

# TREASURER, MINISTER FOR STATE DEVELOPMENT AND MINISTER FOR ABORIGINAL AFFAIRS

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## OVERVIEW

<i>Agency</i>	<i>Budget 2004-05 \$m</i>	<i>Budget 2005-06 \$m</i>	<i>Variation %</i>
<b>Treasury</b>			
Total Expenses .....	453.4	450.5	-0.6
Capital Expenditure .....	18.3	11.7	-36.0
<b>Crown Finance Entity</b>			
Total Expenses .....	5,523.4	5,404.0	-2.2
Capital Expenditure .....	174.1	175.2	0.6
<b>Crown Leaseholds Entity</b>			
Total Expenses .....	5.7	41.7	632.4
Capital Expenditure .....	...	...	...
<b>Department of State and Regional Development</b>			
Total Expenses .....	112.3	97.7	-13.1
Capital Expenditure .....	0.1	0.1	...
<b>Department of Aboriginal Affairs</b>			
Total Expenses .....	49.1	56.3	14.7
Capital Expenditure .....	...	...	...
<b>NSW Self Insurance Corporation</b>			
Total Expenses .....	1,252.7	1,346.3	7.5
Capital Expenditure .....	...	...	...
<b>Liability Management Ministerial Corporation</b>			
Total Expenses .....	1.0	5.7	480.4
Capital Expenditure .....	...	...	...
<b>Electricity Tariff Equalisation Ministerial Corporation</b>			
Total Expenses .....	0.2	0.5	103.7
Capital Expenditure .....	...	...	...
<b>Crown Property Portfolio</b>			
Total Expenses .....	162.2	149.2	-8.0
Capital Expenditure .....	12.4	35.1	182.3

<i>Agency</i>	<i>Budget 2004-05 \$m</i>	<i>Budget 2005-06 \$m</i>	<i>Variation %</i>
<b>Advance to the Treasurer</b>			
Total Expenses.....	240.0	175.0	-27.1
Capital Expenditure .....	110.0	95.0	-13.6
<b>Total, Treasurer, Minister for State Development and Minister for Aboriginal Affairs</b>			
Total Expenses .....	<b>7,800.0</b>	<b>7,726.9</b>	<b>-0.9</b>
Capital Expenditure .....	<b>314.9</b>	<b>317.1</b>	<b>0.7</b>

## TREASURY

Treasury consists of the **Office of Financial Management (OFM)** and the **Office of State Revenue (OSR)**.

OFM provides economic and financial advice to the Government on the management of the State's finances.

OSR administers and collects taxes, implements legislation relating to State revenue, makes the payment of various grants, subsidies and rebates, collects outstanding State debts and administers fines on behalf of local government and some other Departments.

## EXPENDITURE TRENDS AND RECENT DEVELOPMENTS

A number of strategies underpin Treasury's planned result areas. The strategies continue to contribute to key results including the maintenance of the State's AAA rating, growth in the State's net worth and maintenance of a strong revenue base.

### Office of Financial Management

OFM seeks to promote State resource management to achieve a stronger State economy and better public services. The services it delivers are aimed at achieving a more competitive and sustainable business environment, better resource allocation and strengthened finances. Achievements in these areas during 2004-05 are as follows:

#### ***A More Competitive and Sustainable Business Environment***

- ◆ participated in the national working group review of State Government business stamp duties as required by the Intergovernmental Agreement;

- ◆ jointly amended the National Electricity law to provide more effective governance of the National Electricity Market, separating policy and regulatory functions into the Australian Energy Market Commission and the Australian Energy Regulator;
- ◆ implemented competition policy and contributed to the Productivity Commission review of achievements and future action; and
- ◆ participated in the development of strategies to address:
  - electricity supply and demand balance, and
  - water supply and demand balance.

### ***Better Resource Allocation and Management***

- ◆ integrated Results and Services Plans (RSPs) and Total Asset Management (TAM) Plans into the budget process;
- ◆ reviewed agency TAM plans for consistency with RSPs, and worked with the Department of Infrastructure, Planning and Natural Resources to ensure capital funding is consistent with whole-of-government planning;
- ◆ continued implementation of procurement reform, including agency accreditation and the development and application of the Gateway review process for high risk and/or high cost capital projects;
- ◆ contributed to the development of a framework for natural resources policy including restructured agency arrangements and integrated strategic planning;
- ◆ participated in transport sector reform including the introduction of a more equitable fare regime for Sydney Buses;
- ◆ oversaw Public Private Partnership arrangements including the Newcastle Mater Hospital, Long Bay Prison Forensic Hospital, and Chatswood Transport Interchange; and
- ◆ assisted agencies with the sales of QStores, the Government Printing Service, and State Mail, and various other complex commercial transactions.

