

TREASURER, MINISTER FOR INFRASTRUCTURE, AND MINISTER FOR THE HUNTER

OVERVIEW

<i>Agency</i>	<i>Budget 2005-06 \$m</i>	<i>Budget 2006-07 \$m</i>	<i>Variation %</i>
Treasury			
Total Expenses	451.2	475.8	5.4
Capital Expenditure	11.7	6.4	-45.0
Crown Finance Entity			
Total Expenses	5,404.0	4,121.1	-23.7
Capital Expenditure	175.2	10.0	-94.3
Crown Leaseholds Entity			
Total Expenses	35.1	40.0	13.9
Capital Expenditure .....	...	...	...
NSW Self Insurance Corporation			
Total Expenses	1,346.3	1,086.6	-19.3
Capital Expenditure .....	...	0.6	n.a.
Liability Management Ministerial Corporation			
Total Expenses	5.7	8,703.6	n.a.
Capital Expenditure .....	...	...	...
Electricity Tariff Equalisation Ministerial Corporation			
Total Expenses	0.5	0.5	...
Capital Expenditure .....	...	...	...
Crown Property Portfolio			
Total Expenses	149.2	152.5	2.2
Capital Expenditure	35.1	82.4	135.1
State Property Authority			
Total Expenses .....	...	14.5	n.a.
Capital Expenditure .....	...	...	...
Advance to the Treasurer			
Total Expenses	175.0	245.0	40.0
Capital Expenditure	95.0	110.0	15.8
Total, Treasurer, Minister for Infrastructure, and Minister for the Hunter			
Total Expenses	7,567.0	14,839.6	96.1
Capital Expenditure	317.0	209.4	-33.9

TREASURY

Treasury comprises the Office of Financial Management (which includes the Office of Infrastructure Management) and the Office of State Revenue.

RESULTS AND SERVICES

Office of Financial Management (OFM)

OFM seeks to promote State resource management to achieve a stronger State economy and better public services by working towards the following results:

- ◆ Policy settings that promote a competitive and sustainable State economy.
- ◆ Public resources are efficiently allocated and effectively managed with clear outcomes specified.
- ◆ State finances are strengthened.

Key services provided by OFM which contribute to these results include:

- ◆ advising on economic and fiscal strategies;
- ◆ advising on the efficiency and effectiveness of General Government agencies, NSW Government businesses and other commercial activities;
- ◆ managing the State Budget aggregates and Budget process and reporting on State finances;
- ◆ developing and implementing public sector management systems including the Financial Management Framework, the Total Asset Management Framework and procurement policy;
- ◆ overseeing major infrastructure projects delivered by private finance; and
- ◆ managing Crown Entity financial assets and liabilities (including insurance and superannuation matters).

Office of State Revenue (OSR)

OSR provides revenue administration services to ensure the State Government is able to fund its programs and thereby continue to improve its service delivery. OSR is working towards the following results:

- ◆ All due revenue is collected.
- ◆ All fines are processed correctly and on time.
- ◆ Eligible applicants receive their benefits.

Key services provided by OSR which contribute to these results include:

- ◆ administering and collecting NSW taxes and duties;
- ◆ managing fines on behalf of the Crown, commercial clients and some other State Government agencies;
- ◆ managing payments relating to the unclaimed money program, First Home Owner Grants Scheme, First Home Plus Scheme and Petroleum Product Subsidies; and
- ◆ conducting compliance activities to ensure revenue is collected.

RECENT DEVELOPMENTS

Office of Financial Management

Over the past five years OFM's role as principal adviser to the NSW Government on State financial management has been strengthened through the strategic transfer of functions from other agencies and the development of new financial and non-financial asset management initiatives.

Through the Office of Infrastructure Management, OFM's responsibility for public sector asset management and procurement policy and practice has been expanded; oversight of privately financed public infrastructure has increased; intergovernmental financial arrangements advisory capacity has been further developed; and responsibility for the development of the State Infrastructure Strategy has also been recently assigned to OFM.

