
- 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 interests of Aborigines;

- mortgages given by the NSW Aboriginal Land Council, Regional Aboriginal Land Council and Local Aboriginal Land Council;

- 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 per cent 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*;

- an agricultural goods mortgage under the *Security Interests in Goods Act 2005*;

- a mortgage that secures an amount advanced by an employer or a related body corporate of an employer to an employee of the employer, to finance a purchase by the employee of shares in the employer, or a related body corporate of the employer, if the amount advanced (and the total of all advances that the mortgage secures) does not exceed $16,000;

- 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;

- mortgages by clearing houses of the Sydney Futures Exchange and Australian Options Market that do not secure an advance;

- a document that becomes a mortgage if the mortgage is executed for the purposes of certain money market operations;

- a charge over land that is created under an agreement for the sale or transfer of the land if any part of the deposit or balance of the purchase price for the land is paid to the vendor (or as the vendor directs) before completion of the sale or transfer; and

- an advance to a natural person or a strata corporation for the acquisition of farm machinery or a commercial vehicle that is secured by the mortgage.

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.

Table E5: Marketable Securities Duty

Major Tax Expenditures	*2005-06 $m*	*2006-07 $m*	*2007-08 $m*
Corporate reconstructions			
An exemption is given for corporate reconstructions provided certain qualifying criteria are satisfied.	156	101	103

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 if the consideration for the transfer or agreement is not less than the unencumbered value of the marketable securities;

- 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 and from 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 E6: Motor Vehicle Registration Duty

Major Tax Expenditures	*2005-06 $m*	*2006-07 $m*	*2007-08 $m*
Local councils			
An exemption is granted for the transfer of registration into the name of a local council, not being for a trading undertaking.	11	11	12
Transfer of ownership after divorce or a breakdown of a de facto 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.	7	7	7
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*.	40	42	44
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 per cent 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;
- transfer of vehicles as part of a corporate reconstruction, provided certain qualifying criteria is satisfied;
- vehicles specially constructed for ambulance or mine rescue work;
- vehicles weighing less than 250 kg used for transporting invalids;
- Rural Lands Protection Boards (established under the *Rural Lands Protection Act 1998)*; and
- vehicles registered by NSW Aboriginal Land Council, Regional Aboriginal Land Council and Local Aboriginal Land Council.

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 per cent for equipment financing arrangements, and 1.5 per cent for other hires, with a maximum of $10,000 tax payable for any single arrangement.

Hire of goods duty will be abolished from 1 July 2007.

There are no major tax expenditures.

Minor Tax Expenditures (< $1 million)

The following are exempt:

- prosthetic items and invalid aids, or any similar aid, device or appliance for the use by a person who is partially or totally incapacitated;
- "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 or the hire of an engine or other component of an aircraft, ship or vessel;
- 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;
- on-site caravans;
- arrangements with traders for displaying or demonstrating goods pending their sale or hire to a third party;
- hire of goods as part of a lease or 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.

Lease duty will be abolished from 1 January 2008.

Table E7: Lease Duty

Major Tax Expenditures	*2005-06 $m*	*2006-07 $m*	*2007-08 $m*
Exemption for residential leases			
A residential lease under which a person has a right to occupy premises as a place of residence for a term not exceeding five years is exempt.	n.a.	n.a.	n.a.

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 V of the *National Health Act 1953* (Cth);
- leases executed by the NSW Aboriginal Land Council, Regional Aboriginal Land Council or Local 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 per cent.

Table E8: Payroll Tax

Major Tax Expenditures	*2005-06 $m*	*2006-07 $m*	*2007-08 $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.	407	429	453
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.	105	112	120

Table E8: Payroll Tax (cont)

Major Tax Expenditures	*2005-06 $m*	*2006-07 $m*	*2007-08 $m*
Religious institutions			
An exemption is granted for remuneration paid by a religious institution to a person while exclusively engaged in work of a kind ordinarily performed in the conduct of these institutions.	9	9	10
Charitable institutions			
An exemption is granted for remuneration paid by a non-profit organisation having wholly charitable, benevolent, philanthropic or patriotic purpose/s (other than an instrumentality of the State) to a person while engaged exclusively in work of a charitable, benevolent, philanthropic or patriotic nature.	34	36	38
Local councils			
Up to 1 July 2007, an exemption is granted for remuneration paid by a council or county council, except where wages are paid in connection with a number of trading undertakings, such as supply of electricity, water, sewerage services, gas, LPG, hydraulic power and the supply and installation of associated fittings and appliances and of pipes and apparatus, 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, the supply of building materials, a prescribed activity or the construction of any building or work or the installation of plant, machinery or equipment for use in or in connection with any of the activities listed.			
From 1 July 2007, the exemption will include wages paid by a wholly owned subsidiary of a council.	161	170	180
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.	12	13	14
Home Care Service			
Salaries paid to employees of the Home Care Service are exempt.	7	7	8
Apprentices			
Wages paid to apprentices are exempt from payroll tax.	17	18	19

Table E8: Payroll Tax (cont)

Major Tax Expenditures	*2005-06 $m*	*2006-07 $m*	*2007-08 $m*
Trainees			
Wages paid to trainees are exempt from payroll tax.	9	9	10
Redundancy payments			
Bona fide redundancy or approved early retirement scheme payments are exempt.	6	6	6
Maternity Leave			
From 1 July 2007, an exemption is provided for maternity leave payments for a period of up to 14 weeks.	…	…	5

Minor Tax Expenditures (< $1 million)

