

## 1.2 BUDGET POSITION

### BUDGET AGGREGATES

#### 1997-98 Budget Projections

Table 1.5 shows a summary of the major Budget aggregates on both a “headline” and “underlying” basis.

**Table 1.5: Summary of Major Budget Aggregates (a)**

	1996-97	1997-98		1998-99		1999-2000	
	(Revised) \$m	\$m	% change	\$m	% change	\$m	% change
<b>Headline Basis</b>							
Current Outlays	19,697	20,516	4.2	21,070	2.7	21,656	2.8
Current Receipts	21,543	22,763	5.7	23,284	2.3	24,098	3.5
Current Result	1,846	2,246		2,214		2,442	
Capital Outlays	2,599	3,383	30.2	3,083	(-) 8.9	3,138	1.8
Capital Receipts	872	1,081	24.0	847	(-) 21.6	870	2.7
Capital Result	(1,727)	(2,302)		(2,236)		(2,269)	
TOTAL RESULT (a)	119	(56)		(22)		173	
<b>Underlying Basis</b>							
Current Outlays	19,690	20,515	4.2	21,070	2.7	21,656	2.8
Current Receipts	21,543	22,763	5.7	23,284	2.3	24,098	3.5
Current Result	1,853	2,247		2,214		2,442	
Capital Outlays	2,658	3,301	24.2	3,025	(-) 8.4	3,117	3.0
Capital Receipts	872	1,081	24.0	847	(-) 21.6	870	2.7
Capital Result	(1,786)	(2,220)		(2,178)		(2,247)	
TOTAL RESULT (a)	67	27		36		195	

(a) For reasons of commercial confidentiality, the table excludes expected proceeds from the sale of Axiom Funds Management and the TAB.

The “headline” basis of presentation incorporates all transactions of the Budget Sector. The “underlying” basis excludes items which are “extraordinary” in nature. Such items include transactions relating to the sale of government-owned businesses (e.g. the GIO, State Bank, Axiom Funds Management and the TAB) or arising from major equity restructuring of Non Budget Sector agencies (principally the electricity sector).

On a “headline” basis, the 1997-98 Budget projects a deficit of \$56 million.

On an "underlying" basis the projected Budget result in 1997-98 is a surplus of \$27 million. Details are shown in Table 1.6, with an analysis of the major components appearing later in this Section.

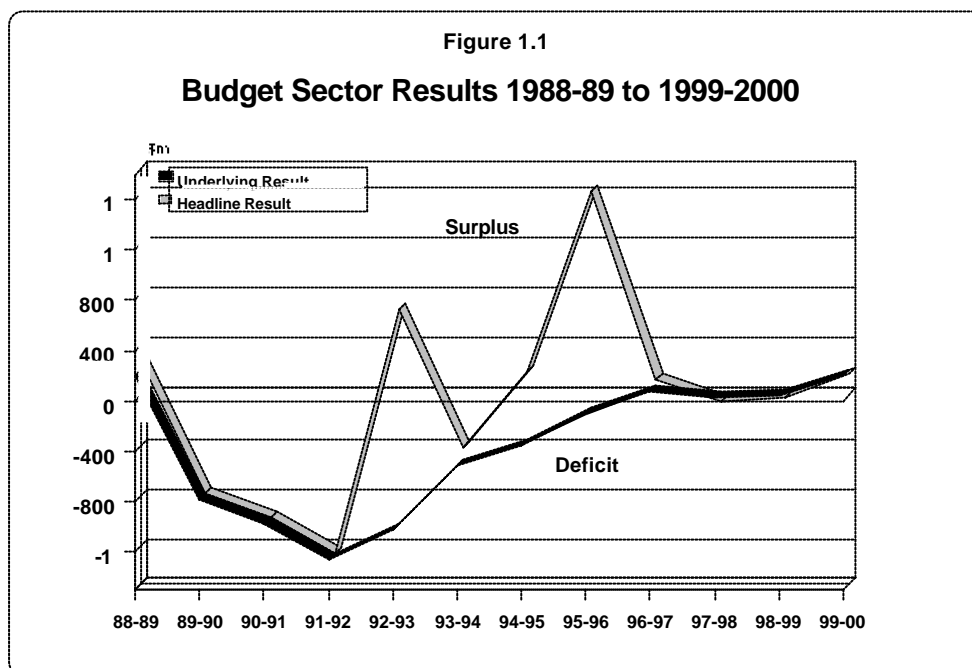
The projected underlying Budget results for the period of the forward estimates are surpluses of \$36 million in 1998-99 and \$195 million in 1999-2000. (The substantial increase in the projected surplus in 1999-2000 largely reflects reduced capital commitments for the Olympic Games.)

**Table 1.6: Major Budget Aggregates - Underlying Basis (a)**

	1996-97 (Revised)		1997-98		1998-99		1999-2000	
	\$m	\$m	% change	\$m	% change	\$m	% change	
<b>Current Outlays</b>								
Interest Payments	1,422	1,527	7.4	1,481	(-) 3.0	1,527	3.1	
Superannuation	1,290	1,451	12.5	1,579	8.8	1,666	5.5	
Subsidies to Non Budget Sector								
Agencies -								
Redundancies	32	63	96.9	37	(-) 41.3	24	(-) 35.1	
Other	1,003	866	(-) 13.7	825	(-) 4.7	812	(-) 1.6	
Departmental Payments -								
Redundancies	25	38	52.0	10	(-) 73.7	10	...	
Other	17,210	17,816	3.5	18,323	2.8	18,738	2.3	
Treasurer's Advance	20	100	n.a.	200	100	300	50.0	
<b>Total, Current Payments</b>	<b>21,002</b>	<b>21,862</b>	<b>4.1</b>	<b>22,455</b>	<b>2.7</b>	<b>23,077</b>	<b>2.8</b>	
less User Charges	1,312	1,347	2.7	1,385	2.8	1,422	2.7	
<b>Total, Current Outlays</b>	<b>19,690</b>	<b>20,515</b>	<b>4.2</b>	<b>21,070</b>	<b>2.7</b>	<b>21,656</b>	<b>2.8</b>	
<b>Current Receipts</b>								
Taxes, Fees and Fines	11,825	12,912	9.2	13,405	3.8	13,758	2.6	
Income from Non Budget Sector	1,456	1,341	(-) 7.9	1,188	(-) 11.4	1,235	4.0	
Agencies								
Commonwealth Grants	7,373	7,646	3.7	7,848	2.6	8,268	5.4	
Other	889	864	(-) 2.8	843	(-) 2.4	838	(-) 0.6	
<b>Total, Current Receipts</b>	<b>21,543</b>	<b>22,763</b>	<b>5.7</b>	<b>23,284</b>	<b>2.3</b>	<b>24,098</b>	<b>3.5</b>	
<b>Current Result</b>	<b>1,853</b>	<b>2,247</b>		<b>2,214</b>		<b>2,442</b>		
<b>Capital Outlays</b>								
Gross Fixed Capital Payments -								
Olympics/Homebush Bay	430	628	46.0	448	(-) 28.7	181	(-) 59.6	
Other	1,940	2,037	5.0	1,947	(-) 4.4	2,178	11.9	
Capital Grants	1,120	1,240	10.7	988	(-) 20.3	932	(-) 5.7	
Advances made	44	15	(-) 65.9	14	(-) 6.7	14	...	
<b>Total, Capital Payments</b>	<b>3,534</b>	<b>3,920</b>	<b>10.9</b>	<b>3,397</b>	<b>(-) 13.3</b>	<b>3,305</b>	<b>(-) 2.7</b>	
less Advances repaid to the Budget Sector	512	297	(-) 42.0	151	(-) 49.2	52	(-) 65.6	
less Asset Sales	364	322	(-) 11.5	221	(-) 31.4	136	(-) 38.5	
<b>Total, Capital Outlays</b>	<b>2,658</b>	<b>3,301</b>	<b>24.2</b>	<b>3,025</b>	<b>(-) 8.4</b>	<b>3,117</b>	<b>3.0</b>	
<b>Capital Receipts</b>								
Commonwealth Grants	861	854	(-) 0.8	842	(-) 1.4	865	2.7	
Other	11	228	n.a.	5	(-) 97.8	5	...	
<b>Total, Capital Receipts</b>	<b>872</b>	<b>1,081</b>	<b>24.0</b>	<b>847</b>	<b>(-) 21.6</b>	<b>870</b>	<b>2.7</b>	
<b>Capital Result</b>	<b>(1,786)</b>	<b>(2,220)</b>		<b>(2,178)</b>		<b>(2,247)</b>		
<b>TOTAL RESULT - SURPLUS (a)</b>	<b>67</b>	<b>27</b>		<b>36</b>		<b>195</b>		

