

# TREASURER AND MINISTER FOR STATE DEVELOPMENT

## OVERVIEW

<i>Agency</i>	<i>Budget 2003-04 \$m</i>	<i>Budget 2004-05 \$m</i>	<i>Variation %</i>
<b>Treasury</b>			
Total Expenses .....	361.2	453.4	25.5
Asset Acquisitions .....	8.4	18.3	117.3
<b>Crown Finance Entity</b>			
Total Expenses .....	4,021.2	5,523.4	37.4
Asset Acquisitions .....	125.0	174.1	39.3
<b>Crown Leaseholds Entity</b>			
Total Expenses .....	5.0	5.7	13.8
Asset Acquisitions .....	...	...	...
<b>Department of State and Regional Development</b>			
Total Expenses .....	107.8	112.3	4.2
Asset Acquisitions .....	0.1	0.1	...
<b>New South Wales Insurance Ministerial Corporation</b>			
Total Expenses .....	1,176.8	1,252.7	6.4
Asset Acquisitions .....	...	...	...
<b>Liability Management Ministerial Corporation</b>			
Total Expenses .....	1.0	1.0	2.5
Asset Acquisitions .....	...	...	...
<b>Electricity Tariff Equalisation Ministerial Corporation</b>			
Total Expenses .....	0.1	0.2	129.5
Asset Acquisitions .....	...	...	...
<b>Crown Property Portfolio</b>			
Total Expenses .....	165.6	162.2	-2.0
Asset Acquisitions .....	20.4	12.4	-39.2

<i>Agency</i>	<i>Budget 2003-04 m</i>	<i>Budget 2004-05 \$m</i>	<i>Variation %</i>
<b>Advance to the Treasurer</b>			
Total Expenses.....	240.0	240.0	...
Asset Acquisitions .....	60.0	110.0	83.3
<b>Total, Treasurer and Minister for State Development</b>			
Total Expenses .....	<b>6,078.7</b>	<b>7,750.9</b>	<b>27.5</b>
Asset Acquisitions .....	<b>213.9</b>	<b>314.9</b>	<b>47.2</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, pays various grants, subsidies, and rebates, collects outstanding State debts and administers fines on behalf of Councils and some other Departments.

### EXPENDITURE TRENDS AND RECENT DEVELOPMENTS

Treasury expenses will be greater in 2004-05 compared to 2003-04 due to a higher estimate for First Home Owner Grants in the coming year. Expenses in 2004-05 also reflect the full year effect of integration of the Infringement Processing Bureau into OSR, effective from October 2003.

A variety 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.

OFM underwent an internal restructure in late 2003. The restructure better integrated the asset and procurement functions transferred from the former Department of Public Works and Services as part of the Government's organisational changes, and further clarified responsibilities in regard to the key services delivered by OFM.

Achievements that OFM has helped deliver over the past year are as follows:

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

- ◆ participation in reviews relating to the Fire Service Levy, Productivity Inquiry on First Home Ownership, and Workcover Legislation;
- ◆ development of NSW Governance arrangements for the National Electricity Market;
- ◆ development of options for electricity trading risk management; and
- ◆ participation in the national tax review working group.

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

- ◆ implementation of the Government's agency changes, particularly in the establishment of the Department of Infrastructure, Planning and Natural Resources;
- ◆ development of Results and Services Plans as a key part of agency resourcing;
- ◆ development of a governance model for the restructured rail sector;
- ◆ strengthening of policies and procedures in regard to procurement and asset management, and the integration of asset management plans into the budget process; and
- ◆ development of a corporatisation proposal for State Water.

### ***Strengthened State Finances***

- ◆ completion of a review of Commonwealth Grants Commission assessment methods and submission of the NSW case to the Commission;
- ◆ leadership of negotiations on the development of a national approach to interstate rail;
- ◆ completion of a Long Term Fiscal Sustainability Analysis including the development of a State based Intergenerational report; and

- ◆ contribution to the development and implementation of community insurance reforms within New South Wales.

