

TREASURER, MINISTER FOR INFRASTRUCTURE, AND MINISTER FOR THE HUNTER

OVERVIEW

<i>Agency</i>	<i>Budget 2006-07 \$m</i>	<i>Budget 2007-08 \$m</i>	<i>Variation %</i>
Treasury			
Total Expenses	475.8	525.7	10.5
Capital Expenditure	6.4	5.1	-20.6
Crown Finance Entity			
Total Expenses	4,121.1	3,309.1	-19.7
Capital Expenditure	10.0	10.0	...
Crown Leaseholds Entity			
Total Expenses	40.0	24.2	-39.5
Capital Expenditure
NSW Self Insurance Corporation			
Total Expenses	1,086.6	1,353.3	24.5
Capital Expenditure	0.6	0.3	-48.8
Liability Management Ministerial Corporation			
Total Expenses	8,703.6	...	-100.0
Capital Expenditure
Electricity Tariff Equalisation Ministerial Corporation			
Total Expenses	0.5	0.5	...
Capital Expenditure
Crown Property Portfolio			
Total Expenses	152.5	...	-100.0
Capital Expenditure	82.4	...	-100.0
Advance to the Treasurer			
Total Expenses	245.0	215.0	-12.2
Capital Expenditure	110.0	110.0	...
Total, Treasurer, Minister for Infrastructure, and Minister for the Hunter			
Total Expenses	14,825.1	5,427.8	-63.4
Capital Expenditure	209.4	125.4	-40.1

TREASURY

Treasury comprises the Office of Financial Management and the Office of State Revenue.

RESULTS AND SERVICES

Office of Financial Management (OFM)

OFM has lead agency responsibility for coordinating with partner agencies to ensure the delivery of the following State Plan priorities:

- ◆ P5: AAA rating maintained.
- ◆ P2: Maintain and invest in infrastructure.

OFM promotes state resource management to achieve better public services and a stronger economy by working towards the following result areas:

- ◆ Ensuring state finances support delivery and long run affordability of services.
- ◆ Implementing policy settings that promote a competitive State economy.

Key services provided by OFM which contribute to these results include:

- ◆ advising on economic and fiscal strategies;
- ◆ advising on the efficiency and effectiveness of general government agencies, NSW Government businesses and other commercial activities;
- ◆ managing the State Budget aggregates and Budget process and reporting on State finances;
- ◆ developing and implementing public sector management systems including frameworks for general government financial management, operation of government businesses and Total Asset Management;
- ◆ overseeing the State Infrastructure Strategy including infrastructure investment and maintenance, and delivery of projects by private finance; and
- ◆ managing Crown Finance Entity financial assets and liabilities (including debt and superannuation matters).

Office of State Revenue (OSR)

OSR provides revenue administration services to ensure the NSW Government is able to fund its programs and thereby continue to improve its service delivery. OSR is working towards the following results:

- ◆ All due revenue is collected.
- ◆ All fines are processed correctly and on time.
- ◆ Eligible applicants receive their benefits.

Key services provided by OSR which contribute to these results include:

- ◆ revenue administration services, including conducting compliance programs to ensure revenue is collected;
- ◆ infringement processing and fine enforcement management on behalf of the Crown, commercial clients and some other NSW Government agencies; and
- ◆ managing benefit payments relating to the unclaimed money program, First Home Owner Grant Scheme, First Home Plus Scheme (including First Home Plus One) and Petroleum Product Subsidies.

RECENT DEVELOPMENTS

Office of Financial Management

Over the past five years, OFM's role has been strengthened through the transfer of functions from other agencies, specifically in the areas of infrastructure, asset management and procurement. More recently, OFM took a lead role in advising on the development of the National Reform Agenda involving regulatory and human capital reforms, and competition policy. The additional activities involved modest increases in overall expenses over the period.

Achievements during 2006-07 include:

Strong State finances supporting the delivery and long run affordability of Government Services:

- ◆ Maintained the State's AAA rating following independent assessments of the State's finances by ratings agencies.
- ◆ Implemented a framework for improved property management and utilisation through the establishment of the State Property Authority.

- ◆ Began the process of integrating the State Plan with the Budget cycle through the development of the Performance Management and Budgeting System (PMBS) utilising Results and Services Plans (RSPs) and Total Asset Management (TAM) Plans.

