

1.3 BUDGET POSITION

INTRODUCTION

Except for Table 1.7 the data presented in this Section covers the General Government Sector (see Section 1.1) and is on the basis of the new ABS definition of the Budget result. Prior years' data have been recast to the same coverage and basis to enable inter-year comparisons.

TRENDS IN BUDGET RESULTS

Budget Aggregates

Trends in the Budget position over recent years and projected over the forward estimates period are shown in the following table -

Table 1.6: General Government Sector Results, 1988-89 to 2001-02

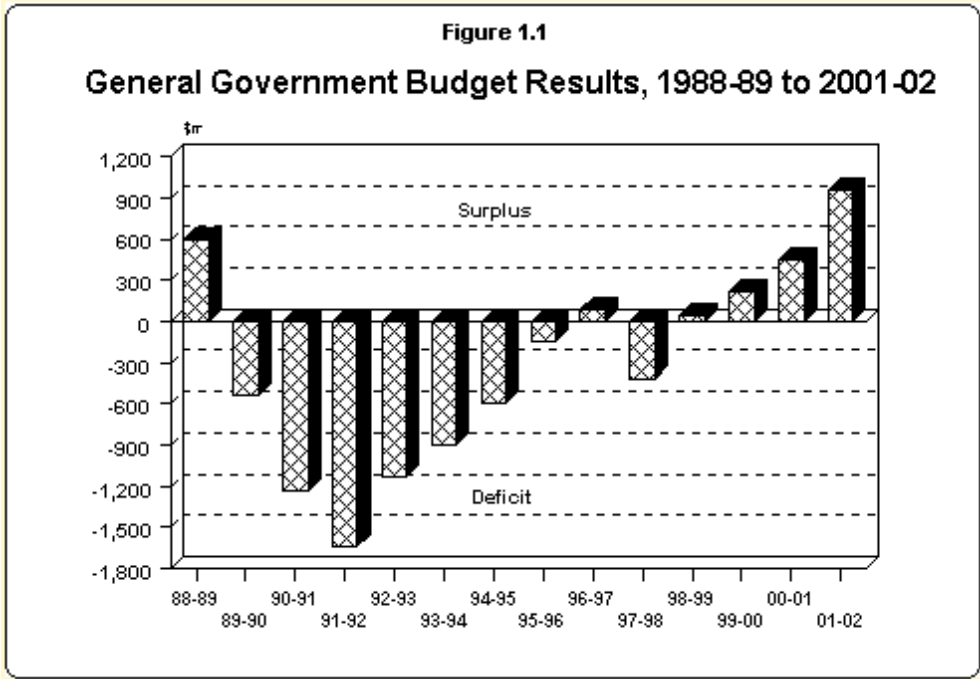
Year	Current			Capital			Total Result
	Outlays	Receipts	Result	Outlays	Receipts	Result	
	\$m	\$m	\$m	\$m	\$m	\$m	
1988-89	12,868	14,005	1,137	1,420	879	(541)	596
1989-90	14,231	14,947	716	2,449	1,185	(1,233)	(548)
1990-91	15,196	15,656	458	2,921	1,225	(1,695)	(1,236)
1991-92	16,437	16,442	4	2,693	1,047	(1,646)	(1,641)
1992-93	16,964	16,953	(11)	2,892	1,776	(1,116)	(1,127)
1993-94	17,330	18,431	1,101	3,315	1,310	(2,005)	(904)
1994-95	18,112	19,407	1,297	2,941	1,049	(1,893)	(597)
1995-96	18,621	20,710	2,089	3,175	936	(2,239)	(150)
1996-97	20,071	22,389	2,318	3,315	1,086	(2,229)	90
1997-98	21,290	23,350	2,060	3,487	1,011	(2,476)	(416)
1998-99	21,845	24,203	2,358	3,112	798	(2,314)	45
1999-2000	22,255	24,882	2,628	3,241	828	(2,413)	215
2000-01	22,879	25,828	2,949	3,360	862	(2,499)	450
2001-02	23,202	26,623	3,421	3,288	819	(2,469)	952

These results are illustrated in Figure 1.1.

The history over many years in New South Wales (as in most other States) has been one of continuing underlying Budget deficits of varying magnitudes.

Table 1.6 and Figure 1.1 show quite clearly a pattern of Budget results deteriorating substantially up to 1991-92 (most noticeably in 1989-90), with a turnaround since 1991-92 leading to a surplus in 1996-97.

The return to a deficit in 1997-98 reflected the impact of the High Court's s90 decision invalidating a range of State licence fees, and additional expenditures in the areas of Health, Transport and Community Services.



The Budget result for 1998-99 predicts a return to surplus, with the forward years to 2001-02 showing further strong improvements.

Main Trend Components of Budget Results

Budget aggregates change over time as a result of factors such as inflation, wages and population growth, policy initiatives and productive efficiency. One approach for measuring the year to year growth in Budget aggregates is to compare the increase in components of the outlays and revenues with the growth in the State economy. While such an approach has a number of deficiencies (particularly during pronounced economic cycles), it provides an approximate measure of the impact of government on the economy generally.

Table 1.7 shows the variations in Budget aggregates compared with what might be expected if growth had been in line with GSP. Over the period 1988-89 to 1991-92, the General Government deficit expanded by around \$2.3 billion. Subsequent to 1991-92, the deficit fell by \$939 million during the next 3 years and is expected to fall a further \$446 million in the period 1994-95 to 1998-99.

Table 1.7: Growth in Budget Aggregates Compared with GSP (a) (b)

	1988-89 to 1991-92	1991-92 to 1994-95	1994-95 to 1998-99
	\$m	\$m	\$m
Current Outlays -	1,695	(-) 592	(-) 475
Interest	(-) 60	(-) 573	(-) 1,027
Redundancies	318	(-) 139	(-) 49
Superannuation	225	40	218
Other	1,213	80	384
Capital Outlays -	1,066	(-) 2	(-) 293
Casino Licence	...	(-) 376	376
Other	1,066	374	(-) 669
Total Outlays	2,762	(-) 594	(-) 768
Receipts -	438	345	(-) 322
Tax	323	278	1,009
Income from PTEs	478	188	95
Grants	(-) 220	(-) 65	(-) 1,183
Other	(-) 142	(-) 56	(-) 242
Deficit	2,324	(-) 939	(-) 446

(a) Defined as the increase in the relevant aggregate less growth in line with GSP.

(b) Adjustments have been made to a number of aggregates to facilitate time series comparisons.

The main conclusions that can be drawn from the above analysis are as follows -

- During the period 1988-89 to 1991-92, the impact of the severe recession produced a rise in the relationship between outlays and GSP and a large increase in the deficit.

The relative growth in current outlays was exacerbated by the need to fund redundancies, the move to more fully fund superannuation liabilities and the requirement to meet unfunded third party motor accident liabilities. Capital outlays, in relative terms, also increased rapidly over the 3 years to 1991-92.

- A policy response to the recession and its negative impact on the Budget was an increase in tax rates. This produced an increase in revenues, despite the high base achieved in 1988-89 with the boom in property market transactions. The increase in tax rates more than offset the underlying decline in the tax base. Increases included the introduction of the 3x3 fuel franchise fee, an increase in tobacco franchise fees from 30 to 50 per cent, the doubling of FID and an increase in payroll tax to 7 per cent. The impact on revenue of these tax changes is shown in Table 1.4.

However, the main source of revenue growth in the 3 years to 1991-92 was dividend payments from public trading enterprises.

