



**Treasurer of New South Wales
Australia**

2000-01

Half - Yearly

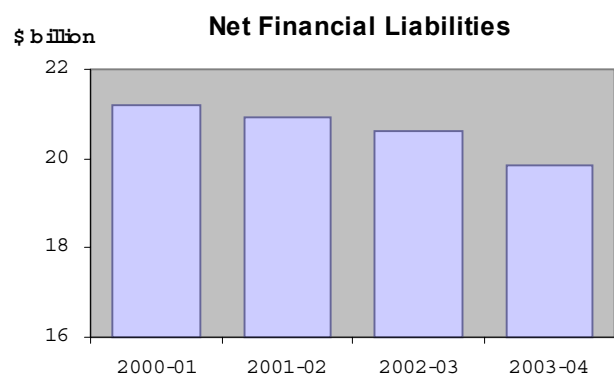
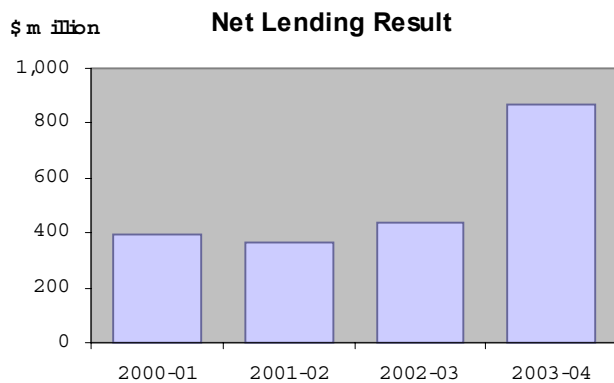
Budget Review

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EXECUTIVE SUMMARY

- Revenue is broadly in line with Budget forecasts and has been revised upwards by 1 per cent. Revenue from contracts and conveyances stamp duty is consistent with the original Budget estimates.
- Expenditure is projected to be 3.6 per cent higher than at Budget time. Additional funding has been provided for rail track and rolling stock maintenance, additional station staffing and revenue shortfalls. There has been a post Budget increase in the depreciation expense of the Roads and Traffic Authority.
- The General Government Sector net lending result for 2000-01 is now estimated to be \$391 million, compared with the Budget estimate of \$659 million.
- The forward estimates project net lending results for each of the following three years of \$365 million, \$437 million and \$866 million, respectively.
- Net Financial Liabilities are projected to decline from \$21,191 million in 2000-01 to \$19,847 million in 2003-04. This reduction reflects the impact of the positive net lending results projected over the forward estimates period.
- As at 30 June 2001 General Government sector net worth is projected to be \$89,677 million, \$1,660 million higher than expected at Budget time.
- The NSW economy is expected to achieve solid growth this year of around 3¾ per cent, albeit a little softer than expected at the time of the Budget. The labour market should remain reasonably robust with unemployment averaging below 6 per cent.



1. INTRODUCTION

The 2000-01 Half-Yearly Budget Review reports on the current and projected financial performance of the NSW General Government Sector. The General Government Sector covers all agencies that are generally engaged in the production of goods and services outside the normal market mechanisms.

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

Recent revisions to the General Government Debt Elimination Act 1995 require the Treasurer to publicly release a statement by December (formerly February) each year containing:

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

The Half-Yearly Budget Review for 2000-01 meets this legislative requirement, incorporates the financial statements for the General Government Sector for October 2000 and meets the requirements for uniform reporting of State finances agreed to by the Loan Council.

The Review provides:

- The actual financial performance of the General Government Sector for the four months ended 31 October 2000;
- The projected results for 2000-01 compared with the May 2000 Budget estimates; and
- The latest projection of the financial performance for the three subsequent years to 2003-04.

To give a more accurate picture of underlying State finances, the cash flow statement in section 2 of this review is adjusted for the impact of the prepayment of superannuation contributions in 1998-99. Under this arrangement the Government raised short-term borrowings of \$3,261 million to accelerate the payment of contributions to the defined benefit schemes. These borrowings are being repaid over the following three financial years through utilising funds that would have normally been used to meet the cost of superannuation contributions in those years.

The General Government cash flow statement in the Uniform Presentation Tables (Appendix A) does not adjust individual revenue and expenditure line items for the above factors. There is however an adjusted result shown to ensure consistency with the table in Section 2.

The revised forward estimates, like the original estimates, are predicated on a number of assumptions. The key assumption is the continuation of current policies. Thus, the forward estimates are based on existing policies and should not be regarded as projections for the budget outcomes in future years, as these outcomes will reflect future Government policy.

For the capital works program, it is assumed in the forward estimates that the size of the discretionary program including works in progress will be constant in real terms. This means that the forward estimates contain an allowance for new works that has not yet been allocated to specific projects.

2. ACTUAL RESULTS FOR FOUR MONTHS ENDED 31 OCTOBER 2000 AND LATEST PROJECTED 2000-2001 BUDGET ESTIMATES

OPERATING STATEMENT

Table 2.1: General Government Sector 2000-01 Operating Statement

	12 Months to 30/06/2001 Budget \$m	12 Months to 30/06/2001 Projection \$m	Variance \$m	4 Months to 31/10/2000 Actual \$m
State Revenues				
Taxation	12,412	12,491	79	4,169
Commonwealth Grants	12,780	12,941	161	3,834
Financial Distributions	1,210	1,169	(41)	380
Fines, Regulatory Fees & Other	792	819	27	311
Total State Revenues	27,194	27,420	226	8,694
Operating Revenues				
Sale of Goods and Services	2,171	2,208	37	749
Investment Income	391	447	56	170
Grants and Contributions	421	427	6	205
Other	280	298	18	102
Total Operating Revenues	3,263	3,380	117	1,226
Expenses				
Employee Related - Superannuation	1,540	1,552	12	509
- Other	12,157	12,328	171	3,972
Other Operating	6,765	6,873	108	2,150
Maintenance	1,120	1,115	(5)	289
Depreciation and Amortisation	995	1,444	449	472
Current Grants and Subsidies	3,944	4,245	301	1,418
Capital Grants	1,397	1,452	55	390
Finance	1,287	1,247	(40)	610
Total Expenses	29,205	30,256	1,051	9,810
Gain/(Loss) on Sale of Non-Current Assets	(14)	25	39	7
Net Cost of Services	(25,956)	(26,851)	(895)	(8,577)
OPERATING SURPLUS BEFORE ABNORMAL ITEMS	1,238	569	(669)	117
Abnormal Items	2,400	2,582	182	2,582
Operating Surplus After Abnormal Items	3,638	3,151	(487)	2,699
Valuation Items Adjustments under GFS	(1,888)	(2,105)	(217)	(2,233)
GFS Operating Balance	1,750	1,046	(704)	466
Less Capital Expenditure	2,493	2,428	(65)	774
Plus Depreciation	995	1,444	449	472
Asset Sales	407	329	(78)	35
GFS NET LENDING RESULT	659	391	(268)	199
Adjusted for accruals	(266)	(174)	92	(339)
Cash GFS Surplus/(Deficit)	393	217	(176)	(140)

GFS NET LENDING RESULT

The projected General Government Net Lending Result for 2000-01 is a surplus of \$391 million. This represents a change of \$268 million from the Budget time estimate of \$659 million.

