CHAPTER 1 OVERVIEW OF STRATEGIC DIRECTION AND ENVIRONMENT

1.1 GOVERNMENT FINANCIAL MANAGEMENT FOCUS

The Government is committed to delivering the services required by the community while strengthening the state's financial position. In keeping with this commitment, the Government's overall strategy is aimed at ensuring:

- Economic development and jobs;
- Social justice;
- Environmental protection; and
- Improved financial performance.

The 1999-2000 NSW Budget provides for a substantial operating surplus while delivering improved services to the community and reducing the State's overall tax burden.

The Government will improve the quality of services it provides to the community by:

- Continuing to improve coordination between agencies
- Reshaping and improving government structures
- Supporting rural and regional community initiatives
- Effective use of information technology

The Financial Result

The General Government Sector is expected to record an operating surplus of $2,097 million for 1999-2000, compared with an expected surplus of $2,259 million for 1998-99.

General Government net worth (ie total assets less total liabilities) is expected to increase from $33,714 million at 30 June 1999 to $35,877 million at 30 June 2000.

The Budget includes a number of capital investment initiatives that will continue to enhance the quality of the State's infrastructure.

The Budget assumes a modest growth in current outlays from $22,162 million projected in 1998-99 to $22,447 million in 1999-2000[2]. This reflects the Government's commitment to get good value for money from expenditure on services.

[2] *Adjusted for impact of the Superannuation conversion offer*

1.2 FISCAL STRATEGY STATEMENT

Introduction

In previous years, the Government has included a *Budget Strategy* or *Budget Policy Statement* in Budget Paper No. 2. As from the 1999-2000 Budget this will be replaced with a *Fiscal Strategy Statement*, recognising the broader context in which the Budget has been developed. This statement elaborates on the contribution that the Government's financial management policies are making to the development of the New South Wales economy, and job creation in particular.

The Government's fiscal strategy has at its foundations the *General Government Debt Elimination Act*, 1995.

Box 1.1: Fiscal Principles and Targets in the Debt Elimination Act

1 Adherence to fiscal targets:

- short-term fiscal target – achievement of sustainable surplus budget by 1998-99;
- medium-term fiscal target – reduce General Government Sector net debt to a sustainable level by 30 June 2005; and
- long-term fiscal target – eliminate General Government Sector net debt by 30 June 2020.

2 Maintaining or increasing General Government Sector net worth.

3 Funding employer superannuation contributions.

4 Asset maintenance.

5 Constrained growth in net cost of services and outlays.

6 Prudent risk management.

7 Tax restraint.

Medium-Term Fiscal Strategy

The *Debt Elimination Act* targets zero net debt by 2020. At this stage, a medium-term fiscal strategy is being pursued that is consistent with that long-term goal and the other targets and principles of the Act (see Box 1.1).

A Medium-Term Fiscal Rule

The medium-term fiscal rule now being applied in New South Wales is that the Budget should be at least balanced (on a GFS cash basis) over the course of a full business cycle. Adherence to this rule ensures that budget transactions do not add to net debt over the medium-term.

This rule recognises the need to take into account the business cycle as well as underlying trends. The impact of the business cycle on both revenue and outlays means that in any year the budget outcome is influenced by the position in the cycle. In New South Wales, the Budget is also strongly affected by the cycle in property-related revenues. Therefore, in targeting budget outcomes consistent with the medium-term fiscal strategy, it is necessary to allow for cyclical influences. While budget surpluses are expected when the economy is strong, when the economic cycle turns down, small budget deficits would still be consistent with the medium-term rule.

The Medium-Term Targets

The Act specifies June 2005 as the medium-term target date. If the Budget were balanced on average in the six years to 2004-05, General Government net debt would be $10 billion or 3½ percent of Gross State Product (GSP) at the end of the period (leaving aside the effects of extraordinary transactions such as the proposed superannuation conversion offer[3]).

However, in the favourable economic climate projected to 2002-03, the medium-term fiscal rule calls for significant budget surpluses. For the budget and forward estimates years, surpluses averaging almost $600 million, or around 0.25 percent of GSP, are projected. General Government net debt is projected to shrink to $7.8 billion or 2.9 percent of

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[3] *See Chapter 5 for details.*

GSP by June 2003. If the favourable economic climate and the surpluses were to continue beyond that point, net debt would decline further to around 2¼ percent of GSP by June 2005, the medium-term target date specified in the Act.

