

**Treasurer of New South Wales  
Australia**

**1998-99**

**Half-Yearly Budget Review**

**February 1999**

# **TABLE OF CONTENTS**

## [EXECUTIVE SUMMARY](#)

### [1. Introduction](#)

### [2. Actual Results for Six Months ended 31 December 1998 and Revised 1998-99 Budget Estimates](#)

#### [2.1 Operating Statement](#)

#### [2.2 Statement of Financial Position](#)

#### [2.3 GFS Cash Results](#)

### [3. Forward Estimates 1999-2000 to 2001-2002](#)

#### [3.1 Operating Statement](#)

#### [3.2 GFS Cash Results](#)

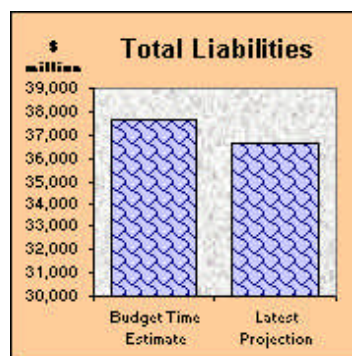
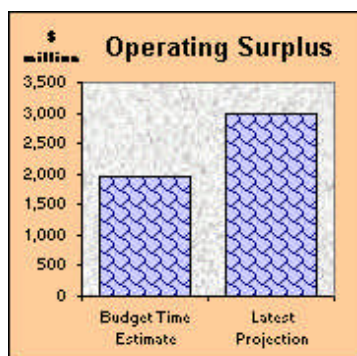
### [4. Basis of the Revised Forward Estimates](#)

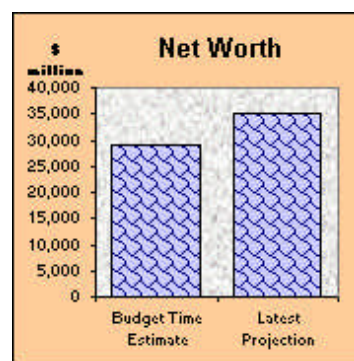
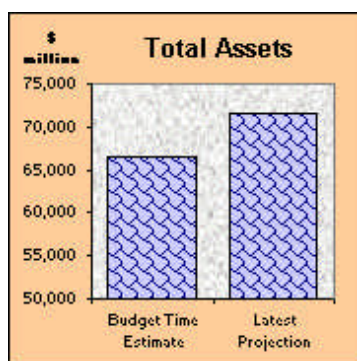
## APPENDIX A: SUPERANNUATION CONVERSION OFFER

## APPENDIX B: UNIFORM PRESENTATION OF GOVERNMENT FINANCE STATISTICS

### **Executive Summary**

- The projected accrual-based General Government operating result for 1998-99 is a surplus of \$2,997 million, compared with the Budget estimate of \$1,966 million and the surplus of \$2,093 million in 1997-98.
- The main reason for the improvement is a significant projected reduction in the State's unfunded superannuation liability resulting from the superannuation conversion offer (see Appendix A). However, once this effect is excluded the operating surplus is estimated at \$2,046 million, \$80 million above the Budget estimate.
- On a Government Finance Statistics basis, the General Government Sector result for 1998-99 is now estimated to be a surplus of \$2 million, compared with the Budget estimate of \$45 million.
- The forward estimates project cash surpluses for each of the following three years of \$168 million, \$287 million and \$954 million, respectively.
- Total liabilities of the General Government Sector are projected to fall in 1998-99 by \$1,961 million to \$36,686 million. This reduction is \$960 million greater than the projection made when the Budget was presented.
- Net worth of the General Government Sector is projected to increase from \$31,288 million at 30 June 1998 to \$34,926 million at 30 June 1999.
- Growth of the economy and employment in 1998-99 now appears likely to exceed the June 1998 Budget forecasts for Australia and New South Wales. Growth is expected to slow in 1999-2000, reflecting weakness in the world economy and a cyclical slow-down in housing and business investment.





## 1. Introduction

The 1998-99 Half-Yearly Budget Review reports on the current and projected financial performance of the New South Wales General Government Sector. The General Government Sector covers all agencies that are generally engaged in the production of goods and services outside the normal market mechanisms.

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

The General Government Debt Elimination Act 1995 requires the Treasurer to release publicly a statement in February containing:

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

The Half-Yearly Budget Review for 1998-99 meets this legislative requirement and also incorporates the financial statement for the General Government Sector for December 1998.

The Review provides:

- The actual financial performance of the General Government Sector for the six months ended 31 December 1998;
- The projected results for 1998-99 compared with the June 1998 Budget estimates; and
- The latest projection of the financial performance for the three subsequent years to 2001-02.

## **2. Actual Results for Six Months ended 31 December 1998 and Revised 1998-99 Budget Estimates**

### **2.1 Operating Statement**

**Table 2.1: General Government Sector 1998-99 Operating Statement**

	<b>6 Months ended 31/12/98</b>	<b>12 Months ended 30/06/98</b>	<b>12 Months ending 30/06/99</b>		<b>Variance \$m</b>
	<b>Actual \$m</b>	<b>Actual \$m</b>	<b>Budget \$m</b>	<b>Latest projection \$m</b>	
<b>State Revenues</b>					
Stamp Duties	1,998	3,385	3,459	3,703	244
Payroll Tax	1,779	3,698	3,625	3,625	-
Gaming & Betting Tax	701	1,338	1,440	1,437	(3)
Land Tax	28	908	918	964	46
Other Taxes and Levies	2,123	3,828	4,123	4,246	123
Commonwealth Grants	4,495	8,582	8,832	9,022	190
Dividends	373	1,023	778	768	(10)
Tax Equivalent Payments	236	599	541	469	(72)
Sale of Goods and Services	1,225	2,477	2,430	2,425	(5)
Investment Income	232	408	398	392	(6)
Grants and Contributions	136	365	238	292	54
Other Revenue	386	1,243	843	805	(38)
<b>Total State Revenues</b>	<b>13,712</b>	<b>27,854</b>	<b>27,625</b>	<b>28,148</b>	<b>523</b>
<b>Expenses</b>					
Operating Expenses					
Employee - Superannuation	652	1,388	639	(312)	(951)
- Other	5,586	10,718	11,166	11,363	197
Other Operating Expenses	2,208	4,334	4,441	4,613	172
Maintenance	469	1,051	1,093	1,102	9
Depreciation and Amortisation	425	705	825	836	11
Grants and Subsidies	2,304	4,850	4,708	4,764	56
Finance Costs	693	1,792	1,282	1,303	21
Other Expenses	718	1,895	1,661	1,626	(35)

