



Treasurer of New South Wales
Australia

1999 - 2000

Half - Yearly

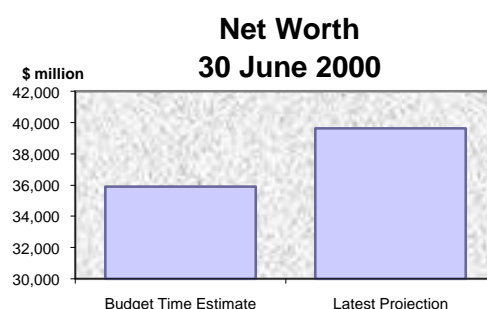
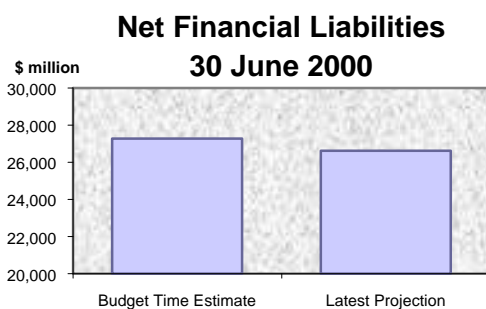
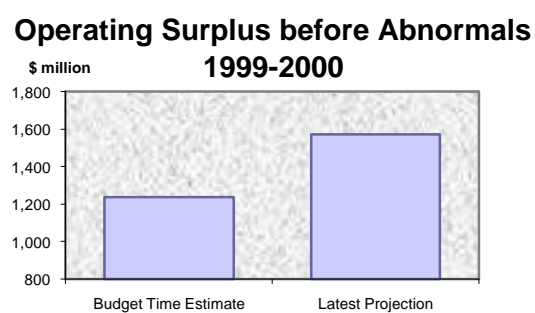
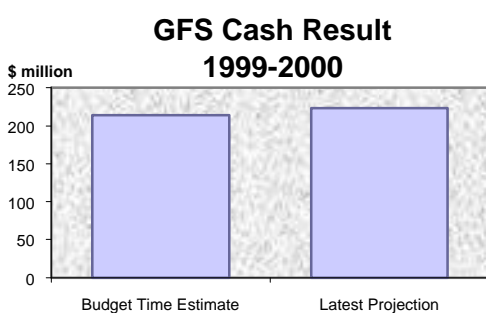
Budget Review

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EXECUTIVE SUMMARY

- On a Government Finance Statistics basis, the General Government Sector result for 1999-2000 is now estimated to be a surplus of \$223 million, compared with the Budget estimate of \$214 million.
- The forward estimates project cash surpluses for each of the following three years of \$292 million, \$752 million and \$551 million, respectively.
- The forward estimates provide for \$2.6 billion of tax cuts including payroll tax rate reductions and other, as yet unspecified, tax reductions in 2002 and 2003.
- The projected accrual-based General Government operating result for 1999-2000 is a surplus of \$1,571 million, compared with the Budget estimate of \$1,237 million.
- The main reason for the improvement is an increase in taxation revenue driven by cyclical economic impacts, offset to some extent by additional expenditure in the areas of health, education and disability and children's services.
- The forward estimates project accrual operating surpluses for the next three years of \$1,651 million, \$2,173 million and \$2,033 million respectively.
- As at 30 June 2000 Net Financial Liabilities are projected to be \$26,637 million, some \$641 million lower than the budgeted amount of \$27,278 million.
- Net worth of the General Government Sector is projected to increase from \$37,164 million at 30 June 1999 to \$39,629 million at 30 June 2000.
- The Budget and the forward estimates fully provide for all remaining Olympic spending. The last payment for venue construction will be made at the end of May 2000. A total of \$1,658 million has been spent by the Government on Olympic venue construction.
- Growth of the economy and employment in 1999-2000 now appears likely to exceed the June 1999 Budget forecasts.



1. INTRODUCTION

The 1999-2000 Half-Yearly Budget Review reports on the current and projected financial performance of the NSW General Government Sector. The General Government Sector covers all agencies that are generally engaged in the production of goods and services outside the normal market mechanisms.

In practice, this means that entities which operate outside normal market mechanisms (eg the Home Purchase Assistance Authority) and self funded regulatory agencies (eg the WorkCover Authority and the Motor Accidents Authority) are included, as well as agencies which receive an appropriation in the Annual Appropriation Act (eg the Department of Health and the Department of Education and Training).

The General Government Debt Elimination Act 1995 requires the Treasurer to publicly release a statement in February each year containing:

- The latest economic projections for the current financial year and an explanation of any significant variation from the budget time projections contained in the Budget Papers; and
- Budget projections for the current financial year and an explanation of any significant variation in major aggregates from those budget time projections.

The Half-Yearly Budget Review for 1999-2000 meets this legislative requirement, incorporates the financial statements for the General Government Sector for December 1999 and meets the requirements for uniform reporting of State finances agreed to by the Loan Council.

The Review provides:

- The actual financial performance of the General Government Sector for the six months ended 31 December 1999;
- The projected results for 1999-2000 compared with the June 1999 Budget estimates; and
- The latest projection of the financial performance for the three subsequent years to 2002-03.

