

2.2 ESTIMATED AND ACTUAL OUTCOME FOR 1995-96

Introduction

Variations between actual and projected outlays and revenues for 1995-96 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 organisational coverage of this Budget Paper is based on a criteria 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; and
- errors in projections of revenues and outlays.

General Government Sector

In terms of variation between estimated and actual results for 1995-96, the surplus increased from an estimated \$864 million to \$1,216 million. The major variations were as follows -

- Current outlays were higher by \$311 million reflecting increased Budget Sector interest costs (\$54 million), higher expenditure by the Public Works Department as well as the reclassification of expenditure from capital to current outlays.
- Capital outlays were lower than forecast by \$1,726 million largely due to the reclassification of equity restructuring payments from a dividend received to an offset to capital outlays. In addition, expenditure on new fixed assets was significantly below budget reflecting delays in regard to Olympics expenditure and lower expenditure by the RTA, Public Works Department and Honeysuckle and City West Development Corporations. Asset sales were also substantially lower than forecast mainly as a result of delays in the sale of crown assets.
- On the revenue side, receipts were \$1,064 million lower than projected mainly due to the reclassification of equity restructuring payments. In addition to this factor, taxation revenues were \$113 million higher reflecting the better than expected turnover in the property market. Interest receipts were also significantly higher than expected.

Table 2.10: Summary of Estimated and Actual Results for the General Government Sector in 1995-96 ⁽¹⁾

ECONOMIC TYPE CLASSIFICATION	1995-96 Estimate \$m	1995-96 Revised \$m	Variation \$m
Current Outlays	19,009	19,320	311
. Final Consumption Expenditure	14,125	14,329	204
. Current Transfer Payments	4,884	4,991	107
Capital Outlays	3,036	1,310	(-) 1,726
. Gross Fixed Capital Expenditure	2,078	1,954	(-) 124
. Other Capital Outlays	958	(-) 644	(-) 1,602
Total Outlays	22,045	20,630	(-) 1,415
Revenue and Grants Received	22,909	21,845	(-) 1,064
. Taxes, Fees and Fines	11,156	11,269	113
. Other Own Source Revenue	3,355	2,268	(-) 1,087
. Grants	8,398	8,308	(-) 90
Financial Result ⁽²⁾	(-) 864	(-) 1,216	(-) 352
- Operating Result	(-) 2,947	(-) 1,643	1,304
- Capital Result	2,083	427	(-) 1,656

(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 \$386 million compares with a projected deficit last year of \$1,219 million. The dramatic improvement was due to a combination of:

- the reclassification of equity restructure payments from dividend payments to advance repayments as well as higher dividend payments by agencies such as Pacific Power;
- reduced capital expenditure by a number of agencies including Pacific Power, the electricity distribution industry, Sydney Water and the State Rail Authority; and
- a significantly higher net operating surplus for Pacific Power offset by poorer results for the State Rail Authority and Landcom.

The higher net operating surplus for Pacific Power has come about mainly as a result of current estimates of operating expenditure being around \$160m lower than forecast in the 1995-95 Budget. The State Rail Authority deficit is higher due to reduced operating revenue (around \$60 million), reduced subsidies from the Budget sector and higher depreciation charges. The Landcom net operating position has deteriorated due to reduced operating revenue of around \$60 million partly offset by reduced operating expenditure of around \$30 million.

Reflecting the better than projected results for both the general government and public trading enterprise sectors the total state sector surplus was \$403 million better than projected.