<b>Total Expenses</b>	<b>13,055</b>	<b>26,733</b>	<b>25,815</b>	<b>25,295</b>	<b>(520)</b>
<b>Gain/(Loss) on Sale of Non-Current Assets</b>	<b>141</b>	<b>972</b>	<b>156</b>	<b>144</b>	<b>(12)</b>
<b>Surplus/(Deficit) for the year</b>	<b>798</b>	<b>2,093</b>	<b>1,966</b>	<b>2,997</b>	<b>1,031</b>

## Commentary on Operating Statement

The projected General Government Operating Result for 1998-99 is a surplus of \$2,997 million. This represents an improvement of \$1,031 million from the budget time estimate of \$1,966 million.

The principal reason for the improvement is the effect of the various adjustments to the State's unfunded superannuation liability which improve the current projection compared with the budget time estimates by \$951 million. These adjustments comprise:

- Realisation of \$416 million in tax credits as a result of the accelerated payment of \$3,264 million in conjunction with the superannuation conversion offer (see Appendix A);
- Reduction of \$860 million in the unfunded superannuation liability arising from the superannuation conversion offer; and
- Increase of \$325 million in estimated unfunded superannuation liability arising from the Government Actuary's mid-year review.

Excluding these effects, the operating surplus is estimated at \$2,046 million, \$80 million above the Budget estimate.

## 2.2 Statement of Financial Position

Table 2.2: 1998-99 Statement of Financial Position (Balance Sheet)

	As at 31/12/98	As at 30/6/98	As at 30/06/99	
	Actual \$m	Actual \$m	Budget \$m	Latest Projection \$m
<b>ASSETS</b>				

<b>Current Assets</b>				
Cash	1,670	1,803	1,076	1,425
Investments	719	926	1,244	1,010
Receivables	1,468	2,029	1,627	1,667
Inventories	130	129	139	141
Other	7	4	88	34
<b>Total Current Assets</b>	<b>3,994</b>	<b>4,891</b>	<b>4,174</b>	<b>4,277</b>
<b>Non-Current Assets</b>				
Property, Plant and Equipment	60,002	59,297	56,519	61,516
Investments	2,811	2,353	2,268	2,334
Receivables	2,787	2,739	2,852	2,822
Inventories	111	109	107	90
Other	560	546	611	573
<b>Total Non-Current Assets</b>	<b>66,271</b>	<b>65,044</b>	<b>62,357</b>	<b>67,335</b>
<b>Total Assets</b>	<b>70,265</b>	<b>69,935</b>	<b>66,531</b>	<b>71,612</b>
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Accounts Payable	1,399	1,658	1,525	1,537
Borrowings	4,068	3,353	4,279	7,283
Employee Entitlements	1,883	1,828	2,008	829
Other	875	968	856	388
<b>Total Current Liabilities</b>	<b>8,225</b>	<b>7,807</b>	<b>8,668</b>	<b>10,037</b>
<b>Non-Current Liabilities</b>				
Borrowings	12,402	13,601	12,523	12,698
Employee Entitlements	13,451	13,530	12,624	9,744
Other	3,803	3,709	3,831	4,207
<b>Total Non-Current Liabilities</b>	<b>29,656</b>	<b>30,840</b>	<b>28,978</b>	<b>26,649</b>
<b>Total Liabilities</b>	<b>37,881</b>	<b>38,647</b>	<b>37,646</b>	<b>36,686</b>
<b>Net Assets/Net Worth</b>	<b>32,384</b>	<b>31,288</b>	<b>28,885</b>	<b>34,926</b>

<b>Equity</b>				
Reserves	9,855	9,560	5,321	9,755
Accumulated Funds	22,529	21,728	23,564	25,171
<b>Total Equity/Net Worth</b>	<b>32,384</b>	<b>31,288</b>	<b>28,885</b>	<b>34,926</b>

**Note:** Section 8 (1)( b) of the Public Finance and Audit Act requires the publication of a monthly statement of the balance of cash and securities held by the Treasurer. The value of the cash and securities held by the Treasurer at 31 December 1998, which is included in the Statement of Financial Position at that date, is \$382 million.

## Commentary on the Statement of Financial Position

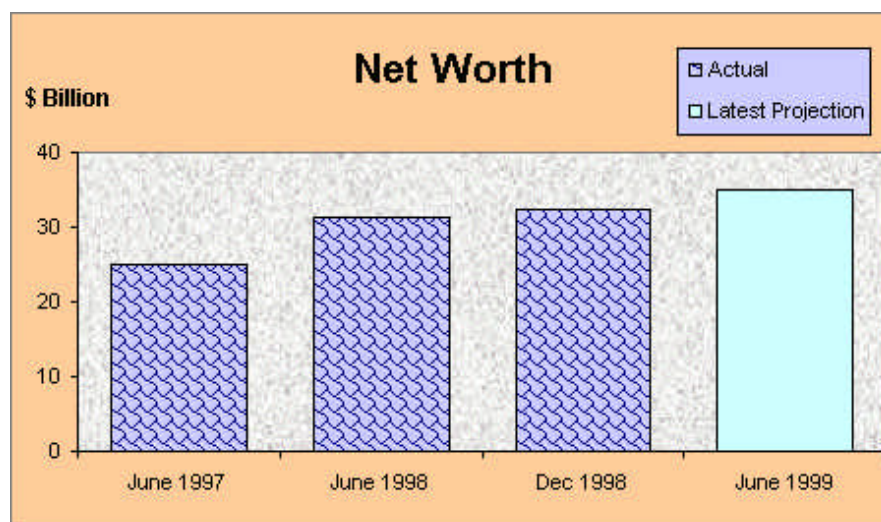
### Net Worth

General Government Sector net worth was \$31,288 million at June 1998 and is projected to increase by \$3,638 million or 11.6% to \$34,926 million at June 1999. This expected improvement is a result of:

- an increase in total assets of \$1,677 million primarily attributable to capital expenditure; and
- a reduction in total liabilities of \$1,961 million predominantly resulting from the superannuation conversion offer.