The maintenance of surpluses in the medium-term is reinforced by the following considerations:

- In looking beyond the medium-term there will be significant pressures on the Budget, including those associated with changing social and demographic factors, and technological change. Recent work undertaken by the OECD[4] demonstrates the scope for demographic factors to put pressure on government budgets. Technological advances are increasing the scope for economic transactions to be moved between jurisdictions. This could place some pressure on government revenue bases;

- Improvements in the net financial assets position of the General Government Sector amount to an improvement in public sector saving. The longer term need to increase national saving and restrain current consumption has received much attention in recent years. The benefits of higher public sector saving can also be much more immediate, as recently demonstrated by the resilience of the Australian economy to external shocks. While the New South Wales Budget alone does not have a substantial influence on national saving, it comprises a substantial part of the overall public sector contribution; and

- Medium-term targets need to be framed with reference to the *long-term fiscal target* of eliminating net debt in the General Government Sector by 2020. This suggests that some reasonable progress needs to be made in reducing levels of net debt over the medium term.

The main benefits of adhering to the medium-term fiscal targets will be:

- The reduction in interest costs at a given interest rate. The interest bill on General Government Sector debt was substantially reduced in

[4] *OECD Economic Surveys, 1998-99, Australia*

1998-99 with the use of the $1.1 billion TAB sale proceeds to pay off debt. This lowered the annual interest bill to around $1.3 billion (net of the temporary additional debt costs associated with the superannuation conversion offer). But this is still around five percent of Budget receipts. Further reducing debt will free up additional resources for service provision and/or provide scope to reduce the tax burden, and at the same time decrease the exposure of the Budget to economic downturns;

- Stronger budgetary resilience in the face of shocks. At the projected levels of net debt, the Budget will be more resilient to a cyclical economic downturn, such as that of the early 1990s;

- Greater flexibility to respond to the budgetary implications of demographic and other structural shifts. Even though such influences are likely to impact over a longer timeframe than that covered by the current forward estimates, if they are not recognised in setting medium-term targets, future policy options will become much more constrained; and

- Ensure New South Wales strengthens its AAA rating, which will help attract business investment to the State and minimise interest expense.

Tax and Expenditure Restraint

The medium-term strategy requires that surpluses be achieved through expenditure restraint rather than overall tax increases. Indeed, the strategy allows for net tax reductions with the objective of enhancing the climate for business investment and employment growth in New South Wales. The Commonwealth Grants Commission's measures of tax effort show that the tax burden in New South Wales has been above the average of other States since the late 1970s, the whole of the period for which a measure has been published. The Government's objective is to close the gap over the medium-term. The first step in this direction is being made in this Budget and further tax reductions have been foreshadowed and allowed for in the forward estimates.

The targets for debt and tax reduction require a reduced rate of growth in expenditure in future years. In the ten years to 1998-99, outlays grew at an average rate of 2.5 percent in real terms. Over the next four years, aggregate outlays are projected to grow at an average annual rate of just under two percent in nominal terms. It is particularly important to restrain growth in recurrent outlays, as increases in one year have similar sized impacts on the budget outcome in future years. Recurrent outlays constitute 85 percent of total outlays and have dominated the growth of total outlays in recent years.

The single most significant recurrent expense relates to employee costs. The public sector wage agreements that have been in place over the past two or three years have led to significant real wage increases, mostly in the 10 to 14 percent range. This has put NSW public sector wages at, and in most cases above, the other States. Now, with NSW public sector pay at competitive levels, the Government expects only moderate wage growth in the coming years.

The planned expenditure restraint will achieve financial objectives without compromising the quality of government services. Standards, as measured by the Commonwealth Grants Commission's index of service provision, have risen in New South Wales relative to the other States during the 1990s. The medium-term strategy emphasises productivity growth and other financial management improvement techniques to maintain service provision at a high level without strong growth in expenditure.

A Broader View of the Balance Sheet [5]

While the emphasis above is on General Government Sector net debt, the medium-term fiscal strategy has a broader focus that encompasses other General Government Sector balance sheet items and, more broadly, Total State finances.

The biggest non debt liabilities on the General Government Sector balance sheet are employee entitlements (dominated by the unfunded superannuation liability) and insurance liabilities.

