



**Treasurer of New South Wales
Australia**

2007-08

HALF – YEARLY

BUDGET REVIEW

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OVERVIEW

The NSW Government's fiscal strategy has focussed on strengthening State finances to enable a steady growth in service delivery to be maintained in the face of fluctuations in revenues. This strategy has included strengthening the State's balance sheet – focussing on reducing net financial liabilities and net debt.

General government net financial liabilities have declined from 19.9 per cent of Gross State Product (GSP) (\$32.8 billion) in June 1995 to 7.8 per cent of GSP (\$26.2 billion) in June 2007. General government net debt has fallen from 7.4 per cent of GSP (\$12.2 billion) in June 1995 to 1.0 per cent (\$3.2 billion) in June 2007. Based on this, Standard and Poor's and Moody's confirmed New South Wales' Triple A credit rating in 2007.

The budget results are projected to be a surplus of \$506 million in 2007-08, \$664 million in 2008-09, \$730 million in 2009-10 and \$678 million in 2010-11.

The financial projections in this report make no allowance for recent announcements concerning the sale or long term lease of electricity assets.

As projected in the 2007-08 Budget, general government net financial liabilities are expected to increase in 2007-08 and over the forward estimates period, although fall as a share of GSP. This reflects record capital expenditure over this period of \$19.2 billion compared with \$14.8 billion over the preceding four years. Capital expenditure will be funded partly from budget surpluses and partly from borrowings.

Net debt as a share of GSP is expected to remain stable over the forward estimates period.

The projected budget surplus in 2007-08 of \$506 million is \$130 million higher than the budget time estimate of a \$376 million surplus. This change reflects:

- an increase in revenues of \$1.3 billion arising from:
 - stronger economic activity in 2007-08, which has led to higher transfer duties and payroll tax;
 - higher than anticipated land tax receipts; and
 - additional Commonwealth revenues linked to higher State expenses.
- an increase in expenses of \$1.2 billion arising from:
 - additional Commonwealth funding, including drought assistance, groundwater structural adjustment and Equine Influenza costs; and
 - provision of additional core government services, including \$27 million for additional acute beds in Health, additional formula-driven funding in the areas of Education (additional teachers), increases in out-of-home-care services in Community Services and Roads (additional road maintenance), as well as providing natural disaster relief for the Hunter and Central Coast regions and meeting additional demand for the First Home Owners Grants scheme.

Budget results for the forward estimates are projected to be higher than was estimated in the 2007-08 Budget. The projected budget surplus for 2008-09 of \$664 million is \$182 million higher than the budget time estimate of \$482 million, 2009-10 is \$147 million higher than the budget time estimate of \$583 million and 2010-11 is \$230 million higher than the budget time estimate of \$448 million.

In each of the three years 2008-09 to 2010-11, projected revenues are around \$900 million per annum higher than estimated in the 2007-08 Budget. This principally reflects the ongoing impact of the stronger economy in 2007-08 and additional Commonwealth funding for the State's road program.

The increase in expenses in the forward estimates includes additional debt reduction grants to rail agencies of \$390 million in 2008-09 and \$530 million in 2009-10. These grants will reduce the build up of debt within the rail sector, which must ultimately be funded by the Budget.

Projected Budget Results

	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
Budget Time (June 2007)	376	482	583	448
Half-Yearly Budget Review	506	664	730	678

Underpinning projections of the budget result, expenses and revenues are expected to grow at subdued levels over the four years to 2010-11. While growth in revenues and expenses is now expected to be higher than at budget time, expenditure growth remains within prudent levels, as shown in the following table. Importantly, revenues and expenditures will grow at a similar rate over the budget and forward estimates period

Projected Growth in revenues and expenses

	Revenue growth Four year average 2007-08 to 2010-11	Expense growth Four year average 2007-08 to 2010-11
Budget Time (June 2007)	3.4%	3.5%
Half-Yearly Budget Review	3.8%	3.8%

Since the 2007-08 Budget, projected net financial liabilities have been revised upwards. This is principally due to the recognition of a provision in June 2007 of \$1,009 million for liabilities in respect of claims that have been granted to local Aboriginal Land Councils under the *Aboriginal Land Rights Act 1983*. This liability is backed by land assets of an equivalent value.

Without the adjustment for claims under the *Aboriginal Land Rights Act 1983*, general government net financial liabilities would be lower than projected at Budget time in every year. At 30 June 2011 net financial liabilities would have been \$31.3 billion or 7.4 per cent of GSP.

Projected General Government Net Financial Liabilities

	30 June			
	2008	2009	2010	2011
2007-08 Budget				
- \$m	28,439	30,215	30,987	31,666
- % of GSP	8.0	8.0	7.8	7.5
Half - Yearly Budget Review				
- \$m	28,890	30,266	31,283	32,313
- % of GSP	8.1	8.0	7.8	7.6
Half - Yearly Budget Review (excluding the impact of the adjustment for claims under the <i>Aboriginal Land Rights Act 1983</i>)				
- \$m	27,881	29,257	30,274	31,304
- % of GSP	7.8	7.7	7.6	7.4

Projections of net debt are lower than at budget time as a result of projected larger budget surpluses, leading to higher cash flows from operating activities, and higher than estimated asset sales, partially offset by higher capital expenditure in the forward estimates.

Projected General Government Net Debt

	30 June			
	2008	2009	2010	2011
2007-08 Budget				
- \$m	5,354	6,380	7,261	7,407
- % of GSP	1.5	1.7	1.8	1.8
Half - Yearly Budget Review				
- \$m	4,837	5,211	5,858	6,357
- % of GSP	1.4	1.4	1.5	1.5

The Government is on track to deliver a record capital expenditure program in the next four years. Capital expenditure in the general government sector is projected to be \$19.2 billion over the four years to 2010-11, a 30 per cent increase on the \$14.8 billion spent in the previous four years.

The significant increase in projected capital expenditure in 2009-10 and 2010-11, compared to that estimated in the 2007-08 Budget, principally reflects additional Commonwealth funding for the State's road program. In 2007-08, expenditure is slightly down on Budget reflecting normal variations in capital works spending.

Projected General Government Capital Expenditure

	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
2007-08 Budget	4,937	4,664	4,555	4,197
Half - Yearly Budget Review	4,849	4,758	4,821	4,820

Risks

The Budget and forward estimates are predicated on a number of key assumptions. In particular, the achievement of the Government's wages policy involving a 2.5 per cent net cost of any new wage agreements; the delivery of agency efficiency dividends; and economic activity continuing to support growing revenues.

NSW Economy

The NSW economy is strengthening in 2007-08, although growth remains below the national average due to the greater exposure of NSW households to interest rates and the State's comparatively modest exposure to the global resources boom.

Consumer spending and business investment are the main drivers of NSW growth in 2007-08. Although conditions in the broader housing market have firmed, higher interest rates will mute the recovery in dwelling investment, and lingering drought will limit the recovery in rural output and exports. Public demand growth will be firm.

While the economic outlook for NSW in 2007-08 has strengthened since Budget time, there are risks emerging, including the possibility of a US recession and higher domestic interest rates, which could impact activity in 2008-09. In addition, the drought remains an ongoing problem.

1. STRATEGIC DIRECTION AND ENVIRONMENT

1.1 STRATEGIC PERSPECTIVE

The Government's medium-term fiscal strategy is focussed upon maintaining a strong State balance sheet to ensure a sustainable growth in expenses. A strong balance sheet can act as a temporary shock absorber, permitting short-term revenue shortfalls to be accommodated through an increase in debt rather than a reduction in services. It also allows time for structural changes to be made to revenues and expenses following permanent fiscal shocks.

Maintaining annual expense growth in line with the long-term growth in revenue means that services can be reliably delivered on an ongoing basis. However, if expenses ratchet up in response to short term increases in revenue there is a risk that service delivery cannot be sustained. This is because while the level of revenues can both rise and fall over the course of the economic cycle, expense levels tend only to increase, leading to periods of Budget deficit and increased government borrowings. Over the longer term, this imbalance is not sustainable and would require a curtailment of government services or higher taxes.

The medium-term fiscal strategy followed by the Government for more than a decade has seen significant balance sheet improvements. General government net financial liabilities have declined from 19.9 per cent of GSP (\$32.8 billion) in June 1995 to 7.8 per cent of GSP (\$26.2 billion) in June 2007. General government underlying net debt has fallen from 7.4 per cent of GSP (\$12.2 billion) in June 1995 to 1.0 per cent (\$3.2 billion) in June 2007.

Over the four years to June 2011, both net debt and net financial liabilities are expected to increase in nominal dollar terms. However, net financial liabilities will fall relative to GSP while net debt will remain stable.

MEDIUM-TERM FISCAL TARGETS

Further strengthening of the NSW balance sheet will ensure that essential government services are maintained and that the State is in a stronger position to face the challenges of an ageing population. Net debt in the general government sector is projected to increase over the forward estimates period, but the net debt levels in each year remain lower than previously forecast. They are on average \$1.3 billion lower than estimated in the 2007-08 Budget, and around \$3 billion lower than estimated in the 2006-07 Budget (where they were projected to peak at 2.3 per cent of GSP). Although net debt will be higher than the 0.8 per cent target, it is being reduced and is expected to stabilise at 1.5 per cent of Gross State Product. Stabilisation of net debt at this level is consistent with the intent of the fiscal strategy, as long as the more important target of reducing net financial liabilities remains on track, which is the case, after allowing for the new adjustment due to Aboriginal Land Council liabilities.