(a) The underlying basis of presentation excludes "extraordinary" items such as equity restructure payments from Non Budget Sector agencies and certain transactions relating to the sale of government enterprises (e.g. GIO, State Bank, Axiom Funds Management and the TAB).

Budget results since 1988-89 on both the headline and underlying bases are illustrated in Figure 1.1. The main differences between the two bases relate to the sales of the GIO in 1992-93 and the State Bank in 1995-96.



### 1996-97 Estimated Result

The underlying result for 1996-97 is projected to be a surplus of \$67 million, an increase of \$62 million on the estimate as at Budget time last year. This variation is due to the combination of the following factors -

- **current outlays \$444 million above Budget**

	<b>\$m</b>
Revised interest payments	(-) 154
Guns buy back scheme	+ 50
Rail services payments	+ 263
Health	+ 230
Additional funding for victims of crime compensation	+ 23
Community Services/Ageing and Disability Services	+ 50

- **current receipts \$53 million above Budget**

	<b>\$m</b>
Fiscal Contribution Payment to the Commonwealth (treated as a negative receipt)	(-) 210
Revenue raising to fund the State's Fiscal Contribution Payment to the Commonwealth to reduce Commonwealth debt -	
• vehicle registration duties	+ 58
• land tax	+ 40
• payroll tax	+ 118
Contracts and conveyances stamp duty	+ 220
Share transfer stamp duty	+ 40
Tobacco licence fees	+ 66
Revenues from Non Budget Sector agencies	(-) 93
Commonwealth general purpose payments	(-) 57
Guns buy back reimbursements from the Commonwealth	+ 62
Reclassification of income from Non-Budget Sector agencies to advances repaid (treated as a negative capital outlay)	(-) 266

- **capital outlays \$517 million below Budget**

Reclassification of State Bank transactions	(-) 52
Repayment of advances by the M5 consortium and SOCOG	(-) 139
Reclassification of income from Non Budget Sector agencies to advances repaid	(-) 266
Increase in GTE asset sales revenue	(-) 55

- **capital receipts \$65 million below Budget**

Commonwealth National Highway Program funding	(-) 90
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The main aggregates relating to 1996-97 are shown in Table 1.7, while a more detailed explanation of the factors leading to the variations from Budget is given in Appendix B of this Budget Paper.

**Table 1.7: 1996-97 Estimated Budget Result - Underlying Basis (a)**

	Budget	Revised	Variation
	\$m	\$m	\$m
<b>Current Outlays</b>			
Interest Payments	1,576	1,422	(-) 154
Superannuation	1,272	1,290	18
Subsidies to Non Budget Sector Agencies -			
Redundancies	76	32	(-) 44
Other	887	1,003	116
Departmental Payments -			
Redundancies	26	25	(-) 1
Other	16,610	17,210	600
Treasurer's Advance	100	20	(-) 80
Total, Current Payments	20,548	21,002	454
less user charges	1,301	1,312	11
<b>Total, Current Outlays</b>	<b>19,246</b>	<b>19,690</b>	<b>444</b>
<b>Current Receipts</b>			
Taxes, Fees and Fines	11,284	11,825	541
Income from Non Budget Sector Agencies	1,494	1,456	(-) 38
Commonwealth Grants	7,609	7,373	(-) 236
Other	1,102	889	(-) 213
<b>Total, Current Receipts</b>	<b>21,490</b>	<b>21,543</b>	<b>53</b>
<b>Current Result</b>	<b>2,243</b>	<b>1,853</b>	<b>(-) 390</b>
<b>Capital Outlays</b>			
Gross Fixed Capital Payments -			
Olympics/Homebush Bay	442	430	(-) 12
Other	1,969	1,940	(-) 29
Capital Grants	1,158	1,120	(-) 38
Advances made	14	44	30
Total, Capital Payments	3,583	3,534	(-) 49
less Advances repaid to the Budget Sector	(-) 1	512	513
less Asset Sales	409	364	(-) 45
<b>Total, Capital Outlays</b>	<b>3,175</b>	<b>2,658</b>	<b>(-) 517</b>
<b>Capital Receipts</b>			
Commonwealth Grants	931	861	(-) 70
Other	6	11	5
<b>Total, Capital Receipts</b>	<b>937</b>	<b>872</b>	<b>(-) 65</b>
<b>Capital Result</b>	<b>(2,238)</b>	<b>(1,786)</b>	<b>452</b>
<b>TOTAL RESULT - SURPLUS(a)</b>	<b>5</b>	<b>67</b>	<b>62</b>

(a) The underlying basis of presentation excludes "extraordinary" items such as equity restructure payments from Non Budget Sector agencies and certain transactions relating to the sale of government enterprises (e.g. State Bank and Axiom Funds Management). These items total roundly \$53 million net income in 1996-97.



## Trends in Budget Results

Prior to 1991-92, the Budget was presented solely on a Consolidated Fund basis. This basis was not supported by statistical standards and did not involve a complete and accurate presentation of the financial position of the Budget Sector.

The Budget was first presented on a Government Finance Statistics (GFS) basis in 1991-92. The Government Finance Statistics are the statistical standards for the presentation of public sector outlays, receipts and financing transactions on a cash basis.

In order to provide a longer history of Budget results, it has been necessary to reconstruct Budget data for prior years on a GFS basis. Of course, this may give aggregates and components different to those which were published in the Budget Papers for those years. Aggregates for the period 1988-89 to 1994-95 also vary from those previously published due to data refinements.

Trends in the Budget position over recent years and projected over the forward estimates period are shown in Table 1.8 (and in Figure 1.1).

