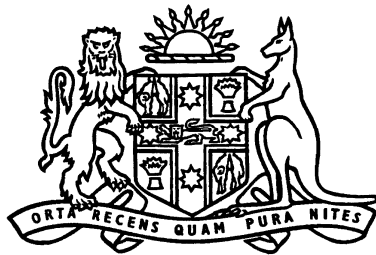


Infrastructure Statement

2006-07



New South Wales

Budget Paper No. 4

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INTRODUCTION

In 2006-07 the State's annual capital expenditure will increase by over 22 per cent from \$8.1 billion to \$9.9 billion. Of this amount, \$4.4 billion will be spent in the general government sector and \$5.5 billion in the public trading enterprise (PTE) sector. This is the highest ever capital expenditure by the NSW Government.

The capital expenditure in 2006-07 will be partly funded by an increase in net debt of \$5.4 billion. The overall net debt will increase by a further \$2.2 billion in 2006-07 to reduce the State's unfunded superannuation liabilities. This is in accordance with the Government's strategy to efficiently manage the full range of State financial liabilities. Details of the Government's strategies for managing financial liabilities, including the funding of capital expenditure, are set out in Chapter 4 of Budget Paper No. 2.

Looking over the four forward years to 30 June 2010, the State's capital expenditure is expected to total \$41.3 billion. That is an increase of \$12.8 billion, or about 45 per cent, compared with the \$28.5 billion expenditure in the four years prior to 30 June 2006.

The capital expenditure over the four years to 30 June 2010 will be partly funded by an increase in net debt of \$17.4 billion. The overall net debt will increase by a further \$2.2 billion over this period, as noted above.

Net debt will increase in the general government sector to ensure that the Government's infrastructure investment program is not adversely impacted by the current deterioration in the Budget Result, arising from expenditure pressures and cyclical and structural weakening in revenues. The strength of the general government sector balance sheet permits time to implement the planned structural improvement in the Budget while maintaining record levels of capital investment.

The increase in net debt is principally in the PTE sector, mainly resulting from infrastructure investment in commercial businesses in the electricity network and water sectors. Such businesses are subject to commercial disciplines, and are required to maintain a commercial capital structure with an appropriate mixture of debt and equity. Despite the forecast significant increase in capital expenditure over the next few years, gearing levels are projected to remain within target limits set on commercial benchmarks (see Chapter 5, Budget Paper No. 2 for further discussion on the PTE sector).

The significant increase in capital expenditure in the Budget and forward years reflects the Government's response to a range of influences which lead to such an increase. While these drivers are addressed in detail in the *New South Wales State Infrastructure Strategy – 2006-07 to 2015-16*, they include events such as the geographical redistribution and ageing of the State's population, rapid advances in the use of technology, renewal of post-war infrastructure and extraordinary construction cost increases resulting from the current commodities boom and skill shortages.

To address this scenario, the Government will increase infrastructure spending over the next ten years. This will result in a total expenditure of some \$110 billion over this period. This increased expenditure will require an increase in borrowings in the short to medium term, albeit at an economically sustainable rate, to provide the necessary momentum to address these emerging issues in a timely way.

It must be noted that recent reforms to government asset management and procurement have had a positive effect in reducing capital project cost overruns in recent times. This outcome will reduce some of the typical risks associated with delivery of such an ambitious and necessary capital works program.

CHAPTER 1: OVERVIEW

1.1 GENERAL

The State's infrastructure is managed by both the general government and public trading enterprise (PTE) sectors. General government sector agencies provide essential public services such as health, education, roads and police. Most general government agencies are dependent on the Budget for funding.

The PTE sector provides major economic services such as water, sewerage, electricity, housing and transport. Most PTE sector agencies have a commercial charter and generate revenue (through user charges) outside the Budget. Some PTEs (for example, the Department of Housing and the Rail Corporation New South Wales) are provided with Budget funding because they undertake services required by the Government at well below commercial prices.

The State's physical assets are valued at *fair value*, in accordance with accounting policies and standards. Where practicable, an asset's fair value is measured at its highest and best use. An asset with no feasible alternative use may be valued at fair value for its existing use.

A quoted market price for an asset in an active and liquid market is the best indication of fair value, but where this does not exist, market prices for similar assets can be used. Specialised assets are valued using the replacement cost of the remaining economic benefits. It is important to note that the economic benefits of most assets in the public sector do not depend on their ability to generate a net cash inflow.

Historical data and forecasts in this Budget Paper are presented on an accrual basis in nominal dollars.

The capital expenditure program represents planned expenditure at a point in time and, as with any plan, circumstances and priorities may change during the course of the financial year.

In past years there have been moderate variations, both increases and decreases, between the budgeted capital expenditure and the actual outcomes. These variations reflect a range of factors including construction schedule adjustments due to weather conditions, price movements varying from those forecast and revisions to the scope of projects.

1.2 VALUE OF PHYSICAL ASSETS

The State's physical assets include public schools and TAFE education facilities, hospitals, police and court facilities, transport networks, public housing and recreation facilities, as well as infrastructure such as roads, electricity generation, transmission and distribution networks, water storage and supply networks, and ports facilities.

As shown in Table 1.1 the State's physical assets across both the general government and PTE sectors are estimated to have a value of \$209.5 billion as at 30 June 2006. The general government sector controls approximately \$122.5 billion of physical assets and the PTE sector approximately \$87 billion. The general government estimate in this Budget Paper includes the value of land under State roads, which amounts to \$36.3 billion at 30 June 2006. In previous years the value of land under State roads was not included in Budget Paper No. 4. The inclusion of land under State road in Budget Paper 4 differs from the approach adopted in Budget Paper No. 2. The Balance Sheet shown in Budget Papers No. 2 adopts a more conservative approach to estimating State assets due to the uncertainties associated with the valuation of land under State roads.

The value of physical assets, net of depreciation and other adjustments, is expected to increase during 2006-07 by \$2.4 billion in the general government sector and \$3.9 billion in the PTE sector.

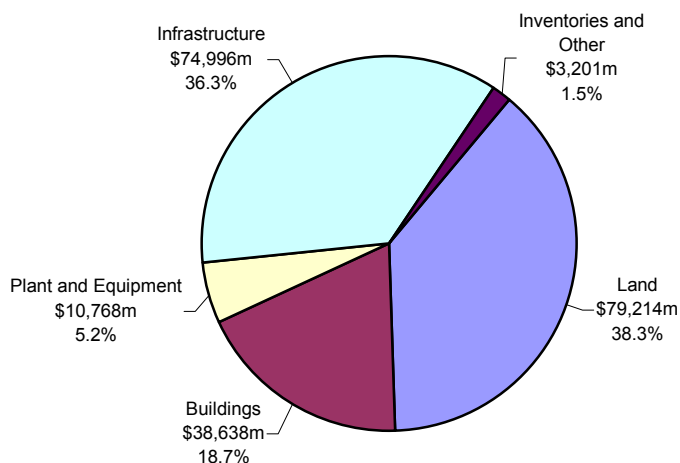
Table 1.1: State Owned Physical Assets: Value by Sector

<i>As at 30 June</i>	<i>2003 Actual \$m</i>	<i>2004 Actual \$m</i>	<i>2005 Actual \$m</i>	<i>2006 Estimate \$m</i>	<i>2007 Budget \$m</i>
General Government Sector*	106,407	114,756	120,498	122,515	124,908
Public Trading Enterprise Sector	82,892	84,777	86,319	87,024	90,929
Total State Sector	189,299	199,533	206,817	209,539	215,837

* Includes the Roads and Traffic Authority's value of land under roads. This amounts to \$36.3 billion in 2005-06.

As shown in Chart 1.1, the majority of these assets are land (38.3 per cent), infrastructure systems (36.3 per cent), buildings (18.7 per cent), and plant and equipment (5.2 per cent) as at 30 June 2005. The land component value of physical assets has been separated from buildings, providing a clear delineation between built and non-built physical assets.

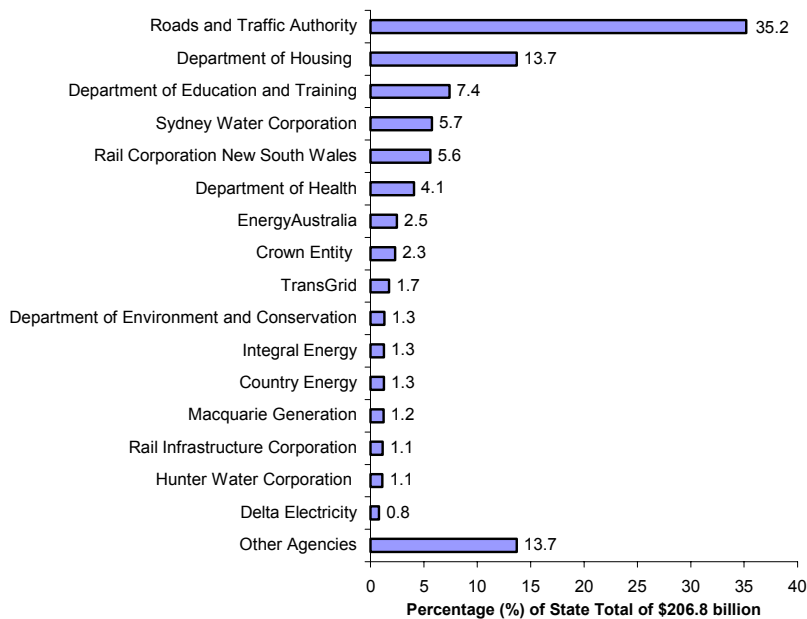
Chart 1.1: State Owned Physical Assets: Distribution by Category as at 30 June 2005



State Total = \$206.8 billion

Control of the State's physical assets is concentrated in a relatively small number of agencies. As shown in Chart 1.2, approximately 80 per cent are controlled by ten agencies.

Chart 1.2: State Owned Physical Assets: Distribution by Agency as at 30 June 2005*



Source: 2004-05 Agency Annual Reports

* Includes the Roads and Traffic Authority's value of land under roads of \$36.3 billion.

1.3 CAPITAL EXPENDITURE

The State's annual capital expenditure will approach \$10 billion for the first time in 2006-07 and exceed that level going forward. Table 1.2 summarises capital expenditure for the current and four forward years.

Table 1.2: State Capital Expenditure Summary

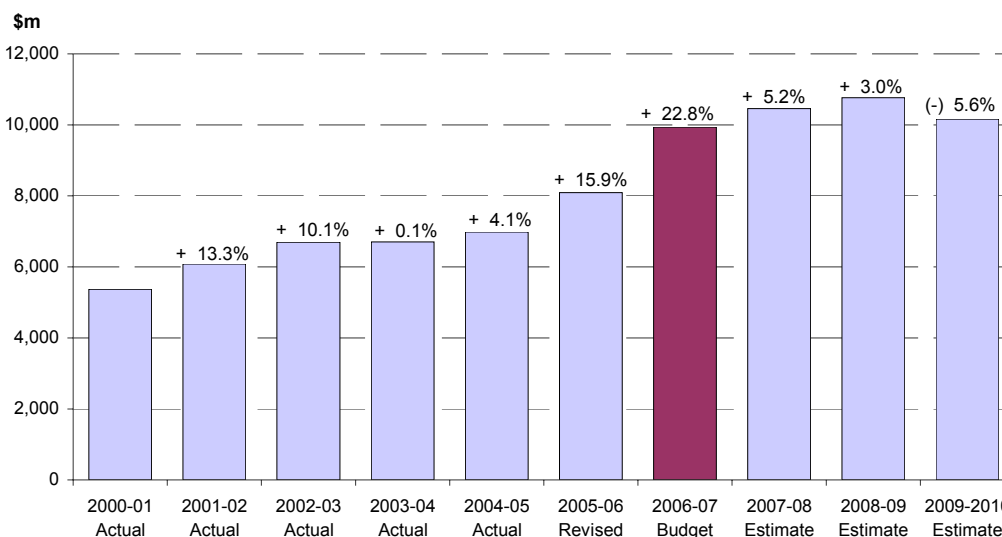
	2005-06		2006-07	2007-08	2008-09	2009-10
	Budget	Revised	Budget	Estimate	Estimate	Estimate
	\$m	\$m	\$m	\$m	\$m	\$m
General Government Sector	3,825	3,788	4,387	4,528	4,782	4,590
Public Trading Enterprise Sector	4,425	4,309	5,559	5,933	5,987	5,576
Total State Sector*	8,248	8,093	9,941	10,455	10,764	10,161

* Total State sector capital expenditure may not total general government and PTE sector acquisitions because of inter-sectoral purchases which cancel out on consolidation.