The lower levels of net debt projected over the forward estimates period, compared to Budget time, reflect the impact of larger Budget surpluses, leading to higher cash flows from operating activities, and higher than estimated asset sale proceeds partially offset by higher capital expenditure in the forward estimates.

The profile for net financial liabilities in the general government sector has changed little from Budget time. As a share of Gross State Product, net financial liabilities are still estimated to decline by 0.5 percentage points between 2007-08 and 2010-11, but they will be 0.1 percentage points higher than estimated at budget time. That is, from 8.1 per cent of GSP in June 2008, net financial liabilities will decline to 7.6 per cent. Net financial liabilities will therefore be marginally higher than the 2010 fiscal target of 7.5 per cent, but importantly will be trending lower.

The slightly higher level of net financial liabilities is principally due to the recognition of a provision, for the first time in June 2007, for a liability in respect of claims that have been granted to local Aboriginal Land Councils under the *Aboriginal Land Rights Act 1983*. This liability is backed by land assets of an equivalent value. After allowing for this, net financial liabilities would represent 7.4 per cent of GSP in June 2011.

The profile for net debt and net financial liabilities over the next few years is being driven principally by large increases in spending on infrastructure. Capital expenditure in the general government sector is projected to be \$19.2 billion over the four years to 2010-11, compared to \$14.8 billion over the previous four years, an increase of 30 per cent.

The Government remains on track to eliminate Total State Sector unfunded superannuation liabilities by 30 June 2030, as legislated for in the *Fiscal Responsibility Act 2005*.

The forecast improvement in the operating result over the forward estimates will help the State to meet its fiscal strategy targets. In addition to the balance sheet net debt and net financial liability targets, there are a number of important fiscal principles embedded in the legislation. The improvement in the operating result over the forward estimates will be achieved through addressing a number of these principles. The operating result will be kept in surplus (Fiscal Principle No. 1), and the growth in expenses will be constrained to no more than the long-term average growth in revenue (Fiscal Principle No. 2). Over the four years to 2010-11, both revenues and expenses are projected to grow by 3.8 per cent per annum, which is less than the long-term average growth in revenue. The Government's wages policy ensures that the net cost of new wage agreements does not exceed 2.5 per cent per annum and is consistent with meeting the fiscal targets (Fiscal Principle No. 3), and the expenditure projections have been made cognisant of the effects of long-term fiscal pressures on the Budget (Fiscal Principle No. 5).

To help achieve the necessary expenses restraint, the 2007-08 Budget included an efficiency dividend of \$300 million and further dividends of \$300 million per annum over the forward estimates. Including the efficiency dividends implemented in 2005-06 and 2006-07, the cumulative benefit to the Budget will be around \$6 billion over the six years to 2010-11.

There remain a number of risks and challenges for the budget outlook over the medium term, including:

- economic activity in Australia continuing at above trend rates of growth at a time when capacity constraints are emerging, with consequent risks of higher interest rates in 2008 and beyond;
- the duration and extent of the drought; and
- delivering wage outcomes in the public sector consistent with the Government's net cost target of 2.5 per cent.

New South Wales continues to receive Triple A credit ratings from international credit rating agencies. Standard and Poor's most recent credit rating report on New South Wales, issued in September 2007, noted that "*regardless of the proposed debt increase over the forecast period, we expect the state's balance sheet will remain moderately strong and consistent with the (AAA) rating on the state.*"

1.2 ECONOMIC OUTLOOK

While forecasts for the global economy in 2008 have been revised lower amidst global financial turmoil, the outlook for Australia's major trading partners in Asia remains robust. Both national and NSW growth in 2007-08 are likely to be stronger than anticipated at Budget time. The stimulus to Australian output, employment and household incomes from strong exports, strong terms of trade and reduced federal taxes seem likely to maintain pressures on capacity, prices and monetary policy in 2008.

The NSW economy will strengthen in 2007-08, although growth will remain below the national average due to the greater exposure of NSW households to interest rates and the State's comparatively modest exposure to the global resources boom.

Consumer spending and business investment will be the main drivers of NSW growth in 2007-08. Although conditions in the broader housing market have firmed, higher interest rates will mute the recovery in dwelling investment, and lingering drought will limit the recovery in rural output and exports. Public demand growth will be firm.

Table 1.1: Economic Performance and Outlook ^(a)

	Actual 2006-07 Outcome	Budget 2007-08 Forecast	Revised 2007-08 Forecast	Medium Term Projection
New South Wales				
State final demand	2.2	3½	4	
Gross state product	1.8	2½	2¾	3¼
Employment	1.8	1½	2	1¼
Unemployment rate (year average, percent)	5	5	4¾	
Sydney CPI	2.7	2½	2¼	2½
Wage price index	3.8	4	4	3½
Australia				
Non-farm GDP deflator	4.8	2½	3¾	
Ten year bond rate (year average, percent)	5.8	5¾	6¼	5¾

(a) Per cent change, year average, unless otherwise indicated

World Economy

World economic growth in 2007 has strengthened somewhat since the Budget, although the outlook for 2008 has softened due to the ongoing impacts of the US subprime mortgage crisis and rising global oil prices. This has been reflected in recent downgrades to IMF and OECD forecasts for the global economy reflecting slower growth expected in the US, Europe and Japan. The impact on Australia from slower developed economy growth will be offset, however, by continued robust expansion in Asia.

Australian Economy

Strong Asian demand for Australian resources and the boost to domestic demand from federal tax and spending initiatives have more than offset the drag from tighter monetary policy, higher oil prices and a higher exchange rate. While Australia's terms of trade declined in the September quarter 2007 for the first time in seven years, they remained near generational highs, and the large expansion of mining capacity over the past few years has begun to translate into accelerated growth in the volume of exports. Accordingly, the Commonwealth Treasury's forecast of GDP growth in 2007-08 was revised from 3¾ per cent in their Budget to 4¼ per cent in their *Mid Year Economic and Fiscal Outlook*.

Pressures on labour supply, wages and prices remain. Monetary policy was tightened by a quarter of a percentage point in August and again in November, and markets have priced in a further tightening in 2008. The repricing of risk in global credit markets following the US subprime mortgage market collapse is adding further pressure to Australian interest rates.

New South Wales Economy

New South Wales output growth softened slightly during 2006-07, largely reflecting the impact of the drought, but growth shows signs of strengthening in 2007-08.

New South Wales state final demand growth lifted from 1.7 per cent in 2005-06 to 2.2 per cent in 2006-07 with strong private consumption, firm growth in public spending, and high levels of business investment spending offsetting a further decline in housing investment. Net exports were lower due to the drought and weather-related disruption to coal exports in June. As a result, Gross State Product growth slowed to 1.8 per cent in 2006-07 from 2.1 per cent in 2005-06.

The industries driving NSW output growth in 2006-07 were property and business services, finance and insurance, and transport and storage. They offset subdued results for agriculture, utilities, and construction.

NSW economic growth is expected to strengthen in 2007-08, supported by ongoing strong consumer spending and public demand, higher business investment, and a modest recovery in housing investment. State final demand is expected to grow at 4 per cent in 2007-08, a rate well above trend.

Consumer spending growth is above trend, reflecting strong employment and earnings, changes to federal taxes announced in the 2007-08 federal budget, and reduced import prices offsetting the drag from higher mortgage payments and petrol prices.

- Household consumption rose by 4.5 per cent through the year to September quarter – the strongest increase since June 2004.
- In the year to the September quarter, annual growth in retail sales volumes was 4.8 per cent, while sales of motor vehicles increased by 8.9 per cent – both near the fastest rates of expansion in over three years.
- Annual growth in compensation of employees was 8.0 per cent at current prices in the September quarter 2007, compared to 3.6 in the same quarter a year earlier.

Recovery in the *housing construction* sector continues to be stalled by higher interest rates, despite high underlying demand, low rental vacancies, moderation in construction costs and recent cuts to developer infrastructure levies. Investment has now declined for three consecutive years to 2006-07.

- Dwelling investment declined by 0.3 per cent in the year to September 2007, with a 2.1 per cent decline in new building partly offset by a 1.2 per cent gain in alterations and additions.
- Some forward indicators such as dwelling approvals (down 11.6 per cent on a year earlier in the September quarter) suggest ongoing weakness.

On the positive side, renewed growth in established house prices and subdued building costs are providing encouragement to prospective new home developers and purchasers.

- The total residential construction pipeline (work yet to be done) was up 8.1 per cent at current prices in the year to September.
- The Sydney established house price index increased by 5.2 per cent in the year to September – the strongest gain in three years, and auction sales (a barometer of activity in the established home market) in the three months to October were 48.2 per cent higher than a year earlier.
- Dwelling construction costs have remained contained. Producer price inflation was 2.3 per cent for house building and 0.8 per cent for multi-unit developments in the year to September 2007 – well down from their peaks at 5.6 per cent and 12.0 per cent respectively in December 2004.
- New house sales in the November quarter 2007 were 16.7 per cent higher than a year earlier.