## ***Strengthened State Finances***

- ◆ implemented taxation reform covering land tax, vendor duty, stamp duty and premium property tax;
- ◆ updated the fiscal strategy;
- ◆ participated in the Commonwealth Grants Commission review of the methodology used for allocating State grants;
- ◆ co-ordinated the New South Wales response to the Productivity Commission's review of the economic and fiscal impacts of ageing; and
- ◆ conducted a tender to move the management of the Treasury Managed Fund (TMF) to a contestable model utilising a greater number of providers, and assumed responsibility for co-ordinating certain TMF functions under the revised model.

## **Office of State Revenue**

The First Home Owner Grants Scheme (FHOGS) significantly influences OSR's expenditure trends. FHOGS payments are estimated at \$260 million in 2004-05.

The transfer of the State Debt Recovery Office (SDRO) in April 2002 and more recently the Infringement Processing Bureau (IPB) in October 2003 has added \$43.3 million to OSR's general expenditure in 2004-05. April 2004 saw the successful relocation of the Fine Enforcement Branch (FEB) from Sydney to Lithgow with an investment of \$6 million.

OSR has concentrated its efforts on implementing the changes to taxation introduced during the April 2004 mini-Budget and on implementing business process improvements in both infringement processing and fine enforcement branches of the SDRO.

Major capital purchases estimated to be \$18.5 million for 2004-05 relate mainly to the maintenance and improvement of tax and fines systems to improve efficiency and enable better service to clients through electronic service delivery and the integration of the fines systems into OSR.

Priorities of OSR during 2004-05 have been to ensure that:

### ***All Due Revenue is Collected***

The implementation of electronic service delivery continues to be a priority for OSR. Significant effort has been put into the successful implementation of the April 2004 mini-Budget. Due to changes to land tax and duties legislation, the number of OSR clients has greatly increased. Major changes to procedures and systems and the recruitment and training of additional staff have taken place to meet the increased work. Efforts have also focussed on expanding revenue compliance with an additional \$2.2 million funding provided in 2004-05.

### ***Infringement Processing and Fine Enforcement is Effective***

Since transferring to OSR, the IPB has successfully cleared the backlog of unprocessed fines. 99.5 percent of all infringements are now finalised. The flow-on effect to the FEB has required an additional investment of \$4.8 million.

A significant project was undertaken to consider business process improvements in both infringement processing and fine enforcement branches of SDRO. The recommendations of this project are now being implemented.

### ***Eligible Applicants Receive Payments Due***

OSR administers the FHOGS, Unclaimed Moneys, the Gaming GST Rebate Scheme and the Petroleum Subsidy Scheme. Changes to the First Home Plus scheme announced in the April 2004 mini-Budget provided substantial concessions in stamp duty to first home buyers. This has led to a large increase in the number of applicants for benefits.

## **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. These strategies signal priorities and underpin the planned results outlined in OFM's RSP.

### ***A More Competitive and Sustainable Business Environment***

The Microeconomic Reform Strategy aims to create an efficient policy and regulatory environment and a sustainable revenue regime. This will lead to a stronger economy. Key initiatives include:

- ◆ ongoing review of the energy sector focussing on initiatives coming from the Energy Directions White Paper;

- ◆ continuing energy market reform comprising generation and retail, gas, governance and legislative initiatives;
- ◆ monitoring action to address Sydney's water supply and demand balance; and
- ◆ reviewing the effectiveness of the tax system in supporting strategic policy objectives.

### ***Better Resource Allocation and Management***

The Microeconomic Reform Strategy also contributes to better resource allocation. This is achieved by periodically reviewing the service delivery and funding for key sectors. The aim is to improve the productivity of general government sector agencies. Priorities include:

- ◆ reviewing the effectiveness of land management and environmental agency reforms; and
- ◆ contributing to implementation of strategic planning, governance and accountability reforms in the transport, health, and community services sectors.

The Financial Management Framework continues to be the main strategy for better resource allocation and management. It links budgeting and planning and helps agencies deliver value for money programs and services. The priorities are:

- ◆ further refining the State budget process by:
  - reviewing the effectiveness of RSP and TAM integration,
  - requiring information technology and communications related assets to meet TAM guidelines and the Gateway procurement requirement, and
  - streamlining performance reporting;
- ◆ reviewing the consistency of the capital funding allocation process with whole-of-government planning;
- ◆ introducing reforms to improve property management within agencies;
- ◆ assisting the Department of Local Government with the introduction of Public Private Partnerships reviews for local government projects;
- ◆ implementing a revised appropriation system, a key element in reforming NSW financial legislation; and
- ◆ guiding the implementation of international accounting standards within the NSW public sector.

