

2.2 ESTIMATED AND REVISED OUTCOME FOR 1996-97

Introduction

Variations between estimated and revised outlays and revenues for 1996-97 reflect the net product of three factors -

- changes in coverage of organisations for which data for this Budget Paper is collected. The public sector in New South Wales contains many more organisations than it is feasible to collect data from. Given this, the coverage of this Budget Paper is based on a criterion of materiality which may involve changes in organisational coverage from year to year;
- refinement of data to correct for errors and the misclassification of transactions as well as changes in statistical standards; and
- errors in projections of revenues and outlays.

General Government Sector

In terms of variation between estimated and actual results for 1996-97, the surplus increased from an estimated \$44 million to \$296 million. The major variations were as follows -

- Current outlays were higher by \$52 million. However, after allowing for the reclassification of SRA maintenance grants from current to capital outlays the underlying increase was \$305 million. This increase was due to a number of factors including -
 - increased Health spending of around \$240 million;
 - increased Transport subsidies and payments for concessional travellers of around \$520 million;
 - lower interest costs of \$216 million;
 - a significant increase in Olympic Games income associated with sponsorship, television rights, ticketing and consumer products;
 - increased premium income in the Treasury managed compensation funds to cover higher assessed accruing liabilities; and
 - lower than expected claims expenses in the WorkCover Authority.
- Capital outlays were lower than forecast by \$219 million. However, after allowing for the reclassification of SRA maintenance grants from current to capital outlays and the reclassification of some dividend income to advance repayments the underlying decrease was \$347 million. This decrease was largely due to lower capital grants to the public trading enterprise sector, especially the rail authorities.

- On the revenue side, receipts were \$85 million higher than projected. After allowing for the reclassification of some dividend revenue to advances repaid, the underlying increase was \$210 million. The main factors resulting in higher revenues were as follows -
 - higher taxation revenues of \$471 million reflecting stronger growth in contracts and conveyancing revenues (\$220 million), share transfer duty (\$40 million) and tobacco licence fees (\$66 million) as well as the impact of tax increases associated with the requirements to make Fiscal Contribution Payments to assist in reducing the Commonwealth Budget deficit (\$216 million); and
 - lower Commonwealth grants of \$315 million associated with the Fiscal Contribution Payments (\$210 million) which are treated as an offset to revenue as well as the impact of lower than forecast inflation on General Revenue Funds (\$57 million).

Table 2.10: Summary of Estimated and Actual Results for the General Government Sector in 1996-97 ⁽¹⁾

ECONOMIC TYPE CLASSIFICATION	1996-97 Estimate \$m	1996-97 Revised \$m	Variation \$m
Current Outlays	19,849	19,901	52
. Final Consumption Expenditure	15,077	14,863	(-) 214
. Current Transfer Payments	4,773	5,038	265
Capital Outlays	2,985	2,766	(-) 219
. Gross Fixed Capital Expenditure	2,174	2,170	(-) 4
. Other Capital Outlays	811	596	(-) 215
Total Outlays	22,834	22,667	(-) 167
Revenue and Grants Received	22,878	22,963	85
. Taxes, Fees and Fines	11,670	12,141	470
. Other Own Source Revenue	2,647	2,576	(-) 71
. Grants	8,561	8,246	(-) 315
Financial Result ⁽²⁾	(-) 44	(-) 296	(-) 252
- Operating Result	(-) 2,075	(-) 2,189	(-) 114
- Capital Result	2,031	1,894	(-) 137

(1) Items may not add to totals due to rounding.

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

Public Trading Enterprise and Total State Sectors

The surplus for the public trading enterprise sector of \$766 million compares with a projected balanced result last year. The dramatic improvement was due to a combination of -

- the reclassification of the gain on a cross border lease from a financing transaction to asset sale proceeds in accordance with advice received from the ABS;
- the reclassification of a component of dividends paid by NSW Lotteries and Landcom to a financing transaction;
- reduced capital expenditure by a number of agencies including the electricity distributors, the rail sector, and the water authorities; and
- a significantly improved net operating surplus for the rail sector and the electricity distributors offset by poorer results for the electricity generators.