Poor rainfall during the 2007 winter crop season will mute the recovery in *agricultural output* and exports. ABARE has reduced its forecast for the three main NSW winter crops from 10.4 million tonnes in June (a threefold increase on the previous year) to 2.8 million tonnes in December (a 9 per cent decrease from the previous year), and now forecasts a 91 per cent decline in summer rice production. As a consequence the $\frac{1}{4}$ to $\frac{1}{2}$ percentage point boost to GSP from drought recovery that was assumed in the Budget will not be realised.

Business investment is strengthening in response to tight capacity and buoyant demand. Private non-residential construction was up 21.8 per cent over the year to September, and private investment in plant and equipment was up 10.9 per cent over the same period. This includes the commissioning of several new coal mines during 2007, which will substantially increase NSW coal production in future years.

Recent surveys of business expectations are positive for the outlook for business activity and investment.

- The September 2007 National Australia Bank quarterly business survey reported NSW expected business conditions at their highest in thirteen years, and NSW capacity utilization at close to historical peaks.
- The September quarter ACCI-Westpac survey of industrial trends reported substantial net balances of firms intended to lift their capital expenditure on both building and equipment during the next twelve months.

In line with the State infrastructure program, higher *public sector investment* is contributing to stronger economic growth in 2007-08. State and local public enterprise investment increased by 13.7 per cent over the year to the September quarter; and State and local general government investment rose by 13.1 per cent over the same period.

The NSW *labour market* is performing more strongly than expected at budget time. In the first four months of 2007-08 employment averaged 1.8 per cent higher than the same period in 2006-07, and the unemployment rate averaged 4.7 per cent, a quarter of a percentage point below the same period a year earlier. Forward indicators of the labour market are strong, with ANZ job advertisements in the first four months averaging 2.8 per cent higher than a year earlier, and ABS job vacancies in the September quarter 21.6 per cent higher than a year earlier.

Inflation pressures have been modest, assisted by the lower cost of non-oil imports due to the strong Australian dollar, offsetting strong growth in wages and escalating world oil prices. The wage price index increased by 3.9 per cent over the year to September, while growth in the Sydney CPI was a moderate 1.3 per cent during the same period. The NSW household consumption deflator also recorded very moderate growth of 1.7 per cent in the year to September. Fixed capital investment cost pressures also eased, with annual average growth in the NSW public investment deflator slowing from 8.0 per cent in September 2006 to 3.7 per cent in September 2007.

While at present the prospects for 2007-08 remain bright, there are a number of risks which, if realised, would significantly impact activity in New South Wales in 2008-09:

- the possibility of a sharper US housing related slowdown and related pressure on global credit markets leading to a steeper slowdown in global output and investment, including a spill-over to Asian economies;
- the risk of higher and more volatile world oil prices driving up inflation, reducing household purchasing power and lowering corporate profitability; and
- domestic demand and non-farm GDP continuing to grow at above trend rates at a time when capacity constraints have emerged. This adds to the risk of higher interest rates in 2008 and beyond.

2. FISCAL POSITION AND OUTLOOK

2.1 PROJECTED RESULTS FOR 2007-08

Table 2.1: General Government Sector 2007-08 Operating Statement

	2006-07	2007-08		Variance \$m	4 Months to 31/10/2007
	Actual \$m	Budget \$m	Projection \$m		Actual \$m
State Revenues					
Taxation	17,713	17,562	18,555	993	5,881
Commonwealth Grants	17,789	19,116	19,470	354	6,805
Financial Distributions	1,937	1,764	1,575	(189)	565
Fines, Regulatory Fees & Other	1,192	1,189	1,255	66	449
Total State Revenues	38,631	39,631	40,855	1,224	13,700
Operating Revenues					
Sale of Goods and Services	3,274	3,433	3,472	39	1,126
Investment Income	1,313	781	751	(30)	225
Grants and Contributions	789	824	831	7	273
Other	523	325	393	68	183
Total Operating Revenues	5,899	5,363	5,447	84	1,807
TOTAL REVENUES	44,530	44,994	46,302	1,308	15,507
Expenses					
Employee Related					
- Superannuation	2,621	2,409	2,460	51	803
- Other	18,769	20,000	20,290	290	6,645
Other Operating	8,936	9,165	9,671	506	3,029
Depreciation and Amortisation	2,306	2,429	2,439	10	800
Current Grants and Subsidies	7,244	7,429	7,884	455	2,686
Capital Grants	2,852	1,650	1,743	93	459
Finance	1,218	1,321	1,309	(12)	407
Treasurer's Advance	...	215	...	(215)	...
TOTAL EXPENSES	43,946	44,618	45,796	1,178	14,829
BUDGET RESULT	584	376	506	130	678
Capital expenditure	4,286	4,937	4,849	(88)	1,137

BUDGET RESULT

Revenues

Total revenue is projected to be \$46.3 billion. This is \$1.3 billion, or 2.9 per cent, higher than at budget time. This mainly reflects higher taxation revenues (up 5.7 per cent or \$993 million) and Commonwealth grants (up 1.9 per cent or \$354 million), partly offset by lower financial distributions from government businesses (down 10.7 per cent or \$189 million).

Taxation revenue is expected to be \$993 million above the Budget estimate, largely on account of higher purchaser transfer duty, land tax and payroll tax. Table 2.2 provides details of the revised taxation revenue estimates.

Table 2.2: Taxation Revenue

	2006-07	2007-08		2008-09	2009-10	2010-11
	<i>Actual \$m</i>	<i>Budget \$m</i>	<i>Revised \$m</i>	<i>Forward Estimates \$m</i>		
Stamp Duties						
Purchaser Transfer Duty	4,163	3,695	4,206	4,350	4,470	4,604
Other Stamp Duties	1,790	1,574	1,596	1,438	1,351	1,424
Payroll Tax	5,667	5,960	6,085	6,524	6,824	7,146
Land Tax	2,036	1,750	1,968	1,973	2,020	2,080
Taxes on Motor Vehicle Ownership and Operation	1,392	1,485	1,501	1,571	1,650	1,729
Gambling and Betting	1,653	1,608	1,629	1,710	1,751	1,852
Other Tax Revenues	1,012	1,490	1,570	1,678	1,770	1,857
Total Tax Revenue	17,713	17,562	18,555	19,244	19,836	20,692

Purchaser transfer duty has been revised up by \$511 million, or 13.8 per cent. Activity in the residential and small commercial property markets has been higher than expected, partly as a result of superannuation changes, which prompted property owners to sell their properties and place up to \$1 million in undeducted contributions into superannuation by 30 June 2007. Revenue from high value commercial property sales has also been higher than expected, particularly during the first three months of 2007-08.

Payroll tax is predicted to be \$125 million, or 2.1 per cent higher than budget reflecting a stronger than expected labour market.

Land tax revenue accrued in a financial year depends upon the issue date of assessments and land values. Land tax is projected to be \$218 million higher than budget. This reflects a combination of the processing of a higher than expected number of assessments related to the 2007 land tax year and faster than expected land value growth, particularly for high value properties.

Gambling and betting taxes have been revised up by \$21 million or 1.3 per cent. The casino duty estimate has been revised up following the agreement to extend Star City's exclusivity in return for an upfront fee of \$100 million. The fee is expected to be paid in two installments in 2007-08 and 2008-09. This has been partly offset by a reduction in the estimate of revenue from other gambling taxes following the equine influenza outbreak.

Other taxation revenue has been revised up by \$80 million or 5.4 per cent. The major change has been a \$33 million increase in compulsory third party (CTP) premium revenue, following an increase in the CTP levy. Other stamp duties have been revised up by \$22 million mainly due to increases in the estimates of motor vehicle registration certificates and mortgage duty and a decrease in the estimate of insurance duty.

Commonwealth grants revenue is projected to exceed the budget estimate by \$354 million. The major changes since budget have been higher Specific Purpose Payments (SPPs) for drought assistance, groundwater structural adjustment and health services. However, there are offsetting expenditure changes associated with most of these SPPs. National Competition Policy (NCP) Payments, which ceased in 2005-06, are \$26 million higher than budget following the release of water reform payments that were suspended in 2005-06. The estimate of GST revenue grants is unchanged.

Financial distributions are \$189 million lower than budget estimates, primarily reflecting the impact of higher electricity prices on the Electricity Tariff Equalisation Fund.

Fines, fees and other revenue is \$66 million higher than budget mainly as a result of improvement in collecting outstanding fines and increased compliance activity in road safety.

Other operating revenues are expected to be \$84 million higher than budgeted, mainly from the recoupment of costs from the Commonwealth in relation to Equine Influenza (\$69 million), an increase in the valuation of physical assets to be received by the Roads and Traffic Authority under PPP contracts (\$56 million), partially offset by a reduction in investment income on assets held by the NSW Self Insurance Corporation to reflect year to date experience (\$28 million).