- After the deficit peaked in 1991-92 at \$1,641 million, the growth in current outlays was constrained during the following 3 years, reflecting both policy actions (including lower redundancy payments) and the impact of a slowly recovering economy. The process of winding back the growth was assisted greatly by a reduction in interest rates, with interest payments falling relative to GSP by nearly \$600 million. While current outlays fell relative to GSP, capital outlays grew although revenue from the licensing of the casino in 1994-95 minimised the impact on the deficit. (Under GFS standards the proceeds from the casino fee were treated as an offset to capital outlays.)
- On the revenue side, tax receipts increased sharply as the economy recovered from the recession. The growth in taxes over this period was assisted by a further increase in tobacco franchise licence fees to 75 per cent, an increase in liquor licence fees from 10 to 13 per cent and a doubling of debits tax. Revenue from public trading enterprises also continued to increase strongly.
- Between 1994-95 and 1998-99 it is expected that the deficit will be eliminated. In the main, the projected improved financial result will be achieved through the impact of lower interest payments on debt and restraining the growth of capital outlays relative to GSP growth. Of note is the significant reduction in Commonwealth grants that almost completely offsets the increases in tax revenue flowing from rate increases in recent years and the boom in property market transactions. This result is expected to be achieved despite the large increase in capital outlays related to Olympic expenditure (around \$500 million). This expenditure has mainly funded the construction of transport infrastructure, athletic arenas, the Olympic villages and the provision of electricity and water services.

Budget Impact of the Olympic Games

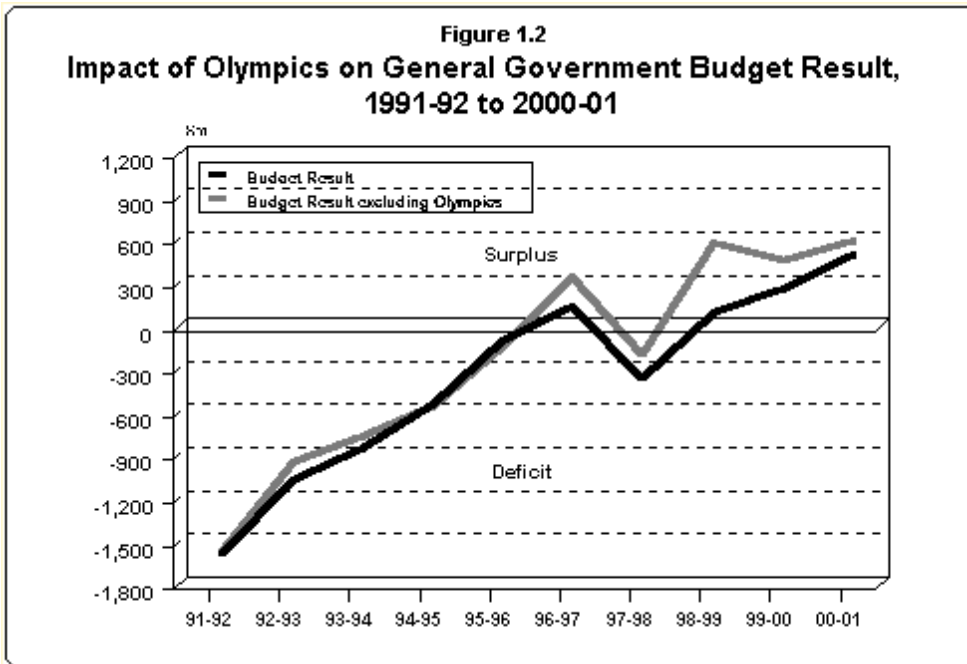
Figure 1.2 shows the net impact on the New South Wales Budget of the Sydney 2000 Olympic and Paralympic Games. The impact excludes the construction cost of the Royal Agricultural Society's new showground at Homebush Bay, which is not considered by the Auditor-General to be an Olympic cost.

Over the period 1991-92 to 2000-01, the net impact is estimated as \$1,287.5 million.

This net impact consists of -

- capital outlays of approximately \$1,850 million over the period, largely on venue construction, transport infrastructure and other asset acquisitions to support the provision of Government services during the staging of the Games;
- current outlays of approximately \$575 million, including operating costs of the Olympic Co-ordination Authority and the Olympic Roads and Transport Authority (\$231 million) and the costs of transport, security and other Government services during the Games (\$318 million);

- current receipts of approximately \$830 million, largely comprising Commonwealth assistance of \$150 million for the construction of Olympic and Paralympic facilities, an estimated \$600 million of additional taxation revenues arising from the increased economic activity associated with construction of venues and the staging of the Games and interest earnings on funds held by the Olympic Co-ordination Authority; and
- capital receipts of approximately \$300 million, including \$296 million received from SOCOG as a contribution towards the construction of venues and facilities and the hire of Government-owned venues.



Details of these costs and revenues are shown in Table 1.8.

The impact on the State's Budget is most pronounced in 1998-99. In the absence of the Olympics, the 1998-99 result, forecast to be a \$45 million surplus, would be a surplus of \$522 million.

Table 1.8 Net Budget Impact of the Sydney Olympic and Paralympic Games

	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Outflows											
Olympic Stadium	...	...	...	...	...	26.6	46.2	19.2	5.4	24.9	122.3
Olympic Villages	...	...	...	...	...	0.2	48.1	57.9	67.6	17.8	191.6
Multi-use Arena	...	...	...	...	...	...	77.3	65.1	...	...	142.4
Other venue costs	10.2	1.3	5.7	8.0	12.1	22.9	98.2	166.2	85.7	1.1	411.4
Transport infrastructure	...	1.6	5.5	2.8	5.1	159.5	115.6	125.1	3.9	3.3	422.4
Services infrastructure	...	2.9	0.5	1.1	11.4	28.0	23.3	27.1	16.5	...	110.8
Sydney Athletic and Aquatic Centres	...	101.9	98.2	14.7	0.7	0.4	...	0.9	...	...	216.8
Other infrastructure	12.8	15.0	15.0	13.8	12.3	14.8	21.8	23.8	50.3	0.1	179.7
OCA and ORTA - recurrent	...	...	...	11.5	11.3	20.4	24.3	34.8	57.3	71.2	230.8
Other agency service costs - recurrent	...	...	...	...	...	0.4	4.4	22.0	42.2	249.1	318.1
Other agency service costs - capital	...	...	...	...	...	...	0.9	38.1	42.0	8.5	89.5
Advance to SOCOG	...	...	3.1	6.0	19.5	...	...	...	...	...	28.6
Grant to SPOC	...	...	...	...	...	2.7	4.0	6.0	6.0	6.3	25.0
Total Outflows	23.0	122.7	128.0	57.9	72.4	275.9	464.1	586.2	376.9	382.3	2,489.4
Inflows											
Commonwealth Government	...	...	50.0	50.0	50.0	...	...	...	...	...	150.0
Interest on investments	...	...	...	...	9.6	18.6	8.8	3.6	8.0	3.2	51.8
SOCOG profit	...	...	...	...	...	...	...	...	...	30.0	30.0
Sale of assets	...	...	...	...	...	...	...	...	...	35.0	35.0
SOCOG contributions	...	...	...	...	...	4.1	218.8	...	40.6	32.1	295.6
SOCOG advance repayment	...	...	...	...	...	28.6	...	...	...	...	28.6
Other contributions	...	...	...	...	1.5	...	1.4	...	3.0	3.0	8.9
Total Inflows	...	...	50.0	50.0	61.1	51.3	229.0	3.6	51.6	103.3	599.9
GROSS COST TO GOVERNMENT	23.0	122.7	78.0	7.9	11.3	224.6	235.1	582.6	325.3	279.0	1,889.5
Less: Additional taxation revenue	...	...	...	20.0	32.0	46.0	72.0	105.0	135.0	192.0	602.0
NET COST TO GOVERNMENT	23.0	122.7	78.0	(12.1)	(20.7)	178.6	163.1	477.6	190.3	87.0	1,287.5

1998-99 BUDGET PROJECTIONS

Table 1.9 shows a dissection of the major Budget aggregates.

