

CHAPTER 2: FISCAL POSITION AND OUTLOOK

- ◆ An operating surplus (measured on an accrual basis) of \$2,097 million in 1999-2000.
- ◆ Strong operating surpluses in the forward years of \$1,782 million in 2000-01, \$2,481 million in 2001-02 and \$2,345 million in 2002-03.
- ◆ A GFS cash based surplus of \$214 million in 1999-2000.
- ◆ Cash surpluses in the forward years of \$363 million in 2000-01, \$976 million in 2001-02 and \$766 million in 2002-03.

A key Government objective is to establish a fiscal environment for the future that will permit reductions in state taxes and, at the same time, ensure essential government services are provided at the standard needed by the community.

Commentary on the fiscal position and outlook of the General Government Sector is primarily focussed on accrual based operating statements, rather than the traditional cash based statements.

Under accrual accounting, expenses are recorded at the time they are incurred, rather than when they are paid for. Similarly, revenue is recognised when earned rather than when the cash is received. For example, the operating statement includes:

- ◆ the full cost of employing public servants. This includes salary and wages, changes in accrued leave entitlements (annual leave and long service leave) and the full cost of superannuation entitlements whether funded or not; and
- ◆ a depreciation charge that reflects the cost of wear and tear of agencies' assets arising from the delivery of services.

Therefore, the accrual based operating statements provide the true full cost of providing government services.

A reconciliation between the accrual based operating surplus and the GFS cash based surplus is included in Section 2.4.

2.1 1999-2000 BUDGET ESTIMATES

The operating surplus for 1999-2000 is expected to be \$2,097 million, compared with \$2,259 million estimated for 1998-99.

An abnormal revenue item of \$860 million is included in the expected surplus for 1999-2000. This primarily reflects an expected reduction in the unfunded superannuation liability arising from an offer to members of two older style defined benefit schemes, the State Superannuation Scheme and the Police Superannuation Scheme, to exit these schemes and join First State Superannuation, a modern accumulation scheme established in 1992.

Table 2.1: General Government Sector 1999-2000 Operating Statement

	1998-99 Revised \$m	1999-2000 Budget \$m	Change \$m	Change %
State Revenues				
Taxation	14,104	13,945	(159)	(-) 1.1
Commonwealth Grants	8,899	9,363	464	5.2
Financial Distributions	1,251	1,381	130	10.4
Fines, Regulatory Fees and Other	728	782	54	7.4
Total State Revenues	24,982	25,471	489	2.0
Operating Revenues				
Sale of Goods and Services	2,291	2,359	68	3.0
Investment Income	456	387	(69)	(-) 15.1
Grants and Contributions	463	397	(66)	(-) 14.3
Other	269	217	(52)	(-) 19.3
Total Operating Revenues	3,479	3,360	(119)	(-) 3.4
Expenses				
Operating Expenses	18,210	18,412	202	1.1
Maintenance	1,180	1,188	8	0.7
Depreciation and Amortisation	854	876	22	2.6
Grants and Subsidies	4,927	4,957	30	0.6
Finance Costs	1,387	1,315	(72)	(-) 5.2
Other Expenses	419	747	328	78.3
Total Expenses	26,977	27,495	518	1.9
Gain/(Loss) on Sale of Non-Current Assets	78	(99)	(177)	(-) 226.9
Net Cost of Services	23,420	24,234	814	3.5
Surplus before Abnormal items	1,562	1,237	(325)	(-) 20.8
Abnormal items -	697	860	163	23.4
Surplus for the Year	2,259	2,097	(162)	(-) 7.2

Revenues

State revenues for 1999-2000 are projected to increase by 2.0 percent to \$25,471 million.

State Taxation revenues are expected to decrease by 1.1 percent to \$13,945 million. One reason for the decrease is the planned reduction in payroll tax and land tax rates in 1999-2000. Payroll tax will reduce from 6.85 percent to 6.4 percent from 1 July 1999. There will also be payroll tax concessions for apprenticeships from 1 July 1999. The land tax rate will decrease from 1.85 percent to 1.7 percent on 31 December 1999.

In addition, an expected downturn in the property and asset cycles from the very high levels of activity experienced during 1998-99 will adversely affect revenues from stamp duties on conveyance and share transactions.

Commonwealth grants are expected to increase by 5.2 percent to \$9,363 million largely due to a favourable outcome of the Commonwealth Grants Commission's 1999 methodology review, the cessation of State Fiscal Contribution Payments to the Commonwealth and a doubling of National Competition Policy payments.

