

**NEW SOUTH WALES**

**STATE CAPITAL PROGRAM  
1997-98**

**Budget Paper No. 4**

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# 1. STATE CAPITAL PROGRAM

## 1.1 OVERVIEW

The State capital program comprises capital payments of both the Budget and Non Budget Sectors.

Budget Sector capital payments include both gross fixed capital payments (purchase and construction of assets) and capital grants and advances made to Non Budget Sector agencies and to non State organisations. This is consistent with the Government Finance Statistics presentation of the overall Budget. Similarly, the Non Budget Sector includes, in its capital payments, expenditure funded by grants provided by the Budget Sector. When data are presented for the total State capital program, the double count needs to be eliminated.

This can be depicted as follows -

	<b>1996-97 REVISED \$m</b>	<b>1997-98 BUDGET \$m</b>
<b>BUDGET SECTOR</b>	3,560.0	3,920.6
<b>NON BUDGET SECTOR</b>	2,101.2	2,627.2
less: Grants to Non Budget Sector agencies (included within Budget Sector program)	839.4	924.0
<b>STATE CAPITAL PROGRAM</b>	4,821.8	5,623.8

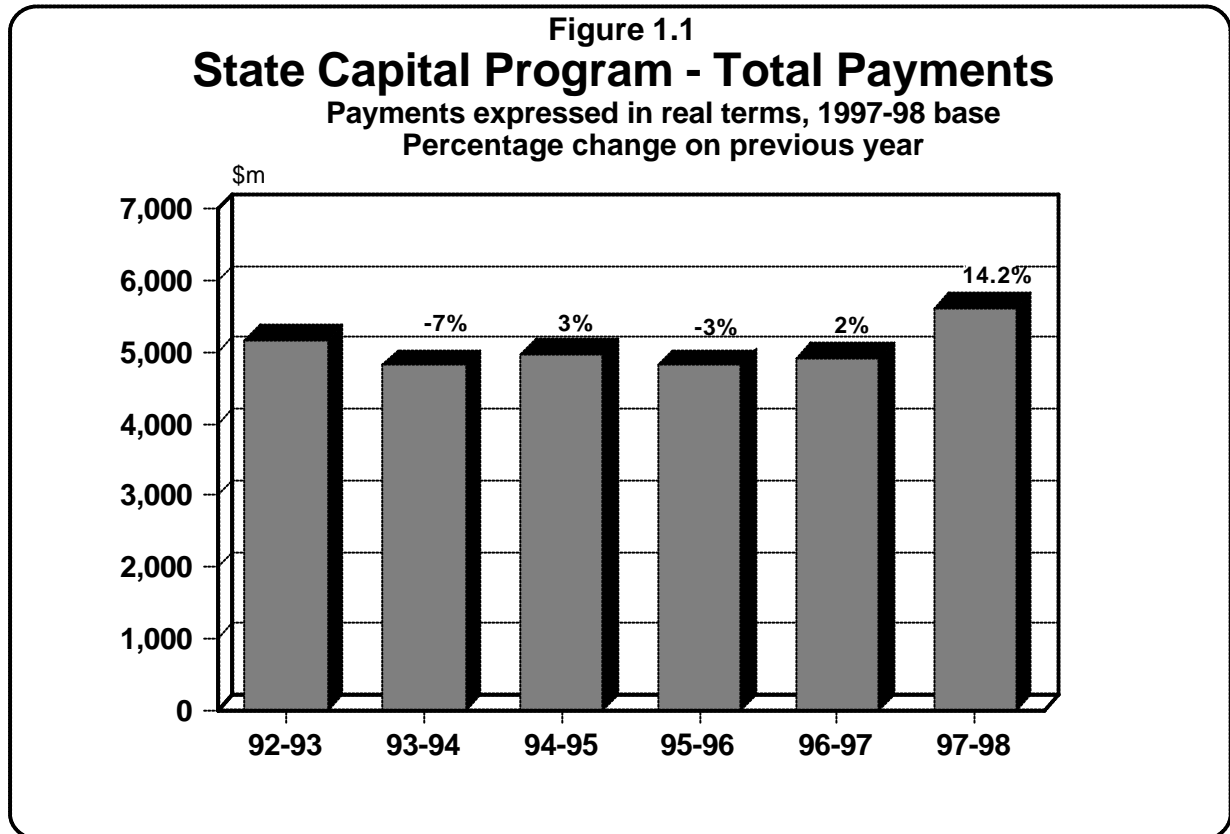
This Budget Paper provides specific information on the overall State capital program and the Non Budget Sector component of the overall program. As well, detailed project information is provided on major works for both the Budget and Non Budget sectors. Further information on Budget Sector capital payments on a policy area and Ministerial portfolio/agency basis can be found in Appendices E and F of Budget Paper No. 2 "Budget Information 1997-98".

