

2.1 GENERAL GOVERNMENT SECTOR OPERATING STATEMENT 2001-02 BUDGET AND FORWARD ESTIMATES

2001-02 BUDGET

The Budget result for the year 2001-02 is expected to be \$368 million. (see Table 2.2).

Revenue

Total revenue, excluding capital repatriations from the re-gearing of the electricity sector, is estimated to rise by 1.2 percent in 2001-02. Full details of revenue estimates are provided in Chapter 3.

Taxation revenue is expected to fall by 7.0 percent in 2001-02 due to:

- ◆ the continuation and expansion of the tax reduction program started in the 1999-2000 Budget, at a cost of \$963 million in 2001-02, up from \$600 million in 2000-01; and
- ◆ the separate abolition of Financial Institutions Duty which is estimated to raise \$634 million in 2000-01 and Marketable Securities Duty on listed securities estimated to raise around \$470 million in 2000-01, as provided by the Intergovernmental Agreement (IGA) on the Reform of Commonwealth-State Financial Relations.

Commonwealth Grants are expected to increase by 11.1 percent, largely to compensate for the taxes abolished under the IGA.

Financial distributions are expected to fall by \$148 million, due mainly to reduced dividends from the rail sector and property and resource sector.

Investment income is expected to fall by \$52 million. Reductions in interest rates during 2000-01 resulted in strong gains in bond portfolios, which are unlikely to be repeated in 2001-02.

Grants and Contributions revenue is expected to decline by \$181 million compared to 2000-01 when grants totalling \$173 million and other revenue totalling \$127 million were received in connection with the 2000 Olympic Games.

Table 2.2: General Government Sector Operating Statement

	1999-2000 Actual	2000-01 Budget	2000-01 Revised	2001-02 Budget	2002-03	2003-04 Estimate	2004-05
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
State Revenues							
Taxation	15,185	12,412	12,989	12,084	12,275	12,855	13,465
Commonwealth Grants	9,460	12,780	12,972	14,413	14,792	14,980	15,447
Capital Repatriations	...	2,400	3,203	...	...	77	115
Financial Distributions	1,299	1,210	1,277	1,129	1,236	1,479	1,661
Fines, Regulatory Fees & Other	876	792	888	861	864	885	947
Total State Revenues	26,820	29,594	31,329	28,487	29,167	30,276	31,635
Operating Revenues							
Sale of Goods and Services	2,583	2,171	2,279	2,323	2,394	2,426	2,474
Investment Income	492	391	509	457	475	477	536
Grants and Contributions	422	421	506	325	299	314	314
Equity Investment Received	...	...	...	328	...	...	...
Other	342	298	357	250	260	260	268
Total Operating Revenues	3,839	3,281	3,651	3,683	3,428	3,477	3,592
Expenses							
Employee Related							
- Superannuation Valuation	(2,713)	...	1,289	(25)	72	65	46
- Superannuation Other	1,540	1,540	1,646	1,766	1,870	1,946	2,006
- Other	12,022	12,157	12,384	12,583	13,200	13,815	14,257
Other Operating	6,235	6,765	7,117	6,788	6,948	7,247	7,597
Maintenance	1,144	1,120	1,159	1,160	1,186	1,195	1,240
Depreciation and Amortisation	1,411	995	1,443	1,493	1,528	1,569	1,624
Current Grants and Subsidies	4,086	4,060	5,011	4,647	4,644	4,698	4,768
Capital Grants	970	1,252	1,476	1,399	1,433	1,537	1,462
Finance Valuations	141	278	903	6	30	11	...
Finance Other	1,309	1,009	996	879	823	758	728
Total Expenses	26,145	29,176	33,424	30,696	31,734	32,841	33,728
Gain/(Loss) on Disposal of Non-Current Assets	(43)	(14)	19	(20)	34	4	6
Net Cost of Services	(22,349)	(25,909)	(29,754)	(27,033)	(28,272)	(29,360)	(30,130)
Operating Surplus	4,471	3,685	1,575	1,454	895	916	1,505
Valuation Item Adjustments under GFS	(2,432)	(1,888)	(587)	(254)	69	7	(63)
Less: Capital Expenditure	2,546	2,540	2,456	2,596	2,534	2,530	2,642
Plus: Depreciation	1,411	995	1,443	1,493	1,528	1,569	1,624
Asset Sales & Other	397	407	246	271	376	209	215
BUDGET RESULT (GFS BASIS)	1,301	659	221	368	334	171	639