To give a more accurate picture of underlying State finances, the financial aggregates contained in this review are adjusted for:

- The impact of the Superannuation Conversion Offer (see Appendix A); and
- The grants/advances arrangement which forms part of the Goods and Services Tax (GST) agreement with the Commonwealth in 2000-01 and 2001-02 (see Section 3).

The financial aggregates in the Uniform Presentation Table (Appendix B) do not adjust individual revenue and expenditure line items for the above factors. There is however an adjusted result shown to ensure consistency with the tables in Sections 2 and 3.

The revised forward estimates, like the original estimates, are predicated on a number of assumptions. The key assumption is the continuation of current policies. Thus, the forward estimates are based on existing policies and should not be regarded as projections for the budget outcomes in future years, as these outcomes will reflect future Government policy.

For the capital works program, it is assumed in the forward estimates that the size of the discretionary program including works in progress will be constant in real terms. This means that the forward estimates contain an allowance for new works that has not yet been allocated to specific projects.

2. ACTUAL RESULTS FOR SIX MONTHS ENDED 31 DECEMBER 1999 AND LATEST PROJECTED 1999-2000 BUDGET ESTIMATES

OPERATING STATEMENT

Table 2.1: General Government Sector 1999-2000 Operating Statement

	12 Months to - 30/06/2000 Budget \$m	12 Months to - 30/06/2000 Projection \$m	Variance \$m	6 Months to - 31/12/1999 Actual \$m	6 Months to - 31/12/1998 Actual \$m	Variance \$m
State Revenues						
Taxation	13,945	14,640	695	7,224	6,629	595
Commonwealth Grants	9,363	9,394	31	4,592	4,495	97
Financial Distributions	1,381	1,335	-46	609	609	-
Fines, Regulatory Fees and other	782	767	-15	395	335	60
Sale of Goods and Services	2,359	2,485	126	1,254	1,225	29
Investment Income	387	359	-28	179	232	-53
Grants and Contributions	397	346	-51	171	136	35
Other Revenue	217	260	43	79	51	28
Total State Revenues	28,831	29,586	755	14,503	13,712	791
Expenses						
Employee Related	13,116	13,458	342	6,673	6,238	435
Other Operating	6,043	6,055	12	2,654	2,926	-272
Maintenance	1,188	1,216	28	496	469	27
Depreciation and Amortisation	876	952	76	452	425	27
Grants and Subsidies	4,957	4,857	-100	2,268	2,304	-36
Finance Costs	1,315	1,390	75	753	693	60
Total Expenses	27,495	27,928	433	13,296	13,055	241
Gain/(Loss) on Sale of Non-Current Assets	-99	-87	12	15	141	-126
Surplus (Underlying)	1,237	1,571	334	1,222	798	424
Abnormal items						
- Superannuation	860	860	-			-
Surplus/(Deficit) for the year	2,097	2,431	334	1,222	798	424

The projected General Government Result for 1999-2000 is a surplus before abnormal items of \$1,571 million. This represents an improvement of \$334 million from the budget time estimate of \$1,237 million.

The reason for the positive variance is that additional expenditure on improved services mainly in health, education and disability and children's services has been less than the growth in taxation revenue. The balance has been used to reduce public sector liabilities.

Taxation revenue is expected to exceed budget by \$695 million in large part because of stronger than expected economic activity. Revenue from stamp duties is expected to increase by \$426 million as a result of sustained strength in the property and share markets. Some of the strength in the property market reflects purchases brought forward in anticipation of the GST and therefore stamp duties would be expected to be lower by a similar amount in 2000-01. Share transfer duties have received a boost from new listings, such as Telstra 2.

Despite a reduction in the tax rate, payroll tax is also projected to exceed budget by \$119 million, due in part to the faster than expected growth of employment and a 0.7 percentage point reduction in the unemployment rate.

Additional expenses of \$433 million are projected during the year 1999-2000. Primarily, this is due to expected increases in the following areas:

- Department of Health expenses will increase by \$178 million, partly due to the implementation of the NSW Drug Summit Government Plan of Action, additional funding for emergency and critical care services flowing from recommendations of the NSW Health Council and award increases for nurses and other staff;
- Department of Education and Training expenses will increase by \$190 million, principally due to salary payments for teachers contained in the new award proposed by the Government, adjustments to employee entitlements for superannuation and long service leave and increased depreciation following the revaluation of the Department's asset holdings; and
- Department of Community Services expenses will increase by \$73 million, partly due to additional costs associated with disability services, foster care and supported accommodation assistance.

The Budget and the forward estimates fully provide for all remaining Olympic spending. The last payment for venue construction will be made at the end of May 2000.

This meets the Government's pledge to pay for the Games up-front, with no debt left owing after the event.

Expenditure on the provision of essential services needed to support the 2000 Olympics and Paralympics has also been factored into the Budget.