Expenses

Total expenses are projected to be \$45.8 billion. This is \$1.2 billion or 2.6 per cent higher than at budget time. This reflects additional expenditure in priority areas:

- Rural Assistance Authority expenses under the Exceptional Circumstances Scheme are expected to increase by \$227 million resulting from continued drought. Commonwealth grants will meet 90 per cent of this additional expenditure.
- Department of Water and Energy expenses on the Achieving Sustainable Groundwater Entitlements program have been carried forward from 2006-07 mainly due to uncertainty over the Commonwealth's decision on the capital gains tax treatment of payments in the hands of irrigators (\$126 million).
- Department of Education and Training expenses are to increase by \$120 million. This includes \$45 million for additional teachers to meet shifting student enrolment patterns and Commonwealth funded activities and other teaching costs such as maternity leave. Depreciation is anticipated to be \$35 million higher due to revaluation of assets of around \$1.5 billion included in the Department's final 2006-07 accounts. The remaining \$40 million reflects a number of factors including additional course delivery that has associated revenue in the TAFE sector and teaching overseas students, as well as higher costs for disabled student conveyance and supervisor subsidies.

- Additional spending by the Roads and Traffic Authority on road maintenance (\$68 million), depreciation (\$15 million), the natural disaster expenses relating to local roads on the Central Coast following the floods in June (\$20 million), school zone safety plan (\$5 million), the level crossing improvement program (\$5 million) and work for external clients (\$5 million).
- NSW Health expenses are up by \$93 million mainly reflecting an increase in the number of acute beds (\$30 million), and recognition of associated expenses from additional Commonwealth grant revenue paid directly to Area Health Services (\$55 million).
- The Department of Primary Industries committed \$69 million in response to Equine Influenza. Recoveries from the Commonwealth, other States and Industry under a cost sharing arrangement will total 96.7 per cent.
- The Department of Community Services forecasts additional expenses of \$45 million, mainly attributable to a projected increase in demand for Out-of-HomeCare Services (\$40 million) and disaster welfare arising from the Newcastle floods in June (\$5 million).
- An increase of \$45 million in expenses by the NSW Police Force is primarily due to higher claims under Police's Death and Disability Scheme and the revised accounting treatment for employee contributions to this Scheme. The impact of employee contributions on expenses (\$12 million) is offset by equivalent revenues.
- Additional funding of \$45 million was provided for Natural Disaster relief, following recent flooding in the Hunter and Central Coast regions.
- First Home Owners Grants have exceeded expectations at Budget time. The estimated additional cost is \$34 million.
- The Motor Accidents Authority has increased grants to organisations assisting accident victims and for roads safety initiatives (\$33 million).
- Crown Finance Entity superannuation expenses will be higher than budget by \$64 million. This results from the increased valuation of superannuation liabilities following an adjustment in the discount rate. The increase was partially offset by a reduction in borrowing costs arising from lower debt levels.
- The Department of the Arts, Sport and Recreation provided \$25 million to the Sydney Cricket and Sports Ground Trust as a matching contribution to the Commonwealth's commitment towards the construction of a new Hill Grandstand at the Sydney Cricket Ground.

Partially offsetting these higher expenses is a favourable movement in outstanding claims for public liability insurance and workers compensation.

Some of the above increases in expenses have been offset by a drawdown from the Treasurer's Advance.

CAPITAL EXPENDITURE

Capital expenditure for 2007-08 is projected to be \$4,849 million, which is close to the budget time estimate of \$4,937 million and reflects normal variations in the timing and costs of various capital projects.

GENERAL GOVERNMENT BALANCE SHEET

Table 2.3: 2007-08 Statement of Financial Position

	June 2007 Actual \$m	June 2008 Budget \$m	June 2008 Projection \$m	Variance \$m	October 2007 Actual \$m
ASSETS					
Financial Assets					
Cash and Deposits	2,486	2,933	1,731	(1,202)	2,680
Advances Paid	823	926	887	(39)	832
Investments, Loans and Placements	7,168	7,043	7,101	58	7,578
Other Non-Equity Assets	11,622	10,176	11,092	916	11,597
PTE/PFE Equity	67,128	67,770	69,776	2,006	67,408
Other Equity Assets	1,523	1,666	1,620	(46)	1,530
Total Financial Assets	90,750	90,514	92,207	1,693	91,625
Non-Financial Assets					
Land and Fixed Assets	92,511	95,459	95,325	(134)	92,730
Other Non-Financial Assets	1,308	1,214	1,463	249	978
Total Non-Financial Assets	93,819	96,673	96,788	115	93,708
TOTAL ASSETS	184,569	187,187	188,995	1,808	185,333
LIABILITIES					
Deposits Held	162	94	131	37	159
Advances Received	892	865	865	...	890
Borrowing	12,657	15,297	13,560	(1,737)	13,261
Provisions	27,914	30,196	30,421	225	28,661
Other Non-Equity Liabilities	8,154	4,731	6,344	1,613	7,261
TOTAL LIABILITIES	49,779	51,183	51,321	138	50,232
NET WORTH	134,790	136,004	137,674	1,670	135,101
Net Debt	3,234	5,354	4,837	(517)	3,220
Net Financial Liabilities^(a)	26,157	28,439	28,890	451	26,015

(a) Excludes PTE/PFE Equity.

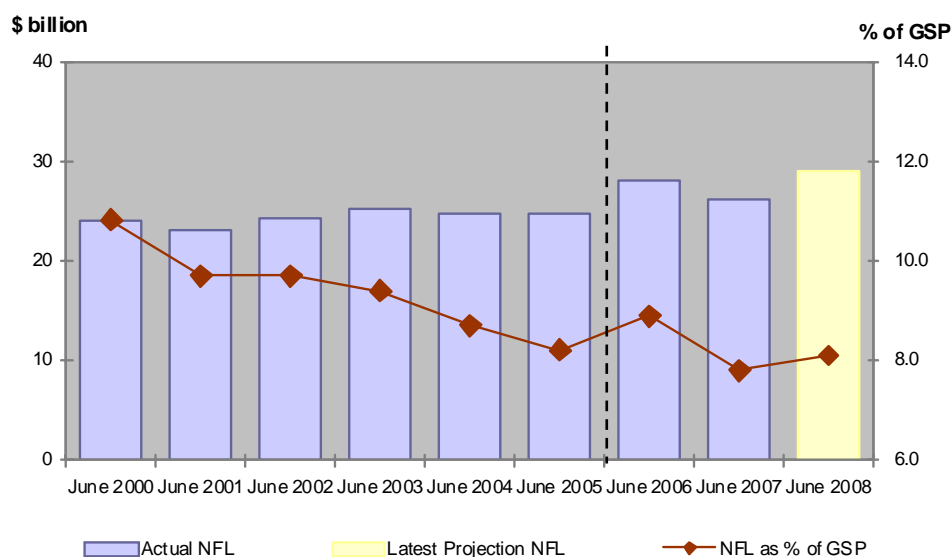
Net Financial Liabilities

Net financial liabilities are projected to be \$28,890 million at 30 June 2008, \$451 million higher than the budget time estimate.

This is principally due to the recognition of a provision, for the first time in June 2007, for a liability in respect of claims that have been granted to local Aboriginal Land Councils under the *Aboriginal Land Rights Act 1983*. This liability is backed by land assets of an equivalent value.

This was partially offset by an improved Net Lending Result for 2007-08, arising from an increased budget surplus, higher asset sales and lower capital expenditure.

Figure 2.1: General Government Net Financial Liabilities (NFL) ^(a)



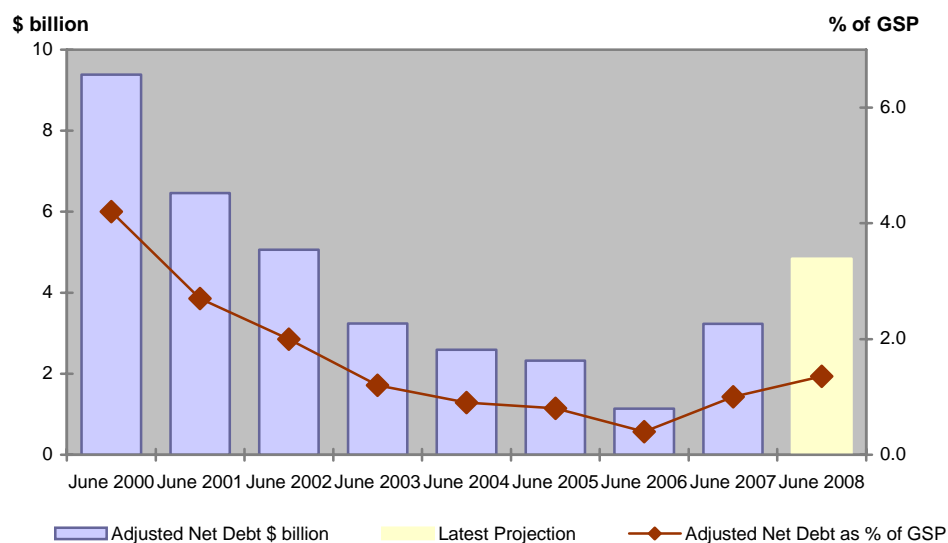
(a) Statements have been prepared assuming existing Australian Accounting Standards (AGAAP) for all years up to and including 2004-05 and Australian Equivalents to International Financial Reporting Standards (AEIFRS) for 2005-06 and all forward years.