Budget estimates for net worth as at 30 June 1999 have increased by \$6,041 million or 20.9% from the original Budget estimate of \$28,885 million. The Budget revision was due to major revaluations of non-current assets undertaken in June 1998 by agencies such as the Department of Education and Training and the Roads and Traffic Authority. These revaluations were performed after the original Budget was prepared, but were subsequently included in the audited actual figures for June 1998.

**Figure 2.1: Net Worth of the General Government Sector**



### Net Debt

Total liabilities of the General Government sector are projected to fall by \$1,961 million between June 1998 and June 1999. The main reason for this improvement is a significant reduction in the State's

unfunded liability resulting from the superannuation conversion offer.

In order to fund the superannuation conversion offer there will be recourse to temporary borrowings of \$3,264 million which will be repaid in full over the following three years. As a result, General Government net debt is projected to increase by \$3,359 million from \$10,264 million at June 1998 to \$13,623 million at June 1999.

The original budget estimates for both net debt and unfunded superannuation liability did not include the impact of the superannuation conversion offer which was approved by Parliament at a later date.

**Figure 2.2: Net Debt of the General Government Sector**

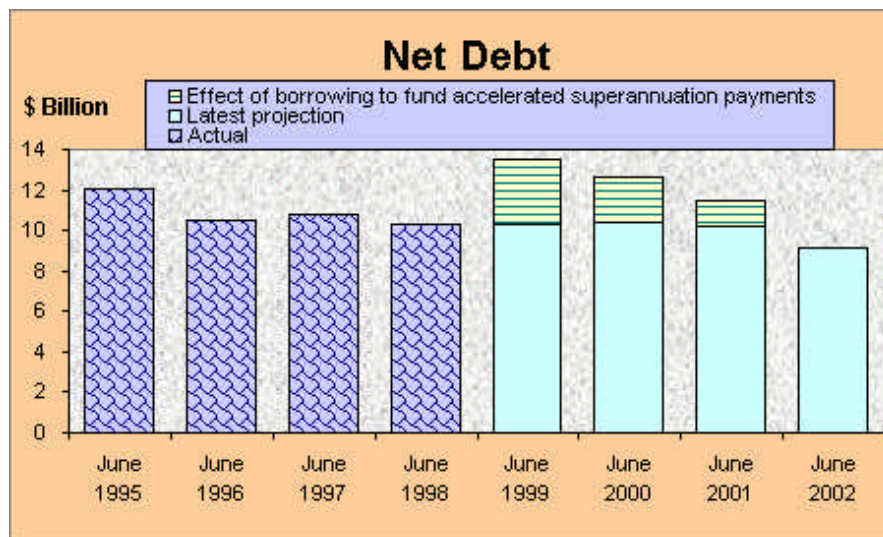


Figure 2.2 demonstrates the trend in net debt for both expected net debt and for net debt levels that would have been expected to occur if borrowings had not been taken out to fund the acceleration of superannuation contributions made as part of the superannuation conversion offer. Borrowings of \$3,264 million will be taken out in 1998-99 and will be repaid in approximately equal instalments over the following three years.

### Unfunded Superannuation

General Government Sector unfunded superannuation liabilities were \$12,293 million at June 1998 and are projected to decrease by \$5,038 million to \$7,255 million by June 1999. The principal factors contributing to this improvement were:

- Accelerated payment of Superannuation Contributions of \$3,264 million (funded from borrowings);
- Realisation of \$416 million in tax credits as a result of the acceleration in contributions; and
- Reduction in the unfunded superannuation liability of \$860 million arising from the superannuation conversion offer.

**Figure 2.3: Unfunded Superannuation Liability of the General Government Sector**

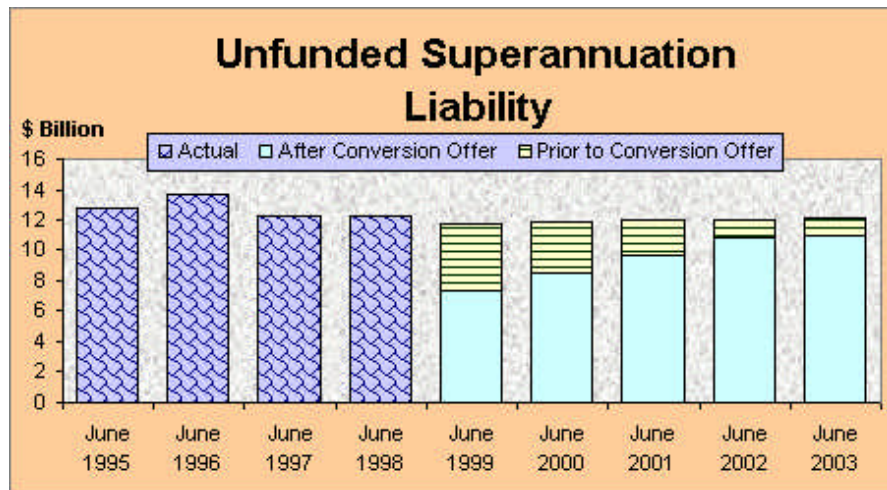


Figure 2.3 demonstrates the projected unfunded superannuation liability (light shading). In addition, it demonstrates the projected liability if the superannuation conversion offer (and related accelerated contributions) were not to occur.

The net result is a permanent reduction in unfunded liabilities of over \$1.2 billion by 30 June 2002.