Financial Distributions (ie dividends and tax equivalents earned from the General Government Sector's investment in public trading enterprises) are expected to rise by 10.4 percent to \$1,381 million. In 1998-99, financial distributions are expected to be \$68 million below that estimated in the 1998-99 Budget, principally because of lower than anticipated profits in the electricity distribution and water sectors. The strong increase in 1999-2000 reflects the expected return to more normal levels of profitability.

Net Cost of Services

Net Cost of Services for 1999-2000 is projected to increase by 3.5 percent to \$24,234 million. The increase in net cost of services comprises a 1.9 percent increase in operating expenses and a 3.4 percent decrease in operating revenues.

Employee related costs are expected to increase by 2.0 percent to \$11,539 million in 1999-2000. The estimates for 1999-2000 incorporate all agreed wage increases.

Finance costs are expected to decrease by 5.2 percent to \$1,315 million in 1999-2000. Reductions in interest costs are expected to be achieved primarily because of the fall in interest rates. Long term debt that matures in 1999-2000 will be re-financed with debt that has lower interest rates.

The increase in Other Expenses is primarily because 1999-2000 includes the Treasurer's Advance for that year. The Treasurer's Advance for 1998-99 has been allocated to the specific line items for which it has been used.

Investment income is expected to decrease by 15.1 percent to \$387 million. Income in 1998-99 was unusually high because \$3.2 billion was borrowed to reduce the unfunded superannuation liability. There was a timing difference between raising the funds on the market and transferring the money to the fund trustee. The decrease in income in 1999-2000 reflects the expected return to more normal income levels.

Grants and contributions are expected to decrease by 14.3 percent to \$397 million in 1999-2000. In 1998-99, there was a non cash contribution to the General Government Sector, being a transfer of land from State Forests to National Parks and Wildlife Service of \$120 million relating to the Government's forestry reform program. The decrease in 1999-2000 reflects the expected return to more normal levels.

Details of specific Budget initiatives are included in Chapter 3 *General Government Sector Revenues*, Chapter 4 *General Government Sector Expenses* and Budget Paper No. 3 *Budget Estimates 1999-2000*.

2.2 2000-01 TO 2002-03 FORWARD ESTIMATES

The projected operating statements of the General Government Sector for the four years from 1999-2000 to 2002-03 are presented in Table 2.2. The General Government Sector is expected to record strong operating surpluses in each of these years. The result for 1999-2000 benefited from the abnormal revenue relating primarily to the superannuation conversion offer of \$860 million.

In line with the Government's commitment to reduce the State's overall tax burden, approximately \$650 million in taxation reductions have been incorporated in the Budget over the next four years.

This includes a decrease in the payroll tax rate from 6.4 percent to 6.2 percent from 1 July 2001 and to 6.0 percent from 2001-02. In addition, in line with the Government's commitment to reduce the tax burden in New South Wales and ensure the ongoing competitiveness of the State, the Budget provides for tax reductions with a full year cost of \$175 million from 2001-02. The allocation of these funds to specific taxes has yet to be determined.

Moderate growth in wages and employment is expected to mean that State taxation revenue will increase at an average of approximately 3 percent per annum.

Commonwealth grants are expected to increase at more normal growth rates after the significant increase in 1999-2000. The forward estimates do not include the effects of the Commonwealth Government's proposed tax reforms, including the GST.

**Table 2.2: General Government Sector 1999-2000 to 2002-03
Operating Statements**

	1999-2000 Budget \$m	2000-01 Estimate \$m	2001-02 Estimate \$m	2002-03 Estimate \$m
State Revenues				
Taxation	13,945	14,352	14,778	15,362
Commonwealth Grants	9,363	9,609	9,906	10,072
Financial Distributions	1,381	1,499	1,553	1,699
Fines, Regulatory Fees and Other	782	777	752	764
Total State Revenues	25,471	26,237	26,989	27,897
Operating Revenues				
Sale of Goods and Services	2,359	2,449	2,521	2,543
Investment Income	387	397	405	417
Grants and Contributions	397	458	356	340
Other	217	200	119	87
Total Operating Revenues	3,360	3,504	3,401	3,387
Expenses				
Operating Expenses	18,412	18,528	18,754	19,501
Maintenance	1,188	1,114	1,144	1,159
Depreciation and Amortisation	876	1,102	1,071	1,084
Grants and Subsidies	4,957	5,043	5,045	5,108
Finance Costs	1,315	1,215	1,003	1,033
Other Expenses	747	965	862	1,050
Total Expenses	27,495	27,967	27,879	28,935
Gain/(Loss) on Sale of Non-Current Assets	(99)	8	(30)	(4)
Net Cost of Services	24,234	24,455	24,508	25,552
Surplus before Abnormal items	1,237	1,782	2,481	2,345
Abnormal items -	860
Surplus for the Year	2,097	1,782	2,481	2,345

2.3 1998-99 REVISED ESTIMATES

The Surplus for 1998-99 is expected to be \$2,259 million compared with the 1998-99 Budget estimate of \$1,966 million.

