

# CHAPTER 1: TOTAL STATE PROGRAM

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## 1.1 OVERVIEW

The State Asset Acquisition Program comprises asset acquisitions of both the General Government and Public Trading Enterprise Sectors.

The asset acquisition program provides for the construction, acquisition and upgrading of the physical assets of the State. The program plays a key role in the growth and development of the State economy by providing the basic infrastructure required by industry and for urban and rural development throughout New South Wales. In addition the capital program encompasses the provision of essential social, recreational and cultural facilities.

Asset acquisitions include the purchase and construction of equipment and buildings and the purchase of land and fixed assets.

Although maintenance expenditure is generally not classified as asset acquisition, the project data and commentary of some agencies (such as the State Rail Authority and the Roads and Traffic Authority) include major upgrading projects.

The asset acquisition program is presented on an accrual basis. The data therefore do not necessarily represent cash flows in the year.

The asset acquisition program is divided into two sections, the General Government Sector and the Public Trading Enterprise Sector. Detailed commentary on the asset acquisition programs being undertaken by General Government agencies is contained in Budget Paper No. 3 "Budget Estimates 1999-2000". Detailed commentary on the Public Trading Enterprise Sector Program is contained in Chapter 2 of this Budget Paper.

**Table 1.1: State Asset Acquisition Program Summary**

	<i>1998-99 Revised \$m</i>	<i>1999-2000 Budget \$m</i>
General Government Sector	2,558.7	2,690.9
Public Trading Enterprise Sector	2,217.1	2,548.0
<b>State Asset Acquisition Program</b>	<b>4,775.8</b>	<b>5,238.9</b>

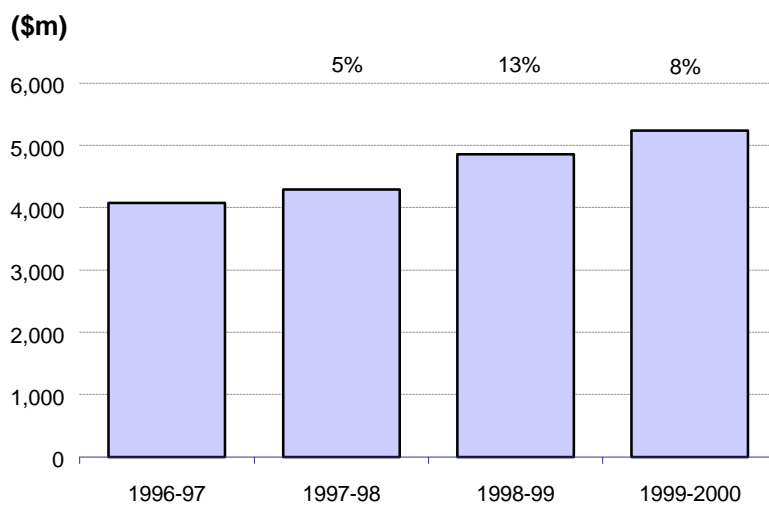
References to real increases in the capital program throughout this Budget Paper have been calculated using the Australian Bureau of Statistics Gross Non-Farm Product deflators.

The commencement and completion dates shown for projects in this Budget Paper relate to the dates projects are financially started and finished, including the payment of all retention monies. In some instances, particularly for very large projects, the date may be some time after the physical completion of works.

## 1.2 EXPENDITURE TRENDS

In the three years up to and including 1999-2000, the State Asset Acquisition Program is forecast to increase by \$1,160 million, or 28.4 percent, in real terms. The major areas of growth over the three-year period are in the policy areas of Law, Order and Public Safety, Housing, Water and Sewerage and the Environment, Mining, Energy and Construction, and Transport and Communication.

**Chart 1.1: State Asset Acquisition Program**



*Expressed in real terms, 1999-2000 base percentage change on previous year*

The 1999-2000 State Asset Acquisition Program is forecast to increase by 7.9 percent, with most of the growth projected to take place in the policy areas of Law, Order and Public Safety, Housing, Water, Sewerage and the Environment, Mining, Energy and Construction, and Transport and Communication. Olympic related expenditure is expected to decrease by over \$230 million in 1999-2000. It is planned that the General Government Sector capital program over the following three years be maintained at the 1999-2000 levels, after adjusting for abnormal expenditures such as the Olympics.