The projected General Government Sector results for the period of the forward estimates are surpluses of \$45 million in 1998-99, \$215 million in 1999-00, \$450 million in 2000-01 and \$952 million in 2001-02. (The substantial increase in the projected surplus in 2001-02 largely reflects reduced capital commitments for the Olympic Games, reduced interests costs and relatively constrained growth in current outlays).

Table 1.9: Major Budget Aggregates

	1997-98 (Revised)	1998-99		1999-00		2000-01		2001-02	
	\$m	\$m	% change	\$m	% change	\$m	% change	\$m	% change
Current Outlays									
Interest Payments	1,513	1,276	(-) 15.7	1,300	1.9	1,116	(-) 14.1	1,035	(-) 7.3
Superannuation	1,493	1,462	(-) 2.1	1,590	8.7	1,672	5.2	1,753	4.8
Subsidies to Public									
Trading Enterprises									
- Redundancies	137	77	(-) 43.9	50	(-) 35.1	53	6.0	53	...
- Other	842	798	(-) 5.2	768	(-) 3.8	740	(-) 3.6	728	(-) 1.6
Departmental									
Payments									
- Redundancies	54	53	(-) 1.9	53	...	51	(-) 3.0	51	...
- Other	18,927	19,713	4.2	19,940	1.2	20,587	3.2	20,798	1.0
Treasurer's Advance	...	125	n.a.	255	104.0	395	54.9	565	43.0
Total, Current									
Payments	22,966	23,503	2.3	23,956	1.9	24,615	2.8	24,984	1.5
less User Charges	1,676	1,658	(-) 1.1	1,701	2.6	1,736	2.0	1,782	2.7
Total, Current Outlays	21,290	21,845	2.6	22,255	1.9	22,879	2.8	23,202	1.4
Current Receipts									
Taxes, Fees and Fines									
Income from Public	13,245	14,000	5.7	14,375	2.7	15,108	5.1	15,586	3.2
Trading Enterprises	1,428	1,250	(-) 12.4	1,230	(-) 1.6	1,151	(-) 6.4	1,140	(-) 1.0
Commonwealth									
Grants	7,683	7,961	3.6	8,283	4.0	8,540	3.1	8,851	3.6
Other	994	992	(-) 0.2	994	0.3	1,030	3.6	1,047	1.6
Total, Current Receipts	23,350	24,203	3.7	24,882	2.8	25,828	3.8	26,623	3.1
Current Result	2,060	2,358		2,628		2,949		3,421	
Capital Outlays									
Gross Fixed Capital									
Payments	2,778	2,841	2.3	2,670	(-) 6.0	2,530	(-) 5.2	2,486	(-) 1.7
Capital Grants	1,077	1,016	(-) 5.7	963	(-) 5.2	1,008	4.7	969	(-) 3.9
Total, Capital									
Payments	3,855	3,857	0.1	3,632	(-) 5.8	3,538	(-) 2.6	3,454	(-) 2.4
less Asset Sales	368	745	102.4	391	(-) 47.2	177	(-) 54.7	167	(-) 5.9
Total, Capital Outlays	3,487	3,112	(-) 10.8	3,241	4.2	3,360	3.7	3,288	(-) 2.2
Capital Receipts									
Commonwealth									
Grants	784	788	0.6	780	(-) 1.1	824	5.6	817	(-) 0.8
Other	228	10	(-) 95.8	48	380.0	38	(-) 21.7	1	(-) 96.4
Total, Capital Receipts	1,011	798	(-) 21.1	828	3.8	862	4.0	819	(-) 5.0
Capital Result	(2,476)	(2,314)		(2,413)		(2,499)		(2,469)	
TOTAL RESULT	(416)	45		215		450		952	

1997-98 Estimated Result

The 1997-98 Budget was presented on the former Budget Sector coverage and on the former "underlying result" basis. Hence it is appropriate, from an accountability objective, to report on Budget variations against those figures.

Table 1.10: 1997-98 Estimated Budget Sector Result - Underlying Basis

	Budget	Revised	Variation	
	\$m	\$m		\$m
Current Outlays				
Interest Payments	1,559	1,494	(-)	65
Superannuation	1,463	1,468		5
Subsidies to Public Trading Enterprises -				
Redundancies	63	141		78
Other	834	877		43
Departmental Payments -				
Redundancies	39	46		7
Other	17,807	18,195		388
Treasurer's Advance	120	...	(-)	120
Total, Current Payments	21,885	22,221		336
less user charges	1,244	1,313		69
Total, Current Outlays	20,641	20,908		267
Current Receipts				
Taxes, Fees and Fines	12,885	12,891		6
Income from Non Budget Sector Agencies	1,352	1,500		148
Commonwealth Grants	7,673	7,683		10
Other	841	819	(-)	22
Total, Current Receipts	22,751	22,893		142
Current Result	2,110	1,985	(-)	125
Capital Outlays				
Gross Fixed Capital Payments -				
Olympics/Homebush Bay	628	602	(-)	26
Other	2,013	2,053		40
Capital Grants	1,132	1,075	(-)	57
Advances	13	8		5
Total, Capital Payments	3,786	3,737	(-)	49
less Advances repaid to the Budget Sector	423	142	(-)	281
less Asset Sales	202	242		40
Total, Capital Outlays	3,161	3,353		192
Capital Receipts				
Commonwealth Grants	854	784	(-)	70
Other	224	225		1
Total, Capital Receipts	1,078	1,009	(-)	69
Capital Result	(2,083)	(2,344)	(-)	261
TOTAL RESULT – SURPLUS/(DEFICIT)	27	(359)	(-)	386

The Budget Sector underlying result for 1997-98 on the same basis as the 1997-98 Budget is projected to be a deficit of \$359 million, an increase of \$386 million on the estimate as at Budget time last year. This increase is due to the combination of the following major factors -

- **current outlays \$267 million above Budget**

	\$m
Lower short term interest rates	(-) 65
Higher Health outlays mainly on salaries	+ 135
Reclassification of housing related payments to capital outlays	(-) 88
Transport related payments	+ 126
Roads and Traffic Authority	(-) 50
Community Services	+ 71
Land and Water Conservation	+ 37
Police – mainly salaries of non-commissioned Officers	+ 28
TAB sale costs	+ 26
Payments to the racing industry associated with the TAB sale	+ 25

- **current receipts \$142 million above Budget**

Payroll tax	+ 84
Land tax	+ 54
Income from Non Budget Sector agencies	+ 148
Section 90 shortfall	(-) 346
Conveyance and contracts stamp duty	+ 225
Share transfer stamp duty	+ 35
Other stamp duties	+ 35
Interest earnings	(-) 34
Casino Control Authority	(-) 27
Accommodation levy	(-) 35

- **capital outlays \$192 million above Budget**

Reclassification from current outlays	+ 88
Roads and Traffic Authority	(-) 70
Advances repaid by Non Budget Sector agencies	+ 281
Water and sewerage payments	(-) 25
Additional payment to racing industry	+ 50
Asset sales	(-) 40
Transport capital grants	(-) 58