Table 2.11: Summary of Estimated and Actual Results for the Public Trading Enterprise Sector in 1995-96 ⁽¹⁾

ECONOMIC TYPE CLASSIFICATION	1995-96 Estimated \$m	1995-96 Revised \$m	Variation \$m
Current Outlays	3,228	2,134	(-) 1,094
. Interest Payments	953	947	(-) 6
. Current Transfer Payments	2,275	1,187	(-) 1,088
Capital Outlays	2,553	2,126	(-) 427
. Gross Fixed Capital Expenditure	2,554	2,195	(-) 359
. Other Capital Outlays	(-) 1	(-) 69	(-) 68
Total Outlays	5,781	4,260	(-) 1,521
Revenue and Grants Received	2,896	2,936	40
. Net Operating Surplus	1,646	1,704	58
. Other Own Source Revenue	342	350	8
. Grants	908	882	(-) 26
Financial Result ⁽²⁾	1,219	(-) 386	(-) 1,605
- Operating Result	(-) 244	(-) 1,466	(-) 1,222
- Capital Result	1,463	1,080	(-) 383

(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.

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 four exceptions -

- Commonwealth payments where the State acts merely as an agent;
- Universities;
- 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 1 through to 7 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, 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.

Exclusion of Universities

For some time, New South Wales has argued that universities are more appropriately classified to the Commonwealth rather than the State sector. This position has been based on the situation that effective financial control rests with the Commonwealth despite the fact that the institutions remain constituted under State legislation.

The financial control of the Commonwealth is highlighted by the considerable degree of funding provided and by the decision in 1993 to phase out capital funding and force universities to fund part of their capital programs from borrowings.

In response to the suggestion by New South Wales (and some other States), the ABS has now decided to allocate universities to a separate administrative sector. This change will commence in 1997.

Inclusion of Treasury Corporation

Most public sector borrowing in New South Wales is carried out through the Treasury Corporation. The ABS at present, classifies the Treasury Corporation as a general government authority on the basis that its predominant purpose is to serve the State Government sector.

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 was confirmed by the exclusion of central borrowing authorities from Loan Council controls. In fact, the ABS has now issued an exposure draft suggesting that central borrowing authorities be classified as financial enterprises.
- 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 increases the State deficit by around \$135 million despite the fact that it records 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 1995-96 by around \$47 million. In fact, current estimates show the deficit will be increased by around \$135 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	1995-96 Revised \$m	1996-97 Estimated \$m
Current Outlays	21,860	22,255
Final consumption expenditure	15,650	16,395
Interest payments	1,950	1,751
Other current payments	4,259	4,109
Capital Outlays	1,472	3,058
Gross fixed capital expenditure	1,973	2,212
Capital grants	1,153	1,086
Advances	(-) 1,657	(-) 227
Other Capital Outlays	3	(-) 12
Revenue and Grants Received	24,398	25,296
Taxes, fees and fines	11,269	11,670
Property income and other revenue (net)	2,502	2,733
Grants received	10,626	10,893
Financing Transactions	(-) 1,066	17
Net advances received	(-) 385	(-) 458
Net domestic and overseas borrowings	(-) 4,349	57
Other financing transactions (net)	3,668	418
Deficit ⁽¹⁾	(-) 1,066	17

(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	1995-96 Revised \$m	1996-97 Estimated \$m
Current Outlays	2,134	2,648
Interest payments	947	1,013
Other current transfer payments	1,187	1,635
Capital Outlays	2,126	2,012
Gross fixed capital expenditure	2,195	2,166
Capital grants	28	23
Advances
Other Capital Outlays	(-) 97	(-) 178
Revenue and Grants Received	2,936	3,076
Net operating surpluses of PTEs	1,704	1,884
Property income and other revenue (net)	350	348
Grants received	882	843
Financing Transactions	1,323	1,584
Net advances received	(-) 1,708	(-) 203
Net domestic and overseas borrowings	1,302	(-) 296
Increase in provisions	1,709	1,584
Other financing transactions (net)	21	499
Deficit ⁽¹⁾	(-) 386	...

(1) Financing Transactions minus increase in Provisions.