## **Office of State Revenue**

OSR has focussed its efforts on ensuring a stronger revenue base, a skilled and committed workforce, the application of technology to enhance its systems and processes and the successful transition of the Infringement Processing Bureau (IPB) which was transferred from NSW Police in October 2003.

Priorities of OSR are to ensure:

### ***All Due Revenue is Collected and Compliance is Maximised***

- ◆ The implementation of electronic service delivery continues to be a priority for OSR. Additional compliance activities commenced in 2003-04 will continue in 2004-05 and will be further expanded to maximise compliance with revenue laws. The measures introduced in the April 2004 mini-Budget will result in a significant change in the tax base which will require major systems and process changes and an increase in OSR's client base.

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

- ◆ In October 2003 the IPB, based in Maitland, was transferred to OSR from NSW Police and is now a part of the State Debt Recovery Office (SDRO). The Fine Enforcement Branch of SDRO has also successfully completed the relocation from its Sydney city location to Lithgow. In 2004-05, the focus will be on implementing business process improvements in both infringement processing and fine enforcement branches of the SDRO. Efforts are also under way to develop an activity-based costing model for full cost recovery in IPB as well as broadening the public awareness of the fine enforcement process.

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

- ◆ OSR administers the First Home Owner Grant Scheme (FHOGS), Unclaimed Moneys and the Petroleum Subsidy Scheme. In 2003-04, the number of FHOGS applicants has been steadily reducing from the peak in 2001-02 and is 18 percent lower than last financial year due to reduced activity in the property market. Due to the transfer duty changes announced in the April mini-Budget, it is projected that the number of grants will increase in the next financial year.

- ◆ Although there has been a decline in the amount of unclaimed money collected in the 2003-04 financial year compared to that of 2002-03, there has been a 68 percent increase in the dollar value of claims paid. This can largely be attributed to the increased media activity and a proactive approach taken by OSR in locating potential claimants.

## **STRATEGIC DIRECTIONS**

### **Office of Financial Management**

OFM's strategic management framework was reviewed during the year. The fundamental elements of this framework will continue to provide the basis for OFM services during the coming three years. A number of key initiatives aimed at developing a stronger NSW economy and better public services will feature during the coming year.

The strategies signal our priorities for the coming years, and underpin the planned results outlined in OFM's Results and Services Plan.

### ***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. Ultimately this will lead to a stronger economy. Key initiatives include:

- ◆ continuing reform of the energy sector, including a review of electricity demand and supply capacity; and
- ◆ reviewing State business taxes under the Intergovernmental Agreement.

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

The microeconomic reform strategy also contributes to better resource allocation through periodic review of service delivery and funding for key sectors, and aims for greater productivity from general government sector agencies. It includes participating in reforms to key service delivery areas (natural resource management, transport, health, community services and disabilities).

OFM will continue to utilise the financial management framework as the main vehicle for better resource allocation and management. The framework seeks to improve the links between budgeting and planning, and assists agencies to deliver value for money programs and services. The strategy will be supported by:

- ◆ refining the State Budget process to incorporate Results and Services Plans;

- ◆ working with agencies to improve their resource management systems, including risk management and costing systems;
- ◆ strengthening asset management and procurement policy and practice;
- ◆ updating NSW financial legislation; and
- ◆ introducing international accounting standards.

### ***Strengthened State Finances***

The State fiscal strategy sets short, medium and long terms targets for major budget aggregates and ensures appropriate fiscal outcomes for the State. Key initiatives are:

- ◆ identifying long term fiscal pressures and their impacts on the NSW financial position and reviewing the appropriateness of current targets; and
- ◆ reviewing horizontal fiscal equalisation and associated distribution of funds to the States.

State balance sheet management strategy aims to strengthen State finances by managing the State's 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 the Government's self insurance scheme (the Treasury Managed Fund).

The commercial policy framework applies private type disciplines to government businesses with the aim of safeguarding the value of the businesses and the returns they make to the Budget/taxpayer. The key initiative will be reform of commercial operations and practices in the areas of State forest operations; urban and rural water supply; and electricity trading risk management.

