

TABLE OF CONTENTS

	PAGE
CHAPTER 1: INTRODUCTION	1
CHAPTER 2: OUTLAYS AND REVENUES OF THE NSW PUBLIC SECTOR	2
2.1 Estimates of Outlays and Revenues for 1996-97	
2.2 Estimated and Actual Outcome for 1995-96	
2.3 Uniform Reporting Requirements	
2.4 Classification Framework	
CHAPTER 3: SELECTED FINANCIAL ASSETS AND LIABILITIES OF THE NSW PUBLIC SECTOR .	34
3.1 Introduction	
3.2 Estimates of Financial Assets and Liabilities - Uniform Reporting Requirements	
3.3 Classification Framework	
CHAPTER 4: LOAN COUNCIL REPORTING REQUIREMENTS	39
APPENDIX A - PUBLIC SECTOR ENTITIES CLASSIFIED BY SECTOR	40

1 INTRODUCTION¹

This Budget Paper presents financial aggregates for the NSW general government and public trading enterprise sectors according to internationally recognised statistical standards and in accordance with a resolution of the 1991 Premiers' Conference.

Care should be taken when comparing the information presented here with the other Budget Papers which, in general, report results for the Budget Sector only. While the coverage of the Budget and general government sectors have a large degree of overlap, significant differences currently remain. However, the General Government Debt Elimination Act 1995 requires, at a time determined by the Treasurer, for the Budget to be presented on a general government basis. Current differences in the coverage between the Budget and general government sectors are outlined in the Appendix which classifies organisations by both administrative unit and Australian Bureau of Statistics (ABS) institutional sector.

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

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

Outlay and revenue data presented in this Budget Paper are provided on two separate bases. Sections 2.1 and 2.2 provide information which excludes the operations of the NSW Treasury Corporation, selected Commonwealth payments which pass through the State's accounts and universities. While the exclusion of these transactions is considered to provide a fairer representation of State finances, in accordance with the requirements of the 1991 Premiers' Conference resolution, Section 2.3 provides information on a standard ABS basis.

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

Finally, it should be recognised that the move to an early Budget will result in estimates for 1995-96 and 1996-97 being subject to a greater level of revisions than in previous years.

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

2 OUTLAYS AND REVENUES OF THE NSW PUBLIC SECTOR

2.1 ESTIMATES OF OUTLAYS AND REVENUES FOR 1996-97

Overview

Estimates of NSW public sector outlays and revenues in 1996-97 are presented in Table 2.1. Overall the financial result of the State sector is projected to be a \$158 million deficit. This compares with an estimated deficit of \$92 million in 1995-96.

The projected result reflects a surplus for the general government sector of \$44 million and a balanced position for the public trading enterprise (PTE) sector. It should be noted that the projected outcome for the total State sector differs from the sum of the general government and PTE results due to the need to eliminate transactions between the two sectors.

Adjusting for equity repayments, the underlying general government result² is a surplus of \$14 million compared with an estimated outcome for 1995-96 of \$378 million. In the case of the PTE sector there is expected to be a significant turnaround from a substantial surplus (\$386 million) to a balanced position.

Table 2.1: Estimated Total Public Sector Outlays and Revenues 1996-97

	General Government	Public Trading Enterprises	Total State ⁽¹⁾
	\$m	\$m	\$m
Current Outlays	19,849	2,648	20,959
- % increase	2.7	24.1	3.0
Capital Outlays	2,985	2,012	4,351
- % increase	127.9	(-) 5.4	2.4
Revenue and Grants Received	22,878	3,076	23,568
- % increase	4.7	4.8	3.4
Deficit⁽²⁾	(-) 44	nil	158

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

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

The projected result for the State sector in 1996-97 maintains the improvement achieved in the financial position of New South Wales in recent years. After peaking in 1991-92 at \$1,207 million, the underlying result for the State in 1996-97 is projected to be a deficit of \$158 million.

2 Underlying results are defined as excluding equity sales, the casino licence fee and tax compensation on sale of the GIO.

The projected outcome for the PTE sector (and therefore the State sector) is heavily influenced by an apparent conservative bias in the estimates provided by the State's public trading enterprises which results in actual outcomes generally being better than projected. For example, the projected result for 1995-96 understated the actual outcome (which was a surplus) by \$470 million with a similar pattern being apparent in previous years. This matter is examined in more detail in the section discussing PTE results.

General Government Sector

A summary of aggregates for the general government sector are presented in the table below.