### **1.3 1998-99 PROGRAM OUTCOME**

Overall, after adjusting the 1998-99 program budget for the exclusion of maintenance projects not strictly classified as asset acquisitions (minus \$294 million), the estimated result is \$78 million over budget. General Government Sector asset acquisition is expected to be \$45 million below budget, mainly due to the reclassification of expenditures from asset acquisition to recurrent expenses. More than offsetting this is an increase in the program by Public Trading Enterprises, mainly as a result of initiatives approved after the Budget, in particular the Northside Sewage Storage Tunnel being undertaken by the Sydney Water Corporation.

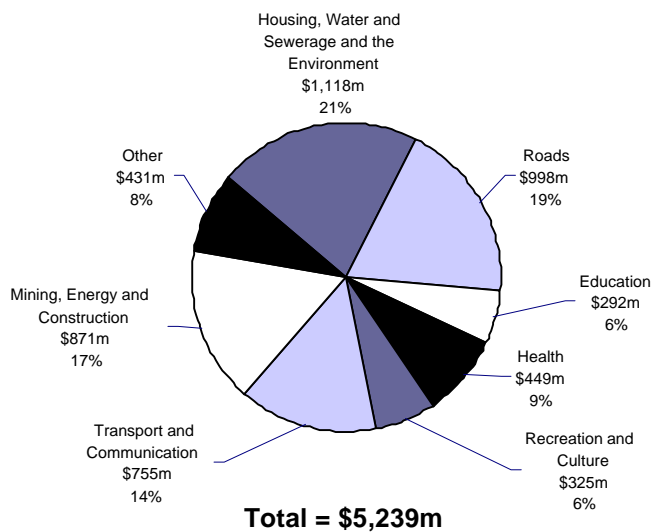
### **1.4 1999-2000 PROGRAM**

*State asset acquisitions in 1999-2000 are estimated to be \$5,239 million. This represents a real increase of \$386 million or 7.9 percent on the projected 1998-99 program outcome.*

The State asset acquisition program represents planned expenditure at a point in time and, as with any plan, circumstances and priorities may change during the course of the financial year. In past years there have been moderate variations, either increases or decreases, between the budgeted capital expenditure and the actual outcomes, reflecting a range of factors such as weather conditions, delays due to various reasons, price movements varying markedly from those forecast and planning revisions.

While the 1999-2000 State Asset Acquisition Program has been framed on the latest estimates of planned payments on all of the projects that make up the program, past experience suggests it is likely that the final outcome will follow the pattern of previous years and differ moderately from budgeted expenditure.

**Chart 1.2: Total State Program, 1999-2000, by Policy Area**



The main features of the 1999-2000 State Asset Acquisition program include:

- ◆ expenditure of \$998 million for roads;
- ◆ payments of \$755 million for transport and communication, including \$291 million for passenger rail services, \$162 million for rail infrastructure related services and \$92 million for bus and ferry services;
- ◆ a total of \$292 million in the education policy area for the upgrade and construction of primary and secondary schools and TAFE NSW assets. The allocation for this policy area is a 14 percent increase over 1998-99;
- ◆ payments totalling \$1,118 million in the housing, water, sewerage, and the environment policy area, including \$393 million by the Department of Housing, \$405 million by Sydney Water Corporation and \$60 million by the Hunter Water Corporation. Works to help protect the environment include payments of \$9 million by the Environment Protection Authority, \$50 million by the Olympic Co-ordination Authority and \$23 million by Waste Service NSW;
- ◆ a total of \$263 million in the Law, Order and Public Safety policy area, including almost \$99 million for the Police Service, \$65 million for the Department of Corrective Services and \$38 million for the NSW Fire Brigades. Projected expenditure for this policy area is a 15.6 percent increase over 1998-99;

- ◆ a total of \$871 million in the mining, energy and construction policy area mainly by the electricity generators and distributors;
- ◆ a total of \$449 million for health services enabling expenditure on major capital works to maintain service delivery in the health area; and
- ◆ a total of \$325 million for recreation and culture payments, substantially due to continued activity by the Olympic Co-ordination Authority.

## **1.5 FUNDING OF STATE ASSET ACQUISITION PROGRAM**

General Government Sector asset acquisitions are financed from Commonwealth specific purpose capital payments, the Budget current surplus and financing transactions.

Public Trading Enterprise Sector asset acquisitions are primarily funded from the revenue and accumulated reserves of enterprises and borrowings. Some enterprises also receive Budget funding in the form of social program payments. In addition, some projects in the housing area receive Commonwealth funding.

Table 1.2 outlines funding sources for 1998-99 and 1999-2000 for both the General Government and Public Trading Enterprise Sectors.