## ***Strengthened State Finances***

The State Fiscal Strategy sets medium and long term targets for major Budget aggregates. It ensures appropriate fiscal outcomes for New South Wales. A key focus will be ongoing review of the impacts of ageing and other fiscal pressures.

The State Balance Sheet Management Strategy aims to strengthen State finances by managing financial assets and liabilities to achieve an optimal balance sheet structure. In the coming year this will involve implementing contestable arrangements for the management of government self insurance under the Treasury Managed Fund.

The Commercial Policy Framework applies private type disciplines to government businesses to safeguard the value of the businesses and the returns they make to the Budget and taxpayer. Key action will involve implementing government decisions on the reform of Forests NSW.

## **Office of State Revenue**

As the Government's primary revenue collection agency, OSR is implementing a number of measures to ensure that revenue collection is maximised. This includes strategies to ensure people pay their taxes as well as to enhance infringement and fine processing management to provide better services to clients.

OSR has in place a long-term strategic framework entitled Vision 2009. This framework aims to position OSR as "The Agile Organisation". Vision 2009 has five key focus areas which articulate OSR's strategies:

### ***Enhance our revenue performance***

- ◆ optimising revenue and debt compliance;
- ◆ improving legislation to enhance compliance; and
- ◆ ensuring the New South Wales community understand their revenue rights and obligations.

### ***Drive service and efficiency through technology***

- ◆ identifying and enhancing the most effective service delivery channels;
- ◆ integrating stakeholder processes to increase efficiency for all parties; and
- ◆ responding to business needs with agile and disciplined information technology.

### ***Forge powerful stakeholder relationships***

- ◆ fostering cooperative development with stakeholders at all levels;
- ◆ building effective alliances with commercial clients; and
- ◆ continually increasing client satisfaction.

### ***Build an organisation of “value-able” people***

- ◆ encouraging visionary, disciplined leadership;
- ◆ ensuring staff embrace OSR’s values of responsiveness, integrity, teamwork and achievement; and
- ◆ continuing to develop OSR’s core capabilities.

### ***Ensure OSR’s continual renewal***

- ◆ continually increasing OSR’s efficiency and capacity;
- ◆ reinvesting efficiency gains for future benefits; and
- ◆ creating readiness for new business opportunities.

## **2005-06 BUDGET**

### **Total Expenses**

The estimated expenses for Treasury are \$450.5 million including First Home Owner Grant payments estimated to be \$262 million. Excluding First Home Owner Grants, Treasury expenses are \$188.5 million and will be used for the following:

- ◆ \$39.8 million to promote state resource management to achieve a stronger NSW economy and better public services by pursuing:
  - a more competitive and sustainable business environment;
  - better resource allocation and management; and
  - strengthened State finances.
- ◆ \$98.1 million to ensure effective and equitable collection of revenue from taxes, duties and other sources due to the State of New South Wales;

- ◆ \$45 million to ensure the effective and timely processing of infringements and fine enforcement activities for the benefit of the people of New South Wales; and
- ◆ \$5.6 million to ensure eligible applicants receive payments due under Commonwealth and State Government schemes.

## **Capital Expenditure**

### ***Office of Financial Management***

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.

### ***Office of State Revenue***

OSR's capital allocation is \$11.4 million. The key programs planned for 2005-06 include:

- ◆ \$2.6 million for continuation of the two year integration project. OSR's aim is to better integrate the OSR, SDRO and IPB computer systems, call centres and telecommunications which will improve overall OSR business processes;
- ◆ \$3 million for the business continuity project which is a three year project and will ensure OSR has a safe and secure environment and systems in the event of a disaster; and
- ◆ \$3.8 million for the maintenance of OSR's information technology infrastructure system to enable provision for increased activity, to build further efficiencies through increasing staff productivity and to ensure OSR has a flexible, reliable system that will enhance the life of this asset.

## **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, 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 to contribute to the administration of the GST. Other payments include HIH policyholder claims, State Bank post sale management costs, refunds and remissions of Crown revenue, natural disasters assistance, contributions to the Treasury Managed Fund, debt and investment management costs, and payments for community service obligations to Australian Inland Energy Water Infrastructure and the Hunter Water Corporation.