Expenses

The Budget result is affected by expenses within the ordinary operations of Government. Other expenses, such as valuation changes to superannuation are excluded from the result and are discussed later in this chapter. In 2001-02 expenses are estimated at \$1,766 million or 6.1 percent higher than the 2000-01 Budget estimate. Once expenses incurred after the 2000-01 Budget are taken into account, such as the cost of the HIH collapse, expenses affecting the Budget result in 2001-02 are expected to decline by \$54 million or 0.2 percent.

Health expenses are expected to be \$310 million, or 4.4 percent, above the 2000-01 Budget. The increase is due to additional funding provided to meet growth in demand and related service delivery and workforce needs. This growth funding will support implementation of the Government Action Plan for Health, providing significant improvements in the quality and effectiveness of health services across the State's public hospital system.

Education and Training expenses are expected to be \$292 million or 4.9 percent higher than the 2000-01 Budget. This reflects additional funds directed to the Government school system, particularly in school maintenance and the schools' computer network. In addition, payments to the non-Government schools sector have risen due to higher than anticipated enrolment growth.

Funding has been provided for a number of initiatives. These include:

- ◆ the staged introduction of expanded internet services for students and teachers in Government schools and TAFE creating new communication methods for students, teachers and parents;
- ◆ introduction of Computing Skills Assessment testing for both Year 6 and Year 10 students;
- ◆ additional funding for targeted student welfare programs;
- ◆ a major review of the school syllabus for students in Years 7-10; and
- ◆ additional funding for building maintenance in both schools and TAFE.

In 2000-01 the Government provided additional funding for **Transport** as part of the Rail Improvement Package. Additional funds were provided to the State Rail Authority for more intensive rolling stock maintenance, additional training and staffing and more comprehensive train cleaning. Rail Infrastructure Corporation also received funds for improved track maintenance and replacement of assets. As a result funding in 2001-02 for the Transport portfolio is 16.4 percent higher than the 2000-01 Budget.

The combined expenses of the **Department of Community Services** and the **Department of Ageing and Disability and Home Care** are \$197 million or 15.4 percent higher than the 2000-01 Budget. This includes additional funds for Disability Services for prevention and support, respite and in-home support services; funding for the relocation of high needs residents from boarding houses, increased assistance under the Commonwealth-State Disability Agreement; growth in foster care; Families First initiatives; additional child protection caseworkers and asset maintenance expenses.

Expenses of the **Department of Information Technology and Management (DITM)** are expected to increase by \$61 million or 100 percent on the 2000-01 Budget. The major reason for the increase is the additional expenses as a result of the anticipated return of a Commonwealth contribution to the Forest Industry Restructure Package (\$35 million). However, there is no net affect on the Budget result as matching revenue will be received from the Commonwealth. The other major new initiative for DITM is \$8 million allocated for online business licensing.

Expenses of the **Department of Corrective Services** are expected to increase by \$31 million or 6.9 percent on the 2000-01 Budget. Additional funding had been provided for expansion of correctional bed capacity to cope with an increase in inmate numbers. Funds have also been provided for an upgrade in training, court security and regional inmate transport.

Rural Fire Service expenses are expected to increase by \$23 million or 25.8 percent on the 2000-01 Budget. Additional funding has been provided to allow for the transfer of the district fire control staff to the Service from 1 July 2001. Additional funds have also been directed to the tanker replacement program.

The above estimated increases in expenses have been offset by a reduction to Operating Expenses following the finalisation of Olympic related costs in 2000-01. A further discussion of expenses is contained on a policy area basis in Chapter 4, and on an agency basis in Budget Paper No. 3.

A number of other financial initiatives of the Government in the current and Budget years have no direct impact on the Budget Result. However, they are included in the Operating Statement and affect General Government Net Financial Liabilities.

In 2000-01, \$2.5 billion in net capital repatriations were received as a result of the debt re-gearing of the electricity sector.

A capital restructure of entities within this sector was undertaken to raise debt levels closer to those of equivalent private sector firms. This action was necessary to ensure that these businesses face the same commercial disciplines as private sector firms.