- **capital receipts \$69 million below Budget**

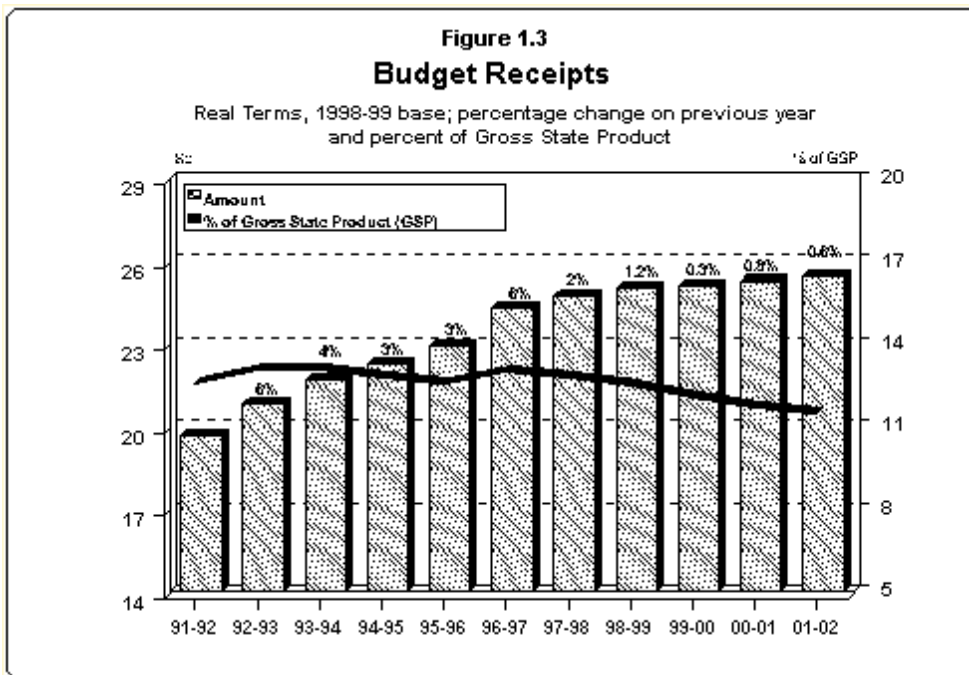
Commonwealth roads grants	(-) 51
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A more detailed explanation of the variations from Budget is given in Appendix B of this Budget Paper.

Budget Receipts

Non-policy variations in receipts have by far the most significant impact on the State's overall Budget result, substantially greater than discretionary changes in expenditures.

State receipts, with the exception of payroll tax, are in fact not strongly affected by the general level of economic activity, in contrast to the position with Commonwealth revenue, which moves in line with the level of economic activity.



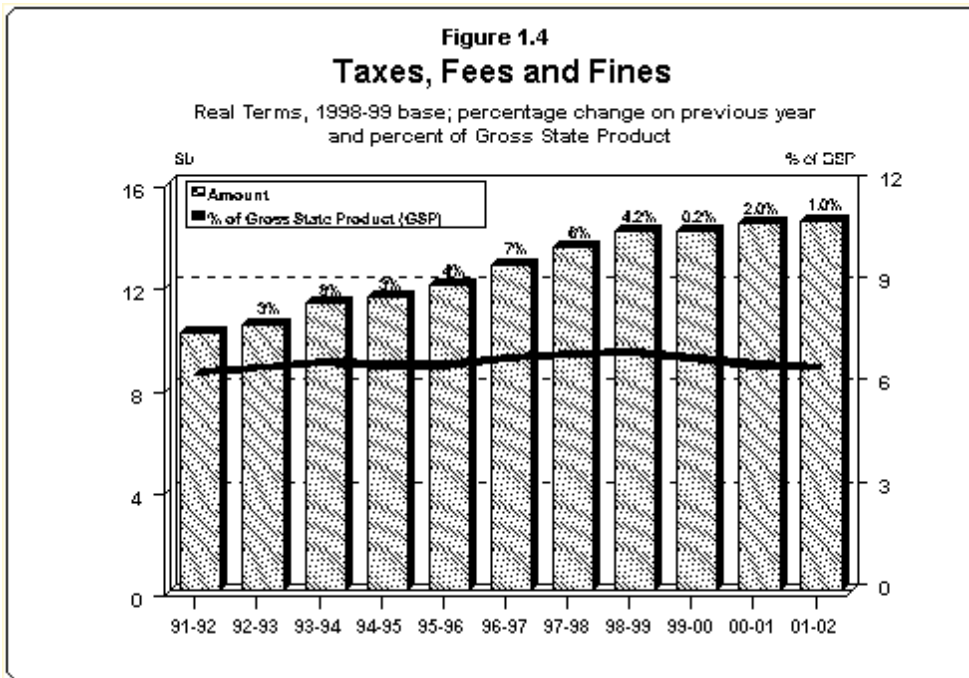
In the period 1991-92 to 1997-98, Budget receipts increased by 4.2 per cent per annum in real terms. Increased State revenues over this period largely reflect the impact of tax increases in the years to 1993-94, together with the increases introduced in 1997-98 to meet the State's Fiscal Contribution towards reduction of the Commonwealth's Budget deficit. In contrast, total Commonwealth payments to New South Wales have only increased by 1.8 per cent per annum in real terms over the six years to 1997-98.

For 1998-99, Budget receipts are projected to increase by 1.2 per cent in real terms, 0.3 per cent in 1999-2000, 0.8 per cent in 2000-01 and 0.6 per cent in 2001-02. Expressed as a percentage of Gross State Product, receipts are projected to decrease from 12.7 per cent in 1998-99 to 11.7 per cent in 2001-02.

The main features of the projected receipts position for 1998-99 are as follows -

- **an increase in revenue from taxes, fees and fines**

Receipts from taxes, fees and fines are projected to increase by 4.2 per cent in 1998-99.



The main contributors to this increase are -

- higher payroll tax revenues in line with stronger employment and remuneration growth;
- the one-off adverse impact of the High Court decision which reduced revenues in 1997-98 by around \$346 million;
- the full year impact of the opening of the permanent casino;
- significant growth in hotel gaming revenue in part resulting from allowing hotels to operate up to 15 poker machines without the same or greater number of approved amusement devices, as well as the release of a further 2,300 poker machine permits; and
- a boost in 1998-99 land tax revenue flowing from a delay in the receipt of 1997-98 revenues.

These increases are expected to be partly offset by -

- lower projected revenue from Contracts and Conveyances;
- the impact of indexation of the land tax thresholds and the expansion in the eligibility criteria and discount for the First Home Purchase Scheme;
- the full year impact of lowering the effective rate of taxation on racing; and
- the first step in a three-year program to abolish the Third Party Motor Vehicle Registration Levy.

- **a decrease in income from Public Trading Enterprises**

Total income from Public Trading and Financial Enterprises is projected to decrease by 13.7 per cent in real terms in 1998-99. The decrease mainly reflects lower distributions from the electricity generation sector, Freight Rail Corporation and the Rail Access Corporation.

Total distributions from the electricity sector for 1998-99 are, on an overall basis, forecast to fall by approximately by 20 per cent. The dominant cause is the fall in generation sector dividends due to considerable falls in the wholesale price of electricity.