**Table 1.2: State Asset Acquisition Program Funding Sources**

	<i>1998-99 Revised \$m</i>	<i>1999-2000 Budget \$m</i>
<b>General Government Sector</b>		
Commonwealth Specific Purpose Payments	397	349
Current Budget Surplus and Financing Transactions	2,162	2,342
<b>Total - General Government Sector</b>	<b>2,559</b>	<b>2,691</b>
<b>Public Trading Enterprise Sector</b>		
Commonwealth Specific Purpose Payments	314	323
Budget Funding	398	467
Other Sources	1,505	1,758
<b>Total - Public Trading Enterprise Sector</b>	<b>2,217</b>	<b>2,548</b>
<b>TOTAL PROGRAM</b>	<b>4,776</b>	<b>5,239</b>

## General Government Sector Funding Sources

### *Commonwealth Specific Purpose Payments*

The Commonwealth Government provides payments to the States for specific capital purposes under section 96 of the Constitution. The major payments are for roads, schools and for public, community and aboriginal housing programs.

Total Commonwealth specific purpose capital payments used to fund the General Government Sector asset acquisition program in 1998-99 are anticipated to be \$397 million. This is \$58 million higher than budget mainly due to the timing of payments made by the Commonwealth.

Of this amount, \$193 million was for roads and \$200 million for schools and technical and further education projects (but includes \$66 million relating to the 1997-98 capital program).

For 1999-2000, Commonwealth funding of \$349 is anticipated, \$136 million for education and \$189 million for roads.

### *Current Budget Surplus and Financing Transactions*

The other funding sources for the General Government Sector asset acquisition program are the Budget current surplus for Budget Dependent agencies and financing transactions, income and accumulated reserves for Non-Budget Dependent agencies.

## **Public Trading Enterprise Sector Funding Sources**

Income and accumulated reserves are the most significant source of funding for Public Trading Enterprise Sector asset acquisition payments.

Commonwealth funding is largely restricted to public, community and Aboriginal housing (\$314 million in 1998-99, and \$308 million anticipated in 1999-2000).

The main recipient of Budget funding in the Public Trading Enterprise Sector is the State Rail Authority and Rail Access Corporation, to undertake non-commercial infrastructure works and above rail operations such as station improvements and the purchase of new trains.

# **CHAPTER 2: PUBLIC TRADING ENTERPRISE SECTOR ASSET ACQUISITION PROGRAM**

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## **2.1 OVERVIEW**

Public Trading Enterprises provide major economic infrastructure assets such as water, power and public transport, and operate in markets ranging from monopolistic to competitive.

The Public Trading Enterprise Sector comprises those agencies that finance the bulk of their operations from own sources revenues and borrowings. As a result, capital expenditure decisions are mainly driven by commercial considerations.

Some Public Trading Enterprises, however, are provided with Budget funding to undertake services required by the Government for social rather than commercial reasons. For instance, the Government provides Budget funding to agencies for public rental housing (Department of Housing) and public rail transport (the CityRail and CountryLink services of the State Rail Authority). In the rail sector, the provision of Budget funding reflects the view that, due to reasons of externalities, the general community should contribute towards these costs.

Unlike the General Government Sector, capital expenditure of the Public Trading Enterprise Sector, other than that funded by social programs, has no direct impact on the State's Budget. Accordingly, approval for commercially funded capital expenditure of Public Trading Enterprises is based on establishing that the proposed expenditures do not put at risk the agencies' ability to meet the financial targets stipulated in their Statement of Financial Performance or Statement of Corporate Intent.