**Table 1.8: Budget Sector Results, 1988-89 to 1999-2000 (a)**

Year	Current			Capital			Total Result	
	Outlays	Receipts	Result	Outlays	Receipts	Result	Underlying	Headline
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
1988-89	12,743	13,613	870	1,516	851	(665)	205	257
1989-90	13,836	14,340	504	2,449	1,160	(1,289)	(785)	(785)
1990-91	14,719	15,007	288	2,473	1,212	(1,261)	(973)	(973)
1991-92	15,604	15,709	105	2,405	1,038	(1,367)	(1,262)	(1,262)
1992-93	15,877	16,439	562	2,827	1,241	(1,586)	(1,024)	678
1993-94	16,561	17,933	1,372	3,129	1,245	(1,884)	(512)	(416)
1994-95	17,497	18,912	1,415	2,786	1,020	(1,766)	(351)	182
1995-96	18,178	20,310	2,132	3,161	920	(2,241)	(109)	1,611
1996-97	19,690	21,543	1,853	2,658	872	(1,786)	67	119
1997-98	20,515	22,763	2,247	3,301	1,081	(2,220)	27	(56)
1998-99	21,070	23,284	2,214	3,025	847	(2,178)	36	(22)
1999-2000	21,656	24,098	2,442	3,117	870	(2,247)	195	173

(a) Underlying basis of presentation, other than last column.

Table 1.8 and Figure 1.1 show quite clearly a pattern of a Budget result deteriorating substantially up to 1991-92 (most noticeably in 1989-90), with a

turnaround since 1991-92 leading to underlying surpluses in 1996-97 and the period to 1999-2000.

The history over many years in New South Wales (as in most other States) has been one of continuing underlying Budget deficits of varying magnitudes. Comparable data for the Budget Sector are not available prior to 1988-89 because of the wider range of transactions now included in the Budget and because of other accounting changes.

However, analysis of data compiled by the Australian Bureau of Statistics for the General Government Sector (a wider, but broadly similar coverage to the Budget Sector) would tend to confirm that the State has been running a Budget deficit over a long period.

## MAIN COMPONENTS OF BUDGET RESULTS

### Historic Trends

Budget aggregates change over time as a result of factors such as inflation, wages and population growth, policy initiatives and productive efficiency. One approach for measuring the year to year growth in Budget aggregates is to compare the increase in components of the outlays and revenues with the growth in the State economy. While such an approach has a number of deficiencies (particularly during pronounced economic cycles), it provides an approximate measure of the impact of government on the economy generally.

Table 1.9 shows the variations in Budget aggregates compared with what might be expected if growth had been in line with GSP. Over the period 1988-89 to 1991-92 the underlying Budget deficit expanded by around \$1.5 billion. Subsequent to 1991-92, the deficit fell by \$900 million during the next 3 years and is expected to fall a further \$300 million in the period 1994-95 to 1997-98.

**Table 1.9: Growth in Budget Aggregates Compared with GSP (a) (b)**

	1988-89 to 1991-92 \$m	1991-92 to 1994-95 \$m	1994-95 to 1997-98 \$m
Current Outlays -	1,048	(-) 415	(-) 78
Interest	(-) 27	(-) 489	(-) 584
Redundancies	343	(-)177	(-) 80
Superannuation	245	54	275
Other	488	197	311
Capital Outlays -	673	106	146
Net Advances	(-) 196	272	(-) 172
Casino Licence	...	(-) 376	376
Other	869	210	(-) 59
Total Outlays	1,722	(-) 308	68
Receipts -	226	566	397
Tax	110	338	986
Income from NBS	513	283	124

Grants	(-)188	(-)78	(-)895
Other	(-) 208	22	182
Deficit	1,496	(-) 874	(-) 329

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- (a) Defined as the increase in the relevant aggregate less growth in line with GSP.
- (b) Adjustments have been made to a number of aggregates to facilitate time series comparisons. All aggregates have been adjusted for the impact of equity sales and equity restructure payments.

The main conclusions which can be drawn from the above analysis are as follows

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- During the period 1988-89 to 1991-92, the impact of the severe recession produced a rise in the relationship between outlays and GSP. The relative growth in current outlays was exacerbated by the need to fund redundancies and the movement to more fully fund superannuation liabilities. Capital outlays, in relative terms, also increased rapidly over the 3 years to 1991-92 with the deficit being only held down by special repayments of debt by the non-Budget sector.

A policy response to the recession and its negative impact on the Budget was an increase in tax rates. This produced an increase in revenues, despite the high base achieved in 1988-89 with the boom in property market transactions. These tax rate increases more than offset the underlying decline in the tax base. They included the introduction of the 3x3 fuel franchise fee, an increase in tobacco franchise fees from 30 to 50 per cent, the doubling of FID and an increase in payroll tax to 7 per cent. The impact on revenue of these tax changes is shown in Table 1.3.

However, the main source of revenue growth in the 3 years to 1991-92 was dividend payments from the Non Budget Sector.

- After the deficit peaked in 1991-92 at \$1,262 million, the growth in current outlays was constrained during the following 3 years, reflecting both policy actions and the impact of a slowly recovering economy. The process of winding back the growth was assisted greatly by a reduction in interest rates, with interest payments falling relative to GSP by nearly \$500 million. While current outlays fell relative to GSP, capital outlays continued to increase strongly, although revenue from the licensing of the casino in 1994-95 minimised the impact on the deficit. (Under GFS principles the proceeds from the casino fee were treated as an offset to capital outlays.)

On the revenue side, tax revenue continued to increase substantially as the economy recovered from the recession. The growth in taxes over this period was assisted by a further increase in tobacco franchise licence fees to 75 per cent, an increase in liquor licence fees from 10 to

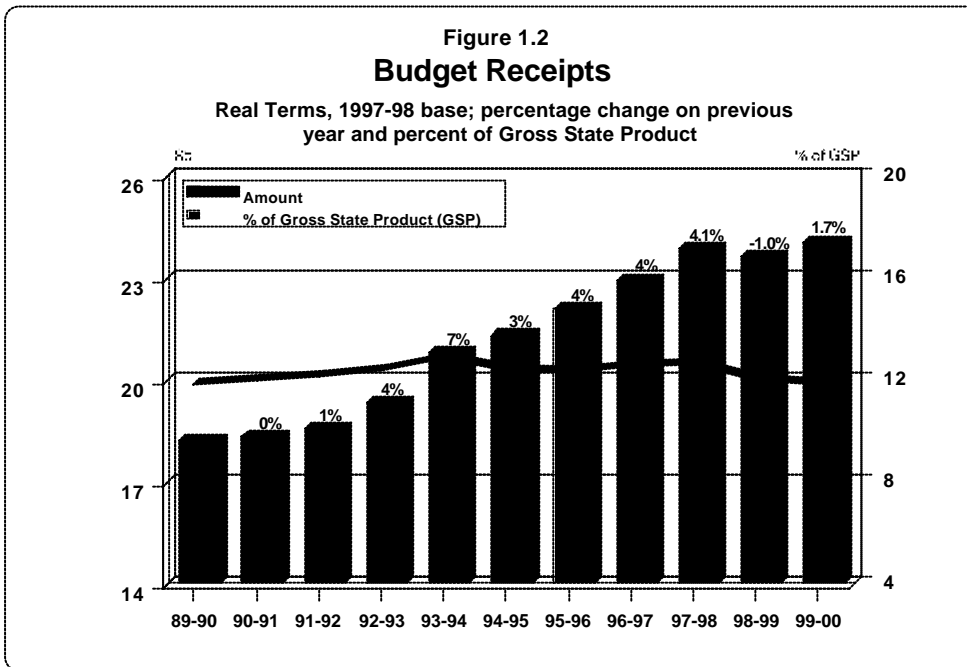
13 per cent and a doubling of debts tax. Revenue from the Non Budget Sector also continued to increase strongly.