### 2.3 GFS Cash Results

Table 2.3 1998-99 GFS Results

	6 Months ended 31/12/98	12 Months ended 30/06/98	12 Months ending 30/06/99		Variance \$m
	Actual \$m	Actual \$m	Budget \$m	Latest projection \$m	
<b>Current Receipts</b>					
Stamp Duties	2,002	3,700	3,459	3,703	<b>244</b>
Payroll Tax	1,770	3,374	3,621	3,620	<b>(1)</b>
Land Tax	127	857	945	961	<b>16</b>
Motor Vehicle Taxes	528	1,022	1,002	1,033	<b>31</b>
Gaming & Betting Taxes	701	1,338	1,440	1,437	<b>(3)</b>
Commonwealth Safety Net Taxes	974	1,394	1,873	1,963	<b>90</b>
Other Taxes	606	1,213	1,095	1,171	<b>76</b>

C'wealth General Purpose Grants	2,357	4,591	4,731	4,687	(44)
C'wealth Specific Purpose Grants		3,031	3,230	3,439	209
Dividends/Tax Equivalentents	970	1,395	1,251	1,328	77
Other Current Receipts	612	1,230	1,202	1,183	(19)
<b>Total Current Receipts</b>	<b>12,421</b>	<b>23,145</b>	<b>23,849</b>	<b>24,525</b>	<b>676</b>
<b>Current Outlays</b>					
Interest Payments	666	1,538	1,276	1,331	55
Superannuation	719	1,551	1,462	4,741	3,279
Subsidies to Non-Budget Sector					
- Redundancies	28	83	77	77	-
- Services	522	924	798	838	40
Departmental Payments					
- Redundancies	32	63	53	43	(10)
- Services	9,906	18,853	19,713	20,295	582
Treasurer's Advance	-	-	125	-	(125)
Less: User Charges	1,024	2,017	2,014	2,071	57
<b>Total Current Outlays</b>	<b>10,849</b>	<b>20,995</b>	<b>21,490</b>	<b>25,254</b>	<b>3,764</b>
<b>Current Result Surplus/(Deficit)</b>	<b>1,572</b>	<b>2,150</b>	<b>2,359</b>	<b>(729)</b>	<b>(3,088)</b>
<b>Capital Receipts</b>					
C'wealth Specific Purpose Grants	363	724	788	842	54
Other Capital Receipts	9	241	10	404	394
<b>Total Capital Receipts</b>	<b>372</b>	<b>965</b>	<b>798</b>	<b>1,246</b>	<b>448</b>
<b>Capital Outlays</b>					

Gross Fixed Capital Payments	1,259	2,535	2,841	3,420	<b>579</b>
Capital Grants	425	1,075	1,016	1,005	<b>(11)</b>
Less: Asset Sales	374	419	745	642	<b>(103)</b>
<b>Total Capital Outlays</b>	<b>1,310</b>	<b>3,191</b>	<b>3,112</b>	<b>3,783</b>	<b>671</b>
<b>Capital Result Surplus/(Deficit)</b>	<b>(938)</b>	<b>(2,226)</b>	<b>(2,314)</b>	<b>(2,537)</b>	<b>(223)</b>
<b>Budget Result Surplus/(Deficit)</b>	<b>634</b>	<b>(76)</b>	<b>45</b>	<b>(3,266)</b>	<b>(3,311)</b>
<b>Adjusted Budget Result*</b>	<b>634</b>	<b>(76)</b>	<b>45</b>	<b>2</b>	<b>(43)</b>
<b>Financing Transactions</b>					
Net Borrowings	355	647	67	(2,296)	<b>(2,363)</b>
Net Advances Repaid	(6)	(1,126)	75	7	<b>(68)</b>
Movement in Cash and Investments	285	403	(97)	(977)	<b>(880)</b>
	<b>634</b>	<b>(76)</b>	<b>45</b>	<b>(3,266)</b>	<b>(3,311)</b>
<i>* 1998-99 projection is adjusted for superannuation conversion offer (\$3,268 million)</i>					

## Cash Result on Government Finance Statistics Basis

The latest projection of the GFS Result for 1998-99 is a surplus of \$2 million, compared with the \$45 million surplus estimated in the June 1998 Budget.

The projected result excludes an unbudgeted amount of \$3,268 million relating to the superannuation conversion offer. This amount comprises \$3,304 million in current outlays (the \$3,264 million accelerated payment of superannuation contributions plus interest costs of \$40 million) offset by \$36 million in interest receipts earned on the short-term borrowings raised to make the accelerated payment.

## Current Result

The Current Surplus is now projected to be \$2,539 million, \$180 million higher than the Budget estimate and \$389 million higher than in 1997-98.

Current outlays are now estimated to be \$21,950 million, compared with the Budget estimate of \$21,490 million and the 1997-98 result of \$20,995 million. The latest estimate represents an increase of 4.5% on 1997-98.

Some of the increase in current outlays since the Budget is of a one-off kind (see page 15 for details) and some of it is directly linked to increases in Commonwealth grants on the receipts side (\$129 million under the new Health Care Agreement; \$47 million under the Commonwealth's Guns Buy-Back Scheme).

In addition to these one-off increases in Commonwealth grants, the higher than budgeted current outlays are expected to be matched by stronger than expected growth in State tax revenue and higher than expected dividend and tax equivalent receipts from public trading enterprises. Current receipts are now estimated to be 6.0% higher than in 1997-98.

Stronger than expected growth in the economy and asset markets is the principal reason for the stronger growth in State tax revenue in 1998-99. In addition, Commonwealth safety net taxes are now projected to be \$90 million above the Budget estimate, which was based on incomplete information at the time.

## Capital Result

The Capital Result is a deficit of \$2,537 million compared to a Budget estimate of a deficit of \$2,314 million. This comprises additional outlays of \$671 million, partially offset by additional receipts of \$448 million.

These large variations to Budget include the impact of a transfer of assets valued at \$394 million from the Department of Housing to the Aboriginal Housing Office and the Department of Urban Affairs and Planning. This transaction distorts variations on capital payments and receipts because under GFS principles the transfer is notionally treated as a capital grant received offset by the purchase of assets. The other major variations to capital outlays are:

- An increase of \$40 million resulting from deferrals of expenditure from 1997-98 due to rain;
- An increase of \$33 million on expenditures to rectify Year 2000 technology problems; and
- Deferral of the sale of Grosvenor Place.