### **Office of State Revenue**

As the Government's primary revenue collection agency, OSR is committed to ensuring revenue compliance is maximised. OSR's strategic direction articulates the framework used to achieve the goals and objectives of the agency, including:

**Enhance OSR's revenue performance.** Revenue administration including fine collection is OSR's core function. This strategy aims to enhance our overall performance and maximise compliance for all revenue types. Effective and timely infringement processing and fine enforcement services will also contribute to a higher level of compliance. This strategy aims to maximise compliance by improving legislation and educating the NSW community about their revenue rights and obligations. Key activities under this strategy include:

- ◆ implementation of an overall compliance strategy aimed at optimising revenue and debt compliance;
- ◆ reduction of outstanding fines;
- ◆ client education programs;
- ◆ implementation of mini-Budget initiatives; and
- ◆ continual review of legislative provisions.

**Drive service and efficiency through technology.** Technology has provided the mechanism by which OSR is able to improve service delivery and gain operational efficiency. This strategy aims to continue the use of technology in an agile yet disciplined manner to meet the needs of OSR and clients to deliver results. Key activities include:

- ◆ reviewing current service delivery channels;
- ◆ streamlining and strengthening the fine enforcement system;
- ◆ ongoing development of OSR's main processing system (RECOUPS) and associated systems;
- ◆ review and renewal of infrastructure technology; and
- ◆ integrating telephony capability over all sites.

**Ensure OSR's continual renewal.** This strategy recognises the need for OSR to anticipate and respond to community needs and enhance service delivery. This is to be achieved through continually increasing efficiency and capacity; reinvesting efficiency gains for future benefit; and creating readiness for new business functions. Key activities include:

- ◆ continue to progress business process improvements;
- ◆ progress work on implementation of a system to manage quality control; and

- ◆ implementation of the Gaming GST Rebate Scheme which OSR will administer from July 2004.

## **2004-05 BUDGET**

### **Total Expenses**

The estimated expenses for Treasury in 2004-05 are \$453.4 million. This represents a 25 percent increase over the 2003-04 Budget estimate due to a higher estimate for First Home Owner Grants in 2004-05, inclusion of the Infringement Processing Bureau for a full year in 2004-05 and implementation costs associated with tax changes announced in the April mini-Budget.

Excluding First Home Owner Grants, Treasury expenses in 2004-05 are \$186.7 million and will be used for the following:

- ◆ \$39.8 million to promote State resource management to achieve a stronger New South Wales economy and better public services through: micro economic reform; a financial management framework that assists agencies to deliver value for money services; a commercial policy framework that applies sound business principles to Government commercial agencies; a fiscal strategy that sets clear aggregate targets; and responsible balance sheet management;
- ◆ \$90.5 million to ensure effective and equitable collection of revenue from taxes, duties and other sources due to the State of New South Wales;
- ◆ \$51 million to ensure the effective and timely processing of infringements and fine enforcement activities for the benefit of people of New South Wales; and
- ◆ \$5.4 million to ensure eligible applicants receive payments due under various Commonwealth and State Government schemes.

### **Asset Acquisitions**

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

OFM's allocation of \$0.4 million will be used for general enhancements to existing computer systems and equipment upgrades.

## **Office of State Revenue**

OSR's capital allocation is \$18 million. The key programs planned for 2004-05 include:

- ◆ increasing the efficiency of overall business processes by integrating the current OSR, SDRO and IPB functional systems, call centre and telecommunications;
- ◆ replacing the existing Infringement Fine Enforcement system at SDRO to increase functionality and to improve efficiency in processing and collecting outstanding debt;
- ◆ ongoing development of OSR's RECOUPS and associated systems which are the key revenue collection systems for Treasury. This maintenance continues to extend the useful life of the system and aids OSR in keeping pace with changing business needs and processes;
- ◆ streamlining and strengthening current security processes to safeguard systems and information tools for business continuity in the event of a disaster; and
- ◆ providing accommodation requirements as a result of the changes brought about by the mini-Budget.

## **CROWN FINANCE ENTITY**

The Crown Finance Entity is responsible for service-wide assets, liabilities and their related transactions for which individual agencies are not directly accountable. The major components relate to employer contributions to the First State Superannuation Scheme and 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**

The grant to the Liability Management Ministerial Corporation, \$975 million in 2004-05, has been reclassified from capital to recurrent expenditure. This reclassification is the main driver for budgeted expenses increasing from \$4 billion to \$5.5 billion.