The very favourable reaction of the financial markets to the superannuation conversion offer demonstrates that the State’s unfunded superannuation

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[5] *Balance sheets are labelled* Statement of Financial Position *in these Budget Papers.*

liability is seen as imposing the same sorts of policy constraints as State debt. Indeed, in dollar terms the unfunded superannuation liability has been slightly larger than net debt in the past few years.

Insurance liabilities are also of a significant magnitude (exceeding $3 billion), and with recent deteriorating trends in some areas, will require careful management. The Insurance Ministerial Corporation has net liabilities of around $400 million largely associated with unfunded closed schemes (the Transport Accidents Compensation Fund and the Governmental Workers Fund). In addition, the increasing costs of workers compensation under the coverage of WorkCover flow on to the liabilities associated with workers compensation claims in the government sector which are self-insured. This is increasing liabilities even though the self-insurance scheme has out performed the WorkCover scheme.

The assets side of the General Government Sector balance sheet is dominated by non-current assets, principally land and buildings and infrastructure systems. An important part of the Government's overall fiscal strategy is the proper management and maintenance of these physical assets.

Where such non-current assets do not produce a cash-flow and cannot be rapidly liquidated, they are defined as *non-financial assets*[6]. The remaining *financial assets* on the balance sheet are exceeded by the gross (financial) liabilities, with the difference being defined as the *net financial liabilities* position, as derived in Table 5.2 in Chapter 5. This is a useful aggregate to focus on, because from a creditor's perspective, non-financial assets will typically not be regarded as a valuable source of collateral.

The main objective in seeking to reduce net debt and unfunded employee entitlements is to lower the *net financial liabilities* of the General Government Sector.

As at June 1998, net financial liabilities of the General Government Sector were $28.8 billion or 14 percent of GSP and are projected to decline to $24.8 billion or 9.2 percent of GSP as at 30 June 2003. Chart 1.1 illustrates the past and projected paths with the projected budget surpluses extrapolated to 2004-05.

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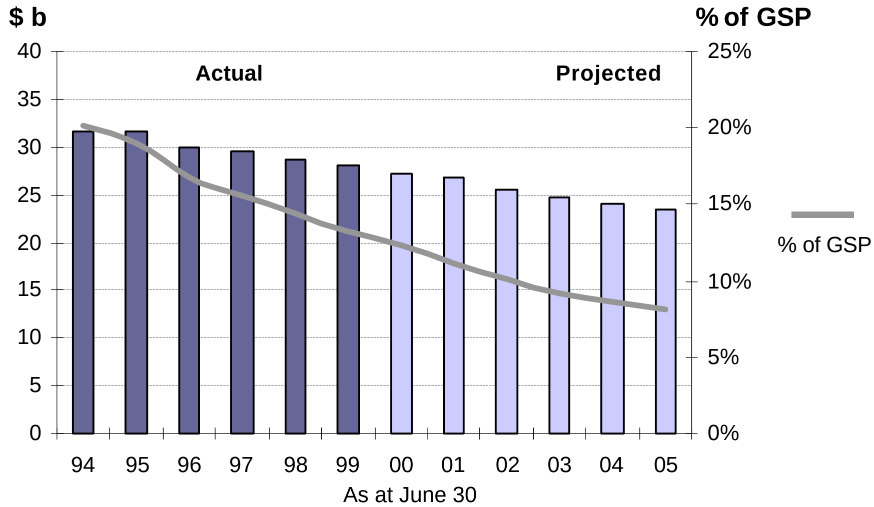
[6] *This term is used on Financial Assets and Liabilities (FALS) balance sheets.*

Chart 1.1: General Government Net Financial Liabilities



Broadening the focus to the Total State requires consideration of the Public Trading Enterprise (PTE) Sector and the Public Financial Enterprise (PFE) Sector.

In contrast with the approach taken in relation to the General Government Sector, the primary emphasis for the PTE Sector is not on managing down aggregate liabilities. This is because, in principle, there is an optimal quantum of debt consistent with a PTE's optimal capital structure. While the contribution that the PTE sector makes to the Total State balance sheet is of great importance, the focus is on strengthening individual PTE's balance sheets rather than reducing liabilities. This requires careful management of physical and other assets as well as liabilities.