Table 2.2: Summary of General Government Estimates

	1995-96 \$m	1996-97 \$m	% Change
Current Outlays			
- <i>Final Consumption Expenditure</i>	14,329	15,077	5.2
- <i>Interest</i>	1,697	1,644	(-) 3.1
- <i>Other Current Transfer Payments</i>	3,294	3,129	(-) 5.0
Total Current Outlays	19,320	19,849	2.7
Capital Outlays			
- <i>Gross Fixed Capital Expenditure and Net Purchase of Land</i>	1,928	2,122	10.1
- <i>Other Capital Outlays</i>	(-) 618	863	n.a.
Total Capital Outlays	1,310	2,985	127.9
Revenue and Grants Received			
- <i>Taxes, Fees and Fines</i>	11,269	11,670	3.6
- <i>Commonwealth Grants Received</i>	8,307	8,561	3.1
- <i>Other Revenue</i>	2,269	2,647	16.7
Total Revenue and Grants Received	21,845	22,878	4.7
Deficit ⁽¹⁾	(-) 1,216	(-) 44	(-) 96.4

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

• Outlays

In 1996-97, current outlays of the general government sector are expected to increase by 2.7 per cent. The growth in current outlays is made up of a 5.2 per cent increase in final consumption expenditure and a 4.4 per cent reduction in current transfer payments.

The growing importance of consumption expenditure as a proportion of current outlays in 1996-97 reflects a longer term trend which has seen the proportion of current outlays in this area increase from 70 per cent in 1989-90 to 76 per cent in 1996-97. It is likely that this trend will continue with declining interest outlays in future years with the reduction in debt under the General Government Debt Elimination Act 1995 and the declining impact of the motor vehicle third party unfunded insurance liabilities.

In 1996-97 the increase in consumption expenditure is concentrated in the areas of education, police, housing and community amenities, agriculture as well as superannuation. Interest payments are expected to fall by \$53 million, reflecting the full year effect of the projected surplus for 1995-96 and the surplus in 1996-97.

Subsidies to public trading enterprises are projected to fall by \$72 million in line with a reduction in general purpose subsidies to the State Rail Authority. Subsidies paid to public trading enterprises have reduced from \$975 million in 1991-92 to \$640 million in 1996-97, a reduction in real terms of 43 per cent. This results from a progressive improvement in the efficiency of these enterprises as well as reduced funding for redundancies from the Budget.

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

Capital outlays of the general government sector in 1996-97 are projected to increase by 128 per cent. This increase results, in the main, because of the lower level of equity restructuring payments in 1996-97 which are treated under Government Finance Statistics principles as advance repayments. Excluding this factor from both 1995-96 and 1996-97, capital outlays are projected to increase by only 1.7 per cent between the two years.

Gross fixed capital expenditure, along with net land purchases, is expected to increase by 10.1 per cent, reflecting higher capital expenditure connected with the Olympics. In line with this, expenditure on new fixed assets is expected to increase by 18.3 per cent.

Overall, total outlays, current and capital, are projected to increase by 10.7 per cent in 1996-97 or 2.6 per cent after adjusting for the impact of equity restructuring payments.

- **Revenue and Grants Received**

In 1996-97 revenues (including grants) are projected to increase by 4.7 per cent. This consists of a 3.6 per cent increase in taxation revenue, a 3.1 per cent increase in grants received and a 16.7 per cent increase in other revenue.

