

Table 2.5: General Government Results - Cash

Year	Current			Capital			Cash Flows from Operating Activities			Capital Expenditure \$m	Asset Sales & Other \$m	Surplus/ (Deficit) \$m
	Outlays \$m	Receipts \$m	Result \$m	Outlays** \$m	Receipts \$m	Result \$m	Payments \$m	Receipts \$m	Result \$m			
1990-91	14,773	15,245	472	2,921	1,226	(1,695)						(1,223)
1991-92	16,060	16,101	41	2,692	1,047	(1,645)						(1,604)
1992-93	16,748	16,749	1	2,892	1,776	(1,116)						(1,115)
1993-94	17,069	18,178	1,109	3,315	1,310	(2,005)						(896)
1994-95	17,819	19,122	1,303	2,941	1,048	(1,893)						(590)
1995-96	18,325	20,417	2,092	3,175	936	(2,239)						(147)
1996-97	19,717	22,100	2,383	3,316	1,086	(2,230)						153
1997-98							24,667	26,830	2,163	(2,460)	345	48
1998-99*							26,011	28,580	2,569	(2,481)	509	597
1999-2000*							27,431	30,439	3,008	(2,546)	405	867
2000-01*							29,387	32,144	2,757	(2,455)	182	484
2001-02*							29,498	32,187	2,689	(2,596)	228	321
2002-03							30,229	32,761	2,532	(2,534)	333	331
2003-04							31,303	33,695	2,392	(2,530)	173	35
2004-05							32,046	35,133	3,087	(2,642)	180	625

* Adjusted for prepayment of superannuation – Actual operating payments were \$3,266 million higher than the figure stated in the table above in 1998-99 and \$1,005 million lower in 1999-2000. Actual payments are projected to be \$1,058 million lower than stated in 2000-01 and \$1,134 million lower in 2001-02. The unadjusted results would be a deficit of \$2,669 million in 1998-99, and surpluses of \$1,872 million in 1999-2000, \$1,542 million in 2000-01 and \$1,455 million in 2001-02.

** Outlays equals capital direct expenses and capital grants. Under new GFS reporting, capital grants are treated as expenses and therefore included in payments.

2.4 GENERAL GOVERNMENT SECTOR OPERATING STATEMENT 2000-01 BUDGET AND REVISED ESTIMATES

The revised Budget result for 2000-01 is a surplus of \$221 million (see Table 2.6). Prior to the assumption of liabilities following the collapse of HHH Insurance, a Budget Surplus of \$821 million was expected.

Revenue

Total State Revenues are expected to be \$28,126 million, (excluding the impact of the previously mentioned electricity re-gearing). This exceeds the Budget estimate by \$932 million. Full details are provided in Chapter 3.

Taxation revenue is expected to exceed the Budget estimate by \$577 million or 4.6 percent. Most of this variation is due to Stamp duties, which are expected to exceed budget by \$505 million. Payroll tax revenue of \$3,976 million will marginally exceed budget by \$45 million.

Commonwealth grants are expected to exceed the Budget estimate by \$192 million. Grants to meet the cost of the First Home Buyers' scheme and the administration cost incurred by the Australian Tax Office to administer GST account for \$140 million of the increase in Commonwealth payments, while Specific Purpose Payments for Health, Education and the Disabled are all up on budget.

Financial Distributions exceeded the Budget Estimate by \$67 million principally due to increased dividends and tax equivalent revenues from the energy sector.

Operating Revenues are expected to be \$3,651 million for 2000-01. This exceeds the Budget estimate by \$370 million. Full details are provided in Chapter 3.

Revenues from the Sale of goods and services are expected to exceed the Budget estimate by \$108 million. Hospital fees and charges are expected to be \$52 million higher than Budget, partly due to more patients electing to be treated as chargeable patients. The Department of Veterans' Affairs has contributed an additional \$20 million to Health revenues while the Roads and Traffic Authority generated an additional \$24 million from work performed for external parties.

Investment revenue is expected to exceed the Budget estimate by \$118 million. Most of this increase relates to the bond portfolio held by the New South Wales Insurance Ministerial Corporation. Reductions in interest rates led to increases in the capital value of the portfolio.