The surplus includes a number of one-off abnormal adjustments to the State's unfunded superannuation liability. These include the benefits from the distribution of an unallocated balance of the SSS Contributors' Reserve to employer reserves, the benefits of tax credits arising from the accelerated payment of Government contributions and actuarial adjustments.

The surplus before these abnormal superannuation items is expected to be \$1,562 million compared with the 1998-99 Budget estimate of \$1,316 million.

State revenues estimates have been increased by 3.3 percent to \$24,982 million.

The estimate of taxation revenue has been increased by 5.0 percent to \$14,104 million. This is primarily due to stronger than expected growth in the economy and asset markets. It is not expected that growth will be sustained at such a high rate in future years.

Estimated Commonwealth Grants are expected to increase by 1.9 percent to \$8,899 million. The principal reason is additional funding under the Australian Health Care Agreement.

Total expenses for 1998-99 are expected to be \$26,977 million, \$889 million higher than the estimate in the 1998-99 Budget. This reflects a number of service delivery and other initiatives of the Government, in a wide range of policy areas, since the 1998-99 Budget.

Trends in expenses, by Policy Area, are addressed in detail in Chapter 4.

Table 2.3: General Government Sector 1998-99 Operating Statement

	<i>1998-99 Budget \$m</i>	<i>1998-99 Revised \$m</i>	<i>Change \$m</i>	<i>Change %</i>
State Revenues				
Taxation	13,430	14,104	674	5.0
Commonwealth Grants	8,731	8,899	168	1.9
Financial Distributions	1,319	1,251	(68)	(-) 5.2
Fines, Regulatory Fees and Other	711	728	17	2.4
Total State Revenues	24,191	24,982	791	3.3
Operating Revenues				
Sale of Goods and Services	2,282	2,291	9	0.4
Investment Income	398	456	58	14.6
Grants and Contributions	238	463	225	94.5
Other	234	269	35	15.0
Total Operating Revenues	3,152	3,479	327	10.4
Expenses				
Operating Expenses				
Employee Related	11,166	11,314	148	1.3
Superannuation	1,289	1,625	336	26.1
Other Operating Expenses	5,034	5,271	237	4.7
Maintenance	1,093	1,180	87	8.0
Depreciation and Amortisation	817	854	37	4.5
Grants and Subsidies	4,708	4,927	219	4.7
Finance Costs	1,282	1,387	105	8.2
Other Expenses	699	419	(280)	(-) 40.1
Total Expenses	26,088	26,977	889	3.4
Gain/(Loss) on Sale of Non-Current Assets	61	78	17	27.9
Net Cost of Services	22,875	23,420	545	2.4
Surplus before Abnormal items	1,316	1,562	246	18.7
Abnormal items -	650	697	47	7.2
Surplus for the Year	1,966	2,259	293	14.9

2.4 BUDGET RESULTS PRESENTED ON A GOVERNMENT FINANCE STATISTICS CASH BASIS

Introduction

The data presented in this Section cover the General Government Sector and are on the basis of the ABS definition of the Budget result. Prior years' data have been recast to the same coverage and basis to enable inter-year comparisons.

Government Finance Statistics (GFS) is a system of classifying transactions into an economic framework based on International Monetary Fund standards. This enables valid comparisons to be made with other Australian and International jurisdictions. Adoption of an international standard ensures consistent treatment of transactions resulting in improved transparency and accountability.

Trends in Budget Results

Budget Aggregates

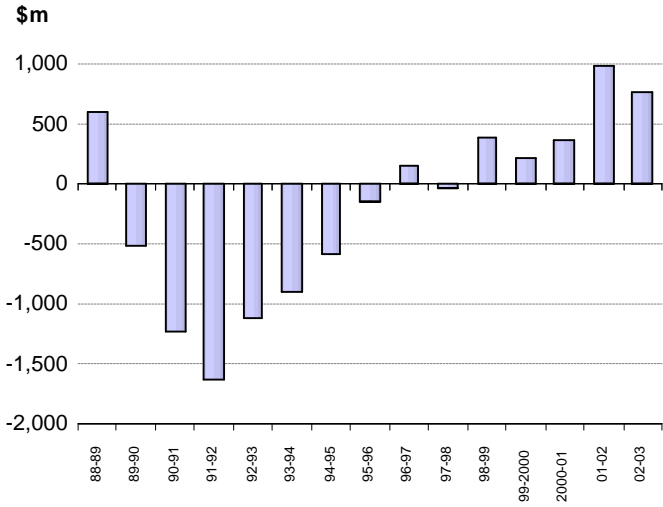
Trends in the Budget position over recent years and projected over the forward estimates period are shown in the following table -