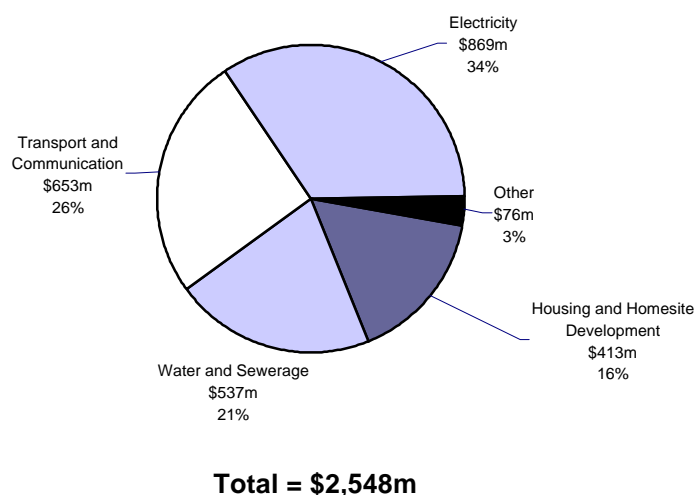
## 2.2 1998-99 PROGRAM OUTCOME

Overall, asset acquisition by Public Trading Enterprises in 1998-99 has been revised upwards by \$124 million. Major variations are expected to Sydney Water Corporation's program which is expected to exceed original estimated expenditure by \$127 million, mainly reflecting additional costs associated with construction of the Northside Storage Tunnel to reduce wet weather sewage overflows into Sydney Harbour, additional expenditure on remedial works at Potts Hill Reservoir and an increase in expenditure on renewing ageing infrastructure. Other significant variations include a \$30 million reduction in payments by State Transit Authority due to supplier delays in new bus deliveries, a net increase of \$14 million in the programs of the electricity generators and distributors, and a \$85 million increase in payments by the Rail Access Corporation resulting from post budget initiatives including the purchase of communication assets and the Sydney Yard upgrade.

## 2.3 1999-2000 PROGRAM

The 1999-2000 total capital expenditure of the Public Trading Enterprise Sector agencies is estimated to be \$2,548 million. This is an increase of \$331 million on the revised 1998-99 expenditure. Major areas of expenditure in 1999-2000 are as indicated below.

**Chart 2.1: Public Trading Enterprise Sector Asset Acquisitions, 1999-2000, by Policy Area**



## Electricity

Continuing change in the electricity industry, as a result of the move to competitive markets, has resulted in improvements in the budgeting for capital works.

The 1999-2000 capital expenditure program for the generators focuses on the ongoing expenditure for continuing improvements to the performance and reliability of existing power stations and ancillary assets.

The transmission sector is characterised by the ongoing acquisition and development of major transmission assets. Significant items include:

- ◆ Queensland interconnect; and
- ◆ acquisition of transmission assets in Snowy Mountains area.

For the distribution sector, highlights include:

- ◆ EnergyAustralia - major substation replacement, networks expansion to meet new load (\$126m), information technology and asset renewal; and
- ◆ Integral Energy - major components include information technology systems (\$23m) and metering (\$13m).

Major items of capital expenditure for the remaining distributors relate to both system enhancement and refurbishment.

All distributors are developing new information technology systems to meet the additional data demands associated with the gradual introduction of retail contestability.

## Water and Sewerage

Sydney Water Corporation's asset acquisition program for 1999-2000 is \$404 million (exclusive of assets constructed by developers and/or other third parties and handed over to the Corporation). This capital program represents that previously included in Sydney Water's 1998-99 Statement of Corporate Intent. The program is currently subject to a review, which may result in significant changes. The purpose of the review is to ensure that the capital investment program continues to be fully consistent with Sydney Water's commercial and regulatory objectives.

Key elements of the review include an increased emphasis on renewing ageing infrastructure, meeting licence conditions and the implementation of Sydney Water Inquiry recommendations in relation to the 1998 water quality incidents.

Approximately 36 percent of Sydney Water's 1999-2000 asset acquisition program maintains the Corporation's focus on minimising sewage overflows. The bulk of this expenditure, \$136 million, is on the construction of the Northside Storage Tunnel that will reduce the frequency of wet weather overflows and associated pollution within the Sydney Harbour area from the lower northern suburbs system. The tunnel is scheduled for completion during the Year 2000 at an estimated total cost of \$430 million. The Tunnel will capture and transport sewage from Sydney's four largest volume sewage overflow points at Lane Cove, Tunks Park, Scotts Creek and Quakers Hat Bay.

The Program also provides for significant expenditure on projects designed to safeguard drinking water quality, including:

- ◆ upgrading of water treatment plants at a total estimated cost of \$34 million (\$21.1 million in 1999-2000);
- ◆ upgrading water distribution systems to meet 1996 National Health Drinking Water Standards at an estimated cost of \$10.3m (\$3.4m in 1999-2000); and
- ◆ construction of a reticulated sewerage system for the Oaks and Oakdale townships in the Catchment area at an estimated cost of \$26.5m (\$10.6m in 1999-2000).