In 2003-04 the Crown Finance Entity became responsible for over 20,000 motor vehicles acquired from the private sector under finance leases. These are sub-leased to government agencies. A detailed commentary on asset and liability management is available in Chapter 4 of Budget Paper No. 2.

### **2004-05 BUDGET**

#### **Total Expenses**

Estimated total expenses in 2004-05 are \$5.5 billion, with the major components being:

- ◆ \$2.7 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 \$2.4 billion and forecast expense of \$1.4 billion in 2003-04. The decrease in forecast expense for 2003-04 was largely due to a revision of actuarial forecasts due to higher actual investment returns. This revision of the liability resulted in a major reduction in the expense in 2003-04. The 2004-05 Budget assumes a reversion to normal actuarial assumptions;
- ◆ \$975 million as a grant to the Liability Management Ministerial Corporation. These funds are invested and can initially only be used to meet superannuation liabilities;
- ◆ \$649.2 million for interest expenses on existing debt held with New South Wales Treasury Corporation, the Commonwealth and other organisations. This is an 8.2 percent decrease on forecast 2003-04 expenses. The main reason for the high 2003-04 forecast was funds invested on behalf of the Liability Management Ministerial Corporation that were not included in the budget. This resulted in \$27 million of additional interest expense. In addition, the decrease reflects savings generated from matured long term debt being refinanced in a lower interest rate environment and a lower level of debt;
- ◆ \$380.7 million for long service leave expenses of general government budget dependent agencies;

- ◆ \$195.5 million as reimbursement to the Australian Taxation Office for GST administration and related payments;
- ◆ \$180 million for redundancy payments for various government agencies;
- ◆ \$42 million to subsidise petroleum products for on-road use near the Queensland border and \$7.2 million to subsidise the sale of low alcohol beer in New South Wales;
- ◆ \$42.7 million depreciation on motor vehicles;
- ◆ \$35.1 million in capital grants to agencies including \$23 million to the Health Department from the Health Super Growth Fund;
- ◆ \$35 million as a grant to the Transport Accident Compensation Fund, created as a replacement for third party motor vehicle registration levy concessions granted in 1998-99;
- ◆ \$19.7 million to offset GST payments for clubs;
- ◆ \$17.4 million interest on motor vehicle finance leases; and
- ◆ \$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. Natural disaster relief expenditure for 2003-04 was greater than expected due to the extreme bushfire season from October 2002 to February 2003. Large amounts of expenditure for this event were made in 2003-04.

In addition \$84 million of HIH motor vehicle third party and building warranty insurance claims will be paid out in 2004-05. These were expensed in prior years.

### **Total Retained Revenue**

Estimated total retained revenue in 2004-05 is \$353.7 million, with the major components being:

- ◆ \$91.1 million as a return on the State's equity investment in Snowy Hydro Limited, with \$63.8 million in dividends and \$27.3 million as an increase in the value of the investment;
- ◆ \$86.6 million as interest on Crown advances to public sector agencies;
- ◆ \$62.4 million income from leasing motor vehicles to government agencies;

- ◆ \$60 million in contributions for superannuation and long service leave;
- ◆ \$27.7 million as proceeds from land sales; and
- ◆ \$23.1 million as interest on funds invested on behalf of the Health Super Growth Fund.

### **Asset Acquisitions**

For 2004-05 capital expenditure of \$174.1 million has been allocated to implement two programs:

- ◆ \$101.1 million for the purchase of motor vehicles to lease to other government agencies; and
- ◆ \$73 million to provide funding to agencies whose IT Asset Management Plans justify a transition from finance leases to the purchase of IT equipment.

### **CROWN LEASEHOLDS ENTITY**

The Crown Leaseholds Entity was previously incorporated within the Crown Finance Entity, and, as from 1 July 2003, has been 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. During 2003-04 the Entity took on the task of collecting 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 13.8 percent from \$5 million in 2003-04 to \$5.7 million in 2004-05. The increase is due to the Entity undertaking additional expenditure on tasks such as pest and weed management programs. The retained revenues have increased 43.3 percent from \$35 million in 2003-04 to \$50.2 million in 2004-05. The increase is due to the additional fees and levies collected 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.

