

TREASURER, MINISTER FOR INFRASTRUCTURE, AND MINISTER FOR THE HUNTER

OVERVIEW

<i>Agency</i>	<i>2007-08 Budget \$m</i>	<i>2008-09 Budget \$m</i>	<i>Variation %</i>
Treasury			
Total Expenses	525.7	214.2	-59.2
Capital Expenditure	5.1	8.9	73.0
Crown Finance Entity			
Total Expenses	3,309.0	4,122.0	24.6
Capital Expenditure	10.0	3.0	-70.0
Crown Leaseholds Entity			
Total Expenses	24.2	24.7	2.3
Capital Expenditure .....	...	...	...
NSW Self Insurance Corporation			
Total Expenses	1,353.3	1,134.4	-16.2
Capital Expenditure	0.3	0.1	-53.3
Liability Management Ministerial Corporation			
Total Expenses .....	...	0.1	n.a.
Capital Expenditure .....	...	...	...
Electricity Tariff Equalisation Ministerial Corporation			
Total Expenses	0.5	0.3	-36.8
Capital Expenditure .....	...	...	...
Advance to the Treasurer			
Total Expenses	215.0	300.0	39.5
Capital Expenditure	110.0	100.0	-9.1
Total, Treasurer, Minister for Infrastructure, and Minister for the Hunter			
Total Expenses	5,427.7	5,795.7	6.8
Capital Expenditure	125.4	112.0	-10.7

In addition to the agencies listed above, the Minister is also supported by the Department of Premier and Cabinet (Section 2) for the Hunter portfolio area.

TREASURY

Treasury comprises the Office of Financial Management and the Office of State Revenue. Treasury is the Government's principal financial and economic adviser and revenue administration agency. In this role: it provides advice on economic and fiscal strategies, infrastructure and asset management, balance sheet management and the State Budget; provides revenue assessment and collection services; and processes and enforces fines and penalties. It manages a number of government payment programs including the First Home Owner Grant Scheme, petroleum subsidies and the GST rebate for clubs.

Treasury administers the *Public Authorities (Financial Arrangements) Act 1987*, *Public Finance and Audit Act 1983*, *Fiscal Responsibility Act 2005*, *Annual Reports Act 1984*, *Tax Administration Act 1996*, *Fines Act 1996*, *First Home Owner Grant Act 2000*, *Unclaimed Money Act 1995*, *Petroleum Products Subsidy Act 1997* and the *Duties Act 1997*.

RESULTS AND SERVICES

Treasury has lead agency responsibility for coordinating with partner agencies to ensure the delivery of the following State Plan priorities:

- ◆ P5: AAA rating maintained.
- ◆ P2: Maintain and invest in infrastructure.

Treasury aims to achieve better public services and a stronger State economy by working towards the following results:

- ◆ State finances support the delivery and long run affordability of Government services.
- ◆ Policy settings promote a competitive State economy.
- ◆ All due revenue is collected.
- ◆ All fines are processed and enforced correctly.
- ◆ Eligible applicants receive the benefits (grants and subsidies).

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

- ◆ advising on economic and fiscal strategies, public sector management, infrastructure and asset management, and managing the State Budget and Crown Finance Entity's financial assets and liabilities

- ◆ assessing and collecting tax revenue
- ◆ processing infringements and enforcing fines on behalf of the Crown, commercial clients and other NSW government agencies and
- ◆ administering benefit services relating to the unclaimed money program, First Home Owner Grant Scheme, First Home Plus Scheme (including First Home Plus One), GST rebate for clubs and petroleum product subsidies.