Other significant capital expenditure items included in Sydney Water's program are:

- ◆ the extension of the integrated telemetry and control system to wastewater systems at a total cost of \$72 million up to 2007-08 (\$15.8 million in 1999-2000);
- ◆ continued construction of the Picton Regional Sewerage Scheme at a total cost of \$46 million (\$24.3 million in 1999-2000);
- ◆ continued improvements to the water distribution systems to reduce the number of water service interruptions experienced by customers at a cost of \$524.5 million (\$23.4 million in 1999-2000);
- ◆ continued improvements to sewerage systems to reduce the number of discharges onto private properties caused by sewer blockages, at a total cost of \$216 million until 2007-2008 ( \$27.6 million in 1999-2000);

- ◆ remedial works at Potts Hill Reservoir to protect the water from air pollution, improve operations and protect site heritage at a total cost of \$31.5 million (\$12.7 million in 1999-2000);
- ◆ the continued upgrade of sewage treatment plants discharging into the Hawkesbury/Nepean River systems at a total cost of \$231 million to 2007-2008 (\$14.7 million in 1999-2000); and
- ◆ continued upgrade of the ocean sewage treatment plants at a total cost of \$583 million (\$28.7 million in 1999-2000).

The water and sewerage program also includes the Sydney Catchment Authority that commenced operations in 1998-99. The Catchment Authority's capital investment program is expected to total \$40.8 million in 1999-2000. The main features are:

- ◆ continuing construction of the auxiliary spillway at Warragamba Dam to ensure dam safety, at a total project cost of \$150 million (\$36 million in 1999-2000); and
- ◆ renewals of dams, pipelines and other catchment infrastructure at an estimated cost to 2008-2009 of \$73.4 million (\$1.8 million in 1999-2000).

Hunter Water Corporation's capital investment totals \$59.6 million in 1999-2000. Major capital works expenditures in 1999-2000 include:

- ◆ amplification of Morpeth wastewater treatment works (\$12.8 million);
- ◆ augmentation of the Raymond Terrace waste water treatment works (\$8 million);
- ◆ Hunter Sewerage Project (\$6 million);
- ◆ construction of a reservoir at South Wallsend (\$3.9 million);
- ◆ roofing for a number of reservoirs (\$3.9 million);
- ◆ the Bolwarra to Farley wastewater transfer system (\$2 million); and
- ◆ the second stage of the Grahamstown bridge and spillway construction (\$1.9 million).

## Transport

The Transport Portfolio asset acquisition program aims to further expand the public transport infrastructure and rolling stock in line with the Government's timetable outlined in *Action for Transport 2010*. This program will enable the Government to meet the transport needs of New South Wales into the next century and ensure a safe, efficient, accessible transport system reducing car dependency and improving our environment.

As committed in Action for Transport 2010, an average of \$300 million per annum will be allocated to rail infrastructure and rolling stock development over the next ten years.

The program comprises two components: non-commercial program (State Rail Authority, Rail Access Corporation) and commercial program (Rail Services Australia, Freight Rail Corporation, Rail Access Corporation and the State Transit Authority).

The total 1999-2000 non-commercial asset acquisition program for the transport sector is estimated at \$346 million. Program features are:

- ◆ CityRail will continue its security upgrade of all 301 stations across their network, with \$50 million to be allocated in 1999-2000. This will involve the installation of closed circuit television, high intensity security lighting, an upgrade of public announcement facilities and an emergency help point at every CityRail station and car park;
- ◆ Millennium Train Project. This project involves the acquisition of new suburban rail cars currently under construction. An amount of \$4 million is allocated in 1999-2000 to cover further work on the project, with first of the 81 new cars due to be operating on the rail network by 2000;
- ◆ a total of \$70 million is allocated in 1999-2000 for the completion of the Airport Line (New Southern Railway) and the East Hills Line amplification work stage one. This project will cut trip times from Sydney Central to the Airport to just nine minutes and allow improved services between Campbelltown and the Sydney CBD.
- ◆ a further \$16 million is provided in 1999-2000 for construction work on the second stage of the amplification work on the East Hills Line between Turrella and Kingsgrove;
- ◆ the commencement of the \$45 million Kiama to Dapto electrification project to be completed by 2002; and

- ◆ \$26 million for the beginning of construction work on the Parramatta Rail Link between Parramatta and Chatswood via Epping. The 28 kilometre rail line will have a total estimated cost of \$1.4 billion and be in operation by 2006.