Grants and Contributions revenue are expected to exceed the budget estimate by \$85 million. The Sydney Olympic Committee for the Olympic Games and Sydney Paralympic Organising Committee, which were outside the General Government sector, provided an additional \$40 million to the Olympic Roads and Transport Authority (ORTA) and the Olympic Co-ordination Authority (OCA). The Department of Transport also received unbudgeted grants amounting to \$16 million, from Public Trading Enterprises, for the purpose of funding the Integrated Transport Information Service.

Expenses

Part of the increased revenue has been utilised to provide grants to the Transport sector and meet costs incurred in the key service delivery areas of Health, Education, Law and Order and Community Services. The Government's initiative on HIH, as noted, has also increased expenses. Details of variations in estimated expenses are contained in Appendix D. Major variations in expenses that affect the Budget result are briefly described below:

Transport expenses are expected to be higher than the Budget estimate by \$322 million primarily due to additional funding for the Rail Improvement Package, including extra rail carriage and track maintenance, and further grants to Rail Infrastructure Corporation to upgrade rail infrastructure. Additional funds have also been provided for improving the State Rail Authority's operational performance and meeting shortfalls in budgeted revenue.

Education expenses are expected to exceed the Budget estimate by \$171 million or 2.8 percent. Additional costs were incurred for salary adjustments under the May 2000 teachers' salary increase, which was unresolved at the time the 2000-01 Budget was brought down. Other increases include the career change scheme for school teachers, additional operating costs for the Department's technology network, per capita grants to non-Government schools and additional costs for Commonwealth funding programs (offset by Commonwealth grants).

ORTA and OCA expenses are expected to exceed the Budget estimate by \$127 million. Additional expenses were incurred in relation to the Olympic allowance payments, transport costs, payment to the Commonwealth (Paralympic Games), depreciation and urban domain costs. Most of these expenses were met from unbudgeted revenues of these agencies (as detailed above).

Health operating expenses of \$7,070 million are projected to be \$51 million or 0.7 percent greater than the Budget estimate. The major reason for this variation is that certain cash flows that were originally categorised as asset acquisitions have now been reclassified to expenses.

Expenses of the **Welfare** sector are expected to be higher than the Budget estimate by \$101 million, partly due to additional costs associated with disability services, expenses previously capitalised and grants carried over from 1999-2000.

Police Service expenses are expected to be higher than the Budget estimate by \$28 million or 2.1 percent. This primarily consists of \$17 million for the recent Police salary settlement and \$11 million in additional depreciation.

First Home Owners' grants are expected to exceed the Budget estimate by \$78 million. **Reimbursements to the Australian Tax Office** for the costs of administering the GST are expected to exceed budget by \$61 million. These additional expenses are offset by a matching increase in Commonwealth grants.

As noted earlier a number of events have occurred in 2000-01 that are outside the normal operations of Government and are excluded from the Budget result as valuation adjustments under ABS guidelines. However these items are included in the Operating Result and impact Net Financial Liabilities.

Superannuation expenses are expected to exceed the Budget estimate by \$1,395 million as a result of the new assumptions about benefit payments adopted in the triennial actuarial review, and revisions to the expected investment earning rate for 2000-01.

The **Roads and Traffic Authority (RTA)** expense for depreciation on roads is expected to exceed the Budget estimate by \$435 million. The increased expense reflects a change in the relevant accounting treatment. Prior to 1999-2000 the RTA used a condition based methodology to assess depreciation. In accordance with the Urgent Issues Group Abstract 30, this method has been discontinued and replaced with a straight line depreciation method. This is in accordance with Australian Accounting Standards.

Finance valuation expenses are projected to be \$625 million higher than the Budget estimate. This consists primarily of costs associated with the electricity sector re-gearing and the acceptance of debt from the Department of Housing, as mentioned earlier.