The following are exempt:

- wages paid to an employee who is on leave from employment by reason of service in the Defence Forces;
- wages paid to persons employed under the Community Development Employment Project administered by the Aboriginal and Torres Strait Islander Commission;
- wages paid by the Australian-American Fulbright Commission;
- wages paid by the Commonwealth War Graves Commission;
- wages paid to members of the official staff by a consular or other non-diplomatic representative of another country or by a Trade Chief Commissioner representing in Australia any other part of the Commonwealth of Nations;
- wages paid for a joint government enterprise that has the function of allocating funds for water saving projects;
- wages paid by the Governor of a State;
- wages paid to employees while the employees are providing volunteer assistance to the State Emergency Services or Rural Fire Brigades (but not in respect of wages paid or payable as recreation leave, annual leave, long service leave or sick leave);

- from 1 July 2007, an exemption is provided for adoption leave payments for a period of up to 14 weeks;

- up to 1 July 2007, financial planners who are authorised representatives of an Australian Financial Services (AFS) licence holder are exempt from payroll tax. From 1 July 2007, this exemption will be abolished; and

- up to 1 July 2007, an exemption applies for employment agents that on-hire staff where the recipient of the services is not liable for payroll tax (such as a public hospital) – the employer's annual wages are less than the threshold. From 1 July 2007, this exemption will be abolished.

LAND TAX

From midnight on 31 December 2005, the benchmark tax base is defined as the unimproved land value of all land owned (as defined in the *Land Tax Management Act 1956*), 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 rate is 1.7 per cent.

From midnight on 31 December 2006, the benchmark tax base is defined as the average of the last three years unimproved land value of all land owned (as defined in the *Land Tax Management Act 1956*), 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 rate is 1.7 per cent.

From midnight on 31 December 2007, the benchmark tax base will be defined as the average of the last three years unimproved land value of all land owned (as defined in the *Land Tax Management Act 1956*), 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 rate will be 1.6 per cent.

Table E9: Land Tax

Major Tax Expenditures	*2005-06 $m*	*2006-07 $m*	*2007-08 $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.	5	6	6

Table E9: Land Tax (cont)

Major Tax Expenditures	*2005-06 $m*	*2006-07 $m*	*2007-08 $m*
Land used for primary production			
An exemption is granted to land used for primary production purposes. In 2005 the definition was changed to restrict the exemption to situations where the land is used for primary production for the purpose of selling the produce from the land. This new definition excludes some land (such as hobby farms) previously granted the exemption.	355	359	346
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.	7	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
Co-operatives			
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.	9	9	8
Public cemeteries and crematoriums			
An exemption is granted for any land used as a public cemetery or crematorium.	12	12	12
Retirement villages			
An exemption is given for land owned and used by retirement villages, and residential parks predominantly occupied by retired persons.	94	95	92
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* or a school registered under the *Education Act 1900*.	4	4	4

Table E9: Land Tax (cont)

Major Tax Expenditures	*2005-06 $m*	*2006-07 $m*	*2007-08 $m*
Public and private hospitals and Area Health Services			
An exemption is granted for land used by a public hospital (including nursing homes) or Area Health Service.	16	16	15
Early Payment Discount			
A discount of 1.5 per cent on land tax payable is available where the taxpayer pays the whole amount within 30 days after issue of the notice of assessment.	15	15	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.	11	11	11
Place of worship or residence			
An exemption is provided for a place of worship for a religious society, or a place of residence for any clergy or ministers or order of a religious society.	n.a.	n.a.	n.a.
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.

Table E9: Land Tax (cont)

Major Tax Expenditures	*2005-06 $m*	*2006-07 $m*	*2007-08 $m*
Public gardens, recreation grounds and reserves			
An exemption is provided for land used as a public garden, public recreation ground or public reserve.	n.a.	n.a.	n.a.
Sporting clubs			
An exemption is provided for land owned by or in a trust for any club or body of persons where the land is used primarily for the purpose of a game or sport and not used for pecuniary profit of the members of that club or body.	n.a.	n.a.	n.a.
Sydney Light Rail			
An exemption is provided in respect of the land occupied by the Sydney Light Railway.	n.a.	n.a.	n.a.
Land owned and used by a local council	n.a.	n.a.	n.a.

Minor Tax Expenditures (< $1 million)

- Concession for unoccupied flood liable land.

The following are exempt:

- certain public trading enterprises;
- low cost accommodation within 5 km of Sydney GPO;
- Marketing of Primary Products Boards, Rural Lands Protection Boards and Agricultural Industry Service committees;
- NSW Aboriginal Land Councils, Regional Aboriginal Land Councils and Local Aboriginal Land Councils;
- temporary absences from a home, including circumstances where a home has been destroyed due to fire, storm, earthquake, accidental or malicious damage;
- community land development;

- land subject to a conservation agreement under the *National Parks and Wildlife Act 1974* or a trust registered under the *Nature Conservation Trust Act 2001*, being in either case an agreement that remains in force in perpetuity;
- land owned, held in trust or leased by the Nature Conservation Trust of NSW, or land subject to a permanent conservation or trust agreement;
- land that is the subject of a biobanking agreement;
- land owned by a joint government enterprise that has the function of allocating funds for water saving projects;
- land used solely as a police station;
- land leased for use as a fire brigade, ambulance or mines rescue station; and
- land owned by RSL (NSW Branch), being 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* for private and business vehicles.