A number of PTEs have had their balance sheets restructured in recent years to give them more appropriate capital structures. But because debt and other liabilities can be transferred between sectors, credit rating agencies and other external analysts will regard changes in the Total State's net debt, and broader measures of the Total State's financial liabilities, as important financial indicators. As shown in the following table, both net financial liabilities and net debt for the Total State have been falling and are projected to fall further over the forward estimates period.

Table 1.1: Trends in Liabilities, Total State

	Net Debt $m	*Net Financial Liabilities $m*
Actual:		
1995	19,592	43,846
1996	18,971	44,641
1997	18,758	41,479
1998	18,646	40,897
Estimated:		
1999	21,857 [(a)]	40,621
2000	20,844 [(a)]	39,809
2001	19,474 [(a)]	39,284
2002	17,442	38,198
2003	16,716	37,318

[(a)] *Total State net debt is temporarily increased in these years to fund the superannuation conversion offer.*

When non-financial assets such as land and buildings are sold to the private sector, this further reduces the net financial liabilities of the Total State, and typically also of the General Government Sector.

The PFE Sector in New South Wales is very small relative to the other sectors, and dominated by the NSW Treasury Corporation (TCorp). TCorp operates as a commercial entity, and best practice corporate finance principles are applied to the management of its balance sheet.

Recent Performance

This section provides the *Budget Policy Statement* for the 1999-2000 Budget as required under the *General Government Debt Elimination Act*.

Section 21 of the Act requires a statement providing details on the following matters:

- an assessment of progress achieved against the fiscal targets and seven fiscal principles set out in the Act;
- projection of the ability to achieve fiscal targets in the future and to ensure the achievement of fiscal principles; and

- three-year projections of all relevant economic and financial variables.

The latter are given in Tables 1.8 and 1.9 in this Budget Paper.

Progress Against Fiscal Targets and Principles

1. Adherence to Fiscal Targets

The short, medium and long-term fiscal targets specified in the Act are given in Box 1.1.[7]

For 1998-99 and later years, the projections in the following table indicate that the *short-term fiscal target* is being met.

Table 1.2: Budget Results, 1996-97 to 2002-03 (GFS cash basis)

1996-97 $m	*1997-98 $m*	*1998-99(a) $m*	*1999-2000(a) $m*	*2000-01(a) $m*	*2001-02(a) $m*	*2002-03 $m*
151	(29)	382	214	363	976	766

(a) After adjusting for the superannuation conversion offer.

In particular, the projections show a strong growth in General Government Sector surpluses in later years. This growth in surpluses reflects restraint in current outlays growth and the passing of Olympic Games costs, which peak from 1996-97 to 1999-2000. The substantial increases in the surpluses after 1999-2000 reflect, in part, the completion of major venue construction. Some of the improvement in the surplus from 2000-01 to 2001-02 reflects the inclusion in 2000-01 of substantial Government service costs for the Olympics.

As noted in the discussion of the medium-term fiscal strategy, the above projections for the GFS cash outcomes are consistent with the *medium-term target*.

[7] *The Act specifies targets on a GFS cash basis.*

The medium-term target, in turn, represents progress towards the *long-term target.* Projections for General Government Sector net debt based on the Budget forward estimates, shown in Table 1.3, demonstrate this progress.

Table 1.3: General Government Sector Net Debt

Year	*$m*
Actual:	
1994	12,327
1995	11,904
1996	10,342
1997	10,605
1998	10,120
Estimated:	
1999	12,896 [a]
2000	11,883 [a]
2001	10,513 [a]
2002	8,481
2003	7,755

[a] Net debt is temporarily increased in these years to fund the superannuation conversion offer, offset by corresponding falls in the unfunded superannuation liability.

2. General Government Sector Net Worth

Net worth is defined as *total assets* less *total liabilities.* The relevant fiscal principle in the Act is to ensure the net worth of the General Government Sector is at least maintained in real terms. Trends in the net worth of the general government sector are set out in Table 1.4.

Table 1.4: Trends in Net Worth

30 June	*Assets $m*	*Liabilities $m*	*Net Worth $m*
Actual:			
1996	60,709	39,876	20,833
1997	63,847	39,025	24,822
1998	70,236	38,948	31,288
Estimated:			
1999	70,939	37,222	33,717
2000	72,389	36,500	35,889
2001	73,686	36,014	37,672
2002	76,050	35,894	40,156
2003	78,415	35,913	42,502

The increases in net worth in recent years and those projected will be more than sufficient to maintain net worth in real terms over the next four years. This is a reflection of the policies adopted by the Government to strategically manage its assets and to actively manage its net financial liabilities.

