

TREASURER AND MINISTER FOR STATE DEVELOPMENT

OVERVIEW

<i>Agency</i>	<i>Budget 1999-2000 \$m</i>	<i>Budget 2000-01 \$m</i>	<i>Variation %</i>
Treasury			
Total Expenses	89.9	314.2	249.5
Asset Acquisitions	7.9	6.5	(-) 17.7
Crown Transactions Entity			
Total Expenses	2,811.3	3,653.6	30.0
Asset Acquisitions	...	...	...
Department of State and Regional Development			
Total Expenses	86.8	103.4	19.1
Asset Acquisitions	0.1	0.1	...
Crown Leaseholds Entity			
Total Expenses	...	1.0	n/a
Asset Acquisitions	...	...	...
Crown Transactions Entity Commercial Activities			
Total Expenses	11.6	15.2	31.0
Asset Acquisitions	...	...	...
New South Wales Insurance Ministerial Corporation			
Total Expenses	783.0	803.0	2.6
Asset Acquisitions	...	...	...
Advance to the Treasurer			
Total Expenses	160.0	160.0	...
Asset Acquisitions	...	40.0	n/a
Olympic Funding Reserve			
Total Expenses	29.7	...	n/a
Asset Acquisitions	...	...	...
Total, Treasurer and Minister for State Development			
Total Expenses	3,972.3	5,050.4	27.1
Asset Acquisitions	8.0	46.6	482.5

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

Office of Financial Management

During 1999-2000 OFM continued to advise the Treasurer and the Government on a wide range of economic, Budget and finance issues. Advice was submitted on the financial and economic implications of all matters being considered by Cabinet.

During the year the Market Implementation Group was established to provide a more effective means of co-ordinating the energy reform agenda within New South Wales. The introduction of full retail contestability in the national electricity market from 1 January 2001 is a major challenge for New South Wales but will provide benefits to households and small businesses.

OFM also continued work on taxation reform, particularly the Goods and Services Tax (GST) and reform of Commonwealth/State financial arrangements. OFM has assisted the Government in developing whole-of-government strategies relating to the GST and has provided guidance to agencies on implementation of the GST.

Briefing sessions and additional information were provided to the credit rating agencies during the year. Moody's Investors Service and Standard and Poor's both confirmed continuation of New South Wales' AAA credit rating.

Further improvements have been made to the Budget process for the 2000-01 Budget, including restructure within OFM to better align staff to the key processes in formulation of the Budget. The State's Fiscal Strategy has been articulated and endorsed and this has underpinned preparation of the 2000-01 Budget.

Office of State Revenue

The Revenue and Compliance Processes and Systems project (RECOUPS) has begun to deliver redesigned business processes and more flexible information systems. The first two of RECOUPS' Releases have gone into production. Release three, which covers invoiced based taxes such as land tax, has been delayed to mid-2000. RECOUPS will be fully implemented early in the 2000-01 financial year.

OSR has been negotiating with the other States regarding processes for administration of the First Home Owner Grants Scheme. This new Scheme is a component of the tax reform package. Grant payments in New South Wales will be administered by OSR. OSR will also continue to administer the State Government's First Home Purchase Scheme.

STRATEGIC DIRECTIONS

Office of Financial Management

Further development and implementation of the State's Fiscal Strategy will continue as a high priority. The Strategy is fundamental to the State's economic performance and underpins the allocation of funds through the Budget and the State's credit rating. The focus of the Strategy is on reducing debt and improving management of debt and other liabilities.

The Budget process will continue to be refined and strengthened through contractual arrangements in the form of service and resource allocation agreements with agencies. These agreements are similar in concept to statements of corporate intent and statements of financial performance that OFM negotiates with Government commercial agencies.

OFM will continue to advise on the reform of taxation and inter-governmental financial relations. OFM will play a key role in safeguarding the interests of New South Wales during implementation of the GST and associated national tax reform changes.

OFM will continue to oversight and advise on industry reform, including implementation of energy reform and full contestability.

Development of the Financial Management Framework will continue. The Framework will further strengthen accountability in the use of public resources and corporate governance.

Office of State Revenue

In 2000-01 OSR will focus on the following issues to achieve its corporate objectives of maximising revenue, efficiency and client satisfaction.

- ◆ Compliance improvement program – improve the effectiveness of revenue collection strategies to ensure that all clients are meeting their obligations under tax legislation.
- ◆ National tax reform – co-ordinate and implement administrative and legislative changes arising from the tax reform package. Monitor Ralph Report recommendations and the impact on the design of tax systems, policy making and drafting of legislation.