Table E10: Vehicle Weight Tax

Major Tax Expenditures	*2005-06 $m*	*2006-07 $m*	*2007-08 $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.	132	133	141
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 per cent of business rates for trucks, tractors and trailers.	20	19	20

Table E10: Vehicle Weight Tax (cont)

Major Tax Expenditures	*2005-06 $m*	*2006-07 $m*	*2007-08 $m*
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.	17	17	18
Roadwork equipment – owned by 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
Federal government authorities			
Any motor vehicle that is leased to a Commonwealth Authority and registered under Section 16, Part 3, (2) (d) of the *Commonwealth Vehicles (Registration and Exemption from Taxation) Act 1997*.	2	2	2
Concessions provided under Part 16 and 17 of the *Motor Vehicle Taxation Act 1988*	1	2	2
Apprentice Incentive – Small Business Work Vehicle Rebate			
From 1 July 2007, small business owners will receive a full rebate of the cost of registering one work vehicle for every new apprentice hired during 2007-08. It will apply to small businesses that are not liable to pay payroll tax, i.e. where total taxable wages and interstate wages paid or payable by the employer during 2007-08 are less than $600,000. For the first year of the apprentice's employment, the rebate will cover the vehicle's registration fee and weight tax. For the second and third years of the same apprentice's employment, the rebate will cover the vehicle's registration fee.	…	…	4

Minor Tax Expenditures (< $1 million)

- A concessional rate of 55 per cent of business rates (or 30 per cent 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 concessional rate of 88 per cent is provided for mobile cranes used for private use;

- 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 carrying out the functions of the board; and

- a rebate of $100 is provided to first and second year apprentices on the cost of car registration.

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 Service 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 the NSW Aboriginal Land Council, Regional Aboriginal Land Council and Local 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 2006-07 were $43 for a one-year licence, $103 for a three-year licence and $137 for a five-year licence.

Table E11: Drivers' Licences

Major Tax Expenditures	*2005-06 $m*	*2006-07 $m*	*2007-08 $m*
Selected social security recipients[3]			
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.	28	15	13

VEHICLE TRANSFER FEES

The benchmark is considered to be all transfers of previously registered vehicles. From 1 July 2006, the benchmark rate is $25 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.

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[3] *Profile of estimates is due to the renewal pattern of three and five year driver's licences.*

MOTOR VEHICLE REGISTRATION FEES

The benchmark is defined to be all vehicles intended for on-road use. The benchmark tax rate in 2006-07 was $50 for most motor vehicles, $218 for trucks with a mass of 5 tonnes or more and $386 for articulated trucks.

Table E12: Motor Vehicle Registration Fees

Major Tax Expenditures	*2005-06 $m*	*2006-07 $m*	*2007-08 $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.	32	32	33

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 5.7 per cent to 36.4 per cent (annual rates from 1 July 2005), 5.5 per cent to 39.1 per cent (annual rates from 1 July 2006) or 5.4 per cent to 41.8 per cent (annual rates from 1 July 2007) depending on the level of annual profits from gaming machines.

The benchmark for totalisators is a tax rate of 19.11 per cent of player loss.

Table E13: Gambling and Betting Taxes

Major Tax Expenditures	*2005-06 $m*	*2006-07 $m*	*2007-08 $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.	488	489	484

Minor Tax Expenditures (< $1 million)

- A full rebate of tax is provided to racing clubs operating non-TAB Ltd pools.

PARKING SPACE LEVY

The benchmark is defined as off-street parking spaces in either Category one areas (City of Sydney, North Sydney and Milsons Point business districts) or Category two areas (Chatswood, Parramatta, St Leonards and Bondi Junction business areas).

The benchmark levy is indexed annually to movements in the Sydney CPI over the year to the previous March quarter. For 2006-07, the benchmark levy was $900 per space in Category one areas and $450 per space in Category two areas.

Table E14: Parking Space Levy

Major Tax Expenditures	*2005-06 $m*	*2006-07 $m*	*2007-08 $m*
General exemptions and concessions in all regions			
An exemption from the levy is granted to parking spaces for bicycles or motor cycles, 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. Concessions are also granted in all areas for certain unlet casual parking spaces and unlet tenant parking spaces.	13	14	15
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 hire and sales, repair and wash establishments and funeral parlours are exempt from the levy.	4	7	7

E2: 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 E15: Education

Major Concessions	*2005-06 $m*	*2006-07 $m*	*2007-08 $m*
TAFE Fee concession			
Fees are waived for students with disabilities, ATSI students, students of Special Access Courses or students receiving nominated pensions or allowances while the fees for apprentices and trainees have been capped.	59	62	64
School Student Transport Scheme			
The School Student Transport Scheme (SSTS) provides subsidised travel to and from school for eligible students on Government and private bus, rail, and ferry services, long distance coaches and in private vehicles where no public transport services exist.	429	437	449

Minor Concessions (< $1 million)

- The Department of Primary Industries sells certain publications to schools and libraries at a lower than retail value.