Achievements during 2005-06 include:

Policy settings that promote a competitive and sustainable State economy:

- ◆ provided resources and support for the Government's Red Tape Review aimed at streamlining and simplifying business administration;
- ◆ advised on the review of expiring National Competition Policy Agreements with the Commonwealth Government, which resulted in the development of a new National Reform Agenda covering competition policy, regulatory and human capital reforms;
- ◆ provided advice on the Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations and negotiations with the Commonwealth Government; and
- ◆ managed negotiations with other jurisdictions and established the process for the initial public offering of Snowy Hydro Limited.

Public resources are efficiently allocated and effectively managed with clear outcomes specified:

- ◆ assisted establishment of the Growth Centres Commission;
- ◆ promoted better service delivery across government by improving the effectiveness of Results and Services Plans (RSPs) and Total Asset Management (TAM) Plans;
- ◆ continued to improve the application of asset management and procurement policy in the NSW public sector, including strengthened reporting on major construction projects and improved property management within agencies;
- ◆ led the adoption of Australian Equivalents to International Financial Reporting Standards across the NSW public sector;
- ◆ guided the implementation of a number of significant Privately Financed Project arrangements; and
- ◆ supported the development of the State Infrastructure Strategy.

State finances are strengthened:

- ◆ supported the New South Wales Audit of Expenditure and Assets which resulted in the State Government announcement of significant public sector economic and financial reforms;
- ◆ developed and implemented contestable arrangements for the State Government's self insurance scheme;
- ◆ advised on new arrangements for Government initiatives including abolition of vendor duty, new land tax provisions and amended gaming tax arrangements for clubs; and
- ◆ provided advice on long term fiscal pressures, including issues arising from an ageing population, and applied the updated State Fiscal Strategy as the framework for the State's 2006-07 Budget. The Strategy was important in NSW' AAA credit rating being reconfirmed.

Office of State Revenue

OSR seeks to improve service delivery for the people of New South Wales by ensuring collection of all due revenue, efficient processing of fines and payment of benefits. Achievements during 2005-06 include:

All due revenue is collected:

- ◆ identified additional revenue through new compliance initiatives; and
- ◆ implemented changes to the land tax threshold and the removal of the vendor duty.

All fines are processed correctly and on time:

- ◆ integrated the infringement processing and fine enforcement branches of the State Debt Recovery Office to improve operational efficiencies and to better manage the end-to-end fines process; and
- ◆ provided systems to support the introduction of handheld devices to record infringements which has significantly improved the accuracy and time it takes to process infringements.

Eligible applicants receive their benefits:

- ◆ processed an increased number of applications under the First Home Owner Grant and First Home Plus Schemes and improved checking and validation processes for First Home Plus.

STRATEGIC DIRECTIONS

Office of Financial Management

A number of initiatives to develop a stronger NSW economy and better public services are planned for the coming year.

Policy settings that promote a competitive and sustainable State economy:

- ◆ implementing the National Reform Agenda including competition policy, regulatory and human capital reforms;
- ◆ ongoing review of State taxes, including implementation of the outcome of negotiations with the Commonwealth Government on Intergovernmental Agreement business taxes; and
- ◆ continuing energy market reform including finalising the initial public offering of Snowy Hydro Limited.

Public resources are efficiently allocated and effectively managed with clear outcomes specified:

- ◆ supporting government-wide property reform including the establishment of the State Property Authority to consolidate effective property management;
- ◆ providing the transport, health and community services agencies with advice on strategic planning, governance and accountability;
- ◆ co-operating with other agencies to implement the actions outlined in the Premier's February 2006 Economic and Financial Statement;
- ◆ continuing development of the Financial Management and Total Asset Management Frameworks and procurement policy to achieve better resource allocation and management;
- ◆ ongoing strengthening of the State Budget process, using the RSP as the basis for the new Performance Management and Budgeting System outlined by the Premier in his Economic and Financial Statement;
- ◆ overseeing implementation of the State Infrastructure Strategy; and
- ◆ strengthening the monitoring of capital projects in terms of their performance against budgets, using a new comprehensive reporting system.