The key services provided by Treasury and the way in which they are expected to contribute to results are set out in the following table:

Service Groups	2008-09 Budget Expenses \$m	Results				
		State finances support delivery/affordability of government services	Policy settings promote a competitive State economy	All due revenue is collected	All fines are processed and enforced correctly	Eligible applicants receive their benefits
State Resource Management	49.7	✓	✓			
Revenue Administration Services	100.1			✓		
Infringement Processing and Fine Enforcement Management	56.7				✓	
Benefits Services	7.7					✓
Total Expenses Excluding Losses	214.2					

RECENT ACHIEVEMENTS

The Office of Financial Management (OFM) implemented reforms in the management of State liabilities and procurement activities. Microeconomic and intergovernmental relations reforms were pursued according to the National Reform Agenda.

During 2007-08, funding was transferred from the Department of Commerce to Treasury to facilitate the transfer of procurement functions from the Department to OFM.

During the year, the State's payroll tax legislation was harmonised with Victoria's. This has led to reductions in compliance costs and less red tape for businesses.

The Office of State Revenue (OSR) successfully managed the abolition of lease duty, hire of goods duty and a reduction in mortgage duty under the Intergovernmental Agreement.

OSR improved client service delivery by providing more effective services online and by launching e-learning programs for State Debt Recovery Office (SDRO) commercial clients.

OSR completed the integration of SDRO's Infringement Processing and Fine Enforcement branches and the amalgamation of its Client Services and Compliance Divisions into the Operations Division. These structural changes will enable OSR to deliver improved services to clients with lower costs of operation.

STRATEGIC DIRECTIONS

The State Fiscal Strategy aims to ensure appropriate service delivery and investment in infrastructure while promoting fiscal outcomes that preserve the State's Triple A rating.

Key strategies in OFM involve applying the Performance Management and Budgeting System, implementing the long term capital budget process that supports the State Infrastructure Strategy, and pursuing microeconomic reform through the Council of Australian Governments reform program, which incorporates the previous National Reform Agenda process.

OSR continues to implement taxation reforms and red tape reduction. During 2008-09, OSR will manage the abolition of marketable securities duty and a further reduction in mortgage duty as part of the Intergovernmental Agreement to reform State taxation.

The red tape reduction effort seeks to reduce the administrative burden and compliance costs for individuals and businesses, making it easier for clients to accurately assess their legislative obligations. With a simplified system, non-compliance is expected to be reduced.

OSR is working with other states and territories to harmonise legislation and administration for both taxes and fines. Improvements to legislation, administrative procedures, systems and client interaction are required to ensure that this project is implemented smoothly.

OSR continues to focus on increasing compliance activity undertaken earlier in the revenue administration process through improving its approaches to client education and awareness, more effective data matching technology and greater knowledge sharing with other jurisdictions on best practice approaches.

In 2008-09, OSR will continue to implement the agreed recommendations of its best practice debt management review to improve debt management processes for revenue and fines administration.

2008-09 BUDGET INITIATIVES

Total Expenses

The estimated expenses for Treasury are \$214.2 million. This is a significant drop from last year as funding for the First Home Owner Grant Scheme of \$325 million was transferred to the Crown Finance Entity. The scheme continues to be administered by Treasury.

Capital Expenditure

Treasury's capital allocation is \$8.9 million. Of this, \$8.2 million is for OSR for the following key programs planned for 2008-09:

- ◆ \$4.7 million for the general maintenance of OSR's information technology infrastructure and core business applications and
- ◆ \$3.5 million for the modernisation of OSR's major software application – RECOUPS – to upgrade platforms, address risks and allow greater connectivity with other systems.

OFM's allocation of \$650,000 will be used for refurbishment, upgrading existing equipment under the asset replacement program and for general enhancements to existing financial collection and information systems.

AGENCY RESULT INDICATORS

State finances support the delivery and long run affordability of Government services

Result Indicator	Units	2005-06 Actual	2006-07 Actual	2007-08 Budget	2008-09 Forecast
i) Maintaining a Triple A credit rating for New South Wales		Triple A	Triple A	Triple A	Triple A
ii) Maintaining a downward trend in GG sector net financial liabilities compared to GSP	%	8.7	7.7	8.2	8.1
iii) Deviation of actual expenses from budget	%	0.1	0.2	≤1.0	≤1.0
Notes:					
i) Triple A is the most important signal that government finances are being well managed.					
ii) General government (GG) sector net financial liabilities provide an indicator of balance sheet strength. GSP – Gross State Product.					
iii) Deviation of expenses within tolerance limits is an indication of appropriate funding at budget time. From 2007-08, this performance indicator is based on changes to underlying expenses.					