The completion date shown for each project in this Budget Paper relates to the date the project is financially completed, including the payment of all retention monies. In some instances, particularly for very large projects, this may be some time after the physical completion of works.

References to real increases in the capital program throughout this Budget Paper have been calculated using the Australian Bureau of Statistics Gross Non Farm Product deflator.

## 1.2 EXPENDITURE TRENDS

In the five years up to and including 1997-98, the State capital program is forecast to increase by \$454 million or 9 per cent in real terms. The major areas of growth over the five year period are in the policy areas of health, recreation and culture and transport.



Following a once-off boost in 1992-93 to provide some impetus to the depressed building and construction industry and economic activity in general, the State capital program declined in real terms in 1993-94. The most significant decreases were in the provision of economic infrastructure (water and sewerage and electricity) and transport and communication (road and rail). Real growth occurred in the policy areas of health, and recreation and culture. Growth in recreation and culture reflected increased expenditure at Homebush Bay on sporting facilities associated with the 2000 Olympic and Paralympic games.

The most notable growth in the State capital program in 1994-95 occurred in health. Payments in most other policy sectors declined in real terms particularly in the provision of water and sewerage and rail infrastructure. Payments associated with Olympic facilities also decreased reflecting the completion of major works at Homebush Bay. Metropolitan electricity distributors were included in the State capital program for the first time in 1994-95.

As a result of the corporatisation of sections of the energy sector on 1 March 1996, four new rural electricity distribution businesses have been included in the State capital program from 1995-96. Apart from this change, the decrease for 1995-96 was primarily in the education and housing, water and sewerage policy sectors.

The 1997-98 State capital program is forecast to increase strongly in real terms. Further activity occurring on the Olympic site during 1997-98 will be reflected in a large increase in payments related to recreation and culture. Transport and communications (road and rail) will also receive a significant boost due to the provision of transport facilities to the Olympic site as well as other works.

### **1.3 1996-97 PROGRAM OUTCOME**

Estimates of total capital payments for 1996-97 have been revised downwards to \$4,822 million, a decrease of \$297 million compared to an original projection of \$5,119 million. The projected shortfall in Budget Sector capital payments is \$14 million, after excluding the double count of capital grants between the Budget and Non Budget Sectors and \$283 million for the Non Budget Sector.

The most significant decreases in Budget Sector capital payments relate to transport and communication (due to delays in the construction of road works), and education (TAFE) as a result of underexpenditure caused through delays to a number of projects and the reclassification of minor plant and equipment to recurrent.

The shortfall in the Non Budget Sector is the result of significant lower expenditure by, most notably, Sydney Water Corporation (deferral of expenditure on a number of projects), energyAustralia (following a post-corporatisation review of its capital program), and the Department of Housing and the Office of Community Housing (due to delays in Commonwealth Government approval of their respective assistance plans).