- ◆ Electronic commerce – research, market, implement and monitor electronic usage to improve service delivery. In 2000-01 this will include the development of software to enable unclaimed money enquiries to be made via OSR’s web site.
- ◆ Business opportunities – OSR will work with other agencies to ascertain whether its revenue administration systems can effectively and efficiently undertake revenue collection on behalf of other agencies. OSR will begin collecting revenue for the Department of Gaming and Racing from 2001.
- ◆ Information management and technology – new applications will be implemented and existing systems enhanced. These include establishing links with systems maintained by other Government agencies to greatly improve property related data used by OSR.

2000-01 BUDGET

Total Expenses

Estimated total expenses in 2000-01 are \$314.2 million for Treasury. This is a significant increase over 1999-2000 due to establishment of the First Home Owner Grants Scheme from 1 July 2000. Grants totalling \$218.5 million are expected to be paid under the new Scheme during 2000-01.

Asset Acquisitions

Office of Financial Management

For 2000-01, \$0.3 million has been allocated for OFM’s computer and related equipment replacement program.

Office of State Revenue

OSR's 2000-01 asset acquisitions program amounts to \$6.2 million and provides for development of more efficient systems for collecting revenue.

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 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.

EXPENDITURE TRENDS AND RECENT DEVELOPMENTS

The State is required by the Commonwealth to make a contribution to higher education superannuation. Other payments include State Bank post sale management costs, refunds and remissions of Crown revenue, rate concessions on exempt properties within the Sydney and Hunter Water Districts, contribution to the Treasury Managed Insurance Fund, debt/investment management costs, and an operating subsidy to Far West Energy.

Capital restructure electricity industry receipts are being utilised for debt retirement and the Government is phasing in full funding of accruing superannuation liabilities. For detailed commentary on asset and liability management refer to Chapter 5 in Budget Paper No. 2.

2000-01 BUDGET

Total Expenses

Estimated total expenses in 2000-01 are \$3,654 million, with the major components being:

- ◆ \$1,209 million for interest expenses on existing debt held with Treasury Corporation, the Commonwealth and other organisations. This is a 9.2 percent decrease on forecast 1999-2000 expenses, reflecting savings generated from the maturity of long term debt in a lower interest rate environment and the utilisation of budget cash surpluses for debt redemption;
- ◆ \$1,445 million for employer superannuation expenses. This cost compares to a forecast negative expense of \$166 million in 1999-2000. This large expense movement can be attributed mainly to a positive actuarial valuation in 1999-2000 resulting from changed economic assumptions used for their modelling;
- ◆ \$280 million for GST administration and related payments;
- ◆ \$267 million for long service leave expenses of public service employees;
- ◆ \$47 million for petroleum products for on-road use in zones descending from the Queensland border. 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. Low alcohol beer subsidies provided by New South Wales to meet commitments under the safety net arrangement will no longer be necessary.

- ◆ \$138 million for expenses relating to the Crown Property portfolio;
- ◆ \$82 million grant to the Insurance Ministerial Corporation with the bulk going to the Traffic Accident Compensation Fund as a replacement for Third Party Motor Vehicle Registration Levy concessions granted in 1998-99;
- ◆ \$40 million for voluntary redundancy costs within the Public Sector generally;
- ◆ \$25 million grant to the Treasury Managed Fund as a hindsight premium adjustment;
- ◆ \$10 million as the State's contribution to higher education superannuation;
- ◆ \$12 million for Natural Disaster grants; and
- ◆ \$12 million to Sydney Water for rate concessions on exempt properties.

Natural Disaster Relief

Natural disaster relief provided by the Government is funded through Crown Transactions (for certain General Government Sector agencies) as well as within the normal works programs of State agencies such as the Roads and Traffic Authority and the State Rail Authority. Additional funding of a further \$20 million was provided by the Government for this program during 1999-2000 to account for exceptional costs relating to the relief operation following the hail storm which affected parts of Sydney in April 1999.

Under Commonwealth/State Natural Disaster Relief Arrangements, New South Wales is required to fund the full cost of disaster relief up to a "base amount" which was \$56.828 million in 1999-2000. Above this amount the Commonwealth will contribute towards a greater portion of the State's costs of providing disaster relief. However relief for personal hardship and distress attracts a dollar for dollar Commonwealth contribution regardless of whether State expenditure reaches the "base amount".