Policy settings promote a competitive State economy

Result Indicator	Units	2005-06 Actual	2006-07 Actual	2007-08 Budget	2008-09 Forecast
i) NSW's total State revenue per capita to be less than or equal to the all States' average					
- New South Wales	\$	6,476	6,879	6,700	6,834
- All States	\$	6,947	7,343	7,253	7,363
Note:					
i) Signals whether NSW taxes are competitive taking into account limitations imposed by NSW share of Commonwealth funding. From 2007-08 there is a break in the series due to changed accounting treatment.					

All due revenue is collected

Result Indicator	Units	2005-06 Actual	2006-07 Actual	2007-08 Budget	2008-09 Forecast
i) Total overdue debt as a percentage of revenue (tax)	%	1.06	1.05	≤1.00	≤1.00
ii) Revenue collected to original budget	%	98	107	≥98	≥98
iii) Additional revenue identified through compliance activities	\$m	229	217	237	246

Notes:

i) This indicator shows the effectiveness of OSR's debt management process.

ii) This indicator shows OSR's performance in collecting all revenue due to the government.

iii) This indicator measures the effectiveness of OSR's audit and compliance programs.

All fines are processed and enforced correctly

Result Indicator	Units	2005-06 Actual	2006-07 Actual	2007-08 Budget	2008-09 Forecast
i) Closure rate of penalty notices	%	75	73	≥77	≥70
ii) Closure rate of enforcement orders	%	44	46	≥48	≥50
iii) Percentage of fines statute barred	%	0.06	0.20	≤0.20	≤0.20

Notes:

i) This indicator measures the effectiveness of OSR's infringement processing.

ii) This indicator measures the effectiveness of OSR's fine enforcement.

iii) This indicator is a measure of the timeliness of the end-to-end process of infringement processing and fine enforcement management.

Eligible applicants receive their benefits

Result Indicator	Units	2005-06 Actual	2006-07 Actual	2007-08 Budget	2008-09 Forecast
i) First Home Owner Grant Scheme grants paid	\$m	286	319	322	325
ii) First Home Plus exemptions and concessions granted	\$m	397	433	440	444

Notes:

i) This indicator measures the value of benefits paid.

ii) This indicator measures the value of exemptions and concessions granted.

CROWN FINANCE ENTITY

The Crown Finance Entity is responsible for the management and reporting of service wide assets, liabilities and associated transactions. The overall responsibility for these transactions is with the Government rather than individual departments and statutory bodies. The major expense components are defined benefits superannuation contributions, long service leave payments on behalf of general government budget dependent agencies, and interest payments on government debt and bank balances held by general government agencies in the Treasury Banking System.

In addition, the State is required to contribute to the cost of administration of the GST by the Australian Taxation Office. Other major payments include HIH policyholder claims, refunds and remissions of Crown revenue, natural disasters assistance, and debt and investment management costs. From 2008-09, the cost of grants under the First Home Owner Grant Scheme is also included under the Crown Finance Entity rather than NSW Treasury.

RESULTS AND SERVICES

The Crown Finance Entity contributes to the management of service-wide assets, and liabilities and ensures efficiency of related transactions by working towards the following results:

- ◆ The level and cost of State liabilities are minimised.
- ◆ The Crown Finance Entity's payment system is efficient and effective.

Key services provided by the Crown to contribute to these results include:

- ◆ managing superannuation liabilities in accordance with the Government's long term funding plan
- ◆ managing the Crown debt portfolio in order to minimise the market value of debt within specified risk constraints and
- ◆ managing the Treasury Banking System to ensure effective cash management.