3. Funding Employer Superannuation Contributions

Since 1992, measures have been implemented to gradually phase-in full funding of superannuation liabilities. These included the closing to new entrants of the State Authorities Superannuation Scheme (SASS), a defined benefits scheme, and the development of long-term funding plans to extinguish unfunded liabilities.

Movements in the level of unfunded liabilities are set out in the following table and are discussed further in chapter 5.

Table 1.5: Unfunded Superannuation Liabilities, General Government Sector

As at 30 June	*Unfunded Superannuation Liability $m*
Actual:	
1994[(a)]	12,250
1995[(a)]	12,687
1996	12,331
1997	10,949
1998	11,188
Estimated:	
1999	8,056
2000	8,301
2001	9,101
2002	9,904
2003	9,705

[(a)] *Data for these years relates to the Budget Sector.*

Unfunded superannuation liabilities account for the majority of non-debt liabilities for the General Government Sector (and likewise the Total State sector). The principle of employer funding of superannuation contributions under the Act requires that:

- accruing current service superannuation liabilities should be fully funded for non Budget-dependent agencies (ie. those receiving direct Budget appropriations) and be fully funded for Budget-dependent agencies by 2020; and

- there should be a phased-in funding to eliminate existing past service unfunded liabilities.

The government's long term funding plan will extinguish unfunded liabilities for the general government sector by 2045, and for the PTE and PFE sectors by 2022.

In support of this plan, the Government proposes to offer members of some closed defined benefits schemes, the State Superannuation Scheme and the Police Superannuation Scheme, the opportunity to convert their accrued benefits to lump sums to be transferred to the First State Superannuation accumulation scheme. Further details of this superannuation conversion offer are given in chapter 5. The projections for the unfunded liability in the above table assume a twenty percent take up rate of this offer.

This, and other funding initiatives will result in the smoothing out of superannuation payments. Otherwise, employer payments would consume a disproportionately high level of Budget outlays in future decades.

Based on latest actuarial projections and trends, the accruing General Government Sector liability is being funded to a substantial extent and is expected to be fully funded on an ongoing basis well before the 2020 target date. Non-Budget dependent agencies are fully funding each year's superannuation expense as required.

4. Asset Maintenance

The introduction of accrual accounting in the General Government Sector has largely provided the information required to develop a formal asset maintenance policy. This has helped remove the bias towards the acquisition of further assets at the expense of proper asset maintenance.

Under the asset management policy, agencies are required to develop asset maintenance plans which identify all assets, set out a maintenance program for each asset or grouping of assets, identify any deferred maintenance requirements and establish a funding plan.

Asset maintenance plans for most budget-dependent General Government agencies have now been developed and are in operation or are being finalised.

The result of this process will be the endorsement of an asset maintenance program and the broad commitment by government of providing sufficient funding for this. This will replace funding that might otherwise have gone towards new capital projects. However, the purpose of asset maintenance plans is to minimise the whole-of-life cost of assets, by ensuring that they live out their designed life. This avoids the cost of replacing assets at an earlier date.

5. Constrained Growth in Net Cost of Services and Outlays

The *Debt Elimination Act* defines this principle as keeping the rate of growth in the net cost of services and outlays below the rate of growth in inflation and population (i.e. zero real growth in per capita terms). In respect of capital outlays, the principle is to be applied over a three-to-five-year period to allow for the impact of large projects.

In the four years to 1998-99, both current and capital outlays grew by a little over five percent per annum. This implies average real per capita growth of around two percent per annum, above the zero growth target.

Commonwealth Grants Commission data from the early 1990s show important areas where service provision expenditures in New South Wales were below other States, including public health, nursing homes, corrective services, emergency services and roads. The departure from the zero real per capita growth rate in the more recent period was partly due to policies to raise standards of service provision in New South Wales. Public sector wage rates in New South Wales had also fallen relative to those elsewhere. Significant wage increases in the past two or three years have restored relativities, while also contributing to the rate of growth of outlays.

The 1999-2000 Budget and forward estimates have been framed to meet the principle of constrained growth in outlays. The Budget provides for growth in the net cost of services of 3.5 percent in nominal terms in 1999-2000, roughly constant in real per capita terms, and averaging 2.2 percent per year over the forward estimates period.