## **EXPENDITURE TRENDS AND RECENT DEVELOPMENTS**

In 2005-06, the budget for employer contributions to the accumulated superannuation schemes (\$871 million in 2004-05) has been transferred from the Crown Finance Entity to individual budget dependent agencies. The purpose of this change is to improve accountability and administrative efficiency.

The introduction of international accounting standards will have a material impact on the provisions shown in the Crown Finance Entity balance sheet. This is explained in the detailed commentary on asset and liability management in Chapter 4 of Budget Paper No. 2.

## **2005-06 BUDGET**

### **Total Expenses**

Estimated total expenses in 2005-06 are \$5.4 billion, with the major components being:

- ◆ \$2.3 billion incurred on behalf of general government budget dependent agencies for employer superannuation expenses and associated payroll tax. This expense compares to a budget of \$2.7 billion and forecast expense of \$1.1 billion in 2004-05. The decrease in forecast expense for 2004-05 was largely due to a revision of actuarial forecasts because of higher actual investment returns. The 2005-06 Budget reverts to normal actuarial assumptions, including investment returns;
- ◆ \$1 billion as a grant to the Liability Management Ministerial Corporation. These funds are invested and can only be used to meet superannuation liabilities;
- ◆ \$795.1 million for interest expenses on existing debt held with New South Wales Treasury Corporation, the Commonwealth and other organisations. This is a 10.5 percent increase on forecast 2004-05 expenses. The main reason for this increase is a slightly higher level of debt coupled with higher than expected interest rates;

- ◆ \$393.8 million for long service leave expenses of general government budget dependent agencies;
- ◆ \$275 million as a grant to the Transport Accident and Governmental Workers' Compensation Funds, part of the NSW Self Insurance Corporation, to eliminate a build up of agency balances;
- ◆ \$198.5 million as reimbursement to the Australian Taxation Office for GST administration and related payments;
- ◆ \$149.9 million in capital grants to agencies including \$22 million to the Health Department from the Health Super Growth Fund;
- ◆ \$100 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 and \$6 million to subsidise the sale of low alcohol beer in New South Wales;
- ◆ \$37.7 million depreciation on motor vehicles;
- ◆ \$19.8 million to offset GST payments for clubs;
- ◆ \$13.8 million interest on motor vehicle finance leases;
- ◆ \$15 million to be invested in projects with the aim of increasing the flow of water in the Snowy River; and
- ◆ \$15 million as a provision for natural disaster grants.

### **Total Revenue**

All revenue received is passed on to the Consolidated Fund, none is retained by the Crown Finance Entity. Estimated total revenue in 2005-06 is \$604.6 million, with the major components being:

- ◆ \$246.8 million as a grant from the NSW Self Insurance Corporation as a partial return of previous grant funding received from the Crown Finance Entity. This is due to the improved Treasury Managed Fund claims position;
- ◆ \$102.3 million as a return on the State's equity investments with \$61.4 million in dividends and \$40.9 million as an increase in the value of the investments;
- ◆ \$81.9 million as interest on Crown advances to public sector agencies;
- ◆ \$60 million in recoveries from the liquidation of HIH;

- ◆ \$52.7 million income from leasing motor vehicles to government agencies;
- ◆ \$32.1 million in contributions for superannuation and long service leave; and
- ◆ \$22.7 million as interest on funds invested on behalf of the Health Super Growth Fund.

### **Capital Expenditure**

For 2005-06 capital expenditure of \$175.2 million has been allocated to implement two programs:

- ◆ \$95.2 million for the purchase of motor vehicles to lease to other government agencies; and
- ◆ \$80 million as a provision for land acquisitions.

## **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 \$5.7 million in 2004-05 to \$41.7 million in 2005-06. The increase is due to the Crown Leaseholds Entity providing parcels of Crown lands to other Government entities, including Aboriginal Land Councils, Reserve Trusts and Local Government.

The retained revenues have increased 96.2 percent from \$50.2 million estimated in 2004-05 to \$98.5 million in 2005-06. The increase is due to the proceeds of the sale of perpetual leases and higher lease income. The increase in lease income is the result of a review of lease payments to better reflect the market value of the property leased.

Increases in payments have resulted in cashflows from operating activities decreasing by 24.8 percent, from \$50 million in the 2004-05 Budget to \$37.6 million in the 2005-06 Budget. This reduction is partly offset by an increase in cashflows from investing activities of \$9.2 million in 2005-06. The cash transfers to the Consolidated Fund have decreased by 8.7 percent, from \$50 million in the 2004-05 Budget to \$45.6 million in the 2005-06 Budget.