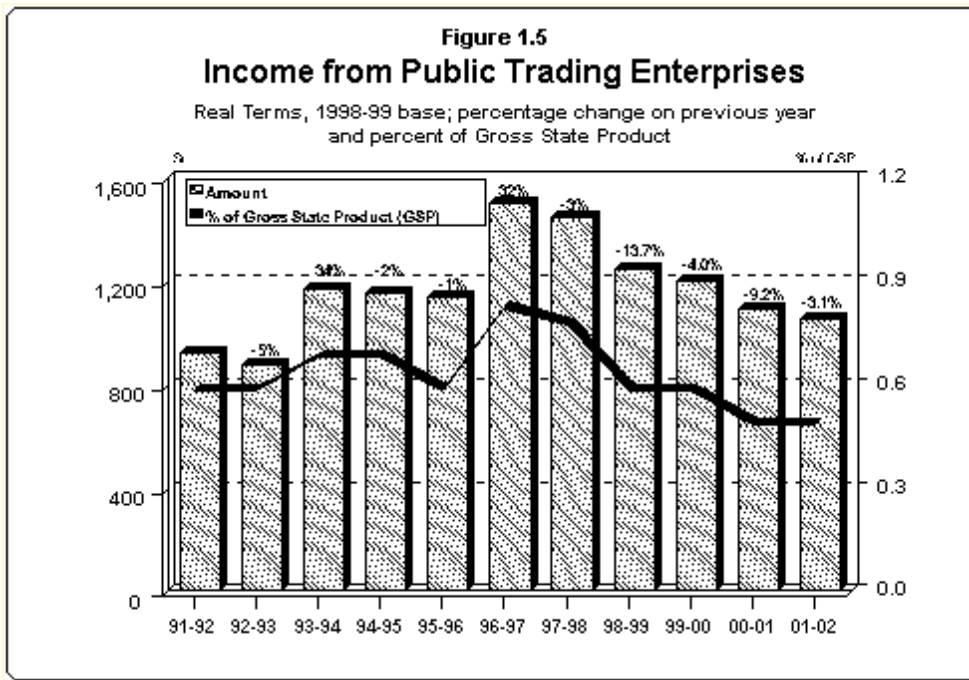
Freight Rail Corporation's distributions are expected to be lower in 1998-99 due to an increase in expenses from restructuring. In the case of the Rail Access Corporation, the decline in its 1998-99 distribution relative to 1997-98 is because its 1997-98 distributions included the benefit of a one-off increase in financial distributions.

Beyond 1998-99, total income is expected to further decline in real terms by 4.0 per cent and 9.2 per cent in 1999-2000 and 2000-01 respectively, with a further 3.1 per cent decline in 2001-02. Total income in real terms is projected at \$1,057 million in 2001-02.

Decreases beyond 1998-99 partly reflect variability in the distributions from the electricity sector, due to increasing retail and wholesale competition in the national electricity market.

In addition, distributions from Sydney Water Corporation decrease beyond 1998-99 relative to their previous levels as the higher payment from profits resulting from the Corporation's review of its cash balances is projected to taper off.

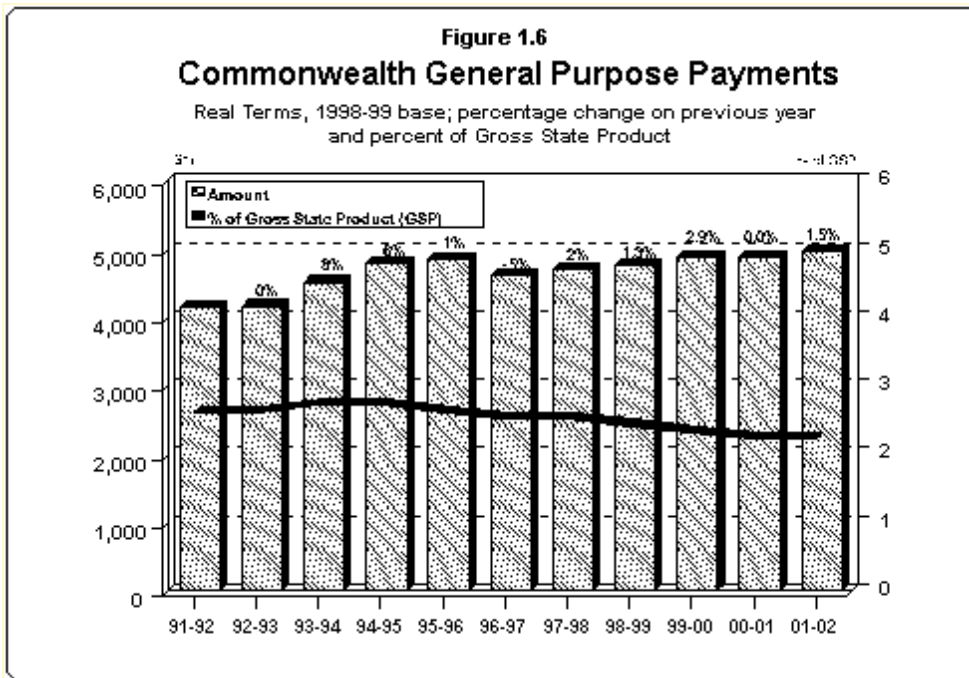
These decreases are partly offset by increased distributions from other agencies, particularly in the transport sector, due to projected improvements in profitability.



- **increase in Commonwealth grants**

In assessing Commonwealth grants, a distinction needs to be made between general purpose or untied payments and specific purpose or tied payments as they exhibit disparate trends and have quite different implications for State finances.

General purpose payments consisting of Financial Assistance Grants, special revenue assistance and untied roads funding (and in years prior to 1994-95, general purpose capital payments) declined sharply in real terms between 1987-88 and 1992-93 by about \$800 million (or a reduction from 3.2 per cent to 2.7 per cent of Gross State Product), increased by about \$678 million between 1992-93 and 1995-96 and have declined again since then.

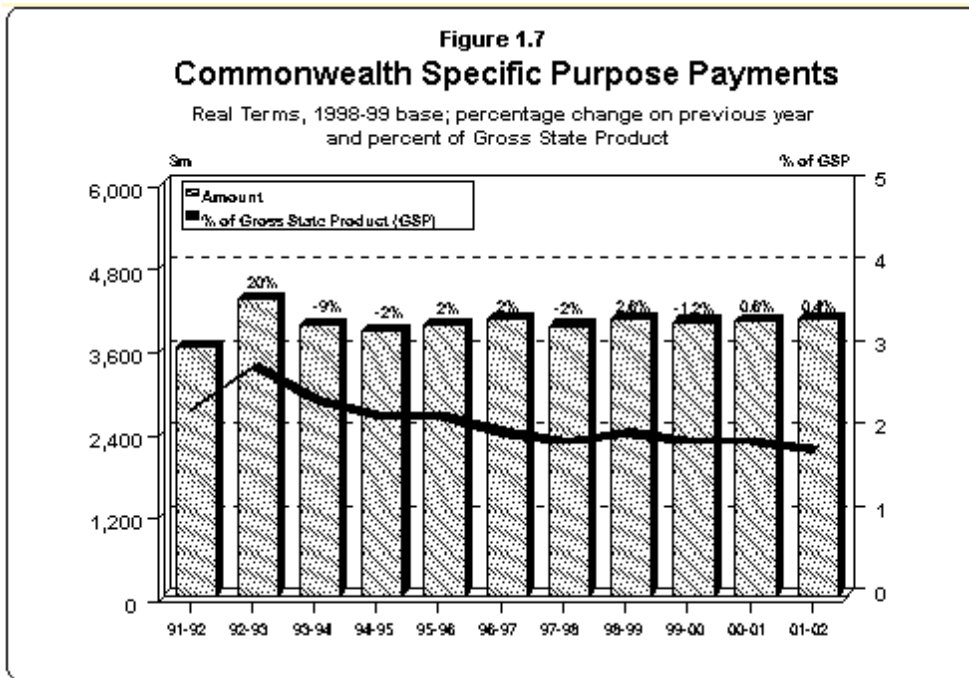


In 1998-99 general purpose payments will increase by 1.3 per cent after deducting fiscal contribution payments to the Commonwealth. With the removal of the fiscal contribution payments requirement, real growth in general purpose payments should increase in 1999-2000. However, relatively low growth is expected for 2000-01. This reflects a slight downwards trend in New South Wales' general revenue grant relativities due to trends in the property market, which are expected to raise New South Wales taxable capacity.

Real growth is expected to return to normal levels by 2001-02. These estimates also reflect the assumption that Financial Assistance Grants will be maintained in real per capita terms and that the Commonwealth Government will make the scheduled payments under the National Competition Policy Agreement which began in 1997-98.

At the same time that general purpose payments declined, specific purpose payments (current and capital) increased, from 38 per cent of total Commonwealth payments in 1988-89 to 47 per cent in 1992-93. In the four years to 1997-98, the percentage share of specific purpose payments declined to 43 per cent.