As a result of reductions in Olympics related capital expenditure, and the 1998-99 figure being inflated by almost $400 million associated with a transfer of assets from the Department of Housing to the Aboriginal Housing Office and Department of Urban Affairs and Planning, capital outlays are projected to fall by 7.7 percent in 1999-2000 in nominal terms. The discretionary component of General Government Sector capital outlays is projected to grow marginally in real terms over the forward estimates period. For the Total State capital outlays will increase from over $17 billion in the four years to 1998-99 to over $20 billion in the coming four years.

6. Prudent Risk Management

Risk management refers to the strategies that can be adopted by the Government or an agency to minimise the risk of the Government or agency not meeting its objectives in delivering services to the community. Certain risks can be centrally managed while others are the direct responsibility of individual agencies.

To assist agencies to manage their risks, Treasury released a *Risk Management and Internal Control Toolkit* in 1997. The Toolkit is a self-assessment tool to assist agencies to implement best practice risk management strategies.

The Toolkit provides detailed guidance to enable agencies to identify areas within their operations where risks are not being adequately managed. Once any risk gaps have been identified, generic strategies in the Toolkit can be tailored to the specific needs of the agency and employed to assist in mitigating these risks. The Toolkit complements Treasury's Statement of Best Practice for Internal Control and Audit.

Treasury officers have assisted three agencies (Advance Energy, the Department of Sport and Recreation, and the Mid-North Coast Area Health Service) in implementing the Toolkit. Many other agencies are applying the self-assessment Toolkit using the implementation guidance contained in the Toolkit.

Risk management covers all aspects of the core business of an agency, including service delivery, asset management, environmental issues, ethics, fraud, organisational culture, all forms of legal liability, and the processes involved in identifying, assessing and managing those risks. Risk management involves everyone in an organisation.

At the level of the General Government, risk management includes management of sector-wide liabilities, including debt and unfunded superannuation liabilities. The insurance risks of all Budget Dependent General Government agencies are covered by the Government’s own self-insurance scheme, the Treasury Managed Fund. Financial risks for the Sector are largely centralised, as the Treasury Corporation manages the Government’s debt portfolio.

7. Tax Restraint

This fiscal principle requires that “the level of taxes should be restrained to the maximum possible extent...”. Given the policy priorities of government and the constraints on alternative revenue sources such as Commonwealth grants, net tax policy changes added to the tax burden each year until 1997-98. This is illustrated in Table 1.6.

Table 1.6: Trends in Tax Levels

Year	*Policy Induced Tax Increases*[a] *$m*
1989-90	200
1990-91	310
1991-92	80
1992-93	240
1993-94	100
1994-95	(40)
1995-96	10
1996-97	180 [b]
1997-98	280 [b][c]
1998-99	(110) [b]
1999-2000	(290)
2000-01	(100) [d]
2001-02	(270) [d]
2002-03	(180) [d]

[a] *Net effect on the year shown of all tax changes, whether announced in that year or in previous years.*

[b] *Includes impact of tax increases introduced to fund the Fiscal Contribution Payments to the Commonwealth.*

[c] *Excludes the one-off loss from abolishing business franchise fees and replacement by Commonwealth safety net taxes.*

[d] *Includes impact of measures foreshadowed in this Budget only. The reductions in 2000-01 are the residual impacts of changes in prior years.*

Competition continues to place downward pressure on the contributions to the budget from PTEs, and New South Wales continues to be handicapped by horizontal fiscal equalisation, subsidising other States to the tune of $1.3 billion a year (see Chapter 9 for further details). Nevertheless, there has been some easing of the constraints enabling New South Wales to start to lower its tax burden:

- the Fiscal Contribution Payments imposed by the Commonwealth Government (totalling $530 million) have terminated; and

- New South Wales will receive an increased share of Financial Assistance Grants from the Commonwealth from 1999-2000.

As a consequence, there are several reductions in taxes that will come into effect from 1 July 1999 relating to payroll tax and land tax. These are discussed at greater length in Section 3.3. Further tax reductions in the out-years are planned including additional reductions in the rate of payroll tax to 6.2 percent from 1 July 2001, and to 6.0 percent from 1 July 2002. This foreshadowing of these tax reductions is consistent with there being “a reasonable degree of predictability about the level and stability of tax rates for future years” as required under the Act. In addition, if the GST and the related Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations come into effect, the central Sydney accommodation levy will be removed from July 2000 and Financial Institutions and Share Transfer duties one year later.