In 1999-2000 the State's overall Natural Disaster Relief Arrangements expenditure is expected to be approximately \$76 million, largely as a result of significant damage to roads infrastructure, other State and Local Government assets and private property following widespread flooding to the Central West and North West regions of New South Wales and the Sydney hailstorm during 1998-99.

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 the 1999-2000 financial year 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 \$923 million and employment impact of over 8,000 jobs.

The financial year has also seen the successful introduction of several new initiatives including:

- ◆ Establishment of the Illawarra Advantage Fund to help overcome the effects of industry restructuring within the Illawarra region. A total of \$10 million will be provided through the Fund over three years;
- ◆ Creation of the Eden Development Fund through an allocation of \$0.25 million from the NSW Government and \$0.25 million contributed by Heinz Watties Australasia. This Fund has an emphasis on creating jobs to replace those lost as a consequence of the closure of the Heinz Watties Cannery in Eden;
- ◆ The allocation of \$11 million over four years to be used for works associated with the upgrade of the Katoomba Town Centre and Echo Point lookout areas;
- ◆ The Olympic Business Information Service has provided access for businesses to Olympic related tendering and contract opportunities. Sponsorship of the Olympic Commerce Centre has also enabled businesses across New South Wales to access a wide range of Olympic contracts. These programs have contributed to regional businesses winning business and sponsorship opportunities which now total over \$250 million; and
- ◆ A new marketing initiative is also being implemented to maximise the economic impact from the Sydney Olympics, by promoting New South Wales as a business destination. The campaign will comprise advertising, a new web-site, high level investment promotions, updated promotional material and a support media relations program run as part of the Department's involvement with the Sydney Media Centre.

Variations between 1999-2000 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:

- ◆ Establishment by Allgold Foods of a \$13.8 million pasta making facility at Leeton that is estimated will create 130 jobs;
- ◆ Expansion of the Young based Burrangong Meat Processors with an investment of \$3.1 million and some 100 jobs involved;
- ◆ Establishment of Charles Schwab's funds management operation in Sydney. A \$30 million investment estimated to create 340 jobs;
- ◆ Announcement of Oracle's shared service centre for the Asia-Pacific at Ryde, involving an investment of \$3 million and the creation of an estimated 255 jobs; and
- ◆ Establishment by Hong Kong Shanghai Bank of a call centre and network service centre involving capital expenditure of \$6 million and employment of 320 people.

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; facilitating projects; 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.

2000-01 BUDGET

Total Expenses

The Department's estimated total expenses for 2000-01 amount to \$103.4 million. This includes \$12 million for Gosford City Council for repayment of an advance from the Crown that was provided in 1998-99 towards development of the Grahame Park stadium.

During 2000-01 the Department's initiatives will include the following:

- ◆ Establishment of a New Export Opportunities Program, with a particular focus on small to medium enterprises in regional centres, through the Regional Export Advisor network. The program aims to introduce new exporters into overseas markets for the first time and support existing exporters to expand into new markets. Assistance totalling \$3 million will be provided over three years;
- ◆ New Market Expansion Program – this program is being introduced to assist regional firms enter new domestic markets. The program will provide assistance totalling \$1.8 million over three years;
- ◆ Townlife Development Program – a new program to assist smaller towns (populations less than 2,500) to identify new economic activity that will assist in maintaining sustainability and creating jobs. Assistance totalling \$0.75 million will be provided over three years;
- ◆ Centre of Excellence at Newcastle – relocation of the CSIRO Division of Coal and Energy Technology from North Ryde to Newcastle's Steel River area to establish a centre of excellence in energy research. The New South Wales Government is providing \$10 million for this project over five years.

In addition, the 2000-01 Budget includes allocations for the following programs:

- ◆ Australian Technology Showcase – a high profile effort to promote and generate local and international business opportunities for high growth, knowledge intensive and innovative industries;
- ◆ Regional Headquarters Tax Concessions – incentives 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 Development Assistance – providing assistance to businesses starting in, expanding in, or relocating to, a regional location;