State finances are strengthened:

- ◆ monitoring progress against the medium and long term targets for major budget aggregates as set out in the *Fiscal Responsibility Act 2005*. This Act ensures fiscal outcomes for New South Wales that will strengthen the State's balance sheet in order to meet future spending pressures or a cyclical downturn in the economy;
- ◆ advising Government on the impact on the Budget of the net loss in GST from New South Wales, as a result of the Commonwealth Grants Commission process;
- ◆ ongoing review and advice on the impacts of ageing and other long term pressures;
- ◆ contributing to intergovernmental financial arrangements through taxation review and benchmarking vertical and horizontal fiscal impacts;
- ◆ implementing the State Balance Sheet Management Strategy by managing financial assets and liabilities to achieve an optimal balance sheet structure; and
- ◆ continuing to apply the Commercial Policy Framework to safeguard the value of government businesses and the returns they make to the Budget and the taxpayer.

Office of State Revenue

OSR is the Government's primary revenue collection agency and will continue implementing measures to ensure revenue collection is maximised.

All due revenue is collected:

- ◆ ensuring the New South Wales community understand their revenue rights and obligations; and
- ◆ optimising revenue and debt compliance, including improved legislation.

All fines are processed correctly and on time:

- ◆ continuing to use technology to achieve the most effective service delivery channels; and
- ◆ building effective alliances with commercial clients.

Eligible applicants receive their benefits:

- ◆ providing information to the community to improve their knowledge of the schemes administered by OSR.

2006-07 BUDGET

Total Expenses

The estimated expenses for Treasury are \$475.8 million including First Home Owner Grant payments estimated to be \$280 million. Excluding First Home Owner Grants, Treasury expenses are \$195.8 million and will be used for the following:

- ◆ \$43.8 million to promote state resource management to achieve a stronger NSW economy and better public services;
- ◆ \$97.2 million to ensure effective and equitable collection of revenue from taxes, duties and other sources;
- ◆ \$48.9 million to ensure the effective and timely processing of infringements and fine enforcement activities; and
- ◆ \$5.9 million to ensure eligible applicants receive payments due under State Government and joint State/Commonwealth schemes.

Capital Expenditure

OFM's allocation of \$0.4 million will be used to upgrade existing equipment under the asset replacement program and for general enhancements to the existing financial collection and information systems.

OSR's capital allocation is \$6 million. The key programs planned for 2006-07 include:

- ◆ \$1.2 million for the business continuity project which is in its final year to ensure OSR has a safe and secure environment and systems availability in the event of a disaster;
- ◆ \$4.4 million for renewal of OSR's information technology infrastructure and core business applications; and
- ◆ \$0.4 million for the replacement of leased assets.

CROWN FINANCE ENTITY

The Crown Finance Entity is responsible for service-wide assets and liabilities, and their related transactions for which individual agencies are not directly accountable. The major components relate to the Crown funding plan contributions for the defined benefit superannuation schemes, long service leave payments on behalf of general government budget dependent agencies, interest payments on government debt to New South Wales Treasury Corporation and the Commonwealth Government, and the payment of interest on bank balances held by general government agencies in the Treasury Banking System

In addition, the State is required by the Commonwealth Government to contribute to the administration of the GST. Other payments include HIH policyholder claims, refunds and remissions of Crown revenue, natural disasters assistance, debt and investment management costs and payments for community service obligations to Australian Inland Energy Water Infrastructure.

RECENT DEVELOPMENTS

With the introduction of Australian Accounting Standard AASB 119 "Employee Benefits" the unfunded superannuation liabilities are now valued using a risk free government bond discount rate. This is a very conservative approach for valuing liabilities and has had a negative impact on the Crown Finance Entity's 2005-06 balance sheet. Chapter 4 of Budget Paper No. 2 provides comprehensive comment on this issue.