Capital expenditure in 2006-07 of \$9.9 billion represents a substantial increase of \$1.8 billion or over 22 per cent over forecast 2005-06 capital expenditure. The increase is particularly pronounced in the PTE sector. As demonstrated in Chart 1.3, this represents a strong upward trend in capital expenditure.

Over the four years to 30 June 2010, the State's capital expenditure is expected to total \$41.3 billion. This is an increase of over 45 per cent or \$12.8 billion on the \$28.5 billion expenditure in the four years to 30 June 2006.

Chart 1.3: Capital Expenditure Trend



The increase in capital expenditure in the general government sector is primarily driven by increased investment in hospitals, schools and roads that support the delivery of key frontline services. In the PTE sector rail and bus transport, housing, water, sewerage and electricity infrastructure spending is planned to increase significantly. These increases reflect the need to respond to emerging issues affecting these areas of government services such as population ageing and redistribution, increased use of technology, climate change and ageing infrastructure.

Another factor driving increases in capital expenditure is the extraordinary jump in construction costs being fuelled by industry skills shortages and construction material price increases resulting from the current world wide commodities boom. This has resulted in construction cost increases running well ahead of consumer price index increases. Further details of the infrastructure spending on a policy area basis are in Chapters 3 and 4.

In addition to the capital expenditure, the Government spends substantial amounts on maintaining the current stock of physical assets. Physical asset maintenance is discussed in Section 1.4.

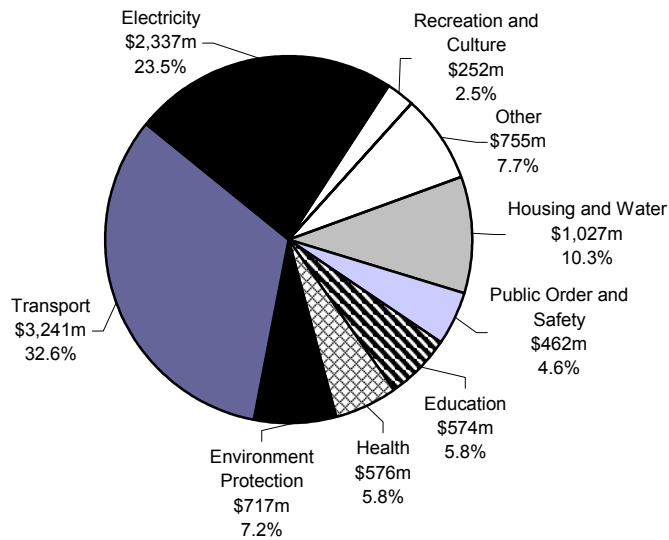
The capital expenditure estimates exclude all private sector contributions for economic infrastructure projects (such as toll roads) procured as Privately Financed Projects (PFP). The capital element of some PFP projects classified as finance leases (such as the contracts for the construction and operational maintenance of ten schools and the Forensic Hospital at Long Bay prison being constructed between 2006 to 2009) are included in the State's capital expenditure program.

This distinction is because typically the risk on revenue on economic infrastructure projects is taken by the private sector, while for social infrastructure, this risk is borne by the Government.

Capital expenditure by policy areas, adapted from Australian Bureau of Statistics categories, for 2006-07, is shown in Chart 1.4. This approach results in some agencies' activities being categorised over a number of policy areas with capital expenditure recorded accordingly. For example, the Attorney General Department's judiciary support program expenditure is included in Public Order and Safety, human rights related expenditure in Social Security and Welfare, and expenditure on the Industrial Relations Court is included in Other Economic Services.

The chart indicates significant growth in capital expenditure in the Electricity, Transport and Housing and Water policy areas. These areas together now account for 66.4 per cent of the State's infrastructure budget compared to 61.7 per cent in the 2005-06 Budget.

Chart 1.4: Total State Sector Capital Expenditure, 2006-07: by Policy Area

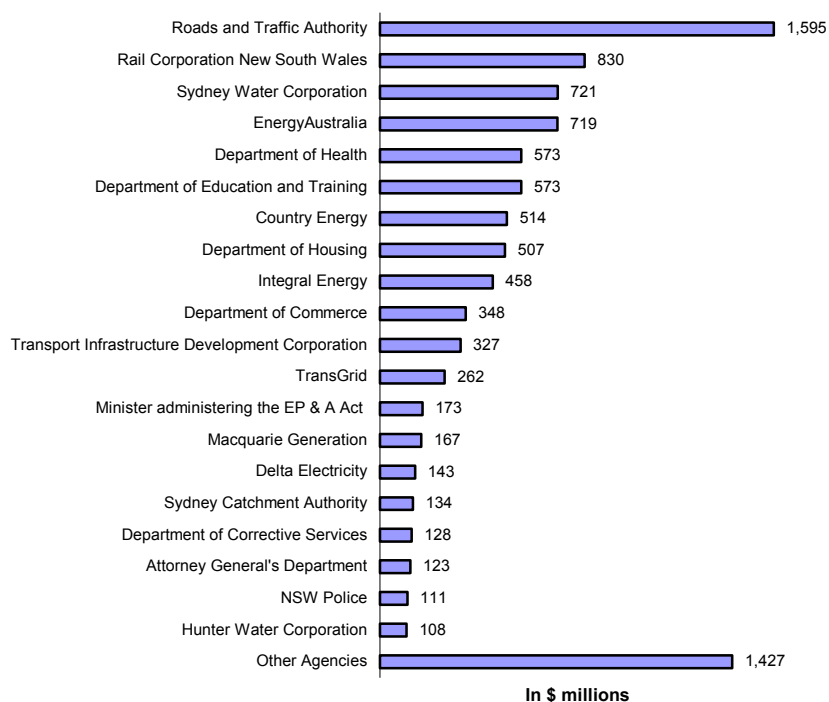


State Total = \$9,941 million

An analysis of capital expenditure by policy areas for general government and PTE sectors is presented in Chapters 3 and 4, respectively.

The allocation of capital expenditure across agencies in 2006-07 is shown in Chart 1.5.

Chart 1.5: State Capital Expenditure 2006-07



1.4 PHYSICAL ASSET MAINTENANCE

During 2005-06, NSW Treasury issued guidelines requiring that direct employee costs on asset maintenance activities be reported as part of an agency's maintenance expenditure. This was done to address the significant variability and, in particular, understatement in the way some agencies reported maintenance expenditure. This reporting requirement has resulted in a more comprehensive and consistent reporting of physical asset maintenance costs. With land value now being separated from buildings, this will enable better comparative analysis of the maintenance spend of agencies. The expenditure figures for the general government and PTE sectors under the new reporting regime are set out for the first time in Table 1.3.

Table 1.3: Maintenance Expenses

	2005-06		2006-07	2007-08	2008-09	2009-10
	Budget \$m	Revised \$m	Budget \$m	Estimate \$m	Estimate \$m	Estimate \$m
General Government Sector	1,412	1,510	1,775	1,712	1,767	1,837
Public Trading Enterprise Sector	912	1,864	2,064	2,161	2,174	2,189
Total State Sector	2,324*	3,374	3,839	3,873	3,941	4,026

* Does not include direct employee costs.

Expenditure on asset maintenance at 30 June 2006 is approximately 1.6 per cent of the Government's total physical asset holdings (including land), and 2.7 per cent of the total built asset holdings. For 30 June 2007, these percentages are estimated to increase to 1.8 per cent and 2.8 per cent respectively.

CHAPTER 2: POLICIES

2.1 PLANNING

Meeting the infrastructure needs of a growing and ageing population and growing economy requires planning. Also, because of the long lead time in the procurement of major physical assets and in carrying out major renewals and maintenance, it is important that the State's ten year infrastructure strategy and associated capital expenditure proposals fit within a long term planning strategy.

The Department of Planning sets the strategic background for the State Infrastructure Strategy and capital expenditure. In due course, and with variations over time, these plans evolve as actual capital expenditure on the acquisition of new assets and on the maintenance of existing assets.

To assist agencies, the Department provides information on the following matters:

- ◆ population projections at the State, regional and local levels;
- ◆ current and predicted transport patterns based on demand forecasting models;
- ◆ projections on housing construction in established, greenfield and rural areas of the Greater Metropolitan Region through the Metropolitan Development Program; and
- ◆ strategies involving future plans to manage growth and change in the next 25 years.

METROPOLITAN STRATEGY

A key long term strategy of the NSW Government is the *Metropolitan Strategy*. This is a detailed planning framework to deliver strong and sustainable growth to secure Sydney's status as Australia's primary global city.

By 2031, Sydney is expected to have an additional 1.1 million residents, 500,000 new jobs and 640,000 extra dwellings. The blueprint for Sydney's future growth maps out a network of cities in the Greater Metropolitan Region. These are the Sydney CBD, North Sydney, Parramatta, Liverpool and Penrith.

The plan also recognises that other Specialised Centres, Major Centres, Employment Lands and Renewal Corridors will be of particular significance. Together, these areas will accommodate 50 per cent of new homes and 50 per cent of new jobs over the next 25 years.

New release areas will accommodate another 30 to 40 per cent of growth, the majority of which will be located in the North West and South West growth centres of Sydney, and will provide new land for over 220,000 dwellings over the next 30 years. The remaining growth will be accommodated in other existing urban areas of Sydney.

REGIONAL STRATEGIES

The Department of Planning is preparing a number of strategies for regional New South Wales. These are outlined below.

The Lower Hunter

The draft Lower Hunter Regional Strategy applies to the local government areas of Newcastle, Lake Macquarie, Port Stephens, Maitland and Cessnock.

The draft strategy assumes that the population in the Lower Hunter will increase by 125,000 people between 2006 and 2031. Within this time horizon it is expected that housing demand will be up to 95,000 new dwellings by 2031, with up to 50 per cent in existing zoned areas, and 50,000 new jobs will be catered for over the life of the Strategy.

The Far North Coast

A draft Far North Coast Regional Strategy has been prepared and applies to the local government areas of Ballina, Byron, Kyogle, Lismore, Richmond Valley and Tweed.

The draft strategy caters for 60,400 more people in the region between 2006 and 2031 and up to 51,000 additional homes. 35 per cent of future housing will be located in the Regional Centres of Tweed Heads, Ballina and Lismore.

The draft strategy protects coastal areas, locates future settlement around existing centres and towns and provides for rural living. The draft strategy is flexible and can be reviewed to provide additional greenfield urban areas if population growth projections are exceeded. It also supports 32,500 extra jobs through ensuring a sufficient supply of employment lands. These lands are located to take advantage of centres of population, major regional transport links (road, rail and air) and the upgrading of the Pacific Highway.