Policy settings that promote a competitive State economy:

- ◆ Advised on the development of the National Reform Agenda and participated in the development of policy initiatives aimed at improving competitiveness.
- ◆ Agreed on payroll tax harmonisation measures with Victoria, to cut red tape to businesses via standardised eligibility and definitions.

Office of State Revenue

As the Government's key revenue collection agency, OSR has concentrated its efforts on implementing a number of measures to ensure efficient revenue administration and to enhance service delivery. Key initiatives include:

All revenue is collected:

- ◆ Through business process improvements, OSR is conducting compliance activity earlier in the revenue administration process to maximise compliance and reduce overall costs of collection.
- ◆ A working group was established to introduce changes to harmonise the legislation and administrative processes for payroll tax for a 1 July 2007 start date. Other red tape reduction initiatives are being progressed by OSR.
- ◆ Integrated two of OSR's operational divisions, Client Service and Compliance Divisions, into an Operations Division from 1 July 2006 aimed at realising synergies, avoiding duplication, improving compliance and increasing client service. In turn, this will improve the way the entire lifecycle of tax revenue is managed.
- ◆ Implemented business intelligence initiatives to better meet corporate objectives, particularly compliance effectiveness.

All fines are processed and enforced correctly and on time:

- ◆ State Debt Recovery Office continues to improve the effectiveness of its compliance activity. This includes improved management of the statutory declaration and nomination processes to maintain the integrity of the system and ensure the correct allocation of demerit points.

- ◆ Realising benefits from the integration of the Infringement Processing and Fine Enforcement Branches of the Office by making enhancements to processes and procedures to maximise service to clients and internal efficiencies.

Eligible applicants receive their payments:

- ◆ The number of First Home Owner Grants has been steadily increasing since 2003-04 and is 12 per cent higher than last financial year. To date, grants totalling almost \$2.3 billion have been paid to first home buyers since the introduction of the grants in 2000.

One reason for the increase is the relatively low cost of housing for first home buyers particularly in the outer metropolitan area. It is projected that the number of grants will continue to increase in 2007-08. First Home Plus One, will give first home buyers who enter into shared equity arrangements access to stamp duty concessions. This measure was implemented from 1 May 2007.

- ◆ There has been a 25 per cent increase in the number of unclaimed money claims in 2006-07. This can largely be attributed to the Government's proactive approach to increase media coverage of unclaimed money.

STRATEGIC DIRECTIONS

Office of Financial Management

A number of initiatives to develop better public services and a stronger NSW economy are planned for the coming year.

Strong State finances supporting the delivery and long run affordability of Government Services:

- ◆ Maintaining appropriate Budget surpluses in line with the State's fiscal strategy.
- ◆ Monitoring progress against the medium and long term targets for major budget aggregates as set out in the *Fiscal Responsibility Act 2005*.
- ◆ Developing and implementing the Performance Management and Budgeting System (PMBS) to ensure ongoing alignment of State Plan priorities and delivery within the State Plan's cost-neutral framework.
- ◆ Ensuring that agency efficiency dividends are achieved for 2007-08 and forward years.

- ◆ Maintaining Results and Services Plans as the basis of the PMBS to achieve better resource allocation and management.
- ◆ Oversighting implementation of the State Infrastructure Strategy.

Policy settings that promote a competitive State economy:

- ◆ Ongoing implementation of the National Reform Agenda with a focus on regulatory and human capital reforms, and competition policy.
- ◆ Implementing payroll tax harmonisation with other States to further simplify requirements for business.
- ◆ Continuing participation in red tape reviews to reduce the burden on both government and private sector organisations.

Office of State Revenue

As the Government's key revenue collection agency, OSR is implementing a number of measures to ensure that revenue obligations are met.

Revenue performance is being enhanced by improving compliance, ensuring the NSW Community understands its revenue rights and obligations and improving legislation when necessary.

Effectiveness and efficiency of service delivery is being continually improved by embracing changes to technology that meet the requirements of both OSR and its many customers. OSR forges productive relationships with stakeholders at all levels to identify opportunities for process improvements.