Taxation revenue is on budget, with a marginal increase of \$79 million projected for 2000-01.

- Revenue from stamp duties is expected to increase by \$76 million, mainly reflecting upward revisions of share transfer duty and insurance duty.
- Health insurance levy revenue is expected to increase by \$20 million, following a higher than anticipated take up of health insurance.
- Commonwealth safety net tax revenues (comprising lagged payments following cessation of the safety net arrangements from 1 July 2000) are expected to increase by \$19 million, offset by,
- A projected \$42 million reduction in payroll tax consistent with the slight downward revision to employment growth in 2000-01.

Commonwealth Grants revenue is projected to exceed the budget time estimate by \$161 million.

The Commonwealth has estimated that total national GST revenue will be \$2,250 million higher than estimated in the 2000-01 Commonwealth budget. This is a one off increase for this year. For NSW, higher GST revenue payments from the Commonwealth will be offset by lower Commonwealth budget balancing assistance. Higher Commonwealth Grants are also projected to be received for Health and Education.

Financial distributions from the PTE sector for 2000-01 are projected to be \$41 million lower than the Budget time estimate. This is partly due to the result of an IPART determination affecting Sydney Water, a softer property market affecting Landcom and increased expenditures by Rail Access Corporation.

The projected revenue increases have been offset by projected increases in expenditures.

This is mainly due to the Government's decision to provide additional funding for the key service delivery areas of Transport, Education and Community Services.

- Department of Transport expenses are projected to increase by \$280 million mainly due to additional funding for the State Rail Authority and Rail Access Corporation.

Additional funds are being provided to the State Rail Authority for more intensive rolling stock maintenance, additional training costs following the interim report of the Special Commission of Inquiry into the Glenbrook Accident, additional station staffing and more comprehensive train cleaning. Additional funding is also required to cover shortfalls in fare revenue.

The Rail Access Corporation is receiving additional funds for improved levels of track maintenance and the replacement of points, signals and other assets. Funds are also being provided for new track infrastructure, including acceleration of the quadruplication of the East Hills line and enhancement of the Richmond line.

- Department of Education and Training expenses are projected to increase by \$84 million above Budget, partly due to the teacher's salary agreement concluded after the May Budget and other initiatives to improve teacher professionalism.

- Department of Community Services expenses are projected to increase by \$60 million, mainly due to an additional \$16 million for the transformation program and unrealised Budget savings, and \$14 million for grants approved in 1999-2000, but paid in 2000-01.

During the period ending 30 October 2000 the Government also provided services for the running of the Sydney 2000 Olympic and Paralympic Games. The projected net lending result for the General Government Sector for 2000-01 will only be impacted marginally by these events.

Olympics related expenditure is projected to increase by \$65 million, mainly due to an additional \$30 million Olympic allowance for affected employees. However, this increased expenditure has been mostly offset by a projected return of unspent contingency from SOCOG of \$30 million along with projected increases in Olympics related grants income, other income, and foreign exchange gains of \$22 million.

OPERATING SURPLUS BEFORE ABNORMAL ITEMS

The projected General Government AAS31 Operating Result before abnormals of \$569 million, is \$669 million lower than projected at Budget time.

In addition to funding increases, partially offset by increased taxation and grant revenue, the projected change to the Operating Result before abnormals results from an increase in depreciation within the Roads and Traffic Authority (RTA) of \$435 million.

The increased depreciation within the RTA reflects a change in the relevant accounting treatment. Prior to 1999-2000 the RTA used a condition based methodology to assess its depreciation. In accordance with the Urgent Issues Group Abstract 30, this method has been discontinued and replaced with a straight line depreciation method. This is in accordance with Australian Accounting Standards.

OPERATING SURPLUS AFTER ABNORMAL ITEMS

The Operating Statement also projects a \$182 million increase in Abnormal Items in 2000-01. This is due to additional revenue from the capital restructure of the electricity distributors, Transgrid and the creation of the new capital structure for Eraring Energy. As with the original \$2,400 million abnormal revenue, this additional revenue will be used to retire General Government sector debt.

Both the above depreciation expense adjustment and abnormal revenue item are excluded from the net lending result.

STATEMENT OF FINANCIAL POSITION

Table 2.2: 2000-01 Statement of Financial Position

	30-Jun-2001 Budget \$m	30-Jun-2001 Projection \$m	Variance \$m	31-Oct-2000 Actual \$m
ASSETS				
Financial Assets				
Cash and Deposits	87	394	307	77
Advances Paid	1,622	1,607	(15)	1,710
Investments, Loans and Placements	3,581	3,918	337	4,202
Other Non-Equity Assets	3,192	3,081	(111)	3,409
PTE/PFE Equity	43,137	45,669	2,532	44,224
Other Equity Assets	113	119	6	119
Total Financial Assets	51,732	54,788	3,056	53,741
Non-Financial Assets				
Land and Fixed Assets	66,521	64,356	(2,165)	64,379
Other Non-Financial Assets	849	843	(6)	777
Total Non-Financial Assets	67,370	65,199	(2,171)	65,156
TOTAL ASSETS	119,102	119,987	885	118,897
LIABILITIES				
Deposits Held	55	64	9	49
Advances Received	2,082	2,073	(9)	2,156
Borrowing	11,587	11,467	(120)	12,467
Provisions	11,002	10,492	(510)	9,944
Other Non-Equity Liabilities	6,359	6,214	(145)	6,136
TOTAL LIABILITIES	31,085	30,310	(775)	30,752
NET WORTH	88,017	89,677	1,660	88,145
Net Debt	8,434	7,685	(749)	8,683
Net Debt adjusted for prepayment of superannuation	7,255	6,506	(749)	
Net Financial Liabilities*	22,490	21,191	(1,299)	21,235

* Exclude PTE/PFE Equity

NOTE: Section 8(1)(b) of the Public Finance and Audit Act requires the publication of a monthly statement of the balance of cash and securities held by the Treasurer. The value of the cash and securities held by the Treasurer at 31 October 2000, which is included in the Statement of Financial Position at that date, is \$43 million.