Table 2.11: Summary of Estimated and Actual Results for the Public Trading Enterprise Sector in 1996-97 ⁽¹⁾

ECONOMIC TYPE CLASSIFICATION	1996-97 Estimated \$m	1996-97 Revised \$m	Variation \$m
Current Outlays	2,648	2,467	(-) 181
. Interest Payments	1,013	942	(-) 71
. Other Current Transfer Payments	1,636	1,525	(-) 111
Capital Outlays	2,012	1,384	(-) 628
. Gross Fixed Capital Expenditure	2,166	1,749	(-) 417
. Other Capital Outlays	(-) 154	(-) 365	(-) 211
Total Outlays	4,660	3,851	(-) 809
Revenue and Grants Received	3,076	3,324	248
. Net Operating Surplus	1,884	2,252	368
. Other Own Source Revenue	349	325	(-) 24
. Grants	843	747	(-) 96
Financial Result ⁽²⁾	...	(-) 766	(-) 766
- Operating Result	(-) 987	(-) 1,255	(-) 268
- Capital Result	987	489	(-) 498

(1) Items may not add to totals due to rounding.

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

The improved net operating surplus for the rail sector has come about mainly as a result of a major industry restructure which has resulted in the elimination of cross subsidies within the rail sector and large increases in Budget subsidy payments and payments for concessional travellers. However, it should be noted that these increases have been offset to some extent by reductions in capital funding.

Reflecting the better than projected results for both the general government and public trading enterprise sectors the total state sector surplus is expected to be \$866 million better than projected.

2.3 UNIFORM REPORTING REQUIREMENTS

Introduction

The standards applied to produce estimates of outlays and revenues in Sections 2.1 and 2.2 are the same as those used by the ABS in its Government Financial Estimates publication (Catalogue No. 5501.0), but with three exceptions -

- Commonwealth payments where the State acts merely as an agent;
- Treasury Corporation; and
- Premiums on loans.

In accordance with the resolutions on uniform presentation of financial information passed by the Premiers' Conference in 1991, Tables 2.12 through to 2.18 of this Section provide estimates on a comparable basis to that published by the ABS. The following sections outline the differences between the estimates in Sections 2.1 and 2.2 and Section 2.3 and the reasons for these variations.

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 Section 2.1 and 2.2.

Inclusion of Treasury Corporation

Most public sector borrowing in New South Wales is carried out through the Treasury Corporation (TCorp). At present, the ABS classifies the TCorp as a general government authority on the basis that its predominant purpose is to serve the State Government sector. However, the ABS has indicated that it intends to reclassify T Corp as a public financial enterprise as from the 1998-99 Budget.

The detailed estimates in Sections 2.1 and 2.2 of this Budget Paper exclude the Treasury Corporation from the general government sector. The decision to adopt this position is based on a number of considerations -

- The activities of Treasury Corporation essentially represent financial intermediation, while the rest of the general government sector is mainly involved in the provision of core public services. This position has been confirmed by the exclusion of central borrowing authorities from Loan Council controls and the ABS decision to reclassify T Corp as a public financial enterprise.
- The inclusion of Treasury Corporation in the general government sector seriously distorts intergovernmental and time series comparisons. Given that the main purpose of the government finance statistics is to facilitate these comparisons, the inclusion of central borrowing authorities seriously impacts on the usefulness of the statistics. For example, in 1995-96, the inclusion of Treasury Corporation within the general government sector reduced the State surplus by around \$94 million despite the fact that it recorded an accounting profit before dividends and tax.
- The application of Government Finance Statistic standards require that realised and unrealised gains and losses on financial instruments not be recognised as a revenue or outlay. Given that these gains and losses are offset in present value terms by higher or lower future interest payments and receipts (which impact on the recorded deficit), the adoption of this approach can seriously distort underlying trends. This is particularly a problem with active debt management during periods of significant interest rate movement.
- The forward estimates of central borrowing authorities are highly influenced by the assumptions made. In fact, differing assumptions can greatly affect the projected growth in general government and total state aggregates. As an example of this, last year's Budget Paper estimated that the inclusion of Treasury Corporation in the general government sector would increase the State deficit in 1996-97 by around \$28 million. In fact, current estimates show Treasury Corporation will impact in the opposite direction and improve the State result by \$80 million.