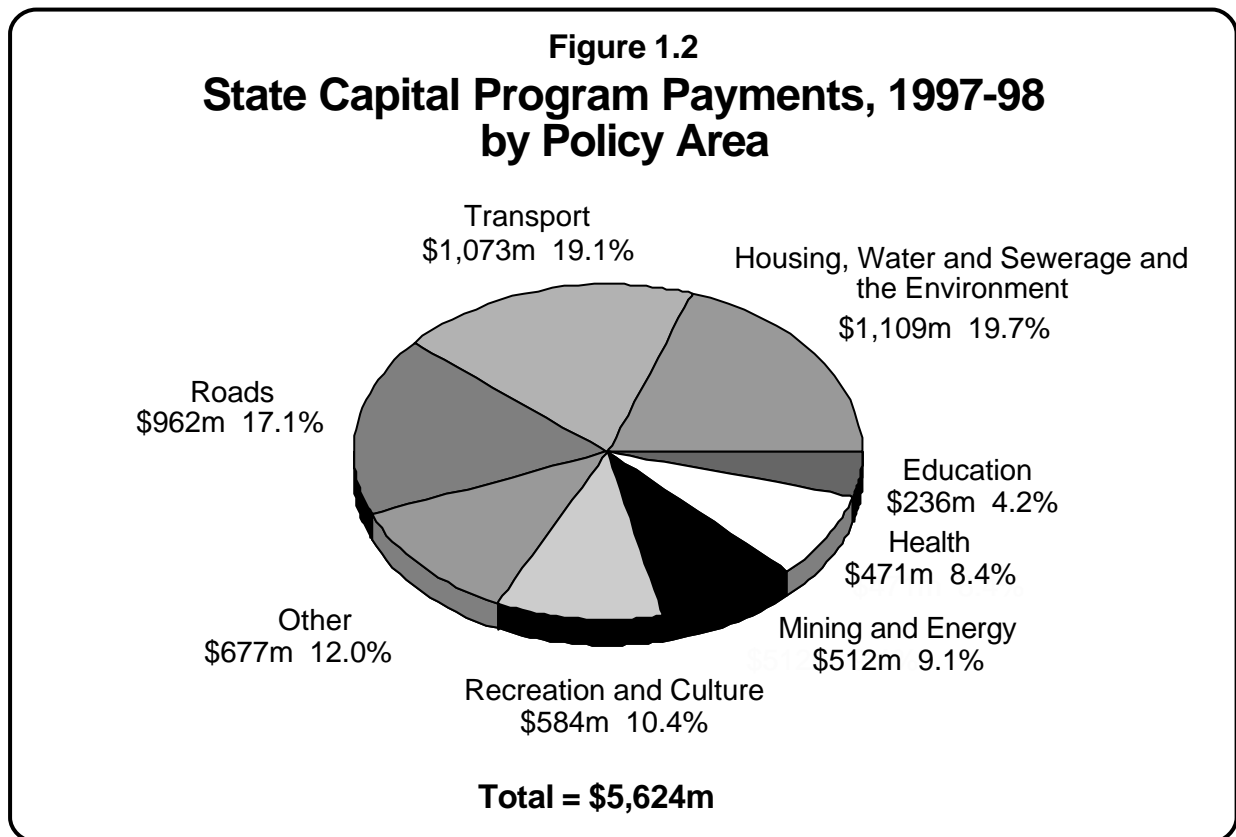
Detailed information on the outcome of the Budget Sector component of the 1996-97 State capital program can be found in Appendix B of Budget Paper No. 2 "Budget Information 1997-98".

## 1.4 1997-98 PROGRAM

*State capital program payments in 1997-98, estimated at \$5,624 million, represent a real increase of \$699 million or 14 per cent on projected 1996-97 payments.*

The State capital program represents planned expenditure at a point in time and, as with any plan, circumstances and priorities may change during the course of the financial year. In past years there have been moderate variations, either increases or decreases, between budgeted capital payments and the actual outcomes, reflecting a range of factors such as weather conditions, delays due to various reasons, price movements markedly different to those forecast and planning revisions.

While the 1997-98 State capital program has been framed on the latest estimates of planned payments on all of the projects that make up the program, past experience suggests it is likely that the final outcome will follow the pattern of previous years and differ moderately from budgeted expenditure.



