

# TABLE OF CONTENTS

	PAGE
<b>CHAPTER 1: INTRODUCTION .....</b>	<b>1</b>
<b>CHAPTER 2: OUTLAYS AND REVENUES OF THE NSW PUBLIC SECTOR .....</b>	<b>2</b>
2.1 Estimates of Outlays and Revenues for 1997-98	
2.2 Estimated and Revised Outcome for 1996-97	
2.3 Uniform Reporting Requirements	
2.4 Classification Framework	
<b>CHAPTER 3: SELECTED FINANCIAL ASSETS AND LIABILITIES OF THE NSW PUBLIC SECTOR .</b>	<b>34</b>
3.1 Introduction	
3.2 Estimates of Financial Assets and Liabilities - Uniform Reporting Requirements	
3.3 Classification Framework	
<b>CHAPTER 4: LOAN COUNCIL REPORTING REQUIREMENTS .....</b>	<b>39</b>
<b>APPENDIX A - PUBLIC SECTOR ENTITIES CLASSIFIED BY ADMINISTRATIVE AND GFS SECTOR .....</b>	<b>40</b>

# 1 INTRODUCTION

This Budget Paper<sup>1</sup> presents financial aggregates for the General Government and Public Trading Enterprise sectors according to internationally recognised statistical standards and in accordance with a resolution of the 1991 Premiers' Conference.<sup>2</sup> In contrast, other Budget Papers report financial aggregates for the Budget and Non Budget Sectors.

The coverage of the Budget and general government sectors overlap to a significant degree. However as required under the General Government Debt Elimination Act 1995, the Budget will move to a general government basis at a time determined by the Treasurer. Differences in the coverage of the Budget and general government sectors are outlined in the Appendix.

The financial aggregates presented in this Budget Paper serve a number of purposes including -

- Allowing interstate comparisons on a consistent basis;
- Facilitating time series comparisons since they are relatively unaffected by changes in public sector administrative structures; and
- Permitting an assessment of the impact of NSW public sector transactions on the economy by providing data classified by economic type.

Outlay and revenue data presented in this Budget Paper are provided on two separate bases. Sections 2.1 and 2.2 provide information which excludes the operations of the NSW Treasury Corporation and selected Commonwealth payments which pass through the State's accounts. While the exclusion of these transactions is considered to provide a fairer representation of State finances, Section 2.3 provides information on a standard ABS basis in accordance with the requirements of the 1991 Premiers' Conference resolution. It should be noted that universities have recently been reclassified by the ABS to a multi-jurisdictional sector and therefore are now excluded from all statistics in this Budget Paper.

Chapter 3 presents estimates of the State's financial assets and liabilities based on ABS standards. More comprehensive reporting of the State's financial position will be provided in the Consolidated Financial Statements. Unlike in Chapter 2, it is not necessary to make adjustments to the aggregates for the impact of Treasury Corporation since its inclusion does not distort the State's balance sheet.

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1 New South Wales Treasury acknowledges the assistance of the Sydney and Canberra offices of the Australian Bureau of Statistics in the preparation of this Budget Paper.

2 A revised uniform reporting framework was agreed at the 1997 Loan Council meeting. The new, enhanced reporting arrangements involving, among other things, the provision of 3 year forward estimates for the general government sector will be introduced in the 1998-99 Budget. Further details of the new arrangements are available on request.

## 2 OUTLAYS AND REVENUES OF THE NSW PUBLIC SECTOR

### 2.1 ESTIMATES OF OUTLAYS AND REVENUES FOR 1997-98

#### Overview

Estimates of NSW public sector outlays and revenues in 1997-98 are presented in Table 2.1. The financial result of the State sector is projected to be a \$218 million deficit. This compares with an estimated surplus of \$708 million in 1996-97.

The result for 1997-98 reflects a deficit for the general government sector of \$32 million and a surplus of \$123 million for the public trading enterprise (PTE) sector. The outcome for the total State sector differs from the sum of the general government and PTE results due to the need to eliminate transactions between the two sectors. It should be noted that, consistent with other Budget Papers, no allowance has been made in the estimates for the impact of the TAB privatisation.