With the above factors in mind, it is considered appropriate to exclude Treasury Corporation from the estimates contained in Sections 2.1 and 2.2.

Loan Premiums

Current ABS statistical standards require a premium on a loan to be classified as a negative interest payment in the year the loan is raised. New South Wales disagrees with this approach since it results in an asymmetric treatment with discounts on loans which are treated as a balloon interest payment on the maturity of the loan.

The position put by New South Wales can be illustrated by considering a par loan to be made up of two loans, one at a discount and one at a premium. Under the ABS approach the transactions recorded under GFS standards result in a difference in the timing of interest payments between the par loan and the combined premium-discount loan. To avoid this problem, New South Wales has proposed recording the premium as a negative interest payment in the final year of the loan.

While strict accordance with GFS standards requires the ABS approach to be adopted for the estimates in this section, the ABS has recognised the accounting difficulties of this approach. Given this, a compromise has been reached on this issue which involves all jurisdictions and the ABS departing from GFS principles on this matter.

Table 2.12: General Government Sector - Outlays, Revenue and Financing Transactions (ABS basis)

ECONOMIC TYPE CLASSIFICATION	1996-97 Revised \$m	1997-98 Estimated \$m
Current Outlays	20,817	21,796
Final consumption expenditure	14,881	15,642
Interest payments	1,372	1,524
Other current payments	4,564	4,630
Capital Outlays	2,746	3,376
Gross fixed capital expenditure	2,171	2,619
Capital grants	983	1,089
Advances	(-) 449	(-) 247
Other Capital Outlays	41	(-) 85
Revenue and Grants Received	23,939	25,117
Taxes, fees and fines	12,141	13,241
Property income and other revenue (net)	2,510	2,306
Grants received	9,289	9,570
Financing Transactions	(-) 376	55
Net advances received	(-) 459	(-) 434
Net domestic and overseas borrowings	832	257
Other financing transactions (net)	(-) 749	232
Deficit ⁽¹⁾	(-) 376	55

(1) For the general government sector this equals Financing Transactions.

Table 2.13: Public Trading Enterprises - Outlays, Revenue and Financing Transactions (ABS basis)

ECONOMIC TYPE CLASSIFICATION	1996-97 Revised \$m	1997-98 Estimated \$m
Current Outlays	2,467	2,303
Interest payments	942	912
Other current transfer payments	1,525	1,391
Capital Outlays	1,384	1,839
Gross fixed capital expenditure	1,749	2,151
Capital grants
Advances
Other Capital Outlays	(-) 365	(-) 312
Revenue and Grants Received	3,324	2,814
Net operating surpluses of PTEs	2,252	1,719
Property income and other revenue (net)	325	291
Grants received	747	805
Financing Transactions	527	1,328
Net advances received	(-) 355	(-) 304
Net domestic and overseas borrowings	(-) 456	52
Increase in provisions	1,293	1,451
Other financing transactions (net)	46	129
Deficit ⁽¹⁾	(-) 766	(-) 123

(1) Financing Transactions minus Increase in Provisions.

Table 2.14: State Government Sector - Outlays, Revenue and Financing Transactions (ABS basis)

ECONOMIC TYPE CLASSIFICATION	1996-97 Revised \$m	1997-98 Estimated \$m
	\$m	\$m
Current Outlays	21,766	22,723
Final consumption expenditure	14,881	15,642
Interest payments	2,163	2,302
Other current payments	4,722	4,779
Capital Outlays	3,736	4,717
Gross fixed capital expenditure	3,920	4,770
Capital grants	233	287
Advances	(-) 93	57
Other Capital Outlays	(-) 324	(-) 397
Revenue and Grants Received	24,997	25,749
Taxes, fees and fines	12,141	13,241
Net operating surpluses of PTEs	2,252	1,719
Property income and other revenue (net)	1,316	1,219
Grants received	9,289	9,570
Financing Transactions	505	1,691
Net advances received	(-) 459	(-) 434
Net domestic and overseas borrowings	376	309
Increase in provisions	1,293	1,451
Other financing transactions (net)	(-) 705	366
Deficit ⁽¹⁾	(-) 788	241

(1) Financing Transactions minus Increase in Provisions.