Highlights of the 1997-98 State capital program include -

- payments of \$2,035 million for transport and communication, including a roads program of \$962 million, \$400 million for passenger rail services, \$333 million for commercial rail services, \$171 million to be spent by the Olympic Co-ordination Authority to improve transport access to the Olympic site and \$84 million by the State Transit Authority;
- payments totalling \$1,109 million in the housing, water, sewerage, and the environment policy area, including \$336 million by the Department of Housing, \$125 million by the Office of Community Housing, \$106 million by Landcom, \$33 million by City West Development Corporation, \$31 million by the Office of Housing Policy, \$180 million by Sydney Water Corporation and \$40 million by the Hunter Water Corporation. Works to help protect the environment include payments of \$41 million by the Department of Land and Water Conservation, \$18 million by the Olympic Co-ordination Authority and \$31 million by Waste Service NSW;
- a total of \$512 million in the mining, energy and construction policy area including \$260 million by the metropolitan electricity distributors (energyAustralia and Integral Energy); \$121 million by rural electricity distributors (Advance Energy, Great Southern Energy, Australian Inland Energy and NorthPower); and \$82 million by TransGrid;
- a total of \$471 million for health services enabling expenditure on major capital works to be maintained;
- payments of \$190 million in the Competitive Government sector which includes the Electricity Generators and Freight Rail Corporation; and
- an increase in recreation and culture payments of \$155 million, substantially due to accelerated activity by the Olympic Co-ordination Authority.

## **1.5 FUNDING OF STATE CAPITAL PROGRAM**

Budget Sector capital payments are financed from Commonwealth specific purpose capital payments and hypothecated roads revenue, with the balance funded by the remaining current surplus and financing transactions.

Non Budget Sector expenditure is funded from the revenue and accumulated reserves of Non Budget Sector agencies, borrowings, and grants from the Budget.

Table 1.1 outlines funding sources for 1996-97 and 1997-98 for both the Budget and Non Budget Sectors.

**Table 1.1: State Capital Program Funding Sources**

	<b>1996-97 Revised \$m</b>	<b>1997-98 Budget \$m</b>
<b>Budget Sector</b>		
Commonwealth Specific Purpose Payments	829	853
Hypothecated Roads Revenue	1,203	1,252
Current Budget Support and Financing Transactions	1,528	1,816
<b>Total - Budget Sector</b>	<b>3,560</b>	<b>3,921</b>
<b>Non Budget Sector</b>		
Budget Funding	839	924
Other Sources	1,262	1,703
<b>Total - Non Budget Sector</b>	<b>2,101</b>	<b>2,627</b>
Less Budget Sector grants to Non Budget Sector	839	924
<b>TOTAL PROGRAM</b>	<b>4,822</b>	<b>5,624</b>

## **Budget Sector Funding Sources**

### **Commonwealth Specific Purpose Payments**

The Commonwealth Government provides payments to the States for specific capital purposes under section 96 of the Constitution. The major payments are for public housing (onpassed by the Budget to the Department of Housing - a Non Budget Sector agency) and roads.

Specific purpose capital payments to the State for 1996-97 are anticipated to be \$861 million. This is \$70 million down on budget due to reduced National Highway Program funding.

Commonwealth payments in 1997-98 are estimated at \$853 million. This incorporates roads grants of \$381 million under the Land Transport Development program, \$330 million in housing grants under the Commonwealth State Housing Agreement, \$58 million for technical and further education and \$72 million for school education. This represents a 0.9 per cent decrease on the 1996-97 revised estimate.

### **Hypothecated Revenues**

Hypothecated revenues comprise proceeds from State fuel levies, including the additional levy to accelerate road works, and revenue from motor vehicle taxation. Both fuel levies and motor vehicle taxation are dedicated to the roads program in accordance with Government policy. Consistent with the principle of all taxation revenue being appropriated by Parliament, fuel levies and motor vehicles taxes are passed to the Roads and Traffic Authority through the Consolidated Fund.

Funding from fuel levies and motor vehicle taxation dedicated to the roads program in 1996-97 has been revised to \$1,203 million. In 1997-98 it is estimated at \$1,252 million, an increase of \$49 million over the 1996-97 revised estimate.

### **Current Budget Surplus and Financing Transactions**

The residual funding sources for the Budget Sector capital program are the current surplus, after hypothecation of roads revenue, and financing transactions.

### **Non Budget Sector Funding Sources**

Income and accumulated reserves are the most significant source of funding for Non Budget Sector capital expenditures.

The major Non Budget Sector agencies receiving Budget funding in 1997-98 are the State Rail Authority and the Department of Housing.

## **2. NON BUDGET SECTOR CAPITAL PROGRAM**

### **2.1 OVERVIEW**

Non Budget Sector agencies provide major economic infrastructure assets such as water, power and public transport, and operate in markets ranging from monopolistic to competitive.

