

TREASURER AND MINISTER FOR STATE DEVELOPMENT

OVERVIEW

Agency	Budget 2000-01 \$m	Budget 2001-02 \$m	Variation %
Treasury			
Total Expenses	316.2	441.5 ^(a)	39.6
Asset Acquisitions	6.5	9.1	41.1
Crown Transactions Entity			
Total Expenses	3,523.6	3,381.9	- 4.0
Asset Acquisitions .....	...	...	...
Crown Leaseholds Entity			
Total Expenses	1.0	3.6	248.3
Asset Acquisitions .....	...	...	...
Olympic Co-ordination Authority			
Total Expenses	371.6	96.3 ^(b)	- 74.1 ^(b)
Asset Acquisitions	100.5	...	n.a.
Olympic Roads and Transport Authority			
Total Expenses	191.9	...	n.a.
Asset Acquisitions	0.2	...	n.a.
Sydney Olympic Park Authority			
Total Expenses .....	...	76.2	n.a.
Asset Acquisitions .....	...	30.0	n.a.
Department of State and Regional Development			
Total Expenses	103.4	98.6	- 4.6
Asset Acquisitions	0.1	1.1	n.a.
New South Wales Insurance Ministerial Corporation			
Total Expenses	803.0	913.9	13.8
Asset Acquisitions .....	...	...	...
Electricity Tariff Equalisation Ministerial Corporation			
Total Expenses .....	...	0.1	n.a.
Asset Acquisitions .....	...	...	...

(a) Includes \$337.4 million for First Home Owner Grant Scheme payments. When these grants are excluded, expenses are up 6.5 percent.

(b) Expenses for 2000-01 and 2001-02 include \$168 million and \$70.7 million to reflect the accrual accounting "costs" of handing back to councils the Ryde Aquatic Centre, the Aquilina Reserve in Blacktown and the slalom canoeing venue at Penrith; the development costs of the media village and the costs of land remediation under the Athletes' Village.

<i>Agency</i>	<i>Budget 2000-01 \$m</i>	<i>Budget 2001-02 \$m</i>	<i>Variation %</i>
Crown Property Portfolio			
Total Expenses	140.6	149.9	6.7
Asset Acquisitions .....	...	5.0	n.a.
Advance to the Treasurer			
Total Expenses	160.0	250.0	56.3
Asset Acquisitions	40.0	40.0	...
Total, Treasurer and Minister for State Development			
Total Expenses	5,611.3	5,412.0	- 3.6
Asset Acquisitions	147.3	85.2	- 42.1

TREASURY

Treasury consists of the Office of Financial Management (OFM) and the Office of State Revenue (OSR). OFM serves the Treasurer and the Government by providing economic advice and advising on, and accounting for, the overall management of the State's finances. OSR administers and collects taxes and implements legislation relating to State revenue.

EXPENDITURE TRENDS AND RECENT DEVELOPMENTS

Achievements during 2000-01 included:

Office of Financial Management

- ◆ Energy Reform – a significant series of reforms were implemented by the Market Implementation Group during 2000–01. Highlights included developing Retail Contestability, reform of Pacific Power, progressing the corporatisation of the Snowy Mountains Hydro-Electricity Authority and establishment of the Electricity Tariff Equalisation Fund.
- ◆ Tax Reform – successful implementation of the new taxation arrangements following introduction of the GST, effective from 1 July 2000. New South Wales agencies were well prepared for implementation and the final reporting requirements of the project were completed in October 2000. An interim GST Administration Agreement was negotiated with the Australian Taxation Office.
- ◆ State's Credit Rating – information and briefings provided to Moody's Investors Service and Standards & Poor's during the year confirmed continuation of the AAA Credit Rating for New South Wales.

- ◆ Infrastructure Review – during the year a Green Paper on private financing of infrastructure was prepared and issued for comment. Over sixty submissions were received and these have been used to format ‘issues’ workshops to support the development of a new policy.
- ◆ Financial Management – the Financial Management Framework was issued to agencies during 2000–01. The Framework is designed to provide mechanisms to improve financial management processes in the General Government Sector. A cornerstone is the Service and Resource Allocation Agreement which continued to be piloted with selected agencies during the year.
- ◆ Sale of Freight Rail Corporation – the Government announced its intention to sell Freight Rail Corporation in conjunction with the proposed sale of the National Rail Corporation. OFM is closely involved with the taskforce working on the processes associated with the proposed sale which is scheduled for completion early in the coming year.