- Between 1994-95 and 1997-98 it is expected that the deficit will be eliminated. In the main, the projected improved financial result will be achieved through the impact of lower interest rates on debts costs, lower capital outlays (although in 1997-98 there will be a significant increase) and higher own source revenues. Of note is the significant reduction in Commonwealth grants which almost completely offset the increases in tax revenue.

## Receipts

Non-policy variations in Budget Sector receipts have by far the most significant impact on the State's overall Budget result, substantially greater than discretionary changes in expenditures.

State receipts, with the exception of payroll tax, are in fact not strongly affected by the general level of economic activity, in contrast to the position with Commonwealth revenue, which moves in line with the level of economic activity.



In the period 1989-90 to 1996-97, Budget receipts increased by 3.7 per cent per annum in real terms and, by 1996-97, reached 12.7 per cent of Gross State Product. Increased State revenues over this period largely reflect the impact of tax increases in the years to 1993-94, together with the increases introduced earlier this year to meet the State's Fiscal Contribution towards reduction of the Commonwealth's Budget deficit. In contrast total Commonwealth payments to New South Wales have only increased by 1.6 per cent per annum in real terms over the seven years to 1996-97.

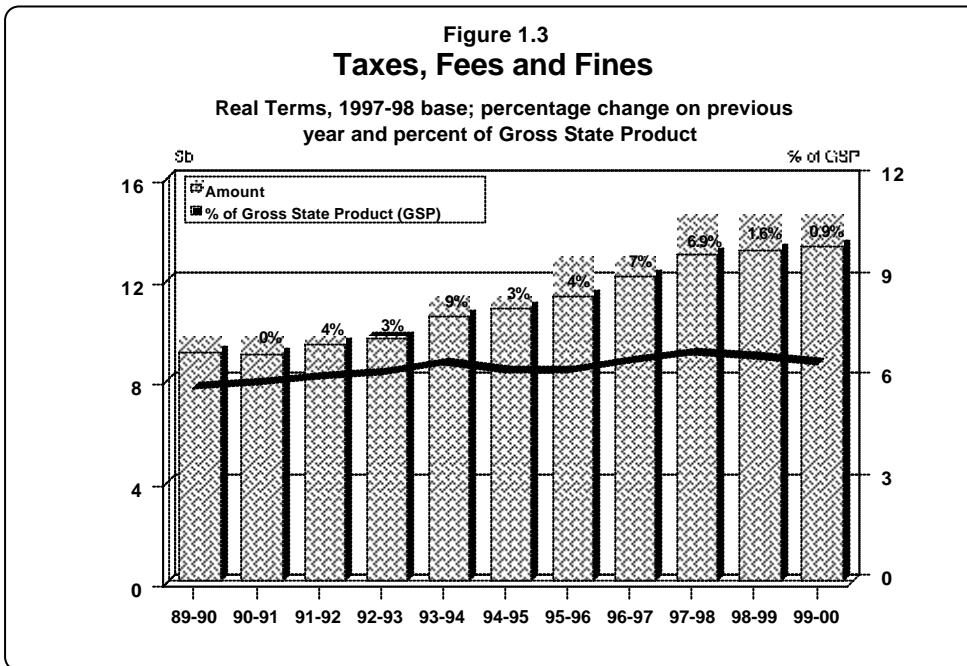
For 1997-98, Budget Sector receipts are projected to increase by 4.1 per cent in real terms, with a fall of 1.0 per cent in 1998-99 and an increase of 1.7 per cent

in 1999-2000. Expressed as a percentage of Gross State Product, Budget Sector receipts are projected to decrease from 12.7 per cent in 1996-97 to 12.0 per cent in 1999-2000.

The main features of the projected receipts position for 1997-98 are as follows -

- **an increase in revenue from taxes, fees and fines**

Revenue from taxes, fees and fines will increase partly as a result of the tax initiatives introduced in this Budget, as well as the continuing impact of tax measures funding the State's Fiscal Contribution to the Commonwealth.



Overall, receipts from taxes, fees and fines are projected to increase by 9.2 per cent in 1997-98 (6.9 per cent in real terms).

The main contributors to this increase are -

- an anticipated 3.2 per cent increase due to the various tax measures to be introduced in 1997-98, including -
  - the introduction of an Electricity Distributors Levy, expected to yield \$100 million;
  - increasing the rate of land tax from 1.65 to 1.85 per cent and extending the coverage of land tax to high valued owner occupied properties, expected to yield \$109 million;

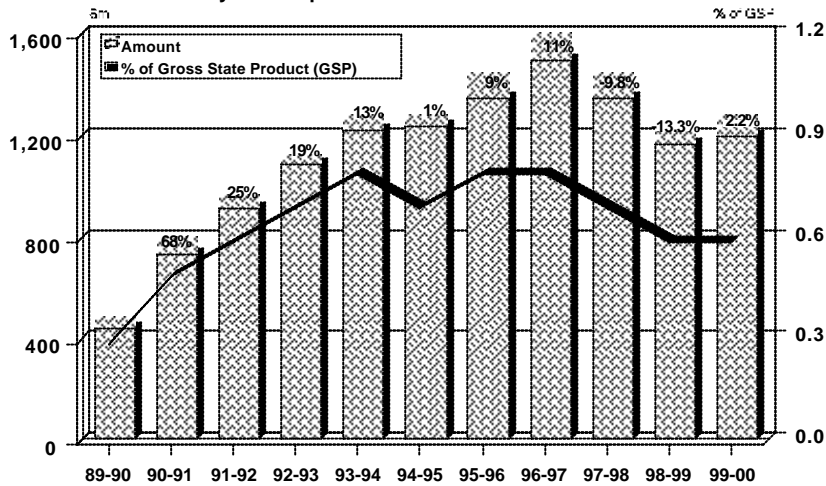
- increasing club gaming device duty, expected to yield \$56 million;
- increasing the concessional rate of duty on general insurance, expected to yield \$51 million; and
- the introduction of an accommodation duty, expected to yield \$48 million.
- the continuation of a relatively buoyant property market in the first half of 1997-98 impacting on receipts from contracts and conveyances duty and loan security duty;
- an increase in revenue from payroll tax in line with wage and employment growth as well as increase in employer superannuation contributions;
- increases in revenue from gambling, particularly from -
  - the opening of the permanent casino in November 1997;
  - higher tax rates on profits from club gaming machines;
- **a decrease in income from Non Budget Sector agencies**

Income from Non Budget Sector Agencies is projected to decrease by 9.8 per cent in real terms in 1997-98. In the main, this reflects the inclusion in 1996-97 of two one-off factors -

- revenue from a cross border lease is included in the Generation sector tax and dividend payments; and
- increased tax revenue from the change in timing of tax payments.