The Non Budget Sector covers those agencies funded from own source revenues or borrowings. In addition, capital grants from the Budget Sector are provided to certain Non Budget Sector agencies to undertake services required by the Government for social rather than commercial reasons, for instance creating and maintaining free public recreation areas (Darling Harbour Authority), the provision of public rental housing (Department of Housing) and public rail transport (the CityRail and Country Link services of the State Rail Authority).

Non Budget Sector capital expenditure is primarily funded from internal agency sources. It is, therefore, mainly driven by commercial considerations including the anticipated rate of return on the acquired assets. However in the rail sector, funding is largely derived from the Budget for passenger services, reflecting a view that due to reasons of externalities, the general community should contribute towards these costs.

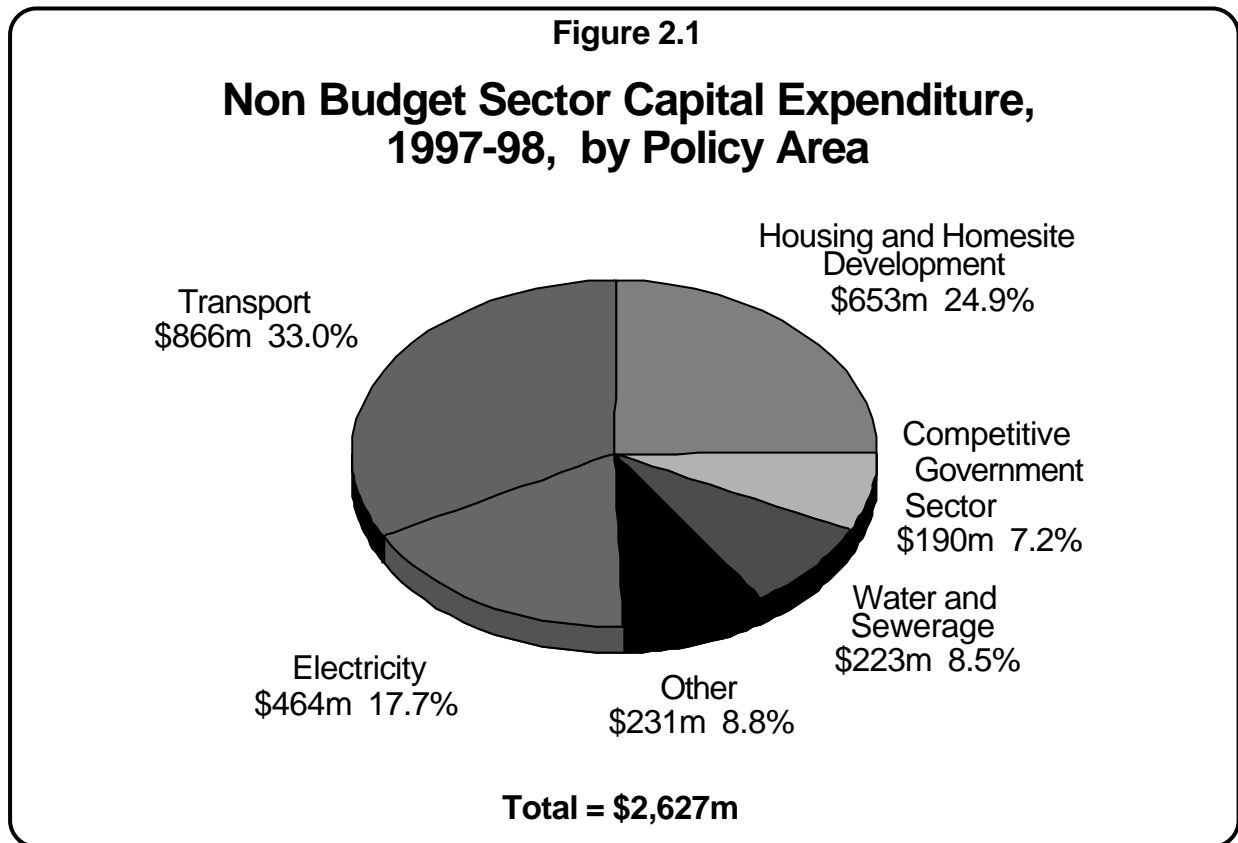
Unlike the Budget Sector Capital Program, Non Budget Sector capital expenditure has no direct impact on the State's Budget other than that funded for social programs such as rail. Accordingly, the emphasis on approvals for commercially funded Non Budget Sector capital expenditure is on establishing that the proposed expenditures do not put at risk the agencies' ability to meet the financial targets stipulated in their Statements of Financial Performance.