The South Coast

A draft South Coast Regional Strategy has been prepared and applies to the local government areas of Shoalhaven, Eurobodalla and Bega Valley.

By 2031, the draft strategy is designed to accommodate up to 60,300 new residents and will support up to 45,600 additional dwellings. It will also provide for an extra 19,100 jobs. The draft strategy gives priority to residential development located adjacent to well-serviced centres and towns.

2.2 THE STATE INFRASTRUCTURE STRATEGY

The State Infrastructure Strategy* (SIS) is a ten year strategy to plan and fund the infrastructure necessary to support growth in New South Wales and the services that the Government delivers. The SIS will form the link between the four forward years in this Budget Paper and the longer term 25 year regional plans, such as the Sydney Metropolitan Strategy.

The ten year SIS will be maintained and updated every two years. Infrastructure requirements and priorities can change because of population growth rates and factors such as population ageing and redistribution, ageing infrastructure and accelerated technological changes. The initial SIS covers the 2006-07 to 2015-16 period and each of the State's six regions.

The SIS provides in regional maps the major infrastructure initiatives that are linked to the longer term 25 year regional plans and agency service delivery priorities.

Demand for infrastructure will remain at very high levels for the next decade and unprecedented demands on government service delivery are anticipated. This situation presents a significant challenge for the Budget. To meet this challenge, and to keep expenditure in line with growth of sustainable funding sources, the Government expects that an average increase of 4.6 per cent per annum on infrastructure expenditure is sustainable. This proposed investment will amount to some \$110 billion over the next ten years.

* *New South Wales State Infrastructure Strategy - 2006-07 to 2015-16.*

2.3 ASSET MANAGEMENT AND PROCUREMENT

ASSET MANAGEMENT AND THE BUDGET PROCESS

The efficient, effective delivery of services over the longer term needs sound management of existing and newly acquired physical assets. This requires decisions on efficient acquisition, efficient utilisation and disposal of surplus assets.

This decision making is achieved through application of the Government's Total Asset Management (TAM) policy, enabling closer integration of the physical asset planning for each agency with the budget process. Through TAM, agencies align their asset planning and management with their service delivery priorities and strategies. They review service delivery options, including addressing any bias towards acquisition of new capital assets at the expense of appropriate asset maintenance on a whole-of-life basis.

The TAM approach encourages agencies to reduce asset dependency through less asset-intensive solutions, including strategic demand management. TAM also encourages agencies to dispose of unnecessary and/or non-performing assets.

Agencies' Asset Strategies and supporting Infrastructure Investment, Maintenance, Asset Disposal, Accommodation and Information and Communication Technology (ICT) Strategic Plans are used to inform the Government's decision making in resource allocation and develop the State Infrastructure Strategy.

Since becoming responsible for TAM policy in mid 2003, Treasury has focused on improving agencies' plan submission compliance. In 2005 this resulted in the receipt of TAM plans from agencies responsible for 96 per cent of general government asset holdings. Treasury is now placing greater emphasis on the need for agencies to improve the quality of their TAM plans. Quality surveys are being conducted and training of agencies stepped up. This includes development of a TAM awareness course conducted by the Institute of Public Administration NSW.

Treasury is also placing greater emphasis on integrated planning of all physical assets on a whole-of-agency basis. Some agencies appear to plan and manage assets based on asset classes or groups of like assets (e.g. office accommodation, ICT, vehicles, network infrastructure etc.). While separate day to day management of different asset classes may be the best approach, it is important that asset planning is done holistically. Through direct feedback, seminars hosted by major private sector and government asset managers, updated guidelines, illustrative examples and other published material, Treasury is supporting agencies regarding this issue.

In October 2005, the Audit Office released a performance audit report titled *Implementing Asset Management Reforms*. The audit confirmed that TAM policy provides a best practice framework to improve asset management and integration of TAM planning with the Budget process was starting to have a positive impact on the Government's asset management practices.

PROCUREMENT POLICY

Government Procurement Policy reforms, which commenced in July 2004, emphasise better upfront planning by agencies prior to funding decisions being made, better targeted expertise and discipline in the procurement process, and clear agency accountability for procurement outcomes. Key elements of the reforms include simplification of existing policy, application of a Gateway review process, accreditation of agencies and enhanced Treasury monitoring. Initial accomplishments since introduction have been mainly in the planning and monitoring area, with better quality business cases and greater adherence to project budgets. These reforms have been followed up by extensive information and training sessions for agencies, including Treasury. They include the Institute of Public Administration NSW developing and conducting a course on government procurement.

Preliminary data, based on a sample of major construction projects approved before and after the reform implementation, indicates a reduction in the order of 50 per cent in the difference between originally approved budgets and actual or predicted completion cost. Such an outcome, if sustained, is a clear measure of the effectiveness of these reforms.

Simplification of Policy

The Government Procurement Policy is directed at a value for money outcome. A key reform is the establishment of a simplified user friendly online procurement policy framework where government policy and practice requirements, with links to relevant guidelines/documents, are available from a single location (see www.treasury.nsw.gov.au). Separate process maps for construction, goods and services and ICT have reduced complexity and improved compliance by agencies. A process map for accommodation and property will be included in 2006. An updated *NSW Government Code of Practice for Procurement* and new *NSW Government Tendering Guidelines* were issued in 2005. The Guidelines formalised whole-of-government policy and practice on tendering, and comply with Australia-United States Free Trade Agreement procurement requirements.

The Gateway Review Process

The Gateway review process provides an independent analysis of a project at key stages of the procurement process. The Gateway review facility is provided to agencies by the Department of Commerce, acting on behalf of Treasury. A Gateway review at the business case stage is mandatory for all high value, complex or innovative procurements prior to the funding decision. To date 89 projects with a total value of \$4.4 billion have undergone Gateway reviews, mainly at the business case stage. All types of procurement (construction, ICT, goods and services) have been involved. A Gateway Review Toolkit was released in 2005 to assist agencies understand how the Gateway process works. The Department of Commerce also undertook a comprehensive training program for Gateway reviewers in 2005-06 and some 150 agency staff have now undergone this training.

Agency Accreditation

Accreditation drives the effective use of appropriate internal and external expertise in procurement, resulting in efficient resource allocation as agencies whose core function does not include procurement do not build up unnecessary resources and/or expertise. Seven agencies are currently accredited for project delivery and thirteen for planning in construction procurement. Initial achievements include clarity in the role of the Department of Commerce as well as the clear establishment of agency accountability for outcomes. Accreditation schemes for ICT and goods and services procurement are being developed for implementation in 2006-07.

Treasury Monitoring

Treasury is now more pro-active in monitoring major or complex capital works projects, including reviewing business cases and Gateway reviews prior to funding approvals, as well as reviewing reports on procurement options, pre-tender estimates, contract award recommendations, and exception reports during project delivery to confirm the validity of the initial business case.

Treasury Assistance for Small Agencies

Treasury, through additional funding, assists small budget dependent agencies in meeting some of their upfront planning costs. The assistance is directed at such agencies which do not have the necessary project development expertise in preparing proper business case documentation.

2.4 FUNDING OF INFRASTRUCTURE EXPENDITURE

In 2006-07, total State capital expenditure will be \$9.9 billion of which \$4.4 billion will be undertaken in the general government sector and \$5.5 billion in the PTE sector. This capital expenditure, which is a substantial increase on the \$8.1 billion being undertaken in 2005-06, will be partly funded by an increase in the total State sector net debt of \$5.4 billion.

The overall net debt will increase by a further \$2.2 billion in 2006-07 to reduce the State's unfunded superannuation liabilities. This is in accordance with the Government's strategy to efficiently manage the full range of State financial liabilities. Details of the Government's strategies for managing financial liabilities, including the funding of capital expenditure, are set out in Chapter 4 of Budget Paper No. 2.

- ◆ The increase in the net debt in the general government sector of \$2.1 billion will partly fund the \$4.4 billion capital expenditure, with the remainder funded by State revenues.
- ◆ The increase in the net debt in the PTE sector of \$3.3 billion will partly fund the \$5.5 billion capital expenditure, with the remainder funded by PTE agency revenues.

Over the four years to 2009-10, total State capital expenditure will be \$41.3 billion of which \$18.3 billion will be in the general government sector and \$23 billion in the PTE sector. This total State capital expenditure is 45 per cent or \$12.8 billion greater than the \$28.5 billion undertaken in the previous four years. It will be partly funded by an increase in net debt of \$17.4 billion. The overall net debt will increase by a further \$2.2 billion over this period, as noted above. This increase in net debt will be more than offset by an increase of \$26.2 billion in the value of the State's physical assets after allowing for adjustments for depreciation, valuation adjustments and asset sales.

State sector debt is used to finance both the general government sector and PTE sectors. The NSW Government's fiscal strategy is different for each sector and is based on the source of funds available to each sector.

The general government sector provides services (schools, hospitals and police) which are largely free of charge to recipients. These are funded from State taxation receipts and/or Commonwealth funding as well as borrowings. Any borrowings are on the basis that net debt remains at a sustainable level, with responsible debt/gross state product and interest expense/revenue ratios.

In the commercial areas of the PTE sector (such as water, electricity and ports) capital expenditure is funded by user charges and borrowings. These businesses operate under commercial disciplines as contained in the Government's Commercial Policy Framework. Borrowing by commercial businesses in the PTE sector to fund capital investments is an important part of imposing commercial disciplines.

Non-commercial PTEs, such as in public transport and housing, fund capital expenditure through user charges and capital grants from the Budget.

2.5 PRIVATELY FINANCED PROJECTS

Private financed projects (PFP) are one of a number of options government uses to procure infrastructure. Private sector financing is only used where it provides the best value-for-money outcome. Such projects are conducted in strict accordance with the well established *Working with Government Guidelines for Privately Financed Projects*. Since June 2005, contracts for the following privately financed projects were awarded or were in progress:

- ◆ Long-Bay Prison and Forensic Hospitals;
- ◆ New Schools Project 2 (ten new schools);
- ◆ Newcastle Mater Hospital Redevelopment;
- ◆ Chatswood Transport Interchange;
- ◆ Lane Cove Tunnel (in progress); and
- ◆ Westlink M7 Motorway (completed).

A number of reviews into privately financed projects have been concluded during 2005-06, including:

- ◆ *The Review of Future Provision of Motorways in NSW* by the Infrastructure Implementation Group, released in December 2005;
- ◆ *New Schools Privately Financed Project Post Implementation Review* by NSW Treasury, in December 2005; and
- ◆ *The New Schools Privately Financed Project* performance audit by the Auditor-General, released in March 2006.

These reviews have supported the continued use of privately financed projects in appropriate circumstances. In addition, the Auditor-General found that “the contracts in the *New Schools Privately Financed Project* were established and let in a way that greatly assists their potential for delivering value for money” (page 2 of the *The New Schools Privately Financed Project* performance audit). The Treasury post-implementation review of this project found that the single point of contact for school maintenance/operation issues resulted in significant time savings for school principals and the PFP approach enabled schools to be opened early.

Most of the reviews have recommended refinements to the process in the areas of contract disclosure, changes to the *Working with Government Guidelines for Privately Financed Projects*, checks and balances on the public interest test, public consultation and tendering.