Office of State Revenue

- ◆ Revenue Collection System Upgrades – the Revenue and Compliance Processes and Systems project (RECOUPS) was completed during 2000-01 with the release of the final modules covering invoiced taxes (e.g. land tax), unclaimed money and compliance processes.
- ◆ E-commerce – service delivery was further enhanced during 2000-01 with the introduction of a secure private network for legal industry client service providers to obtain electronic land tax clearance and valuation certificates online. The Revenue OnLine project also created a new system for searching and claiming unclaimed money on the Internet.
- ◆ OSR Collecting Other State Revenues – implementation of RECOUPS has enabled OSR to assume revenue collection functions on behalf of other agencies. Responsibility for Keno tax collection was transferred from the Department of Gaming and Racing on 1 July 2000, followed by racing taxes on 1 January 2001. Collection of club and hotel gaming machine device duties will commence from 1 July 2001.
- ◆ Administration of First Home Owner Grants – OSR commenced responsibility for administering the First Home Owner Grants Scheme in New South Wales from 1 July 2000. Applications paid during the Scheme’s inaugural year are expected to exceed original estimates by around 30 percent.

- ◆ National Tax Reform – in accordance with changes agreed to Commonwealth-State financial arrangements, New South Wales abolished the accommodation levy on 1 July 2000. Duty on listed marketable securities and financial institutions duty will be abolished from 1 July 2001.

STRATEGIC DIRECTIONS

Office of Financial Management

The State's Fiscal Strategy will continue to be a high priority for 2001–02 and will underpin the policy and strategic advice provided by OFM. This strategy is fundamental to the State's economic performance, resource allocation and credit rating. The focus will continue to be on debt reduction and improved management of overall debt and liabilities.

The contractual basis for resourcing via the Service and Resource Allocation Agreements will continue to be implemented through the Budget process. A review of existing agreements will be conducted in 2001–02 with a view to extending coverage to other agencies.

Energy reform will again be a focus and will include determination of the most appropriate structure to ensure that Powercoal and Pacific Power International (part of Pacific Power) are viable stand-alone entities. Corporatisation of the Snowy Mountains Hydro-Electricity Authority is scheduled for early 2001-02. The final phase of Full Retail Contestability, which extends competition of electricity retailing to general households, is scheduled for January 2002.

A new policy on infrastructure arrangements within New South Wales will be developed during the coming year, following on from the Green Paper on Private Financing of Infrastructure and the related industry consultations.

Office of State Revenue

In 2001-02, OSR will focus on the following issues to achieve its corporate objectives of optimising revenue and maximising efficiency, client satisfaction and organisational and staff capability:

- ◆ Revenue Online project – this project will further improve client service through enhanced e-commerce capabilities, by providing clients with new options for transacting business with OSR.
- ◆ Land Tax Equity project – this project will identify defaulters and ensure equitable treatment of all liable land owners.

- ◆ Revenue Systems 2000 project – this project will further improve the quality and functionality of OSR’s computer systems, particularly compliance systems, pay-roll tax and duties returns, and unclaimed money.

2001-02 BUDGET

Total Expenses

Treasury’s estimated total expenses in 2001-02 are \$441.5 million, including First Home Owner Grant payments estimated at \$337 million. When the First Home Buyer grants are excluded, the balance of Treasury’s expenses are increasing by 1.2 percent over the amount spent in 2000-01.

Asset Acquisitions

Office of Financial Management

For 2001-02, \$345,000 has been allocated for OFM’s computer and related equipment replacement program. In addition, \$500,000 will be provided towards upgrading the computer operating system in Governor Macquarie Tower.

Office of State Revenue

OSR’s 2001-02 asset acquisitions program amounts to \$8.3 million and will enhance existing technical infrastructure and work processes to further improve client service. The enhancements are also anticipated to raise additional revenue as a result of improved compliance intelligence activities and streamlined lodgment enforcement systems.

CROWN TRANSACTIONS ENTITY

“Crown Transactions” reflect service-wide transactions for which individual agencies are not directly accountable. The major components relate to the employer’s contributions to First State and Pooled Fund superannuation schemes, long service leave payments, interest payments on government debt to New South Wales Treasury Corporation and the Commonwealth, and the payment of interest on bank balances held by General Government agencies that are members of the Treasury Banking System.

The State is required by the Commonwealth to contribute to the administration of the GST and make a contribution to higher education superannuation. Other payments include State Bank post sale management costs, refunds and remissions of Crown revenue, natural disasters assistance, rate concessions on exempt properties within the Sydney and Hunter Water Districts, contributions to the Treasury Managed Fund, debt/investment management costs, and operating subsidies to Australian Inland Energy and Hunter Water Corporation.