NET WORTH

Net worth provides a comprehensive picture of the General Government Sector's overall financial position. It is calculated as total assets less total liabilities.

General Government Sector net worth was \$88,145 million at 31 October 2000. The projected result for 2000-01 is expected to be \$89,677 million which is \$1,660 million higher than the budgeted figure of \$88,017 million.

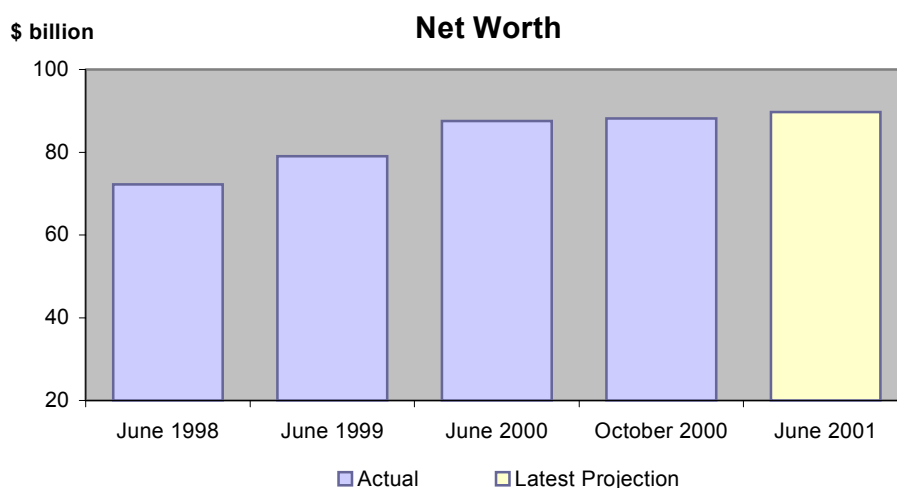
The increase of \$1,660 million is primarily due to the improvement in net worth of \$2,360 million between the 2000-01 Budget time projection in May, and the actual June 30 2000 result, offset by the reduction in the projected Operating Surplus after abnormals of \$487 million in the current year.

The \$2,360 million improvement in net worth in 1999-2000 was primarily due to the increase in the equity held in the PTE sector and the improvement in the unfunded superannuation liability for the defined benefit fund, offset by a reduction in the valuation of certain land and buildings.

The valuation of land and buildings is projected to decrease mainly due to:

- the negative impact of the reassessment of the depreciation method within the Roads and Traffic Authority (discussed earlier), which is offset by the revaluation of various RTA assets, and
- a downward revision of the State Library’s collection assets.

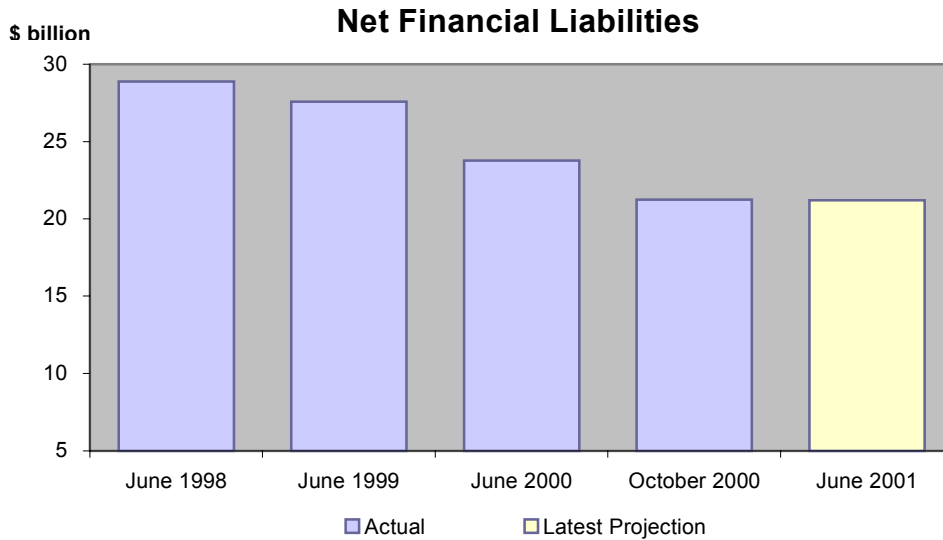
Figure 2.1: Net Worth of the General Government Sector



NET FINANCIAL LIABILITIES

Net Financial Liabilities for 2000-01 are projected to be \$1,299 million lower than the Budget time estimate. This is principally due to the greater than expected cash surplus in 1999-2000 of \$567 million, a decrease in the unfunded superannuation liability in 1999-2000 of \$1,131 million, offset by the projected reduction in the 2000-01 cash surplus of \$176 million.

Figure 2.2: Net Financial Liabilities of the General Government Sector



STATEMENT OF CASH FLOWS

Table 2.3: 2000-01 GFS Cash Results

	12 Months to 30/06/2001 Budget \$m	12 Months to 30/06/2001 Projection \$m	Variance \$m	4 Months to 31/10/2000 Actual \$m
Cash Receipts from Operating Activities				
Taxes Received	12,465	12,547	82	4,181
Receipts from sales of goods & services	2,545	2,616	71	842
Grants/Subsidies Received	12,926	13,119	193	3,882
Other Receipts	2,822	3,062	240	942
Total Cash Receipts from Operating Activities	30,758	31,344	586	9,847
Cash Payments from Operating Activities				
Payments for goods & services*	(22,574)	(22,722)	(148)	(7,317)
Grants & Subsidies Paid	(4,114)	(4,478)	(364)	(1,363)
Interest Paid*	(858)	(970)	(112)	(395)
Other Payments	(734)	(862)	(128)	(176)
Total Cash Payments from Operating Activities	(28,280)	(29,032)	(752)	(9,251)
Net Cash Flows from Operating Activities	2,478	2,312	(166)	596
Cash Flows from Investments in Non-Financial Assets				
Purchases of New Non-Financial Assets	(2,493)	(2,428)	65	(774)
Sale of Non-Financial Assets	408	333	(75)	38
Total Cash Flows from Investments in Non-Financial Assets	(2,085)	(2,095)	(10)	(736)
Cash Flows from Investments in Financial Assets				
Financial Assets for Policy Purposes	2,342	2,579	237	2,569
Financial Assets for Liquidity Purposes	6	(113)	(119)	(427)
Cash Flows from Financing Activities				
Advances Received (net)	(67)	(72)	(5)	14
Borrowing (net)	(3,825)	(3,675)	150	(2,737)
Deposits Received (net)	(1)	(2)	(1)	1
Total Cash Flows from Financing Activities	(3,893)	(3,749)	144	(2,722)
Net Increase/(Decrease) in Cash Held	(1,152)	(1,066)	86	(720)
Net Cash from Operating Activities & Investments in Non-Financial Assets and Distributions Paid	393	217	(176)	(140)
Assets acquired under finance leases	...	...	...	...
Equals surplus/(deficit)*	393	217	(176)	(140)