The proceeds of the increased debt were returned to the General Government sector and applied in reducing General Government debt. Through paying off high coupon loans, ongoing savings in interest costs have been maximised and, although there will be a reduction in dividends paid by the relevant electricity entities, an overall benefit has been captured for future Budgets.

In 2001-02 the Commonwealth, New South Wales and Victorian Governments agreed to corporatise the Snowy Mountains Hydro Electricity Scheme in order to improve its economic efficiency in the new national electricity market. As a result, an initial share in the scheme amounting to \$328 million has been recognised in the financial statements. However, this amount is classed as a valuation gain and does not affect the Budget result.

A triennial revaluation of superannuation liabilities and the reassessment of the projected investment returns of the Pooled Superannuation Fund resulted in a \$1,289 million increase in the estimated level of unfunded superannuation liability as at 30 June 2001. The reassessment is treated as a valuation loss and excluded from the Budget result.

In 2000-01 \$200 million in debt was transferred from the Department of Housing to the General Government sector enabling the Department to benefit from lower interest costs. The assumption of debt is treated as a valuation adjustment and is excluded from the Budget result.

Capital Expenditure

Capital expenditure is expected to increase by \$140 million to \$2,596 million in 2001-02. This amount includes \$952 million for Roads, \$529 million for Health, \$358 million for Education and Training, \$86 million for Corrective Services and \$66 million for the Police Service.

FORWARD ESTIMATES

Revenue

Total revenue is estimated to rise by an average 3 percent per annum over the forward years. These increases are below the projected nominal rate of growth in Gross State Product (GSP).

Taxation revenue is expected to increase by an average 3.7 percent per annum. Commonwealth Grants are projected to increase by an average 2.3 percent per annum. Details of these trends are contained in Chapter 3.

The average estimated annual increase in Financial Distributions is 11.6 percent. Financial distributions in the electricity sector are expected to increase significantly due to ongoing growth in electricity usage, firm energy generation prices and increased earnings from particular businesses.

Expenses

Superannuation expenses are expected to increase by 11.5 percent in 2002-03, as the Superannuation Guarantee contributions to accumulation schemes increase from 8 percent to 9 percent, effective 1 July 2002. The cost of superannuation in 2003-04 and 2004-05 will increase by an average of 2.7 percent, in line with the movement in salaries.

Other employee related expenses are expected to increase by an average of 4.3 percent per annum over the Forward Estimates period. The costs of the Department of Health and the Department of Education and Training constitute about 66 percent of other employee related expenses. The average annual increase for these agencies is 4.7 percent.

Within Health, the Government has continued its commitment to provide a guaranteed level of growth funding within a three-year recurrent Health budget, enabling clinicians and managers to plan for growth in demand and related service delivery and workforce needs.

Grants are expected to increase by an average of \$60 million per annum during the forward estimates period. In 2000-01, the Transport sector received \$295 million more than was originally budgeted. Transport funding is still expected to increase by an average of \$74 million per annum over the forward years, primarily due to the Government's ongoing commitment to the Rail improvement package and the continuation of *Action for Transport 2010* projects.

Finance expenses will fall significantly over the forward estimates period as debt levels are reduced from continuing cash surpluses and the application of capital repatriation revenue to retire debt.

Capital Expenditure

Capital expenditure is expected to total \$10,302 million in the four years to 30 June 2005. When added to the capital program in the PTE sector over the same period, it constitutes a Total State Sector Asset Acquisition program of over \$22,000 million, an increase of \$3,019 million compared to the previous four-year period.

2.2 GENERAL GOVERNMENT SECTOR STATEMENT OF FINANCIAL POSITION

2000-01 RESULT

The estimated General Government Sector Net Worth as at 30th June 2001 is \$89,552 million (Table 2.3). This is \$1,535 million higher than the 2000-01 Budget estimate of \$88,017 million. This increase is principally due to the following factors:

- ◆ An additional \$2,873 million in Net Worth as at the 30th June 2000 compared to the revised estimate included in the 2000-01 Budget estimate. This increase resulted from the end of year revaluation of assets within the Department of Housing, reflected in PTE equity in the Balance Sheet, along with a reduction in the unfunded superannuation liabilities due to improved returns on fund assets. This was partially offset by increased provisions for depreciation within the RTA as a result of a revised accounting treatment.
- ◆ Asset revaluations in the Public Trading Enterprise sector totalling \$823 million in 2000-01.
- ◆ An unfavourable movement in Net Worth in the current year estimated at \$1,395 million due principally to the re-valuation of unfunded superannuation liabilities and the recognition of an estimated \$600 million liability relating to the collapse of HIH Insurance Limited.