Additional borrowings are forecast to support the State's capital works program. In 2006-07 borrowings are expected to increase by \$3,295 million. The additional financing costs for 2006-07 are expected to be \$117.6 million.

The Health Super Growth Fund is being transferred to unfunded superannuation liabilities. However, by using new funding arrangements, the Department of Health will continue to receive an equivalent grant for capital purposes.

2006-07 BUDGET

Total Expenses

Estimated total expenses in 2006-07 are \$4,121 million, with the major components being:

- ◆ \$1,800 million as a grant to the Liability Management Ministerial Corporation. These funds are invested and can only be used to meet superannuation liabilities;

- ◆ \$888.8 million for interest expenses on new and existing debt held with New South Wales Treasury Corporation, the Commonwealth Government and other organisations. The increase from 2005-06 reflects a new borrowing program to part fund the State's capital works program, particularly infrastructure projects;
- ◆ \$392.6 million for general government budget dependent agencies for employer superannuation expenses. The projection mainly results from an increase in the liability discount rate from 5.4 to 5.9 per cent as required by the new international accounting standard;
- ◆ \$386.9 million for long service leave expenses of general government budget dependent agencies;
- ◆ \$203 million as reimbursement to the Australian Taxation Office for GST administration and related payments;
- ◆ \$82.5 million in capital grants to agencies;
- ◆ \$69 million for redundancy payments for various government agencies which are restructuring for improved efficiency;
- ◆ \$41 million to subsidise petroleum products for on-road use near the Queensland border;
- ◆ \$23.5 million capital grant to the Health Department. This was formerly funded from investment earnings on the Health Super Growth Fund;
- ◆ \$19.8 million to offset GST payments for clubs;
- ◆ \$18.5 million depreciation on motor vehicles subject to finance leases;
- ◆ \$15 million to be invested in projects with the aim of increasing the flow of water in the Snowy River;
- ◆ \$15 million as a provision for natural disaster grants; and
- ◆ \$6.6 million interest on motor vehicle finance leases.

Total Revenue

All revenue received is passed on to the Consolidated Fund, none is retained by the Crown Finance Entity. Estimated total revenue in 2006-07 is \$8,927 million, with the major components being:

- ◆ \$8,700 million as a grant from the Liability Management Ministerial Corporation. These funds will be transferred to SAS Trustee Corporation (State Super);
- ◆ \$83.8 million as interest on Crown advances to public sector agencies;
- ◆ \$71.6 million return on the State's equity investments in the form of dividends;
- ◆ \$31 million in contributions for superannuation and long service leave; and
- ◆ \$25.9 million income from leasing motor vehicles to government agencies. This is a reduction from previous years due to a decision that the Department of Commerce will take responsibility for all new leases after 2005-06.

Capital Expenditure

For 2006-07 capital expenditure of \$10 million has been allocated for minor works.

CROWN LEASEHOLDS ENTITY

The Crown Leaseholds Entity is administered by the Department of Lands under the *Crown Lands Act 1989*.

The Crown Leaseholds Entity collects annual instalments relating to the purchase of Crown land and generates revenue from leases, licences and permissive occupancies of Crown land and is the accounting entity that reports the value of vacant Crown land. Reform of the program means that some of the perpetual leases are being sold to the lease holders. The Crown Leaseholds Entity also collects fees and levies associated with the *Water Act 1912*, the Coomealla Pipeline and the Pindari Dam enlargement.

Vacant Crown land is all Crown Entity land not included in the Leasehold Estate. This land includes land on the continental shelf within the three nautical mile zone.

Operating expenses have increased from \$35.1 million in 2005-06 to \$40 million in 2006-07. This is mainly due to an increase in waivers. Rural rents in the drought affected Western Division are now 100 per cent waived. The staging in over three years of the increase in the Enclosure Permit rate has also contributed to the level of waivers.