Table 2.4: General Government Results, 1998-99 to 2002-03

Year	Current			Capital			Total
	Outlays	Receipts	Result	Outlays	Receipts	Result	Result
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
1988-89	12,005	13,149	1,144	1,421	879	(542)	602
1989-90	13,803	14,522	719	2,419	1,185	(1,234)	(515)
1990-91	14,773	15,245	472	2,921	1,226	(1,695)	(1,223)
1991-92	16,080	16,101	21	2,692	1,047	(1,645)	(1,626)
1992-93	16,748	16,749	1	2,892	1,776	(1,116)	(1,115)
1993-94	17,069	18,178	1,109	3,315	1,310	(2,005)	(896)
1994-95	17,819	19,122	1,303	2,941	1,048	(1,893)	(590)
1995-96	18,325	20,417	2,092	3,175	936	(2,239)	(147)
1996-97	19,767	22,149	2,382	3,317	1,086	(2,231)	151
1997-98	20,971	23,165	2,194	3,188	965	(2,223)	(29)
1998-99*	22,162	24,910	2,748	3,601	1,235	(2,366)	382
1999-2000*	22,447	25,052	2,605	3,326	935	(2,391)	214
2000-01*	22,948	25,823	2,875	3,430	918	(2,512)	363
2001-02*	22,976	26,527	3,551	3,499	924	(2,575)	976
2002-03*	23,784	27,400	3,616	3,719	869	(2,850)	766

* Adjusted for superannuation conversion offer – (\$3,267m) in 1998-99, \$979m in 1999-2000, \$1,007m in 2000-01 and \$1,081m in 2001-02. The unadjusted results would be a deficit of \$2,885m in 1998-99, and surpluses of \$1,193m in 1999-2000, \$1,370m in 2000-01 and \$2,057m in 2001-02.

Chart 2.1: General Government Budget Results, 1988-89 to 2002-03



The history over many years in New South Wales (as in most other States) has been one of continuing underlying Budget deficits of varying magnitudes.

Table 2.4 and Chart 2.1 show quite clearly a pattern of Budget results deteriorating substantially up to 1991-92 (most noticeably in 1989-90), with a turnaround since 1991-92 leading to a surplus in 1996-97.

The return to a deficit in 1997-98 reflected the impact of the High Court's s90 decision invalidating a range of State licence fees, and additional expenditures in the areas of Health, Transport and Community Services.

The revised Budget result for 1998-99 shows a return to surplus, with the forward years to 2002-03 showing further strong improvements. The improved result in 1998-99 reflects the strong economy and asset markets. However, a slowing is expected during 1999-2000.

Detailed explanations for variations between 1998-99 and 1999-2000 and across the forward years are included in Sections 2.1, 2.2 and 2.3. Although

this information is included on an accrual basis, there is a close correlation between the variances.

As discussed in Section 1.2, Current Outlays have been constrained across the forward estimates years. Table 2.2 reflects this trend.

Table 2.5: Growth in Current Outlays 1998-99 to 2002-03

	<i>Growth on Previous Year %</i>
1989-90	15.0
1990-91	7.0
1991-92	8.8
1992-93	4.2
1993-94	1.9
1994-95	4.4
1995-96	5.1
1996-97	5.6
1997-98	6.1
1998-99	5.7
1999-2000	1.3
2000-01	2.2
2001-02	0.1
2002-03	3.5

Table 2.6: General Government Sector GFS Cash Results 1998-99

	1998-99 Budget \$m	1998-99 Latest Projection \$m	Change \$m	Change %
Current Receipts				
Stamp Duties	3,459	3,923	464	13.4
Payroll Tax	3,621	3,611	(10)	(-) 0.3
Land Tax	945	958	13	1.4
Motor Vehicle Taxes	1,002	1,043	41	4.1
Gaming & Betting	1,440	1,419	(21)	(-) 1.5
Commonwealth Safety Net Taxes	1,873	1,964	91	4.9
Other Taxes	1,095	1,243	148	13.5
Commonwealth General Purpose Grants	4,731	4,787	56	1.2
Commonwealth Specific Purpose Grants	3,230	3,329	99	3.1
Dividends/Tax Equivalents	1,251	1,309	58	4.6
Other Current Receipts	1,202	1,324	122	10.1
Total Current Receipts	23,849	24,910	1,061	4.4
Current Outlays				
Interest Payments	1,276	1,360	84	6.6
Superannuation	1,462	1,486	24	1.6
Subsidies to Non-General Government Sector	875	1,009	134	15.3
Payments for General Government Services	19,766	20,361	595	3.0
Treasurer's Advance	125	...	(125)	(-) 100.0
Less: User Charges	2,014	2,054	40	2.0
Total Current Outlays	21,490	22,162	672	3.1
Current Result Surplus/(Deficit)	2,359	2,748	389	16.5