2007-08 BUDGET

Total Expenses

The estimated expenses for Treasury are \$525.7 million including First Home Owner Grant payments estimated to be \$322 million. Excluding First Home Owner Grants, Treasury expenses are \$203.7 million and will be used for the following:

- ◆ \$44.7 million to promote state resource management to achieve better public services and a stronger NSW economy;
- ◆ \$101.8 million to ensure effective and equitable collection of revenue from taxes, duties and other sources;

- ◆ \$50 million to ensure effective and timely infringement processing and fine enforcement services; and
- ◆ \$7.2 million to ensure eligible applicants receive benefits due under Commonwealth and State Government schemes.

Capital Expenditure

OFM's allocation of \$0.4 million will be used to upgrade existing equipment under the asset replacement program and for general enhancements to existing financial collection and information systems.

OSR's capital allocation is \$4.8 million. The key programs planned for 2007-08 include:

- ◆ \$4.4 million for maintenance of OSR's information technology infrastructure and core business applications; and
- ◆ \$0.4 million for the replacement of leased and minor assets.

CROWN FINANCE ENTITY

The Crown Finance Entity is responsible for assets and liabilities, and their related transactions, that are managed centrally and for which individual agencies are not directly accountable. The major components are defined benefit superannuation contributions, long service leave payments on behalf of general government budget dependent agencies, and interest payments on government debt and bank balances held by general government agencies in the Treasury Banking System.

In addition, the State is required to contribute to the cost of administration of the GST. Other major payments include HIH policyholder claims, refunds and remissions of Crown revenue, natural disasters assistance, debt and investment management costs, and payments for community service obligations to Country Energy.

RECENT DEVELOPMENTS

The Government has approved the cash transfer of the balance of the General Government Liability Management Fund of \$7,176 million to SAS Trustee Corporation (State Super) by 30 June 2007. Accordingly, the Crown Finance Entity will cease providing annual grants to the Fund in 2006-07.

A special rail grant of \$960 million was paid in 2006-07 for rail debt repayment.

Due to ongoing favourable insurance claim experience and higher than expected investment returns, the Treasury Managed Fund, administered by the NSW Self Insurance Corporation, transferred \$910 million to the Consolidated Fund during 2006-07. Based on the current net asset forecast, a further transfer of \$200 million is expected to be transferred in 2007-08.

2007-08 BUDGET

Total Expenses

Estimated total expenses in 2007-08 are \$3,309 million, with the major components being:

- ◆ \$1,732.4 million for payment on behalf of general government budget dependent agencies of employer superannuation contributions under the defined benefit schemes and long service leave expenses;
- ◆ \$881.5 million for interest expenses on new and existing debt held mainly with New South Wales Treasury Corporation and the Commonwealth Government. This debt contributes to funding the State's record capital works program;
- ◆ \$209.6 million as reimbursement to the Australian Taxation Office for GST administration and related payments;
- ◆ \$89.9 million in capital grants to agencies;
- ◆ \$75 million for redundancy payments for various government agencies which are restructuring for improved efficiency;
- ◆ \$41 million to subsidise petroleum products for on-road use near the Queensland border;
- ◆ \$30 million as a provision for natural disaster grants;
- ◆ \$23 million as a capital grant to the Department of Health. This was formerly funded from investment earnings on the Health Super Growth Fund;
- ◆ \$19.9 million to offset GST payments for clubs; and
- ◆ \$5.1 million to be invested in projects with the aim of increasing the flow of water in the Snowy River.

Total Revenue

All revenue received is passed on to the Consolidated Fund. None is retained by the Crown Finance Entity. Estimated total revenue in 2007-08 is \$397 million, with the major components being:

- ◆ \$200 million financial surplus transferred from the Treasury Managed Fund;
- ◆ \$101.2 million as interest on Crown advances to public sector agencies;
- ◆ \$35.3 million in contributions by agencies for superannuation and long service leave;
- ◆ \$20 million in recoveries from the HIH liquidators; and
- ◆ \$7.8 million income from leasing motor vehicles to government agencies. This is a reduction from previous years due to a decision that the Department of Commerce would take responsibility for all new leases after 2005-06.

Capital Expenditure

In 2007-08, purchases of property, plant and equipment will total \$10 million.

CROWN LEASEHOLDS ENTITY

The Crown Leaseholds Entity is administered by the Department of Lands under the *Crown Lands Act 1989*.