The key services provided by the Crown Finance Entity and the way in which they are expected to contribute to results are set out in the following table:

Service Groups	2008-09 Budget Expenses \$m	Results	
		The level and cost of State liabilities is minimised	The State's payment system is efficient and effective
Debt Liability Management	987.4	✓	
Superannuation Liability Management	1,429.2	✓	
Central Financial Services	1,705.4		✓
Total Expenses Excluding Losses	4,122.0		

RECENT ACHIEVEMENTS

Due to ongoing favourable insurance claim experience the Treasury Managed Fund, administered by the NSW Self Insurance Corporation, transferred \$300 million to the Consolidated Fund during 2007-08. Furthermore, in light of the improved Budget position for 2007-08, the Government has taken the opportunity to bring forward by one year the \$390 million repayment of rail debt foreshadowed in the Half-Yearly Budget Review.

STRATEGIC DIRECTIONS

The Crown Finance Entity will continue to monitor the service-wide assets, liabilities and transactions that are the overall responsibility of the Government, to ensure consistency with government targets, including:

- ◆ liaising with appointed actuaries in regard to funding superannuation liabilities by 2030 and
- ◆ monitoring the level of general government debt and associated finance costs.

2008-09 BUDGET INITIATIVES

Total Expenses

Estimated total expenses in 2008-09 are \$4.1 billion, with the major components being:

- ◆ \$1.4 billion for payment on behalf of general government budget dependent agencies of employer superannuation contributions under the defined benefit schemes and long service leave expenses
- ◆ \$974.8 million for interest expenses on new and existing debt held mainly with New South Wales Treasury Corporation and the Commonwealth Government.
- ◆ \$376.9 million in capital grants including \$325 million for the First Home Owner Grant Scheme and \$23 million to the Department of Health which was formerly funded from investment earnings of the Health Super Growth Fund
- ◆ \$210.2 million reimbursement to the Australian Taxation Office for GST administration and related payments
- ◆ \$200 million redundancy payments for various government agencies which are restructuring for improved efficiency
- ◆ \$43 million to subsidise petroleum products for on-road use near the Queensland border
- ◆ \$40 million as provision for natural disaster relief grants
- ◆ \$25 million to be invested in projects with the aim of increasing the flow of water in the Snowy River and
- ◆ \$19.9 million to offset GST payments for clubs.

The appropriation to the Crown Finance Entity also includes funding for the costs associated with the sale of electricity retailers and the lease of generation assets. These costs will be netted off against the proceeds from the transactions.

Capital Expenditure

In 2008-09, purchase of property, plant and equipment will total \$3 million.

AGENCY RESULT INDICATORS

Minimise level and cost of State liabilities

Result Indicator	Units	2005-06 Actual	2006-07 Actual	2007-08 Budget	2008-09 Forecast
i) General government funded superannuation liabilities	%	76.0	79.1	71.7	71.6
ii) Crown Finance Entity interest cost as proportion of debt	%	6.3	6.2	6.1	6.2
Notes:					
i) This measures the percentage of defined benefit superannuation liabilities covered by superannuation assets valued on a funding basis.					

Provide and effective payment system

Result Indicator	Units	2005-06 Actual	2006-07 Actual	2007-08 Budget	2008-09 Forecast
i) Crown Finance Entity payments made on time	%	n.a.	n.a.	90	95
Note:					
i) Measures timeliness of remittance of funds to agencies.					

CROWN LEASEHOLDS ENTITY

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

The Crown Leaseholds Entity receives revenue from holders of leases, licences and permissive occupancies and collects the proceeds from the sale of Crown land. The Crown Leaseholds Entity also collects fees and levies associated with the *Water Act 1912*.

The Crown Leasehold Entity land holdings include unallocated Crown land and Crown reserves for which no reserve trust has been established. Unallocated Crown land includes land on the continental shelf within the three nautical mile zone.

The value of land within the Crown Leaseholds Entity is approximately \$6.1 billion. The Crown Leaseholds Entity revalues land holdings yearly.