These changes in expenses and revenues have resulted in the cash transfers to the Consolidated Fund increasing by 44.5 percent, from \$34.6 million in the 2003-04 Budget to \$50 million in the 2004-05 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 2003-04, the Department assisted major investment projects across New South Wales with an estimated investment value of \$1.1 billion and an employment impact of over 6,300 jobs.

- ◆ Investment projects attracted to Sydney included Global Operations Centres for Deutsche Bank and for U.B.S., Reuters Customer Order Management Centre and an Asia Pacific Business Centre for Air France.
- ◆ Investment projects attracted to regional New South Wales included Allied Mills softwood sawmill and treatment plant to Bathurst, Nash Tanks and Pipes Steel fuel tank manufacturing operations to Parkes, Gypsy Cove Holdings furniture manufacturing operations to Kyogle and the expansion of the Kellogg Healthy Snack Food People facility to Charmhaven.

An extensive range of innovative and economic development programs was undertaken during 2003-04:

- ◆ The Australian Technology Showcase (ATS) continued to expand its promotion of innovative Australian technology businesses, through the ATS Technology Demonstration program. This initiative provides an opportunity for businesses to demonstrate or trial innovative technology in partnership with a Government agency or the private sector. A further 43 innovative member technologies were admitted to the ATS during the year. Companies involved in the ATS have attributed ATS promotional support as one of the main factors that helped them in securing \$340 million in export and domestic sales and \$190 million from equity investors.
- ◆ Participation by companies in events that market and promote NSW biotechnology companies internationally. These include Bio2004 in San Francisco, Medica 2003 in Dusseldorf and the Australian Biotech Alliance Complementary Healthcare Mission to Taiwan.

- ◆ A comprehensive program held during the Rugby World Cup promoted business and investment opportunities in New South Wales. A total of 40 business events attracted 9,000 participants. A large number of NSW companies established and reinforced relationships with international business partners with several confirming negotiations to export products. Estimated direct economic benefits to New South Wales from the Rugby World Cup range up to \$300 million.
- ◆ Regional business development initiatives included conducting an Information Communication Technology Forum in the Illawarra Region, the Building Regional Towns tour to Tumberumba, Griffith and West Wyalong and the introduction of the Small Towns Growth Strategy to assist communities with fewer than 5,000 people. In addition, 27 projects were assisted through the Town and Village Futures program. It is expected that up to 80 regional businesses will participate in the New Market Expansion program.
- ◆ The Department's post-Olympics business development program facilitated access to new business opportunities. Several NSW companies have successfully secured work for the 2004 Athens Olympic Games and the 2006 Doha Asian Games. Activities by the Department in relation to the 2008 Beijing Olympics have contributed to a range of successes in Beijing by NSW companies in planning, design/architecture, transport and technology preparations and telecommunications.
- ◆ Over 160 companies participated in the Department's trade mission and market visit program, with strong interest from missions to the United Arab Emirates and Singapore, by more experienced exporters and to New Zealand by newer exporters. During the year a tool kit for service exporters was developed, to take advantage of the depth of the State's skilled service sector. This has been presented in regional and metropolitan areas, and to groups specialising in sports and event management and environmental services.
- ◆ Eight business networks were assisted from a range of industries including tourism, film and manufacturing and information management in the health sector. These networks are located in various parts of the State, including the Snowy Mountains, the Riverina and the Blue Mountains.
- ◆ Small Business Month, recognising the contribution of small business to the economy and community, was held again in 2003, with over 18,000 people attending workshops and seminars, over 40,000 people attended trade and regional exhibitions and more than 400 events were badged and promoted by Government agencies, industry associations and the community business sector.

- ◆ The NSW Film and TV production industry benefited from efforts to attract four film and TV productions to the State with a total estimated expenditure of around \$90 million.

## **STRATEGIC DIRECTIONS**

The Department's activities are encompassed in six strategies. 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.