### **2.2 1996-97 EXPENDITURE**

Overall, capital expenditure by the Non Budget Sector in 1996-97 has been revised downwards to \$2,101 million, \$283 million below the original budget projection of \$2,384 million. Of this difference, \$67 million was due to deferral by Sydney Water Corporation of expenditure on a number of projects. A further \$69 million is due to anticipated lower expenditure by energyAustralia, following a post-corporatisation review of their capital program. In addition, capital expenditure by the Department of Housing and the Office of Community Housing is lower than anticipated by \$61 million and \$35 million, respectively, as a result of delays in the Commonwealth Government's approval of their assistance plans. The Office of Community Housing capital program was also affected by the Commonwealth's withdrawal from the Social Housing Subsidy Program.

## 2.3 1997-98 EXPENDITURE

The 1997-98 total capital expenditure of Non Budget Sector agencies is estimated to be \$2,627 million. This is an increase of \$526 million on revised 1996-97 expenditure. Major areas of expenditure in 1997-98 are as indicated below.



### Electricity

Considerable change has occurred in the electricity sector, following the restructure of both generation and distribution sectors, and in anticipation of the national electricity market. The reform of the electricity industry in New South Wales is leading to improvements, not only in the productivity of generation and distribution businesses, but also in capital planning and budgeting.

Highlights of the 1997-98 capital expenditure program for electricity include -

- the main items of expenditure in the generation sector are concentrated on continuing to improve the performance and reliability of existing power stations (information is not separately available for the electricity generators, see Section 3.1);

- additions to the NSW transmission system and the replacement of existing assets with a forecast expenditure of \$82 million by TransGrid, which includes the acquisition of the transmission assets of the Snowy Mountain Hydroelectric Authority;
- a decrease in the capital program of energyAustralia from \$174 million in 1996-97 to \$163 million in 1997-98. Major components include the undergrounding of powerlines at Homebush Bay (\$10 million in 1997-98); network expansion to meet new demand (\$33 million in 1997-98); information technology development (\$26 million in 1997-98) and the acquisition of new meters (\$9 million in 1997-98);
- an increase in the capital program of Integral Energy from \$81 million in 1996-97 to \$97 million in 1997-98. The major component is the transmission line works at Regentville; and
- a minor decrease in the capital program of the rural distributors (Advance Energy, Australian Inland Energy, Great Southern Energy and NorthPower) from \$130 million in 1996-97 to \$121 million in 1997-98. Major items of expenditure relate to the provision of electricity to new customers and the improvement of existing infrastructure.

## **Water and Sewerage**

Sydney Water Corporation's capital investment totals \$180 million in 1997-98. This investment will allow the Corporation to continue to meet operational standards and environmental regulations and support urban growth. It also enables the Corporation to increase customer satisfaction, business efficiency and the value of the business.

The program includes provision for -

- Environmental works involving expenditure of \$77 million in 1997-98. This includes works that will benefit the oceans and coastal waterways in the Sydney and Illawarra regions and the Hawkesbury/Nepean River system.
- The extension of the Integrated Instrumentation, Control Automation Telemetry System (IICATS) to serve the water collection and treatment systems. The project will have a total cost of \$105 million and be completed in 2001 (\$2.5 million in 1997-98).
- Continued construction of Blue Mountains backlog sewerage schemes and the identification of options to serve the unsewered areas in the Upper Blue Mountains at a cost of \$81 million (of which \$2.1 million will be spent in 1997-98).
- The start of construction of the demonstration water reuse plant at Quakers Hill. The plant is being built to allow regulators, customers and Sydney Water employees to judge the safety and merits of similar plants to treat water for reuse for all normal household, commercial and industrial purposes. The cost of the plant will be \$15 million (\$4 million in 1997-98).