The retained revenues have decreased 24.1 per cent from \$98.5 million estimated in 2005-06 to \$74.8 million in 2006-07. This decrease is the net effect of transfers from Crown Reserves, partially offset by an increase in lease income. There are 37,000 Crown reserves and the value that is transferred to Crown Leaseholds will vary from year to year. Lease income is subject to CPI increases.

NSW SELF INSURANCE CORPORATION

The NSW Self Insurance Corporation (SICorp) was established by the *NSW Self Insurance Corporation Act 2004*. Its main functions are:

- ◆ The administration of the Treasury Managed Fund (TMF), which provides insurance cover for general government sector budget dependent agencies (other than compulsory third party insurance). TMF membership is also available to all other public sector agencies on a voluntary basis.
- ◆ The management of the Governmental Workers' Compensation Account, the Transport Accidents Compensation Fund and the Pre-managed Fund Reserve.
- ◆ The collection and analysis of data provided by contracted TMF claims managers; systems management of the TMF data warehouse; provision of reporting functions to member agencies; and monitoring the claims managers.

RECENT DEVELOPMENTS

The TMF sets its reserve for insurance activity on the basis of the Insurance Reserve Policy. This sets reserves at a amount equal to ten per cent of outstanding claims liabilities plus the amount the fund retains for a single major loss before its reinsurance protection is activated. The net asset position is reviewed each 31 December. Following the 2005 review of reserve requirements, it is proposed to transfer \$1,000 million in surplus assets to the General Government Liability Management Fund.

The TMF target premium for 2006-07 is \$98.6 million (10.4 per cent) lower than for 2005-06. The main reductions were workers compensation premiums (down \$73.8 million – 14.6 per cent); liability premiums (down \$13.1 million - 4.2 per cent) and miscellaneous premiums (down \$14.3 million – 53 per cent).

STRATEGIC DIRECTIONS

Until 30 June 2005 a single private insurer (GIO Australia Limited) was contracted to manage the assessment and processing of claims. From 1 July 2005 the claims management of the insurance businesses (workers compensation, motor vehicle, property, liability and miscellaneous) has been distributed between three claims managers.

Three workers compensation providers, Employers Mutual Limited, Allianz Australia Limited and GIO Australia Limited, were appointed. The claims management of other claims, including liability and property remains with GIO Australia Limited. There are also separate long term contracts for risk management (Suncorp Risk Management Services), reinsurance (Benfield (Australia) Pty Limited) and actuarial services (PricewaterhouseCoopers and Taylor Fry).

The key objectives of this structure are to improve TMF performance by promoting competition; generate cost savings and efficiency gains; reduce the systemic risk associated with a single provider; and enable comparison and benchmarking between providers.

In 2006-07 the TMF will provide coverage to over 160 budget and other public sector agencies.

2006-07 BUDGET

The estimated operating surplus of \$205.2 million for 2006-07 compares with a 2005-06 budget surplus of \$41.7 million. This improved performance primarily reflects the impact of lower claims experience.

More information on the management of insurance claims is included in Chapter 4 of Budget Paper No. 2.

Capital Expenditure

The capital program of \$567,000 in 2006-07 is for computer requirements.

LIABILITY MANAGEMENT MINISTERIAL CORPORATION

The Liability Management Ministerial Corporation controls the General Government Liability Management Fund. The purpose of this fund is to accumulate financial assets to improve the financial management of the general government sector's balance sheet.

This accumulation allows flexibility in the timing of superannuation contributions to the public sector defined benefit schemes. The legislation establishing the General Government Liability Management Fund provides that the balance in the Fund can initially only be used to meet superannuation liabilities. The primary purpose in establishing the General Government Liability Management Fund was to provide a mechanism to afford the Government greater flexibility in achieving its fiscal targets including eliminating total state sector unfunded superannuation liabilities by 2030.