**Table 2.1: Estimated Total Public Sector Outlays and Revenues 1997-98**

	General Government	Public Trading Enterprises	Total <sup>(1)</sup>
	\$m	\$m	\$m
<b>Current Outlays</b>	20,873	2,303	21,865
- % increase	4.9	(-) 6.6	4.5
<b>Capital Outlays</b>	3,340	1,839	4,681
- % increase	20.8	32.9	24.6
<b>Total Outlays</b>	24,213	4,142	26,546
- % increase	6.8	7.6	7.5
<b>Revenue and Grants Received</b>	24,180	2,814	24,878
- % increase	5.3	(-)15.3	3.2
<b>Deficit <sup>(2)</sup></b>	32	(-) 123	218

(1) Does not represent the sum of the general government and public trading enterprise sectors due to the existence of intra-sector transactions and differences between cash and accrual estimates.

(2) Total outlays less both revenue and grants received and increases in provisions. A positive number represents a deficit, while a negative number represents a surplus.

The projected deficit of \$32 million for the general government sector is consistent with the improves achieved in recent years which has seen the deficit fall from a peak of \$1,304 million in 1991-92 to an approximately balanced position.

The forecast result for the PTE sector (and therefore the total State sector) is heavily influenced by an apparent conservative bias in the estimates provided by the State's public trading enterprises which results in actual outcomes being better than projected. For example, the projected result for 1996-97 of a balanced result understates the revised forecast outcome by \$436 million (after adjustment for a number of classification revisions) with a similar pattern being apparent in previous years. This matter is examined in more detail in the section discussing PTE results.

## General Government Sector

A summary of aggregates for the general government sector is presented in Table 2.2.

**Table 2.2: Summary of General Government Estimates**

	1996-97 \$m	1997-98 \$m	% Change
Current Outlays			
- <i>Final Consumption Expenditure</i>	14,863	15,663	5.4
- <i>Interest</i>	1,481	1,597	7.8
- <i>Other Current Transfer Payments</i>	3,557	3,613	1.6
<b>Total Current Outlays</b>	<b>19,901</b>	<b>20,873</b>	<b>4.9</b>
Capital Outlays			
- <i>Gross Fixed Capital Expenditure and Net Purchase of Land</i>	2,174	2,485	14.3
- <i>Other Capital Outlays</i>	592	855	44.4
<b>Total Capital Outlays</b>	<b>2,766</b>	<b>3,340</b>	<b>20.8</b>
<b>Total Outlays</b>	<b>22,667</b>	<b>24,213</b>	<b>6.8</b>
Revenue and Grants Received			
- <i>Taxes, Fees and Fines</i>	12,141	13,241	9.1
- <i>Commonwealth Grants Received</i>	8,245	8,516	3.3
- <i>Other Revenue</i>	2,577	2,423	(-) 6.0
<b>Total Revenue and Grants Received</b>	<b>22,963</b>	<b>24,180</b>	<b>5.3</b>
<b>Deficit <sup>(1)</sup></b>	<b>(-) 296</b>	<b>32</b>	<b>n.a.</b>

(1) Total outlays less both revenue and grants received and increases in provisions. A positive number represents a deficit, while a negative number represents a surplus.

### • Outlays

Current outlays of the general government sector are expected to increase by 4.9 per cent in 1997-98. The growth in current outlays is made up of a 5.4 per cent increase in final consumption expenditure, a 7.8 per cent increase in interest costs and a 1.6 per cent increase in other current transfer payments. The expected increase in current outlays in 1997-98 follows an estimated increase of 6.5 per cent in 1996-97 bringing the cumulative real increase over the two years to 7.6 per cent.

With the reduction in interest rates over the last two years and the declining impact of the motor vehicle third party unfunded insurance liabilities, the proportion of current outlays attributable to final consumption expenditure has increased. Since 1992-93, consumption expenditure as a proportion of current outlays has risen from 70 per cent to 75 per cent. Over this period, final consumption expenditure has grown by 20.1 per cent in real terms while the growth in total current outlays has been only 12.2 per cent.

In 1997-98, projected the increase in consumption expenditure is concentrated in the areas of education and health as well as superannuation. The increases in 1997-98 come on top of substantial increases in 1996-97 in the same areas.

Interest payments in 1997-98 are expected to increase by \$116 million. The increase in expenditure reflects the impact of debt restructuring in 1995-96 which resulted in a one-off reduction in expenditure in 1996-97. Since 1992-93, interest payments have fallen in real terms by nearly \$500 million or 23 per cent.

While subsidies to public trading enterprises in 1997-98 are projected to fall by \$56 million, this follows a substantial increase in 1996-97 as a result of the restructure of the rail sector. In 1996-97, subsidies to the SRA are expected to increase by \$414 million or 131 per cent under new arrangements whereby some funds previously provided for capital purposes have been converted into recurrent subsidies and cross subsidies between freight and passenger services have been eliminated.