**Figure 1.4  
Income from Non Budget Sector Agencies**

Real Terms, 1997-98 base; percentage change on previous year and percent of Gross State Product

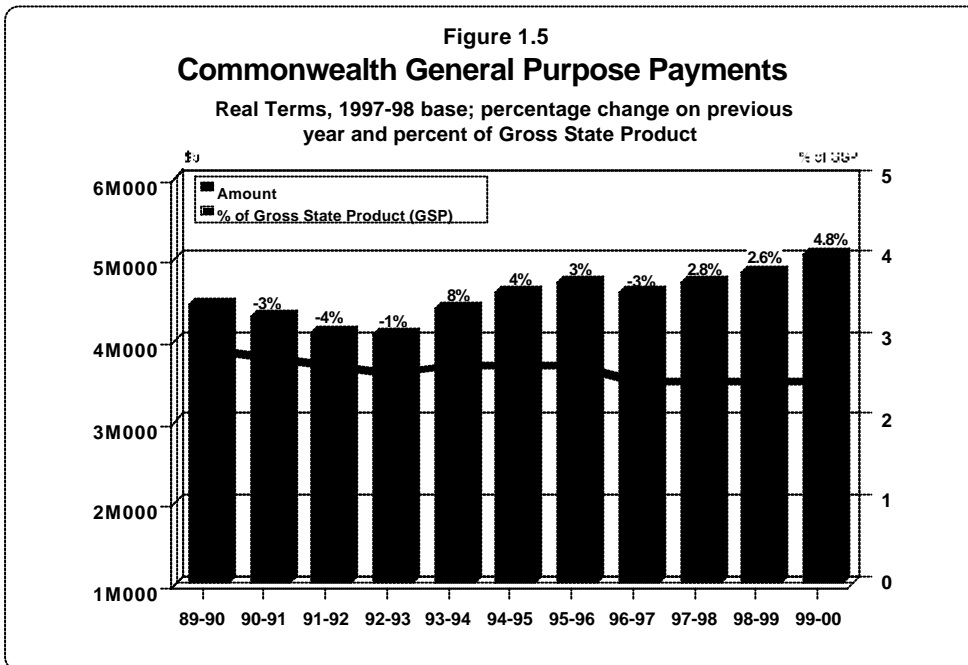


In line with the Australian Taxation Office determination bringing forward company tax payments, an additional quarterly income tax equivalent payment is being made in 1996-97. Thus, 75 per cent of 1995-96 tax liability is payable in 1996-97. In each subsequent year, 50 per cent of the previous year's liability and 50 per cent of the current year's liability will be paid in that year. Excluding the one-off impacts of the cross border lease payment and the timing of tax payments, income from Non Budget Sector agencies has increased between 1996-97 and 1997-98 by \$108 million, or 8.7 per cent. Beyond 1997-98, income (excluding revenue from the sale of surplus assets) from Non Budget Sector agencies is projected to decline in real terms and as a percentage of Gross State Product. This decline largely reflects the impact of declining profits in the electricity generation area due to reduced prices from increasing competition with the emergence of the national electricity market.

Beyond 1997-98, income from Non Budget Sector agencies is projected to decline in real terms and as a percentage of Gross State Product. After reaching a peak of \$1,342 million (or 0.76 per cent of Gross State Product) in 1995-96, it is expected to decline to \$1,188 million (or 0.59 per cent of Gross State Product) by 1999-2000. This decline largely reflects the impact of declining profits in the electricity area due to reduced electricity prices.

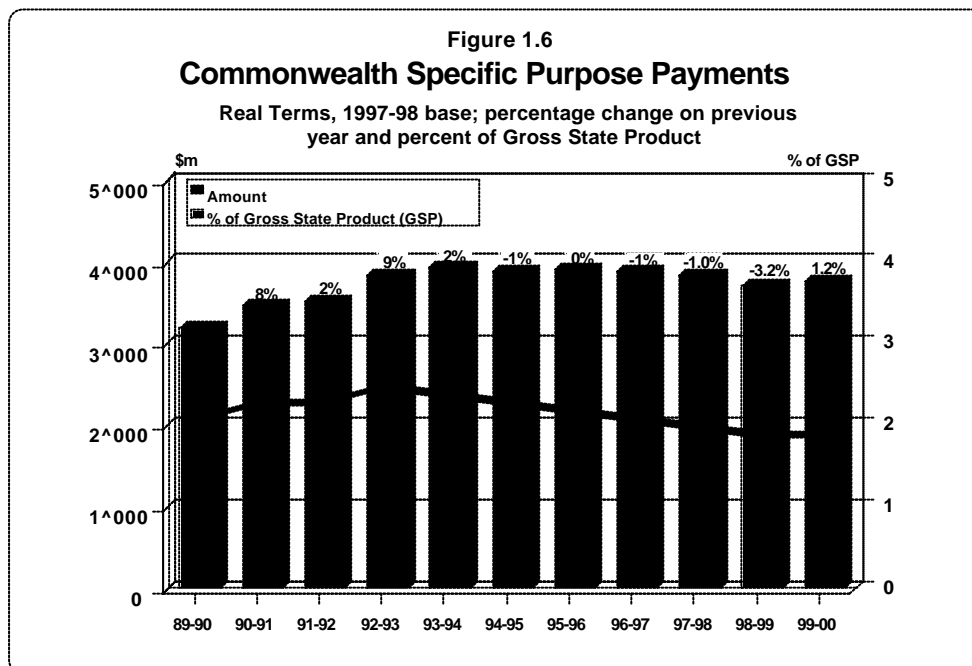
- **increase in Commonwealth grants**

In assessing Commonwealth grants, a distinction needs to be made between general purpose or untied payments and specific purpose or tied payments as they exhibit disparate trends and have quite different implications for State finances.



General purpose payments, consisting of financial assistance grants, special revenue assistance and untied roads funding (and in years prior to 1994-95, general purpose capital payments) declined sharply in real terms between 1987-88 and 1992-93 by about \$800 million (or a reduction from 3.2 per cent to 2.6 per cent of Gross State Product), but increased by about \$640 million between 1992-93 and 1995-96. General purpose payments again decreased by 2.9 per cent in real terms in 1996-97 as a result of the Commonwealth's requirement for the States to make a Fiscal Contribution towards reducing the Federal Budget deficit over the three years from 1996-97.

Net of the Fiscal Contribution Payments, general purpose payments are expected to increase in real terms by 2.8 per cent in 1997-98, by 2.6 percent in 1998-99 and by 4.8 per cent in 1999-2000 and remain a constant 2.5 per cent of GSP till 1999-2000. This reflects, among other things, the assumption that financial assistance grants will be maintained in real per capita terms and that the Commonwealth Government will make the scheduled payments under the National Competition Policy Agreement beginning in 1997-98.



At the same time that general purpose payments declined, specific purpose payments (current and capital) increased from 38 per cent of total Commonwealth payments in 1988-89 to 47 per cent in 1992-93. In the four years to 1997-98 this percentage has declined to 44 per cent.