EXPENDITURE TRENDS AND RECENT DEVELOPMENTS

The Crown Property Portfolio was previously consolidated in the Crown Transactions Entity. This entity is now reported separately within this Ministerial portfolio. The Crown Transactions Entity Commercial Activities, which was previously reported separately, is now consolidated within the Crown Transactions Entity for reasons of materiality. These activities comprise the New South Wales Non-Budget Long Service Leave Pool and the New South Wales Structured Finance Activities.

Receipts from capital restructure of the electricity industry have been utilised for debt retirement resulting in significant debt management costs in 2000-01 but substantially reduced interest expenses from 2001-02 onwards. Also the Government is phasing in full funding of accruing superannuation liabilities. For detailed commentary on liability management refer to Chapter 5 in Budget Paper No. 2.

\$600 million has been provided in 2000-01 for hardship assistance in relation to the HIH collapse. Refer Budget Paper No. 2 for further details of the assistance package.

2001-02 BUDGET

Total Expenses

Estimated total expenses in 2001-02 are \$3,382 million, with the major components being:

- ◆ \$799 million for interest expenses on existing debt held with New South Wales Treasury Corporation, the Commonwealth and other organisations. This is a 33 percent decrease on forecast 2000-01 expenses, reflecting savings generated from the maturity of long term debt in a lower interest rate environment and the utilisation of proceeds from the capital restructure of the electricity industry to retire General Government debt;

- ◆ \$1,784 million for employer superannuation expenses and associated payroll tax. This cost compares to a forecast expense of \$3,007 million in 2000-01. The high expense recorded in 2000-01 can be attributed mainly to lower than forecast returns on investments and changed demographic assumptions used by William M. Mercer, the scheme actuary, during their triennial review of the defined benefit superannuation schemes;
- ◆ \$181 million for GST administration and related payments;
- ◆ \$294 million for long service leave expenses of public service employees;
- ◆ \$41 million for petroleum products for on-road use in zones descending from the Queensland border and \$31 million to subsidise the sale of low alcohol beer in New South Wales. With the abolition from 1 July 2000 of the safety net arrangements whereby the Commonwealth collected taxes on petrol, liquor and tobacco on behalf of the State, New South Wales will no longer be paid revenue from taxes specific to beer. Beer will be subject solely to Commonwealth taxation in the form of excise duty and the GST;
- ◆ \$15 million to be invested in projects with the aim of increasing the flow of water in the Snowy River;
- ◆ \$50 million grant to the Insurance Ministerial Corporation with the bulk going to the Transport Accident Compensation Fund as a replacement for Third Party Motor Vehicle Registration Levy concessions granted in 1998-99;
- ◆ \$20 million for voluntary redundancy costs within the Public Sector generally;
- ◆ \$10 million grant to the Treasury Managed Fund to fund increases in insurance premiums that are outside the control of agencies and that would have been funded through the budget if known at the time the budget was set;
- ◆ \$10 million as the State's contribution to higher education superannuation;
- ◆ \$40 million for State Bank post sale costs;
- ◆ \$30 million for Natural Disaster grants; and
- ◆ \$11.5 million to Sydney Water to reimburse the agency for concessions on properties exempted from water rates. These concessions mainly relate to properties used by charities and local government.

Total Retained Revenue

Estimated total retained revenue in 2001-02 is \$478 million, with the major components being:

- ◆ \$328 million book profit on the acquisition of a 58 percent share in Snowy Hydro Limited (the Snowy Mountains Scheme);
- ◆ \$75 million interest on advances to General Government agencies;
- ◆ \$20 million of dividends from Snowy Hydro Limited;
- ◆ \$35 million in contributions for superannuation and long service leave;
- ◆ \$7 million sale proceeds of land; and
- ◆ \$11 million interest on deposits with New South Wales Treasury Corporation.

CROWN LEASEHOLDS ENTITY

The Crown Leaseholds Entity was previously incorporated within the Crown Transactions Entity, and is administered by the Department of Land and Water Conservation under the Crown Lands Act 1989.

The Crown Leaseholds Entity collects annual instalments relating to the purchase of Crown Land and generates revenue from leases, licences and permissive occupancies of Crown Land.

Total cash transfers to the Consolidated Fund are estimated to increase by 2.5 percent to \$41 million in 2001-02. This is mainly attributable to increased proceeds from Crown land leases.

Increases in operating expenses in 2000-01 were due to increased provision for bad and doubtful debts.

OLYMPIC CO-ORDINATION AUTHORITY

The Olympic Co-ordination Authority (OCA) had responsibility for implementing strategies for the planning, re-development and management of the Homebush Bay area and for the delivery of new sporting and recreational facilities and venues at Homebush Bay, Penrith, Bankstown, Blacktown, Horsley Park, Ryde and Liverpool used during the 2000 Olympic and Paralympic Games.