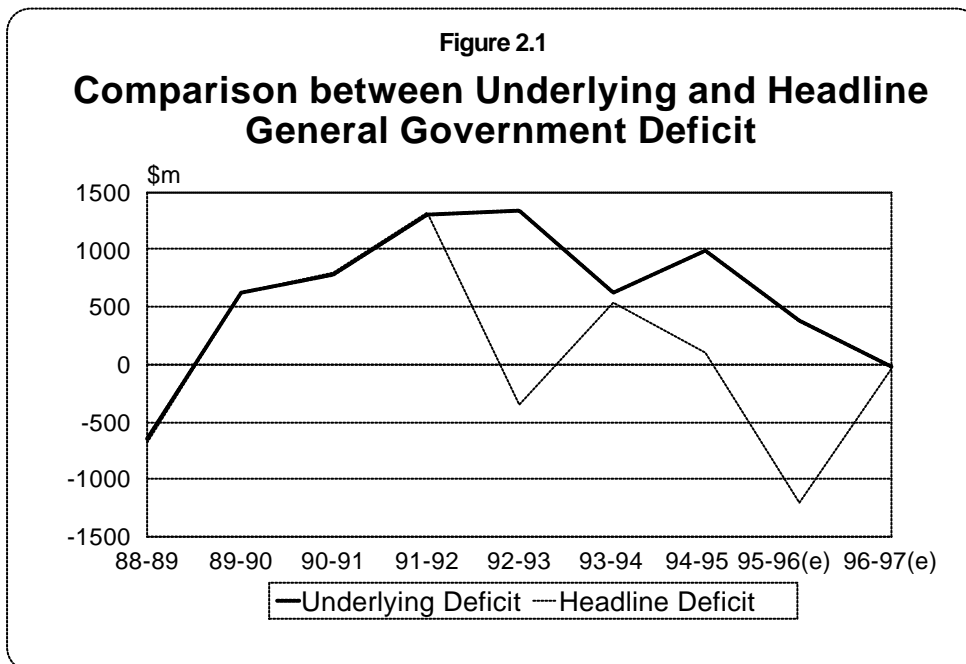
The low real growth in taxation revenue, in spite of the continued strength of economic activity, reflects subdued growth in financial taxes due to innovations and other changes directed at minimising tax liability, lower land tax revenues following the boost in 1995-96 associated with amnesty payments and the impact of the introduction of lower uniform heavy vehicle charges on weight tax revenues.

Non-taxation revenues are expected to grow sharply in 1996-97 as a result of higher PTE dividend payments (which under GFS principles includes tax equivalent payments).

- **Financial Result**

The financial result for the general government sector is projected to be a \$44 million surplus or \$14 million surplus on an underlying basis. This compares with an estimated surplus of \$1,216 million in 1995-96 or a underlying deficit of \$378 million.

Figure 2.1 shows trends in both the headline and underlying general government deficit over the period since 1988-89. Between 1988-89 and 1992-93 there was a sustained increase in the underlying general government deficit. Since that time the deficit has fallen substantially and has been eliminated with the help of asset sales in 1996-97.



The financial result can be dissected into an operating and capital component. In 1996-97 the general government sector is expected to show an improved operating result compared with the previous financial years. In 1996-97 the operating result of the general government sector is expected to be a surplus of nearly \$2.1 billion compared with \$1.6 billion in 1995-96, \$1.2 billion in 1994-95, \$1.0 billion in 1993-94 and a deficit of \$104 million in 1992-93.

The \$44 million surplus for the general government sector compares with a surplus of \$145 million for the Budget Sector. A reconciliation between the Budget result and the general government result is shown below.

Table 2.3: Reconciliation of Budget and General Government Results ⁽¹⁾

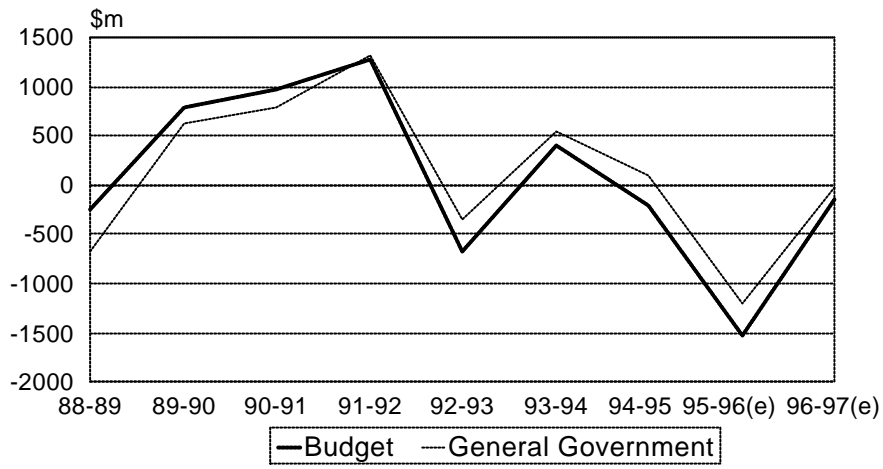
	1995-96 \$m	1996-97 \$m
Budget Result	(-) 1,524	(-) 145
plus		
. Housing Authorities	(-) 1	(-) 73
. Ministerial Insurance Corporation	(-) 2	(-) 44
. Building & Construction Industry Long Service Leave Payments Corporation	110	50
. Public Trustee	(-) 1	49
. Environmental Trusts	13	49
. Darling Harbour Authority	33	1
. Public Works Department	80	16
. State Forests	40	18
. Rental Bond Board	(-) 17	... ⁽²⁾
. City West Development Corporation	34	11
. Honeysuckle Development Corporation	0	15
. Land Titles Office	(-) 1	13
. Other	21	(-) 5
General Government Result	(-) 1,216	(-) 44

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

(2) Part of Budget sector in 1996-97.