Table E16: Health

Major Concessions	*2005-06 $m*	*2006-07 $m*	*2007-08 $m*
Ambulance service for pensioners			
Free transport by ambulance is provided for holders of pensioner health benefit cards.	85	88	91
Outpatient Pharmaceutical Scheme for Pensioners			
Free pharmaceuticals are provided for holders of pensioner health benefit cards.	2	2	3
Life Support Energy Rebates Scheme			
The Department of Water and Energy funds a rebate for energy costs associated with certain life support systems.	2	3	3

Table E17: Social Security and Welfare

Major Concessions	*2005-06 $m*	*2006-07 $m*	*2007-08 $m*
Public transport concessions			
Pensioners, Seniors and welfare beneficiaries travel for less than full fare on bus, rail, taxi and ferry services (excluding School Student Transport Scheme).	338	340	349
Community Transport Scheme			
Subsidies transport to address special needs caused by isolation, age or disability.	34	34	33
Spectacles Program			
Free spectacles are provided to people with visual impairment who have low income and assets.	5	4	4
Charitable Goods Transport Subsidy			
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 E18: Housing and Associated Amenities

Major Concessions	*2005-06 $m*	*2006-07 $m*	*2007-08 $m*
Local council rates concession			
Local council rates are reduced for holders of Pensioner Concession Cards.	73	76	76
Pensioner Water Rate Concession			
The Department of Water and Energy grants holders of Pensioner Concession Cards a:			
♦ 100 per cent discount on Sydney Water Corporation's (fixed) water service charge, 74 per cent discount on the sewerage charge and 50 per cent discount on the stormwater service charge.			
♦ 50 per cent discount on Hunter Water Corporation's (fixed) water, sewerage and stormwater service charges plus 50 per cent of usage up to a total of $175 per annum, and exemption from payment of the Environmental Improvement Charge.	83	88	90
Exempt Properties Water Rate Concession			
The Department of Water and Energy funds a partial discount on Sydney Water Corporation and Hunter Water Corporation charges to owners of properties used by non-profitable community services and amenities (principally local councils and charities).	10	10	11
Backlog Sewerage Connection Fee Concession			
The Department of Water and Energy funds Sydney Water Corporation and Hunter Water Corporation to connect selected un-sewered areas to the sewerage network, based on public health and environmental priorities.	2	1	3
Large Family and Financial Hardship Water Concession			
The Department of Water and Energy funds Sydney Water Corporation to undertake a range of social programs including the Payment Assistance Scheme for customers in financial hardship and measures to offset recent price rises. The price rise offset measures include free retrofits for large families, a $40 per annum discount on their water bill for large families with a health care card, and no interest loans for efficient appliances for customers in financial hardship.	1	1	1

Table E18: Housing and Associated Amenities (cont)

Major Concessions	*2005-06 $m*	*2006-07 $m*	*2007-08 $m*
Septic Pump-Out Fee Concession			
The Department of Water and Energy funds a discount on Sydney Water Corporation's septic pump-out fees to residences in the Blue Mountains that are residential-zoned and not connected to the sewerage network.	1	1	1
Energy Accounts Payment Assistance Scheme			
The Department of Water and Energy funds an energy rebate (including gas and electricity) for consumers in financial hardship.	8	8	9
Pensioner Energy Subsidy Scheme			
The Department of Water and Energy 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.	74	75	82
Crown Land Rent Concessions			
Registered charities and not-for profit organisations receive a discount on Crown Land rents.	15	19	19

Minor Concessions (< $1 million)

- Payment Assistance Scheme funded by Hunter Water Corporation for customers in financial hardship.

Table E19: Recreation and Culture

Major Concessions	*2005-06 $m*	*2006-07 $m*	*2007-08 $m*
Department of Environment and Climate Change - 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.	4	6	7
Concessional vessel registration			
NSW Maritime provides a 50 per cent concession on recreational vessel registration to holders of Pensioner Concession Cards and Repatriation Health Cards.	1	1	1

Minor Concessions (< $1 million)

- NSW Maritime – concessional recreational boating licence and private mooring licence for pensioners;
- Royal Botanic Gardens and Domain Trust – concessional admission charges for pensioners and Seniors Cardholders for entry to the Tropical Centre, Mount Annan and Mount Tomah Botanic Gardens;
- Historic Houses Trust of NSW – 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;
- Museum of Applied Arts and Sciences – concessional admission charges for children, students, pensioners, seniors and the unemployed. Country residents are entitled to a concession on the Museum's household membership. Concessional rates for venue hire apply to community or charitable groups;
- Sydney Opera House – concessional charges on guided tours for children, pensioners, seniors, students and school group tours; and
- Art Gallery of NSW– concessional admission charges for entry to special exhibitions for the unemployed, children, pensioners, seniors, students and school groups.

Table E20: Agriculture, Forestry and Fishing

Major Concessions	*2005-06 $m*	*2006-07 $m*	*2007-08 $m*
Recreational fishing fee concession			
Pensioners and children are exempt from the recreational fishing fee.	4	4	4

Minor Concessions (< $1 million)

- Forests NSW provides pensioner discounts on firewood permits for the collection of firewood and discounts to charitable organisations on the purchase of Christmas trees.

APPENDIX F: GENERAL GOVERNMENT SECTOR FINANCIAL STATEMENTS (ACCOUNTING)

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.