Net Debt

Net debt at June 2008 is projected to be \$4,837 million, which is \$517 million lower than the budget time estimate of \$5,354 million. This is primarily due to strong actual and revised cash results for 2006-07 and 2007-08 respectively.

Net debt is lower than budget time estimate as a result of the larger budget surplus, leading to higher cash flows from operating activities, higher than estimated asset sale proceeds and lower capital expenditure in 2007-08.

Figure 2.2: General Government Net Debt (a)



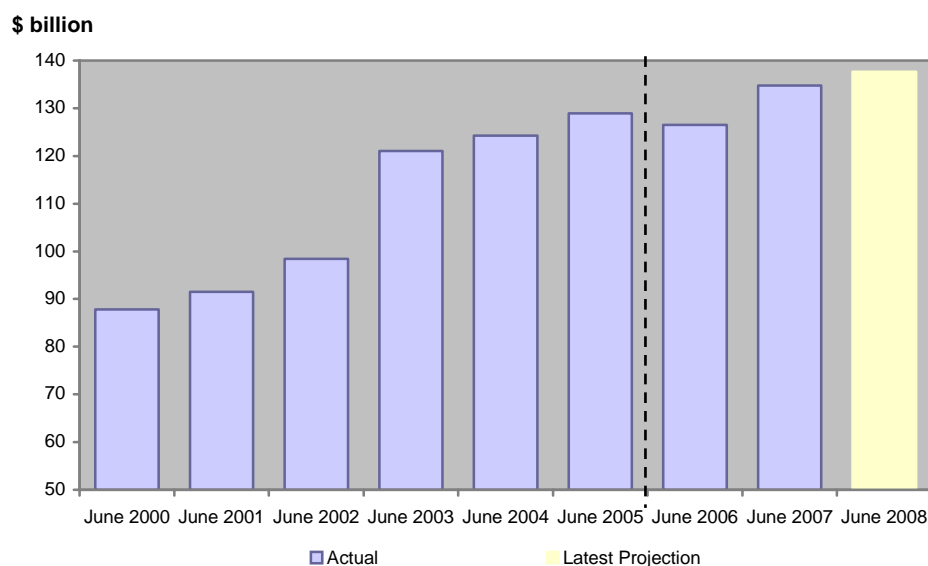
Net Worth

General government sector net worth is projected to be \$137,674 million as at June 2008. This is \$1,670 million higher than the budgeted figure of \$136,004 million.

The above mentioned factors impacting net financial liabilities also affect net worth for the same period. In addition there have been asset revaluations in the general government and PTE sectors which strengthen the net worth position.

Asset revaluations in the general government sector have totalled \$1,235 million (Roads and Traffic Authority, Health, Environmental Planning and Assessment Act) while in the Public Trading Enterprise sector asset revaluations have totalled \$2,075 million (Water and Electricity sectors). These were offset by write downs of \$894 million in the general government sector (mainly Education and Crown Leaseholds) and \$428 million in the PTE sector (Electricity).

Figure 2.3: Net Worth of the General Government Sector (a)



(a) Statements have been prepared assuming existing Australian Accounting Standards (AGAAP) for all years up to and including 2004-05 and Australian Equivalents to International Financial Reporting Standards (AEIFRS) for 2005-06 and all forward years.

GENERAL GOVERNMENT CASHFLOW STATEMENT

Table 2.4: 2007-08 GFS Cash Results

	2006-07	2007-08		Variance \$m	4 Months to
	Actual \$m	Budget \$m	Projection \$m		31/10/2007 Actual \$m
Cash Receipts from Operating Activities					
Taxes Received	17,477	17,569	18,251	682	5,602
Receipts from sales of goods & services	3,555	3,710	3,847	137	1,303
Grants/Subsidies Received	18,137	19,249	19,594	345	6,843
Other Receipts	6,937	5,750	6,031	281	2,114
Total Cash Receipts from Operating Activities	46,106	46,278	47,723	1,445	15,862
Cash Payments from Operating Activities					
Payments for goods & services	(37,509)	(32,890)	(33,478)	(588)	(11,641)
Grants & Subsidies Paid	(8,494)	(7,384)	(7,910)	(526)	(2,642)
Interest Paid	(855)	(956)	(961)	(5)	(251)
Other Payments	(2,780)	(2,570)	(2,600)	(30)	(344)
Total Cash Payments from Operating Activities	(49,638)	(43,800)	(44,949)	(1,149)	(14,878)
Net Cash Flows from Operating Activities	(3,532)	2,478	2,774	296	984
Cash Flows from Investments in Non-Financial Assets					
Purchases of New Non-Financial Assets	(4,137)	(4,695)	(4,587)	108	(1,105)
Sale of Non-Financial Assets	524	486	586	100	187
Total Cash Flows from Investments in Non-Financial Assets	(3,613)	(4,209)	(4,001)	208	(918)
Cash Flows from Investments in Financial Assets					
Financial Assets for Policy Purposes	234	58	28	(30)	29
Financial Assets for Liquidity Purposes	6,668	39	(23)	(62)	(427)
Total Cash Flows from Investments in Financial Assets	6,902	97	5	(92)	(398)
Cash Flows from Financing Activities					
Advances Received (net)	(47)	(51)	(47)	4	(24)
Borrowing (net)	389	2,408	545	(1,863)	516
Deposits Received (net)	16	...	(30)	(30)	6
Distributions Paid	...	...	...	...	...
Other Financing (net)	1	...	...	...	5
Total Cash Flows from Financing Activities	359	2,357	468	(1,889)	503
Net Increase/(Decrease) in Cash Held	116	723	(754)	(1,477)	171
Net Cash from Operating Activities, Investments in Non-Financial Assets and Distributions Paid	(7,145)	(1,731)	(1,227)	504	66
Assets acquired under finance leases	(130)	(245)	(269)	(24)	(53)
Surplus/(Deficit)	(7,275)	(1,976)	(1,496)	480	13
Impact of prepaid superannuation contributions					
Liability Management Fund	5,308	...	...	...	...
Adjusted Surplus/(Deficit)	(1,967)	(1,976)	(1,496)	480	13

The projected cash deficit for 2007-08 of \$1,496 million is a \$480 million improvement compared with budget. This is due to the larger Budget surplus, leading to higher cash flows from operating activities, higher than estimated asset sale proceeds and lower capital expenditure.

Cash held is now projected to decrease by \$754 million in 2007-08, compared with an estimated increase of \$723 million at budget time. Similarly borrowings are projected to be around \$1.9 billion less than budgeted. With the volatility in financial markets the prudent use of cash balances rather than further borrowings is considered optimal.

In addition, cash balances held in the Electricity Tariff Equalisation Ministerial Corporation reduced as a result of payments to electricity retailers to compensate them for additional supply costs. Higher electricity prices were mainly caused by extreme weather conditions and the ongoing drought.

2.2 FORWARD ESTIMATES 2008-09 TO 2010-11

Table 2.5: General Government Sector Operating Statement - 2007-08 to 2010-11

	2007-08 Latest Projection \$m	2008-09 Estimate \$m	2009-10 Estimate \$m	2010-11 Estimate \$m
State Revenues				
Taxation	18,555	19,244	19,836	20,692
Commonwealth Grants	19,470	19,594	20,719	21,644
Financial Distributions	1,575	1,725	2,048	2,203
Fines, Regulatory Fees & Other	1,255	1,294	1,344	1,368
Total State Revenues	40,855	41,857	43,947	45,907
Operating Revenues				
Sale of Goods and Services	3,472	3,518	3,616	3,727
Investment Income	751	787	825	866
Grants and Contributions	831	807	833	877
Other	393	789	395	403
Total Operating Revenues	5,447	5,901	5,669	5,873
TOTAL REVENUES	46,302	47,758	49,616	51,780
Expenses				
Employee Related				
- Superannuation	2,460	2,393	2,420	2,437
- Other	20,290	21,062	21,627	22,253
Other Operating	9,671	9,881	10,493	11,179
Depreciation and Amortisation	2,439	2,553	2,725	2,855
Current Grants and Subsidies	7,884	7,601	7,642	7,847
Capital Grants	1,743	2,209	2,472	2,935
Finance	1,309	1,395	1,507	1,596
Total Expenses	45,796	47,094	48,886	51,102
BUDGET RESULT	506	664	730	678
Capital expenditure	4,849	4,758	4,821	4,820
Cash Surplus/(Deficit)	(1,496)	(586)	(578)	(396)
Net Debt	4,837	5,211	5,858	6,357
Net Financial Liabilities^(a)	28,890	30,266	31,283	32,313

(a) Excludes PTE/PFE Equity.

FORWARD ESTIMATES

The 2007-08 projections are discussed in section 2.1 of this Review. The revised results for 2008-09 onwards are driven by a number of post budget developments, the most significant of which are:

- the flow on of stronger than expected economic activity in 2007-08 impacting transfer duties and payroll tax;
- higher land tax revenues reflecting the higher revenue base in 2007-08;
- adjustments to funding for transport agencies reflecting timing differences for proposed new major rail projects, in particular, the Second Harbour Crossing;
- additional debt reduction grants to rail agencies of \$390 million in 2008-09 and \$530 million in 2009-10.
- increases in drought assistance, due to the Commonwealth's extension of the Exceptional Circumstances Scheme until September 2008 and expanded eligibility criteria due to ongoing hardship imposed by the drought;
- variations in the timing of expenditure by the Roads and Traffic Authority on road maintenance and speed cameras and flashing lights in school zones and additional Commonwealth funding under Auslink II for 2009-10 and 2010-11; and
- increases in mining royalties due to expected increases in mineral values.