Subsidy payments to other enterprises are also expected to fall substantially for the fifth successive year as a result of the declining call on State funds associated with the closure of the third party motor accident claims scheme. The need to fund these liabilities, once the cash reserves of the scheme were exhausted, resulted in a sharp increase in outlays in both 1991-92 and 1992-93. This has been and continues to be a contributor to the difference between the Budget and general government sector results.

Capital outlays of the general government sector in 1997-98 are projected to increase by 20.8 per cent. The high level of capital outlays in 1997-98 results from a substantial increase in expenditure on new fixed assets of \$343 million or 13.7 per cent partly relating to the Olympic Games. In 1997-98, asset sales of the general government sector are expected to total \$469 million - the same as in 1996-97.

Overall, total outlays, current and capital, are projected to increase in 1997-98 by \$1.5 billion or 6.8 per cent.

- **Revenue and Grants Received**

In 1997-98 revenues (including grants) are projected to increase by \$1.2 billion or 5.3 per cent. This consists of a 9.1 per cent increase in taxation revenue (following an 8.2 per cent increase in 1996-97), a 3.3 per cent increase in grants received and a 6.0 per cent reduction in other revenue.

Taxation revenue will grow sharply in 1997-98 as a result of a number of measures introduced in the Budget, notably in the areas of land tax, electricity, gambling and tourism. In addition, revenue will benefit from continued strong property market activity which is expected to see contracts and conveyancing revenue increase from \$1,123 million in 1995-96 to \$1,575 million in 1997-98.

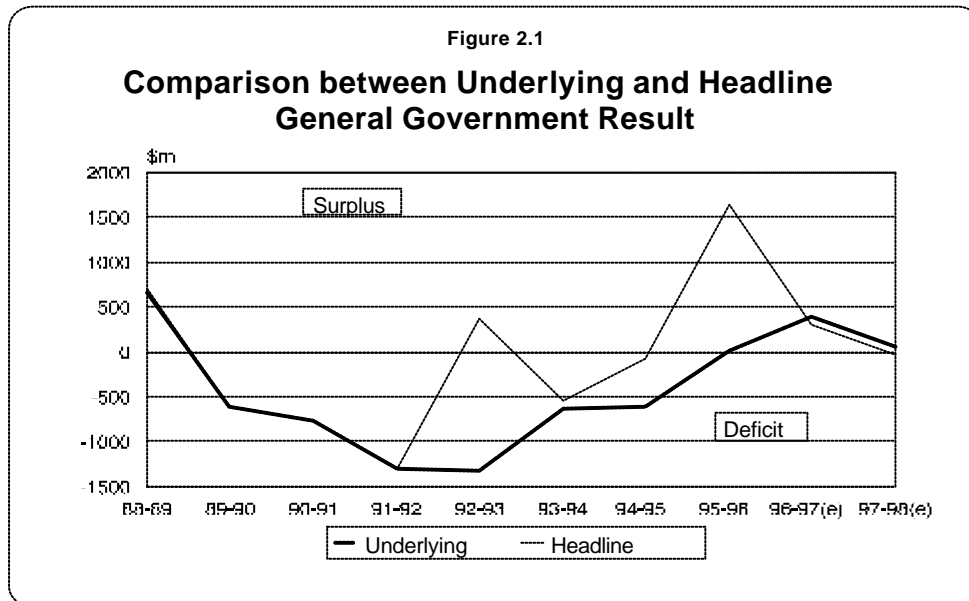
Commonwealth grants will increase as a result of the maintenance of financial assistance grants in real per capita terms although the benefit of this will be offset by further cutbacks in specific purpose payments. In 1997-98, New South Wales is required to make a Fiscal Contribution Payment of \$216 million to assist in reducing the Commonwealth budget deficit. These payments are treated as an offset to Commonwealth grants.

Dividend income is expected to fall in 1997-98 due to a number of one-off factors affecting 1996-97. Firstly, in 1996-97 the general government sector benefited from a cross border lease defeasance gain undertaken in the electricity generation sector. Secondly, a change in the timing of tax payments by the PTE sector boosted revenue in 1996-97.

• **Financial Result**

The financial result for the general government sector is projected to be a \$32 million deficit. This compares with an estimated surplus of \$296 million in 1996-97. After adjusting for business asset sales and equity restructure payments, the general government surpluses of \$386 million and \$51 million are expected in 1996-97 and 1997-98 respectively. The source of the deterioration in 1997-98 is the spending of Olympic Games funds collected by SOCOG during 1996-97. This factor increases the deficit by \$391 million in 1997-98 relative to 1996-97.