## **DEPARTMENT OF STATE AND REGIONAL DEVELOPMENT**

The Department of State and Regional Development provides expert advice and quality services to advance the economic development of both metropolitan and regional New South Wales.

### **EXPENDITURE TRENDS AND RECENT DEVELOPMENTS**

During 2004-05, the Department worked to secure major investment in New South Wales with an estimated value of \$1.5 billion and an employment impact of over 6,600 jobs:

- ◆ Investment projects confirmed for Sydney that will help deliver jobs included the establishment of a major campus by Singtel Optus as part of its consolidation and expansion and the attraction of Bluescope Steel's new coating plant in Western Sydney. The Department also helped to open Morgan Stanley's shared services subsidiary Serco Solutions, with over 120 staff supporting the company's operations throughout the Asia Pacific. Serco Solutions is also one of the company's two major foreign exchange processing centres in the world.
- ◆ Investment projects attracted to regional New South Wales included the establishment of a new aircraft heavy maintenance facility at Newcastle Airport by Jetstar Airways, expanded facilities by Rynarp, a wholesaler of fresh, dry and frozen foods in the Illawarra region, the establishment of a glasshouse tomato production facility by The Costa Group in Guyra, and a mine and minerals separation plant development in Broken Hill by Bemax Resources.

An extensive range of small business development, innovation, export growth and regional development activities was undertaken in 2004-05:

- ◆ The Stepping Up program for small business was introduced around New South Wales to assist small firms through skill development and mentoring support to implement sales growth and profit enhancement strategies.

- ◆ Contracts were awarded to 18 community organisations to provide Business Advisory Services on behalf of the NSW Government, commencing on 1 October 2004. Enhanced support services include a central 1300 help line for small business inquiries.
- ◆ A special week of events targeting home-based business operators was delivered in May. This inaugural event featured expert presenters discussing new technologies and systems, and complemented the Home-Based Business Action Programs delivered in fourteen locations throughout the State during the year.
- ◆ The second Building Regional Towns Tour visited Forbes, Scone and Merriwa. The two day tour gave 16 investors exposure to commercial opportunities in these areas, which were selected on the basis of their rapidly growing populations. To date, \$0.6 million in new investment has been generated from the tour.
- ◆ The NSW film production industry benefited from the selection of city and country locations for the film, 'Superman Returns'. To help win future film and television business for regional areas, a three day Heartland Central West Film and Television Tour was held, showcasing 23 locations to Australian filmmakers.
- ◆ As part of the New South Wales Government's export opportunities program, the New South Wales Minister for Small Business led a trade mission to China, coinciding with the 25th anniversary of the establishment of the Sister-State Relationship between the State of New South Wales and Guangdong Province in the People's Republic of China. Members of the group were able to attend special briefings on the 2010 Asian Games, being held in Guangzhou. Mission members were amongst the 180 plus firms participating in international market entry initiatives during the year, including trade missions to Malaysia, Singapore, Thailand, Fiji, New Caledonia, the United Arab Emirates and New Zealand.
- ◆ A new Aboriginal business development program was introduced to extend the existing range of support measures to encourage business formation by Aboriginal entrepreneurs and communities. A mentoring program at Lismore, Nowra and in the Hunter will help Aboriginal business owners to develop skills, identify business opportunities and learn from experienced business mentors.
- ◆ A Regional Distribution Centres Attraction Strategy was released to raise awareness amongst metropolitan businesses of the advantages of regional centres for warehousing and distribution business. The first of six locations being promoted under the strategy is Goulburn.

- ◆ A Regional Retail Program provided targeted training and follow up coaching to retailers in Dubbo, Lake Macquarie, Lower Hunter and Port Macquarie, including a series of workshops on topics such as visual merchandising and professional selling skills.
- ◆ The Australian Technology Showcase demonstration program provided an opportunity for 13 businesses to demonstrate their innovative technology in partnership with a Government agency or private company. This has resulted in over \$13 million in new business and potential sales for these firms. Over 45 new member technologies were admitted to the ATS during the year, bringing the total membership to more than 430.
- ◆ The Australia-New Zealand Biotechnology Alliance was expanded to include all Australian States and Territories, and was launched at BIO 2004 in San Francisco. The Alliance was developed by New South Wales in collaboration with Queensland and Victoria, to better position Australia's biotechnology capability in overseas markets.