## **2004-05 BUDGET**

### **Total Expenses**

The Department's estimated total expenses for 2004-05 are \$112.3 million. This compares with a Budget estimate for 2003-04 of \$107.8 million. The increase is mainly due to the department taking over from the Department of Commerce responsibility for grants to non-government organisations for information and communications technology projects.

During 2004-05, the Department will continue to provide a range of services and programs to advance the economic development of both metropolitan and regional New South Wales. Initiatives will include:

- ◆ countering competition for investment from emerging low cost locations by targeting companies with functions requiring high level skills, particularly in digital media and shared services of multinational companies;
- ◆ enhancing the Business Skills Migration program to cater for an anticipated increase in applications for State sponsorship following changes to the Business Skills program by the Commonwealth in 2003;
- ◆ assisting the commercialisation of emerging technologies such as nanotechnology, Biometrics and Biotechnology;

- ◆ piloting an initiative in Broken Hill designed to encourage young people to take an active role in shaping their business community and to explore the option of establishing their own businesses;
- ◆ conducting youth business initiatives in Orange and Brewarrina;
- ◆ promoting the development of regional centres as commercially attractive warehousing and distribution precincts through the Regional Distribution Centres Attraction Strategy;
- ◆ attracting film and television productions to regional New South Wales with ongoing support to the State's regional film offices to attract investment statewide;
- ◆ assisting businesses to be ready to invest and facilitating investment in regional companies through the Regional Business Investment Program and regional and Sydney investment forums; and
- ◆ supporting a framework to promote regional economic opportunities arising from the strong food and wine sector in New South Wales. (Sydney will host the Wine Australian Exhibition and Conference in 2004, 2006 and 2008.)

### **Asset Acquisitions**

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

## **NEW SOUTH WALES INSURANCE MINISTERIAL CORPORATION**

The Insurance Ministerial Corporation (IMC) was created in 1992 to accept the residual assets, liabilities, rights and obligations of government insurance activities.

The activities are:

- ◆ 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; and
- ◆ 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.

These activities are currently managed under contract by GIO General Limited.

## **EXPENDITURE TRENDS AND RECENT DEVELOPMENTS**

Revenue has improved mainly due to the TMF 2004-05 target premium increasing by \$35.3 million or 3.7 percent from 2003-04. This was mainly caused by a 6.7 percent increase in the workers' compensation premium, offset by a 0.2 percent decrease in the liability premium and the closure of the Australian Traineeship Scheme.

The workers' compensation increase is primarily due to increased wages, changes to the wage definition and increased weekly benefit payments.

Liability has decreased for the first time in the Fund's history. This is due to reductions in the number and cost of public liability small claims, a result attributable at least in part to the Government's tort reform legislation.

The Australian Traineeship System is now closed to new trainees from 1 January 2004. Coverage for existing trainees will continue to 31 December 2004. New South Wales was the only State to offer full workers' compensation coverage to employers of trainees.

The Australian Traineeship Scheme represented around 4 percent of TMF wages, but around 12 percent of total claims cost. The closure of the scheme resulted in a reduction to the Target Premium of \$27.4 million.

## **STRATEGIC DIRECTIONS**

A greater emphasis has been placed on reducing claim costs of the Treasury Managed Fund by promoting better risk management and claims management practices.

The contract for management of the Treasury Managed Fund was, and will continue to be, subject to competitive tender. GIO General Ltd was successful in securing a three year tenure from 1 July 2000 with an option at the Government's discretion for further extension of two years, which was taken up by the Government.

Treasury is taking the opportunity presented by the expiry, on 30 June 2005, of the current management contract for the Treasury Managed Fund to implement fundamental reforms to the arrangements by which insurance services are provided to government agencies in New South Wales. Specifically, it is intended to create a more contestable market for the provision of such services.

In reforming the management of the Treasury Managed Fund and developing a more contestable market, Treasury's focus for the management of the Treasury Managed Fund and the tender process has been on the following objectives:

- ◆ improve scheme performance to minimise overall claims costs and budget impacts;
- ◆ generate management cost savings and efficiency gains and introduce service and process innovations;
- ◆ reduce the systemic risk associated with exposure to just one provider; and
- ◆ effectively manage contract risk, as competition and repeated tendering encourage performance discipline and enable benchmark comparisons between providers.