Figure 2.1 shows trends in both the headline and underlying general government result in recent years. Between 1988-89 and 1992-93, there was a sustained increase in the underlying general government deficit. Since that time, the deficit has fallen substantially with a small underlying surplus being expected in 1997-98.



The financial result for the general government sector can be dissected into an operating and capital component. It is expected that the operating result will improve in 1997-98 to a surplus of nearly \$2.4 billion compared with \$2.2 billion in 1996-97 and \$89 million in 1992-93.

The headline deficit for the general government sector in 1997-98 of \$32 million compares with a headline deficit of \$56 million for the Budget Sector. A reconciliation between the Budget result and the general government result is shown below.

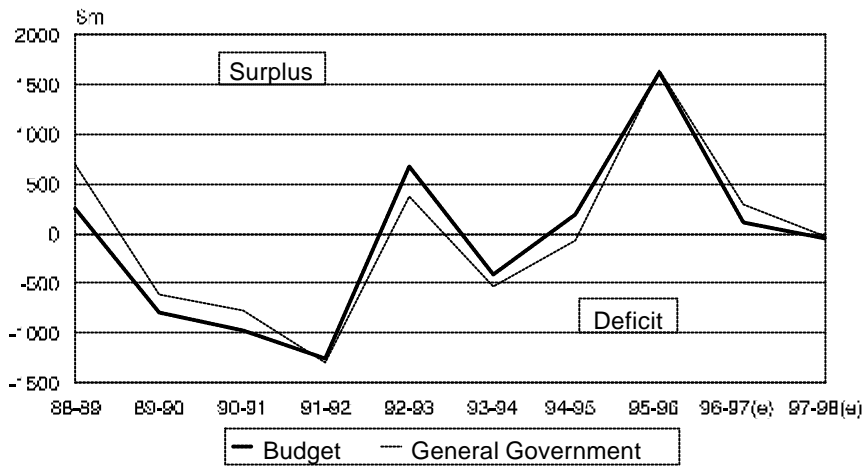
**Table 2.3: Reconciliation of Budget and General Government Headline Results <sup>(1)</sup>**

	1996-97 \$m	1997-98 \$m
Budget Result (Headline)	(-) 119	56
plus		
. Building & Construction Industry Long Service Leave Payments Corporation	44	(-) 19
. City West Development Corporation	(-) 7	(-) 35
. Environmental Trusts	19	27
. Honeysuckle Development Corporation	11	12
. Housing Authorities	(-) 27	(-) 9
. Marine Ministerial Holding Corporation	27	8
. Ministerial Development Corporation	(-) 14	(-) 5
. Ministerial Insurance Corporation	(-) 135	(-) 205
. Public Trustee Common Fund	50	...
. Public Works Department	18	19
. Rental Bond Board	(-) 10	(-) 9
. State Forests	19	23
. Sydney Cove Authority	4	(-) 55
. Sydney Organising Committee for Olympic Games	(-) 155	236
. WorkCover Authority	(-) 23	12
. Other	2	(-) 24
<b>General Government Result (Headline)</b>	<b>(-) 296</b>	<b>32</b>

(1) A positive number represents a deficit, while a negative number represents a surplus.

As outlined earlier, the Budget will eventually move to a general government basis and therefore the differences in coverage outlined in the Table 2.3 and in the Appendix will disappear. Figure 2.2 compares the headline Budget and general government results for the period since 1988-89. Clearly there has been a close correspondence between the two headline deficits with the Budget recording slightly better results between 1991-92 and 1994-95.

Figure 2.2  
**Comparison between Budget and General Government  
Headline Result**



## Public Trading Enterprises

A summary of aggregates for the public trading enterprise sector is presented in the table below.