The increase in tied grants during the period prior to 1992-93 did not compensate for the cut in untied grants. Tied grants impose hidden costs through matching requirements, reporting and other administrative arrangements, resulting in duplication and overlap, as well as a loss of funding flexibility.

While a reduction in the share of specific purpose payments on an unchanged policy basis is expected beyond 1997-98, this will hardly be sufficient to

compensate for adverse trends in the Commonwealth funding mix during the decade prior to 1992-93.

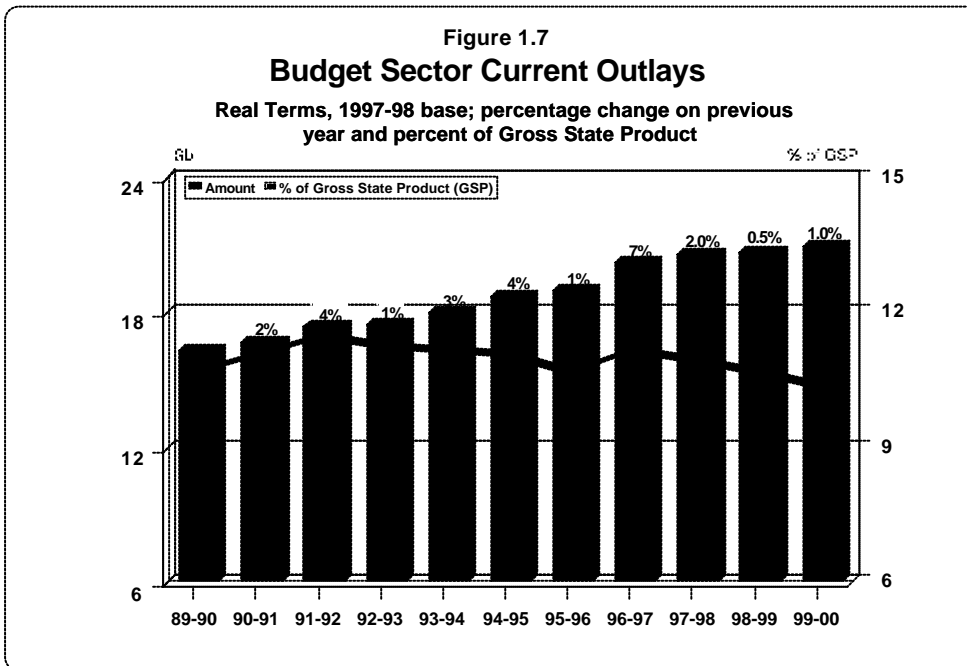
## Current Outlays

Current outlays are projected to increase by 4.2 per cent in 1997-98, a real increase of 2.0 per cent.

**Table 1.10: Summary of Current Outlays**

		1996-97 Estimate	1997-98 Estimate	1998-99 Estimate	1999-2000 Estimate
Current outlays	\$m	19,690	20,515	21,070	21,656
Change over previous year	%	8.3	4.2	2.7	2.8
Real change over previous year	%	6.5	2.0	0.5	1.0
As a proportion of GSP	%	11.2	11.0	10.7	10.4

Over the three year period to 1999-2000, current outlays are projected to increase by 3.5 per cent in real terms and decline as a proportion of Gross State Product to 10.4 per cent.



The real increase of 2.0 per cent in current outlays in 1997-98 reflects the net impact of the following factors -

- the 5.1 per cent real increase in interest payments in 1997-98;

- a 10.1 per cent real increase in superannuation payments;
- the real decline of 12.1 per cent in subsidies to Non Budget Sector agencies, mainly reflecting the further reduction in transport authority operating cost structures; and
- a real increase in departmental payments of 1.9 per cent, reflecting growth in governmental priority areas including health, police and education.

Within the current outlays area, there are a number of important trends and these are set out below.

- **interest payments**

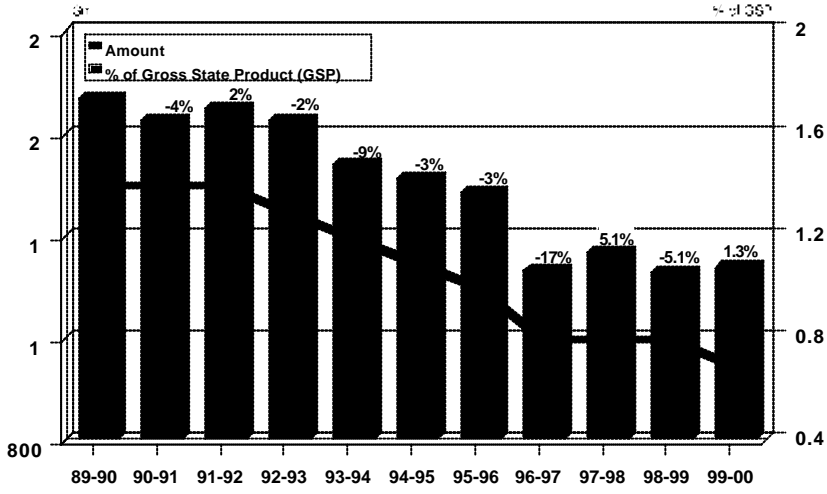
Budget Sector debt servicing costs, as a percentage of Budget receipts, have declined from 11.2 per cent in 1990-91 to 6.4 per cent in 1997-98 and are projected to fall to 6.1 per cent in 1999-2000 with further falls in future years as the debt reduction strategy of the Government continues to deliver ongoing benefits.

The decline in interest payments reflects both the containment of the growth in debt levels plus the very substantial decline in interest rates that have occurred over the last three years. The decline in interest rates has a lagged effect, reducing interest payments as new debt is raised and existing debt matures.

The increase in payments in 1997-98 reflects the debt management undertaken in 1995-96 which increased interest payments in 1995-96 and substantially reduced payments in 1996-97 but not in 1997-98.

**Figure 1.8  
Budget Sector Interest Payments**

Real Terms, 1997-98 base; percentage change on previous year and percent of Gross State Product



- **superannuation**

Superannuation payments are projected to increase by 12.5 per cent in 1997-98, a real increase of 10.1 per cent. This large increase is the result of the planned increase in payments aimed at extinguishing the unfunded superannuation liability.

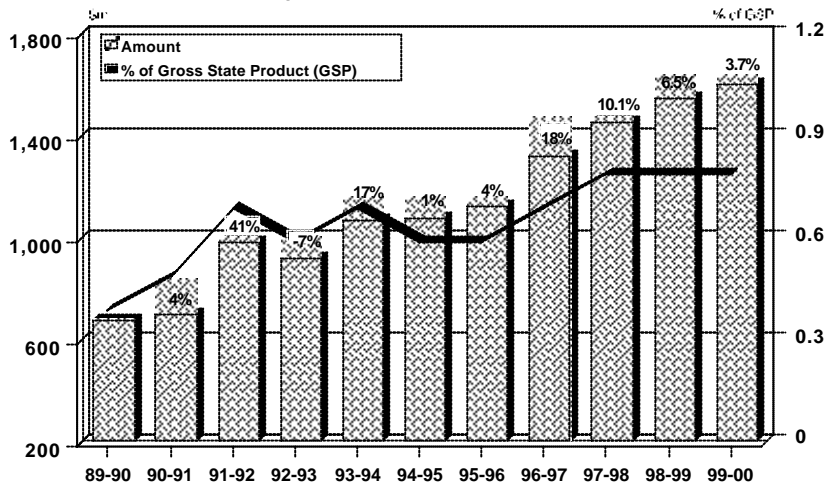
Over the six year period from 1990-91 to 1996-97, superannuation payments have increased by an average 18.1 per cent per annum, or 14.8 per cent per annum in real terms.