In developing the venues and facilities, the Authority was required to ensure they were suitable for use after the year 2000 Games.

The Authority also had responsibility for co-ordinating and reporting on the New South Wales Government's involvement in preparations for the Olympic and Paralympic Games and maintaining close liaisons with the Olympic and Paralympic Organising Committees (SOCOG and SPOC, respectively).

EXPENDITURE TRENDS AND RECENT DEVELOPMENTS

During 2000-01 the Authority successfully completed the procurement of all Olympic venues and delivered, on behalf of SOCOG, the temporary overlay required for venues to operate in Games mode. The Authority retained responsibility for the Common Domain areas of Sydney Olympic Park and took primary responsibility for the preparation of the "Urban Domain" areas in the City of Sydney, and the venue precincts in the East and West.

Finalisation of the 2000 Games contractual arrangements is continuing. Savings achieved in the Authority's overall Olympic construction program will be utilised to meet additional costs related to temporary overlay and last minute venue fitout which are estimated at up to \$20 million.

STRATEGIC DIRECTIONS

The *Sydney 2000 Games Administrative Act 2000* provided for:

- ◆ SOCOG to be wound up on a date to be proclaimed or by 31 March 2002, whichever is the earlier. SOCOG's financial operations are estimated to return close to \$30 million to the Government from support funding of \$140 million provided to SOCOG in June 2000;
- ◆ the assets, rights and liabilities of SOCOG to be transferred to OCA on wind up;

- ◆ the SOCOG Board and Chief Executive Officer to cease office from 1 January 2001;
- ◆ the Director-General of OCA to perform the functions of the Board of Directors and the Chief Executive Officer of SOCOG from 1 January 2001;
- ◆ SPOC to be dissolved from 1 January and its assets and liabilities to transfer to OCA from that date. The final outcome will result in some \$14.8 million being repaid to each of the New South Wales and Commonwealth Governments and in the case of New South Wales these cash returns flow through to OCA then the Consolidated Fund prior to 30 June 2001; and
- ◆ Olympic Road and Transport Authority (ORTA) to be dissolved on a date to be proclaimed and its assets, rights and liabilities to be transferred to OCA. ORTA is expected to achieve a balanced financial outcome with a small cash surplus flowing to OCA by 30 June 2001. Any outstanding commitments of ORTA at that date will revert to OCA.

The Premier announced in January 2001 that the Sydney Olympic Park Authority will be established from 1 July 2001 to promote, manage and develop the 740 hectares in the Homebush Bay precinct. It is proposed that all Government owned lands in that precinct including the lands of the State Sports Centre and Bicentennial Park will be vested in the new Authority. OCA will retain responsibility for wind up of Olympic arrangements and the management and future promotion of the non Olympic Park venues until their future direction is determined by Government. A special task force has been formed to report on this issue.

In finalisation of the year 2000 Games arrangements, OCA will have prime responsibility for operational issues including liquidation wind-up costs, preparation of official post Games and Statutory Reports, financial compensation claims and the management of contractual arrangements including issues progressing to litigation.

2001-02 BUDGET

Total Expenses

Total estimated expenses for 2001-02 is \$96.3 million for managing the western venues and expected costs associated with the wind-up of the Olympics and Paralympic Games. The amount includes a one-off non-cash accounting adjustment of \$70.7 million required for the write-down of assets. This adjustment reflects the value of work that was undertaken by OCA in respect of the Athletes Village and acknowledges that OCA has little or no long term equity in these works.

Expenditure for 2001-02 includes:

- ◆ \$6.5 million for management of non-Olympic Park venues; and
- ◆ \$5 million for Olympic agency wind-up costs.

ASSET ACQUISITIONS

No funding has been provided for asset acquisitions in 2001-02.

OLYMPIC ROADS AND TRANSPORT AUTHORITY

The Olympic Roads and Transport Authority (ORTA) was established to plan, co-ordinate and provide integrated road and transport services for the Sydney 2000 Olympic and Paralympic Games and for test events and designated special events including the Royal Easter Show held at Homebush Bay.

EXPENDITURE TRENDS AND RECENT DEVELOPMENTS

During 2000-01 ORTA successfully met its core task of delivering integrated road and transport services for the Sydney 2000 Olympic and Paralympic Games.

ORTA's revised expenditure projection for 2000-01 is \$265 million compared with an initial budget of \$191.9 million. The variation of \$73.1 million relates to:

- ◆ additional expenditure of \$38 million, paid through ORTA, to other transport agencies to fund additional Olympic costs including the Olympic Allowance. Of this amount, \$31.3 million was allocated to the State Rail Authority;
- ◆ additional expenditure on bus hire, salary allowances and extra meals and accommodation facilities provided to bus drivers;
- ◆ additional property and facilities costs and unforeseen additional marketing and technology costs.