## **STRATEGIC DIRECTIONS**

The Department's activities are encompassed in six strategies designed to boost economic and employment growth. These are:

- ◆ promoting investment;
- ◆ boosting exports;
- ◆ driving innovation and technological change;
- ◆ improving the State's business climate;
- ◆ building the economic capacity of regional New South Wales; and
- ◆ supporting entrepreneurship and growth in small and medium sized businesses.

## 2005-06 BUDGET

### Total Expenses

The Department's estimated total expenses for 2005-06 are \$97.7 million.

During 2005-06 the Department will continue to provide services and programs to advance business growth and economic development in New South Wales, including support for businesses relocating to regional New South Wales. Initiatives will include:

- ◆ promoting the State as a location for large scale and strategic investment in operations requiring high level technical and business skills, including support for the Forbes Global CEO Conference which is expected to attract over 300 international business leaders;
- ◆ facilitating the development of large scale projects in energy supply, energy intensive industries such as minerals processing and paper making, and in advanced manufacturing, through a co-ordinated whole-of-government approach;
- ◆ developing a series of industry sector profiles to promote the strengths of the New South Wales economy and identify areas of opportunity for new investment and employment;
- ◆ supporting the expansion of National ICT Australia, the country's centre of excellence for the information technology industry, into a new headquarters at the Australian Technology Park. During the year over 100 doctoral research students will undertake projects at the centre;
- ◆ pursuing opportunities for New South Wales sports management and infrastructure companies to build on the success of the Sydney Olympics by winning contracts in the overlay and procurement phases of the 2008 Beijing Olympics. New business for New South Wales will also be sought from the Asian Games in Doha (2006) and Guangzhou (2010) and the FIFA World Cup in South Africa in 2010;
- ◆ working with Railcorp and the Industry Capability Network to maximise participation by New South Wales industry in the \$1.5 billion rolling stock construction and maintenance contract;
- ◆ extending the Stepping Up program to reach more small businesses from new industry groups and regions with tailored skills development assistance to contribute to business growth;

- ◆ delivering Small Business September 2005 to recognise the impact made by small business on the State's economy, through a co-ordinated program of workshops, seminars, exhibitions and events in co-operation with industry associations, government agencies and community organisations;
- ◆ supporting regional economic opportunities in the food and wine sector to build on the inaugural Food Tour conducted in May 2005, which matched regional food businesses with prospective customers; and
- ◆ promoting regional New South Wales as a prime business and residential location, including sponsorship of "Country Week" 2005, and working with individual businesses to address skill shortage challenges.

### **Capital Expenditure**

The Department's capital expenditure program for 2004-05 includes \$0.1 million for essential fit out works and the replacement of plant and equipment.

## **DEPARTMENT OF ABORIGINAL AFFAIRS**

The Department, through the partnership between the Government and the Aboriginal people of New South Wales, is the lead agency for positive change and achievements in Aboriginal affairs and for facilitating co-ordination of Aboriginal programs.

### **EXPENDITURE TRENDS AND RECENT DEVELOPMENTS**

The Aboriginal Communities Development Program (ACDP) is a capital construction and infrastructure upgrade program aimed at raising the health and living standards of 22 selected, priority Aboriginal communities. The program aims to provide environmental health and essential infrastructure targeting a high level of identified need in housing, water, sewerage, roads, services, sporting, recreational and cultural facilities.

The program began in 1998-99 with an original budget of \$200 million over seven years. The ACDP is now a ten year, \$240 million program, with completion currently expected in 2007-08. The Department works closely with the Aboriginal Housing Office in determining the housing strategy within this program.

In 2004-05, the Department continued the Aboriginal Community Partnerships project aiming to give Aboriginal communities greater control over the planning, design and delivery of Government services. The restructure of the Department with a greater regional focus will enable an enhancement of these services to Aboriginal communities across New South Wales.

## **STRATEGIC DIRECTIONS**

The Department has an ongoing commitment to key initiatives for achieving social, economic and cultural independence for Aboriginal People in New South Wales. These include the continued development of the Aboriginal Affairs Plan, *Two Ways Together, Partnerships: A New Way of Doing Business with Aboriginal People*, a whole-of-government approach to achieving improved outcomes for Aboriginal people across a range of priority areas.

The *Two Ways Together Package*, which commenced in 2004-05, is a four-year, \$10 million per annum multi-agency response to the *Aboriginal Affairs Plan* priorities. The Package is targeted at five Government priority areas with some or all of the following characteristics: large Aboriginal populations; areas with a significant level of social problems and Aboriginal community support for the program.