Treasury is currently amending *The Working with Government Guidelines for Privately Financed Projects* to:

- ◆ improve clarity;
- ◆ include new planning legislation and new government structures;
- ◆ improve the public interest evaluation test and enable the Budget Committee of Cabinet to explicitly consider this test prior to tendering the project;
- ◆ include guidance on non-conforming proposals and the Best and Final Offer stage of a tender; and
- ◆ establish a clearer relationship between the approval processes for planning and privately financed projects.

Furthermore, a revised Ministerial Memorandum governing public disclosure of government contracts with the private sector will be issued in the near future. This Memorandum will require for privately financed projects disclosure of:

- ◆ the full contract (excluding confidential information); and
- ◆ any material variations to such contracts.

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CHAPTER 3: GENERAL GOVERNMENT INFRASTRUCTURE EXPENDITURE

3.1 OVERVIEW

General government sector agencies provide essential public services in areas such as health, education and public order and safety. The sector, in the main, comprises those agencies that require funding from the Budget.

Processes are in place to ensure that the capital funding program for agencies in this sector reflects government priorities and resource capabilities. These processes include strategic planning, total asset management (TAM) and procurement policy, as outlined in Chapter 2.

3.2 2005-06 CAPITAL EXPENDITURE

Capital expenditure in the general government sector in 2005-06 is estimated to be \$3,788 million, which is \$444 million or 13.3 per cent above the 2004-05 expenditure. Most of the increase occurred in the health, public order and safety, social security and welfare, roads and environment protection policy areas.

Major projects completed, or due to be completed, in 2005-06 (with estimated total costs) include:

- ◆ Macarthur Sector Strategy comprising construction and refurbishment works at both Campbelltown and Camden Hospitals (\$112 million);
- ◆ expansion of the Emergency/Trauma Department within the Liverpool Hospital from 27 to 65 treatment spaces (\$41 million);
- ◆ purpose-built Liverpool Mental Health Facility to provide for 50 acute inpatient beds, ambulatory care, administration and research services (\$32 million);

- ◆ 32 school and eight TAFE projects including major upgrades/enhancements at Rose Bay Secondary College, Brisbane Water Secondary College, Banora Point High School, Hunters Hill High School, and Grafton, Ultimo and Wollongong TAFEs (exceeding \$150 million);
- ◆ the broadband project for schools (\$90 million), the TAFE Online project (\$27.5 million) and the redevelopment of the National Art School (\$8.5 million);
- ◆ construction of the Blacktown, Bankstown and Mt DrUITT Courthouses, and the Children's Court at Broadmeadow (\$47.7 million);
- ◆ Stage 1 of a program to relocate residents from large residential centres to community based group homes (\$52.8 million);
- ◆ Cross City Tunnel (\$680 million) and Westlink M7 (\$1.5 billion);
- ◆ Great Western Highway - Leura to Katoomba widening to four lanes, Stage 1 (\$82 million);
- ◆ Pacific Highway - Cooperook Deviation and new bridge over Lansdowne River (\$69 million), Yelgun to Chinderah, associated road works at Cudgera Creek Road (\$348 million);
- ◆ Princes Highway - North Kiama Bypass (\$179 million, State/Federal funding); and
- ◆ Lawrence Hargrave Drive - reconstruction between Clifton and Coalcliff (\$55 million).

3.3 2006-07 CAPITAL EXPENDITURE

Capital expenditure in the general government sector in 2006-07 is budgeted to be \$4,387 million which is \$599 million or 15.8 per cent above the 2005-06 estimate. Most of the increased expenditure is in the transport, health, education, public order and safety, social security and welfare, and environment protection policy areas reflecting the Government's priority programs.

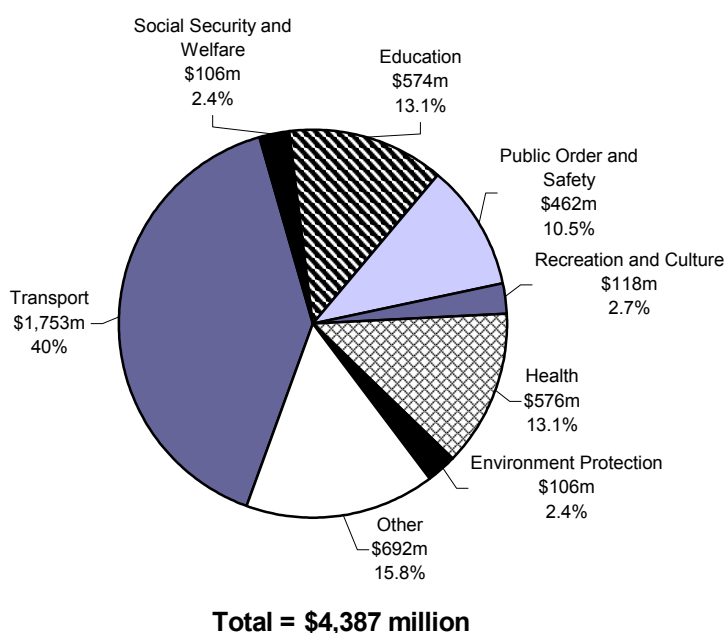
Major new projects commencing in 2006-07 (with the estimated total cost) include:

- ◆ 27 major new school projects (including two new schools at Ashtonfield and Halinda) and 11 new TAFE projects (\$214 million);
- ◆ new police stations at Burwood, Granville, Kempsey, Port Stephens, Windsor and Wyong (\$80.7 million);
- ◆ Auburn and Liverpool Hospitals redevelopment (\$511.9 million);
- ◆ new and improved mental health facilities on the Central Coast, the Sydney metropolitan area, the Illawarra and Mid West regions (\$62 million);
- ◆ multi-purpose services and integrated primary health care facilities throughout the State (\$68 million);
- ◆ Great Western Highway - Leura to Katoomba widening to four lanes, Stage 2 (\$25 million);
- ◆ Spit Road/Manly Road/Spit Bridge widening (\$50 million);
- ◆ Pacific Highway – dual carriageways for: Ballina Bypass major preconstruction (\$271 million), Bonville Bypass (\$245 million, State/Federal funding), and Karuah to Bulahdelah Sections 2 and 3 (\$114 million, State/Federal funding);
- ◆ Princes Highway - Wollongong Northern Distributor (\$72 million) and Oak Flats to Dunmore upgrade (\$130 million);
- ◆ Hume Highway - Coolac Bypass (\$145 million, Federal funding) and Sheahan Bridge Duplication (total cost not yet known, Federal funding); and
- ◆ Newell Highway, Moree Bypass (\$56 million, Federal funding).

The above initiatives and other features of the general government sector's 2006-07 capital expenditure program are discussed in detail under policy areas in the sections below.

Health, transport (roads), education and public order and safety policy areas account for 76.7 per cent of the general government sector's 2006-07 capital program (refer Chart 3.1).

Chart 3.1: General Government Sector Capital Expenditure, 2006-07: by Policy Area



HEALTH

In 2006-07, capital expenditure in the health policy area will total \$576 million, excluding capital expensing of \$60 million by the Department of Health. Therefore, the capital works program amounts to \$636 million.

Of this, the Department of Health accounts for \$573 million. As mentioned in the *2005-06 Half – Yearly Budget Review*, a capital expensing allowance of \$60 million has been excluded from the Department’s capital works budget. Adding this amount back gives a total capital works program of \$633 million, compared to \$646 million budgeted in 2005-06.

The capital expensing adjustment has been made because on average around 10 per cent of the total cost of projects has been expensed by the Department of Health. This has required end-of-year accounting adjustments to transfer amounts from capital to operating expenditure that relate to items such as plant and equipment less than \$5,000, software licenses and capital grants. In the 2006-07 Budget, an amount of \$60 million has been estimated for this component and added to the operating budget of the Department of Health. This results in capital expenditure of \$573 million compared with a total capital works program of \$633 million. In future years, estimated total costs of individual projects will be adjusted to reflect this accounting treatment.

Over the next four years, the Department will undertake a substantial capital works program totalling over \$2 billion.

The Government has signed contracts with the private sector for delivery of the following Privately Financed Projects:

- ◆ *Forensic Hospital* - a new 135 bed facility at Long Bay Correctional Centre, a joint project with the Department of Corrective Services' Prison Hospital with a combined estimated total cost of \$136.8 million. The estimated total cost of the Forensic Hospital component is \$72.9 million; and
- ◆ *Newcastle Mater Hospital Redevelopment* - expanded radiotherapy services and new accommodation for mental health services relocated from James Fletcher Hospital at an estimated total cost of \$188.3 million.

Other major new works commencing in 2006-07 account for \$538.2 million over the four years, with \$100.2 million directed to the following priority areas:

- ◆ *Metropolitan hospital and health services redevelopments* - \$11 million (\$244.6 million over four years) to commence construction of major new facilities on the Auburn Hospital and Liverpool Hospital sites and continue planning to accommodate the health needs of the increasing population in those areas;
- ◆ *Services upgrades in rural hospitals and health facilities* - \$18 million (\$74.5 million over four years) to redevelop services at Ballina and Manning Base Hospitals, upgrade various multi-purpose services throughout the State and build a number of integrated primary health care facilities;
- ◆ *New and improved mental health facilities* - \$4.5 million (\$55.8 million over four years) to expand capacity and/or establish new services on the Central Coast, the Sydney metropolitan area, the Illawarra and Mid West regions;
- ◆ *Ambulance Service Capital Enhancement Program* - \$18.5 million (\$47.2 million over four years) for fleet replacement, computer-aided dispatch system, new medical equipment and maintenance, and new ambulance stations;
- ◆ *Information Management and Technology* - \$12.3 million (\$28.6 million over four years) to replace the Department's State-wide human resource information system and commence planning for State-wide implementation of picture archiving and communication, and radiology information systems;

- ◆ *John Hunter Hospital Patient and Staff Amenity Upgrade* - \$5.8 million (\$9.8 million over two years) to improve cooling systems and upgrade existing chiller and cooling tower plant;
- ◆ *Local initiatives* - \$19.1 million to support local service delivery priorities such as equipment upgrades and asset maintenance that can be funded by Area Health Services from donations and asset sales;
- ◆ *Health Technology Enhancement Program* - \$2 million to undertake acquisition of high cost medical equipment and plan for new acquisitions; and
- ◆ *Shared Corporate Services* - \$9 million (\$56.6 million over four years) to implement a new State-wide business model for managing and delivering corporate and business services across the NSW health system.

These priorities reflect the Government's commitment to meet the needs in population growth areas, improve clinical services in rural areas, streamline corporate and clinical services, and expand and improve mental health services.