## 3. Forward Estimates 1999-2000 to 2001-2002

### 3.1 Operating Statement

Table 3.1 General Government Sector Operating Statement - Forward Estimates  
1999-2000 to 2001-02

	1998-99 Latest Projection \$m	1999-00 Estimate \$m	2000-01 Estimate \$m	2001-02 Estimate \$m
<b>State Revenues</b>				

State Taxes	13,975	14,022	14,590	15,343
Commonwealth Grants	9,022	9,067	9,320	9,676
Dividends	768	923	775	829
Tax Equivalent Payments	469	546	566	607
Sale of Goods and Services	2,425	2,480	2,497	2,559
Investment Income	392	335	340	344
Grants and Contributions	292	249	245	257
Other Revenue	805	853	826	770
<b>Total State Revenues</b>	<b>28,148</b>	<b>28,475</b>	<b>29,159</b>	<b>30,385</b>
<b>Expenses</b>				
Operating Expenses				
Employee - Superannuation	(312)	1,625	1,689	1,730
- Other	11,363	11,383	11,685	11,952
Other Operating Expenses	4,613	4,625	4,701	4,839
Maintenance	1,102	1,025	1,036	1,051
Depreciation and Amortisation	836	875	904	929
Grants and Subsidies	4,764	4,615	4,708	4,700
Finance Costs	1,303	1,393	1,240	1,065
Other Expenses	1,626	1,573	1,772	1,870
<b>Total Expenses</b>	<b>25,295</b>	<b>27,114</b>	<b>27,735</b>	<b>28,136</b>
<b>Gain/(loss) on Sale of Non-Current Assets</b>	<b>144</b>	<b>30</b>	<b>29</b>	<b>13</b>
<b>Surplus</b>	<b>2,997</b>	<b>1,391</b>	<b>1,453</b>	<b>2,262</b>

### Commentary on the Operating Statement - Forward Estimates

- The trends in the accrual based operating surplus for the three years from 1999-2000 to 2001-02 show a small improvement in the surplus between 1999-2000 and 2000-01 followed by a more substantial improvement between 2000-01 and 2001-02.

### 3.2 GFS Cash Results

Table 3.2: General Government Sector GFS Result - Forward Estimates 1999-2000 to 2001-02

	1998-99	1999-00	2000-01	2001-02
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	Latest Projection \$m	Estimate \$m	Estimate \$m	Estimate \$m
<b>Current Receipts</b>				
State Taxes	13,888	13,912	14,469	15,214
C'wealth General Purpose Grants	4,687	4,912	5,046	5,264
C'wealth Specific Purpose Grants	3,439	3,414	3,506	3,623
Dividends/Tax Equivalents	1,328	1,195	1,140	1,195
Other Current Receipts	1,183	1,143	1,161	1,182
<b>Total Current Receipts</b>	<b>24,525</b>	<b>24,576</b>	<b>25,322</b>	<b>26,478</b>
<b>Current Outlays</b>				
Interest Payments	1,331	1,406	1,194	1,060
Superannuation	4,741	503	609	654
Subsidies to Non-Budget Sector				
- Redundancies	77	87	52	53
- Services	838	744	714	699
Departmental Payments				
- Redundancies	43	40	31	54
- Services	20,295	20,291	20,844	21,214
Treasurer's Advance	-	130	270	440
Less: User Charges	2,071	2,129	2,121	2,130
<b>Total Current Outlays</b>	<b>25,254</b>	<b>21,072</b>	<b>21,593</b>	<b>22,044</b>
<b>Current Result Surplus/(Deficit)</b>	<b>(729)</b>	<b>3,504</b>	<b>3,729</b>	<b>4,434</b>
<b>Capital Receipts</b>				
C'wealth Specific Purpose Grants	842	750	771	792
Other Capital Receipts	404	166	51	23
<b>Total Capital Receipts</b>	<b>1,246</b>	<b>916</b>	<b>822</b>	<b>815</b>
<b>Capital Outlays</b>				
Gross Fixed Capital Payments	3,420	2,842	2,547	2,461
Capital Grants	1,005	942	1,003	956

Less: Asset Sales	642	490	288	201
<b>Total Capital Outlays</b>	<b>3,783</b>	<b>3,294</b>	<b>3,262</b>	<b>3,216</b>
<b>Capital Result Surplus/(Deficit)</b>	<b>(2,537)</b>	<b>(2,378)</b>	<b>(2,440)</b>	<b>(2,401)</b>
<b>Budget Result Surplus/(Deficit)</b>	<b>(3,266)</b>	<b>1,126</b>	<b>1,289</b>	<b>2,033</b>
<b><i>Adjusted Budget Result*</i></b>	<b>2</b>	<b>168</b>	<b>287</b>	<b>954</b>
<b>Financing Transactions</b>				
Net Borrowings	(2,296)	1,195	1,188	1,300
Net Advances	7	(7)	(81)	(134)
Movement in Cash and Investments	(977)	(62)	182	867
	<b>(3,266)</b>	<b>1,126</b>	<b>1,289</b>	<b>2,033</b>
<i>* Adjusted for effects of superannuation conversion offer</i>				

### **Forward Estimates: GFS Result**

The analysis that follows excludes the impact of the superannuation conversion offer.

It is currently forecast that the General Government Sector will be in surplus for all years of the forward estimates. The surplus in 1999-2000 of \$168 million will increase to \$287 million in 2000-01 and \$954 million in 2001-02.

### **Current Result**

The current surplus has reduced by \$82 million, \$222 million and \$66 million for the years 1999-2000, 2000-01 and 2001-02 respectively, compared with the Budget estimates.

Current outlays, excluding the net effects of the superannuation conversion offer, are projected to increase from \$21,950 million in 1998-99 to \$22,030 million in 1999-2000. This is an increase of only 0.4%. However, there are a number of one-off transactions within these two years that need to be considered to determine the "underlying" growth in current outlays.