With the move to shift the Budget sector to a general government basis the differences in coverage outlined in the Table 2.3 and in the Appendix will disappear. Figure 2.2 compares the headline Budget and general government results for the period since 1988-89. Clearly there has been a close correspondence between the two headline deficits with the Budget sector recording a slightly better outcome in recent years.

Figure 2.2

**Comparison between Budget and General Government
Headline Deficit**

Public Trading Enterprises

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

Table 2.4: Summary of Public Trading Enterprise Estimates

	1995-96 \$m	1996-97 \$m	% Change
Current Outlays			
- <i>Interest Payments</i>	947	1,013	7.0
- <i>Other Current Transfer Payments</i>	1,187	1,635	37.7
Total Current Outlays	2,134	2,648	24.1
Capital Outlays			
- <i>Gross Fixed Capital Expenditure and Net Purchase of Land</i>	2,089	2,018	(-) 3.4
- <i>Other Capital Outlays</i>	37	(-) 6	n.a.
Total Capital Outlays	2,126	2,012	(-) 5.4
Revenue and Grants Received			
- <i>Net Operating Surplus</i>	1,704	1,884	10.6
- <i>Grants Received</i>	882	843	4.4
- <i>Other Revenue</i>	350	349	0.3
Total Revenue and Grants Received	2,936	3,076	4.8
Deficit ⁽¹⁾	(-) 386	nil	(-) 100.0

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

- **Outlays**

In 1996-97 total outlays by the public trading enterprise sector are expected to increase by 9.4 per cent to \$4.7 billion. The increase in PTE outlays is made up of growth in current outlays of 24.1 per cent while capital outlays are expected to decrease by 5.4 per cent.

The strong increase in current outlays reflects both higher interest payments as a result of the return of surplus capital to the general government sector as well as projected higher dividend payments. Although interest payments are expected to increase in 1996-97, the success of the PTE sector in reducing its level of debt in recent years is highlighted by the \$400 million reduction in interest payments since 1989-90.

Expenditure on new fixed assets is projected to increase by 3.5 per cent mainly as a result of higher expenditure by Sydney Water (reflecting the takeover of developer assets), Waste Services and the State Transit Authority. On the other hand, gross fixed capital expenditure including net purchases of land is expected to fall by 3.4 per cent due to higher asset sales in 1996-97.

- **Revenues and Grants Received**

The total revenue and grants received of the public trading enterprise sector is expected to increase in 1996-97 by 4.8 per cent, reflecting an increase in the net operating surplus flowing from reduced operating cost in the electricity sector associated with announced reforms. The increase in the net operating surplus will be achieved despite a reduction of \$75 million in subsidies received from the general government sector.

- **Financial Result**

Overall, the public trading enterprise sector is projected to record a balanced result in 1996-97 compared with a surplus of \$386 million in 1995-96.

There is evidence of a conservative bias in estimates of the PTE sector financial results. Table 2.5 indicates that the financial result of PTE sector has been conservatively forecast in each of the past 6 years. Given this, the actual result for this sector in 1996-97 may well be better than projected.

Table 2.5: Comparison of Estimated and Actual Financial Results⁽¹⁾⁽²⁾

	Estimated \$m	Actual \$m	Forecast Error \$m
1990-91	441	445	4
1991-92	159	409	250
1992-93	28	436	408
1993-94	433	501	68
1994-95	(-) 24	355	379
1995-96	(-) 84	386	470

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

(2) A positive number represents a surplus.

Like the general government sector, public trading enterprises show a significant surplus on their operating accounts. In 1996-97 the operating result of the public trading enterprise sector is projected as a surplus of \$1.0 billion while the capital result is projected as a deficit of the same amount. It should be recognised that subsidies from the general government sector form part of the revenue of the public trading enterprise sector and therefore increase the operating surplus.