In addition, \$435.5 million has been allocated in 2006-07 to continue work on other major asset strategies, including:

- ◆ *Rural hospitals and health services* - \$57.5 million to redevelop or upgrade 19 rural hospitals and/or health services, including Junee, Batlow, Nyngan, Warialda, Merriwa, and Walcha, and various remote locations;
- ◆ *Cancer care* - \$48.2 million to establish radiotherapy services at Coffs Harbour and Port Macquarie, refurbish cancer wards at Westmead Hospital, replace linear accelerators and expand radiotherapy services at various metropolitan and regional hospitals, and enhance breast screening services;
- ◆ *Major regional hospital redevelopments* - \$47.4 million to redevelop health services on the Bathurst, Orange and Queanbeyan hospital campuses to integrate clinical services;
- ◆ *Central Sydney Area Resource Transition Program* - \$41.3 million to realign acute inpatient capacity by continuing the upgrade of Royal Prince Alfred Hospital, improving aged care, rehabilitation and community health services. This also includes \$5.3 million additional funding to increase the capacity of the planned new mental health facility at Concord Hospital to 174 beds;
- ◆ *Information Management and Technology* - \$38.9 million to upgrade patient, clinical IT systems and improve the supporting telecommunications infrastructure;

- ◆ *Royal North Shore Hospital* - \$35.8 million mainly focused on Stage 2 redevelopment works to consolidate hospital facilities and services, with the potential for further development as a privately financed project;
- ◆ *Improved Mental Health Facilities* - \$30.8 million to continue work on various strategies comprising facilities at Lismore Hospital including the Richmond Clinic; non acute units at Coffs Harbour, Newcastle, Shellharbour and St George; services for older persons in the Illawarra, and various psychiatric emergency facilities in the Sydney metropolitan area. In addition, a capital grant of \$23 million is being provided under the recurrent program to St Vincent's Hospital for the redevelopment of Caritas mental health facilities;
- ◆ *Newcastle Strategy* - \$29.4 million to improve hospital and clinical services at John Hunter Hospital, Mater Hospital and Belmont Hospital, as well as providing a new polyclinic in the Newcastle CBD to facilitate transfer of services from Royal Newcastle Hospital, East Newcastle Community Health Centre and the Parry Street Mental Health Centre;
- ◆ *Central Coast Health Access Plan* - \$27.5 million to continue the redevelopment of Gosford and Wyong Hospitals;
- ◆ *Pathways Home Program* – \$13.5 million to continue improvements to ambulatory care, rehabilitation, transitional care and community health units at various locations throughout the State;
- ◆ *Western Sydney Strategy* - \$28 million to continue major redevelopments at Westmead Hospital including intensive care and allied health services, the Women's Health and Newborn Care Centre, a new renal and urology unit, and other works included under Cancer Care; and
- ◆ *Northern Beaches* - \$3.8 million to upgrade Manly Hospital Intensive Care Unit and Mona Vale Hospital Emergency Department. In addition, separate planning funds have been provided for the new Northern Beaches Hospital.

Planning funds have also been provided in 2006-07 for future major projects at Bega, Byron Bay, Parkes, Tamworth and Wagga Wagga Hospitals as well as future new ambulance stations at Byron Bay and Toukley/Wyong.

EDUCATION

The Government is continuing to provide the best possible environment in our public schools and TAFE facilities to support students to learn, support teachers to teach, and provide employers with the skilled workforce they need.

Capital expenditure in the education policy area will total \$574 million in 2006-07. This is \$128 million above the estimated 2005-06 capital program. The focus of the program will be the continued delivery of the Schools Improvement Package providing around \$1.4 billion over the next four years for a significant upgrade of school accommodation and the expansion of internet services for staff and students.

Funding provides for:

- ◆ the commencement of 22 major new building projects in schools, at an estimated total cost of \$125 million (\$12 million in 2006-07), including various upgradings, replacement of demountable classrooms with permanent facilities, libraries, school halls, gymnasiums and trade schools;
- ◆ the continuation of 52 building works projects at schools commenced in previous years at an estimated total cost of more than \$309 million, (\$121 million in 2006-07) including staged work, upgrades and redevelopments at Bega High School, Caringbah High School, Chatswood High School, Kiama High School, Milton Public School and The Hills Sports High School;
- ◆ new vocational education and training facilities for ten trade schools costing \$12.5 million over three years;
- ◆ major enhancements in information and communication technology at a cost of \$33.5 million in 2006-07. These will include extending internet capacity at schools and colleges as part of the Government's strategy of improving e-learning opportunities;
- ◆ additional school facility projects totalling \$30 million (\$17 million in 2006-07) for the construction of five new school halls, installation of a further 32 security fences, and the renovation of toilet facilities at 90 schools. New school halls will be constructed at Belmont High School, and Hobartville, Carlingford West, Banora Point and Marayong Public Schools;
- ◆ the final stage of the \$107 million four year program for the provision of additional accommodation at schools to meet the Government's commitment to lower class sizes;
- ◆ a wide range of minor capital works projects totalling \$304 million in 2006-07 for air cooling projects, upgrading of student and teacher facilities and the purchase of computers for schools. The minor works also includes \$100 million from the Commonwealth for their Investing in Our Schools program;

- ◆ ten new schools to be constructed over the next three years as privately financed projects at a total estimated cost of more than \$106 million. These are Public Schools at: Ashtonfield, Elderslie, Hamlyn Terrace, Hoxton Park South, Ropes Crossing (St. Mary's), Second Ponds Creek (Kellyville) and Tullimbar; a High School at Rouse Hill and new school facilities at Halinda School and Kelso High School;
- ◆ the completion of 35 fencing projects to complete the Government's 2003 commitment to construct security fences at 200 schools;
- ◆ the commencement of 11 new TAFE projects in 2006-07 at a total estimated cost of \$60 million (\$6 million in 2006-07), including facilities at Bathurst, Coffs Harbour, Newcastle, Ryde and Wagga Wagga; and
- ◆ the continuation of 22 TAFE projects commenced in previous years at an estimated total cost of more than \$104 million (\$55 million in 2006-07). Included within the program are projects at Bankstown, Tamworth, Mount Druitt and Padstow.

PUBLIC ORDER AND SAFETY

The Government will support capital expenditure of \$462 million in the public order and safety policy area in 2006-07. This is an increase of \$27 million compared to estimated expenditure in 2005-06.

The program provides for the following key initiatives:

- ◆ \$111.1 million for capital works by NSW Police including:
 - \$53.5 million for new and continuing works to replace police stations at Burwood, Granville, Kempsey, Port Stephens, Windsor, Wyong, Armidale, Campsie, Corrimal, Dubbo, Fairfield, Lismore, Muswellbrook, Orange, St Mary's and Wagga Wagga;
 - \$25.6 million for improvements to NSW Police's information technology systems, including \$14.1 million for the Computer Aided Dispatch System; \$1.9 million for the Alcohol Related Crime Information Exchange; \$3.4 million for Portable Electronic Fingerprint devices; and \$3.2 million for Forensic Services Digital Imaging;
 - \$5.7 million to meet the ongoing costs of replacing Police's marine fleet and upgrading its motor vehicle fleet; and

- \$6.1 million to replace the Polair 3 helicopter, purchase an updated Forward Looking Infra-Red system, acquire a water cannon, replace counter-terrorism equipment and purchase additional equipment for the new Public Order Riot Squad.
- ◆ \$128.1 million for capital works by the Department of Corrective Services including:
- \$57.1 million to continue construction of the new 500 bed Western Region Correctional Centre at Wellington;
 - \$15 million (estimated total cost of \$257.7 million) for the continued planning for the construction of an additional 1,000 inmate beds, including 250 beds at Cessnock, 250 beds at Lithgow and a new 500 bed facility modelled on the Kempsey and Wellington Correctional Centres which will be located on the South Coast of New South Wales within an hour of Kiama;
 - \$14.7 million to continue the redevelopment of the Mulawa, Long Bay and Silverwater Correctional Centres;
 - \$5.5 million towards the implementation of information technology systems to assist in electronic case management and to manage corporate and organisational information;
 - \$2.5 million for continuing refurbishment works at the Kariong Juvenile Correctional Centre; and
 - \$5.1 million for enabling works associated with the 85 bed prison hospital at the Long Bay Correctional Centre.
- ◆ \$116.2 million for capital works within the Attorney General Department's judiciary support program including:
- \$69.4 million for the continuing development of the Parramatta Justice Precinct;
 - \$13.6 million for the continued upgrading of 40 court facilities under the Strategic Court Upgrade program, including the construction of an Alternative Dispute Resolution suite and improvements to the historic King Street Court complex and providing increased access for jurors with a disability;

- \$6.5 million to complete backlog building works to achieve compliance with a number of building and facility related codes, including those relating to occupational health and safety, fire safety, security and access; and
 - \$7.1 million for continuing development and implementation of a new case management system (Courtlink).
- ◆ \$44.1 million for capital works by the NSW Fire Brigades including:
- \$18 million for continuation of an ongoing program to acquire and replace firefighting appliances;
 - \$7.1 million for renovations to fire station buildings at Blackheath, Boolaroo, Bourke, Budgewoi, Corrimal, Dee Why, Greenacre, Harden, Kandos, Matraville, Menai, Moama, Mona Vale, Silverwater, St Marys and Turvey Park; and the commencement of construction of a new fire station at Raymond Terrace;
 - \$5.8 million to purchase gas monitors and replace firefighter safety and counter-terrorism equipment; and
 - \$11.6 million for plant and equipment and information and communications technology equipment.

SOCIAL SECURITY AND WELFARE

The social security and welfare policy area capital program will total \$106 million in 2006-07. Funding will support the following key initiatives:

- ◆ \$71.1 million provided to the Department of Ageing, Disability and Home Care including:
- \$16.5 million to reconfigure the Grosvenor and Lachlan Centres as specialist State-wide accommodation services for people with complex health care needs and challenging behaviours respectively;
 - \$18.9 million for acquisition of supported accommodation places for new clients; and
 - \$14.5 million for improvements and replacement of the Department's various existing accommodation facilities.

- ◆ \$26.2 million provided to the Department of Community Services including \$23.3 million for accommodation of new and existing caseworkers; and
- ◆ \$5.5 million for the Attorney General's Department mainly towards the continuing construction of the Parramatta Justice Precinct to house the Offices of the Public Guardian and Protective Commissioner, and the Victims Compensation Tribunal.

TRANSPORT

Capital expenditure in transport is a major item in both the general government and the PTE sectors. Capital expenditure in the general government's transport policy area will total about \$1.8 billion in 2006-07 including the following significant works:

Roads

- ◆ Sydney Region
 - in conjunction with private sector funding, completion of the \$1,100 million Lane Cove Tunnel between the M2 and the Gore Hill Freeway (\$6 million in 2006-07, State funding);
 - duplication of the Alfords Point bridge (\$9 million in 2006-07);
 - continuation of major upgrading of Old Windsor Road and Windsor Road (\$121 million in 2006-07), continuation of major upgrading and widening of the Hume Highway at Ingleburn (\$13 million in 2006-07), Cowpasture Road (\$5 million in 2006-07) and Camden Valley Way (\$3 million in 2006-07) and extension of Narellan Road (\$15 million in 2006-07);
 - continuation of the \$524 million NorthWest Transitway (\$125 million in 2006-07); and
 - widening of the F3 between Mt Colah and Cowan (\$40 million in 2006-07);

- ◆ Pacific Highway
 - continuation of works, jointly funded with the Commonwealth, on the Bundacree Creek to Possum Brush duplication (\$10 million in 2006-07), Brunswick Heads to Yelgun dual carriageways (\$100 million in 2006-07), Karuah to Bulahdelah dual carriageways (\$50 million in 2006-07), the Bonville bypass (\$75 million in 2006-07) and the Ballina bypass (\$20 million in 2006-07);
- ◆ Great Western Highway
 - continuation of widening of the Great Western Highway to four lanes between Woodford and Lawson (\$19 million in 2006-07) and between Leura and Katoomba (\$7 million in 2006-07);
- ◆ Wollongong, the Central Coast and Hunter
 - the Wollongong Northern Distributor extension (\$15 million in 2006-07) and, in conjunction with the Commonwealth, upgrading of Jervis Bay Road at South Nowra (\$10 million in 2006-07) and the Nowra to Nerriga upgrade (\$22 million in 2006-07);
 - upgrading of the Pacific Highway between Lisarow and Wyong (\$22 million in 2006-07) and widening of The Entrance Road (\$20 million in 2006-07); and
 - in conjunction with the Commonwealth, a new national network linking the F3 to the New England Highway west of Branxton (\$10 million in 2006-07) and upgrading of the New England Highway between Beresfield and Aberdeen (\$25 million in 2006-07);
- ◆ Other Regional Roads
 - upgrading works on the Commonwealth-funded Hume freeway at Albury-Wodonga (\$135 million in 2006-07) and the Coolac bypass (\$25 million in 2006-07).