The Crown Leaseholds Entity collects proceeds from the sale of Crown land and revenue from leases, licences and permissive occupancies of Crown land and reports the value of vacant Crown land. The Crown Leaseholds Entity also collects fees and levies associated with the *Water Act 1912* and the Coomealla Pipeline.

The Crown Leasehold Entity land holdings include unallocated Crown land and Crown reserves for which no reserve trust has been established. Unallocated Crown land includes land on the continental shelf within the three nautical mile zone.

Operating expenses have decreased from \$40 million in 2006-07 to \$24.2 million in 2007-08. This is due mainly to a change to accounting standards whereby the waiving of rural rents in the drought affected Western Division is now offset against sales of goods and services.

Retained revenues are estimated to decrease from \$74.8 million in 2006-07 to \$48.9 million in 2007-08. This reflects a reduction in transfers from Crown Reserves and the aforementioned change to accounting standards. Volatility in the level of Crown Leaseholds entity is expected given that there are 37,000 Crown reserve trusts.

Land within the Crown Leaseholds Entity, that is subject to lease arrangements, is revalued every year. A detailed revaluation of other Crown land is being undertaken in 2006-07 following an initial valuation in 2002. It is expected that the value of land within the Crown Leaseholds Entity will increase to approximately \$6.5 billion as a result of this revaluation. This movement reflects changes in property values over the intervening five year period.

NSW SELF INSURANCE CORPORATION

The NSW Self Insurance Corporation (SICorp) was established by the *NSW Self Insurance Corporation Act 2004*. Its main functions are:

- ◆ the administration of the Treasury Managed Fund (TMF), which provides insurance cover for general government sector budget dependent agencies (other than compulsory third party insurance). TMF membership is also available to other public sector agencies on a voluntary basis;
- ◆ the management of the Governmental Workers' Compensation Account, the Transport Accidents Compensation Fund and the Pre-Managed Fund Reserve; and
- ◆ the collection and analysis of data provided by contracted TMF claims managers; systems management of the TMF data warehouse; provision of reporting functions to member agencies; and monitoring the claims managers.

RECENT DEVELOPMENTS

The State accumulates financial assets in order to meet employee superannuation and the Government's insurance liability costs as they fall due rather than place an undue burden on future generations.

The TMF manages assets to fund the Government's insurance liability costs. Recent portfolio investment performance in relation to these assets has been high and the forward estimates assume investment returns will return to the long run trend of 7 per cent.

Strong investment returns, together with a favourable claims experience, has enabled the Fund to make repayments of Crown Contributions.

The repayment of contributions is designed to avoid the Fund accumulating excess reserves. The Insurance Reserve Policy dictates the appropriate level of reserves for the TMF. This policy sets the TMF reserve for insurance activity at an amount equal to 10 per cent of outstanding claims liabilities plus the amount the Fund retains for a single major loss before its reinsurance protection is activated. The net asset position is reviewed each 31 December. Following the 2006 review of reserve requirements, a surplus above the insurance reserve requirement was identified. The net surplus assets position allowed for a transfer of \$910 million to the Consolidated Fund as a repayment of Crown contributions.

The repayment of Crown contributions, aimed at preventing the accumulation of excess reserves, results in a small projected operating deficit of \$16.3 million in 2006-07.

The TMF target premium for 2007-08 of \$857.3 million is 1.3 per cent higher than for 2006-07. Major variations are workers' compensation premiums (up \$18.6 million or 4.3 per cent) and public liability premiums (down \$10.2 million or 3.4 per cent).

STRATEGIC DIRECTIONS

Since 1 July 2005, the claims management of the insurance businesses (workers' compensation, motor vehicle, property, liability and miscellaneous) has been distributed between three claims managers. Previously GIO Australia Limited was the single private insurer, managing the assessment and processing of claims.

Three workers' compensation providers, Employers Mutual Limited, Allianz Australia Limited and GIO Australia Limited, were appointed. The claims management of other claims, including liability and property, remains with GIO Australia Limited. There are also separate long term contracts for risk management (Suncorp Risk Management Services), reinsurance (Benfield (Australia) Pty Limited) and actuarial services (PricewaterhouseCoopers and Taylor Fry).

The key objectives of this structure are to improve TMF performance by promoting competition; generating cost savings and efficiency gains; reducing the systemic risk associated with a single provider; and enabling comparison and benchmarking between providers.