* Adjusted for the impact of the prepayment of superannuation contributions in 1998-99.

The projected cash result for 2000-01 of \$217 million is \$176 million lower than the budget time estimate of \$393 million. This is due principally to the factors impacting the GFS Net Lending Results, including the small upward revision to estimated tax revenue, offset by the projected expenditure increases in Transport, Education and Community Services.

However, the projected cash result is \$174 million lower than the projected GFS Net Lending Result due principally to expenditures for superannuation, interest and some agency operating costs being lower than their cash equivalents.

3. FORWARD ESTIMATES 2001-02 TO 2003-04

OPERATING STATEMENT

Table 3.1: General Government Sector Operating Statement - Forward Estimates 2001-02 to 2003-04

	2000-01 Latest Projection \$m	2001-02 Estimate \$m	2002-03 Estimate \$m	2003-04 Estimate \$m
State Revenues				
Taxation	12,491	11,469	11,827	12,412
Commonwealth Grants	12,941	14,271	14,633	14,866
Financial Distributions	1,169	1,063	1,174	1,372
Fines, Regulatory Fees & Other	819	777	775	777
Total State Revenues	27,420	27,580	28,409	29,427
Operating Revenues				
Sale of Goods and Services	2,208	2,250	2,287	2,330
Investment Income	447	439	447	468
Grants and Contributions	427	314	289	303
Other	298	252	271	247
Total Operating Revenues	3,380	3,255	3,294	3,348
Expenses				
Employee Related				
- Superannuation	1,552	1,651	1,771	1,796
- Other	12,328	12,528	12,900	13,295
Other Operating	6,873	6,419	6,426	6,463
Maintenance	1,115	1,085	1,146	1,163
Depreciation and Amortisation	1,444	1,514	1,588	1,673
Current Grants and Subsidies	4,245	4,173	4,191	4,220
Capital Grants	1,452	1,511	1,508	1,630
Finance	1,247	903	887	841
Total Expenses	30,256	29,784	30,417	31,081
Gain/(Loss) on Disposal of Non-Current Assets	25	(3)	(12)	2
Net Cost of Services	(26,851)	(26,532)	(27,135)	(27,731)
OPERATING SURPLUS BEFORE ABNORMAL ITEMS	569	1,048	1,274	1,696
Abnormal Items	2,582	...	...	...
Operating Surplus After Abnormal Items	3,151	1,048	1,274	1,696
Valuation Items Adjustments under GFS	(2,105)	46	11	(11)
GFS Operating Balance	1,046	1,094	1,285	1,685
Less Capital Expenditure	2,428	2,567	2,622	2,636
Plus Depreciation	1,444	1,514	1,588	1,673
Asset Sales & Other	329	324	186	144
GFS NET LENDING RESULT	391	365	437	866
Adjusted for accruals	(174)	(43)	(232)	(351)
Cash GFS Surplus/(Deficit)	217	322	205	515
Net Debt	7,685	6,285	6,146	5,659
Net Debt adjusted for prepayment of superannuation	6,506	6,285	6,146	5,659
Net Financial Liabilities*	21,191	20,933	20,612	19,847

* Exclude PTE/PFE Equity

FORWARD ESTIMATES

The projected operating statement of the General Government Sector for the four years to 2003-04 shows a steady trend in AAS31 operating surplus (before abnormals) and GFS net lending results. The AAS31 operating surplus before abnormals is expected to increase from \$569 million in 2000-01 to \$1,696 million in 2003-04. Over the same period the GFS net lending result increases from \$391 million to \$866 million.

Strong net lending results are an important requirement of the Government's medium term fiscal strategy. These results will allow the State's net financial liabilities to be steadily reduced to a sustainable level. This has the dual effect of reducing the cost of servicing these liabilities (interest and superannuation expense) and allowing resources to be diverted to direct service delivery.

The introduction of the GST from 1 July 2000 and related changes under the Inter-governmental Agreement on Reform of Commonwealth - State Financial Relations will continue to affect a number of operating statement aggregates in 2001-02.

The most obvious change is a reduction in taxation revenue offset by an increase in Commonwealth grants. This change is largely driven by provisions in the Agreement for the abolition, from 1 July 2001, of Share Transfer Duty on quoted securities and Financial Institutions Duty.

A major feature of the forward estimates financial data is the constrained growth in underlying expenses. The underlying level of expenses is projected to grow by around an average 2.8 per cent over the four year period between 1999-2000 and 2003-04.

The underlying growth in expenses in 2000-01 is expected to be 3.9 per cent compared to the Budget time estimate of 3.4 per cent. This increase is largely due to the higher transport expenditure approved since the 2000-01 Budget. Underlying expenses growth in the following three years is projected to be broadly in line with Budget estimates.

Table 3.2: Underlying Growth in Expenses

	2000-01 %	2001-02 %	2002-03 %	2003-04 %
Budget Time	3.4	2.0	2.1	2.7
Mid year review	3.9	2.4	2.4	2.5

The AAS31 operating result and GFS net lending result are lower compared to Budget estimates.

In terms of the operating result, the most significant change since Budget time has been the RTA's adoption of straight line depreciation for its infrastructure assets (discussed more fully in Section 2 of this review). The revised methodology resulted in a significant upward shift in depreciation expense (between \$435 million and \$465 million over the period).

This change in accounting policy does not impact the net lending measure which excludes depreciation expense and instead incorporates capital expenditure.