Table 2.6: General Government Sector GFS Cash Results 1998-99 (cont)

	1998-99 Budget \$m	1998-99 Latest Projection \$m	Change \$m	Change %
Capital Receipts				
C'wealth Specific Purpose Grants	788	835	47	6.0
Other Capital Receipts	10	400	390	3,900.0
Total Capital Receipts	798	1,235	437	54.8
Capital Outlays				
Gross Fixed Capital Payments	2,841	3,018	177	6.2
Capital Grants	1,016	1,167	151	14.9
Less: Asset Sales	745	583	(162)	(-) 21.7
Total Capital Outlays	3,112	3,602	490	15.7
Capital Result Surplus/(Deficit)	(2,314)	(2,367)	(53)	2.3
Budget Result Surplus/(Deficit)*	45	382	337	748.9
Superannuation Conversion Offer*	...	(3,267)	(3,267)	...
Adjusted Budget Result Surplus/(Deficit)*	45	(2,885)	(2,930)	(-) 6,511.1
Financing Transactions				
Net Borrowings	67	2,745	2,678	3,997.0
Net Advances Repaid	75	(49)	(124)	(-) 165.3
Movement in Cash and Investments	(97)	189	286	(-) 294.8
	45	2,885	2,840	6,311.1

The projected Budget result has been adjusted for the impact of the superannuation conversion offer. This has the impact of increasing outlays in 1998-99 due to the additional outlays required for borrowings to fund the offer. This is offset by reduced superannuation payments from 1999-2000 to 2001-02.

Table 2.7: General Government Sector GFS Cash Results 1999-2000

	1998-99 Latest Projection \$m	1999-2000 Budget \$m	Change \$m	Change %
Current Receipts				
Stamp Duties	3,923	3,747	(176)	(-) 4.5
Payroll Tax	3,611	3,637	26	0.7
Land Tax	958	859	(99)	(-) 10.3
Motor Vehicle Taxes	1,043	977	(66)	(-) 6.3
Gaming & Betting	1,419	1,558	139	9.8
Commonwealth Safety Net Taxes	1,964	1,989	25	1.3
Other Taxes	1,243	1,245	2	0.2
Commonwealth General Purpose Grants	4,787	5,162	375	7.8
Commonwealth Specific Purpose Grants	3,329	3,449	120	3.6
Dividends/Tax Equivalents	1,309	1,173	(136)	(-) 10.4
Other Current Receipts	1,324	1,256	(68)	(-) 5.1
Total Current Receipts	24,910	25,052	142	0.6
Current Outlays				
Interest Payments	1,360	1,124	(236)	(-) 17.4
Superannuation	1,486	1,640	154	10.4
Subsidies to Non-General Government Sector	1,009	926	(83)	(-) 8.2
Payments for General Government Services	20,361	20,707	346	1.7
Treasurer's Advance	...	160	160	
Less: User Charges	2,054	2,110	56	2.7
Total Current Outlays	22,162	22,447	285	1.3
Current Result Surplus/(Deficit)	2,748	2,605	(143)	(-) 5.2

**Table 2.7: General Government Sector GFS Cash Results
1998-99 to 1999-2000 (cont)**

	1998-99 Latest Projection \$m	1999-2000 Budget \$m	Change \$m	Change %
Capital Receipts				
Wealth Specific Purpose Grants	835	784	(51)	(-) 6.1
Other Capital Receipts	400	151	(249)	(-) 62.3
Total Capital Receipts	1,235	935	(300)	(-) 24.3
Capital Outlays				
Gross Fixed Capital Payments	3,018	2,798	(220)	(-) 7.3
Capital Grants	1,167	1,104	(63)	(-) 5.4
Less: Asset Sales	583	576	(7)	(-) 1.2
Total Capital Outlays	3,602	3,326	(276)	(-) 7.7
Capital Result Surplus/(Deficit)	(2,367)	(2,391)	(24)	1.0
Budget Result Surplus/(Deficit)*	382	214	(168)	(-) 44.0
Superannuation Conversion Offer*	(3,267)	979	4,246	(-) 130.0
Adjusted Budget Result Surplus/(Deficit)*	(2,885)	1,193	4,078	(-) 141.4
Financing Transactions				
Net Borrowings	2,745	(1,528)	(4,273)	(-) 155.7
Net Advances Repaid	(49)	(227)	(178)	363.3
Movement in Cash and Investments	189	562	373	197.4
	2,885	(1,193)	(4,078)	(-) 141.4