A significant proportion of the additional expenditure was able to be funded from the receipt of additional revenue from sponsors, investments interest, bus hire receipts and additional revenue from Royal Easter Show and major events bus services.

ORTA is expected to finalise its contractual arrangements with Bus 2000 prior to 30 June 2001 when it will be wound up. The Authority is expected to achieve a balanced financial outcome with a small cash surplus flowing to OCA by 30 June 2001. Any outstanding commitments of ORTA at that date will revert to OCA.

SYDNEY OLYMPIC PARK AUTHORITY

The Sydney Olympic Park Authority (SOPA) will be established to manage the long term future of Homebush Bay. The Premier, in January 2001, announced the Authority is to commence operations from 1 July 2001. The Authority will be managed by a Board appointed by the Minister.

SOPA will be responsible for the management and development of facilities and infrastructure in the Sydney Olympic Park precinct and for the promotion and organisation of sporting, educational, recreational and tourist activities.

Budget funding for SOPA of \$31.9 million has been provided from an amount of \$51.9 million previously allocated to the Olympic Co-ordination Authority, which will retain \$20 million for Olympic wind-up issues.

EXPENDITURE TRENDS AND RECENT DEVELOPMENTS

The Authority will take over the previous responsibilities of the Olympic Co-ordination Authority (OCA) in respect of the Homebush Bay precinct. OCA will remain responsible for Olympic and Paralympic Games wind-up and the promotion and operation of the Olympic venues which are outside Sydney Olympic Park until their longer term operational future is decided. It is proposed that all Government owned lands within the Homebush Bay precinct will be vested in SOPA including those of Bicentennial Park and State Sports Centre.

STRATEGIC DIRECTIONS

The proposed future development of Sydney Olympic Park is the key to its financial viability. The long term objective is to achieve a viable and vibrant precinct which would require minimal Government funding.

Initiatives relating to the fostering of further development on site, entertainment and festival programs and provision of transport will be employed to ensure ongoing use and financial viability of the precinct. Ongoing viability will depend heavily on event schedules and more importantly a critical mass of permanent inhabitants and visitations at Homebush Bay.

Draft masterplanning provides for a mixture of premium residential and commercial development opportunities on site. Government will seek broad proposals from the private sector for these developments in 2001-02 and it is expected SOPA will share in revenue opportunities from these developments in order to meet the costs of maintaining and promoting the substantial public areas particularly in the Millennium Parklands.

Key Strategies include:

- ◆ preservation of the natural and cultural heritage;
- ◆ restoration and use of heritage facilities in the Millennium Parklands;
- ◆ promotion and marketing of the site particularly in the form of developing a program of special community events and festivals;
- ◆ ongoing development of the site Masterplan in liaison with the Department of Urban Affairs and Planning;
- ◆ private industry participation in the commercial development of the site particularly in the core areas of the rail station and venue precinct; and
- ◆ development of regional bus transport routes to service and promote use of the site.

2001-02 BUDGET

Total Expenses

Total operating expenses in 2001-02 are estimated at \$76.2 million.

Expenses include:

- ◆ the maintenance, security and operation of facilities at Sydney Olympic Park and surrounding parklands;
- ◆ supporting the infrastructure and remediation works at Homebush Bay;
- ◆ marketing and customer services including the staging of festivals and events;
- ◆ ongoing planning and development of the site;

- ◆ property and asset management including maintenance of building and structures and provision of public utilities;
- ◆ advising on commercial development, negotiating commercial arrangements and managing the business activities of SOPA; and
- ◆ promotion of Homebush Bay as a location for investment, visitation and the conduct of business.

Off setting expenses are revenues of \$79.7 million earned from:

- ◆ car parking (\$6 million), rents and leases (\$5 million) and capital contributions towards the development of Olympic facilities (\$3 million); and
- ◆ an accounting adjustment of \$62.6 million which recognises that the Government will own Stadium Australia in 2029.

Asset Acquisitions

The Authority's asset acquisition program of \$30 million in 2001-02 includes:

- ◆ \$12.8 million to finish decommissioning Olympic sites, re-positioning of the cauldron and reconfiguration of the Stadium for its long term use;
- ◆ \$4.7 million for attractions and infrastructure including additional shelter and shade and a wall to commemorate the volunteers from the Olympic and Paralympic Games;
- ◆ \$4.5 million for the restoration and refurbishment of heritage structures and for the initial stage of provision of basic site amenities in the Millennium Parklands; and
- ◆ \$4 million for the administration and engagement of required expertise for progressing the commercial development of the site.