The increase in tied grants during the period prior to 1992-93 did not compensate for the cut in untied grants. Tied grants impose hidden costs through matching requirements, reporting and other administrative arrangements, resulting in duplication and overlap, as well as a loss of funding flexibility.



The share of specific purpose payments is not expected to change substantially in the next three years. However, funding uncertainty is high, given the Commonwealth's unilateral cuts to key specific purpose payments in the last few years, largely through the imposition of efficiency dividends. Also, medium term Commonwealth-State agreements remain unsigned for key areas as housing, health and disabilities services. In many cases this was due to inadequacy of the funding offer, which would not enable New South Wales to keep pace with growing demand in these areas.

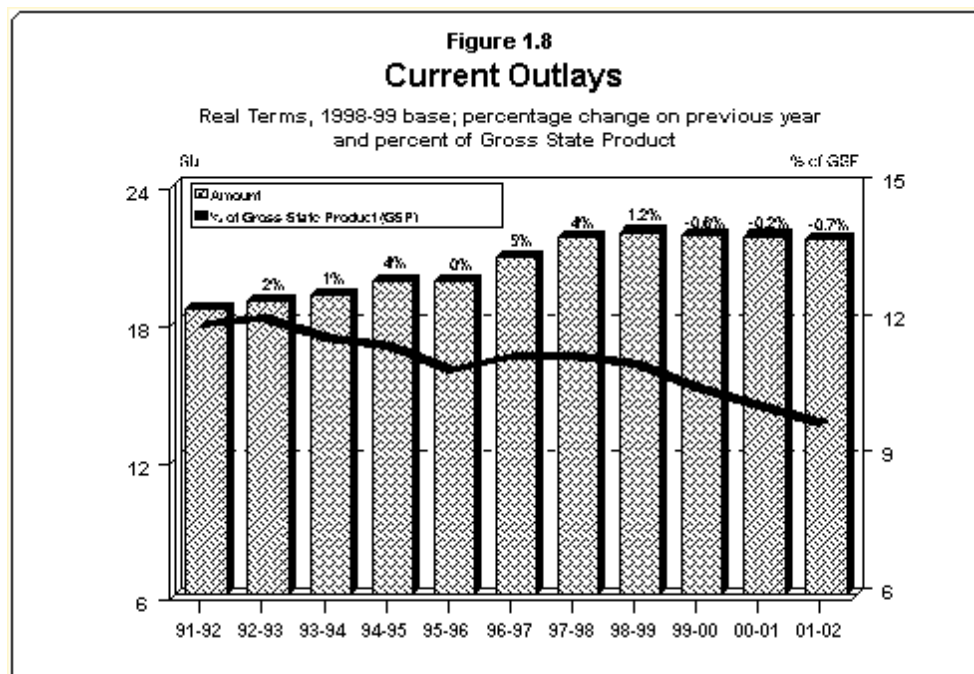
Current Outlays

Current outlays are projected to increase by 2.6 per cent in 1998-99, a real increase of 1.2 per cent.

Table 1.11 Summary of Current Outlays

		1997-98 Estimate	1998-99 Estimate	1999-00 Estimate	2000-01 Estimate	2001-02 Estimate
Current outlays	\$m	21,290	21,845	22,255	22,879	23,202
Change over previous year	%	6.1	2.6	1.9	2.8	1.4
Real change over previous year	%	4.0	1.2	(-) 0.6	(-) 0.2	(-) 0.7
As a proportion of GSP	%	11.3	11.1	10.6	10.2	9.9

Over the four year period to 2001-02, current outlays are projected to decrease by 0.4 per cent in real terms and decline as a proportion of Gross State Product to 9.9 per cent.



The real increase of 1.2 per cent in current outlays in 1998-99 reflects the net impact of the following factors -

- a 16.8 per cent real decrease in interest payments;
- a 3.4 per cent real decrease in superannuation payments;

- a real decline of 11.9 per cent in subsidies to Public Trading Enterprises, mainly reflecting the further reduction in transport authority operating cost structures; and
- a real increase in departmental payments of 3.3 per cent, reflecting growth in government priority areas including health and education.

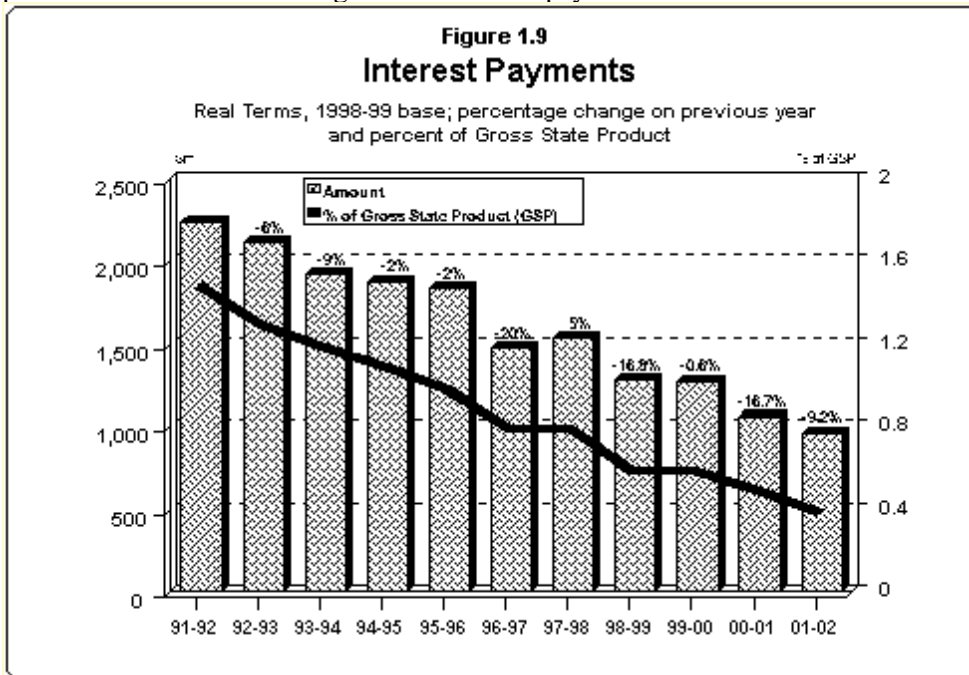
Within the current outlays area, there are a number of important trends and these are set out below.

- **interest payments**

General Government Sector debt servicing costs, as a percentage of Budget receipts, have declined from 11.1 per cent in 1990-91 to 6.2 per cent in 1997-98. They are projected to fall to 5.1 per cent in 1999-2000 with further falls in future years as the debt reduction strategy of the Government continues to deliver ongoing benefits.

The decline in interest payments reflects significant reductions in debt levels plus the substantial decline in interest rates that have occurred over the last three years. Interest rate falls have a lagged effect, reducing interest payments as new debt is raised and existing debt matures.

The increase in 1997-98 was a result of variations to the debt portfolio maturity profile which resulted in a higher level of cash payments.