Table 2.6: Budget Results

	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
Budget Time	376	482	583	448
Half-Yearly Budget Review	506	664	730	678

NET FINANCIAL LIABILITIES

Net financial liabilities are expected to increase from \$28.9 billion as at June 2008 to \$32.3 billion as at June 2011, principally due to projected net lending deficits as a result of the significant capital program. However, as a proportion of GSP, net financial liabilities will decline from 8.1 per cent to 7.6 per cent.

APPENDIX A: UNIFORM PRESENTATION OF GOVERNMENT FINANCE STATISTICS

A Uniform Presentation Framework (UPF) for financial aggregates has been agreed between the Commonwealth, State and Territory Governments.

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

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

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

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

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 selected Commonwealth payments.

For certain Commonwealth payments (e.g. non-government schools and local government 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.

Notes:

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

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

PUBLIC NON-FINANCIAL CORPORATIONS SECTOR PERFORMANCE

The commercial policy framework that applies to the Public Non-financial Corporation (PNFC) Sector is designed to promote the appropriate management of financial risk and shareholder value. Therefore it is to be expected that the performance of the sector will reflect reasonable commercial outcomes, while being mindful of the constraints under which a number of New South Wales PNFCs operate.

The considerations influencing the management of financial liabilities of PNFCs differ from those relevant to the General Government Sector. The financial liabilities of commercial enterprises, for the most part, support assets that earn a financial return in addition to providing public services. In contrast, assets held by the General Government Sector do not earn market returns and are funded from taxation revenue.

The amount of debt held by PNFCs should generally reflect typical gearing levels of private firms in the relevant industries, in order to provide incentives for public enterprises to use their resources efficiently. Net debt of the PNFC Sector will increase over the forward estimates period, reflecting the continuing shift to commercially comparable gearing levels and new investment in electricity networks, water and sewerage systems, rail and other infrastructure.

On 10 December 2007, the New South Wales Premier announced the Government's intention to lease the existing NSW electricity generators to the private sector, and to sell the retail operations of the NSW electricity distributors to the private sector. The detailed structure and timing of the sale has not been finalised. In any event, the forward estimates in this Half Yearly Budget Review have not been adjusted to reflect the transaction as any estimated proceeds remain commercial-in-confidence.

The PNFC Operating Statement is reported in Table A-2. The 2007-08 Net Operating Balance is projected to be a \$135 million deficit which is similar to the budget estimate of a \$129 million deficit.

During 2007-08 PNFCs will be investing approximately \$7 billion in transport, power, water and other infrastructure.

The Sector's Net Borrowing result for the year is projected to be \$4,815 million compared to the budget of \$5,380 million. This is primarily due to lower than budgeted spending on water and transport infrastructure in 2007-08 from the deferral of capital expenditure into the forward years.

The equity of the PNFC Sector, reported in Table A-5, is expected to be \$69,950 million by June 2008.

Table A-8 reports a projected cash deficit for the PNFC Sector of \$4,755 million compared to the budgeted deficit of \$5,291 million. This is primarily explained by the factors outlined above for the Net Borrowing result.

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

	<i>Budget</i> 2007-08 \$m	<i>Revised</i> <i>Estimates</i> 2007-08 \$m	<i>Forward Estimates</i>		
			2008-09 \$m	2009-10 \$m	2010-11 \$m
GFS Revenue					
Taxation revenue	17,562	18,555	19,244	19,836	20,692
Current grants and subsidies	20,597	20,986	21,580	22,466	23,155
Capital grants	1,507	1,468	980	1,219	1,464
Sales of goods and services	3,741	3,802	3,844	3,980	4,142
Interest income	781	751	787	825	866
Other	3,328	3,262	3,845	3,812	3,983
Total revenue	47,516	48,824	50,280	52,138	54,302
less GFS Expenses					
Employee expenses	21,555	21,941	22,711	23,286	23,911
Depreciation	2,429	2,439	2,553	2,725	2,855
Other operating expenses	10,903	11,108	11,358	11,997	12,715
Nominal superannuation interest expense	501	508	454	466	480
Other interest expenses	1,321	1,309	1,395	1,507	1,596
Other property expenses	...	3	3	3	3
Current transfers	8,682	9,168	8,834	8,853	9,031
Capital transfers	1,749	1,842	2,308	2,571	3,033
Total expenses	47,140	48,318	49,616	51,408	53,624
equals GFS net operating balance	376	506	664	730	678
less Net acquisition of non-financial assets					
Purchases of non-financial assets	4,691	4,579	4,417	4,743	4,740
less Sales of non-financial assets	(469)	(567)	(520)	(580)	(597)
less Depreciation	(2,429)	(2,439)	(2,553)	(2,725)	(2,855)
plus Change in inventories	(2)	...	(4)	2	1
plus Other movements in non-financial assets					
- finance leases ^(a)	246	269	341	78	80
- other	14	71	455	141	130
equals Total net acquisition of non-financial assets	2,051	1,913	2,136	1,659	1,499
equals GFS Net lending / (Borrowing)^(b)	(1,675)	(1,407)	(1,472)	(929)	(821)

Notes:

(a) Elsewhere in the 2007-08 Half-Yearly Budget Review references are made to Capital Expenditure which comprises purchases of non-financial assets and assets acquired under finance lease arrangements.

(b) Also known as Fiscal Balance.

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

	Budget 2007-08 \$m	Revised Estimates 2007-08 \$m	Forward Estimates		
			2008-09 \$m	2009-10 \$m	2010-11 \$m
GFS Revenue					
Sales of goods and services	11,456	11,715	12,233	13,238	13,895
Current grants and subsidies	2,131	2,172	2,266	2,336	2,395
Capital grants	845	868	1,374	1,755	2,208
Interest income	68	84	74	71	64
Other	720	698	766	715	734
Total revenue	15,220	15,537	16,713	18,115	19,296
less GFS Expenses					
Employee expenses	3,600	3,600	3,728	3,830	3,936
Depreciation	2,254	2,307	2,537	2,746	2,871
Other operating expenses	6,341	6,913	6,551	6,724	6,826
Interest expenses	1,203	1,111	1,311	1,660	1,975
Other property expenses	1,716	1,528	1,676	1,939	2,079
Current transfers	228	206	239	254	236
Capital transfers	7	7	...	...	...
Total expenses	15,349	15,672	16,042	17,153	17,923
equals GFS net operating balance	(129)	(135)	671	962	1,373
less Net acquisition of non-financial assets					
Purchase of non-financial assets	7,604	7,045	8,238	7,945	7,677
less Sales of non-financial assets	(350)	(316)	(428)	(429)	(307)
less Depreciation	(2,254)	(2,307)	(2,537)	(2,746)	(2,871)
plus Change in inventories	83	90	51	69	64
plus Other movements in non-financial assets					
- finance leases ^(a)	...	...	...	307	490
- other	168	168	189	175	186
equals Total net acquisition of non-financial assets	5,251	4,680	5,513	5,321	5,239
equals GFS Net lending / (Borrowing) ^(b)	(5,380)	(4,815)	(4,842)	(4,359)	(3,866)

Notes:

(a) Elsewhere in the 2007-08 Half-Yearly Budget Review references are made to Capital Expenditure which comprises purchases of non-financial assets and assets acquired under finance lease arrangements.

(b) Also known as Fiscal Balance.

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

	Budget 2007-08 \$m	Revised Estimates 2007-08 \$m	Forward Estimates		
			2008-09 \$m	2009-10 \$m	2010-11 \$m
GFS Revenue					
Taxation revenue	16,796	17,789	18,437	18,979	19,792
Current grants and subsidies	20,483	20,869	21,463	22,353	23,041
Sales of goods and services	14,960	15,287	15,758	16,914	17,766
Capital grants	1,500	1,461	980	1,218	1,464
Interest income	789	782	811	846	879
Other	2,295	2,412	2,954	2,604	2,651
Total revenue	56,823	58,600	60,403	62,914	65,593
less GFS Expenses					
Employee expenses	25,143	25,529	26,427	27,104	27,834
Depreciation	4,683	4,747	5,090	5,471	5,727
Other operating expenses	16,217	17,004	16,801	17,581	18,390
Nominal superannuation interest expense	496	484	429	442	456
Other interest expenses	2,468	2,391	2,681	3,141	3,544
Other Property expenses	...	3	3	3	3
Current transfers	6,696	7,103	6,724	6,684	6,783
Capital transfers	873	967	913	796	805
Total expenses	56,576	58,228	59,068	61,222	63,542
equals GFS net operating balance	247	372	1,335	1,692	2,051
less Net acquisition of non-financial assets					
Purchase of non-financial assets	12,289	11,618	12,649	12,681	12,411
less Sales of non-financial assets	(819)	(883)	(948)	(1,009)	(904)
less Depreciation	(4,683)	(4,747)	(5,090)	(5,471)	(5,727)
plus Change in inventories	81	90	47	70	65
plus Other movements in non-financial assets					
- finance leases ^(a)	245	269	341	384	570
- other	184	242	643	318	317
equals Total net acquisition of non-financial assets	7,297	6,589	7,642	6,973	6,732
equals GFS Net lending / (Borrowing) ^(b)	(7,050)	(6,217)	(6,307)	(5,281)	(4,681)

Notes:

(a) Elsewhere in the 2007-08 Half-Yearly Budget Review references are made to Capital Expenditure which comprises purchases of non-financial assets and assets acquired under finance lease arrangements.