A number of other post Budget changes have had an impact on both the operating result and net lending outcome over the forward estimates period:

- A significant increase in grants to the rail sector.
- Downward revisions in financial distributions by Public Trading Enterprises in 2000-01 and 2001-02 due in part to the impact of the recent Independent Pricing and Regulatory Tribunal (IPART) decisions on water and revisions to profit forecasts in the electricity distribution sector.
- The finalisation of the Teachers' Salary agreement.
- The above changes have been offset to some extent by small upward revisions to taxation revenue and general purpose Commonwealth grants.

GFS CASH RESULT

The General Government Sector is projected to have a surplus over all years of the forward estimates data. The surplus in 2000-01 of \$217 million is projected to increase to \$515 million in 2003-04. The GFS cash results are lower than the net lending result largely because of non cash expenses included in the forward estimates and the differential impact of superannuation and financial distributions on cash and accrual results.

NET FINANCIAL LIABILITIES

Net financial liabilities are expected to decline from \$21.2 billion in 2000-01 to \$19.8 billion in 2003-04. This reduction reflects the impact of the positive net lending results expected over the forward estimates period.

4. BASIS OF THE REVISED FORWARD ESTIMATES

The revised forward estimates, like the original estimates, are predicated on a number of assumptions. The key assumption is the continuation of current policies. Thus, the forward estimates are based on existing policies and do not allow for as yet unannounced new policy initiatives. The forward estimates should not be regarded as projections for the budget outcomes in future years, as these outcomes will reflect future Government policy.

For the capital works program, it is assumed in the forward estimates that the size of the discretionary program including works in progress will be constant in real terms. This means that the forward estimates contain an allowance for new works that has not yet been allocated to specific projects.

Section 2-6 of Budget Paper No. 2 sets out the range of factors affecting budget outcomes, including economic parameters, technological developments, changes in the policy environment, policy changes in other jurisdictions, Commonwealth tax reforms and contingent liabilities.

ECONOMIC OUTLOOK

The revised forward estimates are predicated on assumptions about the outlook for the NSW economy, discussed in more detail below. These assumptions are most critical in respect of the projections for taxes, interest costs, and departmental payments.

The international environment appears to have strengthened since the Budget, although tensions also have increased. The International Monetary Fund (IMF) revised upward its forecast for world growth in 2000 from 4.2 per cent in May to 4.7 per cent in September. Upward revisions also were announced by the Organisation for Economic Cooperation and Development (OECD) in November. World growth is expected to slow in 2001.

Domestic economic conditions remain generally firm, although trends are difficult to ascertain due to the statistical “noise” from the GST, the NRMA demutualisation and the Sydney Olympics. The \$6.3 billion draw-down in liquidity to finance Telstra 2 instalment payments will be another disturbance to expenditure patterns in the December quarter.

- State Final Demand growth was 4.9 per cent in New South Wales over the year to the September quarter 2000. Solid expansion in consumption (boosted by the Olympics) and exceptionally strong growth in business investment in machinery, equipment and intangibles (including computers and software to remedy the Y2K problem and prepare for the GST) offset steep falls in dwelling and business construction.
- Annual growth in New South Wales employment has averaged 3.3 per cent during the first five months of 2000-01, although monthly growth has turned negative in the latter part of this period. The unemployment rate averaged 5.5 per cent during July-November 2000 compared with 6.2 per cent in the same period in 1999-2000.
- Retail turnover (real chain volume trend series as adjusted by the ABS to remove GST and Olympics distortions) increased by a subdued 1.5 per cent in New South Wales over the year to the September quarter.
- Motor vehicle registrations in New South Wales recovered from a pre-GST slump to record a strong 11.2 per cent increase over the year to the quarter ending October.
- Dwelling approvals were significantly affected by the GST, falling 37.1 per cent in New South Wales over the year to the quarter ending October; and the value of non-residential approvals in the quarter ending October was 12.0 per cent less than a year earlier.

- Consumer prices increased by 3.6 per cent in NSW in the September quarter, lifting the GST-inclusive annual inflation rate to 6 per cent. While the ABS has not been able to publish a conclusive estimate of the impact from the GST on the September quarter CPI, Commonwealth Treasury and private sector estimates are mostly in the range of 2½ - 3 percentage points.
- Average weekly ordinary time earnings (AWOTE) increased by 5.9 per cent in New South Wales over the year to September 2000. However the AWOTE series is subject to volatile swings resulting from shifts in workforce composition. The Wage Cost Index, which is not affected by those distortions, recorded ordinary time wage rates growth of 3.4 per cent in the year to September.

The revisions to the economic forecasts take into account these trends in the year to date. Economic growth is expected to remain strong at 3¾ per cent during 2000-01, although slightly less than forecast in the Budget, with a further slight easing in growth in 2001-02. The focus of growth will continue to shift away from domestic demand towards net exports. Employment growth in 2000-01 is now expected to be slightly more moderate than previously anticipated, reflecting the softening of labour market conditions during the last few months. Pressures on inflation from higher world petroleum prices and a weaker exchange rate were offset by a slightly smaller than anticipated impact from the GST in the September quarter, leaving the overall outlook for consumer price inflation unchanged from the Budget. Wage growth (on a Wage Cost Index basis) will be consistent with Budget forecasts. Long term interest rates, however, have been well below 6.5 per cent all year and are therefore expected to average significantly lower than forecast in the Budget.

While the forecasts describe the most likely prospects for the economy on current information, actual outcomes could differ given inherent uncertainty over developments abroad, national policies, and many other factors. Major risks include the possibilities of an abrupt slowdown in the United States, renewed instability in Asian financial markets, further escalation in world petroleum prices, and flow-on impacts from the GST affecting business confidence and putting pressure on wages.

**Table 4.1: Summary of Economic Parameters for New South Wales
(annual average percent change unless otherwise indicated)**

	1999-2000 Actual	2000-01 Estimate		2001-02 Forecast	Medium Term Projection
		Budget	Revised		
Gross State Product	3.7	4	3¾	3½	3¼
State Final Demand	5.9	3¾	3½	2¾	
Employment	3.2	2¼	2	1¼	1¼
Unemployment Rate ^(a)	6.1	5¾	5¾	5¾	
Wages ^(b)	3.0	4	4	3½	4
Sydney CPI	2.4	6	6	2½	2½
CPI excluding indirect tax effects		3	3¼	2¾	
Non-farm GDP Deflator	1.8	3½	4¼	2¼	
Ten-year bond rate ^(c)	6.5	7¼	6	6	6

(a) Annual average rate.