- ◆ Regional Economic Transition Scheme – the program’s emphasis remains to assist regional towns/communities which have experienced or are facing sharp economic shocks leading to major industry/business closures and employment losses as a result of structural change, global restructuring, corporate downsizing or adverse international trading conditions;
- ◆ Country Lifestyles Program – targeted promotion to draw both businesses and skills to areas where specialised labour and supporting industries are in short supply and to draw businesses into areas where unacceptably high levels of unemployment exist. The program involves the marketing of regional New South Wales as a business and investment location;
- ◆ Hunter Advantage Fund – this Fund was established as a response to the need for job creation and industry development initiatives in the Newcastle area as a consequence of the announced closure of BHP’s steelmaking operations;
- ◆ Illawarra Advantage Fund – payments under this initiative (\$10 million over three years) will help overcome the effects of industry restructuring in the area;
- ◆ NSW High Growth Business – an initiative aimed at helping businesses exposed to global competition or competing with imports;
- ◆ 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 the Departmental resources directed to testing concepts and delivery mechanisms; and
- ◆ Activities funded from these programs include Business Enterprise Centres, Business Expansion Program, Small Business Development Corporation, Aboriginal Business Development and the Women in Business Program.

Asset Acquisition Program

The Department’s asset acquisition program for 2000-01 includes \$0.1 million for the replacement of plant and equipment.

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 decrease by 26.12 percent to \$43 million in 2000-01. This decrease is mainly attributable to scheduled asset sales of \$20 million in 1999-2000 and no scheduled asset sales in 2000-01.

CROWN TRANSACTIONS ENTITY COMMERCIAL ACTIVITIES

The commercial activities of the Crown Transactions Entity comprise the New South Wales Non-Budget Long Service Leave (LSL) Pool and the New South Wales Structured Finance Activities Account.

The LSL Pool administers LSL Provision for agencies and commercial activities whose liabilities were previously assumed by the Crown Transactions Entity due to them being part of the Budget Sector.

The principal activities of the NSW Structured Finance Activities relate to the utilisation of the financial standing of the Crown in securing efficient funding of the State's assets (electricity assets, motor vehicles and the rolling stock of the State Rail Authority).

The transactions, involving foreign jurisdictions, are designed to result in lower costs of finance and/or refinance for the capital expenditure of the State. The Crown receives the financial benefits remitted to Consolidated Fund.

2000-01 BUDGET

Expenses in 2000-01 will increase by approximately \$623,000 to \$15.2 million mainly due to a rise in employer entitlement expenditure. A similar increase in receipts will see the operating deficiency increase from \$152,000 to \$167,000.

NEW SOUTH WALES INSURANCE MINISTERIAL CORPORATION

The 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, investments earnings, and Government grants. Expenses are primarily related to claims costs.

Claims expenses include movements in the liability for outstanding claims. The liability includes 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 liability is assessed in conjunction with independent actuaries.

Asset management policy for the IMC was recently reviewed and approval given to adopt 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 Treasury Corporation will continue to manage the portfolio and have moved holdings, which were primarily in the hourglass facility, to a discrete facility with the approved asset allocation.

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.

2000-01 BUDGET

The estimated operating deficit of \$3.7 million for 2000-01 compares with a surplus of \$80.7 million achieved in 1999-2000. This result will be achieved by a 9 percent increase in revenue to \$799.3 million. While expenses are expected to increase by 23 percent to \$803 million.

The surplus of \$80.7 million in 1999-2000 arose as a result of the revaluation of outstanding workers compensation claims which now reflect trends that have developed following changes to the WorkCover Scheme. Small variations, when applied to the very large amount of outstanding claims (greater than \$2 billion), produce significant variations in the operating result.

The deficit of \$3.7 million for 2000-01 arises as a result of a difference between premiums, which are based on a central estimate of claims costs, and the movement in outstanding claims, which is based on a central estimate of costs plus a 7.5 percent prudential margin. The imposition of a prudential margin on outstanding claims will generally increase operating expenses and may produce an operating deficit.

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

ADVANCE TO THE TREASURER

\$200 million has been allocated in 2000-01 to the Treasurer as an advance to allow for supplementary expenses - \$160 million for recurrent services and \$40 million for capital works and services. Actual expenses will be recorded in the expenses of the appropriate agencies.

OLYMPIC FUNDING RESERVE

An Olympic Funding Reserve was established in the 1998-99 Budget to provide for costs to be borne by agencies in strategic planning, preparation and providing services for the Olympic and Paralympic Games.

The Reserve provided for funding of services that were not sufficiently scoped or planned to enable firm allocations to agencies by the Budget Committee.

With less than four months until the Olympic and Paralympic Games, all planning and preparation for service delivery is now in the final stages and it is no longer considered necessary to maintain the Reserve. All available Olympic funding has been directly provided to the relevant agencies.