Overall tax receipts are estimated to increase by an average of only 2.1 percent per year to the end of the forward estimates period, the low rate of growth reflecting the 1999-2000 reductions in tax rates and the future reductions. The projected rate of increase is well under the trend nominal growth rate of the economy of around 5 ½ percent.

1.3 THE ECONOMY

Introduction

Both revenues and outlays are affected by conditions in the economy. Economic factors are most critical in respect of performance for taxes, interest costs and departmental payments[8].

This section reviews the performance of the economy compared with expectations in 1998-99 and discusses the economic forecasts that underlie the 1999-2000 Budget.

Despite an unfavourable international environment, the New South Wales economy performed better than expected in 1998-99, with output and employment growth both above Budget forecasts, unemployment and inflation coming in below predictions, and interest rates broadly below expectations.

Economic conditions are likely to be a little less favourable for Budget performance in 1999-2000, with marginally lower growth in output and employment, and slightly higher inflation and long-term interest rates. However, the balance of risks leans towards the upside for most variables.

Sources of uncertainty in the outlook include the world economic outlook and potential changes in national tax policy. The economic parameters are predicated on unchanged policy, and exclude the possible impacts of the Commonwealth's proposed tax reforms. Should new tax legislation proceed, the likely impact on 1999-2000 outcomes (with the possible exception of a few sectors such as motor vehicle sales and dwelling construction) would be modest.

[8] *The sensitivity of the Budget to economic variables is analysed in Section 2.5.*

Recent Performance

Overall, economic outcomes in Australia and New South Wales in 1998-99 are likely to be more favourable than expected in the 1998-99 Budget despite weaker than expected conditions abroad (with the exception of North America). The underlying resilience of the economy to the Asian crisis had its foundations in the financial and structural reform programs of the previous two decades, raising the flexibility and productivity of the economy and confidence in financial markets.

Table 1.7: Revisions to 1998-99 Estimates[a]

	98-99 Budget Time	*Half Yearly Review*	*Current Estimate*
Gross State Product	3	3½	4½
Employment	1½	2	2¼
Unemployment rate[b]	7½	7¼	7
CPI (Sydney)	2¼	1¾	1½
Wages[c]	3¾	3½	4¾

Notes: (a) Year average percent change, unless otherwise indicated.

(b) Year average, percent.

(c) Average weekly ordinary time earnings of full-time adults in New South Wales.

Treasury's economic estimates for 1998-99 were upgraded progressively during the year in line with improving economic indicators and rising business and consumer expectations. One set of revisions was published in the Half-Yearly Review in February 1999, and estimates in this Budget reflect further revisions to the outlook.

The increase in the *GSP growth* estimate is largely due to higher than expected *private consumption*, reflecting large gains in real disposable income, low interest rates, and falling prices for major consumer durables (particularly motor vehicles) as well as wealth effects from property and sharemarket appreciation and the AMP demutualisation - all of which boosted consumer confidence. Insurance payments against the Sydney hail damage in April 1999 may provide some further boost to household income in the final quarter of 1998-99 as well as in early 1999-2000.

Higher than expected household disposable income and private consumption have had a positive impact on a range of revenue collections.

After a sharp deterioration in the first half of 1998-99, business confidence rebounded very strongly in the final six months. While *machinery and equipment investment* seems likely to underperform against initial predictions, *non-residential construction* will be stronger than forecast in the 1998-99 Budget. New *residential construction* also will be stronger than expected, and house prices and turnover have remained firm. This strength in both the residential and non-residential sectors has helped increase contracts and conveyances stamp duty during 1998-99.

Public sector expenditure growth is expected to be more moderate than private sector expenditure growth during 1998-99.

Employment in the first eleven months of 1998 averaged 2.4 percent higher than a year earlier, well above 1998-99 Budget estimates, with substantial contributions from both part-time (up 3.8 percent) and full-time (up 2.0 percent) employment. Strong labour demand and stable participation rates reduced average *unemployment* to 7.0 percent in the first eleven months of 1998-99.