When unfunded superannuation liabilities are extinguished, any balance can be applied to debt reduction.

In 2006-07 the balance of the fund, which is estimated to be \$8.7 billion, will be transferred to SAS Trustee Corporation (State Super). Once this transfer has been completed, the fund will cease operation.

RECENT DEVELOPMENTS

Total Government payments, of \$6.5 billion including interest, made to the General Government Liability Management Fund are in accordance with the funding profile established under the Crown Funding Plan for the elimination of unfunded superannuation liabilities.

The Crown Funding Plan was developed through actuarial assessment of the minimum level of contributions necessary to meet the superannuation funding target. This Funding Plan is consistent with the Government's *Fiscal Responsibility Act 2005* which provides the framework for the conduct of the New South Wales Fiscal Policy. This Act includes the long term fiscal target of eliminating total state sector unfunded superannuation liabilities by 2030. Per annum cash contributions approximate \$1 billion.

The estimated cash contributions to the fund are \$2.4 billion in 2005-06 and \$1.8 billion in 2006-07. The additional \$1.4 billion of contributions in 2005-06 are due to \$1 billion transfer from NSW Self Insurance Corporation of surplus financial assets, in accordance with the Treasury funding policy and the transfer of \$420 million from the Health Super Growth Fund. The Fund's capital grant payments to the Department of Health, about \$23 million per annum, will be maintained. Future grant payments will be made by the Crown Finance Entity.

2006-07 additional cash contributions will further strengthen State Super's financial position and result in an approximate \$200 million per annum reduction in future Crown employer contributions.

STRATEGIC DIRECTIONS

In accordance with the provisions of the *General Government Liability Management Fund Act 2002*, a Management Committee has been established to advise the Secretary of the Treasury on matters relating to the management of the Fund, including:

- ◆ investment strategy;
- ◆ appointment of asset custodians, consultants, investment managers and other service providers;
- ◆ monitoring and reviewing the performance of assets, investments and service providers;
- ◆ compliance with the Government's fiscal strategy; and
- ◆ transfer of funds to State Super.

The assets of the Fund are held in fixed interest securities. NSW Treasury Corporation has been appointed investment manager and manages the securities on behalf of the Fund.

2006-07 BUDGET

The Liability Management Ministerial Corporation ceases operations in 2006-07. This will result in a nil balance sheet as at 30 June 2007.

Total Expenses

In 2006-07 the Ministerial Corporation has budgeted \$3.6 million for operating expenses and \$8.7 billion as a grant to the Crown Finance Entity who will then pass it on to State Super.

Capital Expenditure

The Ministerial Corporation has no capital expenditure in 2006-07.

ELECTRICITY TARIFF EQUALISATION MINISTERIAL CORPORATION

The Electricity Tariff Equalisation Ministerial Corporation commenced administration of the Electricity Tariff Equalisation Fund (ETEF) on 1 January 2001.

The fund manages purchase cost risk for standard state-owned electricity retail suppliers (Energy Australia, Integral Energy and Country Energy) that are required to supply electricity to small retail customers in New South Wales at tariffs determined by the Independent Pricing and Regulatory Tribunal (IPART).

It covers residential and small business customers consuming less than 106 MWh per annum who have not elected to enter into a negotiated supply contract.

Standard retail suppliers are required to pay money into the Fund when wholesale prices are lower than the energy cost component they charge customers buying their power under regulated tariffs. When wholesale prices are higher than the energy cost component in the regulated tariff, the ETEF makes payments to the standard retail suppliers from the Fund to ensure they earn a regulated return.

In this way, the fund is able to smooth out the volatility in wholesale prices for those state-owned retailers that are required to sell at regulated tariffs. At the same time, the Fund ensures that the standard retail suppliers do not face a commercial advantage or disadvantage because they supply regulated customers.