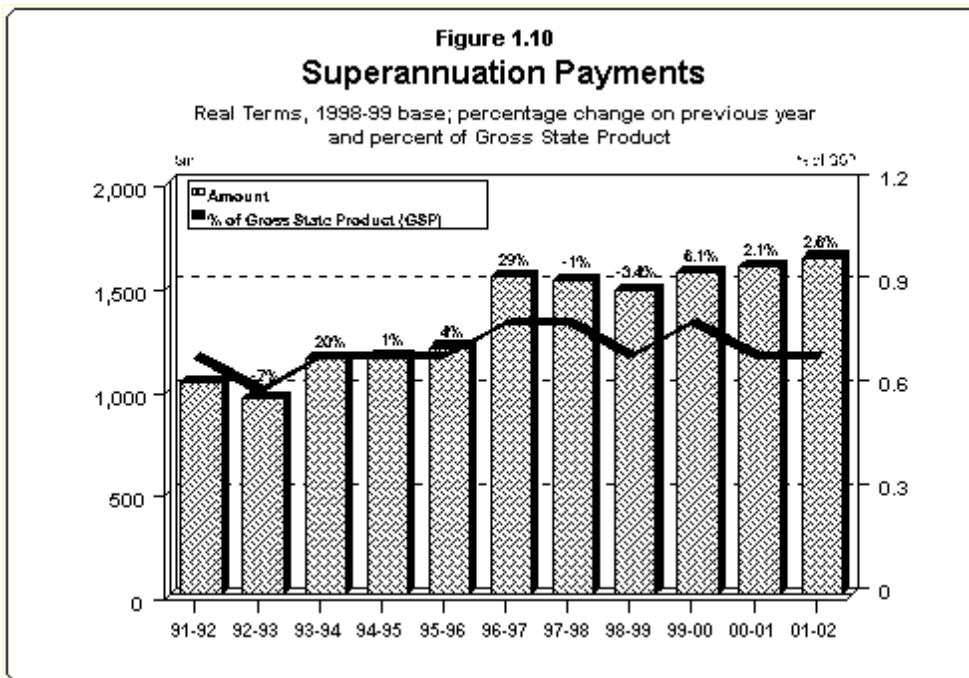


- **superannuation**

Superannuation payments are projected to decrease by 2.1 per cent in 1998-99, a real decrease of 3.4 per cent. This reduction has been made possible by the significant fall in the level of unfunded liabilities in 1997-98 and is consistent with the Government's long term funding plan.

Over the six year period from 1991-92 to 1997-98, superannuation payments have increased by an average 8.7 per cent per annum, or 6.8 per cent per annum in real terms.

The factors underlying this reduction in unfunded liabilities and the Government's strategies to gradually fully fund accruing liabilities by 2019-20 and to extinguish past service unfunded liabilities, are outlined in Section 7.6.



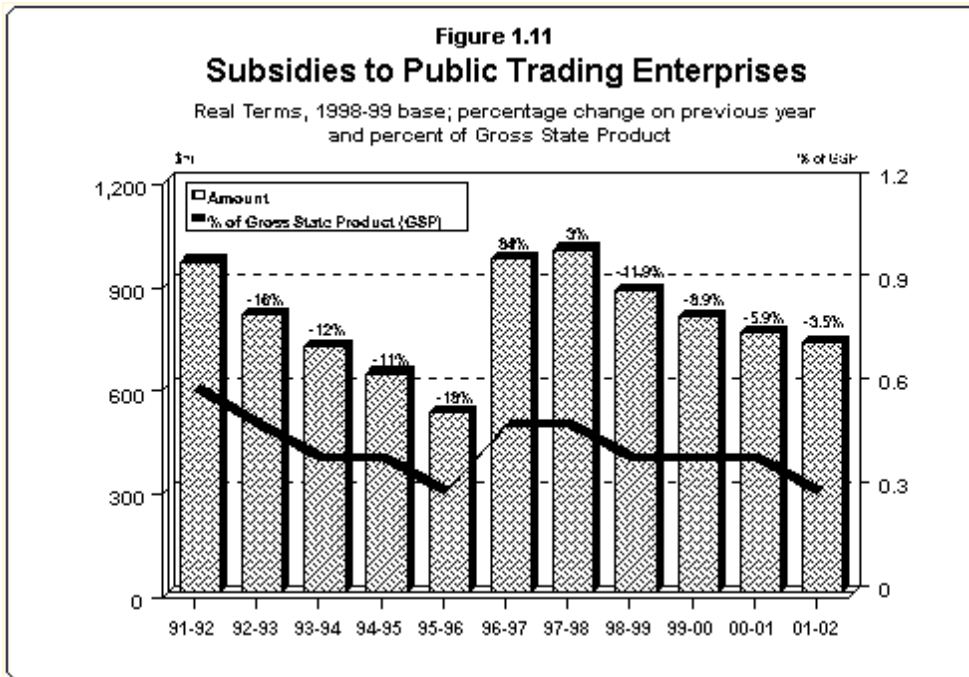
- **subsidies to Public Trading Enterprises**

Subsidies to Public Trading Enterprises, principally to the transport authorities, will continue to decline in real terms reflecting the continuing impact of reforms and restructure in this area.

The large increase in subsidies in 1996-97 is primarily due to three aspects of the rail restructure. Firstly, the reclassification of rail capital grants to subsidies. Prior to 1996-97 the former SRA received capital grants to construct and maintain track infrastructure. From 1996-97 the Rail Access Corporation (RAC) is responsible for track infrastructure. To fund this work it recovers access charges from FreightCorp and the State Rail Authority. These charges are now current outlays to FreightCorp and SRA. RAC also receives a CSO for non-commercial line services.

Secondly, funding to the SRA increased in 1996-97 after new commercial arrangements removed the cross subsidies between entities of the former SRA.

Thirdly, additional payments are being made to fully fund future employer superannuation and workers' compensation liabilities of employees transferred from the former SRA to RAC and Railway Services Authority.

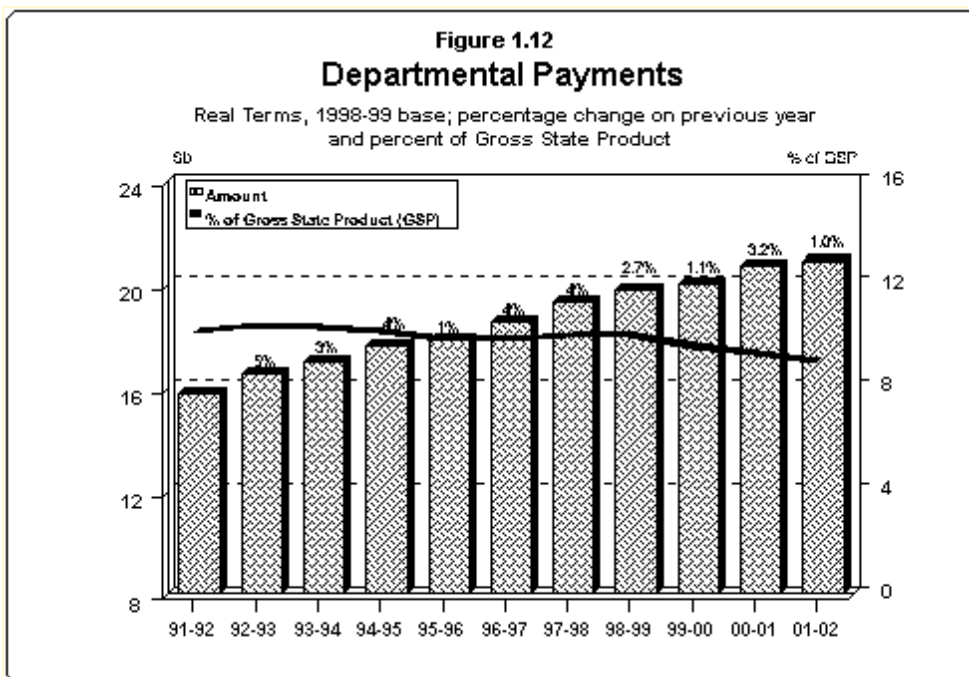


- **departmental payments**

Departmental payments exclude interest and superannuation payments and subsidies to Public Trading Enterprises.

Over the four years to 2001-02, departmental payments are projected to increase by 0.4 per cent in real terms but decline as a proportion of Gross State Product from 10.1 per cent in 1997-98 to 8.9 per cent in 2001-02.

