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1. STATE ASSET ACQUISITION PROGRAM

1.1 OVERVIEW

The State Asset Acquisition program comprises asset acquisitions of both the General Government and Public Trading Enterprise Sectors.

The asset acquisition program provides for the construction, acquisition and upgrading of the physical assets of the State, as well as the provision of certain services with long term social and economic benefits. The program plays a key role in the growth and development of the State economy by providing the basic infrastructure required by industry and for urban and rural development throughout New South Wales. In addition the capital program encompasses the provision of essential social, recreational and cultural facilities.

Asset acquisitions include the purchase and construction of equipment and buildings and the purchase of land and fixed assets. Government Finance Statistics principles have been applied in compiling this data.

In this document, asset acquisitions are shown on a cash basis, as project data of agencies are currently only available, in general, on that basis. This definition of asset acquisitions varies slightly from that used in Budget Paper No. 2 "Budget Information 1998-99" and Budget Paper No. 3 "Budget Estimates", which defines asset acquisitions as capital expenditure on an accrual basis.

This year, the asset acquisition program has been divided into two sections covering the General Government Sector and the Public Trading Enterprise Sector. In addition, the scope of the Budget has been expanded to encompass all General Government agencies.

Asset acquisitions, by definition exclude capital grants (now classified as an operating expense) and advances (now classified as a financing transaction), both previously included in the capital program.

A summary of the program is presented below -

	1997-98 Revised \$m	1998-99 Budget \$m
General Government Sector	2,788.7	2,866.9
Public Trading Enterprise Sector	<u>1,783.0</u>	<u>2,126.0</u>
State Asset Acquisition Program	<u>4,571.7</u>	<u>4,992.9</u>

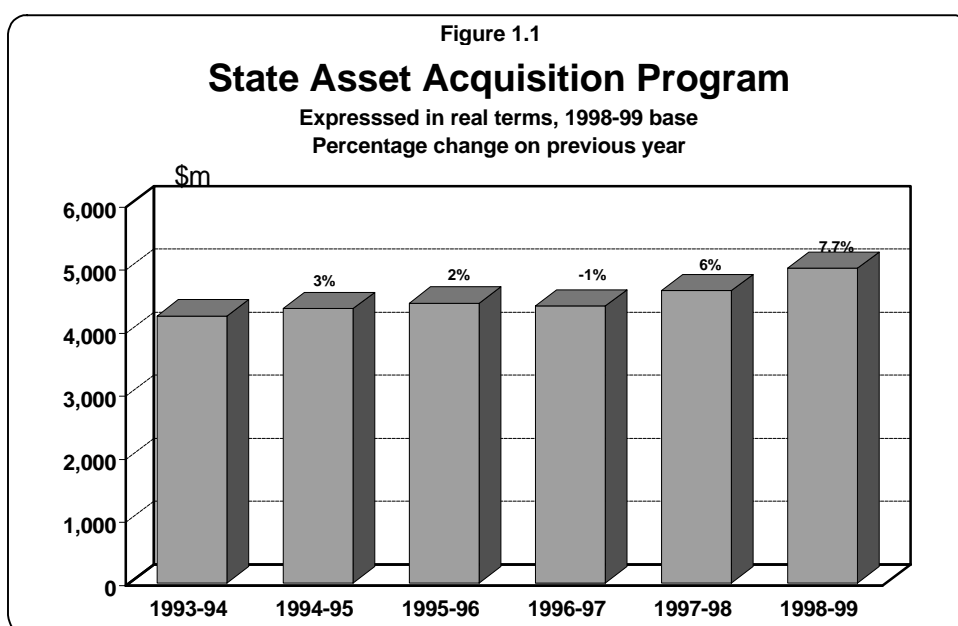
Further information on General Government Sector asset acquisitions on a policy area and Ministerial portfolio/agency basis can be found in Chapter 4 and Appendices E and F of Budget Paper No. 2 "Budget Information 1998-99".

The completion date shown for each project in this Budget Paper relates to the date the project is financially completed, including the payment of all retention monies. In some instances, particularly for very large projects, this date may be some time after the physical completion of works.

References to real increases in the capital program throughout this Budget Paper have been calculated using the Australian Bureau of Statistics Gross Non Farm Product deflator.