(b) Wage Cost Index (Ordinary time hourly rates excluding bonuses), except Budget estimate which refers to Average Weekly Ordinary Time Earnings of full time adults (AWOTE).

(c) Average rate on ten year Commonwealth bonds.

APPENDIX A: UNIFORM PRESENTATION OF GOVERNMENT FINANCE STATISTICS

The Uniform Presentation Framework (UPF) agreed between the Commonwealth, State and Territory Governments was revised at the March 2000 Loan Council meeting to reflect the Governments' shift from cash to accrual reporting and the adoption by the Australian Bureau of Statistics of accrual basis Government Finance Statistic reporting.

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

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

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

The General Government Sector balance sheet in the UPF table reports an equity investment in the Public Financial and Non-Financial Corporation Sectors. This is treated differently in the AAS31 accounting based GG Sector balance sheet, which does not record the equity investment in the PFC and PNFC Sectors as a residual entity model of the Crown is considered more appropriate than a holding company model.

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

TREATMENT OF CERTAIN COMMONWEALTH PAYMENTS

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

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

Notes:

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

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

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

The May Budget for the GG Sector recorded an advance (borrowing) from the Commonwealth for monies received in the 2000-01 year for Budget Balancing Assistance payments associated with the introduction of the GST (“advance” component), and reports an equivalent advance repayment and revenue in the 2001-02 year. The AAS31 accounting treatment is to record a revenue rather than an advance in the 2000-01 year as the substance of the “advance” is akin to a non-reciprocal contribution in accordance with Australian Accounting Standard AAS15 “Revenue”. Better than expected GST collections made this arrangement unnecessary and it is not reported in the revised estimates.

THE GFS TREATMENT OF SOCOG/SPOC OPERATIONS

The above results have been impacted by the GFS treatment of the Sydney Organising Committee for the Olympic Games (SOCOG) and Sydney Paralympic Organising Committee (SPOC) revenues and expenses. The difference between expenses and income (excluding TV rights and ticketing income) in the years prior to 2000-01 are capitalised as a build up of “inventory stock”. TV rights and ticketing income are deferred on the Balance Sheet until the Olympic/Paralympics are held in 2000-01 when it is recognised in the GFS Operating Statement. In 2000-01 the net deferred expenditure in the form of “inventories” is written back against the operations.

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

	<i>Budget</i>		<i>Forward Estimates</i>		
	<i>2000-01</i>	<i>Revised Estimates 2000-01</i>	<i>2001-02</i>	<i>2002-03</i>	<i>2003-04</i>
	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>
GFS Revenue					
Taxation revenue	12,418	12,498	11,475	11,834	12,418
Current grants and subsidies	12,816	13,674	14,999	15,447	15,726
Capital grants	874	879	873	836	782
Sales of goods and services	2,443	2,490	2,392	2,429	2,511
Interest income	391	446	439	447	468
Other	2,194	2,154	2,089	2,220	2,398
Total revenue	31,136	32,141	32,267	33,213	34,303
less	GFS Expenses				
Gross operating expenses	22,737	23,419	23,457	24,194	24,852
Nominal superannuation interest expense	412	412	488	517	502
Other interest expenses	1,010	980	898	856	819
Other property expenses	...	...	...	...	...
Current transfers	4,477	4,803	4,790	4,823	4,784
Capital transfers	1,426	1,481	1,540	1,538	1,660
Total expenses	30,062	31,095	31,173	31,928	32,617
equals	GFS net operating balance				
	1,074	1,046	1,094	1,285	1,686
less	Net acquisition of non-financial assets				
Gross fixed capital formation	2,305	2,145	2,270	2,454	2,484
less Depreciation	(995)	(1,444)	(1,514)	(1,588)	(1,673)
plus Change in inventories	(1)	4	...	11	9
plus Other movements in non-financial assets	(220)	(50)	(27)	(29)	...
equals	Total net acquisition of non-financial assets				
	1,089	655	729	848	820
equals	GFS Net lending / (Borrowing)^(a)				
	(15)	391	365	437	866
adjusted for budget balancing assistance advance ^(b)	674	...	...	...	...
Adjusted GFS Net lending / (Borrowing)^(b)	659	391	365	437	866

Notes:

(a) also known as Fiscal Balance.

(b) adjusted for effects of the budget balancing assistance advance from the Commonwealth.

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

	<i>Budget</i> 2000-01 \$m	<i>Revised</i> <i>Estimate</i> 2000-01 \$m
GFS Revenue		
Sales of goods and services	10,061	10,453
Current grants and subsidies	769	996
Capital grants	749	746
Interest income	75	77
Other	1,112	1,195
Total revenue	12,766	13,467
less GFS Expenses		
Gross operating expenses	9,901	10,635
Property expenses	2,011	1,965
Current transfers	580	606
Capital transfers	...	138
Total expenses	12,492	13,344
equals GFS net operating balance	274	123
less Net acquisition of non-financial assets		
Gross fixed capital formation	2,443	2,284
less Depreciation	(1,616)	(1,548)
plus Change in inventories	(629)	(655)
plus Other movements in non-financial assets	(98)	(63)
equals Total net acquisition of non-financial assets	100	18
equals GFS Net lending / (Borrowing) ^(a)	174	105

Notes:

(a) Also known as Fiscal Balance.

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

	<i>Budget 2000-01 \$m</i>	<i>Revised Estimate 2000-01 \$m</i>
GFS Revenue		
Taxation revenue	12,066	11,929
Current grants and subsidies	12,776	13,656
Sales of goods and services	12,150	12,600
Capital grants	839	844
Interest income	403	460
Other	2,161	2,087
Total revenue	40,395	41,576
less GFS Expenses		
Gross operating expenses	31,967	33,155
Nominal superannuation interest expense	412	412
Property expenses	1,777	1,771
Current transfers	4,263	4,408
Capital transfers	628	690
Total expenses	39,047	40,436
equals GFS net operating balance	1,348	1,140
less Net acquisition of non-financial assets		
Gross fixed capital formation	4,748	4,459
less Depreciation	(2,611)	(2,992)
plus Change in inventories	(624)	(645)
plus Other movements in non-financial assets	(315)	(103)
equals Total net acquisition of non-financial assets	1,198	719
equals GFS Net lending / (Borrowing) ^(a)	150	421
adjusted for budget balancing assistance advance ^(b)	674	...
Adjusted GFS Net lending / (Borrowing) ^(b)	824	421

Notes:

(a) Also known as Fiscal Balance.