Other Transport

- ◆ \$129 million will be available from the Sydney Regional Development Fund for land acquisitions for the proposed North West and South West rail links;
- ◆ \$16.9 million to the Maritime Authority of New South Wales for various works including upgrading of Manly Wharf (\$7.7 million in 2006-07), enhancements to the Rozelle Bay Maritime Precinct (\$2.3 million in 2006-07) and \$0.6 million for an upgrade of Circular Quay commuter wharves; and
- ◆ \$0.5 million in 2006-07 for information technology systems for the Independent Transport Safety and Reliability Regulator, to assist in regulatory oversight.

Chapter 4 provides details of transport projects undertaken by rail, bus, ferry and port corporations, which are all in the PTE sector.

ENVIRONMENT PROTECTION

Capital expenditure in the environment protection policy area will total \$106 million in 2006-07. This is around \$70 million less than the 2005-06 Budget, primarily because in 2005-06 provision was made for a major acquisition of regionally significant open space.

Funding in 2006-07 will support the following key initiatives:

- ◆ \$56.2 million for capital works by the Department of Environment and Conservation including:
 - \$4.7 million for Kosciuszko National Park, including \$3.5 million to upgrade essential public infrastructure at Perisher;
 - a further \$9.3 million to upgrade visitor facilities and other infrastructure as part of revitalising Sydney's national parks;
 - \$10.4 million for park establishment costs associated with recently acquired lands;
 - \$2 million for regional parks as part of the Green Cities concept in the greater metropolitan area;
 - \$2.1 million for building rectification works at the North Head Quarantine Station;

- \$4.8 million for land acquisitions;
 - \$1.5 million to establish new parks in the Hunter as part of the Hunter Reserves Strategy;
 - \$3.4 million in 2006-07 as part of a \$5 million upgrade of the Department's scientific facilities, including secure handling and storage of radiological materials; and
 - \$2.1 million to finalise the implementation of the Department's information technology infrastructure integration.
- ◆ \$44.5 million for the continued acquisition and improvement through the Sydney Region Development Fund (established under the *Environmental Planning and Assessment Act 1979*) of regionally significant open space land including the Western Sydney parklands, and land required for planning purposes within the Sydney metropolitan area; and
 - ◆ \$1.9 million for remediation of minor dams by the Department of Lands.

RECREATION AND CULTURE

Capital expenditure in the recreation and culture policy area in 2006-07 will total \$118 million. Funding will support the following key initiatives:

- ◆ \$24.1 million in 2006-07 for the Sydney Olympic Park Authority to further develop its significant public assets, including \$10 million (which will be funded by borrowings) for development of the Town Centre Car Park, and \$7 million for further development of Millennium Parklands through additional landscaping, picnic facilities, shade structures, cycle ways, educational technology and supporting infrastructure;
- ◆ \$32.8 million in 2006-07 for the Department of the Arts, Sport and Recreation. The Department will continue the conservation of the former State Rail property and development of a contemporary performing arts centre that will be known as the Carriage Works at Eveleigh. The total cost of the project is \$34.8 million with \$13.7 million being spent in 2006-07. In addition, \$7.2 million will be spent to upgrade Sport and Recreation Centres at the Sydney Academy of Sport, Jindabyne, Lake Ainsworth, Berry, Borambola, and Point Wolstoncroft, as well as \$5.9 million for asset maintenance at various centres;

- ◆ \$7.6 million funding to the State Library in 2006-07 for the acquisition of collection material including books, journals, pictures, maps, manuscripts and electronic resources, and \$4.8 million for major asset management and technology infrastructure;
- ◆ \$5.5 million for the Museum of Applied Arts and Sciences in 2006-07 on capital works including \$1.5 million for permanent gallery replacement, \$1.8 million for the refurbishment of the meteorological building at Sydney Observatory and \$2.2 million in upgrading works for the Museum's property infrastructure and service delivery assets;
- ◆ \$1.4 million for the Historic Houses Trust in 2006-07 primarily for improved security at Government House;
- ◆ continuation of the Centennial Park and Moore Park Trust's planned seven-year Park Improvement Plan. The Plan is in its fifth year and \$8.2 million has been provided in 2006-07;
- ◆ \$2.8 million in 2006-07 for further redevelopment of the Royal Botanic Gardens and Domain Trust's Central Depot, due for completion in 2007-08 at a total cost of \$7.1 million. The Trust will also spend \$0.9 million on upgrading of lighting in the Domain and Royal Botanic Gardens and \$0.4 million to complete the Education Centre at Mount Annan Botanic Garden; and
- ◆ continuation of work on a major program of gallery refurbishment and accommodation improvements at the Australian Museum. This program will cost \$40.9 million over five years (\$17.5 million in 2006-07) and will address a range of health, safety and security issues and support the ongoing delivery of primary Museum services.

OTHER

Capital expenditure for other policy areas will amount to \$692 million in 2006-07. Major expenditure on each policy area covered in this category includes:

Agriculture, Forestry and Fishing

- ◆ \$15.7 million provided to the Department of Natural Resources, including:
 - \$1.8 million for high resolution satellite imagery;
 - \$6 million for improved water monitoring and information systems;
 - \$3 million for systems and processes to improve information management; and
 - \$4.9 million for upgrades of buildings and plant and equipment.

- ◆ \$19.3 million provided to the Department of Primary Industries, including:
 - \$1.3 million to construct new laboratories at Wagga Wagga for oilseeds and feed-evaluation research;
 - \$0.8 million to construct a new processing and storage facility at Tamworth for grain, soil and plant samples;
 - \$0.5 million to construct new laboratories at Narrabri for environmental research in the cotton industry;
 - \$0.5 million to continue work on upgrading the Cronulla fisheries research facilities;
 - \$0.7 million to correct an outstanding building fault at Elizabeth Macarthur Agricultural Institute;
 - \$0.4 million for health, safety and environmental upgrades of laboratories to comply with hygiene, water supply and fire standards;
 - \$0.2 million to upgrade research facilities in Port Stephens for dealing with QX disease outbreaks in the oyster industry;
 - \$1 million to redevelop and enhance fisheries office facilities at Woy Woy, Swansea and Tuncurry; and
 - \$0.4 million for Stage 1 of construction of a new joint office for the Department's Fisheries branch, Marine Parks Authority and the Maritime Authority of New South Wales at Jervis Bay.

Other Economic Activities

- ◆ A total of \$12.7 million for the WorkCover Authority including \$5.8 million for renewal of computer equipment essential for the maintenance of current and future requirements; \$1.3 million for software to support the infrastructure and \$3.5 million to upgrade regional office accommodation to better meet customer needs.

Housing and Community Amenities

- ◆ \$17.7 million for the Aboriginal Housing Office, including \$17.2 million to complete 50 units and commence or acquire 52 new units of accommodation; and
- ◆ \$4.7 million for the Department of Planning, including \$3 million for land acquisitions under the Coastal Land Protection Scheme.

Chapter 4 includes a discussion of capital expenditure by the Department of Housing, City West Housing and the Teacher Housing Authority, all of which are in the PTE sector.

Other Purposes

- ◆ \$82.4 million to the Crown Property Portfolio in 2006-07 for major government office building construction and refurbishment works including:
 - \$64.3 million to construct the Justice Office Building at Parramatta;
 - \$10 million to construct the Government Office Building at Queanbeyan;
 - \$3.1 million for Crown Property Portfolio building refurbishments and miscellaneous minor works;
 - \$3.3 million to refurbish and upgrade the services following the purchase of the McKell Building at Sydney; and
 - \$1.7 million for preservation and refurbishment works to the historic Education Building at Sydney.

- ◆ \$344.6 million provided to the Department of Commerce, including:
 - \$307.6 million for purchasing motor vehicles for StateFleet*;
 - \$14.7 million for information system enhancements; and
 - \$4.9 million to continue the upgrade of the Government Radio Network.
- ◆ \$110 million allocation under the Treasurer's Advance in 2006-07 as a contingency allowance for changes in the scope, expenditure profile of projects and total costs, or other new initiatives.

** These motor vehicles are for the use of general government agencies including NSW Police, the Department of Education and Training, the Department of Health and others for providing frontline service delivery. Leasing of cars through the Crown Finance Entity has now been phased out. Due to the changes in Commonwealth tax legislation, it is now better value for money for the Government to purchase than lease these vehicles. StateFleet purchases these vehicles and leases them to government agencies.*

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CHAPTER 4: PUBLIC TRADING ENTERPRISE INFRASTRUCTURE EXPENDITURE

4.1 OVERVIEW

Public trading enterprise (PTE) sector agencies provide major economic services in areas such as water, electricity and public transport. The PTE sector, in the main, comprises those agencies that finance the bulk of their operations from their own revenues and borrowings. As a result, capital expenditure decisions are mainly driven by commercial considerations.

Some PTEs however, are provided with Budget funding to undertake services required by the Government at well below commercial prices. The Government provides budget funding to agencies for public rental housing (Department of Housing) and public rail transport (the CityRail and CountryLink services of the Rail Corporation New South Wales).

The Government's major objective in terms of asset management of these commercial enterprises is to ensure that assets and liabilities are managed efficiently and effectively to maximise value to the State. This is achieved by monitoring their financial performance of these enterprises. By targeting returns on the fixed asset investments of the commercial enterprises, the Government's aim is to achieve an appropriate return on its equity in these enterprises.

The Government negotiates performance agreements with each PTE. For commercial enterprises, these agreements specify, amongst other things, expected rates of return on capital and the expected level of dividends and tax equivalents payable to the Government. The commercial performance of these enterprises is then monitored against the agreements and advice provided to both the Treasurer and Portfolio/Shareholding Minister of progress through regular reports.

The broad approach to asset management is for investment decisions to be consistent with the principles underlying the Government's Total Asset Management policy. This includes financial appraisals conducted on any new capital projects or major refurbishment proposals and the requirement that proposed acquisitions meet the benchmark rate of return for the enterprise.

In addition, given the Government's role as shareholder in these enterprises, PTEs are required to submit any projects classified as Projects of State Significance for Government approval. Projects in this category include any joint public/private sector capital projects, any projects with an estimated total cost in excess of \$100 million, complex or innovative projects with significant risks, or investments in interstate or overseas activities.

4.2 2005-06 CAPITAL EXPENDITURE

Capital expenditure in the PTE sector in 2005-06 is estimated to be \$4,309 million, which is \$667 million, or 18.3 per cent, above the 2004-05 expenditure. This increase is primarily in the public transport and electricity sectors.

Major projects completed, or due to be completed, in 2005-06 (with estimated total costs) include:

- ◆ the Bondi Junction turnback (\$77 million) and Macdonaldtown turnback (\$17 million) as part of the \$1.5 billion Rail Clearways program;
- ◆ Rhodes train station upgrade (\$12 million);
- ◆ Easy Access upgrades at Bomaderry, Kingswood, Thirroul, Granville, Gordon, Blaxland, Kingsgrove, Gymea and Wyong train stations (\$30 million);
- ◆ Haymarket and Sydney CBD South Power Cable Tunnel and 132kV Cable Installation (\$62 million);
- ◆ Yass 330kV electricity substation (\$52 million);
- ◆ Mamre Zone electricity substation to supply new industrial development in Mamre and residential area of Erskine Park (\$13 million);
- ◆ 813 units of public and community housing;
- ◆ new sewerage schemes in the northern Illawarra (\$43.9 million) and The Oaks/Oakdale (\$30.4 million);

- ◆ major maintenance works on the stormwater system in south western Sydney (\$15.7 million); and
- ◆ upgrade of the Richmond sewage treatment plant (\$15.1 million).