These services include security, police and emergency services, dedicated rail and bus services, health care and the management of Sydney Harbour and other waterways

The Government has spent a total of \$1,658 million on Olympic construction

STATEMENT OF FINANCIAL POSITION

Table 2.2: 1999-2000 Statement of Financial Position

	30-Jun-2000 Budget \$m	30-Jun-2000 Projection \$m	Variance \$m	31-Dec-1999 Actual \$m
ASSETS				
Current Assets				
Cash	88	216	128	841
Investments	1,028	1,250	222	1,647
Receivables	1,700	1,792	92	1,965
Inventories	149	150	1	171
Other	57	73	16	88
Total Current Assets	3,022	3,481	459	4,712
Non-Current Assets				
Property, plant and equipment	62,309	65,382	3,073	64,402
Investments	2,803	2,497	-306	2,444
Receivables	2,956	2,939	-17	2,813
Inventories	117	43	-74	64
Other	599	690	91	677
Total Non-Current Assets	68,784	71,551	2,767	70,400
Total Assets	71,806	75,032	3,226	75,112
LIABILITIES				
Current Liabilities				
Accounts Payable	1,586	1,785	199	1,690
Borrowings	3,084	2,655	-429	2,981
Employee Entitlements	849	900	51	896
Other	391	925	534	1,131
Total Current Liabilities	5,910	6,265	355	6,698
Non-Current Liabilities				
Borrowings	14,283	14,555	272	15,140
Employee Entitlements	10,883	10,673	-210	11,087
Other	4,841	3,910	-931	3,712
Total Non-Current Liabilities	30,007	29,138	-869	29,939
Total Liabilities	35,917	35,403	-514	36,637
Net Assets/Net Worth	35,889	39,629	3,740	38,475
Equity				
Reserves	9,770	10,991	1,221	11,055
Accumulated Funds	26,119	28,638	2,519	27,420
Total Equity/Net Worth	35,889	39,629	3,740	38,475
Net Financial Liabilities	27,278	26,637	-641	26,867

NOTE: Section 8(1)(b) of the Public Finance and Audit Act requires the publication of a monthly statement of the balance of cash and securities held by the Treasurer. The value of the cash and securities held by the Treasurer at 31 December 1999, which is included in the Statement of Financial Position at that date, is \$261.9 million.

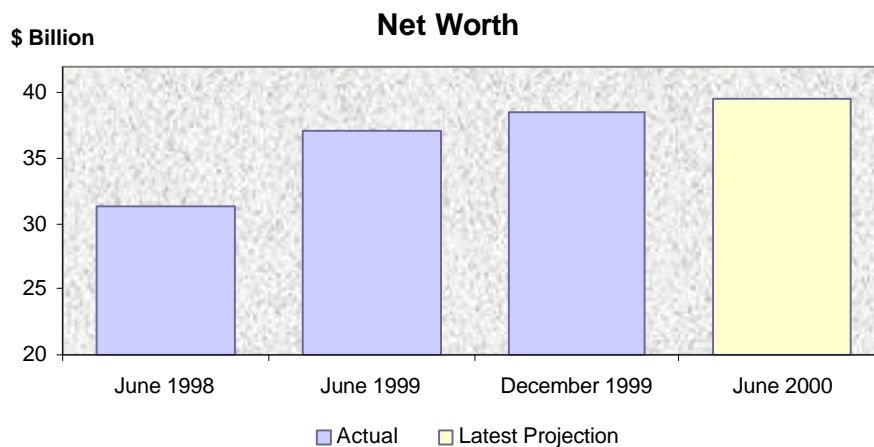
NET WORTH

Net worth provides a comprehensive picture of the General Government Sector's overall financial position. It is calculated as total assets minus total liabilities.

General Government Sector net worth was \$38,475 million at 31 December 1999. The projected result at 30 June 2000 is expected to be \$39,629 million which is \$3,740 million higher than the budgeted figure of \$35,889 million.

The increase of \$3,740 million is primarily due to the initial recognition of collection assets including library, works of art and archival collections (\$2,108 million), the revaluation to property, roads, bridges and tunnel infrastructure of the Roads and Traffic Authority (\$1,462 million) and a better than expected operating result.

Figure 2.1: Net Worth of the General Government Sector

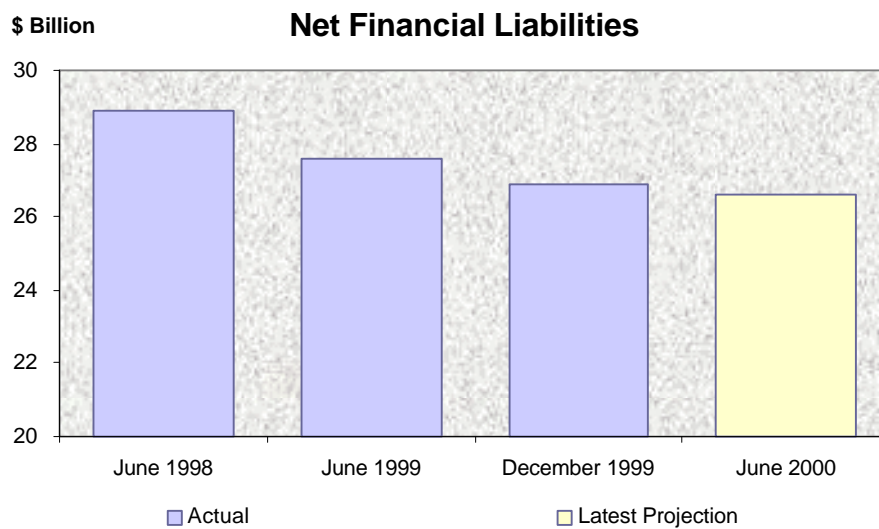


NET FINANCIAL LIABILITIES

Net Financial Liabilities reflect the financial obligations of a government. They comprise the total liabilities less financial assets such as cash and investments. The higher the level of net financial liabilities, the larger the proportion of current revenues that must be used to service them and the more vulnerable is the State's ability to maintain service delivery during economic slow-downs and periods of financial market volatility.