1.2 EXPENDITURE TRENDS

In the five years up to and including 1998-99, the State Asset Acquisition program is forecast to increase by \$758 million, or 18 per cent, in real terms. The major areas of growth over the five-year period are in the policy areas of mining, energy and construction; recreation and culture; transport and communication; and law, order and public safety.



Metropolitan electricity distributors were included in the State capital program for the first time in 1994-95. This inclusion accounted for the growth in the program that year. Payments in most other policy areas declined in real terms in 1994-95. Particular decreases occurred in the provision of water and sewerage and rail infrastructure. Payments associated with Olympic facilities also decreased in 1994-95 due to the completion of the Sydney International Aquatic and Athletic Centres.

As a result of the corporatisation of sections of the energy sector on 1 March 1996, four new rural electricity distribution businesses were included in the State capital program in 1995-96. Apart from this change, the increase in expenditure in 1995-96 was primarily in the health and rail sectors.

The slight decrease in the program in 1996-97 was mainly due to reduced expenditure in the rail and electricity sectors.

The program in 1997-98 is expected to show a 6 percent increase mainly due to an increase in the roads sector and continued work on Olympic projects including the Olympic stadium, the multi-purpose arena and other Olympic venues.

The 1998-99 State capital program is forecast to increase by 7.7 per cent with most of the growth projected to take place in the policy areas of water and sewerage, energy, transport and communication, and the law, order and public safety area. This increase arises despite the expected slowdown in Olympic-related construction.

1.3 1997-98 PROGRAM OUTCOME

After adjusting for the new General Government coverage of the budget, excluding capital grants and advances and allowing for the re-classification of some capital payments to recurrent expenditure, estimates of total asset acquisitions for 1997-98 have been revised downwards to \$4,572 million, a decrease of \$414 million compared to an original budget of \$4,986 million adjusted to the same basis. This under-expenditure comprises a reduction of \$468 million for the Public Trading Enterprise Sector, partially offset by an increase in projected expenditure in the General Government Sector of \$54 million.

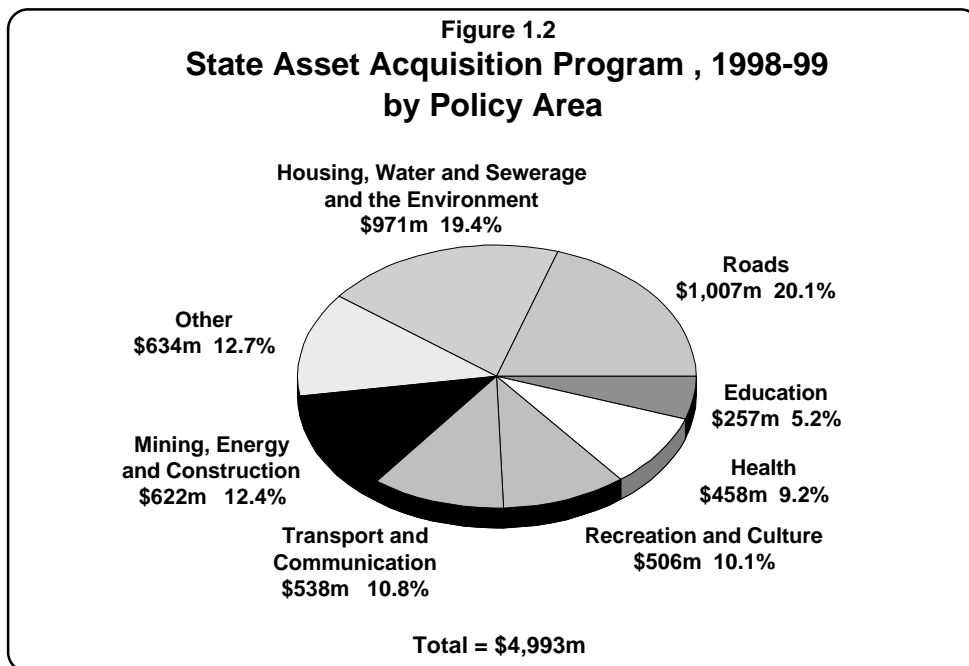
Detailed information on the outcome of the Budget Sector component of the 1997-98 State capital program can be found in Appendix B of Budget Paper No. 2 "Budget Information 1998-99".

1.4 1998-99 PROGRAM

State asset acquisitions in 1998-99 are estimated to be \$4,993 million. This represents a real increase of \$356 million or 7.7 per cent on the projected 1997-98 expenditure.