2001-02 BUDGET

The Net Worth for the General Government Sector as at 30 June 2002 is expected to be \$92,192 million (Table 2.3). This includes investments in Public Trading and Financial Enterprises valued at \$47,750 million. The Net Worth of the General Government Sector is expected to increase by \$2,640 million during the Budget year.

The increase in Net Worth is due primarily to the General Government Operating Surplus of \$1,454 million, the net \$334 million operating surplus in the PTE sector and PFE sector and asset revaluation increments in those sectors amounting to \$823 million.

Land and Fixed Assets are expected to rise by \$813 million. This reflects the net investment being made in fixed assets after allowing for depreciation and asset sales.

Net Financial Liabilities, which excludes Land and Fixed Assets, are expected to fall by \$537 million in 2001-02. The largest contributors to this reduction are the Budget surplus and the revenue from the initial recognition of equity in Snowy Hydro Limited.

Borrowings are projected to fall by \$1,461 million while unfunded superannuation liabilities will increase by \$1,127 million. These variations are essentially due to the three year superannuation contribution holiday that ends on 30 June 2002. The contribution holiday followed the prepayment of \$3,261 million of additional contributions on 30 June 1999 (further details of this transaction are in Chapter 5).

Forward years

Land and Fixed Assets should rise by an average of \$769 million per annum over the Forward Estimates period. This is consistent with the Government's asset acquisition program which will result in capital expenditure exceeding depreciation by almost \$1 billion per annum, while asset sales will average \$267 million per annum.

Net Financial Liabilities are projected to decline by nearly \$700 million, and Net Debt by nearly \$1,350 million over the period from 30 June 2002 to 30 June 2005.

Table 2.3: General Government Sector Statement of Financial Position 2000-05, as at 30 June (GFS Basis)

	1999-2000 <i>Actual</i>	2000-01 <i>Budget</i>	2000-01 <i>Revised</i>	2001-02 <i>Budget</i>	2002-03	2003-04 <i>Estimate</i>	2004-05
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
ASSETS							
Financial Assets							
Cash and Deposits	418	87	573	360	180	113	83
Advances Paid	1,693	1,622	1,409	1,353	1,304	1,254	1,219
Investments, Loans and Placements	3,860	3,581	3,978	3,915	4,139	3,940	4,293
Other Non-Equity Assets	3,698	3,192	3,581	3,629	3,855	4,205	4,551
PTE/PFE Equity	46,475	43,137	46,576	47,750	47,750	47,750	47,750
Other Equity Assets	121	113	66	415	415	415	415
Total Financial Assets	56,265	51,732	56,183	57,422	57,643	57,677	58,311
Non-Financial Assets							
Land and Fixed Assets	64,230	66,521	64,604	65,417	66,130	66,905	67,725
Other Non-Financial Assets	754	849	854	969	1,083	1,204	1,330
Total Non-Financial Assets	64,984	67,370	65,458	66,386	67,213	68,109	69,055
TOTAL ASSETS	121,249	119,102	121,641	123,808	124,856	125,786	127,366
LIABILITIES							
Deposits Held	90	55	71	53	52	43	44
Advances Received	2,142	2,082	2,060	1,852	1,809	1,699	1,655
Borrowing	14,961	11,587	11,360	9,899	9,572	9,163	8,724
Provisions	13,125	14,825	16,144	17,472	18,004	18,574	19,138
Other Non-Equity Liabilities	2,862	2,536	2,454	2,340	2,320	2,280	2,271
TOTAL LIABILITIES	33,180	31,085	32,089	31,616	31,757	31,759	31,832
NET WORTH	88,069	88,017	89,552	92,192	93,099	94,027	95,534
Net Debt	11,222	8,434	7,531	6,176	5,809	5,598	4,828
Underlying Net Debt**	8,971	7,255	6,352	6,176	5,808	5,598	4,828
- as a % of GSP	4.0	3.0	2.7	2.4	2.2	2.0	1.6
Net Financial Liabilities*	23,390	22,490	22,481	21,944	21,864	21,832	21,272
- as a % of GSP	10.4	9.3	9.4	8.7	8.2	7.7	7.1

* Excluding PTE/PFE equity.