The Crown Leaseholds Entity has provided for the liability of land claims which have been granted to local Aboriginal Land Councils under the *Aboriginal Rights Act 1983* but not yet transferred. These parcels of land remain under the care, control and management of the Crown Leaseholds Entity pending formal land boundary surveys being undertaken so that freehold title can be prepared and transferred to the respective Aboriginal Land Councils.

Operating expenses relate mainly to the movement of land between the Crown and those who manage the land on its behalf i.e. local councils and community reserve trust boards. Total expenses for 2008-09 are \$24.7 million (2007-08 \$24.2 million). The administrative effort involved in collection and sale of Crown Land is shown under the Budget estimates for the Department of Lands

Retained revenues in 2008-09 are estimated at \$60.3 million (2007-08 \$48.9 million). The increase on 2007-08 reflects an increase in transfers of land from those managing Crown Reserves on behalf of the Crown to Crown Leaseholds Entity. Volatility in the level of Crown Leaseholds Entity land holdings is expected given that there are 37,000 Crown reserve trusts.

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) and for 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 and
- ◆ 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 performance of the claims managers.

RECENT ACHIEVEMENTS

The State accumulates financial assets in order to meet the Government's insurance liability costs as they fall due rather than place an undue burden on future generations of taxpayers.

SICorp manages assets in compliance with its Net Assets Holding Level Policy to fund the Government's insurance liability costs. The policy dictates the appropriate level of reserves for the TMF. This policy sets the TMF reserve for insurance activity at an amount equal to 10 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 assets position is reviewed each 31 December. Excess reserves are paid to the Consolidated Fund via the Crown Finance Entity while deficits will require contributions from the Crown Finance Entity.

Strong investment returns up until August 2007, together with a favourable claims experience, created ongoing surpluses above the threshold level. The excess in accumulated reserves enabled the Fund to make repayments to the Consolidated Fund of Crown Finance Entity contributions of \$1 billion and \$910 million in 2006 and 2007, respectively.

Following the 2007 review of reserve requirements, a further surplus was identified. A transfer of \$300 million to the Consolidated Fund via the Crown Finance Entity was made in 2007-08.

The TMF target premium for 2008-09 of \$838.1 million is 2.2 per cent lower than for 2007-08. Major variations are in respect of workers' compensation premiums (down \$27.5 million or 6 per cent) and public liability premiums (down \$26.1 million or 9 per cent).

Workers compensation improvements have been driven by a reduction in the cost of weekly benefits, primarily due to better experience for active claims and reductions in rehabilitation costs. Public liability improvements are a result of reductions in claims costs, particularly in relation to medical indemnity claims.

STRATEGIC DIRECTIONS

Since 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.

Workers' compensation providers are Employers Mutual Limited, Allianz Australia Limited and GIO Australia Limited. The management of other claims, including liability and property, is undertaken by 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 outsourcing 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 2008-09, the TMF will provide coverage to over 117 public sector agencies.

2008-09 BUDGET INITIATIVES

Total Expenses

Total expenses in 2008-09 are estimated at \$1.1 billion. The TMF actuary has projected a small increase in workers' compensation liabilities. Overall, the trend over the last few years and forward years is relatively stable. Public liability actuarial forecasts for 2008-09 and future years reflect an expected resumption of claims growth.

Investment returns are assumed to return to long term trends following major market volatility and fluctuations in recent months. The forward estimates assume investment returns will meet the long term trend of 7.2 per cent per annum.

From 1 July 2008, the Fund will assume management of outstanding State Rail Authority workers' compensation claims from the Crown Finance Entity. The total liability transferred will be approximately \$138.5 million and will come fully funded by the Crown Finance Entity.

A further contribution of \$40 million will be received from the Crown Finance Entity in order to maintain full funding of the Transport Accidents Compensation Fund and the Pre-Managed Fund.

Capital Expenditure

The capital program of \$135,000 in 2008-09 is primarily for computer requirements.