Table F1: General Government Sector Operating Statement

	Actual	Budget	Revised	Budget	Estimate		
	2005-06	2006-07	2006-07	2007-08	2008-09	2009-10	2010-11
	$m	$m	$m	$m	$m	$m	$m
State Revenues							
Taxation	15,902	16,711	17,767	17,554	18,346	19,272	20,435
Commonwealth Grants	18,040	17,625	17,826	18,780	19,293	20,275	21,243
Financial Distributions	2,020	1,595	1,741	1,766	1,867	1,915	2,014
Fines, Regulatory Fees & Other	1,278	1,167	1,206	1,190	1,167	1,245	1,304
Total State Revenues	37,240	37,098	38,540	39,290	40,673	42,707	44,996
Operating Revenues							
Sale of Goods and Services	3,021	3,014	3,314	3,414	3,559	3,648	3,762
Investment Income	1,365	1,001	1,407	807	829	874	914
Grants and Contributions	810	827	784	817	1,191	872	884
Other	419	272	362	331	336	300	283
Total Operating Revenues	5,615	5,114	5,867	5,369	5,915	5,694	5,843
Expenses							
Employee Related							
- Superannuation	2,704	2,388	2,629	2,384	2,425	2,458	2,488
- Other	18,017	18,196	18,876	20,000	20,811	21,405	22,174
Other Operating	8,268	9,982	8,856	9,272	9,641	10,062	10,543
Depreciation and Amortisation	2,127	2,245	2,276	2,429	2,564	2,685	2,796
Current Grants and Subsidies	6,799	7,281	7,455	7,538	7,591	7,741	7,967
Capital Grants	1,612	1,661	2,700	1,641	1,818	2,092	2,694
Borrowing Costs	1,210	995	1,250	1,346	1,515	1,682	1,785
Total Expenses	40,737	42,748	44,042	44,610	46,365	48,125	50,447
Gains/(losses) on disposal of Physical Assets	(22)	(20)	1	72	84	170	172
Other Gains/(losses) [(a)]	3,815	834	1,166	(226)	(230)	(229)	(200)
Share of Earnings in Equity Investments	173	113	81	69	85	96	91
Net Cost of Services	(31,156)	(36,707)	(36,927)	(39,326)	(40,511)	(42,394)	(44,541)
Surplus/(Deficit) for the Year [(b)]	6,084	391	1,613	(36)	162	313	455

(a) *In applying accounting standards, the calculation of other gains/(losses) has been significantly impacted in 2005-06 due to an increase in the superannuation liability discount rate, and in 2005-06 and 2006-07 by higher superannuation investment earnings than the average long-term earnings rate.*

(b) *The accounting surplus/deficit differs from the GFS based budget result as GFS excludes both asset revaluations and actuarially assessed gains/losses to superannuation liabilities. Further, GFS recognises Commonwealth road transport grants on an accrual basis, whereas accounting recognises all grant revenues on a cash basis.*

Table F2: General Government Sector Statement of Changes in Equity

	Actual	*Budget*	*Revised*	*Budget*	*Estimate*		
	2005-06	*2006-07*	*2006-07*	*2007-08*	*2008-09*	*2009-10*	*2010-11*
	$m	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*
STATEMENT OF CHANGES IN EQUITY							
Net Asset Valuation Increments/(Decrements)	3,990	827	1,524	814	926	946	1,041
Movements in NSW's Share of Equity Investments taken Directly to Equity	122	...	...	...	...	...	...
Adjustments for Changes in Accounting Policies and Corrections of Errors	39	...	...	...	...	...	...
Adjustments from the initial adoption of AASB 139 *Financial Instruments*	294	...	...	...	...	...	...
AASB 112 Income Tax Adjustment to Reserves	(363)	(44)	101	8	(95)	328	(37)
Contributions by Owners Made to Wholly Owned Public Sector Agencies (Interpretation 1038)							
- Equity Restructure Payments from Public Trading Enterprises	49	184	184	73	50	...	30
- Transfers of Net Assets on Administrative Restructure	...	(3)	(78)	(78)	(23)	(27)	(1)
Net income and expense recognised directly in equity	**4,131**	**964**	**1,731**	**817**	**858**	**1,247**	**1,033**
Operating Surplus/ (Deficit)	6,084	391	1,613	(36)	162	313	455
Total recognised income and expense for the period	**10,215**	**1,355**	**3,344**	**781**	**1,020**	**1,560**	**1,488**
Opening Balance Equity	54,257	59,609	64,472	67,816	68,597	69,617	71,177
Closing Balance Equity	**64,472**	**60,964**	**67,816**	**68,597**	**69,617**	**71,177**	**72,665**