** adjusted for prepayment of superannuation contributions in June 1999.

2.3 GENERAL GOVERNMENT SECTOR STATEMENT OF CASH FLOWS

Table 2.4 shows the net cash flows of the General Government sector from operating, investing and financing activities.

Net Cash Flows from Operating Activities will move broadly in line with the Operating and Balance Sheet results. Net Cash Flows in 2000-01 are \$232 million better than Budget as the increase in receipts more than offsets the increase in payments in the key service delivery areas.

Net Cash Flows for Investments in Non-Financial Assets in 2000-01 are \$141 million below budget. The main factor in this result is the deferral of some asset sales to 2001-02 and 2002-03.

The cash surplus is expected to be \$484 million in 2000-01, \$91 million more than the Budget time estimate, and \$321 million in 2001-02. Cumulative surpluses of \$1,312 million at an average of approximately \$330 million per annum are expected to occur over the Budget and forward estimates period.

Table 2.5 shows GFS cash results from 1990-91 to 2004-05.

Table 2.4: General Government Sector Statement of Cash Flows (GFS Basis)

	1999-2000 Actual	2000-01 Budget	2000-01 Revised	2001-02 Budget	2002-03	2003-04 Estimate	2004-05
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Cash Receipts from Operating Activities							
Taxes Received	15,195	12,465	13,048	12,095	12,295	12,868	13,482
Receipts from sales of goods & services	2,819	2,545	2,653	2,460	2,545	2,588	2,688
Grants/Subsidies Received	9,610	12,926	13,181	14,515	14,863	15,047	15,521
Other Receipts*	2,815	2,822	3,262	3,117	3,058	3,192	3,442
Total Cash Receipts from Operating Activities	30,439	30,758	32,144	32,187	32,761	33,695	35,133
Cash Payments from Operating Activities							
Payments for goods & services*	(22,182)	(22,574)	(22,800)	(22,840)	(23,556)	(24,572)	(25,529)
Grants & Subsidies Paid	(3,898)	(4,067)	(4,572)	(4,854)	(4,835)	(4,911)	(4,815)
Interest Paid*	(1,103)	(858)	(953)	(829)	(875)	(857)	(727)
Other Payments	(248)	(734)	(1,062)	(975)	(963)	(963)	(975)
Total Cash Payments from Operating Activities	(27,431)	(28,233)	(29,387)	(29,498)	(30,229)	(31,303)	(32,046)
Net Cash Flows from Operating Activities	3,008	2,525	2,757	2,689	2,532	2,392	3,087
Cash Flows from Investments in Non-Financial Assets							
Purchases of New Non-Financial Assets	(2,546)	(2,540)	(2,455)	(2,596)	(2,534)	(2,530)	(2,642)
Sale of Non-Financial Assets	405	408	182	228	333	173	180
Total Cash Flows from Investments in Non-Financial Assets	(2,141)	(2,132)	(2,273)	(2,368)	(2,201)	(2,357)	(2,462)
Cash Flows from Investments in Financial Assets							
Financial Assets for Policy Purposes	(64)	2,342	3,230	11	48	132	157
Financial Assets for Liquidity Purposes	(257)	6	(191)	61	(222)	203	(347)
Cash Flows from Financing Activities							
Advances Received (net)	(132)	(67)	(76)	(223)	(44)	(106)	(43)
Borrowing (net)*	(1,982)	(3,825)	(4,294)	(1,500)	(296)	(324)	(429)
Deposits Received (net)	27	(1)	(16)	(21)	(1)	(9)	(1)
Total Cash Flows from Financing Activities	(2,087)	(3,893)	(4,386)	(1,744)	(341)	(439)	(473)
Net Increase/(Decrease) in Cash held	(1,541)	(1,152)	(863)	(1,351)	(184)	(69)	(38)
Net Cash from Operating Activities Investments in Non-Financial Assets and Distributions Paid	867	393	484	321	331	35	625
Assets acquired under finance leases	...	...	...	...	...	...	...
Surplus/(Deficit)*	867	393	484	321	331	35	625

* Note: Adjusted for prepayment of superannuation.