LIABILITY MANAGEMENT MINISTERIAL CORPORATION

The Liability Management Ministerial Corporation controls the General Government Liability Management Fund. The Fund was established to accumulate financial assets to improve the financial management of the general government sector's balance sheet and allow flexibility in the timing of superannuation contributions to the public sector defined benefit schemes.

In 2006-07 the balance of the Fund, \$7.2 billion, was transferred to SAS Trustee Corporation (State Super) and invested in line with the strategic asset allocation of State Super. The operations of the Fund were then discontinued, however both the Corporation and the General Government Liability Management Fund remain in existence to assist in the future management of the State's assets and liabilities.

In 2008-09 the Fund will be utilised as a mechanism to fully fund the pension scheme for Judges by 2030.

RECENT ACHIEVEMENTS

Contributions 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 Judges' Pension Scheme unfunded superannuation liabilities. Contributions received by the fund are invested through NSW Treasury Corporation.

The Funding Plan for the Judges' Pension Scheme 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 *Fiscal Responsibility Act 2005* which includes the long term fiscal target of eliminating total state sector unfunded superannuation liabilities by 2030.

The cash contribution to the fund, to meet future service liabilities, is \$19 million in 2008-09.

STRATEGIC DIRECTIONS

In accordance with the provisions of the *General Government Liability Management Fund Act 2002*, a Management Committee advises 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 Attorney General's Department for payment of pensions and superannuation benefits under the *Judges' Pension Act 1953*.

2008-09 BUDGET INITIATIVES

Total Expenses

Estimated total expenses in 2008-09 are \$73,000. Judges pension benefit cash payments are currently being met from a separate Crown Finance Entity recurrent appropriation.

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 the cost risk of electricity purchases by 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).

IPART determinations cover residential and small business customers consuming less than 160 MWh per annum who have not elected to enter into a negotiated supply contract.

Standard retail suppliers are required to contribute to the fund when wholesale prices are lower than the energy cost component charged to customers buying 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 the regulated return.

In this way, the fund is able to smooth 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 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 within the ETEF, New South Wales State-owned electricity generators are well placed to top up the ETEF from funds generated by high wholesale prices. Generator payments to the fund are repaid whenever standard retail suppliers make a payment into the fund. The involvement of generators ensures that the fund can never be in deficit.

RECENT ACHIEVEMENTS

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. An amendment gazetted on 2 March 2007 further extended the fund until 30 June 2010. The Government recently decided to gradually phase out the fund in the period to June 2010.

The average NSW wholesale electricity price for 2006-07 was \$58.72 MWh with average monthly prices varying from \$21 MWh to \$230.66 MWh. Currently, average monthly prices for 2007-08 have varied from \$34.08 MWh to \$77.87 MWh. The fund balance at 30 June 2008 is estimated at \$100,000.

While for accounting reasons the movement in the ETEF balance is treated as Budget revenue, in practice the ETEF is managed as a separate fund which can be called upon in periods of high prices.

STRATEGIC DIRECTIONS

The ETEF arrangement is aimed at managing the electricity purchase risk of standard retail suppliers. Phasing out the fund by June 2010 will allow adequate time for adjustments to occur in the energy trading market. Although this will expose retailers to price risk, it is expected to provide the right incentives to attract investment in electricity generation. There will be no impact on retail customers as electricity prices are determined by IPART.

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.

2008-09 BUDGET INITIATIVES

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 price is set by IPART and is based on the long run generation costs. On this basis, the fund is forecast to increase only by investment income in 2008-09.

ADVANCE TO THE TREASURER

\$400 million has been allocated in 2008-09 to the Treasurer as an advance to allow for supplementary expenses, comprising \$300 million for recurrent services and \$100 million for capital works and services. Actual expenses will be recorded in the expenses of the appropriate agencies.

At \$300 million the recurrent services advance represents a contingency of 0.6 per cent of budgeted operating expenses.