In 2007-08, the TMF will provide coverage to over 140 public sector agencies.

2007-08 BUDGET

Favourable claims experience is expected to continue in 2007-08 while investment returns are assumed to be in line with long term trends. Reflecting these developments, TMF assets are estimated to rise to \$5.1 billion in 2007-08 and assets are estimated to exceed outstanding claim liabilities by \$758 million.

The Budget estimates assume that the maintenance of net assets in line with the Insurance Reserve Policy will allow a further repayment of \$200 million in Crown contributions. The repayment is subject to the Self Insurance Corporation's financial position as at 31 December 2007 being in accord with its Insurance Reserve Policy. On current projections, the Fund will have an operating deficit for 2007-08 of \$163.4 million which results from the implementation of the Insurance Reserve Policy.

Capital Expenditure

The capital program of \$0.3 million in 2007-08 is primarily for computer requirements.

LIABILITY MANAGEMENT MINISTERIAL CORPORATION

The Liability Management Ministerial Corporation controls the General Government Liability Management Fund. The fund was established to accumulate financial assets to improve the financial management of the general government sector's balance sheet and allow flexibility in the timing of superannuation contributions to the public sector defined benefit schemes.

The legislation establishing the General Government Liability Management Fund provided that the balance in the fund can initially only be used to meet superannuation liabilities with any residual funds being used for debt reduction.

In 2006-07 the balance of the fund, estimated at \$7.2 billion (including transfers from the NSW Self Insurance Corporation of \$1 billion and the Health Super Growth Fund of \$420 million), will be transferred to SAS Trustee Corporation (State Super) and invested in line with the strategic asset allocation of State Super. Once this transfer has been completed, the operations of the Corporation and the fund will be discontinued. However, both the Corporation and the General Government Liability Management Fund will remain in existence to assist in the future management of the State's assets and liabilities.

RECENT DEVELOPMENTS

Total government employer contributions of \$5.8 billion including interest, made to the General Government Liability Management Fund, are in accordance with the funding profile established under the Crown Funding Plan for the elimination of unfunded superannuation liabilities.

The Crown Funding Plan was developed through actuarial assessment of the minimum level of contributions necessary to meet the superannuation funding target. This Funding Plan is consistent with the *Fiscal Responsibility Act 2005* which includes the long term fiscal target of eliminating total state sector unfunded superannuation liabilities by 2030.

The cash contributions to the fund are \$200 million in 2006-07.

STRATEGIC DIRECTIONS

In accordance with the provisions of the *General Government Liability Management Fund Act 2002*, a Management Committee advises the Secretary of the Treasury on matters relating to the management of the fund, including:

- ◆ investment strategy;
- ◆ appointment of asset custodians, consultants, investment managers and other service providers;
- ◆ monitoring and reviewing the performance of assets, investments and service providers;
- ◆ compliance with the Government's fiscal strategy; and
- ◆ transfer of funds to State Super.

2007-08 BUDGET

The Liability Management Ministerial Corporation ceases operations in 2006-07. This will result in a nil balance sheet as at 30 June 2007.

ELECTRICITY TARIFF EQUALISATION MINISTERIAL CORPORATION

The Electricity Tariff Equalisation Ministerial Corporation commenced administration of the Electricity Tariff Equalisation Fund (ETEF) on 1 January 2001.

The fund manages the cost risk of electricity purchases by standard state-owned electricity retail suppliers (Energy Australia, Integral Energy and Country Energy) that are required to supply electricity to small retail customers in New South Wales at tariffs determined by the Independent Pricing and Regulatory Tribunal (IPART).

IPART determinations cover residential and small business customers consuming less than 160 MWh per annum who have not elected to enter into a negotiated supply contract.

Standard retail suppliers are required to contribute to the fund when wholesale prices are lower than the energy cost component charged to customers buying power under regulated tariffs. When wholesale prices are higher than the energy cost component in the regulated tariff, the ETEF makes payments to the standard retail suppliers from the Fund to ensure they earn the regulated return.

In this way, the Fund is able to smooth the volatility in wholesale prices for those state-owned retailers that are required to sell at regulated tariffs. At the same time, the Fund ensures that standard retail suppliers do not face a commercial advantage or disadvantage because they supply regulated customers.