Table F3: General Government Sector Balance Sheet as at 30 June, 2006-2011

	Actual	Budget	Revised	Budget	Estimate		
	2006	2007	2007	2008	2009	2010	2011
	$m	$m	$m	$m	$m	$m	$m
Current Assets							
Cash and Cash Equivalent Assets	2,461	1,036	2,210	2,933	3,049	3,136	2,968
Receivables	3,441	2,983	3,781	3,916	3,567	3,650	3,736
Other Financial Assets	2,175	1,418	655	668	704	708	700
Inventories	119	113	120	123	121	125	130
Other	3	98	2	2	2	2	2
Non Current Assets Held for Sale	231	162	216	176	145	153	125
Total Current Assets	**8,430**	**5,810**	**6,984**	**7,818**	**7,588**	**7,774**	**7,661**
Non-Current Assets							
Receivables	6,709	7,349	6,850	6,901	6,821	7,130	7,029
Other Financial Assets	11,863	7,041	6,591	6,465	6,910	7,416	7,961
Equity Investments	1,486	692	1,565	1,662	1,776	1,843	1,892
Inventories	37	37	38	34	33	30	26
Investment Properties	373	304	351	398	398	398	398
Property, Plant and Equipment							
Land and Buildings	45,313	44,699	47,103	48,323	49,588	50,671	51,216
Plant and Equipment	6,360	6,116	6,493	6,613	6,547	6,286	6,440
Infrastructure Systems	36,617	36,732	37,734	39,224	41,054	42,720	44,135
Intangibles	537	454	544	568	581	578	577
Other	1,036	1,601	1,122	1,213	1,308	1,407	1,491
Total Non-Current Assets	**110,331**	**105,025**	**108,391**	**111,401**	**115,016**	**118,479**	**121,165**
Total Assets	**118,761**	**110,835**	**115,375**	**119,219**	**122,604**	**126,253**	**128,826**
Current Liabilities							
Payables	2,585	2,131	2,402	2,270	2,312	2,371	2,333
Borrowings at Amortised Cost	2,630	4,112	3,094	4,112	4,210	4,739	4,693
Borrowings and Derivatives at Fair Value	41	201	4	2	1	1	...
Employee Entitlements and Other Provisions	6,609	5,278	6,786	7,843	7,994	8,078	8,221
Other	530	646	364	345	326	308	280
Total Current Liabilities	**12,395**	**12,368**	**12,650**	**14,572**	**14,843**	**15,497**	**15,527**
Non-Current Liabilities							
Borrowings at Amortised Cost	10,284	12,455	10,422	12,048	13,622	14,598	15,193
Employee Entitlements and Other Provisions	29,721	22,897	22,734	22,353	22,892	23,380	23,861
Other	1,889	2,151	1,753	1,649	1,630	1,601	1,580
Total Non-Current Liabilities	**41,894**	**37,503**	**34,909**	**36,050**	**38,144**	**39,579**	**40,634**
Total Liabilities	**54,289**	**49,871**	**47,559**	**50,622**	**52,987**	**55,076**	**56,161**
NET ASSETS	**64,472**	**60,964**	**67,816**	**68,597**	**69,617**	**71,177**	**72,665**
Equity							
Reserves	34,210	31,540	35,778	36,255	37,086	38,360	39,364
Equity of Assets classified as Held for Sale	71	21	47	47	47	47	47
Accumulated Funds	30,191	29,403	31,991	32,295	32,484	32,770	33,254
TOTAL EQUITY	**64,472**	**60,964**	**67,816**	**68,597**	**69,617**	**71,177**	**72,665**

Table F4: General Government Sector Cash Flow Statement

	Actual 2005-06 $m	Budget 2006-07 $m	Revised 2006-07 $m	Budget 2007-08 $m	Estimate 2008-09 $m	Estimate 2009-10 $m	Estimate 2010-11 $m
Cash Flows from Operating Activities							
Receipts							
Taxation	15,962	16,557	17,239	17,558	18,779	19,291	20,479
Commonwealth Grants	18,992	17,525	17,772	18,444	18,987	20,019	21,243
Financial Distributions	1,357	1,680	1,855	1,497	1,760	1,840	1,973
Sale of Goods and Services	2,921	2,998	3,294	3,416	3,556	3,642	3,756
Investment Income	409	580	414	346	339	408	426
Other	3,810	4,015	4,288	4,564	4,544	4,540	4,365
Total Receipts	**43,451**	**43,355**	**44,862**	**45,825**	**47,965**	**49,740**	**52,242**
Payments							
Employee Related	(18,783)	(19,208)	(20,217)	(22,025)	(23,009)	(23,752)	(24,534)
Special Superannuation Contribution [(a)]	...	(8,700)	(7,176)	...	...	...	...
Grants and Subsidies	(8,254)	(8,777)	(10,028)	(8,987)	(9,197)	(9,660)	(10,495)
Finance	(823)	(977)	(871)	(983)	(1,057)	(1,200)	(1,281)
Other	(10,723)	(12,098)	(11,507)	(11,823)	(11,955)	(12,395)	(12,863)
Total Payments	**(38,583)**	**(49,760)**	**(49,799)**	**(43,818)**	**(45,218)**	**(47,007)**	**(49,173)**
Net Cash Flows from Operating Activities	**4,868**	**(6,405)**	**(4,937)**	**2,007**	**2,747**	**2,733**	**3,069**
Cash Flows from Investing Activities							
Proceeds from Sale of Property, Plant and Equipment	429	476	467	487	408	484	519
Proceeds from Sale of Investments[(a)]	2,087	9,019	8,278	663	167	175	192
Equity Restructure	49	184	184	73	50	...	30
Advance Repayments Received	77	99	56	69	75	86	92
Purchases of Property, Plant & Equipment	(3,730)	(4,267)	(4,025)	(4,564)	(4,233)	(4,389)	(4,103)
Purchase of Investments	(2,933)	(2,284)	(486)	(109)	(179)	(179)	(195)
Advances Made	(78)	(58)	(57)	(62)	(61)	(61)	(61)
Other	(135)	(119)	(172)	(208)	(137)	(132)	(101)
Net Cash Flows from Investing Activities	**(4,234)**	**3,050**	**4,245**	**(3,651)**	**(3,910)**	**(4,016)**	**(3,627)**
Cash Flows from Financing Activities							
Proceeds from Borrowings and Advances	1,554	3,573	613	2,588	1,528	1,657	643
Repayments of Borrowings and Advances	(1,212)	(280)	(169)	(221)	(257)	(286)	(253)
Net Cash Flows From Financing Activities	**342**	**3,293**	**444**	**2,367**	**1,271**	**1,371**	**390**
Net Increase/(Decrease) in Cash	**976**	**(62)**	**(248)**	**723**	**108**	**88**	**(168)**
Opening Cash and Cash Equivalents	1,482	1,073	2,458	2,210	2,933	3,041	3,129
CLOSING CASH AND CASH EQUIVALENTS BALANCE	**2,458**	**1,011**	**2,210**	**2,933**	**3,041**	**3,129**	**2,961**

(a) *In 2006-07, the Government is contributing $7.2 billion from the General Government Liability Management Fund to reduce its superannuation liabilities. Refer to Section 4.6 of Chapter 4 for further details.*

APPENDIX G: STATEMENT OF GOVERNMENT FINANCE STATISTICS AND ACCOUNTING PRINCIPLES AND POLICIES

FINANCIAL STATEMENTS

Chapter 1 of Budget Paper No. 2 presents three budget financial statements that comply with the accrual based government financial statistics (GFS) principles developed by the Australian Bureau of Statistics:

- Operating Statement;
- Balance Sheet; and
- Cash Flow Statement.