Net Financial Liabilities of the General Government Sector are projected to fall by \$939 million between June 1999 and June 2000. The reduction is broadly explained by the expected reduction in superannuation liabilities associated with the Superannuation Conversion Offer and the positive impact of the projected Budget surplus.

Figure 2.2: Net Financial Liabilities of the General Government Sector



GOVERNMENT FINANCE STATISTICS RESULT

Table 2.3: 1999-2000 GFS Results

	12 Months to - 30-Jun-2000 Budget \$m	12 Months to - 30-Jun-2000 Projection \$m	Variance \$m	6 Months to - 31-Dec-1999 Actual \$m	6 Months to - 31-Dec-1998 Actual \$m	Variance \$m
Current Receipts						
State Taxes	14,012	14,648	636	7,192	6,708	484
C'wealth General Purpose Grants	5,162	5,173	11	2,589	2,357	232
C'wealth Specific Purpose Grants	3,449	3,471	22	1,709	1,774	-65
Dividends/Tax Equivalents	1,173	1,369	196	793	970	-177
Other Current Receipts	1,256	1,210	-46	573	612	-39
Total Current Receipts	25,052	25,871	819	12,856	12,421	435
Current Outlays						
Interest Payments	1,124	1,122	-2	497	666	-169
Superannuation	1,640	1,840	200	836	719	117
Subsidies to Non-GG Sector			-			-
- Redundancies	86	86	-	39	28	11
- Services	840	766	-74	371	522	-151
Departmental Payments			-			-
- Redundancies	98	110	12	30	32	-2
- Services	20,609	21,226	617	10,269	9,906	363
Treasurer's Advance	160	20	-140			-
Less: User Charges	2,110	2,153	43	1,088	1,024	64
Total Current Outlays	22,447	23,017	570	10,954	10,849	105
Current Result Surplus/(Deficit)	2,605	2,854	249	1,902	1,572	330
Capital Receipts						
C'wealth Specific Purpose Grants	784	783	-1	315	363	-48
Other Capital Receipts	151	113	-38	1	9	-8
Total Capital Receipts	935	896	-39	316	372	-56
Capital Outlays						
Gross Fixed Capital Payments	2,798	2,822	24	1,217	1,259	-42
Capital Grants	1,104	1,139	35	461	425	36
Less: Asset Sales	576	434	-142	231	374	-143
Total Capital Outlays	3,326	3,527	201	1,447	1,310	137
Capital Result Surplus/(Deficit)	-2,391	-2,631	-240	-1,131	-938	-193
Budget Result						
Surplus/(Deficit)*	214	223	9	771	634	137

* To give a more meaningful picture of the state's financial performance, the Budget result incorporates adjustments made for the impact of the Superannuation Conversion Offer. The reconciliation back to the unadjusted Budget result and the associated financing transactions are provided below.

			Variance \$m			
	214	223	9	771	634	137
Super Conversion Offer	979	979	-	495	-	495
Unadjusted Budget Result ⁽¹⁾	1,193	1,202	9	1,266	634	632
⁽¹⁾ Financing Transactions						
<i>Net Debt Repayments</i>	1,528	1,787	259	1,029	355	674
<i>Net Advances Repaid</i>	227	145	-82			

3. FORWARD ESTIMATES 2000-01 TO 2002-03

OPERATING STATEMENT

**Table 3.1: General Government Sector Operating Statement
- Forward Estimates 2000-01 to 2002-03**

	1999-2000 Latest Projection \$m	2000-01 Estimate \$m	2001-02 Estimate \$m	2002-03 Estimate \$m
State Revenues				
Taxation	14,640	12,061	11,213	11,544
Commonwealth Grants *	9,394	12,629	13,953	14,337
Financial Distributions	1,335	1,482	1,458	1,530
Fines, Regulatory Fees and other	767	753	724	740
Sale of Goods and Services	2,485	2,474	2,538	2,599
Investment Income	359	371	374	381
Grants and Contributions	346	408	299	293
Other Revenue	260	283	206	194
Total State Revenues	29,586	30,461	30,765	31,618
Expenses				
Employee Related	13,458	13,370	13,578	14,135
Other Operating	6,055	6,856	6,551	6,804
Maintenance	1,216	1,123	1,158	1,192
Depreciation and Amortisation	952	1,106	1,089	1,107
Grants and Subsidies	4,857	5,187	5,194	5,281
Finance Costs	1,390	1,154	1,017	1,053
Total Expenses	27,928	28,796	28,587	29,572
Gain/(Loss) on Sale of Non-Current Assets	-87	-14	-5	-13
Surplus (Underlying)	1,571	1,651	2,173	2,033
Abnormal Items				
- Superannuation	860			
Surplus/(Deficit) for the year	2,431	1,651	2,173	2,033