In the event there is a sustained rise in pool prices and there are insufficient funds within the ETEF, New South Wales state-owned electricity generators are well placed to 'top-up' the ETEF from funds generated by high wholesale prices. Generator payments to the fund are repaid whenever standard retail suppliers make a payment into the fund. The involvement of generators ensures that the fund can never be in deficit.

RECENT DEVELOPMENTS

Section 43ES of the *Electricity Supply Act 1995* states the fund was to cease operation on 30 June 2004. A regulation gazetted on 19 September 2003 extended the fund until 30 June 2007. The Government recently decided to gradually phase out the fund in the period to June 2010.

The average New South Wales wholesale electricity price for 2005-06 was \$37.24 MWh with average monthly prices varying from \$20.61 MWh to \$71.55 MWh. Currently, average monthly prices for 2006-07 have varied from \$21.00 MWh to \$77.89 MWh. The fund balance at 30 June 2007 is estimated at \$267 million.

While for accounting reasons the movement in the ETEF balance is treated as Budget revenue, in practice the ETEF is managed as a separate fund which can be called upon in periods of high prices.

STRATEGIC DIRECTIONS

The ETEF arrangement is aimed at managing the electricity purchase risk of standard retail suppliers. The Government has decided that the fund will be phased out by June 2010 to allow adequate time for adjustments to occur in the energy trading market. Although this will expose retailers to price risk, it is expected to generate the right incentives to attract investment in electricity generation. There will be no impact on retail customers as electricity prices are determined by IPART.

The Treasurer has initiated a regular audit of the standard retail suppliers. The focus of the audit is a review of the data provided by the standard retail suppliers to the Fund Administrator.

2007-08 BUDGET

The fund is an equalisation mechanism in that surpluses resulting from low prices in one period are paid out in future periods to offset higher prices. The regulated energy price is set by IPART and is based on the long run generation costs. On this basis, the fund is forecast to increase only by investment income in 2007-08.

CROWN PROPERTY PORTFOLIO

The Crown Property Portfolio (CPP) comprises NSW Government owned and leased multi-occupancy office buildings located throughout the State. The portfolio also contains a diverse range of non-office properties that are outside the core activities of other agencies and/or have entered the Portfolio as a result of a strategic decision to restructure particular agencies.

The State Property Authority (SPA) manages the Portfolio under a management agreement with New South Wales Treasury, and is responsible for the collection of rents and other associated activities. Day-to-day property management of the office buildings is contracted to a private sector agent.

RECENT DEVELOPMENTS

Expenditure is mainly incurred on office building head lease payments and finance lease interest payments.

Construction commenced on the new Government Office Building in Penrith which will house the head office of the Sydney Catchment Authority and branches of the Department of Community Services and the Office of Fair Trading. Construction is scheduled for completion in 2007-08.

Construction continued on the Government Office Building in Queanbeyan which is scheduled for completion in 2008-09.

Construction also continued on the Parramatta Justice Office Building which is part of the Parramatta Justice Precinct and will house the head offices of the Attorney General's Department, Office of the Protective Commissioner and Public Guardian, and the Legal Aid Commission's Parramatta office. Construction commenced on this project in 2005-06 and is scheduled for completion in 2007-08.

STRATEGIC DIRECTIONS

SPA was established in September 2006 to improve property management outcomes and operational efficiencies in the use of properties of government agencies, particularly generic properties such as offices, warehouses, depots and car parks.

The CPP was identified as suitable for transfer to SPA due to the primarily generic nature of its properties. On 1 July 2007, all the properties contained in the CPP will vest in SPA and the CPP will cease as a separate reporting agency. The CPP's accounts will be consolidated with those of SPA's from 2007-08 onwards.

2007-08 BUDGET

Total Expenses

The CPP does not have any budgeted expenses for 2007-08 as its accounts will be consolidated with those of SPA.

Capital Expenditure

The CPP does not have a capital allocation in 2007-08 as its accounts will be consolidated with those of SPA.

ADVANCE TO THE TREASURER

\$325 million has been allocated in 2007-08 to the Treasurer as an advance to allow for supplementary expenses, comprising \$215 million for recurrent services and \$110 million for capital works and services. Actual expenses will be recorded in the expenses of the appropriate agencies.

At \$215 million the recurrent services advance represents a contingency of less than 1 per cent of budgeted operating expenses.