DEPARTMENT OF STATE AND REGIONAL DEVELOPMENT

The Department of State and Regional Development's aim is to advance the economic development of New South Wales and bring new business to the State by attracting domestic and international investment, encouraging exports, improving enterprise skills, increasing innovation and providing a competitive business climate.

EXPENDITURE TRENDS AND RECENT DEVELOPMENTS

During 2000-01, the Department has been successful in attracting and facilitating major investment projects in both metropolitan and regional New South Wales with an estimated investment value of \$960 million and employment impact of over 8,500 jobs.

The financial year included the following programs and initiatives:

- ◆ The Australian Technology Showcase (ATS) continued to promote innovative and technology oriented Australian businesses. Over \$200 million in new sales and exports has been achieved by 270 New South Wales companies. The ATS is now implemented nationally and is conducted in association with the Federal Department of Industry Science and Resources, Austrade and the ACT, Queensland, Victorian and South Australian Governments;
- ◆ The Olympic Business Program was implemented to maximise the benefit of the Olympic Games promoting Sydney and New South Wales as a preferred investment location in the Asia Pacific region. The program included promotion in Australia and overseas, specialised promotional material, operation of the Sydney media centre and business networking events during the Games;
- ◆ As part of the Olympic Business Program contracts worth over \$1 billion for the Olympic Games were awarded to New South Wales firms, of which contracts worth over \$270 million were won by regional firms. International athletes injected around \$70 million into regional New South Wales through the Government's Pre-Games Training Program. The Sydney Media Centre provided access to 350 business stories and industry fact sheets to over 5,000 registered international and domestic media. Over 10,000 business people attended more than 100 business promotion events and briefings prior to and during the Games;
- ◆ Investment projects won included the IBM E-commerce centre for the Asia Pacific involving 494 jobs. Deutsche Bank AG announced its Sydney office will be one of only two global processing hubs for foreign exchange trading. ABN Amro announced Sydney will be one of three global locations for foreign exchange trading in G7 currencies;

- ◆ The Department has also instituted a post Olympics business development plan called “Building on Success”. The main elements of this program entail pursuing business opportunities through business contacts made during the Games, conducting high level trade and investment missions and working with Australian and locally based international corporations to expand their operations in New South Wales;
- ◆ The Women in Business program was expanded significantly during 2000-01 with 290 participants in 18 programs held throughout the State;
- ◆ Townlife Development Program - a program implemented to assist smaller towns, those with a population of less than 2,500, which are particularly vulnerable to the effects of globalisation and the rationalisation of industry. Funding support has been provided to 24 communities to plan and implement projects, which involve new economic activity;
- ◆ New Market Expansion Program – implemented to assist regional firms to develop the confidence, networks and skills to pursue and take up new markets and to break the cycle of dependence on traditional markets and local economies; and
- ◆ Meat Processing Industry Restructuring Program – introduced to assist the meat processing sector develop into a competitive and sustainable industry and ease the impact of continuing rationalisation on companies, employees and regional communities.

Variations between 2000-01 budgeted and revised expenditure for grants and subsidies items reflect changes in the timing of claims for payment and do not represent any change in the Government’s overall funding commitment for these projects.

Investment attraction and other specific projects assisted / facilitated include:

- ◆ Windsor Farm Foods Group Ltd, Cowra – process vegetables, honey and jam (investment \$10.5 million – 60 jobs);
- ◆ Peel Valley Exporters Pty Ltd, Tamworth – establishment of small stock meat processing facility (investment \$6 million – 90 jobs);
- ◆ Jeld-Wen Australia Pty Ltd, Oberon – expansion of former CSR door skin manufacturing plant (investment \$22 million - retention and potential growth of workplace);

- ◆ Cellulose Valley Technology Park, Lismore – infrastructure works to establish a technology park to foster innovation, research and manufacture of natural and environmentally beneficial products; and
- ◆ Filming of The Matrix II and III and a film length episode of The Bill were also secured for Sydney.

STRATEGIC DIRECTIONS

The Department's activities are encompassed in four strategies. These are promoting investment, boosting exports, encouraging innovation and improving the State's business climate.

The Department fulfils these objectives by providing business information; marketing regional and metropolitan New South Wales as an investment location; providing limited financial assistance; developing enterprises; promoting exports; and co-ordinating public sector exports. The Department also promotes innovation and acts as an advocate for business within Government as well as explaining and implementing Government policies applying to industry.

2001-02 BUDGET

Total Expenses

The Department's estimated total expenses for 2001-02 amount to \$98.6 million.