* Adjusted for the effects of the GST Grants/Advances Arrangement with the Commonwealth. Excluding this adjustment,

The most obvious change is a large reduction in taxation revenue offset by a substantial increase in Commonwealth grants. These changes are largely driven by provisions in the Agreement for the abolition of a number of State taxes and their replacement by Commonwealth GST revenue grants. Specifically, the following taxes are abolished:

- Revenue replacement payments (tobacco, alcohol and petrol) from 1 July 2000;
- Accommodation levy from 1 July 2000;
- Share Transfer Duty on quoted securities from 1 July 2001;
- Financial Institutions Duty (FID) from 1 July 2001.

In addition, gambling tax revenues are reduced from 1 July 2000.

A number of other details in the Agreement will also affect State outlays and revenues in 2000-01 and beyond. These include:

- Outlays are reduced on account of the Commonwealth taking over diesel subsidy payments to off road users.
- The abolition of wholesale sales tax equivalents paid by Public Trading Enterprises will reduce revenues;
- The new First Home Owner Scheme will increase outlays;
- Payments to the Australian Tax Office for GST administration costs will increase outlays; and
- Outlays will be reduced as a result of indirect tax reform.

As a transition arrangement, States will receive a residual payment from the Commonwealth to compensate for the net effect of the above changes relative to existing funding arrangements.

The Agreement provides for a component of this payment in 2000-01 to be in the form of an interest free advance (ie a loan), repayable in 2001-02 out of an additional Commonwealth grant. In practical terms Commonwealth grants are projected to be artificially lower by \$271 million in 2000-01 and higher by an equivalent amount in 2001-02.

Budget comparisons

The operating result is lower compared to Budget estimates for the three years 2000-01 to 2002-03. Specifically, the result is expected to be down by:

- \$131 million in 2000-01;
- \$308 million in 2001-02; and
- \$312 million in 2002-03.

Slight upward revisions to taxation revenue over the period have been more than matched by additional expenses expected in the State's key service delivery areas such as Health, Education and Disability and Children's Services. These additional expenses reflect likely government commitments (on a no policy change basis) associated with higher expenditure made in 1999-2000. There have also been revisions downwards in financial distributions by Public Trading Enterprises in 2001-02 and 2002-03 due in part to the impact of the recent Independent Pricing and Regulatory Tribunal (IPART) decision on electricity distribution pricing.

GOVERNMENT FINANCE STATISTICS CASH RESULTS

**Table 3.2: General Government Sector GFS Result
- Forward Estimates 1999-2000 to 2002-03**

	1999-2000 Latest Projection \$m	2000-01 Estimate \$m	2001-02 Estimate \$m	2002-03 Estimate \$m
Current Receipts				
State Taxes	14,648	12,075	11,228	11,568
C'wealth General Purpose Grants	5,173	8,230	9,418	9,679
C'wealth Specific Purpose Grants	3,471	3,603	3,713	3,873
Dividends/Tax Equivalents	1,369	1,056	1,272	1,250
Other Current Receipts	1,210	1,247	1,231	1,248
Total Current Receipts	25,871	26,211	26,862	27,618
Current Outlays				
Interest Payments	1,122	1,029	929	964
Superannuation	1,840	1,721	1,770	2,025
Subsidies to Non-GG Sector				
- Redundancies	86	60	63	19
- Services	766	707	633	615
Departmental Payments				
- Redundancies	110	55	34	31
- Services	21,226	21,846	21,839	22,440
Treasurer's Advance	20	200	200	200
Less: User Charges	2,153	2,273	2,154	2,186
Total Current Outlays	23,017	23,345	23,314	24,108
Current Result Surplus/(Deficit)	2,854	2,866	3,548	3,510
Capital Receipts				
C'wealth Specific Purpose Grants	783	821	840	803
Other Capital Receipts	113	54	38	41
Total Capital Receipts	896	875	878	844
Capital Outlays				
Gross Fixed Capital Payments	2,822	2,500	2,620	2,655
Capital Grants	1,139	1,374	1,340	1,399
Less: Asset Sales	434	425	286	251
Total Capital Outlays	3,527	3,449	3,674	3,803
Capital Result Surplus/(Deficit)	-2,631	-2,574	-2,796	-2,959
Budget Result Surplus/(Deficit)*	223	292	752	551

* To give a more meaningful picture of the state's financial performance, the Budget result incorporates adjustments made for the impact of the Superannuation Conversion Offer and the GST grants/advances arrangement with the Commonwealth. The reconciliation back to the unadjusted Budget result and the associated financing transaction is provided below.