4.3 2006-07 CAPITAL EXPENDITURE

Capital expenditure in the PTE sector in 2006-07 is estimated to be \$5,559 million, which is \$1,250 million or 29 per cent higher than the 2005-06 estimate. This increase is primarily due to increased levels of expenditure by the electricity agencies to meet growth in demand and to ensure continued system reliability, and by Sydney Water on sewerage and recycling programs, critical water main renewals and carryovers from 2005-06 in the property management program.

In addition, the Department of Housing will increase its expenditure on new public housing from \$74.7 million in 2005-06 to \$245.3 million in 2006-07 to commence implementation of a State-wide strategy for reconfiguring the Department's public housing assets to better match client needs.

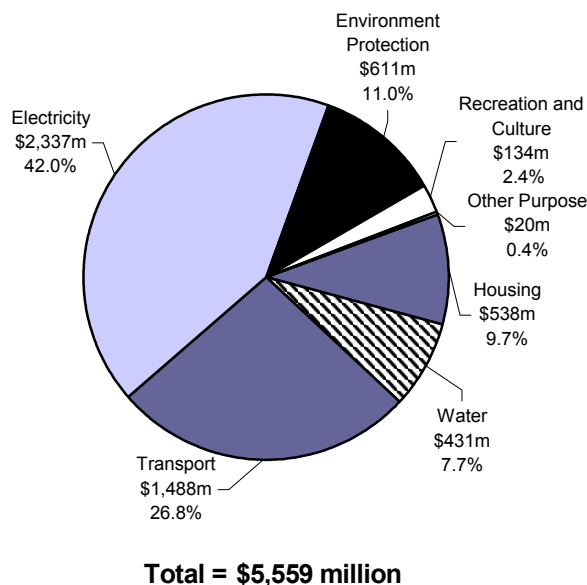
Major new projects commencing 2006-07 (with the estimated total cost) include:

- ◆ Easy Access upgrades at Belmore, Bowral, Broadmeadow, Burwood, Carlton, Eastwood, Seven Hills and Turrumurra train stations (\$12.3 million in 2006-07);
- ◆ trial of a train overspeed protection system (\$11.8 million);
- ◆ upgrade of the Sydney Inner Metropolitan 132kV electricity system due for completion in June 2012 (\$50 million);
- ◆ Sydney City East 132kV electricity cable due for completion in December 2010 (\$60 million);
- ◆ Mungerie Park Zone electricity substation to supply electricity to Rouse Hill Regional Centre (\$20 million); and
- ◆ 1,404 new units of general public housing, community housing and crisis accommodation.

The above projects and other features of the PTE sector's 2006-07 capital expenditure program are discussed in more detail under policy areas in the sections below.

As shown in Chart 4.1, transport and electricity businesses account for 68.8 per cent of the PTE sector's 2006-07 capital program.

Chart 4.1: Public Trading Enterprise Sector Capital Expenditure, 2006-07: by Policy Area



TRANSPORT

The transport sector's capital program in 2006-07 totals \$1,488 million. This is an increase of \$317 million over estimated 2005-06 expenditure. The program includes:

- ◆ \$830 million for Rail Corporation New South Wales (RailCorp);
- ◆ \$326.9 million for the Epping to Chatswood Rail Line project of the Transport Infrastructure Development Corporation;
- ◆ \$111.7 million for NSW Port Corporations;
- ◆ \$89.5 million for State Transit Authority;
- ◆ \$85.7 million for the Integrated Ticketing Project;
- ◆ \$33.2 million for Rail Infrastructure Corporation; and
- ◆ \$10.6 million for Sydney Ferries.

RailCorp is responsible for passenger rail services, with a focus on safe and secure operations, quality customer service and development and maintenance of infrastructure to provide for safe and reliable services. Rail Infrastructure Corporation oversees the leasing and management arrangements with the Australian Rail Track Corporation (ARTC) for the main interstate passenger and freight networks and the Country Regional Network. Transport Infrastructure Development Corporation is responsible for delivering the Epping to Chatswood Rail Line and other major transport projects such as Rail Clearways.

Key elements of the program this year are:

- ◆ *rollingstock acquisition* – completion or progress toward:
 - 14 new carriages for services in the Hunter Valley, the first of which will enter service from mid 2006;
 - 122 new Outer Suburban carriages for intercity services, with the first cars due later in 2006; and
 - 600 (approximately) new carriages for the suburban rail network under a Public Private Partnership.
- ◆ *continuation of the Rail Clearways Program* - a \$1.5 billion initiative to increase the reliability and capacity on the Sydney metropolitan network. Due for completion in 2010, the program will untangle the CityRail network from 14 interconnected metropolitan rail lines to five independent sectors. Two projects have already been completed – the \$77 million Bondi Junction turnback and the \$17 million Macdonaldtown turnback; and
- ◆ *infrastructure improvements* - further enhancements to track, signals and rollingstock to improve safety and reliability of the system; improvements to network traction power supply to cater for new generation rolling stock and growth in the fleet size; station upgrading to improve easy access; and security systems and passenger information systems to upgrade passenger amenity. Redevelopment of North Sydney station is continuing and work is proceeding on options to revitalise Town Hall station.

Major works included in RailCorp's \$830 million program for 2006-07 are:

- ◆ \$207.8 million for Rail Clearways including:
 - completion of an extra platform and passenger access facilities at Berowra (total cost of \$9 million);
 - stabling yards at Macdonaldtown (total cost of \$42 million);
 - continuation of works on duplication of the Cronulla line (total cost of \$231 million) which, when completed, will provide upgraded facilities at Sutherland, Kirrawee, Woolooware and Cronulla stations and significantly improve the peak hour capacity of Cronulla trains; and
 - continuation of works on turnbacks at Homebush, Lidcombe and Revesby, including an Easy Access upgrade of Revesby station, as well as an additional platform at Hornsby.
- ◆ \$49.2 million for Easy Access station upgrades across the CityRail network including the commencement of eight new locations (\$12.3 million); continuation of works at ten locations (\$34.7 million); as well as planning and design for new sites (\$2.2 million) including \$200,000 for scoping and design for an Easy Access upgrade at Newtown station;
- ◆ \$270.5 million for rollingstock, including \$115 million to progress works associated with the new carriages for the suburban network, \$153.4 million for the Outer Suburban cars and \$2.1 million on the Hunter fleet cars;
- ◆ \$95.8 million for various safety and reliability improvements to infrastructure and rollingstock, including consolidation of signal boxes, electrical traction power supply through new or upgraded sub-stations and high voltage transmission lines to meet the needs of new generation rollingstock and other safety systems;
- ◆ \$22 million for information technology based business system improvements;
- ◆ \$16.7 million to continue the \$51 million program for re-signalling between Oatley and Cronulla;
- ◆ \$15 million to continue the upgrade of station passenger information systems to improve customer communications; and
- ◆ \$8.5 million for the development of a train overspeed protection system.

Spending on the Epping to Chatswood Rail Line is estimated at \$326.9 million in 2006-07. The \$2 billion project will increase the long term capacity of the CityRail network and provide services from mid 2008 via three new underground stations.

The Rail Infrastructure Corporation is undertaking a \$32 million program to upgrade, over three years, signalling infrastructure and to introduce new train control systems on the country regional network. Mechanical signal boxes will be replaced with modern signalling technology to significantly enhance safe operations. Enhanced signalling systems will facilitate new train control and management systems on the network.

An amount of \$85.7 million is available for the integrated ticketing project. The project, under the brand name "Tcard", is based on smartcard technology and will be for all public transport operators in the Greater Sydney Region. The system will provide users with the convenience of a single ticketing system for travel on all Government and privately operated rail, bus and ferry services.

State Transit Authority's \$89.5 million capital works program includes \$43.7 million for 86 new buses for the Sydney and Newcastle networks; \$14.5 million to upgrade depot facilities at Leichhardt, Ryde and Brookvale; and \$12.4 million for improved on-board security for passengers and drivers.

Sydney Ferries' \$10.6 million capital works program includes \$3.3 million for new engines for First Fleet and RiverCat vessels to improve safety, reliability and fuel efficiency; \$3.2 million for safety initiatives including vessel management systems on all vessels; CCTV installation and upgrade of control systems on the Manly ferry "Collaroy"; and \$0.9 million to refurbish wharves at Balmain Shipyard and upgrade of the liquid handling systems to comply with environmental standards.

Nearly \$112 million will be invested in new or upgraded infrastructure in NSW ports. Port Kembla Port Corporation's \$56.4 million capital program includes \$48.5 million to construct new berths and storage facilities and to improve road and rail access to cater for the transfer of trade from Sydney Harbour to Port Kembla. Sydney Ports Corporation's \$51.2 million capital works program includes \$13.7 million in preparatory works for the Port Botany expansion.

(Note: In addition to the 2006-07 capital expenditure, the Rail Infrastructure Corporation will receive a grant from the Government of \$130 million for maintenance of the country regional rail network and dedicated grain lines.)

ELECTRICITY

The capital expenditure program for the electricity policy area for 2006-07 is estimated at \$2.3 billion.

Distribution

Over 70 per cent of the electricity policy area's capital program in 2006-07 will be undertaken by the electricity distribution businesses. The main focus of their capital expenditure is on meeting growth in demand across the State and continuing to ensure network reliability and security.

EnergyAustralia is projecting expenditure of \$719.4 million in 2006-07 which includes about \$595 million in network infrastructure projects. Major network infrastructure works planned for 2006-07 include:

- ◆ \$137 million to provide increased security to meet licence conditions, including works associated with major substation projects, 11kV and individual feeder reliability works;
- ◆ \$43 million on distribution mains replacement;
- ◆ \$26 million for expenditure on a focussed program to develop the low voltage (11kv) network;
- ◆ \$30 million to replace 132kV cables at Lindfield/Willoughby;
- ◆ \$13 million allocated to constructing a zone substation in Mayfield North area; and
- ◆ \$17.5 million to replace infrastructure and increase capacity and reliability to meet increasing demand in Sydney's CBD.

Country Energy is expecting to spend \$514.2 million in total on capital investment in 2006-07, of which \$403 million will be spent on network infrastructure. This includes capital contributed network expenditure of \$78 million. Major network projects will include:

- ◆ \$6.1 million to upgrade the Griffith zone substation;
- ◆ \$5.6 million on the installation of high voltage transformers at Lismore;
- ◆ \$5.5 million on a zone substation at Lennox Head;
- ◆ \$3.8 million on the Oxley Vale zone substation at Tamworth;

- ◆ \$3 million to upgrade the feeder at Terranora;
- ◆ \$2.2 million to upgrade the transformer at Port Macquarie;
- ◆ \$3.4 million on the Goddard Lane high voltage zone substation in Tamworth;
- ◆ \$2.7 million to augment the Narrandera zone substation;
- ◆ \$2.7 million to augment the substation at Corowa; and
- ◆ \$2 million to upgrade the bulk supply point transformer at Stroud.