The State asset acquisition program represents planned expenditure at a point in time and, as with any plan, circumstances and priorities may change during the course of the financial year. In past years there have been moderate variations, either increases or decreases, between the budgeted capital expenditure and the actual outcomes, reflecting a range of factors such as weather conditions, delays due to various reasons, price movements varying markedly from those forecast and planning revisions.

While the 1998-99 State asset acquisition program has been framed on the latest estimates of planned payments on all of the projects that make up the program, past experience suggests it is likely that the final outcome will follow the pattern of previous years and differ moderately from budgeted expenditure.



Highlights of the 1998-99 State Asset Acquisition program include -

- expenditure of \$1,007 million for roads, including a general roads program of \$881 million and \$125 million to be spent by the Olympic Co-ordination Authority to improve transport access to the Olympic site.
- payments of \$538 million for transport and communication, including \$278 million for passenger rail services, \$117 million for rail infrastructure related services and \$55 million for bus and ferry services;
- payments totalling \$971 million in the housing, water, sewerage, and the environment policy area, including \$329 million by the Department of Housing, \$94 million by the Office of Community Housing, \$43 million by the Aboriginal Housing Office, \$300 million by Sydney Water Corporation and \$52 million by the Hunter Water Corporation. Works to help protect the environment include payments of \$15 million by the Department of Land and Water Conservation, \$8 million by the Olympic Co-ordination Authority and \$33 million by Waste Service NSW;
- a total of \$622 million in the mining, energy and construction policy area including \$284 million by the metropolitan electricity distributors (Energy Australia and Integral Energy); \$136 million by rural electricity distributors (Advance Energy, Great Southern Energy, Australian Inland Energy and NorthPower); and \$118 million by TransGrid;
- a total of \$458 million for health services enabling expenditure on major capital works to maintain service delivery in the health area;
- a total of \$506 million for recreation and culture payments, substantially due to continued activity by the Olympic Co-ordination Authority.
- payments of \$205 million in the Competitive Government Sector which includes the Electricity Generators, Freight Rail Corporation and Rail Services Authority; and

1.5 FUNDING OF STATE ASSET ACQUISITION PROGRAM

General Government Sector asset acquisitions are financed from Commonwealth specific purpose capital payments, the current surplus and financing transactions.

Public Trading Enterprise Sector asset acquisitions are primarily funded from the revenue and accumulated reserves of enterprises and borrowings. Some enterprises also receive Budget funding in the form of social program payments. In addition, some projects in the housing area receive Commonwealth funding.

Table 1.1 outlines funding sources for 1997-98 and 1998-99 for both the General Government and Public Trading Enterprise Sectors.

Table 1.1: State Asset Acquisition Program Funding Sources

	1997-98 Revised \$m	1998-99 Budget \$m
General Government Sector		
Commonwealth Specific Purpose Payments	627	639
Current Budget Surplus and Financing Transactions	2,162	2,228
Total - General Government Sector	2,789	2,867
Public Trading Enterprise Sector		
Commonwealth Specific Purpose Payments	157	149
Budget Funding	389	287
Other Sources	1,237	1,690
Total - Public Trading Enterprise Sector	1,783	2,126
TOTAL PROGRAM	4,572	4,993

General Government Sector Funding Sources

- **Commonwealth Specific Purpose Payments**

The Commonwealth Government provides payments to the States for specific capital purposes under section 96 of the Constitution. The major payments are for roads, schools and the Community Housing Program.

Total Commonwealth specific purpose capital payments to the State for 1997-98 are anticipated to be \$784 million. This is \$69 million down on budget mainly due to reduced National Highway Program funding (\$51 million).

Commonwealth specific purpose capital payments to general government agencies in 1998-99 are estimated at \$639 million. This incorporates roads grants of \$323 million under the Land Transport Development program, \$125 million for community and Aboriginal housing grants, \$61 million for technical and further education and \$72 million for school education.

- **Current Budget Surplus and Financing Transactions**

The other funding sources for the General Government Sector asset acquisition program are the current surplus and financing transactions (financing transactions are only a funding source when the Budget is in deficit).

Public Trading Enterprise Sector Funding Sources

Income and accumulated reserves are the most significant source of funding for Public Trading Enterprise Sector capital expenditures.

The major Public Trading Enterprises receiving Budget funding in 1998-99 are the State Rail Authority and the Department of Housing.