In 2004-05 the Treasury Managed Fund will provide coverage to 175 budget and other public sector agencies.

## **2004-05 BUDGET**

The estimated operating surplus of \$161 million for 2004-05 compares with a forecast budget surplus of \$164.7 million in 2003-04.

The forecast reflects the decrease in claims paid offset by a general increase in premiums and increases in outstanding claims.

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 will allow 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. In the case where unfunded superannuation liabilities are extinguished, the balance can be applied to debt.

## 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 the fiscal targets of eliminating net debt by 2020 and fully funding superannuation liabilities by 2030.

In 2003-04 the contributions to the fund were \$1.1 billion. Further contributions to the fund over the forward estimates period are estimated at \$1 billion in 2004-05, \$1.2 billion in 2005-06, \$1.6 billion in 2006-07 and \$1.8 billion in 2007-08.

The investment income has been revised upwards by \$9.5 million due to favourable market returns.

A change in the accounting treatment of contributions to the fund resulted in a reduction of noncurrent liabilities for the 2003-04 Budget. From 2003-04 these contributions are to be accounted for as grants.

## STRATEGIC DIRECTIONS

The Government will continue to exercise flexibility in the management of its financial assets to optimise the manner in which it achieves the fiscal targets of eliminating net debt by 2020 and fully funding 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; and
- ◆ monitoring and reviewing the performance of assets, investments and service providers.

The Management Committee is also required by the Act to review from time to time the long term fiscal target to eliminate total state sector unfunded superannuation liabilities by 30 June 2030.

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.

## **2004-05 BUDGET**

### **Total Expenses**

The Ministerial Corporation has budgeted \$1 million for operating expenses in 2004-05.

### **Asset Acquisitions**

The purpose of the investment fund is to acquire financial assets. The Ministerial Corporation will not acquire non-financial assets.

## **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 four standard retail suppliers in New South Wales - EnergyAustralia, Integral Energy, Country Energy and Australian Inland Energy Water Infrastructure.

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 2002-03 was \$33 MWh. Average monthly prices varied from \$16 MWh to \$57 MWh. The Fund balance at 30 June 2003 was \$128 million.

The forecast ETEF balance at 30 June 2004 is approximately \$137 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.

## **2004-05 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 has not been forecast to accrue further net reserves in 2004-05.

## **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.

Construction of a regional office in Lithgow was completed in 2003-04 to house the State Debt Recovery Office and the Police Assistance Line. This building has been added to the Portfolio.

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. It is planned to undertake detailed design and contract documentation in 2004-05 in preparation for a call for tenders for construction works.

The transfer of the Sydney Fish Market to Sydney Harbour Foreshore Authority did not take place in 2003-04, but is forecast to occur in 2004-05. Similarly, the sale of the Sheas Creek Wool Stores site in Alexandria is expected in 2004-05. As a result, dividend distributions from the sale of these properties have been deferred to 2004-05.

## **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.

## **2004-05 BUDGET**

### **Total Expenses**

The budgeted expenditure for 2004-05 is \$162.2 million, a decrease of \$8.6 million over projected 2003-04 expenditure of \$170.8 million. The decrease is primarily associated with a reduction in operating expenditure.

### **Asset Acquisitions**

The Portfolio has an allocation of \$12.4 million in 2004-05 to fund major Government office building construction works as follows:

- ◆ \$7.1 million to refurbish and upgrade the services in the historic Chief Secretary's Building to accommodate the NSW Industrial Courts and the State Governor;
- ◆ \$4.3 million for Crown Property Portfolio building refurbishments and miscellaneous minor works; and
- ◆ \$1 million to refurbish the Meteorological Building.

## **ADVANCE TO THE TREASURER**

\$350 million has been allocated in 2004-05 to the Treasurer as an advance to allow for supplementary expenses - \$240 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 \$240 million the recurrent services advance represents a contingency of less than 1 percent of budgeted operating expenses.