**Table 2.8: General Government Sector GFS Cash Results
1999-2000 to 2002-03**

	<i>1999-2000</i>	<i>2000-01</i>	<i>2001-02</i>	<i>2002-03</i>
	<i>Budget</i>	<i>Estimate</i>	<i>Estimate</i>	<i>Estimate</i>
	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>
Current Receipts				
Stamp Duties	3,747	3,736	3,934	4,242
Payroll Tax	3,637	3,913	4,068	4,154
Land Tax	859	848	869	892
Motor Vehicle Taxes	977	947	983	1,019
Gaming & Betting	1,558	1,650	1,760	1,867
Commonwealth Safety Net Taxes	1,989	2,028	2,075	2,120
Other Taxes	1,245	1,265	1,136	1,115
Commonwealth General Purpose Grants	5,162	5,259	5,440	5,518
Commonwealth Specific Purpose Grants	3,449	3,557	3,647	3,773
Dividends/Tax Equivalentents	1,173	1,301	1,306	1,367
Other Current Receipts	1,256	1,319	1,308	1,334
Total Current Receipts	25,052	25,823	26,527	27,400
Current Outlays				
Interest Payments	1,124	1,099	936	966
Superannuation	1,640	1,706	1,747	2,055
Subsidies to Non-General Government Sector	926	877	782	713
Payments for General Government Services	20,707	21,175	21,261	21,666
Treasurer's Advance	160	270	420	595
Less: User Charges	2,110	2,180	2,170	2,211
Total Current Outlays	22,447	22,948	22,976	23,784
Current Result Surplus/(Deficit)	2,605	2,875	3,551	3,616

**Table 2.8: General Government Sector GFS Cash Results
1999-2000 to 2002-03 (cont)**

	<i>1999-2000</i>	<i>2000-01</i>	<i>2001-02</i>	<i>2002-03</i>
	<i>Budget</i>	<i>Estimate</i>	<i>Estimate</i>	<i>Estimate</i>
	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>
Capital Receipts				
C'wealth Specific Purpose Grants	784	821	844	805
Other Capital Receipts	151	97	81	64
Total Capital Receipts	935	918	925	869
Capital Outlays				
Gross Fixed Capital Payments	2,798	2,558	2,619	2,674
Capital Grants	1,104	1,120	1,108	1,183
Less: Asset Sales	576	248	228	138
Total Capital Outlays	3,326	3,430	3,499	3,719
Capital Result Surplus/(Deficit)	(2,391)	(2,512)	(2,574)	(2,850)
Budget Result Surplus/(Deficit)	214	363	976	766
Superannuation Conversion Offer	979	1,007	1,081	...
Adjusted Result Surplus/(Deficit)	1,193	1,370	2,057	766
Financing Transactions				
Net Borrowings	(1,528)	(1,062)	(1,225)	(96)
Net Advances Repaid	(227)	(38)	(172)	(67)
Movement in Cash and Investments	562	(270)	(660)	(603)
	(1,193)	(1,370)	(2,057)	(766)

A reconciliation between the Accrual Operating Result and the GFS Result above follows at Table 2.6.

Table 2.9: Reconciliation Between Accrual Operating Result and GFS Result

	<i>1998-99 Budget \$m</i>	<i>1998-99 Revised \$m</i>	<i>1999-2000 Estimate \$m</i>
Budget Result – Surplus/(Deficit) prior to conversion offer adjustment	45	(2,885)	1,193
Items included in GFS Budget Result not in the accrual based operating result			
Asset sale proceeds	745	659	843
Gross Fixed Capital Payments	2,841	2,624	2,798
Movement in other operating assets and liabilities	898	3,981	(253)
Items included in the accrual based operating surplus but not in the General Government GFS result			
Depreciation, amortisation and decrements	817	854	876
Gain on asset disposals	61	78	(99)
Other deductions	317	26	(177)
Accrual based operating surplus/(deficit) after abnormal and before extraordinary items	1,966	2,259	2,097

General Government Sector Statement of Cash Flows

Table 2.7 shows the net cash flows of the General Government Sector from operating, investing and financing activities.

The Statement is in accordance with that required under Australian Accounting Standard AAS 28, “Statement of Cash Flows.”