In the event there is a sustained rise in pool prices and there are insufficient funds, New South Wales state-owned electricity generators are well placed to 'top-up' the ETEF as they have benefited from the high wholesale prices that caused the Fund to be depleted. Generator payments to the Fund are repaid to generators whenever standard retail suppliers make a payment into the Fund. The involvement of generators ensures that the Fund can never be in deficit.

RECENT DEVELOPMENTS

Section 43ES of the *Electricity Supply Act 1995* states the Fund was to cease operation on 30 June 2004. A regulation gazetted on 19 September 2003 extended the Fund until 30 June 2007. The Government recently decided to gradually phase out the Fund to conclude in June 2010.

The average NSW wholesale electricity price for 2004-05 was \$39.33 MWh with average monthly prices varying from \$18.45 MWh to \$77.70 MWh. Currently, average monthly prices for 2005-06 vary from \$22.58 MWh to \$71.55 MWh. The Fund balance at 30 June 2006 is estimated at \$220 million.

While for accounting reasons movements between ETEF year end balances are treated as revenue, in practice it is managed as a separate fund which can be called upon in periods of high prices.

STRATEGIC DIRECTIONS

The ETEF arrangement is designed to offer price protection for small retail customers on regulated arrangements by managing the purchase risk of standard retail suppliers. The Fund has demonstrated its effectiveness in managing ongoing price volatility in the National Electricity Market.

The Treasurer has initiated a regular audit of the standard retail suppliers. The focus of the audit is a review of the data provided by the standard retail suppliers to the Fund Administrator.

2006-07 BUDGET

The Fund is an equalisation mechanism in that surpluses resulting from low prices in one period are paid out in future periods to offset higher prices. The regulated energy allowance set by the Independent Pricing and Regulatory Tribunal, which is based on the long run generation costs, provides perhaps the best guide for the most likely long term trend in the wholesale purchase costs for standard retail suppliers. On this basis, the Fund is forecast to increase only by investment income in 2006-07.

CROWN PROPERTY PORTFOLIO

The Crown Property Portfolio (CPP) comprises New South Wales Government owned and leased multi-occupancy office buildings located throughout the State. The portfolio also contains a diverse range of non-office properties that are outside the core activities of other agencies and/or have entered the Portfolio as a result of a strategic decision to restructure particular agencies.

The Department of Commerce manages the Portfolio under a management agreement with New South Wales Treasury, and is responsible for the collection of rents and other associated activities. Day-to-day property management of the office buildings is contracted to a private sector agent.

In May, 2006 Cabinet approved legislation to create the State Property Authority in which generic assets will be vested, to reform and achieve efficiencies in property management. Negotiations are underway to transfer the CPP to the State Property Authority in the future.

RECENT DEVELOPMENTS

Expenditure is mainly incurred on office building head lease payments and finance lease interest payments.

During 2002-03 the CPP purchased four BHP sites in Newcastle which are managed by the Regional Land Management Corporation. The Government has approved of the Newcastle Coal Infrastructure Group leasing land on Kooragang Island to construct and operate a new coal loader, which will be operational in early 2009.

Two major transactions were concluded in 2005-06:

- ◆ the sale of the Sheas Creek Wool Stores site in Alexandria comprising two properties owned by the Department of Commerce and the CPP. The CPP's share was \$36.7 million; and
- ◆ the sale of the Goodsell Building in Sydney for \$60.2 million. The sale is subject to a short term lease back to the Government pending the completion of the Justice Office Building at Parramatta.

In 2004-05, the Premier announced the construction of a new Government Office Building in Queanbeyan. Construction commenced in 2005-06 and is scheduled for completion in 2007-08.

In 2004-05, the Budget Committee of Cabinet approved the construction of an office building to house the head offices of the Attorney General's Department, Office of the Protective Commissioner and Public Guardian, and the Legal Aid Commission's Parramatta office. This major office building is part of the Parramatta Justice Precinct. Construction commenced on this project in 2005-06 and is scheduled for completion in 2007-08.