During 2001-02 the Department's initiatives will include the following:

- ◆ A post Olympics Business Program aimed at maximising the investment attraction and trade potential of the State. The program will consist of investment recruitment and export promotion missions to targeted markets;
- ◆ The Australian Technology Showcase (ATS) program for innovative technologies will be extended to capitalise on the post Olympic opportunities program for New South Wales businesses. The ATS will provide new prospects for technology companies through an extensive promotional program including exhibitions, business missions, website promotion and business matching with local and international venture capitalists and technology users;

- ◆ Under the Regional Economic Transition Scheme, funds were allocated to assist communities adversely affected by deregulation of the dairy industry to explore alternative industries, and diversify their economies. The Scheme will continue, allowing targeted assistance to attract new industry to communities impacted by economic restructuring;
- ◆ The Country Lifestyles Program will continue as a program to assist the promotion of attraction of regional New South Wales sites as business destinations. There will be two Regional Business Investment Tours per year, bringing investment executives to regional locations where local firms will have the opportunity to showcase their businesses to secure capital for growth; and
- ◆ A new service for technology start up companies will be developed as part of the Small Business Expansion Program, taking account of the special challenges faced in areas such as biotechnology and information technology. The film industry firms, who are a special group of small business entrepreneurs with particular challenges in strategic and financial management planning, will also be targeted for support.

In addition, the 2001-02 Budget includes allocation for the following programs:

- ◆ Regional Headquarters Scheme – to encourage international companies to establish their regional headquarters in Sydney;
- ◆ Assistance to Industry – promoting, encouraging and stimulating the establishment and development of industry;
- ◆ Regional Business Development Scheme – providing assistance to businesses starting up, expanding in or relocating to a regional location;
- ◆ Community Economic Development Programs – a suite of programs which help regional communities to take a strategic and proactive approach in their economic future and to explore opportunities which value add to local resources and diversify from the traditional economic base;
- ◆ Hunter Advantage Fund – response to the need for job creation and industry development initiatives in the Newcastle area as a consequence of the closure of BHP’s steelmaking operations in 1999;
- ◆ Illawarra Advantage Fund - to help ameliorate the effects of industry restructuring within the Illawarra region;

- ◆ New South Wales High Growth Business – an initiative to help businesses exposed to global competition; and
- ◆ Small Business Development – supporting a range of activities directed at small and micro firms in New South Wales. The programs are mainly delivered from the community and private sector, with Departmental resources directed to testing concepts and delivery mechanisms.

Asset Acquisition Program

The Department's asset acquisition program for 2001-02 includes \$1.1 million for computer upgrades, essential building works and the replacement of plant and equipment.

NEW SOUTH WALES INSURANCE MINISTERIAL CORPORATION

The Insurance Ministerial Corporation (IMC) was created in 1992 to accept the assets, liabilities, rights and obligations of Government insurance activities. The activities are:

- ◆ The Treasury Managed Fund, which provides cover for all insurance exposures faced by budget dependent agencies (other than compulsory third party insurance); and
- ◆ The management of liabilities from a number of closed schemes. The closed schemes are the Governmental Workers' Compensation Account, the Transport Accidents Compensation Fund and the Pre-Managed Fund Reserve.

These activities are currently managed under contract by GIO General Limited.

EXPENDITURE TRENDS AND RECENT DEVELOPMENTS

The major revenue items are premiums, investment earnings, and Government grants. Expenses are primarily related to claims costs.

Claims expenses include movements in the liability for outstanding claims. The liability includes an independent actuarial valuation of claims incurred but not yet paid, incurred but not yet reported claims and the anticipated fund management fees in respect of the management of those claims.

The asset management policy for the IMC provides for an allocation of 60 percent bonds and 40 percent growth assets. This allocation was chosen to improve the solvency ratio over the long term. It provides an acceptable balance between risk and growth. The New South Wales Treasury Corporation directly manages the bond portfolio and acts as a manager of managers in respect of growth assets.

STRATEGIC DIRECTIONS

A greater emphasis has been placed on reducing claim costs in the Treasury Managed Fund by promoting better risk management and claims management practices.

The contract for management of the Treasury Managed Fund was, and will continue to be, subject to competitive tender. GIO General Ltd was successful in securing a three year tenure from 1 July 2000 with an option at the Government's discretion for a further extension of two years.

2001-02 BUDGET

The estimated operating surplus of \$21.8 million for 2001-02 compares with a forecast deficit of \$5.7 million in 2000-01. This result will be achieved by an 8 percent increase in revenue to \$935.7 million, while expenses are expected to increase by 5 percent to \$913.9 million.

The deficit of \$5.7 million in 2000-01 arose as a result of the revaluation of outstanding workers compensation claims. Small variations, when applied to the very large amount of outstanding claims (greater than \$2 billion), produce significant variations in the operating result.