Total State Sector

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

Table 2.6: Summary of Total State Estimates

	1995-96 \$m	1996-97 \$m	% Change
Current Outlays			
- <i>Final Consumption Expenditure</i>	14,329	15,077	5.2
- <i>Current Transfer Payments</i>	6,026	5,883	(-) 2.4
Total Current Outlays	20,355	20,959	3.0
Capital Outlays			
- <i>Gross Fixed Capital Expenditure and Net Purchase of Land</i>	4,016	4,139	3.1
- <i>Other Capital Outlays</i>	234	212	(-) 9.4
Total Capital Outlays	4,250	4,351	2.4
Revenue and Grants Received			
- <i>Taxes, Fees and Fines</i>	11,269	11,670	3.6
- <i>Commonwealth Grants Received</i>	8,307	8,561	3.1
- <i>Other Revenue</i>	3,228	3,337	3.4
Total Revenue and Grants Received	22,804	23,568	3.4
Deficit ⁽¹⁾	92	158	71.7

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

- **Outlays**

In 1996-97 total state outlays are expected to increase by 2.9 per cent or 2.5 per cent after adjusting for equity restructuring payments. The adjusted increase in total outlays in 1996-97 is made up of a 3.0 per cent increase in current outlays and a 0.3 per cent increase in capital outlays.

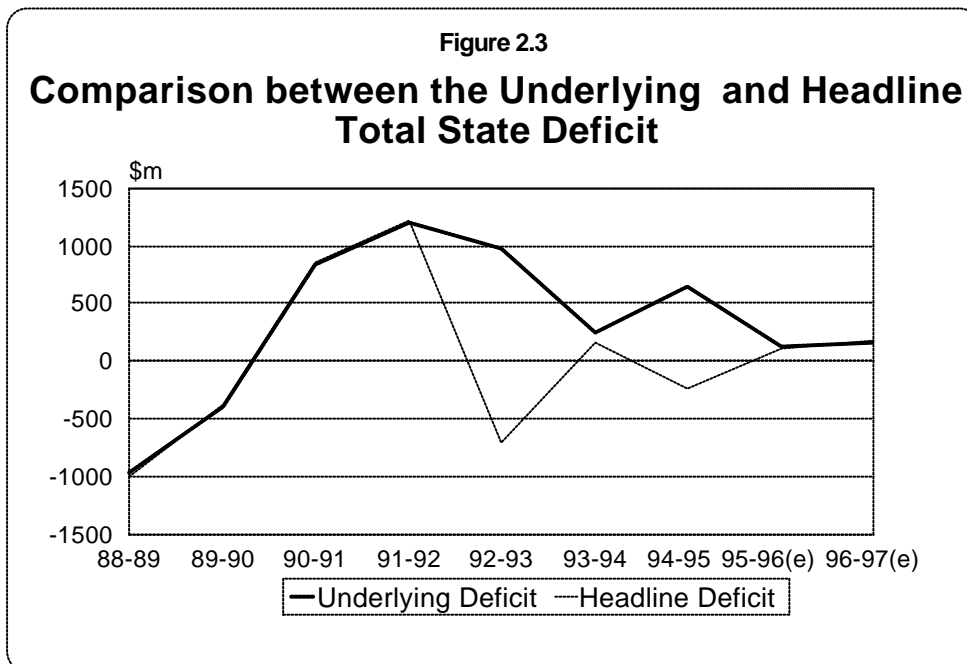
- **Revenue and Grants Received**

Total state revenues (including grants received) are expected to increase by 3.4 per cent in 1996-97. This follows an increase of 4.5 per cent in 1995-96. Own source revenues and grants are expected to increase by similar amounts in 1996-97. In total, own source revenue makes up nearly 64 per cent of state revenue.

- **Financial Result**

In 1996-97 the financial result for the state sector is expected to be a deficit of \$158 million. This compares with a deficit in 1995-96 of \$92 million. On an underlying basis, the deficit is expected to increase from \$120 million in 1995-96 to \$158 million in 1996-97. As outlined earlier, the outcome for the State sector is likely to be better than expected given the past forecasting bias for the PTE sector.

Figure 2.3 shows trends in both the headline and underlying total state deficit since 1988-89. As with the result for the general government sector, the trend was for a deteriorating position in the years leading up to the early 1990s followed by a sustained improvement with a small deficit achieved in 1996-97.



As has been the case in previous years, the operating result for the total state sector in 1996-97 is expected to remain in substantial surplus, estimated to be around \$3.1 billion. Since 1991-92, the operating result of the state sector has nearly doubled in real terms underlying the improvement in the State's financial position following the severe recession in the early 1990s.