	1999-2000 Latest Projection \$m	2000-01 Estimate \$m	2001-02 Estimate \$m	2002-03 Estimate \$m
Budget Result				
Surplus/(Deficit)*	<u>223</u>	<u>292</u>	<u>752</u>	551
Super Conversion Offer	979	994	1,067	-
GST Grants/Advance Arrangement	-	-271	271	-
Unadjusted Budget Result ⁽¹⁾	1,202	1,015	2,090	551
⁽¹⁾ Financing Transactions				
<i>Net Debt Repayments</i>	1,787	1,622	1,337	499
<i>Net Advances Repaid</i>	145	-197	382	20
<i>Movement in Cash and Investments</i>	-730	-410	371	32
	1,202	1,015	2,090	551

Current Outlays

A major feature of the forward estimates financial data is the constrained growth in current outlays. After making allowance for special factors (GST impacts on current outlays and significant one off payments), current outlays are expected to grow by around an average 2.1% per annum over the three year period to 2002-03.

After making adjustments for net impacts of the Inter-governmental Agreement on current outlays (refer page 11 for details) and some significant one-off payments in 1999-2000, current outlays increase in 2000-01 by 2.4% compared with the Budget time estimate of 2.2%.

Current outlays are expected to increase by 0.6% in 2001-02 and 3.5% in 2002-03. These increases are also broadly comparable to the Budget forward estimates. The low increase in 2001-02 is caused by cessation of Olympics related expenditure.

Unlike past years, Treasurer's Advance is projected to remain steady over the forecasting horizon. This reflects a decision to more accurately model pressures for additional ongoing government expenditure in functional areas rather than implicitly make allowance for this in the advance to the Treasurer.

4. BASIS OF THE REVISED FORWARD ESTIMATES

The revised forward estimates, like the original estimates, are predicated on a number of assumptions. The key assumption is the continuation of current policies. Thus, the forward estimates are based on existing policies and should not be regarded as projections for the budget outcomes in future years, as these outcomes will reflect future Government policy.

For the capital works program, it is assumed in the forward estimates that the size of the discretionary program including works in progress will be constant in real terms. This means that the forward estimates contain an allowance for new works that has not yet been allocated to specific projects.

The forward estimates are based on Commonwealth-State financial arrangements set out in the 1999 Intergovernmental Agreement on the Reform of Commonwealth State Financial Relations (IGA).

ECONOMIC OUTLOOK

The revised forward estimates are predicated on assumptions about the outlook for the NSW economy, discussed in more detail below. These assumptions are most critical in respect of the projections for taxes, interest costs, and departmental payments.

Economic outcomes internationally and in Australia in 1999 were more favourable overall than expected at budget time. Most of Australia's key regional trading partners recovered strongly from the recent Asian economic crisis, while performance remained very strong in the US and accelerated in Western Europe. This positive external environment boosted business prospects, asset prices and confidence, as reflected in most surveys of business conditions.

The New South Wales economy has performed well through the first half of 1999-2000. Trend employment growth was 2.9% in the year to December 1999, while trend unemployment at mid-year was 6.0% - the lowest level in ten years. In addition to stronger growth in household consumption, growth may have benefitted from Y2K remedial investment, and from a fast-tracking of dwelling construction activity (offset by a decline in vehicle sales) in anticipation of the GST¹. Consumer demand is expected to remain strong in 1999-2000, although aggregate State output growth may nonetheless be a little lower than in the previous year owing to more moderate rate of expansion in business investment.

Growth is expected to strengthen slightly in 2000-01. The IMF and OECD predict a lift in world growth in the year ahead which should buoy Australian exports and business investment. The Olympics will add a moderate contribution to demand in New South Wales. These factors will help to offset a slowdown in residential construction.

The main risks to the forecasts are an upward shift in long-term world interest rates (which would discourage investment), a steep correction in share prices (which would reduce liquidity and confidence), and a lift in wage and price pressures (which would lead to tighter monetary policy than assumed).

Compared with forecasts in the 1999-2000 Budget, the revised forecasts for New South Wales' output and employment growth are stronger in both 1999-2000 and 2000-01. Consumer price inflation is expected to be marginally higher this year than in the Budget due to the buoyancy of domestic demand and the rise in world petroleum prices. The GST is expected to add three percentage points to the price level in 2000-01.

¹ The 1999-2000 Budget including the economic outlook was prepared on the basis of unchanged policy which excluded the Commonwealth tax package that had not passed the Senate. The revised forecasts in the Half-Yearly Statement are inclusive of GST and related policy changes.

**Table 4.1: Summary of Economic Parameters for New South Wales
(annual average percent change unless otherwise indicated)**

	1998-99	1999-2000 Estimate		2000-01	2001-02	2002-03
	Actual	Budget	Revised	Forecast	Forecast	Projection
Gross State Product	4.1	3.3	3.8	4.1	3.6	3.3
State Final Demand	4.4	3.5	4.3	3.2	2.6	3.3
Employment	2.4	1.8	2.3	2.1	1.6	1.2
Unemployment Rate ^(a)	7.0	6.8	6.1	5.9	5.5	5.5
Wages ^(b)	4.9	3.8	3.7	4.0	4.0	4.0
Sydney CPI	1.7	2.0	2.2	5.8	2.3	2.5
CPI excluding indirect tax effects	-	-	-	2.8	2.5	2.5
Non-farm GDP Deflator	0.9	1.8	1.7	3.7	2.2	2.5
Ten-year Commonwealth bond rate ^(a)	5.4	5.8	6.8	7.3	6.8	6.0

^(a) Annual average rate

^(b) Average weekly ordinary time earnings of full time adults

APPENDIX A: SUPERANNUATION CONVERSION OFFER

Under legislation passed by Parliament, members of two defined benefit schemes are being offered an opportunity to exit these schemes and join First State Superannuation, an accumulation scheme established in 1992.