The one-off transactions in 1998-99 are:

- o Costs of the Guns Buyback Scheme -\$47 million  
(which is fully funded by the Commonwealth)

<ul style="list-style-type: none"> <li>o One-off increase in outlays arising from the closure of the Insurers' Contribution Fund (This increase is partially offset by approximately \$50 million increased levies which are classified as taxes)</li> <li>o Increased Crown Solicitor's fees over and above that estimated in future years</li> <li>o Various supplementary allocations required in 1998-99</li> </ul>	<p style="text-align: right;">-\$88 million</p> <p style="text-align: right;">-\$15 million</p> <p style="text-align: right;">-\$66 million</p>
<p>Reduction in current outlays in 1998-99 required to estimate current outlays adjusted for one-off spending</p>	<p style="text-align: right;"><b>-\$216 million</b></p>

The one-off transactions in 1999-2000 are:

<ul style="list-style-type: none"> <li>o The Department of Education and Training budgeted for a one-off increase in the cash payments of group taxation because of a proposed change in payment dates. Subsequent advice from the Australian Tax Office means this one off increase in payments is now not required.</li> <li>o Ongoing budget savings from the closure of the Insurers' Contribution Fund</li> </ul>	<p style="text-align: right;">\$47 million</p> <p style="text-align: right;">\$11 million</p>
<p>Increase in current outlays in 1999-2000 required to estimate current outlays adjusted for one-off spending</p>	<p style="text-align: right;"><b>\$58 million</b></p>

After making the above adjustments, current outlays increase from \$21,734 million in 1998-99 to \$22,088 million in 1999-2000. This is an increase of 1.6% which is comparable with the budget time estimate of 1.8%.

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Current outlays are projected to increase by 2.6% in 2000-01 and 2.3% in 2001-02. These increases are also comparable to the Budget forward estimates. However, because current outlays in 1998-99 are now estimated to be above the Budget estimate, the levels in the forward estimates years also are somewhat above previous estimates.

With respect to current receipts, the stronger than expected growth in the economy and asset markets that has buoyed revenue in 1998-99 is unlikely to be sustained. One-off factors also boosted Commonwealth recurrent grants.

In 1999-2000, revenue will be reduced by reductions in rates of payroll tax (from 6.85% to 6.7%) on 1 July 1999 and land tax (from 1.85% to 1.7%) from 31 December 1999.

For these reasons, the growth of current receipts is projected to slow in the forward estimates years to 0.2%, 3.0% and 4.6% respectively from 6.0% in 1998-99. However, because the increase in 1998-99 is higher than the Budget estimate, current receipts

in the later years will still generally be above the previous estimates.

## **Capital Result**

The capital result has only varied marginally from budget time estimates for 1999-2000 to 2001-02. The major variance is caused by the deferral of the sale of Grosvenor Place from 1998-99 into 2000-01.

Provision has been made for outlays associated with the Integrated Transport Program announced by the Government since the Budget.

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## **4. Basis of the Revised Forward Estimates**

The revised forward estimates, like the original estimates, are predicated on a number of assumptions. The key assumption is the continuation of current policies. No allowance is made for the costs of the Government's election commitments. Thus, the forward estimates are based on funding existing policies and should not be regarded as projections for the budget outcomes in future years, as these outcomes will reflect future policy changes by Government.

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

The forward estimates are based on the maintenance of current Commonwealth-State financial arrangements. The Commonwealth's proposed tax reforms and associated changes in financial relations with the States have not yet been passed into legislation. The forward estimates will need to be revised if and when this happens, as the proposed changes would affect State revenue sources and expenditures.

## **Economic Outlook**

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

Economic outcomes in Australia and New South Wales in 1998 were more favourable overall than expected at budget time despite an increase in the severity of economic difficulties in parts of Asia, Eastern Europe and Latin America; and despite considerable turbulence in world financial markets. Growth in Australia has been boosted by appreciation in financial asset prices, strong consumer confidence, and low investment costs reflecting easier domestic monetary policy and reduced investment demand in much of the world. Australia's resilience also was the consequence of the pursuit of policies of financial and structural reform over the previous two decades which have been successful in raising the flexibility and productivity of the economy and confidence in financial markets.

New South Wales output appears to be maintaining a fairly strong rate of expansion in 1998-99, with support from almost all components of domestic demand offsetting the deterioration in net exports resulting from the Asian economic crisis. While the

resources sector and manufacturing face difficult conditions, expansion in construction, trade and services will generally be firmer than a year earlier. Employment growth in 1998-99 will be the strongest since 1995-96. Unemployment is expected to achieve the lowest rate since 1989-90 having already dipped below 7 per cent in recent months. While nominal wage increases are likely to be moderate, low inflation will ensure continued growth in real average wages.

Activity is likely to be somewhat more moderate in 1999-2000 due to the flow through of weaker world economic growth as well as cyclical slowdowns in domestic dwelling construction and business investment. The slowdown is likely to reduce employment growth, but is also expected to keep inflation low. Risks to the forecasts in 1999-2000 include uncertainty regarding developments in the world economy, problems related to information technology (the "Y2K Bug"), and business and consumer precautionary responses to proposed tax reform measures.

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NSW economic activity is projected to return to higher rates of growth in employment and output in 2000-01, assisted by a pick-up in world demand and boosted by the Sydney Olympic Games.

In contrast to the long-term trend relationship, the NSW economy is expected to grow faster than the national average in both 1999-2000 and 2000-01. For 2001-02, following convention for distant years, both national and State growth are assumed to be in line with long-term trends.

The economic parameters are predicated on the conventional assumption of unchanged policy, in particular by excluding the possible impacts of the Commonwealth's proposed tax reform package.

Compared to forecasts in the 1998-99 Budget, the revised forecasts for New South Wales output and employment growth are stronger for 1998-99 but more subdued for 1999-2000 and 2000-01. The change in outlook reflects a revised view of the time profile of the Asian economic crisis and its impact on the world economy and Australia.

The revised forecasts for wages and inflation are lower in all years than forecast in the Budget. This results partly from the revised outlook for growth and partly from a reassessment of the extent to which the depreciation in the exchange rate against the \$US will flow through into higher prices to consumers on imported goods.

The revised economic forecasts for 1998-99 are slightly stronger than those in the Commonwealth Treasury's Mid Year Economic and Fiscal Outlook, issued in February 1999.