**Table 2.6: General Government Sector 2000-01
Operating Statement - Estimated Result**

	2000-01		
	Budget	Revised \$m	Variation \$m
State Revenues			
Taxation	12,412	12,989	577
Commonwealth Grants	12,780	12,972	192
Capital Repatriations	2,400	3,203	803
Financial Distributions	1,210	1,277	67
Fines, Regulatory Fees & Other	792	888	96
Total State Revenues	29,594	31,329	1,735
Operating Revenues			
Sale of Goods and Services	2,171	2,279	108
Investment Income	391	509	118
Grants and Contributions	421	506	85
Other	298	357	59
Total Operating Revenues	3,281	3,651	370
Expenses			
Employee Related - Superannuation Valuation	...	1,289	1,289
- Superannuation Other	1,540	1,646	106
- Other	12,157	12,384	227
Other Operating	6,765	7,117	352
Maintenance	1,120	1,159	39
Depreciation and Amortisation	995	1,443	448
Current Grants and Subsidies	4,060	5,011	951
Capital Grants	1,252	1,476	224
Finance valuations	278	903	625
Finance other	1,009	996	(13)
Total Expenses	29,176	33,424	4,248
Gain/(Loss) on Sale of Non-Current Assets	(14)	19	33
Net Cost of Services	(25,909)	(29,754)	(3,845)
Operating Surplus	3,685	1,575	(2,110)
Valuation Items Adjustments under GFS	(1,888)	(587)	1,301
Less Capital Expenditure	2,540	2,456	(84)
Plus Depreciation	995	1,443	448
Asset Sales	407	246	(161)
BUDGET RESULT (GFS BASIS)	659	221	(438)

2.5 STATEMENT OF GOVERNMENT FINANCE STATISTICS AND ACCOUNTING PRINCIPLES AND POLICIES

BUDGET RESULTS

FINANCIAL STATEMENTS

The NSW Budget Papers present three Budget financial statements that comply with the accrual based Government Financial Statistics (GFS) principles recently developed by the Australian Bureau of Statistics. This Chapter summarises key information from the three statements:

- ◆ Budget Operating Statement
- ◆ Statement of Financial Position
- ◆ Statement of Cash Flows.

In addition, accrual GFS statements complying with the Uniform Presentation Framework are contained in Chapter 9, and statements complying with Australian Accounting Standards are contained in Appendix A.

Some presentational changes have been made to the Budget Operating Statement. However, the classification of transactions is consistent with the 2000-01 Budget Papers.

Budget Operating Statement

The Budget Papers include a Budget Operating Statement that combines an accrual accounting presentation and certain disclosures under the new GFS accrual format.

The Budget result (GFS Basis) in the Budget Operating Statement is the key indicator of change in the State's financial position. It represents the balance available to reduce General Government Sector net liabilities. Consequently, the Budget result broadly approximates the movement in Net Financial Liabilities, underscoring the Government's focus on balance sheet management.

The Budget Operating Statement also discloses the Operating Surplus by consolidating the operating results of each of the agencies included in the General Government sector. This accounting based result reflects the full cost of delivering Government services. One-off events not necessarily associated with the day-to-day operations of the State, such as the actuarial revaluations of the State's superannuation liabilities, the impact of the collapse of HIH Insurance and the re-gearing of the Public Trading Enterprise (PTE) sector, are included in this total.

Consistent with changes in Accounting Standards, the Budget Operating Statement no longer discloses abnormal items. Consequently, items that would have been classified as abnormal in previous years, such as capital repatriations from the PTE sector and superannuation valuation adjustments, are now disclosed in the body of the report. However, the majority of these abnormal items are removed as valuation adjustments to arrive at the Budget result.

The principal difference between the Operating result and the Budget result is the treatment of capital. The Operating Result includes a depreciation charge that reflects the cost of wear and tear of agencies' assets arising from the delivery of services. The Budget result excludes depreciation but instead reflects agencies' acquisition and sale of assets.

Statement of Financial Position

The Statement of Financial Position is disclosed on a GFS basis. It reflects the financial position of the Government at a particular time providing information on financial assets, non-financial assets, and liabilities. The relevant balance sheet indicators disclosed include Net Debt, Net Financial Liabilities and Net Worth.