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

ECONOMIC TYPE CLASSIFICATION	1995-96 Revised \$m	1996-97 Estimated \$m
	\$m	\$m
Current Outlays	22,810	23,292
Final consumption expenditure	15,650	16,395
Interest payments	2,732	2,623
Other current payments	4,428	4,274
Capital Outlays	4,412	4,425
Gross fixed capital expenditure	4,168	4,378
Capital grants	289	263
Advances	49	(-) 26
Other Capital Outlays	(-) 95	(-) 190
Revenue and Grants Received	25,271	25,913
Taxes, fees and fines	11,269	11,670
Net operating surpluses of PTEs	1,704	1,884
Property income and other revenue (net)	1,673	1,465
Grants received	10,625	10,893
Financing Transactions	1,951	1,804
Net advances received	(-) 386	(-) 458
Net domestic and overseas borrowings	(-) 3,047	(-) 238
Increase in provisions	1,709	1,584
Other financing transactions (net)	3,675	916
Deficit ^(a1)	242	220

(1) Financing Transactions minus Increase in Provisions.

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

FUNCTION	1995-96 Revised \$m	1996-97 Estimated \$m
	\$m	\$m
General Public Services	1,417	1,601
Public Order and Safety	1,865	1,917
Education	6,868	7,046
Health	4,270	4,327
Social Security and Welfare	1,550	1,631
Housing and Community amenities	501	503
Recreation and Culture	469	464
Fuel and Energy	74	97
Agriculture, Forestry and Fishing	464	489
Mining, Manufacturing and Construction	44	38
Transport and Communication	1,559	1,488
Other Economic Affairs	656	651
Other Purposes ⁽¹⁾	3,073	3,041
TOTAL CURRENT OUTLAYS	22,810	23,292

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

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

FUNCTION	1995-96 Revised \$m	1996-97 Estimated \$m
	\$m	\$m
General Public Services	12	78
Public Order and Safety	220	194
Education	318	344
Health	446	412
Social Security and Welfare	28	54
Housing and Community amenities	764	693
Recreation and Culture	193	396
Fuel and Energy	579	615
Agriculture, Forestry and Fishing	85	83
Mining, Manufacturing and Construction	2	(-) 9
Transport and Communication	1,687	1,897
Other Economic Affairs	56	31
Other Purposes	23	(-) 363
TOTAL CAPITAL OUTLAYS	4,412	4,425

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

FUNCTION	1995-96 Revised \$m	1996-97 Estimated \$m
	\$m	\$m
General Public Services	1,428	1,678
Public Order and Safety	2,084	2,110
Education	7,186	7,390
Health	4,716	4,739
Social Security and Welfare	1,578	1,685
Housing and Community amenities	1,264	1,196
Recreation and Culture	662	861
Fuel and Energy	653	712
Agriculture, Forestry and Fishing	549	572
Mining, Manufacturing and Construction	46	30
Transport and Communication	3,247	3,384
Other Economic Affairs	712	682
Other Purposes ⁽¹⁾	3,096	2,678
TOTAL OUTLAYS	27,222	27,717

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

Table 2.18: Taxes, Fees and Fines - ABS Basis

TAXES, FEES AND FINES CLASSIFICATION	1995-96 Revised \$m	1996-97 Estimated \$m
	\$m	\$m
Payroll Tax	2,852	2,988
Taxes on Property	2,987	3,158
Land Tax	580	576
Other Taxes on Immovable Property	27	28
Estate, Inheritance and Gift Taxes
Stamp Duties on Financial and Capital Transactions	1,543	1,678
Financial Institutions Transaction Taxes	819	853
Government Borrowing Levies	17	22
Taxes on Provision of Goods and Services	2,017	2,119
Levies on Statutory Authorities	38	40
Taxes on Gambling	1,182	1,242
Taxes on Insurance	797	836
Taxes on the Use of Goods and the Performance of Activities	3,029	3,040
Motor Vehicle Taxes	1,281	1,204
Franchise Taxes	1,702	1,757
Other Taxes on the Use of Goods and the Performance of Activities	47	79
Fees and Fines	384	366
Fees	198	187
Fines	186	179
TOTAL TAXES, FEES AND FINES	11,269	11,670

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 and 3.

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).