The Minister established a Task Force to report on the operation of the *Aboriginal Land Rights Act 1983* and to make recommendations for the improved operation of the New South Wales Aboriginal land council system. The Director General of the Department is an active member of the Task Force and the review is being conducted in a staged process by addressing the most urgent and complex aspects of the land council system.

The Department, in conjunction with other agencies, is also currently assessing the impact and opportunities arising from the Commonwealth's decision to abolish the Aboriginal and Torres Strait Islander Commission (ATSIC).

## **2005-06 BUDGET**

### **Total Expenses**

Estimated total expenses for 2005-06 are \$56.3 million, an increase of \$7.2 million on 2004-05. This increase is primarily due to a scheduled increase in ACDP expenditure. The major expense is \$45.1 million for the ACDP of which \$18 million will be directed through the Aboriginal Housing Office to procure housing in accordance with the *Aboriginal Housing Act 1998*.

### **Capital Expenditure**

Capital expenditure is budgeted at \$39,000 for 2005-06 for the upgrading of computer and office equipment.

## **NSW SELF INSURANCE CORPORATION**

The Insurance Ministerial Corporation (IMC) was created in 1992 to accept the residual assets, liabilities, rights and obligations of government insurance activities. On 15 December 2004 the *NSW Self Insurance Corporation Act 2004* was given assent. This Act changes the name of the IMC and clarifies its purpose and functions.

The NSW Self Insurance Corporation (SIC) will continue the activities of the former IMC and adopt some of the activities that are undertaken by the current Treasury Managed Fund manager (GIO).

SIC's main functions are:

- ◆ the administration of the Treasury Managed Fund (TMF), which provides cover for all insurance exposures faced by general government sector budget dependent agencies (other than compulsory third party insurance). TMF memberships are also available to all other public sector agencies on a voluntary basis;
- ◆ the management of liabilities from a number of closed schemes. The closed schemes are the Governmental Workers' Compensation Account, the Transport Accidents Compensation Fund and the Pre-managed Fund Reserve; and
- ◆ from 1 July 2005, the collection and analysis of data provided, by new TMF claims managers; systems management of the new TMF data warehouse; provision of reporting functions to member agencies and monitoring of claims providers; and provision of financial statements and budget estimates.

## **EXPENDITURE TRENDS AND RECENT DEVELOPMENTS**

The TMF is currently in a fully funded position. This has resulted in the TMF 2005-06 target premium being reduced by \$31 million or 3.2 percent.

The major reason for this overall premium reduction is the effectiveness of the Government's tort reform legislation which has reduced liability claim expenses, particularly by decreasing legal costs. TMF agencies' liability premiums will decrease by 12.6 percent. This is only the second time that the liability premium has decreased in the Fund's history.

## **STRATEGIC DIRECTIONS**

On 30 June 2005 the contract for management of the TMF will expire. Treasury has taken the opportunity to implement fundamental reforms to the arrangements by which insurance services are provided.

Treasury has a target of developing a more open competitive market for the delivery of claims management services to the TMF. The new contracts appoint three workers compensation providers, Employers Mutual Limited, Allianz Australia Limited and GIO Australia Limited. The claims management of Department of Health and other liability claims will remain with GIO. There will also be separate long term contracts for risk management, reinsurance and actuarial services.

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

It is estimated that the new management arrangements will generate savings of 1 percent from 2006-07 onward for liability and 2.5 percent from 2006-07 onward for workers' compensation.

The creation of a new TMF branch within Treasury will enable Government to take a more proactive role in the way government self insurance arrangements are managed.

In 2005-06 the TMF will provide coverage to over 170 budget and other public sector agencies.

## **INTERNATIONAL ACCOUNTING STANDARDS**

The SIC financial statements have been prepared in accordance with AASB 137 "Provisions, Contingent Liabilities and Contingent Assets". In accordance with this self insurance standard the discount rate adopted equates to the forecast earnings of the SIC asset portfolio and no prudential margin has been added to the actuary's central liability estimate.

## **2005-06 BUDGET**

The estimated operating surplus of \$41.7 million for 2005-06 compares with a 2004-05 budget surplus of \$161 million for 2004-05. This reduced surplus primarily reflects the impact of the premium reductions referred to earlier which have been made possible by the forecast decline in TMF claim expenses.

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

## **LIABILITY MANAGEMENT MINISTERIAL CORPORATION**

The Liability Management Ministerial Corporation controls the General Government Liability Management Fund, which accumulates financial assets to improve the financial management of the general government sector's balance sheet.

The accumulation of financial assets in an investment fund 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. When unfunded superannuation liabilities are extinguished, any balance can be applied to debt reduction.