The State Transit Authority plans to invest \$92 million on capital projects during 1999-2000. Major projects during the year include:

- ◆ the delivery of 154 new buses at a cost of \$54 million in 1999-2000. These buses will provide enhanced passenger comfort and safety and will feature an ultra low floor to provide easy access for all people in the community. 100 of these buses are part of the contract for 150 buses that will run on Compressed Natural Gas, reducing their impact on the environment;
- ◆ expenditure of \$12 million in 1999-2000 in connection with the purchase of new SuperCat ferries and the refit of the Manly ferries; and
- ◆ installation of video surveillance on buses and on ferry wharves, with expenditure of \$5 million in 1999-2000.

## **Housing Assistance Program**

The capital component of the housing assistance program is administered by the Department of Housing (which includes Public Housing Services, the Office of Community Housing, and the Home Purchase Assistance Authority).

Features of the \$393 million Department of Housing capital expenditure in 1999-2000 include:

- ◆ commencement of 597 units of general public housing and 584 units of general community housing;
- ◆ 80 percent of the general program to be achieved through redevelopment of existing sites;
- ◆ \$174 million allocated to the upgrading of existing general public and community housing stock and crisis accommodation, and to improvement programs on large public housing estates;
- ◆ commencement of 77 units of crisis accommodation; and
- ◆ commencement of 16 units of accommodation to meet the complex needs of disabled people inappropriately housed in private licensed boarding houses.

Additional housing is provided outside the Housing Assistance Program, through City West Housing Pty Limited. In 1999-2000, City West Housing will commence projects which will lead to an additional 15 units in the Pymont Ultimo area.

In addition, City West Housing has received grant funding to expand its role into the Green Square area. In 1999-2000, City West Housing will purchase land to enable the construction of up to 20 units of affordable accommodation using funds provided by the Rental Bond Board.

## **State Forests of NSW**

State Forests' asset acquisition program for 1999-2000 involves outlays of almost \$60 million. This investment will allow State Forests to continue to contribute to the development of an ecologically sustainable and internationally competitive New South Wales timber industry.

The establishment of hardwood and softwood timber plantations plays a key role in the development of the timber industry. State Forests is planning outlays of \$36 million on the purchase of land and the expansion of its hardwood and softwood plantations in 1999-2000.

A further \$11 million is programmed to be expended on the purchase of plant and equipment.

## **Waste Service**

Waste Service's capital expenditure for 1999-2000 totals \$23 million. The key features are:

- ◆ \$9 million to be spent on upgrades to transfer stations, including \$8 million to be spent over two years, to improve container packing facilities at Artarmon and Ryde transfer stations;
- ◆ over \$10 million to be spent at waste management centres on stormwater and leachate management infrastructure as well as on the development of greenwaste and recycling facilities; and
- ◆ around \$2 million to be spent on the Liquid Waste Plant at Lidcombe on the residue processing plant and odour control systems.

## **CHAPTER 3 ASSET ACQUISITION PROJECTS**

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### **3.1 INTRODUCTION**

This chapter focuses on major asset acquisition and maintenance projects to be undertaken by individual General Government agencies and Public Trading Enterprises.

For the purpose of this chapter, a major project is any specific project with an estimated total cost of \$250,000 or more. Major works are further subdivided into new works (projects which have been approved to commence in 1999-2000) and works-in-progress (projects which were commenced in earlier years but have not yet been completed). In addition an aggregate allocation for minor miscellaneous works (those with an estimated total cost of less than \$250,000) is shown for each agency.

As with any plan, circumstances and priorities may change in the course of its implementation. In relation to Budget-dependent General Government agencies (ie those funded directly from the Budget), Ministers have authority to vary project allocations provided they observe authorisation limits constraints (expenditure limits for the current and future financial years). Hence, the allocations shown against individual projects may alter during the course of the financial year.

Allocations earmarked for minor miscellaneous works are utilised for such purposes as the purchase of minor plant and equipment, annual provisions for replacements and land acquisitions, and the provision of capital services, including compensation for coal rights.

The program embraces a large number of individual projects ranging from the acquisition of minor plant and equipment, through to provision of electricity generation and distribution, roads, rail, ports, hospitals, education and other facilities. The sheer volume of projects being undertaken precludes a detailed listing of all projects.

Separate indexes are provided for the General Government and Public Trading Enterprise capital projects at the beginning of Sections 3.2 and 3.3, respectively.

In view of the competitive nature of the Freight Rail Corporation, Rail Services Australia and the Electricity Sector, information on individual capital projects for these agencies is regarded as commercial-in-confidence and is not provided in this paper. Aggregate total expenditure for these agencies is, however, included under the Competitive Government section of the Public Trading Enterprise Sector Asset Acquisition Program.