(b) Adjusted for effects of the budget balancing assistance advance from the Commonwealth.

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

	Budget	Revised	Forward Estimates		
	June 2001	June 2001	June 2002	June 2003	June 2004
	\$m	\$m	\$m	\$m	\$m
Assets					
Financial assets					
Cash and deposits	87	394	256	175	178
Advances paid	1,622	1,607	1,560	1,493	1,461
Investments, loans and placements	3,581	3,918	3,883	3,825	3,939
Other non-equity assets	3,192	3,081	3,180	3,412	3,690
Equity	43,251	45,788	47,110	47,110	47,110
Total financial assets	51,733	54,788	55,989	56,015	56,378
Non-financial assets					
Land and fixed assets	66,521	64,355	65,060	65,928	66,767
Other non-financial assets	849	844	939	1,038	1,144
Total non-financial assets	67,370	65,199	65,999	66,966	67,911
Total assets	119,103	119,987	121,988	122,981	124,289
Liabilities					
Deposits held	55	64	53	52	44
Advances received	2,756	2,073	1,905	1,833	1,735
Borrowing	11,587	11,467	10,026	9,754	9,458
Superannuation liability ^(a)	7,314	6,456	7,473	7,218	6,903
Other employee entitlements and provisions	3,688	4,036	4,145	4,286	4,418
Other non-equity liabilities	6,359	6,214	6,328	6,492	6,674
Total liabilities	31,759	30,310	29,930	29,635	29,232
NET WORTH	87,344	89,677	92,058	93,346	95,057
Net Financial Worth ^(b)	19,974	24,478	26,059	26,380	27,146
Net Financial Worth adjusted for budget balancing assistance advance ^{(b)(e)}	20,648	24,478	26,059	26,380	27,146
Net debt ^(d)	9,108	7,685	6,285	6,146	5,659
Net debt adjusted for prepayment of superannuation and budget balancing assistance advance ^{(c)(e)}	7,255	6,506	6,285	6,146	5,659

Notes:

- (a) Comprises unfunded obligations.*
- (b) Net financial worth equals total financial assets minus total liabilities.*
- (c) Adjusted for the effect of borrowings to fund a special prepayment of superannuation.*
- (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 effects of the budget balancing assistance advance from the Commonwealth.*

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

	<i>Budget</i> <i>June 2001</i> \$m	<i>Revised</i> <i>Estimate</i> <i>June 2001</i> \$m
Assets		
Financial assets		
Cash and deposits	819	928
Investments, loans and placements	879	617
Other non-equity assets	2,272	2,360
Equity	27	35
Total financial assets	3,997	3,940
Non-financial assets		
Land and fixed assets	58,263	60,926
Other non-financial assets	107	283
Total non-financial assets	58,370	61,209
Total assets	62,367	65,149
Liabilities		
Deposits held	27	31
Advances received	1,350	1,352
Borrowing	11,380	11,780
Superannuation liability / (prepaid contributions) ^(a)	8	(208)
Other employee entitlements and provisions	3,781	3,533
Other non-equity liabilities	2,061	2,260
Total liabilities	18,607	18,748
Shares and other contributed capital	...	...
NET WORTH	43,760	46,401
Net financial worth ^(b)	(14,610)	(14,808)
Net debt ^(c)	11,059	11,521

Notes:

(a) Comprises unfunded obligations.

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

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

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

	<i>Budget June 2001 \$m</i>	<i>Revised Estimate June 2001 \$m</i>
Assets		
Financial assets		
Cash and deposits	906	1,322
Advances paid	270	352
Investments, loans and placements	4,462	4,535
Other non-equity assets	2,735	2,872
Equity	(481)	(578)
Total financial assets	7,892	8,503
Non-financial assets		
Land and fixed assets	124,784	125,281
Other non-financial assets	956	1,136
Total non-financial assets	125,740	126,417
Total assets	133,632	134,920
Liabilities		
Deposits held	82	95
Advances received	2,756	2,073
Borrowing	22,968	23,247
Superannuation liability ^(a)	7,322	6,249
Other employee entitlements and provisions	5,339	5,741
Other non-equity liabilities	7,821	7,857
Total liabilities	46,288	45,262
Shares and other contributed capital	...	...
NET WORTH	87,344	89,658
Net financial worth ^(b)	(38,396)	(36,759)
Net financial worth adjusted for budget balancing assistance advance ^(e)	(37,722)	(36,759)
Net debt ^(d)	20,168	19,206
Net debt adjusted for prepayment of superannuation and budget balancing assistance advance ^{(c) (e)}	18,315	18,027

Notes:

- (a) Comprises unfunded obligations.*
- (b) Net financial worth equals total financial assets minus total liabilities.*
- (c) Adjusted for the effect of borrowings to fund a special prepayment of superannuation.*
- (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 effects of the budget balancing assistance advance from the Commonwealth.*

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

CASH FLOW	Budget	Revised	Forward Estimates		
	2000-01	2000-01	2001-02	2002-03	2003-04
	\$m	\$m	\$m	\$m	\$m
Cash receipts from operating activities					
Taxes received	12,465	12,547	11,482	11,846	12,454
Receipts from sales of goods and services	2,545	2,616	2,438	2,471	2,538
Grants/subsidies received	13,690	14,556	15,872	16,283	16,508
Other receipts	2,821	3,062	2,739	2,757	2,887
Total receipts	31,521	32,781	32,531	33,357	34,387
Cash payments for operating activities					
Payment for goods and services	(21,424)	(21,572)	(21,304)	(23,222)	(23,820)
Grants and subsidies paid	(5,552)	(5,915)	(5,917)	(5,955)	(6,040)
Interest paid	(950)	(1,062)	(847)	(785)	(762)
Other payments	(733)	(862)	(763)	(764)	(766)
Total payments	(28,659)	(29,411)	(28,831)	(30,726)	(31,388)
Net cash flows from operating activities	2,862	3,370	3,700	2,631	2,999
Net cash flows from investments in non-financial assets					
Sales of non-financial assets	408	333	324	196	153
Purchases of non-financial assets	(2,493)	(2,428)	(2,568)	(2,622)	(2,637)
Net cash flows from investments in non-financial assets	(2,085)	(2,095)	(2,244)	(2,426)	(2,484)
Net cash flows from investments in financial assets for policy purposes	2,342	2,579	43	55	31
Net cash flows from investments in financial assets for liquidity purposes	6	(113)	15	65	(106)
Net cash flows from financing activities					
Advances received (net)	607	(72)	(168)	(73)	(97)
Borrowing (net)	(3,825)	(3,675)	(1,474)	(345)	(344)
Deposits received (net)	(1)	1	(11)	...	(9)
Other financing (net)	...	(3)	...	...	...
Net cash flows from financing activities	(3,219)	(3,749)	(1,653)	(418)	(450)
Net increase (decrease) in cash held	(94)	(8)	(139)	(93)	(10)
SURPLUS / (DEFICIT)					
Net cash from operating activities and investments in non-financial assets	777	1,275	1,456	205	515
Finance leases and similar arrangements	...	...	...	...	...
SURPLUS / (DEFICIT)	777	1,275	1,456	205	515
Impact of prepayment of superannuation ^(b)	(1,058)	(1,058)	(1,134)	...	...
Budget balancing assistance advance ^(c)	674	...	...	...	...
SURPLUS / (DEFICIT) after adjusting for the prepayment of superannuation and the budget balancing assistance advance	393	217	322	205	515