The offer is to be made to about 40,000 members of the State Superannuation Scheme (established in 1916 and closed to new members in 1985) and the Police Superannuation Scheme (established in 1906 and closed to new members in 1988).

The offer will be open until 31 May 2000 and acceptance is strictly voluntary. Acceptance of the offer involves members of defined benefit schemes choosing to convert their future pension benefits into a lump sum that would be then invested in First State Superannuation.

As part of the plan for funding the conversion of pension entitlements, the Government raised short-term borrowings of \$3,261 million to accelerate the payment of contributions to the defined benefit schemes in the 1998-99 financial year. These borrowings are being repaid over the following three financial years through utilising funds that would have normally been used to meet the cost of superannuation contributions in those years.

It is estimated that the cumulative effect of these measures will be a reduction of unfunded superannuation liabilities of over \$1.2 billion by 30 June 2002. Beyond that date the Government intends to continue with its existing plan to progressively reduce the level of unfunded superannuation liabilities.

APPENDIX B: UNIFORM PRESENTATION OF GOVERNMENT FINANCE STATISTICS

A Uniform Presentation Framework (UPF) was agreed to between the Commonwealth, State and Territory Governments at the March 1997 Loan Council meeting.

As part of the Framework, each jurisdiction is to publish a Half-Yearly Budget Review by the end of February each year. The financial data in this report is consistent with the Australian Bureau of Statistics (ABS) Government Finance Statistics (GFS). In the GFS classification scheme each state public sector body is categorised into one of three sectors:

- General Government (GG), which covers all agencies that are generally engaged in the production of goods and services outside the normal market mechanisms;
- Public Trading Enterprises (PTEs), which are largely self-funded from user charges and have been given a specific charter to run their businesses on commercial lines, including the achievement of a commercial rate of return on the resources employed (PTEs are responsible for supplying public infrastructure services, including electricity, ports, water and public transport); and
- Public Financial Enterprises (PFEs), which may accept demand time or savings deposits and/or have the authority to incur liabilities and acquire financial assets in the market on their own account (an example of a PFE is NSW Treasury Corporation).

This report presents revised fiscal estimates, including outlays and revenue estimates for the current budget year and three following years for the General Government Sector. In addition, revised estimates are presented for the Public Trading Enterprise Sector and the Total Non-Financial Public Sector (ie the General Government Sector and the Public Trading Enterprise Sector). These revised estimates take into account fiscal and economic developments since the commencement of the budget year.

This report also includes a revised estimate of the full year Loan Council Allocation (LCA).

TREATMENT OF CERTAIN COMMONWEALTH PAYMENTS

The estimates in this appendix differ from those contained in the main body of the Review because of the treatment of certain Commonwealth payments.

For certain Commonwealth payments (eg non-government schools and local government tax sharing and road funding), the State essentially acts as an agent of the Commonwealth.

Despite the fact that the State has no control over these payments and is not involved in any negotiations concerning them, GFS conventions require their inclusion in the State sector.

While the inclusion of these payments does not distort the underlying financial position, the growth in expenditure in these areas can be significantly different than for the remainder of the State sector.

In light of these considerations, certain Commonwealth grants classified as passing through (rather than to) the State in the Commonwealth Budget are excluded from the tables in the main body of this review.

Table B-1: General Government Sector - Outlays, Revenue and Financing Transactions (ABS basis)

	1998-99 Actual \$m	1999-2000 Revised \$m	2000-01 Estimated \$m	2001-02 Estimated \$m	2002-03 Estimated \$m
Current Outlays					
Final Consumption Expenditure	20,984	17,845	18,423	18,538	20,445
Interest Payments	1,425	1,269	1,121	963	964
Subsidies Paid to PTEs and PFEs	996	852	767	695	635
Current Grants	2,572	2,788	2,845	2,986	3,066
Other Current Payments	748	616	597	537	524
Total Current Outlays	26,725	23,370	23,753	23,719	25,634
Capital Outlays					
Gross Capital Expenditure	2,437	2,433	2,259	2,401	2,458
New Fixed Capital Expenditure	2,426	2,673	2,384	2,548	2,619
Expenditure on Secondhand Assets (net)	11	(240)	(125)	(147)	(161)
Capital Grants	1,130	1,169	1,424	1,390	1,431
Other Capital Outlays	(49)	(46)	(204)	(86)	(53)
Total Capital Outlays	3,518	3,556	3,479	3,705	3,836
Total Outlays	30,243	26,926	27,232	27,424	29,470
Revenue					
Taxes	14,219	14,649	12,075	11,228	11,569
Interest Received	421	354	367	371	378
Grants Received	10,700	10,872	13,852	15,747	15,918
Dividends Received from PTEs and PFEs	1,274	1,366	1,054	1,273	1,251
Other Revenue	951	887	899	895	905
Total Revenue and Grants Received	27,565	28,128	28,247	29,514	30,021
Financing Transactions					
Net Advances Received	(76)	(123)	192	(424)	(84)
Net Advances Paid	10	(44)	13	41	65
Net Domestic and Overseas Borrowings	2,756	(1,786)	(1,622)	(1,338)	(500)
Increase in Provisions (net)	-	-	-	-	-
Other Financing Transactions	(12)	751	402	(369)	(32)
Total Financing Transactions	2,678	(1,202)	(1,015)	(2,090)	(551)
less Increase in Provisions	-	-	-	-	-
Deficit/(Surplus)	2,678	(1,202)	(1,015)	(2,090)	(551)
Adjusted Deficit/(Surplus)*	(588)	(223)	(292)	(752)	(551)
Net Debt	12,822	11,807	10,676	8,328	7,841
Net Debt Adjusted for superannuation conversion offer and GST advance	9,562	9,556	9,226	8,328	7,841
Net Financial Liabilities adjusted for GST advance	27,576	26,637	26,011	24,877	24,251