**Table 2.15: Current Outlays of the Total State Sector by Function,
- ABS Basis**

FUNCTION	1996-97 Revised \$m	1997-98 Estimated \$m
	\$m	\$m
General Public Services	1,629	1,741
Public Order and Safety	2,005	2,039
Education	5,784	6,046
Health	4,587	4,779
Social Security and Welfare	1,694	1,728
Housing and Community amenities	447	435
Recreation and Culture	324	520
Fuel and Energy	88	90
Agriculture, Forestry and Fishing	431	435
Mining, Manufacturing and Construction	43	45
Transport and Communication	1,758	1,684
Other Economic Affairs	510	453
Other Purposes ⁽¹⁾	2,466	2,727
TOTAL CURRENT OUTLAYS	21,766	22,723

(1) Treasurer's Advance is included in this item.

**Table 2.16: Capital Outlays of the Total State Sector by Function,
- ABS Basis**

FUNCTION	1996-97 Revised \$m	1997-98 Estimated \$m
	\$m	\$m
General Public Services	61	166
Public Order and Safety	190	187
Education	255	244
Health	341	420
Social Security and Welfare	56	38
Housing and Community amenities	508	635
Recreation and Culture	436	654
Fuel and Energy	261	556
Agriculture, Forestry and Fishing	91	97
Mining, Manufacturing and Construction	1	1
Transport and Communication	1,530	1,754
Other Economic Affairs	67	9
Other Purposes	(-) 62	(-) 43
TOTAL CAPITAL OUTLAYS	3,736	4,717

**Table 2.17: Total Outlays of the Total State Sector by Function,
- ABS Basis**

FUNCTION	1996-97 Revised \$m	1997-98 Estimated \$m
	\$m	\$m
General Public Services	1,690	1,907
Public Order and Safety	2,196	2,226
Education	6,039	6,290
Health	4,928	5,199
Social Security and Welfare	1,751	1,766
Housing and Community amenities	955	1,070
Recreation and Culture	760	1,175
Fuel and Energy	349	646
Agriculture, Forestry and Fishing	521	532
Mining, Manufacturing and Construction	44	46
Transport and Communication	3,288	3,438
Other Economic Affairs	577	461
Other Purposes ⁽¹⁾	2,405	2,684
TOTAL OUTLAYS	25,503	27,440

(1) Treasurer's Advance is included in this item.

Table 2.18: Taxes, Fees and Fines - ABS Basis

TAXES, FEES AND FINES CLASSIFICATION	1996-97 Revised \$m	1997-98 Estimated \$m
	\$m	\$m
Payroll Tax	3,114	3,305
Taxes on Property	3,447	3,786
Land Tax	625	786
Other Taxes on Immovable Property	23	31
Estate, Inheritance and Gift Taxes
Stamp Duties on Financial and Capital Transactions	1,946	2,101
Financial Institutions Transaction Taxes	835	856
Government Borrowing Levies	18	12
Taxes on Provision of Goods and Services	2,052	2,325
Levies on Statutory Authorities	45	49
Taxes on Gambling	1,223	1,392
Taxes on Insurance	784	884
Taxes on the Use of Goods and the Performance of Activities	3,126	3,380
Motor Vehicle Taxes	1,261	1,320
Franchise Taxes	1,805	1,846
Other Taxes on the Use of Goods and the Performance of Activities	59	214
Fees and Fines	401	445
Fees	209	219
Fines	192	226
TOTAL TAXES, FEES AND FINES	12,141	13,241

2.4 CLASSIFICATION FRAMEWORK

Introduction

The economic type classification adopted in this Budget Paper closely follows international conventions as outlined in the ABS publication, "Government Finance Statistics Australia - Concepts, Sources and Methods, 1994", Catalogue Number 5514.0.

Classification of Public Sector Entities

Public sector entities in New South Wales can be classified as either General Government Enterprises (GGEs), Public Trading Enterprises (PTEs) or Public Financial Enterprises (PFEs).