Following the identification of the need to continue the provision of services in north western New South Wales, a strategic decision was made to acquire an office building in Dubbo. The Premier Centre was purchased by the CPP for \$3.9 million in 2005-06 and is fully government tenanted.

STRATEGIC DIRECTIONS

The Portfolio's strategic focus centres on effectively managing the Crown's assets so as to optimise their value and maintain their operational utility. This will be achieved by:

- ◆ using the CPP's purchasing and negotiating power to secure improved lease rentals and terms for government agency accommodation;

- ◆ measuring performance against key performance indicators to develop, implement and monitor strategies for improved performance;
- ◆ maximising the efficiency and effectiveness of tenants' accommodation;
- ◆ managing owned assets to optimise their value and maintain their operational utility; and
- ◆ maintaining expenditure in line with industry standards/benchmarks.

2006-07 BUDGET

Total Expenses

The budgeted expenses for 2006-07 are \$152.5 million, a \$3.3 million increase over budgeted 2005-06 expenses of \$149.2 million.

Capital Expenditure

The Portfolio has an allocation of \$82.4 million in 2006-07 to fund major Government office building construction and refurbishment works as follows:

- ◆ \$64.3 million to construct the Justice Office Building at Parramatta;
- ◆ \$10 million to construct the Government Office Building at Queanbeyan;
- ◆ \$3.3 million to refurbish and upgrade the services following the purchase of the McKell Building at Sydney;
- ◆ \$3.1 million for CPP building refurbishments and miscellaneous minor works; and
- ◆ \$1.7 million for preservation and refurbishment works to the historic Education Building at Sydney.

STATE PROPERTY AUTHORITY

In May, 2006 Cabinet approved legislation to create the State Property Authority. The creation of the Authority recognises that an agency's first priority is service delivery. The model draws on the corporate real estate concept used by many private sector firms.

The Authority's focus is on better productivity of generic property assets, which are those properties that can easily be used by any number of agencies. It is not intended to transfer specialised properties (such as schools, hospitals or cultural institutions) to the Authority. Its focus will be operational, with strategic advice and decision making continuing to be provided by the NSW Treasury.

The benefits of this approach include:

- ◆ economies of scale in property management;
- ◆ improved flexibility and operational efficiencies in the way property assets are managed and used; and
- ◆ better information about Government owned property.

RECENT DEVELOPMENTS

The State Property Authority will be operational by 1 July 2006.

The first tranche of properties to be vested in the Authority is the NSW Police property portfolio. The management of this portfolio has recently been awarded to United Group Services Pty Ltd.

The Authority's role is to manage the contract and liaise with NSW Police to ensure that milestones and service standards are being met by the outsourced contractor.

During the course of the year and as additional generic properties are identified, they will be vested in the Authority. Negotiations are underway to transfer the Crown Property Portfolio to the Authority.

STRATEGIC DIRECTIONS

In its first twelve months of operation, the Authority will analyse agency property portfolios for generic assets that can be managed by and vested in it. The main priorities are:

- ◆ preparation of regional property strategies for major urban and rural centres;
- ◆ developing property management plans that highlight opportunities for redeployment, redevelopment or disposal;

- ◆ operation of a whole-of-government leasing advisory service; and
- ◆ development and implementation of improved property management practices.

2006-07 BUDGET

Total Expenses

Total expenses in 2006-07 are estimated at \$14.5 million. In its first year of operation, the major expenses are on staff and establishment costs, including fit out of premises.

Capital Expenditure

The Authority will not incur any capital expenditure in 2006-07.

ADVANCE TO THE TREASURER

\$355 million has been allocated in 2006-07 to the Treasurer as an advance to allow for supplementary expenses, \$245 million for recurrent services and \$110 million for capital works and services. Actual expenses will be recorded in the expenses of the appropriate agencies.

At \$245 million the recurrent services advance represents a contingency of less than 1 per cent of budgeted operating expenses.