The key difference between the accounting based Statements of Financial Position is the inclusion of an equity investment in the Public Trading and Public Financial Enterprise sectors in the GFS statement.

Statement of Cash Flows

The Statement of Cash Flows adopts a GFS format and classification approach with the key focus being the cash surplus/(deficit). The result reflects all payments and receipts on a cash basis. Any accrual transactions included in the Budget result, such as accrued dividends, are removed and replaced with the equivalent cash transactions.

The cash result is fully detailed in the GFS Statement of Cash Flows and is a key result in the assessment of performance against the fiscal targets and principles in the *General Government Debt Elimination Act 1995* (see Chapter 1).

Under the *General Government Debt Elimination Act 1995*, the Treasurer is required to present a statement that discusses the nature of and the reasons for any departure from Australian Accounting Standards and principles, and from any GFS principles.

Departures from Australian Accounting Standards

The Budget has been prepared on an accrual basis in accordance with generally accepted accounting principles and Australian Accounting Standards except as discussed below. The Budget has also been prepared consistent with the accounting policies in the Consolidated Financial Statements of the NSW Total State Sector which incorporate the Public Accounts. However, the Budget only includes the financial statements and does not include detailed disclosures that are included in the annual audited accounts.

The Budget preparation departs from the Australian Accounting Standards as follows:

- ◆ lack of reliable information has resulted in undeveloped Crown Land, certain cultural collection assets and school bank accounts not being recognised in the financial statements;
- ◆ an abnormal income of \$704 million was recorded in the 1998-99 General Government Operating Result. This income was the Government Actuary's estimate of unallocated superannuation reserve balances in the State Superannuation Scheme to be transferred to Crown employer reserve accounts when the allocation process was completed. The Auditor-General is of the opinion that these amounts should not have been recognised until the 1999-2000 year when the allocation process was completed and approved by the SAS Trustee Corporation and the Minister as required by the *Superannuation Act, 1916*. This impacts the 1998-99 and 1999-2000 Operating Results only and has no impact on the Budget and Forward Years;
- ◆ some assets and liabilities of the FANMAC trusts are not consolidated as it is considered that they are not controlled by the NSW Government. The NSW Auditor-General disagrees with this treatment; and
- ◆ the WorkCover Scheme Statutory Funds have not been consolidated because they are regulated, but not controlled by the NSW Government. This treatment has been confirmed in three separate legal opinions provided by the Crown Solicitor's Office since 1996, including advice given on the matter by the NSW Solicitor General. Despite these opinions the Auditor-General has qualified his June 2000 Independent Audit Report, because he is of the opinion that the State has the capacity to control decision making in relation to the Scheme's financial and operating policies.

Departures from GFS Principles

The Budget has been prepared in accordance with Government Finance Statistics principles except as discussed below:

- ◆ the Australian Bureau of Statistics requires that selected payments that pass through the State's accounts e.g. transfer payments for non-government schools from the Commonwealth, be included in the Operating Statement and Statement of Cash Flows. Reports in the Budget Papers exclude these receipts and payments as the NSW Government has no control over them;
- ◆ Government Finance Statistics requires the General Government sector to record an investment in the equity of the Public Trading and Financial Enterprise sectors. The equity investment has been excluded from the General Government's "Net Financial Liabilities" as the investment is supported largely by physical infrastructure and in practical terms it is not in the true nature of a financial asset; and
- ◆ current GFS principles as followed by the ABS statistical standards require a premium on a loan to be classified as a negative interest payment in the year the loan is raised. New South Wales disagrees with this approach since it results in an asymmetric treatment with discounts on loans that are treated as a balloon interest payment on the maturity of the loan.

Whilst strict accordance with GFS standards requires the ABS approach to be adopted, the ABS has recognised the accounting difficulties of this approach. Given this, a compromise has been reached which involves all jurisdictions and the ABS departing from GFS principles and recording the premium as a negative interest payment in the final year of the loan.

The first two of the above three transactions have, however, been treated in accordance with GFS principles in Chapter 9, Uniform Presentation Framework, which is required to be prepared on a GFS basis.