The surplus of \$21.8 million for 2001-02 arises as a result of a difference between premiums, which are based on projected claims costs, and the movement in outstanding claims, which is based on an actuarial estimate of claims costs plus a 7.5 percent prudential margin.

More information on "insurance management" is provided in Chapter 5 of Budget Paper No. 2.

ELECTRICITY TARIFF EQUALISATION MINISTERIAL CORPORATION

The Electricity Tariff Equalisation Ministerial Corporation commenced the administration of the Electricity Tariff Equalisation Fund (ETEF) on 1 January 2001. The Fund is designed to manage purchase cost risk for those standard retail suppliers that are required to supply electricity to small retail customers at tariffs determined by the Independent Pricing and Regulatory Tribunal.

Standard retail suppliers are required to pay money into the Fund when wholesale prices are lower than the energy cost component they recover from regulated customers. When wholesale prices are higher than the energy cost component in the regulated tariff, the ETEF compensates standard retail suppliers from the surpluses collected earlier to ensure they earn a regulated return.

In this way, the Fund seeks to smooth out the volatility in wholesale prices for those businesses that are required to sell at regulated tariffs. At the same time, the Fund ensures that the 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, New South Wales Government owned electricity generators are required to 'top-up' the ETEF to the extent they have benefited from the high wholesale prices that caused the Fund to be depleted. Generator payments to the Fund are repaid to generators whenever standard retail suppliers make a payment into the Fund. The involvement of generators ensures that the Fund balance is always positive.

EXPENDITURE TRENDS AND RECENT DEVELOPMENTS

Standard retail electricity suppliers and State-owned electricity generators make payments into the Fund and receive payments from the Fund in accordance with the payment rules established by legislation. The direction and level of payments is dependent on movements in wholesale electricity prices.

Payments into and out of the Fund by standard retail suppliers are expected to roughly balance during the period to 30 June 2001. Given this outcome, all payments into the Fund by generators will be repaid as at 30 June 2001.

The Corporation has a borrowing facility of up to \$50 million. The facility was used as a mechanism for reducing cash flow risk for generators during the initial period of the Fund's operation. The facility was provided for a transitional 6-month period. The facility will be repaid by standard retail supplier and/or generator payments into the Fund.

STRATEGIC DIRECTIONS

The introduction of full retail competition from 1 January 2002 will impact on the number of customers covered by regulated tariffs and the operation of the Fund. Small business and household customers that enter into negotiated contracts will no longer be covered by the Fund, although they will have the option of electing to return to regulated supply arrangements.

2001-02 BUDGET

Based on forward market prices, the average regulated energy cost in regulated retail tariffs is expected to be slightly higher than average wholesale prices. The Fund should record a small surplus throughout 2001-02 although there will be fluctuations in payments throughout the year in line with market based movements in wholesale price.

CROWN PROPERTY PORTFOLIO

The main activity of the Crown Property Portfolio is management, including the collection of rent, of multi-occupancy office buildings owned or leased by the New South Wales Government. It also manages a number of diverse non-office properties, which are outside the core activities of other agencies and/or which have entered the portfolio as a result of a strategic decision to restructure particular agencies. The Department of Public Works and Services manages the Portfolio on an agency basis under a Management Agreement between the Department and the New South Wales Treasury. Day to day property management of buildings in the Portfolio is contracted to a private sector agent.

STRATEGIC DIRECTIONS

The Portfolio's strategic focus will continue to centre on effectively managing the Crown Assets so as to optimise their value and maintain their operational utility. This will be achieved by:

- ◆ utilising the Portfolio's purchasing and negotiating power to secure improved lease rentals and terms for government agency accommodation;
- ◆ maximising the efficiency and effectiveness of tenants' accommodation; and
- ◆ maintaining expenditure at industry standards/ benchmarks.

2001-02 BUDGET

Total Expenses

The budgeted expenditure for 2001-02 is \$149.9 million, an increase by \$11.1 million compared with 2000-01. The additional expenditure comprises provision for a number of refurbishment projects.

Asset Acquisitions

Consistent with the Government's decision to move the Department of Local Government to Nowra, the Portfolio has made an allowance of \$5 million in 2001-02 towards the cost of the construction of an office building.

ADVANCE TO THE TREASURER

\$290 million has been allocated in 2001-02 to the Treasurer as an advance to allow for supplementary expenses - \$250 million for recurrent services and \$40 million for capital works and services. Actual expenses will be recorded in the expenses of the appropriate agencies.

The level of the advance for recurrent services to the Treasurer in 2001-02 has been increased to \$250 million following a review of variations from Budget Estimates in previous years. At \$250 million the advance represents a contingency of less than 1 percent of budgeted operating expenses.