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

	1997-98	1998-99 Estimate		1999-2000	2000-01	2001-02
	Actual	Budget	Revised	Forecast	Forecast	Projection
National:						

Gross Domestic Product	4.6	3	3½	2¾	3	3½
Gross State Product	4.8 <sup>(d)</sup>	3	3½	3	3¼	3¼
State Final Demand	4.6	3¾	4	2½	2¼	3¼
Employment	0.6	1½	2	1½	2¼	1¼
Unemployment Rate <sup>(a)</sup>	7.7	7¼	7¼	7	7	7
Wages <sup>(b)</sup>	3.1	4	3½	3¼	4½	4
Inflation <sup>(c)</sup>	0.1	2¼	1¾	2	3	2½

(a) Annual average rate

(b) Average weekly ordinary time earnings of full time adults, NSW

(c) Sydney CPI

(d) Estimate

## **Appendix A: Superannuation Conversion Offer**

Under legislation passed by Parliament, members of two older style defined benefit schemes are to be offered an opportunity to exit these schemes and join First State Superannuation, a modern accumulation scheme established in 1992.

The offer is to be made to the 47,000 members of the State Superannuation Scheme (established in 1916 and closed to new members in 1985) and the Police Superannuation Scheme (established in 1906 and closed to new members in 1988).

The offer will be open until 1 July 1999 and acceptance will be strictly voluntary. However, a similar offer in Victoria a few years ago saw more than 30 per cent of members leave the older style superannuation schemes in favour of joining an accumulation scheme which offers greater flexibility to develop investment plans for retirement. Acceptance of the offer involves members of defined benefit schemes choosing to convert their future pension benefits into a lump sum that would be then invested in First State Superannuation.

While the lump sum would generally be less than the present value of future pension benefits, many people are expected to take up the offer because:

- they could move between jobs, in and out of the public sector, more easily because their superannuation would be portable,
- their take home pay would rise because they no longer have to contribute 6 per cent of their salary on top of their employer's superannuation contribution; and
- they could choose how their superannuation is invested.

As part of the plan for funding the conversion of pension entitlements, the Government will raise short term borrowings of \$3,264 million to accelerate the payment of

contributions to the defined benefit schemes in the 1998-99 financial year. These borrowings will be repaid over the following three financial years through utilising funds that would have normally been used to meet the cost of superannuation contributions in those years.

It is estimated that the cumulative effect of these measures will be a reduction of unfunded superannuation liabilities of over \$1.2 billion by 30 June 2002. Beyond that date the Government intends to continue with its existing plan to progressively reduce the level of unfunded superannuation liabilities.

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## **Appendix B: Uniform Presentation of Government Finance Statistics**

A Uniform Presentation Framework (UPF) was agreed to between the Commonwealth, State and Territory Governments at the March 1997 Loan Council meeting.

As part of the Framework, each jurisdiction is to publish a Mid Year report by the end of February each year. The financial data in this report is consistent with the Australian Bureau of Statistics (ABS) Government Finance Statistics (GFS). In the GFS classification scheme each state public sector body is categorised into one of three sectors:

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

The Mid Year report presents revised fiscal estimates, including outlays and revenue estimates for the current budget year and three following years for the General Government Sector. In addition, revised estimates are presented for the Public Trading Enterprise Sector and the Total Non-Financial Public Sector (ie the General Government Sector and the Public Trading Enterprise Sector). These revised estimates take into account fiscal and economic developments since the commencement of the budget year.

The Mid Year report also includes a revised estimate of the full year Loan Council Allocation (LCA).

### ***Treatment of Certain Commonwealth Payments***

The estimates in this appendix differ from those contained in the main body of the

Review because of the treatment of certain Commonwealth payments.

For certain Commonwealth payments (eg non-government schools and local government tax sharing and road funding), the State essentially acts as an agent of the Commonwealth.

Despite the fact that the State has no control over these payments and is not involved in any negotiations concerning them, GFS conventions require their inclusion in the State sector.

While the inclusion of these payments does not distort the underlying financial position, the growth in expenditure in these areas can be significantly different than for the remainder of the State sector.

In light of these considerations, certain Commonwealth grants classified as passing through (rather than to) the State in the Commonwealth Budget are excluded from the tables in the main body of this review.

**Table B-1: General Government Sector - Outlays, Revenue and Financing Transactions (ABS basis)**

	<b>1997-98 Actual \$m</b>	<b>1998-99 Revised \$m</b>	<b>1999-00 Estimated \$m</b>	<b>2000-01 Estimated \$m</b>	<b>2001-02 Estimated \$m</b>
<b>Current Outlays</b>					
Final Consumption Expenditure	16,485	20,905	16,904	17,750	18,334
Interest Payments	1,538	1,331	1,406	1,194	1,060
Subsidies Paid to PTEs and PFEs	1,007	913	829	766	752
Current Grants	2,411	2,504	2,481	2,563	2,625
Other Current Payments	665	740	621	523	512
<b>Total Current Outlays</b>	<b>22,106</b>	<b>26,393</b>	<b>22,241</b>	<b>22,796</b>	<b>23,283</b>
<b>Capital Outlays</b>					
Gross Capital Expenditure	2,122	2,877	2,556	2,351	2,305
New Fixed Capital Expenditure	2,371	2,828	2,587	2,436	2,370
Expenditure on Secondhand Assets (net)	(249)	49	(31)	(85)	(66)

Capital Grants	1,103	1,039	971	1,034	988
Other Capital Outlays	(7)	(101)	(205)	(94)	(45)
<b>Total Capital Outlays</b>	<b>3,218</b>	<b>3,815</b>	<b>3,322</b>	<b>3,291</b>	<b>3,247</b>
<b>Total Outlays</b>	<b>25,324</b>	<b>30,208</b>	<b>25,563</b>	<b>26,087</b>	<b>26,530</b>
<b>Revenue</b>					
Taxes, Fees and Fines	12,898	13,888	13,912	14,469	15,215
Interest Received	422	392	344	338	340
Grants Received	9,710	10,529	10,436	10,596	10,955
Dividends Received from PTEs and PFEs	1,395	1,329	1,195	1,140	1,195
Other Revenue	823	804	802	833	858
<b>Total Revenue and Grants Received</b>	<b>25,248</b>	<b>26,942</b>	<b>26,689</b>	<b>27,376</b>	<b>28,563</b>
<b>Financing Transactions</b>					
Net Advances Received	(1,568)	(350)	(57)	(46)	(210)
Net Advances Paid	1,130	(7)	7	75	133
Net Domestic and Overseas Borrowings	793	2,645	(1,138)	(1,136)	(1,090)
Increase in Provisions (net)	-	-	-	-	-
Other Financing Transactions	(275)	978	62	(182)	(866)
<b>Total Financing Transactions</b>	<b>80</b>	<b>3,266</b>	<b>(1,126)</b>	<b>(1,289)</b>	<b>(2,033)</b>
less Increase in Provisions	-	-	-	-	-
<b>Deficit/(Surplus)</b>	<b>76</b>	<b>3,266</b>	<b>(1,126)</b>	<b>(1,289)</b>	<b>(2,033)</b>
<b>Adjusted Deficit/(Surplus)*</b>	<b>76</b>	<b>(2)</b>	<b>(168)</b>	<b>(287)</b>	<b>(954)</b>
<b>Net Debt</b>	<b>10,264</b>	<b>13,623</b>	<b>12,497</b>	<b>11,200</b>	<b>9,134</b>