* Adjusted for effects of superannuation conversion offer and grants/advances GST arrangement with the Commonwealth

Table B-2: Public Trading Enterprises - Outlays, Revenue and Financing Transactions (ABS basis)

	1998-99 Actual \$m	1999-2000 Revised \$m
Current Outlays		
Interest Payments	790	757
Other Current Payments	1,222	1,180
Total Current Outlays	2,012	1,937
Capital Outlays		
Gross Capital Expenditure	1,835	2,787
New Fixed Capital Expenditure	2,381	3,017
Expenditure on Secondhand Assets (net)	(546)	(230)
Capital Grants	454	52
Other Capital Outlays	(29)	186
Total Capital Outlays	2,260	3,025
Total Outlays	4,272	4,962
Revenue		
Net Operating Surplus of PTEs	1,429	1,449
Interest Received	113	89
Grants Received	860	857
Other Revenue	247	240
Total Revenue and Grants Received	2,649	2,635
Financing Transactions		
Net Advances Received	(45)	(38)
Net Advances Paid	14	82
Net Domestic and Overseas Borrowings	(191)	243
Increase in Provisions (net)	1,852	1,640
Other Financing Transactions	(7)	400
Total Financing Transactions	1,623	2,327
less Increase in Provisions (net)	1,852	1,640
Deficit/(Surplus)	(229)	687
Net Debt	7,427	8,117
Net Financial Liabilities	11,349	11,991

Table B-3: Total Non Financial Public Sector - Outlays, Revenue and Financing Transactions (ABS basis)

	1998-99 Actual \$m	1999-2000 Revised \$m
Current Outlays		
Final Consumption Expenditure	20,984	17,841
Interest Payments	2,151	1,962
Current Grants	2,576	2,812
Other Current Payments	1,744	1,468
Total Current Outlays	27,455	24,083
Capital Outlays		
Gross Capital Expenditure	4,272	5,220
New Fixed Capital Expenditure	4,806	5,690
Expenditure on Secondhand Assets (net)	(534)	(470)
Capital Grants	336	349
Other Capital Outlays	(78)	141
Total Capital Outlays	4,530	5,710
Total Outlays	31,985	29,793
Revenue		
Taxes	14,219	14,649
Net Operating Surplus of PTEs	1,429	1,449
Interest Received	469	379
Grants Received	10,276	10,824
Other Revenue	1,274	1,356
Total Revenue and Grants Received	27,667	28,657
Financing Transactions		
Net Advances Received	(76)	(123)
Net Advances Paid	(12)	(17)
Net Domestic and Overseas Borrowings	2,565	(1,544)
Increase in Provisions (net)	1,852	1,640
Other Financing Transactions	(11)	1,180
Total Financing Transactions	4,318	1,136
less Increase in Provisions (net)	1,852	1,640
Deficit/(Surplus)	2,466	(504)
Adjusted Deficit/(Surplus)*	(800)	475
Net Debt	20,249	19,923
Net Debt Adjusted for superannuation conversion offer	16,989	17,672
Net Financial Liabilities	38,906	38,626

* Adjusted for effects of superannuation conversion offer

Table B-4: Loan Council Allocation - New South Wales 1999-2000

	Budget Estimate	Revised Estimate
	\$m	\$m
General Government Sector deficit/ (surplus)	(1,193)	(1,202)
Public Trading Enterprise Sector deficit/(surplus)	251	687
Consolidation Adjustment	26	11
Non-Financial Public Sector deficit/(surplus)	(916)	(504)
Net Advances Paid	97	17
Memorandum items ^(a)	540	121
Loan Council Allocation	<u>(279)</u>	<u>(366)</u>

^(a) Memorandum items are used to adjust the ABS deficit/surplus to include in LCAs certain transactions - such as operating leases - that have many of the characteristics of public sector borrowings but do not constitute formal borrowings. Memorandum items are also used, where appropriate, to deduct from the ABS deficit/surplus certain transactions that Loan Council has agreed should not be included in LCAs - for example, the funding of more than employers' emerging costs under public sector superannuation schemes, or borrowings by entities such as statutory marketing authorities.