Departmental payments are projected to increase by 2.7 per cent in real terms in 1998-99. This increase is primarily due to the impact of the relatively low increase in the measure of inflation used to calculate real growth, coupled with substantially increased funding for both schools and health services. Payments by the Department of Health will increase by \$124 million, or almost 2.2 per cent, in real terms in 1998-99. The Department of Education and Training will increase its payments by some \$300 million in real terms, largely as a result of increases in teachers salaries and the costs of recently introduced and new initiatives.



Departmental payments are budgeted to be relatively stable in real terms in the three years to 2001-02.

Details of current expenses by policy area and by Minister and agency are provided in Chapter 4 and in Appendices E and F respectively to this Budget Paper.

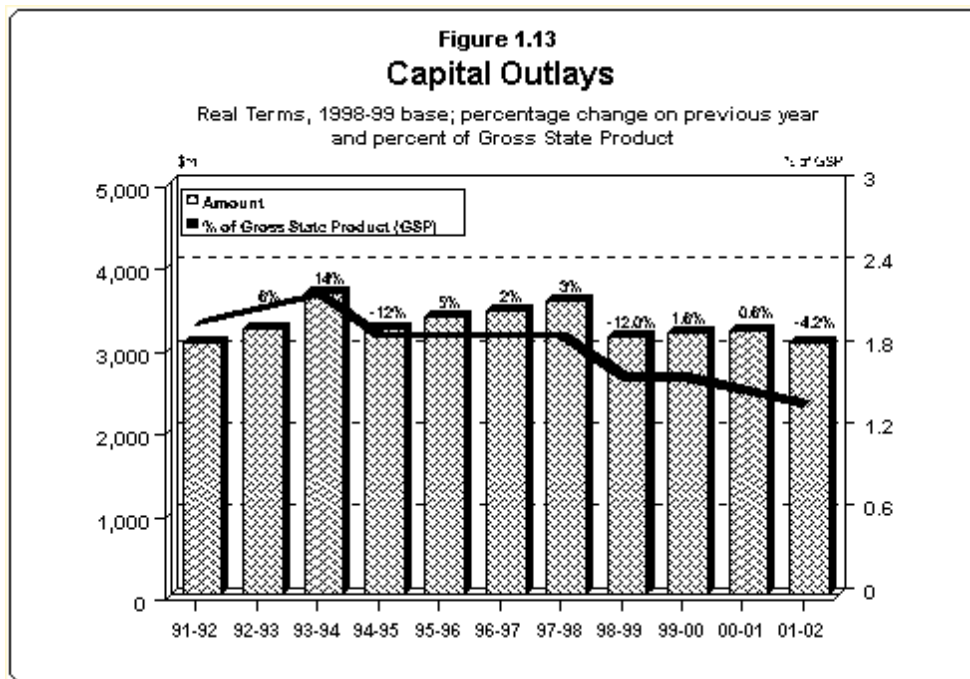
Capital Outlays

Over the period 1991-92 to 1998-99, General Government Sector capital outlays will have increased by 2.6 per cent in real terms. Expenditure on the State's roads program has been a major factor in the increase in capital outlays. In addition increased funding has been provided for hospital infrastructure, including the relocation of hospital facilities to the west and south-west of Sydney, the major infrastructure renewal program of the State Rail Authority, and (since 1996-97) the substantial expenditure on Olympic and Homebush Bay projects.

Expressed as a percentage of Gross State Product, General Government Sector capital outlays have remained relatively constant at around 1.9 per cent over the period 1994-95 to 1997-98. Capital outlays are projected to decline to 1.6 per cent in 1999-2000, as the peak years of Budget funded expenditure on the Olympic/Homebush Bay projects are passed.

Capital outlays are projected to decline by 12.0 per cent in real terms in 1998-99. Excluding Olympic related expenditure, outlays decline by 9.4 per cent in real terms in 1998-99, primarily due to the impact of increases in asset sales.

Gross fixed capital payments by General Government Sector agencies are expected to decrease by only \$97 million, or 1.3 per cent in real terms, in 1998-99.



OVERVIEW OF GENERAL GOVERNMENT SECTOR FINANCIAL PERFORMANCE

The Government is committed to reducing and ultimately eliminating the State's General Government Sector debt in order to ensure that future generations are not left with a legacy that will reduce their ability to enjoy the same level of public services as are currently enjoyed by this generation. The only lasting way that this goal can be achieved is to produce sustainable Budget surpluses.

Indicators of the General Government Sector financial performance are summarised in Table 1.12.

Table 1.12: Key General Government Sector Performance Indicators

Financial Indicator	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02
Debt and Interest Burden											
Net debt: % of Budget receipts	67.3	60.0	63.5	59.1	48.6	46.5	41.9	40.9	39.1	35.9	31.3
% of GSP	8.6	8.0	8.4	7.7	6.2	6.1	5.4	5.2	4.8	4.3	3.7
Debt servicing costs: % of Budget receipts	11.3	10.1	8.8	8.4	8.0	6.0	6.2	5.1	5.1	4.2	3.8
% of GSP	1.5	1.3	1.2	1.1	1.0	0.8	0.8	0.6	0.6	0.5	0.4
Unfunded Superannuation Liability											
% of Budget receipts	72.3	66.2	62.3	62.1	63.3	52.8	50.5	46.0	45.1	43.5	42.6
% of GSP	8.9	8.8	8.3	8.1	8.1	7.0	6.5	5.9	5.5	5.0	5.0
Budget Result											
% of Budget receipts	(-) 9.4	(-) 6.0	(-) 4.6	(-) 2.9	(-) 0.7	(-) 0.4	(-) 1.7	0.2	0.8	1.7	3.5
% of GSP	(-) 1.2	(-) 0.8	(-) 0.6	(-) 0.4	(-) 0.1	(-) 0.1	(-) 0.2	(a)	0.1	0.2	0.4
Tax Burden											
NSW Tax Severity Index (base = 100)	n.a.	103.2	101.8	104.6	103.3	104.2	(b)	(b)	(b)	(b)	(b)
Trends in Payments and Receipts											
Current outlays: real change (%)	6.2	1.8	1.1	3.5	...	5.2	4.0	1.2	(-) 0.6	(-) 0.2	(-) 0.7
% of GSP	12.0	12.1	11.7	11.5	11.0	11.3	11.3	11.1	10.6	10.2	9.9
Capital outlays: real change (%)	(-) 9.5	6.0	13.5	(-) 12.2	5.0	1.9	3.2	(-) 12.0	1.6	0.6	(-) 4.2
% of GSP	2.0	2.1	2.2	1.9	1.9	1.9	1.9	1.6	1.6	1.5	1.4
Total Outlays: real change (%)	3.7	2.4	2.9	1.0	0.7	4.7	3.9	(-) 0.7	(-) 0.3	(-) 0.1	(-) 1.2
% of GSP	14.0	14.1	13.9	13.4	12.9	13.1	13.2	12.7	12.2	11.7	11.3
Receipts: % real change (%)	1.7	5.7	4.4	2.6	2.9	5.9	1.8	1.2	0.3	0.8	0.6
% of GSP	12.8	13.3	13.3	13.0	12.8	13.2	13.0	12.7	12.3	11.9	11.7
General Government Employment (as at 31 March)											
Number (000)	240.7	233.9	237.1	235.9	236.1	236.4	238.2	n.a.	n.a.	n.a.	n.a.
% change	1.3	(-) 2.8	1.4	(-) 0.5	0.1	0.1	0.8	n.a.	n.a.	n.a.	n.a.
% of labour force	8.3	8.2	8.1	7.9	7.8	7.7	7.7	n.a.	n.a.	n.a.	n.a.

(a) Less than 0.1 per cent.

(b) The latest data issued by the Commonwealth Grants Commission are for the period 1992-93 to 1996-97.