<b>Net Debt Adjusted for superannuation conversion offer</b>	<b>10,264</b>	<b>10,359</b>	<b>10,246</b>	<b>10,021</b>	<b>9,134</b>
<i>* Adjusted for effects of superannuation conversion offer</i>					

**Table B-2: Public Trading Enterprises - Outlays, Revenue and Financing Transactions (ABS basis)**

	<b>1997-98 Actual \$m</b>	<b>1998-99 Revised \$m</b>
<b>Current Outlays</b>		
Interest Payments	886	840
Other Current Payments	1,477	1,278
<b>Total Current Outlays</b>	<b>2,363</b>	<b>2,118</b>
<b>Capital Outlays</b>		
Gross Capital Expenditure	1,818	2,073
New Fixed Capital Expenditure	2,005	2,588
Expenditure on Secondhand Assets (net)	(187)	(515)
Capital Grants	238	386
Other Capital Outlays	(10)	(176)
<b>Total Capital Outlays</b>	<b>2,046</b>	<b>2,283</b>
<b>Total Outlays</b>	<b>4,409</b>	<b>4,401</b>
<b>Revenue</b>		
Net Operating Surplus of PTEs	2,312	1,351
Interest Received	157	115
Grants Received	684	687
Other Revenue	197	193
<b>Total Revenue and Grants Received</b>	<b>3,350</b>	<b>2,346</b>
<b>Financing Transactions</b>		
Net Advances Received	(276)	(64)
Net Advances Paid	-	3

Net Domestic and Overseas Borrowings	(44)	83
Increase in Provisions (net)	1,262	1,570
Other Financing Transactions	117	463
<b>Total Financing Transactions</b>	<b>1,059</b>	<b>2,055</b>
Less Increase in Provisions (net)	1,262	1,570
<b>Deficit/(Surplus)</b>	<b>(203)</b>	<b>485</b>
<b>Net Debt</b>	<b>7,574</b>	<b>8,018</b>

**Table B-3: Total Non Financial Public Sector - Outlays, Revenue and Financing Transactions (ABS basis)**

	<b>1997-98 Actual \$m</b>	<b>1998-99 Revised \$m</b>
<b>Current Outlays</b>		
Final Consumption Expenditure	16,485	20,905
Interest Payments	2,354	2,107
Current Grants	2,563	2,510
Other Current Payments	1,675	1,653
<b>Total Current Outlays</b>	<b>23,077</b>	<b>27,175</b>
<b>Capital Outlays</b>		
Gross Capital Expenditure	3,941	4,950
New Fixed Capital Expenditure	4,376	5,416
Expenditure on Secondhand Assets (net)	(435)	(466)
Capital Grants	373	351
Other Capital Outlays	(20)	(277)
<b>Total Capital Outlays</b>	<b>4,294</b>	<b>5,024</b>
<b>Total Outlays</b>	<b>27,371</b>	<b>32,199</b>
<b>Revenue</b>		
Taxes, Fees and Fines	12,898	13,888
Net Operating Surplus of PTEs	2,312	1,351
Interest Received	511	443

Grants Received	9,483	10,135
Other Revenue	996	1,034
<b>Total Revenue and Grants Received</b>	<b>26,200</b>	<b>26,851</b>
<b>Financing Transactions</b>		
Net Advances Received	(1,569)	(349)
Net Advances Paid	924	(64)
Net Domestic and Overseas Borrowings	749	2,757
Increase in Provisions (net)	1,262	1,568
Other Financing Transactions	(194)	1,436
<b>Total Financing Transactions</b>	<b>1,172</b>	<b>5,348</b>
Less Increase in Provisions (net)	1,262	1,568
<b>Deficit/(Surplus)</b>	<b>(91)</b>	<b>3,780</b>
<b>Adjusted Deficit/(Surplus)*</b>	<b>(91)</b>	<b>512</b>
<b>Net Debt</b>	<b>17,838</b>	<b>21,641</b>
<b>Net Debt Adjusted for superannuation conversion offer</b>	<b>17,838</b>	<b>18,377</b>
<i>* Adjusted for effects of superannuation conversion offer</i>		

Table B-4: Loan Council Allocation - New South Wales 1998-99

	<b>Budget Estimate \$m</b>	<b>Revised Estimate \$m</b>
General Government Sector deficit/ (surplus)	(45)	3,266
Public Trading Enterprise Sector deficit/(surplus)	30	485
Consolidation Adjustment	2	29
Non-Financial Public Sector deficit/(surplus)	(13)	3,780
Memorandum items <sup>(a)</sup>	(1,282)	(3,807)
<b>Loan Council Allocation</b>	<b>(1,295)</b>	<b>(27)</b>

*(a) Memorandum items are used to adjust the ABS deficit/surplus to include in LCAs certain transactions - such as operating leases - that have many of the characteristics of public sector borrowings but do not constitute formal*

*borrowings. Memorandum items are also used, where appropriate, to deduct from the ABS deficit/surplus certain transactions that Loan Council has agreed should not be included in LCAs - for example, the funding of more than employers' emerging costs under public sector superannuation schemes, the GFS deficit/surplus of States' central borrowing authorities, or borrowings by entities such as statutory marketing authorities.*

[back to table of contents](#)