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 F. Australian Accounting Standards have recently been updated to include Australian Equivalents to International Financial Reporting Standards (AEIFRS), so a reference to AAS includes a reference to AEIFRS.

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[1]. 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.

[1] *Other factors influence the change in net worth such as asset revaluations, equity restructure payments from public trading enterprises (PTEs), and direct adjustments to accumulated funds on adopting new or amended accounting standards.*

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 balance sheet 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 cash flow statement 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. It is also adjusted for new finance leases. Any accrual transactions included in the budget result, such as accrued dividends, are removed and replaced with the equivalent cash transactions.

Except for the time series break on the adoption of AEIFRS (from 2005-06), 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 F of this Budget Paper, have been prepared in accordance with Australian Accounting Standards and generally accepted accounting principles.

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 F and Budget Paper No. 3 have been prepared under AAS, they do not include the detailed disclosures found in annual audited accounts.

DEPARTURES FROM AUSTRALIAN ACCOUNTING STANDARDS AND GFS

Under the *Public Finance and Audit Act 1983*, the Treasurer is required to present a statement that discusses the nature of and the reasons for any departure from AAS, and from any GFS principles.

Departures from Australian Accounting Standards and Principles

The budget preparation departs from Australian Accounting Standards as follows:

- certain reserve trusts created under the *Crown Lands Act 1989* have been excluded. There are approximately 33,000 Crown reserves in New South Wales. Some of these reserves are managed by the 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 2005-06 Total State Sector Accounts. In his opinion, “As disclosed in Note 1 Statement of Significant Accounting Policies, under the heading Principles of Consolidation, the State is undertaking a project to identify and value the Crown reserves it controls under the *Crown Lands Act 1989*. Until that project is completed, I am unable to obtain all the information I require to form an opinion on the value of those Crown reserves that should be recognised as land in the Accounts.”;

- ♦ 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, the recent adoption of AEIFRS requires a new primary financial statement, the statement of changes in equity, which reports on non-operating movements in equity such as changes in reserves and direct equity adjustments from adopting new accounting standards. There is no disclosure in Budget Paper No. 3 of agency *Changes in Equity*, as most agencies have minimal equity changes, aside from their operating results; and
- ♦ AEIFRS require that comparative financial information be restated in accordance with the new standards. Throughout the 2007-08 Budget Papers, information for the 2004-05 and previous financial years has not been restated on an AEIFRS basis:
  - 2003-04 and earlier year financial information is not available on an AEIFRS basis.
  - For 2004-05, the information presented is on a pre-AEIFRS basis, which is consistent with the presentation in the 2004-05 Budget Papers and in the 2004-05 audited financial reports.

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 cash flow statement. 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 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 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, Liabilities and Net Worth* 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 the general government sector, the public trading enterprise sector and the non-financial public sector. This fulfils uniform presentation framework requirements agreed between the Commonwealth and State governments.

APPENDIX H: GLOSSARY

APPROPRIATION

The level of funds provided by Parliament to Ministers for the purposes of funding agency activities (either recurrent or capital).

AVERAGE STAFFING

In Budget Paper No. 3 it is an estimate of annual average staffing, including temporary and short term ‘casual’ staffing, expressed on an equivalent full-time basis used to produce the outputs of a program.

AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (AEIFRS)

Accounting standards used in the Budget Papers which have been adopted by the Australian Accounting Standards Board (AASB) consistent with International Accounting Standards for reporting periods beginning on or after 1 January 2005. The Australian Accounting Standards Board (AASB) has committed to harmonise Government Finance Statistics (GFS) reporting with Accounting Standards as a priority for the public sector.

BUDGET DEPENDENT AGENCIES

General Government agencies that receive an Appropriation from the Consolidated Fund. This is their predominant funding source (rather than user charges or other revenues).

BUDGET RESULT

Represents the difference between GFS expenses and GFS revenues for the General Government Sector. This measure is equivalent to the GFS Net Operating Result.

CONSOLIDATED FUND

The main banking account of the Government. In the main it records:

- taxes, fines, fees collected;
- Commonwealth grants;
- dividends and tax equivalent payments from public trading and public financial enterprises; and
- recurrent and capital appropriations to agencies.

EQUIVALENT FULL-TIME (EFT)

This is a standard measure of staffing in terms of an equivalent number of full-time positions.

FISCAL RESPONSIBILITY ACT 2005

An Act of Parliament setting out both medium-term and long-term fiscal targets and principles providing a framework for budgeting in New South Wales.

GENERAL GOVERNMENT SECTOR

An ABS classification of agencies that provide public services (such as health, education and police) and funded in the main by taxation (directly or indirectly). There are budget dependent and non-budget dependent agencies within this sector.

GFS CASH SURPLUS/(DEFICIT)

Measures the net cash flows from operating activities and investing in non-financial assets less finance leases and similar arrangements.