GGEs consist of those public sector entities which provide, in the main, goods and services outside the market mechanism as well as providing for the transfer of income for public policy purposes. The major form of financing of these goods and services is by taxation, imposed by the State or by the Commonwealth and subsequently on passed to the State. In New South Wales most government departments and a number of statutory authorities (for example Darling Harbour Authority) fit into this category.

In contrast, PTEs charge for services provided and hence have a broadly commercial orientation. They do not, however, necessarily operate in competitive markets. While PTEs are not required to be fully self funding, a substantial portion of their costs must be met by user charges. The major PTEs in New South Wales are Pacific Power, Sydney Water Corporation and the State Rail Authority.

PFEs are the third category of authorities in the ABS framework. The State Superannuation Board is the major entity in New South Wales operating in this sector. PFEs are not included in this publication as they operate in competitive markets and are at arms length from Government.

The classification of government organisations as between GGEs and PTEs is broadly similar to the distinction between budget and non budget sectors in Budget Papers 2, 3 and 4.

Economic Type Classification

Transactions of public entities can be placed into one of four major economic categories, these categories being subdivided into approximately 150 groups. The four major categories are current outlays, capital outlays, revenue and grants received and financing transactions.

- **Current Outlays**

Current outlays consist of final consumption expenditure and current transfer payments.

Final consumption expenditure is recorded only for the general government sector. This is due to the convention of valuing the services produced by general government on the basis of the costs incurred in providing these services, less any revenues from sales. In effect, the general government sector is treated as both a producer and a consumer of publicly provided goods and services on behalf of the community. For other sectors of the economy, consumption expenditure is allocated to the end user. In the case of the public trading enterprise sector, net receipts from the purchases and sales of goods and services are classified within the revenue and grants received category. The placement of these transactions in this category reflects these authorities being considered producers of goods and services, with consumption of these services recorded in the private sector.

Transfer payments cover transactions such as interest payments, subsidies, personal benefit payments and grants. In these cases there is no exchange of ownership of goods and services. While transfer payments are a very important part of Commonwealth Government current outlays, this is not the case at the State level.

- **Capital Outlays**

Capital outlays can be divided into capital expenditure and capital transfer payments.

Capital expenditure represents expenditure on durable goods intended to be employed in the production process and providing services for longer than one year, net purchases of land and intangible assets and increases in stocks. The sale of fixed assets is offset against expenditure.

Capital transfer payments can be either in the form of a grant or advance. Advances represent the provision of repayable financial assistance with the intention of furthering a policy objective. Advances are distinguished from investments which are motivated by liquidity management purposes and the need to earn a commercial rate of return.

- **Revenue and Grants Received**

Within the revenue and grants category, an important distinction needs to be made between taxes, fees and fines and other forms of revenue.

Taxes are compulsory levies imposed by government in order to raise general revenue. As such, there is no linkage between the payment of tax and the provision of goods and services. Taxes should be distinguished from user charges in which there is a clear linkage between the provision of goods and services and the payment of the charge. Examples of user charges include electricity, water and public transport charges.

A major sub-category within revenue and grants received is the net operating surplus of public trading enterprises. It should be noted that interest paid is classified as a current outlay while interest received is classified to its own sub-category within revenue and grants received. As interest paid generally exceeds interest received, the net operating surplus of public trading enterprises is substantially higher than the operating surplus recorded by the authorities concerned in their annual reports. Furthermore subsidies received by public trading enterprises are recorded in this publication as operating revenue.

- **Financing Transactions**

In contrast to outlays and revenue, which can be termed 'above the line' items, financing transactions involve changes in financial assets and liabilities and, as such, can be considered 'below the line' items. Total financing transactions is defined as current and capital outlays less revenue and grants received.

Within this Budget Paper financing transactions have been divided into four categories -

- net advances received;
- net borrowings;
- increases in provisions; and
- other financing transactions.

The deficit is defined as the difference between outlays and revenues after deducting any increases in provisions. It represents the call on savings by the public sector (including the call on the savings of the Commonwealth).

Within the deficit a distinction can be made between that part which results from current outlays and revenues and that part which results from capital outlays and revenues. The operating deficit is calculated as current outlays less both current revenues and increases in provisions. The capital deficit is calculated as capital outlays less capital revenues (including Commonwealth capital grants).