(b) Also known as Fiscal Balance.

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

	<i>Budget</i>	<i>Revised</i>	<i>Forward Estimates</i>				
			<i>June 2008</i>	<i>June 2008</i>	<i>June 2009</i>	<i>June 2010</i>	<i>June 2011</i>
			<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>
Assets							
Financial assets							
Cash and deposits	2,933	1,731	1,978	2,201	2,428		
Advances paid	926	887	939	971	1,014		
Investments, loans and placements	7,043	7,101	7,569	8,081	8,621		
Other non-equity assets	10,176	11,092	10,716	10,987	11,127		
Equity	69,436	71,396	72,928	75,648	78,280		
Total financial assets	90,514	92,207	94,130	97,888	101,470		
Non-financial assets							
Land and fixed assets	95,459	95,325	98,413	101,122	103,776		
Other non-financial assets	1,214	1,463	1,620	1,782	1,932		
Total non-financial assets	96,673	96,788	100,033	102,904	105,708		
Total assets	187,187	188,995	194,163	200,792	207,178		
Liabilities							
Deposits held	94	131	131	131	131		
Advances received	865	865	836	808	778		
Borrowing	15,297	13,560	14,730	16,172	17,511		
Superannuation liability ^(a)	16,441	16,606	16,977	17,267	17,490		
Other employee entitlements and provisions	13,755	13,814	14,270	14,665	15,153		
Other non-equity liabilities	4,731	6,345	6,258	6,280	6,289		
Total liabilities	51,183	51,321	53,202	55,323	57,352		
NET WORTH	136,004	137,674	140,961	145,469	149,826		
Net Financial Worth ^(b)	39,331	40,886	40,928	42,565	44,118		
Net debt ^(c)	5,354	4,837	5,211	5,858	6,357		

Notes:

(a) Comprises unfunded obligations.

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

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

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

	Budget June 2008 \$m	Revised Estimate June 2008 \$m	Forward Estimates		
			June 2009 \$m	June 2010 \$m	June 2011 \$m
Assets					
Financial assets					
Cash and deposits	962	1,154	963	763	847
Investments, loans and placements	531	1,261	1,389	1,429	1,387
Other non-equity assets	2,774	3,037	2,941	3,103	3,163
Equity	87	31	43	57	83
Total financial assets	4,354	5,483	5,336	5,352	5,480
Non-financial assets					
Land and fixed assets	96,573	97,838	103,788	110,637	116,846
Other non-financial assets	862	899	907	964	1,051
Total non-financial assets	97,435	98,737	104,695	111,601	117,897
Total assets	101,789	104,220	110,031	116,953	123,377
Liabilities					
Deposits held	203	185	189	177	179
Advances received	567	528	514	500	638
Borrowing	21,508	21,166	25,401	29,154	32,531
Superannuation liability/ (prepaid contributions) ^(a)	(104)	(185)	(200)	(225)	(261)
Other employee entitlements and provisions	8,392	9,291	9,412	9,760	9,988
Other non-equity liabilities	3,327	3,285	3,344	3,561	3,696
Total liabilities	33,893	34,270	38,660	42,927	46,771
Shares and other contributed capital ^(b)	67,896	69,950	71,371	74,026	76,606
NET WORTH ^(b)	...	...	...	...	...
Net Financial Worth ^(c)	(97,435)	(98,737)	(104,695)	(111,601)	(117,897)
Net debt ^(d)	20,785	19,464	23,752	27,639	31,114

Notes:

- (a) *Comprises unfunded obligations or prepaid contribution (assets).*
- (b) *The Australian Bureau of Statistics treats 'shares and other contributed capital' as a liability to the general government sector and deducts it to calculate a zero GFS net worth and negative net financial worth. However, these shares and other contributed capital reflect the value of the government's equity and cumulative earnings over time for the PTE sector.*
- (c) *Net financial worth equals total financial assets minus total liabilities and minus shares and other contributed capital.*
- (d) *Net debt equals the sum of deposits held, advances received and borrowing, minus the sum of cash and deposits, advances paid, and investments, loans and placements.*

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

	Budget June 2008 \$m	Revised Estimate June 2008 \$m	Forward Estimates		
			June 2009	June 2010	June 2011
			\$m	\$m	\$m
Assets					
Financial assets					
Cash and deposits	3,895	2,884	2,941	2,964	3,275
Advances paid	359	359	425	472	529
Investments, loans and placements	7,476	8,260	8,840	9,373	9,858
Other non-equity assets	5,839	5,822	5,367	5,493	5,495
Equity	1,627	1,477	1,600	1,679	1,757
Total financial assets	19,196	18,802	19,173	19,981	20,914
Non-financial assets					
Land and fixed assets	192,032	193,163	202,201	211,759	220,622
Other non-financial assets	2,058	2,357	2,524	2,746	2,985
Total non-financial assets	194,090	195,520	204,725	214,505	223,607
Total assets	213,286	214,322	223,898	234,486	244,521
Liabilities					
Deposits held	297	316	320	307	309
Advances received	865	865	836	808	931
Borrowing	36,707	34,623	40,013	45,191	49,893
Superannuation liability ^(a)	16,337	16,421	16,777	17,042	17,229
Other employee entitlements and provisions	15,853	15,942	16,423	16,867	17,415
Other non-equity liabilities	7,223	8,481	8,568	8,802	8,918
Total liabilities	77,282	76,648	82,937	89,017	94,695
Shares and other contributed capital	...	...	...	...	...
NET WORTH	136,004	137,674	140,961	145,469	149,826
Net Financial Worth ^(b)	(58,086)	(57,846)	(63,764)	(69,036)	(73,781)
Net debt ^(c)	26,139	24,301	28,963	33,497	37,471

*Notes:**(a) Comprises unfunded obligations.**(b) Net financial worth equals total financial assets minus total liabilities.**(c) Net debt equals the sum of deposits held, advances received and borrowing, minus the sum of cash and deposits, advances paid, and investments, loans and placements.*

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

CASH FLOW	Budget 2007-08 \$m	Revised Estimate 2007-08 \$m	Forward Estimates		
			2008-09	2009-10	2010-11
			\$m	\$m	\$m
Cash receipts from operating activities					
Taxes received	17,569	18,251	19,673	19,851	20,715
Receipts from sales of goods and services	3,710	3,847	3,821	3,940	4,107
Grants/subsidies received	21,771	22,116	22,554	23,684	24,619
Other receipts	5,750	6,031	5,982	6,341	6,587
Total receipts	48,800	50,245	52,030	53,816	56,028
Cash payments for operating activities					
Payment for goods and services ^(b)	(32,890)	(33,478)	(34,280)	(35,645)	(36,999)
Grants and subsidies paid	(9,906)	(10,432)	(10,596)	(10,913)	(11,557)
Interest paid	(956)	(961)	(968)	(1,029)	(1,057)
Other payments	(2,570)	(2,600)	(2,533)	(2,565)	(2,586)
Total payments	(46,322)	(47,471)	(48,377)	(50,152)	(52,199)
Net cash flows from operating activities	2,478	2,774	3,653	3,664	3,829
Net cash flows from investments in non-financial assets					
Sales of non-financial assets	486	586	521	582	598
Purchases of non-financial assets	(4,695)	(4,587)	(4,419)	(4,746)	(4,743)
Net cash flows from investments in non-financial assets	(4,209)	(4,001)	(3,898)	(4,164)	(4,145)
Net cash flows from investments in financial assets for policy purposes	58	28	213	(15)	(24)
Net cash flows from investments in financial assets for liquidity purposes	39	(23)	(490)	(540)	(544)
Net cash flows from financing activities					
Advances received (net)	(51)	(47)	(50)	(55)	(53)
Borrowing (net)	2,408	545	835	1,334	1,174
Deposits received (net)	...	(30)	(2)	(2)	(1)
Other financing (net)	...	...	...	...	...
Net cash flows from financing activities	2,357	468	783	1,277	1,120
Net increase (decrease) in cash held	723	(754)	261	222	236
SURPLUS / (DEFICIT)					
Net cash from operating activities and investments in non-financial assets	(1,731)	(1,227)	(245)	(500)	(316)
Finance leases and similar arrangements	(245)	(269)	(341)	(78)	(80)
SURPLUS / (DEFICIT)	(1,976)	(1,496)	(586)	(578)	(396)

Notes:

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

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

CASH FLOW	Budget	Revised	Forward Estimates		
	2007-08	Estimate	2008-09	2009-10	2010-11
	\$m	\$m	\$m	\$m	\$m
Cash receipts from operating activities					
Receipts from sales of goods and services	11,872	13,100	12,554	13,490	14,317
Grants/subsidies received	2,976	3,040	3,640	4,091	4,604
Other receipts	2,309	2,382	2,572	2,732	2,712
Total receipts	17,157	18,522	18,766	20,313	21,633
Cash payments for operating activities					
Payment for goods and services	(10,397)	(11,325)	(10,363)	(10,641)	(10,829)
Grants and subsidies paid	(228)	(206)	(239)	(254)	(236)
Interest paid	(1,201)	(1,128)	(1,310)	(1,678)	(2,009)
Other payments	(1,841)	(2,098)	(1,881)	(2,094)	(2,164)
Total payments	(13,667)	(14,757)	(13,793)	(14,667)	(15,238)
Net cash flows from operating activities	3,490	3,765	4,973	5,646	6,395
Net cash flows from investments in non-financial assets					
Sales of non-financial assets	353	312	428	429	312
Purchases of non-financial assets	(7,566)	(7,089)	(8,280)	(7,862)	(7,625)
Net cash flows from investments in non-financial assets	(7,213)	(6,777)	(7,852)	(7,433)	(7,313)
Net cash flows from investments in financial assets for policy purposes	(33)	(5)	(72)	(17)	(42)
Net cash flows from investments in financial assets for liquidity purposes	74	244	(71)	5	45
Net cash flows from financing activities					
Advances received (net)	(100)	(97)	(218)	(27)	(28)
Borrowing (net)	4,998	4,167	4,662	3,511	3,066
Deposits received (net)	...	(10)	3	(12)	2
Distributions Paid	(1,568)	(1,743)	(1,616)	(1,874)	(2,041)
Other financing (net)	(1)	...	...	...	...
Net cash flows from financing activities	3,329	2,317	2,831	1,598	999
Net increase (decrease) in cash held	(353)	(456)	(191)	(201)	84
SURPLUS / (DEFICIT)					
Net cash from operating activities and investments in non-financial assets	(3,723)	(3,012)	(2,879)	(1,787)	(918)
Distributions Paid	(1,568)	(1,743)	(1,616)	(1,874)	(2,041)
Finance leases and similar arrangements	...	...	...	(307)	(490)
SURPLUS / (DEFICIT)	(5,291)	(4,755)	(4,495)	(3,968)	(3,449)

Notes:

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

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

CASH FLOW	Budget	Revised	Forward Estimates		
	2007-08	2007-08	2008-09	2009-10	2010-11
	\$m	\$m	\$m	\$m	\$m
Cash receipts from operating activities					
Taxes received	16,823	17,789	18,874	19,007	19,825
Receipts from sales of goods and services	15,347	16,375	16,055	17,123	18,153
Grants/subsidies received	21,646	21,993	22,437	23,571	24,505
Other receipts	6,518	6,667	6,983	7,237	7,295
Total receipts	60,334	62,824	64,349	66,938	69,778
Cash payments for operating activities					
Payment for goods and services ^(b)	(42,354)	(43,820)	(43,618)	(45,231)	(46,765)
Grants and subsidies paid	(7,090)	(7,587)	(7,091)	(6,994)	(7,111)
Interest paid	(2,096)	(2,036)	(2,228)	(2,657)	(3,015)
Other payments	(4,336)	(4,589)	(4,409)	(4,626)	(4,710)
Total payments	(55,876)	(58,032)	(57,346)	(59,508)	(61,601)
Net cash flows from operating activities	4,458	4,792	7,003	7,430	8,177
Net cash flows from investments in non-financial assets					
Sales of non-financial assets	840	899	950	1,009	910
Purchases of non-financial assets	(12,255)	(11,670)	(12,692)	(12,601)	(12,362)
Net cash flows from investments in non-financial assets	(11,415)	(10,771)	(11,742)	(11,592)	(11,452)
Net cash flows from investments in financial assets for policy purposes	(78)	(80)	(81)	(63)	(98)
Net cash flows from investments in financial assets for liquidity purposes	113	220	(561)	(535)	(499)
Net cash flows from financing activities					
Advances received (net)	(51)	(44)	(50)	(55)	(53)
Borrowing (net)	7,409	4,715	5,500	4,850	4,245
Deposits received (net)	(1)	(39)	1	(14)	...
Distributions Paid	...	...	...	...	...
Other financing (net)	(65)	(2)	...	...	...
Net cash flows from financing activities	7,292	4,630	5,451	4,781	4,192
Net increase (decrease) in cash held	370	(1,209)	70	21	320
SURPLUS / (DEFICIT)					
Net cash from operating activities and investments in non-financial assets	(6,957)	(5,979)	(4,739)	(4,162)	(3,275)
Distributions Paid	...	...	...	...	...
Finance leases and similar arrangements	(245)	(269)	(341)	(384)	(570)
SURPLUS / (DEFICIT)	(7,202)	(6,248)	(5,080)	(4,546)	(3,845)

Notes:

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

LOAN COUNCIL REPORTING REQUIREMENTS

Table A-10 presents the Budget time estimates of the State's Loan Council Allocation (LCA) for 2007-08 and a revised estimate taking into account fiscal and economic developments since the commencement of the budget year.

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

Overall, the positive Loan Council Allocation requirement of \$6,369 million for New South Wales for 2007-08 has been revised to positive \$6,094 million. The variance of \$275 million since the 2007-08 Budget is within the tolerance limit. The tolerance limit for 2007-08 is \$1,193 million and is calculated as 2 per cent of cash receipts from operating activities for the Non-Financial Public Sector.

Table A-10: 2007-08 Loan Council Allocation Estimates for NSW

	<i>Budget-time Estimate 2007-08 \$m</i>	<i>Loan Council Revised Estimate 2007-08 \$m</i>
General government sector cash deficit / (surplus)	1,976	1,496
PNFC sector cash deficit / (surplus)	5,291	4,755
Non-financial public sector cash deficit / (surplus) ^(a)	7,202	6,248
Net cash flows from investments in financial assets for policy purposes ^(b)	78	80
Memorandum items ^(c)	(911)	(234)
Loan Council Allocation	6,369	6,094

Notes:

(a) Does not directly equate to the sum of the General Government and PNFC cash deficits due to intersectoral transfers which are netted out.

(b) This item is the negative of net advances paid under a cash accounting framework

(c) Memorandum items are used to adjust the ABS deficit to include in LCAs certain transactions – such as operating leases that have many of the characteristics of public sector borrowings but do not constitute formal borrowings. They are also used, where appropriate, to deduct from the ABS deficit certain transactions that Loan Council has agreed should not be included in LCAs – for example, the funding of more than employers' emerging costs under public sector superannuation schemes, or borrowings by entities such as statutory marketing authorities.

PRIVATELY FINANCED PROJECTS – CONTRACTS EXPECTED TO BE ENTERED INTO IN 2007-08

COLONGRA GAS PIPELINE

A private sector consortium is expected to enter into arrangements with Delta Electricity (Delta) under which they will finance, design and construct and maintain a gas transmission pipeline and provide gas transport and storage services to the Colongra Open Cycle Gas Turbine project at Lake Munmorah pursuant to a Gas Transportation and Storage Service Agreement (GTSSA).

The estimated value of the contract is \$70 million.

Key elements of the GTSSA agreement are expected to include:

- a 20 year term with three 5 yearly options for extension, cancellable by Delta only;
- Delta to pay the consortium an Access Charge and an Operating and Maintenance Charge each month;
- the private sector party to always be the owner of the pipeline even after the expiry of the GTSSA;
- if the GTSSA is terminated, the pipeline and easements would transfer back to Delta ownership upon payment of a termination fee;

The Colongra Gas Pipeline, including testing and commissioning, is expected to be complete by February 2009.

Government Contingent Liability	To Be Determined
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APPENDIX B: GUIDE TO THE 2007-08 HALF-YEARLY BUDGET REVIEW

The 2007-08 Half-Yearly Budget Review reports on the current and projected financial performance of the NSW General Government Sector. The General Government Sector covers all agencies that are generally engaged in the production of goods and services outside the normal market mechanisms.

In practice, this means that entities which operate outside normal market mechanisms (e.g. Audit Office of New South Wales) and self funded regulatory agencies (e.g. the WorkCover Authority and the Motor Accidents Authority) are included, as well as agencies which receive an appropriation in the Annual Appropriation Act (e.g. the Department of Health and the Department of Education and Training).

The *Public Finance and Audit Act 1983* requires the Treasurer to publicly release a statement by 31 December each year containing:

- The latest economic projections for the current financial year and an explanation of any significant variation from the 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 NSW Budget is compiled in accordance with the Government Finance Statistics (GFS) standards. The Half-Yearly Budget Review for 2007-08 meets this legislative requirement, incorporates the financial statements for the General Government Sector for October 2007 and meets the requirements for uniform reporting of State finances agreed to by the Loan Council.

The Review provides:

- The actual financial performance of the General Government Sector for the four months ended 31 October 2007;
- The projected results for 2007-08 compared with the budget estimates; and
- The latest projection of the financial performance for the three subsequent years to 2010-11.