**Table 2.4: Summary of Public Trading Enterprise Estimates**

	1996-97 \$m	1997-98 \$m	% Change
Current Outlays			
- <i>Interest Payments</i>	942	912	(-) 3.2
- <i>Other Current Transfer Payments</i>	1,525	1,391	(-) 8.8
<b>Total Current Outlays</b>	<b>2,467</b>	<b>2,303</b>	<b>(-) 6.6</b>
Capital Outlays			
- <i>Gross Fixed Capital Expenditure and Net Purchase of Land</i>	1,403	1,838	31.0
- <i>Other Capital Outlays</i>	(-) 19	1	n.a.
<b>Total Capital Outlays</b>	<b>1,384</b>	<b>1,839</b>	<b>32.9</b>
<b>Total Outlays</b>	<b>3,851</b>	<b>4,142</b>	<b>7.6</b>
Revenue and Grants Received			
- <i>Net Operating Surplus</i>	2,252	1,719	(-) 23.7
- <i>Grants Received</i>	747	805	7.8
- <i>Other Revenue</i>	325	290	(-) 10.8
<b>Total Revenue and Grants Received</b>	<b>3,324</b>	<b>2,814</b>	<b>(-) 15.3</b>
<b>Deficit <sup>(1)</sup></b>	<b>(-) 766</b>	<b>(-) 123</b>	<b>(-) 83.9</b>

(1) Total outlays less both revenue and grants received and increases in provisions. A positive number represents a deficit, while a negative number represents a surplus.

### • Outlays

In 1997-98, total outlays by the public trading enterprise sector are expected to increase by 7.6 per cent to \$4.1 billion. The increase in PTE outlays is made up of a reduction in current outlays of 6.6 per cent while capital outlays are expected to increase by 32.9 per cent.

The reduction in current outlays reflects both lower interest and dividend payments. In the case of interest payments, lower average interest rates and falling levels of debt continue to impact favourably on expenditure levels. In fact, despite significant equity restructure payments in 1995-96 totalling \$1,589 million which increased debt levels, interest payments in 1997-98 are projected to be \$49 million less than 3 years ago. Dividend levels will drop in 1997-98 reflecting the one-off impact of the defeasance gain paid to the general government sector by the electricity generation sector and the bringing forward of tax payments in 1996-97.

Expenditure on new fixed assets is projected to increase \$349 million or 17.1 per cent, mainly as a result of higher expenditure by electricity generators, water and port authorities as well as the Darling Harbour Authority. Asset sales by the PTE sector are expected to continue at a high level with a significant proportion of the proceeds being returned to the general government sector. In 1997-98, asset sales are expected to total \$593 million compared with \$582 million in the previous year.

- **Revenues and Grants Received**

Total revenue and grants received is expected to fall in 1997-98 by over \$500 million or 15.3 per cent, reflecting a reduction in the expected net operating surplus. The reduction in PTE revenue is most pronounced in the electricity generation sector where competition has resulted in prices for large consumers of electricity falling by over 20 per cent.

- **Financial Result**

Overall, the public trading enterprise sector is projected to record a \$123 million surplus in 1997-98 compared with a surplus of \$766 million in 1996-97.

There is evidence of a conservative bias in estimates of the PTE sector financial results. Table 2.5 indicates that the financial result of PTE sector has been conservatively forecast in each of the past 6 years. Given this, the actual result for this sector in 1997-98 may well be better than projected.

**Table 2.5: Comparison of Estimated and Actual Financial Results <sup>(1)</sup>**

	Estimated \$m	Actual \$m	Forecast Error \$m
1991-92	159	409	250
1992-93	28	441	413
1993-94 <sup>(2)</sup>	433	439	6
1994-95	(-) 24	345	369
1995-96	(-) 84	532	616
1996-97 <sup>(3)</sup>	330	766	436

(1) A positive number represents a surplus.

(2) The inclusion of county councils in the actual result for 1993-94 and not in the estimate for that year had a small impact on the actual result.

(3) The estimated result for 1996-97 has been adjusted for a number of classification changes. In addition, the revised estimate for 1996-97 is affected by the decision to provide substantial increases in funding to the rail sector of around \$200 million.

Like the general government sector, public trading enterprises show a significant surplus on their operating accounts. For 1997-98, the operating result of the public trading enterprise sector is projected as a surplus of \$1 billion while the capital result is projected as a deficit of \$900 million. It should be recognised that subsidies from the general government sector form part of the revenue of the public trading enterprise sector and therefore increase the operating surplus.

## Total State Sector

A summary of aggregates for the total state sector is presented in the table below.