Table 2.10: General Government Statement of Cash Flows

	1998-99 Revised \$m	1999-2000 Budget \$m	2000-01 Estimate \$m	2001-02 Estimate \$m	2002-03 Estimate \$m
Cash Flows from Operating Activities					
Receipts					
Taxation	14,103	13,977	14,355	14,778	15,365
Commonwealth Grants	8,899	9,363	9,609	9,906	10,072
Financial Distributions	1,318	1,145	1,186	1,301	1,361
Sale of Goods & Services	2,461	2,441	2,527	2,608	2,632
Investment Income	274	200	201	195	206
Other	1,816	1,437	1,581	1,423	1,408
Total Receipts	28,871	28,563	29,459	30,211	31,044
Payments					
Employee Related	(15,890)	(11,879)	(12,175)	(12,392)	(14,045)
Grants and Subsidies	(4,863)	(4,940)	(5,026)	(5,015)	(5,086)
Finance	(1,395)	(1,301)	(1,188)	(966)	(961)
Other	(7,846)	(7,417)	(7,620)	(7,564)	(7,848)
Total Payments	(29,994)	(25,537)	(26,009)	(25,937)	(27,940)
Net Cash Flows from Operating Activities	(1,123)	3,026	3,450	4,274	3,104
Cash Flows from Investing Activities					
Proceeds from Sale of Property Plant and Equipment	425	491	198	161	107
Proceeds from Sale of Investments	234	352	219	224	63
Advance Repayments Received	75	63	105	69	72
Purchases of Property, Plant & Equipment	(2,542)	(2,643)	(2,447)	(2,561)	(2,643)
Purchase of Investments	(341)	(218)	(203)	(137)	(169)
Advances Made	(37)	(17)	(29)	(16)	(11)
Other	115
Net Cash Flows from Investing Activities	(2,071)	(1,972)	(2,157)	(2,260)	(2,581)
Cash Flows from Financing Activities					
Proceeds from Borrowings and Advances	3,438	154	67	...	3
Repayments of Borrowings and Advances	(749)	(1,840)	(1,230)	(1,441)	(222)
Net Cash Flows from Financing Activities	2,689	(1,686)	(1,163)	(1,441)	(219)
Net Increase/(Decrease) in Cash	(505)	(632)	130	573	304
Opening Cash and Cash Equivalents	1,142	637	5	135	708
Closing Cash and Cash Equivalents Balance	637	5	135	708	1,012

Statement of GFS and Accounting Principles and Policies

Under the General Government Debt Elimination Act 1995, the Treasurer is required to present a statement that discusses the nature of and the reasons for any departure from Australian Accounting Standards and principles, and from any GFS principles.

The Budget has been prepared on an accrual basis in accordance with generally accepted accounting principles and Australian Accounting Standards except as discussed below. It has been prepared consistent with the accounting policies in the Consolidated Financial Statements of the NSW Total State Sector which incorporate the Public Accounts. However, the Budget only includes the financial statements and does not include detailed disclosures that are included in the annual audited accounts.

The Budget preparation departs from the Standards as follows:

- ◆ Lack of reliable information has resulted in undeveloped Crown Land, certain collection assets (such as libraries and museums) and school bank accounts are not recognised in the financial statements.
- ◆ Administrative restructures of agencies are treated as adjustments to equity contrary to AAS29. This has no effect on the consolidated General Government Budget but affects the Net Cost of Services of individual agencies for the 1998-99 year as disclosed in Budget Paper 3.

Some assets and liabilities of the FANMAC trusts are not consolidated as it is considered that they are not controlled. The NSW Auditor General disagrees with this treatment.

A discussion of departures on a GFS basis is included in Section 11.3

2.5 BUDGET RISKS

The Budget estimates are predicated on assumptions and judgements influenced by the information available at the time of their preparation. In practice, both revenues and expenses are uncertain, and the degree of uncertainty inevitably increases over the forward estimates period.

Actual revenues and outlays and the timing thereof will be influenced by:

- ◆ the economic environment;
- ◆ policy execution, policy changes and service delivery parameters;
- ◆ general risks and influences that have uncertain timing and/or are of uncertain magnitude, such as those related to technological change;
- ◆ Commonwealth Government policy, most notably the outcome of the Commonwealth's proposed tax reforms; and
- ◆ the realisation of contingent liabilities.

As no tax reform legislation had been passed by the Federal Parliament at the time this budget was completed, it has been prepared on the basis of the *current* Commonwealth tax system

Risks associated with changes to the macroeconomic outlook are considered below.

Economic Parameters

The economic parameters on which the Budget estimates are based are outlined in Section 1.3, which also identifies the major sources of risk to the economy.

There are two types of uncertainty related to the economic parameters. First, the parameters will be subject to forecasting errors. Second, the relationship between some revenue and outlay items and economic factors can be unpredictable. Therefore even if economic outcomes were identical

to those assumed for budgeting purposes, it would be very unlikely that total revenues and outlays would come in on budget, all other factors being unchanged.