The policy of increasing cash payments into superannuation schemes previously funded on an emerging cost basis (as detailed in Section 7.3) is addressing the unfunded superannuation liability and will, over time, reduce the cost of superannuation relative to what otherwise would have been the case.

However, in the short to medium term, the reform will involve substantially increased cash payments as the new scheme, First State Super, is financed on a fully funded basis. Additional payments will also be made into the closed schemes, as part of the strategy to first fully fund accruing liabilities by the year 2020 and then to extinguish Budget Sector unfunded liabilities relating to these schemes by the year 2044-45. Additional cash payments over the 10 year period 1997-98 to 2006-07 are projected to be about \$2.9 billion (in June 1997 dollars).

### Figure 1.9 Superannuation Payments

Real Terms, 1997-98 base; percentage change on previous year  
and percent of Gross State Product

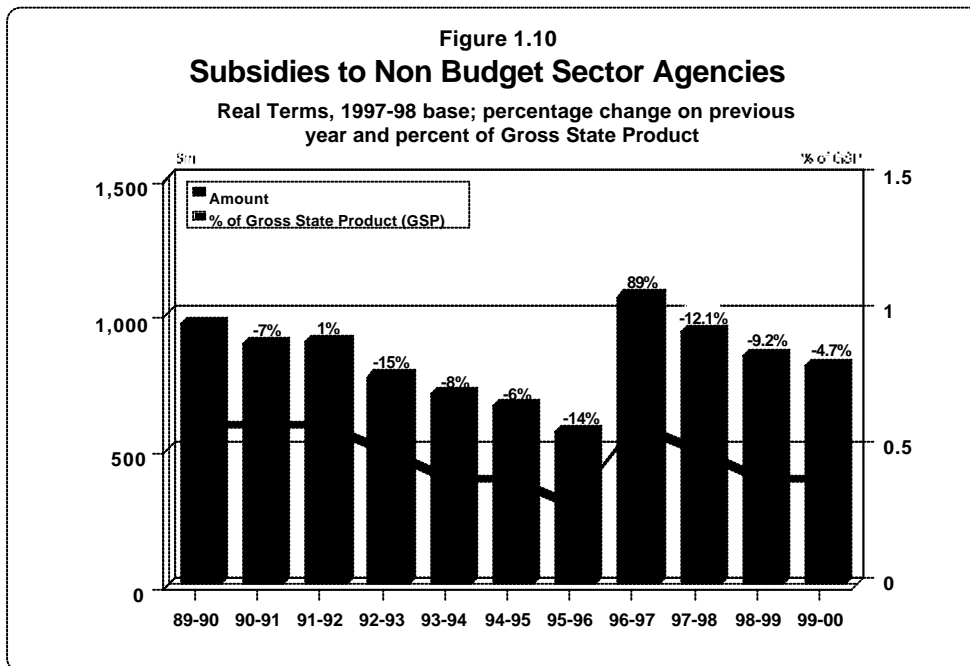


- **subsidies to Non Budget Sector**

Subsidies to Non Budget Sector agencies, principally to the transport authorities (but excluding redundancy subsidies) continue to decline in real terms reflecting the continuing impact of reforms and restructure in this area.

The large increase in subsidies in 1996-97 is primarily due to three aspects of the rail restructure. Firstly, the reclassification of rail capital grants to subsidies. Prior to 1996-97 the former SRA received capital grants to construct and maintain track infrastructure. From 1996-97 the Rail Access Corporation (RAC) is responsible for track infrastructure. To fund this work it recovers access charges from FreightCorp and the State Rail Authority. These charges are now current outlays to FreightCorp and SRA. RAC also receives a CSO for non commercial line services.

Secondly, funding to the SRA increased in 1996-97 after new commercial arrangements removed the cross subsidies between entities of the former SRA. Thirdly, additional payments are being made to fully fund future employer superannuation and workers' compensation liabilities of employees transferred from the former SRA to RAC and Rail Services Authority.

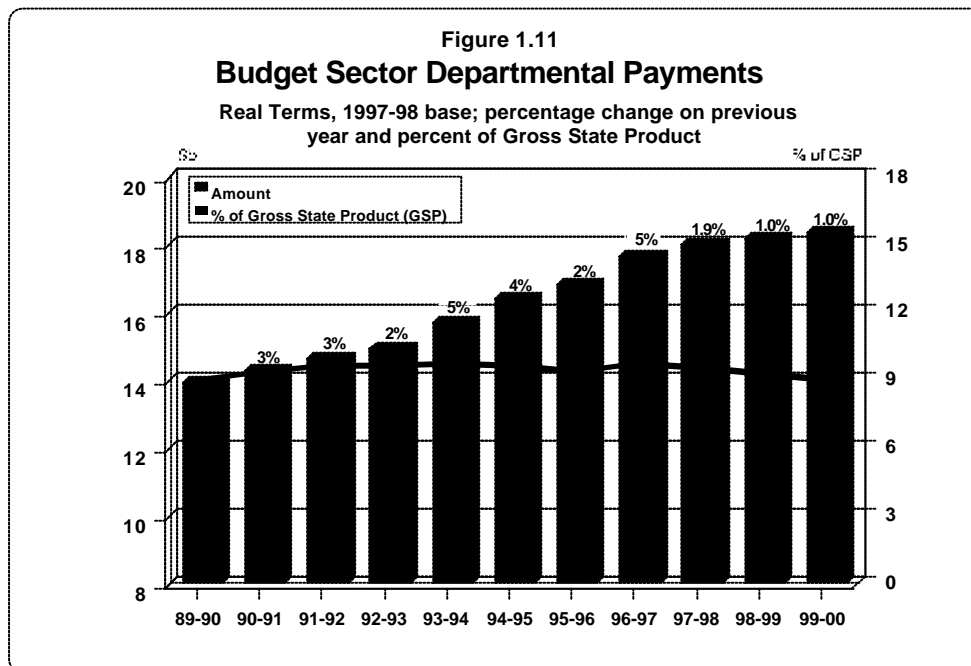


- **Departmental payments**

Departmental payments exclude interest and superannuation payments and subsidies to Non Budget Sector agencies.

Over the three years to 1999-2000, departmental payments are projected to increase by 3.9 per cent in real terms but decline as a proportion of Gross State Product from 9.8 per cent in 1996-97 to 9.1 per cent in 1999-2000.

Departmental payments are projected to increase by 1.9 per cent in real terms in 1997-98. This increase is primarily due to the impact of the relatively low increase in the measure of inflation used to calculate real growth; coupled with substantially increased funding for both schools and health services. Payments by the Department of Health will increase by \$106 million, or almost 2 per cent, in real terms in 1997-98, while School Education will increase its payments by some \$177 million in real terms, largely as a result of increases in teachers salaries and the costs of recently introduced and new initiatives.