Hunter Water Corporation's capital investment totals \$40 million in 1997-98. Major ongoing capital works initiatives for Hunter Water include the replacement and amplification of Shortland Wastewater treatment works (\$12.4 million in 1997-98); the Hunter Sewer Project (\$9.2 million in 1997-98); amplification of the Cardiff Wastewater pumping station (\$2.7 million in 1997-98); and amplification of the Wastewater treatment plant at Lemon Tree Passage (\$2.2 million in 1997-98).

## **Transport**

Major capital works for the State Rail Authority in 1997-98 include -

- continued construction of the New Southern Railway. Construction of this line which is a joint development by the private and public sectors, began in 1995. The project will be integrated with the CityRail network to provide rapid access from the CBD to Sydney Airport. This is a joint project with the Rail Access Corporation. An amount of \$157 million has been allocated to this project by the State Rail Authority for 1997-98.
- upgrading of Liverpool station. This involves the construction of a centrally-located concourse/access, providing for a full integration with a new bus interchange at Liverpool station. A total of \$5 million is allocated for 1997-98
- improvements in the East Hills line. Part of the project involves the construction of a new station at North Arncliffe for the East Hills line to interchange with the Illawarra line. A total of \$9.5 million has been allocated to this project in 1997-98.
- acquisition of new passenger rolling stock for use on the suburban network. A total of \$12 million has been allocated to this project in 1997-98.
- upgrading of double-deck rolling stock for use on both suburban and intercity services. This work involves the provision of public address systems and the installation of locking-door motors. A total of \$20.4 million has been allocated to this work in 1997-98.

The State Transit Authority plans to invest \$84.0 million on capital projects during 1997-98. Major projects during the year include -

- The acquisition of 154 new buses including a number of midi sized buses and tourist service coaches at a cost of \$51 million.
- The replacement of the Automated Fare Collection System for Sydney Ferries will be completed during 1997-98 at a cost of \$5.9 million.
- The planned acquisition of 2 ferries for Sydney Harbour Ferry services at a total cost of \$3.3 million, with \$2.4 million being funded from the 1997-98 capital budget.
- \$8.0 million for major depot redevelopments which include the reinstatement of Tempe depot and extensions to Leichhardt depot. \$4.0 million is committed on these works for 1997-98. A further \$1.85 million in minor projects is budgeted for improving bus depot facilities during 1997-98.
- \$3.0 million to meet passenger requirements and to improve bus and ferry servicing facilities. A further provision of \$9.7 million has been made for bus refurbishment of \$7.9 million and \$1.8 million on ferry overhauls.

- \$1.5 million for the installation of bus door safety enhancements.

The Rail Access Corporation has a capital expenditure program totalling \$238 million for 1997-98. The Corporation's major capital works for 1997-98 include -

- a total of \$26.7 million for improvements to the East Hills line. These works are in addition to works being carried out by SRA in association with the link to the New Southern Railway.
- a total of \$10 million for amplification works to enable more frequent and reliable services on the Richmond Line and reduce service delays which impact adversely on the metropolitan network.
- a total of \$23 million on the construction of the Jerry's Plains Rail Spur;
- a total of \$11 million for the upgrading of track infrastructure at Flemington Junction to link with the Olympic rail line to Homebush Bay.

The Railway Services Authority intends to invest up to \$96 million in 1997-98. The Railway Services Authority is currently the major service provider to the Rail Access Corporation, the State Rail Authority and Freight Rail Corporation. The investment will improve efficiency and maintain a diverse service capability. Distribution of Railway Services Authority's capital investment will include -

- \$51.7 million for the purchase of replacement and additional track plant and vehicles. This includes heavy track plant such as high performance ballast regulators, tamping machines, ballast cleaners and rail and ballast carrying wagons. The vehicles are for the transportation of personnel and materials to construction sites throughout the State Rail network;
- \$13.1 million for workshops and quarries. This includes the purchase of land, cranes, grinding machines, a weighbridge, improvements to rail storage areas and the recycling of spoil for reuse as ballast material; and
- \$10.6 million for computers and software, the main component being for improvements and upgrading of the MIMS integrated financial management system.

## **Housing Assistance Program**

The capital component of the housing assistance program is administered by the Department of Housing, the Office of Community Housing and the Office of Housing Policy (for Aboriginal programs).