Notes:

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

(b) Adjusted for effects of a special prepayment of superannuation.

(c) Adjusted for effects of the budget balancing assistance advance from the Commonwealth.

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

CASH FLOW	<i>Budget 2000-01 \$m</i>	<i>Revised Estimate 2000-01 \$m</i>
Cash receipts from operating activities		
Receipts from sales of goods and services	9,111	9,586
Grants/subsidies received	1,495	1,674
Other receipts	1,699	1,344
Total receipts	12,305	12,604
Cash payments for operating activities		
Payment for goods and services	(8,105)	(8,839)
Grants and subsidies paid	(21)	(45)
Interest paid	(838)	(877)
Other payments	(863)	(933)
Total payments	(9,827)	(10,694)
Net cash flows from operating activities	2,478	1,910
Net cash flows from investments in non-financial assets		
Sales of non-financial assets	260	250
Purchases of non-financial assets	(2,605)	(2,471)
Net cash flows from investments in non-financial assets	(2,345)	(2,221)
Net cash flows from investments in financial assets for policy purposes	(2,394)	(51)
Net cash flows from investments in financial assets for liquidity purposes	(78)	73
Net cash flows from financing activities		
Advances received (net)	(29)	(2,611)
Borrowing (net)	2,880	3,140
Deposits received (net)	...	(2)
Distributions Paid	(758)	(839)
Other financing (net)	...	...
Net cash flows from financing activities	2,093	(312)
Net increase (decrease) in cash held	(246)	(601)
SURPLUS / (DEFICIT)		
Net cash from operating activities and investments in non-financial assets	133	(310)
Distribution Paid	(758)	(839)
Finance leases and similar arrangements	...	...
SURPLUS / (DEFICIT)	(625)	(1,149)

Notes:

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

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

CASH FLOW	<i>Budget 2000-01 \$m</i>	<i>Revised Estimate 2000-01 \$m</i>
Cash receipts from operating activities		
Taxes received	12,112	11,975
Receipts from sales of goods and services	11,286	11,895
Grants/subsidies received	13,616	14,468
Other receipts	3,378	3,044
Total receipts	40,392	41,382
Cash payments for operating activities		
Payment for goods and services	(28,869)	(29,524)
Grants and subsidies paid	(4,001)	(4,142)
Interest paid	(1,725)	(1,872)
Other payments	(1,211)	(1,383)
Total payments	(35,806)	(36,921)
Net cash flows from operating activities	4,586	4,461
Net cash flows from investments in non-financial assets		
Sales of non-financial assets	664	572
Purchases of non-financial assets	(5,098)	(4,929)
Net cash flows from investments in non-financial assets	(4,434)	(4,357)
Net cash flows from investments in financial assets for policy purposes	(81)	(83)
Net cash flows from investments in financial assets for liquidity purposes	(72)	(41)
Net cash flows from financing activities		
Advances received (net)	607	(71)
Borrowing (net)	(945)	(536)
Deposits received (net)	(1)	(1)
Distributions Paid	...	...
Other financing (net)	...	(30)
Net cash flows from financing activities	(339)	(638)
Net increase (decrease) in cash held	(340)	(658)
SURPLUS / (DEFICIT)		
Net cash from operating activities and investments in non-financial assets	152	104
Distributions Paid	...	...
Finance leases and similar arrangements	...	...
SURPLUS / (DEFICIT)	152	104
Impact of prepayment of superannuation ^(b)	(1,058)	(1,058)
Budget balancing assistance advance ^(c)	674	...
SURPLUS / (DEFICIT) after adjusting for the prepayment of superannuation and budget balancing assistance advance	(232)	(954)

Notes:

- (a) A positive number denotes a cash inflow, a negative (i.e. bracketed) sign denotes a cash outflow.
(b) Adjusted for effects of a special prepayment of superannuation.
(c) Adjusted for effects of the budget balancing assistance advance from the Commonwealth.

LOAN COUNCIL REPORTING REQUIREMENTS

Table A-10 presents the budget-time estimates of the State's Loan Council Allocation (LCA) for 2000-01 and a revised estimate taking into account fiscal and economic developments since the commencement of the budget year.

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

Overall, the negative Loan Council Allocation requirement of \$82 million for New South Wales for 2000-01 has been revised to negative \$449 million.

Table A-10: 2000-01 Loan Council Allocation Estimates

	<i>Budget-time Estimate 2000-01 \$m</i>	<i>Loan Council Revised Estimate 2000-01 \$m</i>
General government sector cash deficit / (surplus)	(777)	(1,278)
PNFC sector cash deficit / (surplus)	625	1,149
Non-financial public sector cash deficit / (surplus) ^(a)	(152)	(104)
Minus Net cash flows from investments in financial assets for policy purposes ^(b)	81	83
Plus Memorandum items ^(c)	(11)	(251)
Loan Council Allocation	(82)	(272)

Notes:

- (a) Does not directly equate to the sum of the General Government and PNFC cash deficits due to intersectoral transfers which are netted out.*
- (b) This item is the negative of net advances paid under a cash accounting framework*
- (c) Memorandum items are used to adjust the ABS deficit to include in LCAs certain transactions – such as operating lease-that have many of the characteristics of public sector borrowings but do not constitute formal borrowings. They are also used, where appropriate, to deduct from the ABS deficit certain transactions that Loan Council has agreed should not be included in LCAs – for example, the funding of more than employers' emerging costs under public sector superannuation schemes, or borrowings by entities such as statutory marketing authorities.*