GOVERNMENT FINANCE STATISTICS

A system of financial reporting (normally referred to as GFS) 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. The classification of transactions differs from that shown under AEIFRS.

NET COST OF SERVICES

In accounting financial statements this measures the net cost of providing government services. It equals operating expenses less operating revenues, and excludes state revenues.

NET DEBT

Is equal to gross borrowings less cash and investments.

NET FINANCIAL LIABILITIES

Is equal to all liabilities (such as debt, unfunded superannuation and insurance liabilities) less financial assets (excluding equity investments in other government agencies.

NET LENDING/(BORROWING)

This measure adjusts the budget result by including the cost of new asset acquisitions, less asset sales, and excluding depreciation expense. It broadly represents the impact of the Budget on the State's net financial liabilities.

NET WORTH

Represents total assets less total liabilities in the balance sheet.

NOMINAL DOLLARS/PRICES

Shows the dollars of the relevant period. No adjustment is made each time period for inflation.

NON BUDGET DEPENDENT GENERAL GOVERNMENT AGENCIES

General Government agencies that do not rely on the Consolidated Fund for direct financial support. They predominately source funds from regulatory and user charges (but may receive Budget funding from other General Government agencies for certain activities or services).

OUTCOMES

This is the intended effect or impact on the community, environment or economy which the Government is trying to influence through agency activities.

OUTPUTS

These are programs, goods and services or a response capacity produced by agencies to contribute to achieving the Government's desired outcomes.

PERFORMANCE MANAGEMENT AND BUDGETING SYSTEM (PMBS)

An integrated performance management system that aligns Government priorities and performance targets with agency funding and service delivery plans. When fully implemented, the PMBS will comprise a continuous cycle of performance-based planning, funding, monitoring and reporting. The PMBS is a key element of the new accountability structures established by the State Plan to improve service delivery performance.

PRIORITY DELIVERY PLAN (PDP)

The State Plan establishes new accountability structures to deliver on Government priorities and targets. In particular, the new structures allocate State Plan priorities and targets to Lead and Partner Ministers and Agencies. A PDP is an action plan to coordinate Lead and Partner agencies' service delivery strategies. The plan is prepared by a Lead Minister to support decision making by the Cabinet Standing Committee on State Plan Performance.

PRIVATELY FINANCED PROJECTS (PFP)

This is a specific form of Private Public Partnerships which involves the creation of an infrastructure asset through private sector financing and private ownership for a concession period (usually long term). The Government may contribute to the project by providing land or capital works, through risk sharing, revenue diversion or purchase of the agreed services.

PRIVATE PUBLIC PARTNERSHIPS (PPP)

Any contracted relationship between the public and private sectors to produce an infrastructure asset or deliver a service.

PROGRAM STATEMENTS

A grouping of agency activities with a similar purpose. Each program statement in Budget Paper No. 3 includes narrative material - program objectives and program description - as well as staffing and detailed financial information.

PUBLIC FINANCIAL ENTERPRISE (PFE)

An ABS classification of agencies that 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 on their own account.

For GFS purposes these are referred to as Public Financial Corporations (PFC).

PUBLIC TRADING ENTERPRISE (PTE)

An ABS classification of agencies where user charges represent a significant proportion of revenue and the agency operates with a broadly commercial orientation. For GFS purposes, the ABS refers to these as Public Non-Financial Corporations (PNFC).

RESULTS AND SERVICES PLAN (RSP)

A service delivery and funding plan prepared by a Minister to support decision making by the Cabinet Standing Committee on the Budget. The RSP provides a clear ‘line of sight’ for performance management by setting out the linkages between State Plan priorities, the results that an agency is working towards, the services it delivers to contribute to those results, and the costs of delivering those services as reflected in the agency’s budget. Treasury uses the financial and non-financial information agreed in the RSP to monitor actual performance against that planned for the Budget year.

SOCIAL PROGRAMS

These are non-commercial activities of PTEs that have social objectives. Where the objectives are a high priority to the government these programs are funded from the Budget as community service obligations (CSO).

STATE OWNED CORPORATION

Government agencies (mostly PTEs) which have been established with a governance structure mirroring as far as possible that of a publicly-listed company. NSW state owned corporations are scheduled under the *State Owned Corporations Act 1989* (Schedule 5).

SURPLUS/(DEFICIT)

This is the accounting result which corresponds to profit or loss in private sector reports. It equals the Net Cost of Services adjusted for government contributions. This is not the same as the budget result or the GFS Cash Surplus/(Deficit).

TOTAL ASSET MANAGEMENT (TAM)

A plan setting out the management of an agency’s physical assets (land, buildings, infrastructure, plant and equipment) ensuring they align with the services to be provided, and achieve required performance levels. Management of assets involves acquisition, maintenance, operations and disposals.

TOTAL EXPENSES

The total amount of expenses incurred in the provision of goods and services, regardless of whether a cash payment is made to meet the expense in the same year. It does not include expenditure on the purchase of assets. The definition of Total Expenses differs slightly between GFS and AEIFRS.

TOTAL REVENUES

The total amount of revenue due by way of taxation, Commonwealth grants and from other sources (excluding asset sales) regardless of whether a cash payment is received. The definition of Total Revenues differs slightly between GFS and AEIFRS.

TOTAL STATE SECTOR

Represents all agencies and corporations owned and controlled by the NSW Government. It comprises the General Government, Public Trading (also referred to as the public non financial corporations) and Public Financial Enterprises.

INDEX

INDEX

INDEX

I N D E X

I N D E X

R

S

T

I N D E X