### **EXPENDITURE TRENDS AND RECENT DEVELOPMENTS**

Government payments to the General Government Liability Management Fund will be made 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.

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.

In 2004-05 the contributions to the Fund were \$1 billion. Further contributions to the fund over the forward estimates period are estimated at \$1 billion in 2005-06, \$1 billion in 2006-07, \$1.1 billion in 2007-08 and \$1.1 billion in 2008-09.

Due to favourable market returns, investment income has been increased by \$14.4 million. After meeting asset management expenses of \$3.5 million, the overall net increase is \$10.9 million.

## **STRATEGIC DIRECTIONS**

The Government's *General Government Debt Elimination Act* 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.

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; and
- ◆ compliance with the Government's fiscal strategy.

The assets of the Fund are held in fixed interest securities, managed by the NSW Treasury Corporation which has been appointed as investment manager to the Fund.

## **2005-06 BUDGET**

### **Total Expenses**

The Ministerial Corporation has budgeted \$5.7 million for operating expenses in 2005-06.

### **Capital Expenditure**

The Ministerial Corporation will not acquire physical assets in 2005-06.

## **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 is designed to manage wholesale electricity pool purchase cost risk for those standard government owned retail suppliers that are required to supply electricity to small retail customers at tariffs determined by the Independent Pricing and Regulatory Tribunal (IPART).

Small retail customers are those residential and small business customers consuming less than 160 MWh per annum who have not elected to enter into a negotiated supply contract. There are three standard retail suppliers in New South Wales – Energy Australia, Integral Energy and Country Energy.

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 government 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.

### **EXPENDITURE TRENDS AND RECENT DEVELOPMENTS**

Standard retail suppliers and state-owned generators make payments into the Fund and receive payments from the Fund in accordance with the payment rules established by legislation. The direction and level of payments is dependent on movements in average wholesale electricity prices.

Section 43ES of the *Electricity Supply Act 1995* states the Fund is to cease operation on 30 June 2004. A regulation to extend the operation of the Fund to 30 June 2007, was gazetted on 19 September 2003.

The average NSW wholesale electricity price for 2003-04 was \$32.37 MWh. Average monthly prices varied from \$17.50 MWh to \$63.73 MWh. The Fund balance at 30 June 2005 is estimated at \$271 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.

## **2005-06 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 IPART, 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 2005-06.

## **CROWN PROPERTY PORTFOLIO**

The Crown Property Portfolio (CPP) mainly 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 the 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.

## **EXPENDITURE TRENDS AND RECENT DEVELOPMENTS**

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

During 2002-03 the Crown Property Portfolio purchased four BHP sites in Newcastle. That land is now being managed by the Regional Land Management Corporation. During 2004-05 a call for tenders for lease of land on Kooragang Island for a coal loader was undertaken. Negotiations are being carried out with two preferred proponents.

The transfer of the Sydney Fish Market to Sydney Harbour Foreshore Authority did not take place in 2004-05, but is forecast to occur in 2005-06. Similarly, the sale of the Sheas Creek Wool Stores site in Alexandria did not take place in 2004-05 but is expected to occur in 2005-06. As a result, dividend distributions from the sale of these properties have been deferred to 2005-06.

In 2004-05, the Premier announced the construction of a new Government Office Building in Queanbeyan. The land will be purchased and construction will commence in 2005-06.

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.

## **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 Portfolio'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.

## **2005-06 BUDGET**

### **Total Expenses**

The budgeted expenditure for 2005-06 is \$149.2 million, a decrease of \$13 million over budgeted 2004-05 expenditure of \$162.2 million.

### **Capital Expenditure**

The Portfolio has an allocation of \$35.1 million in 2005-06 to fund major Government office building construction works as follows:

- ◆ \$21.1 million to construct a Justice Office Building at Parramatta;
- ◆ \$8 million to construct a Government Office Building at Queanbeyan;
- ◆ \$3.9 million for Crown Property Portfolio building refurbishments and miscellaneous minor works; and
- ◆ \$2.1 million to refurbish and upgrade the services in the historic Chief Secretary's Building to accommodate the NSW Industrial Courts and the State Governor.

## **ADVANCE TO THE TREASURER**

\$270 million has been allocated in 2005-06 to the Treasurer as an advance to allow for supplementary expenses - \$175 million for recurrent services and \$95 million for capital works and services. Actual expenses will be recorded in the expenses of the appropriate agencies.

At \$175 million the recurrent services advance represents a contingency of less than 1 percent of budgeted operating expenses.