Major highlights of the \$336 million Department of Housing capital expenditure in 1997-98 include -

- commencement of 1,294 units of accommodation, including 63 for supported housing;
- 80 per cent of the program to be achieved through redevelopment; and
- \$125 million allocated to the upgrading of existing stock and improvement programs on large housing estates.

The Office of Community Housing will deliver a large component of the total capital housing expenditure, in line with the strategy to diversify housing providers with -

- capital expenditure of \$125.4 million; and
- commencement of 806 dwellings, including 400 through Housing Associations and Co-operatives.

The Office of Housing Policy is supporting Aboriginal housing programs with additional funding to reflect the level of current need in this community with -

- capital expenditure of \$30.7 million; and
- commencement of 149 dwellings, mainly through community-based organisations.

### **State Forests of NSW**

State Forests capital expenditure totals \$77.7 million in 1997-98. The key features are -

- Total expenditure on the Hardwood Plantation Program to meet the target of 10,000 hectares in line with the Government's Forest Policy is \$22.4 million (comprising \$21.4 million Government funding and \$1.0 million internal funding from State Forests). The capitalised portion of this funding is forecast to be \$17.7 million with the balance being expended on operational costs associated with the program.
- Capital expenditure on softwood plantation establishment is forecast to be relatively constant at \$41.5 million.
- Capital expenditure on the replacement of fixed assets is forecast to increase marginally from 1996-97 to \$16.7 million.

### **Waste Service**

The key feature of the Waste Service's 1997-98 capital program is the installation of a state of the art plant at Lidcombe to process residue from its liquid waste plant. This plant will take waste material which otherwise would have been directed to the Castlereagh Waste Management Centre, which is to close in December 1997. The cost of the project is \$15.3 million with the new plant producing briquettes for use as industrial fuels and/or stabilised wastes suitable for disposal at conventional landfills.

The plant will comply with stringent environmental standards to be determined by the Environment Protection Authority.

### **Darling Harbour Authority**

The key feature of the Darling Harbour Authority's capital expenditure program is the expansion of the Sydney Convention Centre. The total cost is expected to be \$57.9 million, of which \$27 million will be spent in 1997-98.

The expansion is scheduled for completion in 1999 and will provide banqueting facilities, meeting rooms for up to 1,000 people and some additional boutique exhibition space. The Centre will provide a valuable facility for the growing convention market.

### **3. CAPITAL PROJECTS**

#### **3.1 INTRODUCTION**

This chapter focuses on major capital works projects to be undertaken by individual Budget and Non Budget Sector agencies as well as their total planned capital payments from all funding sources.

For the purpose of this Budget Paper, a major work is any specific project with an estimated total cost of \$250,000 or more. Major works are further subdivided into new works (projects which have been approved to commence in 1997-98) and works-in-progress (projects which were commenced in earlier years but have not yet been completed). In addition an aggregate allocation for minor miscellaneous works (those with an estimated total cost of less than \$250,000) is shown for each agency.

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

Allocations earmarked for minor miscellaneous works are utilised for such purposes as the purchase of minor plant and equipment, annual provisions for repairs and replacements and land acquisitions, and the provision of capital services, including compensation for coal rights.

Generally, the project values making up agency capital allocations for 1997-98 do not make any allowance for future price movements.

The capital program provides for the construction, acquisition and upgrading of the physical assets of the State, as well as the provision of certain services with long term social and economic benefits. The program plays a key role in the growth and development of the State economy by providing the basic infrastructure required by industry and for urban and rural development throughout New South Wales. In addition the capital program encompasses the provision of essential social, recreational and cultural facilities.

The program embraces a large number of individual projects ranging from the acquisition of minor plant and equipment, through to provision of electricity, roads, rail, ports, hospitals, education and other facilities. The sheer volume of projects being undertaken precludes a detailed listing of all projects.

Separate indexes are provided for the Budget and Non Budget Sectors capital projects, at the beginning of Sections 3.2 and 3.3 respectively.

In view of the competitive nature of the Freight Rail Corporation and the Electricity Generators, information on individual capital projects for these agencies is regarded as commercial in confidence and is not provided in this paper. Aggregate total expenditure for these agencies is, however, included in the Total 1997-98 Non Budget Sector Capital Program.