Integral Energy's forecast capital expenditure in 2006-07 is \$458.4 million. Major projects include \$132.2 million for capital refurbishment and \$42.1 million for customer funded capital contribution works relating to upgrades and new connections. Other projects include:

- ◆ \$19.4 million on the augmentation of the Penrith transmission substation;
- ◆ \$17.5 million on the establishment of the Mount Ousley zone substation;
- ◆ \$15.9 million on the establishment of the Wetherill Park transmission and zone substation;
- ◆ \$12.2 million for the high voltage distribution network development program;
- ◆ \$10.3 million on the establishment of the Bella Vista zone substation;
- ◆ \$9.3 million for installation of underground cables in new urban residential subdivisions; and
- ◆ \$9.2 million for new industrial and commercial customer connections.

Transmission

TransGrid is continuing substantial expansion and upgrading of the NSW high voltage electricity network. Work is being undertaken in areas to best meet the growing demand for electricity. TransGrid's 2006-07 capital program of \$262.4 million includes rebuilding the Glen Innes 132/66kV substation and upgrading the transmission lines, transformers and substations across New South Wales with a significant focus on Western Sydney and the Mid-North Coast. Other major projects include:

- ◆ \$26.6 million to replace the 330kV transformers in both Armidale and the Sydney West area;
- ◆ \$10.9 million to augment the Glen Innes 132/66kV substation;
- ◆ \$5.9 million to augment the Wellington 330/132kV substation; and
- ◆ \$4.5 million for the upgrading of the Armidale-Koolkhan 132kV transmission line.

Generation

In 2006-07, Macquarie Generation will allocate \$166.6 million to capital projects that will provide:

- ◆ ongoing improvement in the efficiency of the Bayswater and Liddell power stations;
- ◆ additional water treatment capacity to manage salinity in Lake Liddell; and
- ◆ new rail coal unloading facilities.

Delta Electricity is forecasting capital expenditure of \$143 million for 2006-07. In addition to capital investment to optimise efficiency and reliability of existing operations, Delta Electricity is planning expenditure of \$65 million on development projects including an upgrade of Mt Piper power station and construction of sugar mill cogeneration plants at Broadwater and Condong.

Eraring Energy's forecast \$73.2 million capital expenditure in 2006-07 includes:

- ◆ purchasing a gas turbine generator for black start services;
- ◆ life extension works on the Eraring Power Station ash dam; and
- ◆ major maintenance projects for power stations.

WATER

The 2006-07 capital expenditure for water businesses, excluding environment protection spending, is estimated at \$431 million. This is an increase of about \$55 million on last year, mainly due to increases in Sydney Water's recycling program, critical watermain renewals and carryovers from 2005-06 in the property management program.

Expenditure highlights in 2006-07 associated with the *2006 Metropolitan Water Plan* include:

- ◆ \$43.1 million on the desalination contingency plan for the drought;
- ◆ \$26.1 million on water recycling projects in Sydney; and
- ◆ \$26.1 million on accessing deep water at Warragamba, Avon and Nepean dams, the groundwater contingency plan and investigating the transfer of more water from the Shoalhaven River (without raising Tallowa dam wall).

Other expenditure highlights for 2006-07 include:

- ◆ \$88.2 million on renewing water distribution infrastructure in Sydney;
- ◆ \$53 million upgrading Prospect Reservoir;
- ◆ \$25.6 million on Sydney Water's property management program;
- ◆ \$25.3 million on Sydney Water's IT projects including renewing ageing assets and introducing a new maintenance management system;
- ◆ \$13.8 million on renewing critical watermains in Sydney; and
- ◆ \$11.7 million on upgrading the connection between the Hunter region and the Central Coast.

In total, Sydney Water is planning to spend \$234 million in 2006-07 on projects designed to maintain, upgrade and ensure the security of the water treatment and distribution system. This is an increase of some \$48 million on last year.

The Sydney Catchment Authority's 2006-07 capital works program is about the same as last year at \$134 million, for the construction and renewal of assets used to collect, store and deliver bulk water.

Hunter Water's budget for water-related works is \$36.4 million, up by about \$2.7 million on last year. This is driven by the upgrade of the connection between the Hunter Water and Gosford-Wyong systems, which will allow much more water to be transferred and help to secure the Central Coast's water supply during the current drought.

State Water is planning to invest \$27.7 million on maintaining and upgrading its infrastructure assets, including major dams and weirs, to ensure efficient supplies for stock, domestic, irrigation and town water users in country New South Wales. This is an increase of about \$9 million on last year, reflecting the commencement of engineering works at Keepit dam, near Gunnedah.

ENVIRONMENT PROTECTION

The projects included in this category focus on the upgrade of waste disposal, wastewater transport systems and treatment plants. Total expenditure in 2006-07 is expected to be \$611 million, which represents a \$143 million increase on 2005-06. The increase is mainly driven by WSN Environmental Solutions' new waste treatment plant and growth in Sydney Water programs including sewerage network upgrades, sewer overflow abatement, the Priority Sewerage Program and servicing of new urban developments.

The total cost of Sydney Water's environment protection related program in 2006-07 is estimated at \$487 million and includes:

- ◆ \$124.2 million for upgrading sewage treatment plants at Bondi, North Head, Liverpool, West Camden, Shellharbour, Warriewood, and completion of the Illawarra Wastewater Strategy;
- ◆ \$116.9 million for upgrading the sewer network, including a new pipeline from Liverpool to Ashfield for the South Western Sydney Sewerage System (which carries 40 per cent of Sydney's sewage);
- ◆ \$50.5 million for the sewer overflow abatement program to reduce dry and wet weather overflows in relation to the 27 sewerage systems serving Sydney, the Blue Mountains and the Illawarra;
- ◆ \$57.5 million for the Government's Priority Sewerage Program which connects areas that are a high environmental priority to the reticulated sewerage network, including the upper Blue Mountains (\$29.8 million), Brooklyn-Dangar Island (\$23 million), and Mulgoa-Wallacia-Silverdale (\$3 million); and
- ◆ \$111 million for works to service new urban developments including Hoxton Park and Rouse Hill (largely provided by developers).

Hunter Water's environment protection related capital expenditure in 2006-07 is estimated at \$71.8 million and includes upgrading the Belmont sewerage plant (\$14 million), Newcastle sewerage system (\$10.9 million), Morpeth wastewater system (\$8 million) and the completion of the Warner's Bay-Valentine wastewater system upgrade (\$3.2 million).

WSN Environmental Solutions will undertake various capital works in support of its waste disposal facilities including \$9 million at landfill sites and \$1.5 million at its transfer stations. It will also commence construction of an Alternative Waste Treatment Plant at Jacks Gully at a cost of \$34.4 million.

HOUSING

Capital expenditure in the housing policy area will total \$538 million in 2006-07. This is an increase of \$161 million compared to last year. This is due primarily to increased spending on new public housing to commence the implementation of a new strategy for reconfiguring the Department of Housing's public housing assets.

The policy area includes initiatives of the Department of Housing, City West Housing Pty Ltd, Teacher Housing Authority and Landcom.

The Department of Housing's capital program for 2006-07 will total \$507.2 million. This will include:

- ◆ \$245.3 million for the commencement of 1,178 units and works in progress for general public housing;
- ◆ \$45.6 million for the commencement of 200 units and works in progress for general community housing;
- ◆ \$10.3 million for the commencement of 26 units and works in progress for crisis accommodation;
- ◆ \$171.6 million allocated to the upgrading of existing public and community housing stock and crisis accommodation and to community improvement programs on large public housing estates; and
- ◆ \$34.4 million for other non housing related assets, eg information technology hardware and other administrative assets.

Additional housing is also provided through City West Housing Pty. Ltd. Its program of providing affordable housing will continue in 2006-07, with a total of \$24.3 million allocated for the completion of 110 units in Green Square and the Ultimo/Pymont area.

RECREATION AND CULTURE

Capital expenditure for the recreation and culture policy area will amount to \$134 million in 2006-07. Significant capital expenditures for 2006-07 include:

- ◆ \$66.4 million by Sydney Harbour Foreshore Authority on various public assets including building and infrastructure improvements (\$8.6 million), works at Ballast Point Park (\$10.6 million), Stage 3 works at Darling Island (\$14.3 million), capital improvements to property holdings (\$11.4 million) and upgrading works for the Sydney Convention and Exhibition Centre (\$12.3 million);
- ◆ \$33.1 million by the Zoological Parks Board of New South Wales to continue a comprehensive program to construct new exhibits and redevelop Taronga Zoo and Western Plains Zoo;
- ◆ \$5.4 million by NSW Lotteries for the upgrade of its gaming system, purchase of computer equipment, renewal of software licenses, and replacement of other assets;
- ◆ \$16.7 million by the Sydney Cricket and Sports Ground Trust. Major projects include the completion of the Waratahs Rugby Team's Centre of Excellence Office (\$5.8 million), the commencement of works at Aussie Stadium to improve catering and dressing room facilities and installation of a second video screen, and extension of the seating capacity. The estimated total cost of works to upgrade Aussie Stadium is \$6.2 million; and
- ◆ \$11.6 million by the Sydney Opera House including \$8.6 million to continue the Venue Improvement Program and \$0.3 million for further development and implementation of external lighting.

OTHER

Capital expenditure will amount to \$20 million in 2006-07. All of the expenditure in this policy area will be undertaken by State Forests for hardwood plantation, plant and equipment, and construction roads and bridges.

In addition, State Forests will spend \$22.5 million on softwood plantation and related works which are classified as inventory purchases but included in the project listing in Section 5.4.

CHAPTER 5: AGENCY PHYSICAL ASSETS AND INFRASTRUCTURE EXPENDITURE PROGRAMS

5.1 INTRODUCTION

This Chapter provides the value of each agency's physical assets and the details of their capital expenditure program.

The value of each agency's existing physical assets as at 30 June 2005 is subdivided into Land, Buildings, Plant and Equipment and Infrastructure Systems. These details are provided in Section 5.2 and accord with current accounting standards.

Details of the general government and PTE capital expenditure are provided in Sections 5.3 and 5.4 respectively on an agency basis.

The capital expenditure program embraces a large number of projects, ranging from the acquisition of minor plant and equipment, through to construction of roads, rail, ports, hospitals, schools, dams, and other facilities. The sheer volume of projects being undertaken precludes a detailed listing of all projects.

Data provided on major works includes location, estimated start and completion, estimated total cost, estimated expenditure to date and expenditure in 2006-07. Major works refers to any specific project with an estimated total cost of \$250,000 or more. Major works are further subdivided into new works (projects which have been approved to commence in this Budget year) and works-in-progress (projects which were commenced in earlier years but have not yet been completed).

Expenditure earmarked for minor miscellaneous works is for purposes such as the purchase of minor plant and equipment, and annual provisions for replacements. An aggregate allocation for minor miscellaneous works (those with an estimated total cost of less than \$250,000) is shown for each agency.

As with any plan, circumstances and priorities may change in the course of its implementation. In relation to budget dependent general government agencies, Portfolio Ministers have the authority to vary project allocations provided they observe authorisation limit constraints (expenditure limits for the current and future financial years). Hence, the allocations shown against individual projects may alter during the course of the financial year.

In the case of PTEs, plans may vary as part of the annual negotiation of Statements of Business Intent or Statements of Corporate Intent.

All expenditures under project allocation for this Budget year in the following pages are recorded on an accrual basis. The expenditure, therefore, is recognised at the time when work is performed rather than at the time of payment.

In view of the competitive nature of WSN Environmental Solutions, and the electricity sector agencies, information on individual capital projects for these agencies is regarded as commercial-in-confidence and is not provided in this paper. However, an aggregate total expenditure for these agencies is included under the competitive government sector in Section 5.4 and a brief description of their program is given under the relevant policy area in Chapter 4.