**Table 2.6: Summary of Total State Estimates**

	1996-97 \$m	1997-98 \$m	% Change
Current Outlays			
- <i>Final Consumption Expenditure</i>	14,863	15,663	5.4
- <i>Current Transfer Payments</i>	6,066	6,202	2.2
<b>Total Current Outlays</b>	<b>20,929</b>	<b>21,865</b>	<b>4.5</b>
Capital Outlays			
- <i>Gross Fixed Capital Expenditure and Net Purchase of Land</i>	3,577	4,324	20.9
- <i>Other Capital Outlays</i>	179	357	99.4
<b>Total Capital Outlays</b>	<b>3,756</b>	<b>4,681</b>	<b>24.6</b>
<b>Total Outlays</b>	<b>24,685</b>	<b>26,546</b>	<b>7.5</b>
Revenue and Grants Received			
- <i>Taxes, Fees and Fines</i>	12,141	13,241	9.1
- <i>Commonwealth Grants Received</i>	8,246	8,517	3.3
- <i>Other Revenue</i>	3,713	3,120	(-) 16.0
<b>Total Revenue and Grants Received</b>	<b>24,100</b>	<b>24,878</b>	<b>3.2</b>
<b>Deficit <sup>(1)</sup></b>	<b>(-) 708</b>	<b>218</b>	<b>n.a.</b>

(1) Total outlays less both revenue and grants received and increases in provisions. A positive number represents a deficit, while a negative number represents a surplus.

- **Outlays**

In 1997-98, total state outlays are expected to increase by \$1.9 billion or 7.5 per cent. Current outlays are expected to increase by \$936 million or 4.5 per cent while capital outlays are forecast to increase by \$925 million or 24.6 per cent.

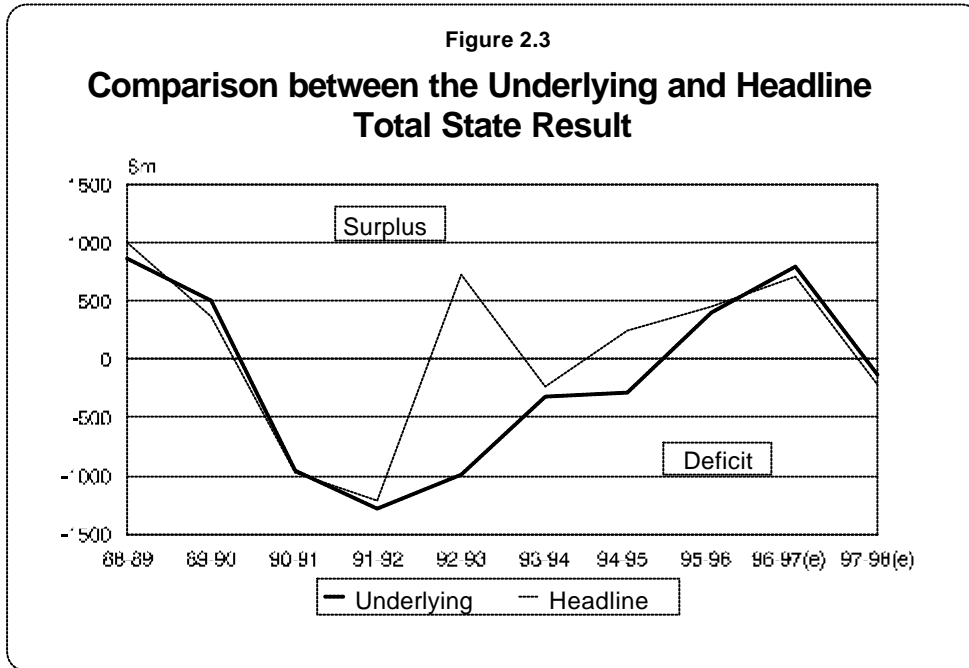
- **Revenue and Grants Received**

Total state revenues (including grants received) are expected to increase by \$778 million or 3.2 per cent in 1997-98. This follows an increase of 8.6 per cent in 1996-97. Own source revenues and grants are expected to increase by similar amounts in 1997-98. In total, own source revenue makes up 66 per cent of state revenue.

• **Financial Result**

In 1997-98 the financial result for the state sector is expected to be a deficit of \$218 million. This compares with a surplus in 1996-97 of \$708 million. The deterioration in the overall result is caused mainly by the poorer outlook for the PTE sector which may well be subject to significant conservative bias. In the case of the general government sector, the turnaround is mainly caused by the expenditure of Olympics moneys collected by SOCOG in 1996-97.

Figure 2.3 shows trends in both the headline and underlying total state deficit since 1988-89. As with the result for the general government sector, the trend was for a deteriorating position in the years leading up to the early 1990s followed by a sustained improvement with a small deficit expected to be achieved in 1997-98.



As has been the case in previous years, the operating result for the total state sector in 1997-98 is expected to remain in substantial surplus, estimated to be around \$3.4 billion. Since 1991-92, the operating result of the state sector has nearly doubled in real terms underlying the improvement in the State's financial position following the severe recession in the early 1990s.