Even though, in general, the Budget estimates do not have a consistent bias, large variations between Budget estimates and actual outcomes from time to time are unavoidable. Revenues from contracts and conveyance duty and share transfer duty are particularly volatile and difficult to predict.

Some revenue items appear to have had an inadvertent bias. Most notably there appears to have been a conservative bias in the profit estimates for PTEs which flows through to the Budget via dividend payments.¹

The best way to illustrate the scope for Budget outcomes to be affected by changes in the economic environment is by considering the consequences for the Budget of three different economic scenarios.

Alternative Economic Scenarios

Revenue items such as payroll tax and stamp duty can be quite sensitive to economic factors. Both employment levels and wage rates affect payroll tax. Stamp duty from contracts and conveyances and share transfers is affected by changes in trading volumes and confidence. In the short term, many expenditure quantities are 'locked in'.

The three scenarios explored are: a *higher growth* scenario, a *lower growth* scenario, and a *US inflation* scenario. While the range of views regarding the economic prospects for New South Wales appears narrower than last year, the scenarios should not be interpreted as the upper or lower limits of the economy.

¹ See Section 11.3 of 1998-99 Budget Paper No. 2 for details.

Table 2.11: Alternative Economic Scenarios, 1999-2000

	<i>Budget Economic Forecasts %</i>	<i>Alternative Scenarios</i>		
		<i>Higher Growth %</i>	<i>Lower Growth %</i>	<i>US Inflation %</i>
Gross State Product	3 ¼	4 ¼	2	1 ½
Employment (NSW)	1 ¾	2 ¼	1	¾
Wages	3 ¾	4 ¼	3 ½	4
CPI (Sydney)	2	2 ½	1 ¾	2 ½
10-year bond rate	5 ¾	6	5 ¾	6 ¼

Under the *higher growth* scenario stronger employment accompanies output growth of 4 ¼ percent, putting upward pressure on prices and interest rates. Economic confidence and investor sentiment are assumed to remain high.

Under the *lower growth* scenario output and employment undergo modest growth of 2 percent and 1 percent respectively, but wages and prices are only slightly lower. Economic confidence is assumed to be lower.

The *US inflation* scenario is the most extreme scenario. Stronger-than-expected US inflation raises short interest rates sharply, and triggers a crash in international equity markets, and slower economic growth.

The scenarios are defined in terms of key economic parameters that influence the Budget, with the base forecast and alternative scenarios given in Table 2.4. The alternative Budget outcomes in Table 2.5 show the deviations from the base case Budget (on a GFS cash basis) assuming *no* explicit response to changed economic conditions by the Government.

Transaction-based taxes such as contracts and conveyances and share transfer duties can vary significantly due to changes in investor confidence without visible changes in economic conditions. Transaction-based revenues are currently at a cyclical peak and are expected to decrease in the coming budget year. The timing of this downturn, if different to that assumed, could influence the Budget outcome considerably.

Table 2.12: Alternative Budget Outcomes, 1999-2000

	GFS Budget Estimate \$m	Change on Budget Estimate		
		Higher Growth \$m	Lower Growth \$m	US Inflation \$m
Current Financial Result	2605	320	(-) 405	(-) 725
Outlays	22447	65	(-) 30	50
Receipts	25052	385	(-) 435	(-) 675
Tax	14012	355	(-) 390	(-) 600
Non-tax	11040	30	(-) 45	(-) 75
Capital Financial Result	(-) 2391	(-) 10	5	(-) 10
Outlays	3326	10	(-) 5	10
Receipts	935	0	0	0
Total Result	214	310	(-) 400	(-) 735

The expected Budget outcome is for a cash surplus of \$214 million. However under the *higher growth* scenario the Budget outcome could be a \$524 million surplus (an improvement of over \$300 million), while under the *lower growth* scenario the Budget outcome could be a deficit of \$186 million. These are not confidence limits or alternative forecasts, but indicate two possible deviations from the base case.

In the *higher growth* scenario there is a modest increase in outlays but this is more than offset by a significant increase in revenue. The expected downturn in contract and conveyances revenue (from its cyclical peak) is assumed to be delayed, adding \$200 million to the budget balance. In the *lower growth* scenario a loss of confidence causes transaction-based revenues to decline. Despite a small decrease in outlays, the Budget surplus reduces by \$400 million.

Under the *US inflation* scenario the Budget outcome deteriorates by over \$730 million, and with no policy adjustment a deficit of \$521 million results. The equity market crash causes transaction-based revenues to decline by \$300 million. This scenario illustrates that a *combination* of lower output, higher prices and higher interest rates can be particularly damaging to the Budget.