Further minor real increases in departmental payments are budgeted for both 1998-99 and 1999-2000.

Details of current payments by policy area and sector and by Minister and agency are provided in Chapter 4 and in Appendices E and F respectively to this Budget Paper.

## **Capital Outlays**

Over the period 1989-90 to 1997-98, Budget Sector capital outlays will have increased by 14.7 per cent or nearly \$423 million in real terms. Major factors contributing to the real growth over this period include the acceleration in the State's roads program (the 3 cents petroleum levy and the full hypothecation of motoring taxation), increased funding for hospital infrastructure, including the relocation of hospital facilities to the west and south-west of Sydney, the major infrastructure renewal program of the State Rail Authority, and (since 1996-97) the substantial expenditure on Olympics and Homebush Bay projects.

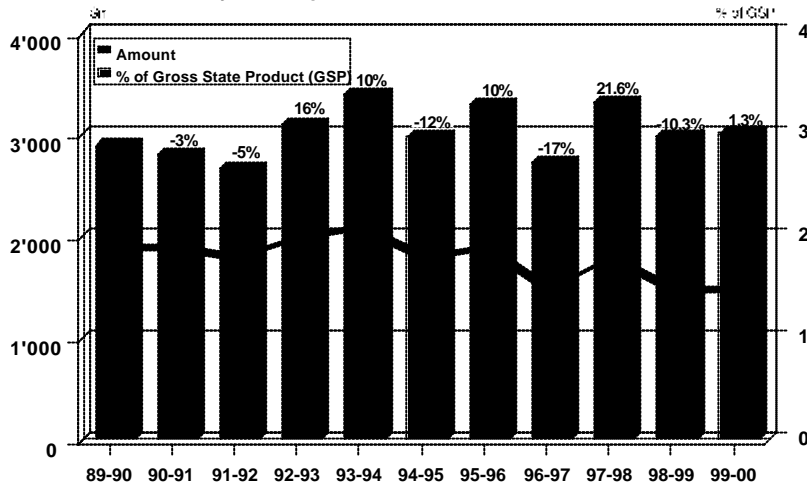
Expressed as a percentage of Gross State Product, Budget Sector capital outlays have remained relatively constant at around 1.9 per cent over the period 1990-91 to 1997-98 but are projected to decline to 1.5 per cent in 1999-2000, as the peak years of Budget funded expenditure on the Olympic/Homebush Bay projects are passed.

Budget Sector capital outlays are projected to increase by 24.2 per cent in 1997-98, a real increase of 21.6 per cent. Excluding Olympic related expenditure, outlays will still increase by 16.0 per cent in real terms in 1997-98. This increase in outlays is primarily due to the impact of reductions in both asset sales and advances repaid to the Budget (asset sales and advances repaid are negative capital outlays), coupled with a substantial increase in capital grants for rail services.

Gross fixed capital payments by Budget Sector agencies are expected to increase by only \$97 million, or 2.8 per cent in real terms, in 1997-98.

**Figure 1.12  
Budget Sector Capital Outlays (a)**

Real Terms, 1997-98 base; percentage change on previous year and percent of Gross State Product



(a) Excludes revenue offsets from the sale of business assets and equity restructure payments

The Budget Sector capital outlays include the full assessed commitment for the Olympics and Homebush Bay development. The Olympics related capital payments will increase from \$56 million in 1995-96 to \$628 million in 1997-98 and decrease to \$448 million in 1998-99 and \$181 million in 1999-2000.

## OVERVIEW OF BUDGET SECTOR FINANCIAL PERFORMANCE

The Government is firmly committed to reducing and ultimately eliminating the State's Budget Sector debt in order to ensure that future generations are not left with a legacy which will reduce their ability to enjoy the same level of public services as are currently enjoyed by this generation. The only lasting way that this goal can be achieved is to produce an ongoing Budget surplus.

Indicators of the Budget Sector financial performance are summarised in Table 1.11.

**Table 1.11: Key Budget Sector Performance Indicators**

Financial Indicator	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000
<b>Debt and Interest Burden</b>										
Net debt: % of Budget receipts	n.a.	77.3	78.5	77.7	75.0	63.5	58.9	55.3	54.5	51.9
% of GSP	n.a.	9.5	9.9	10.1	9.5	8.0	7.5	7.1	6.7	6.2
Debt servicing costs: % of Budget receipts	11.2	11.2	10.6	9.0	8.5	7.8	6.3	6.4	6.1	6.1
% of GSP	1.4	1.4	1.3	1.2	1.1	1.0	0.8	0.8	0.8	0.7
<b>Unfunded Superannuation Liability</b>										
% of Budget receipts	65.2	72.3	70.3	63.9	63.7	64.3	65.5	63.8	64.1	63.1
% of GSP	8.0	8.9	8.8	8.3	8.0	8.1	8.3	8.2	7.8	7.6
<b>Budget Result (underlying)</b>										
% of Budget receipts	(-) 6.0	(-) 7.5	(-) 5.8	(-) 2.7	(-) 1.8	(-) 0.5	0.3	0.1	0.1	0.8
% of GSP	(-) 0.7	(-) 0.9	(-) 0.7	(-) 0.3	(-) 0.2	(-) 0.1	...	...	...	0.1
<b>Tax Burden</b>										
NSW Tax Severity Index (base = 100)	n.a.	103.8	103.1	101.6	104.1	102.6	n.a.	n.a.	n.a.	n.a.
<b>Trends in Payments and Receipts</b>										
Current outlays: real change (%)	2.1	4.0	0.5	3.3	4.2	1.1	6.5	2.0	0.5	1.0
% of GSP	11.1	11.5	11.3	11.2	11.1	10.7	11.2	11.0	10.7	10.4
Capital outlays: real change (%)	(-) 3.1	(-) 4.6	16.2	9.6	(-) 12.2	10.4	(-) 17.3	21.6	(-) 10.3	1.3
% of GSP	1.9	1.8	2.0	2.1	1.8	1.9	1.5	1.8	1.5	1.5
Total Outlays: real change (%)	1.3	2.8	2.6	4.2	1.6	2.4	3.0	4.3	(-) 1.0	1.0
% of GSP	12.9	13.2	13.3	13.3	12.9	12.6	12.7	12.8	12.2	11.9
Receipts: % real change (%)	0.4	1.3	4.3	7.4	2.5	3.6	3.9	4.1	(-) 1.0	1.7
% of GSP	12.2	12.3	12.6	13.0	12.6	12.5	12.7	12.8	12.2	12.0
<b>Budget Sector Employment (as at 30 June)</b>										
Number (000)	228.9	222.2	225.3	223.1	228.5	227.7 <sup>(a)</sup>	228.4 <sup>(a)</sup>	n.a.	n.a.	n.a.
% change	1.2	(-) 3.0	1.4	(-) 1.0	2.4	(-) 0.2	0.3	n.a.	n.a.	n.a.
% of labour force	8.1	7.7	7.9	7.7	7.6	7.5	n.a.	n.a.	n.a.	n.a.

(a) Figures as at 31 March.