Price outcomes were better than had been anticipated, due primarily to the strength of competitive pressures resulting from the Asian economic slowdown which more than offset upward pressures from the depreciation in the Australian dollar exchange rate. This was particularly noticeable for motor vehicles prices which were subject to steep discounting and producer rebates. These factors tended to maintain motor vehicle turnover at high levels, contributing to upward revisions to Budget estimates for motor vehicle registration stamp duty during the course of the year.

The Sydney *consumer price index* averaged 1.7 percent higher than a year earlier during the first three quarters of 1998-99, and trends in national wages and material inputs suggest low inflation is likely to continue through to the end of the year. This has helped keep costs down on the outlay side of the Budget.

Average weekly earnings increased at an annual rate of 4.6 percent in the first three quarters of 1998-99, although much of this resulted from shifts in workforce composition from lower to higher skilled jobs. The *Wage Cost Index*, which eliminates composition shift effects, shows New South Wales wages growing at a more moderate rate of 3.5 percent during the first three quarters of 1998-99. Wage cost growth was more rapid in the public sector than in the private sector during that period, and was a major factor in the growth of Budget outlays.

The combined strength of wages and of employment boosted *total compensation of employees* by 6.3 percent per annum in the first three quarters of 1998-99. After taking into account timing, threshold and other adjustment factors, the performance of payroll tax receipts to April was consistent with these trends in employment and earnings.

Concerns about the flow-on of world financial market disarray after the Russian default in August led most central banks including the RBA to ease monetary policy during the second half of 1998. Weak world economic growth and a flight-to-quality also helped restrain *interest rates* during 1998-99, with the ten-year bond rate averaging 70 basis points below a year earlier (in contrast to Budget projections of a 30 basis point increase) - and this led to valuable savings in interest on public debt.

Domestic capital markets recorded strong gains in 1998-99 as investors factored in Australia's financial and economic resilience to the Asian crisis, the stability of low interest rate settings, and the associated pick-up in consumer and business confidence. This further boosted receipts from contracts and conveyancing duty as well as share transfer duty.

In summary, economic conditions in 1998-99 have proved generally more supportive of a strong Budget performance than had been anticipated at the beginning of the financial year. The strength of national economic growth sustained through the March quarter 1999 suggests that the balance of risks to the 1998-99 estimates remains on the upside.

Outlook for 1999-2000

Although the world economic outlook is brighter than in the first half of 1998-99, growth is still expected to remain subdued in 1999-2000. Despite its surprising strength in recent months, the US economy is still expected to slow, and the sustainability of Japan's recovery remains uncertain. The main improvement has been in the outlook for the battered East Asian and Latin American economies.

Table 1.8: Economic Performance and Outlook[(a)]

	Outcomes	*Estimates*	*Forecasts*	
	1997-98	*1998-99*	*1999-2000*	*2000-01*
New South Wales				
Gross State Product	4.1	4½	3¼	3¾
State Final Demand	4.7	4½	3½	3
Employment	0.7	2¼	1¾	2
Unemployment rate[(b)]	7.6	7	6¾	6¾
CPI (Sydney)	0.1	1½	2	3¼
Wages[(c)]	3.1	4¾	3¾	4¼
Australia				
Non-farm GDP deflator	1.4	1	1¾	3
Ten year bond rate[(b)]	6.0	5¼	5¾	6¼

Source: Australian Bureau of Statistics; NSW Treasury.

Notes: (a) Year average percent change, unless otherwise indicated.

(b) Year average, percent.

(c) Average weekly ordinary time earnings of full time adults in New South Wales.

Activity in Australia is likely to be more moderate in 1999-2000 due to the flow-through of weak world economic growth as well as a cyclical slow-down in business investment.

The New South Wales economy is expected to perform in line with the national economy, as it did in 1998-99. *Output* is forecast to increase by 3¼ percent in 1999-2000 (around the estimated long-run potential growth rate for New South Wales and Australia as a whole), down from 4½ percent in 1998-99. This will be a fairly remarkable outcome against the backdrop of economic collapse in Asia and under-performance in Europe.

Private consumption in New South Wales is expected to slow from 4½ percent in 1998-99 to 3¾ percent in 1999-2000 reflecting some moderation in the growth of wage and salary income, dissipation of wealth effects from the AMP demutualisation, and financial constraints on further expansion of household debt.

In the past, the *dwelling construction* sector often followed a pronounced four-to-five-year cycle associated with swings in interest rates and unemployment. Recent steady monetary policy and fairly stable employment markets are expected to dampen this cycle in 1999-2000, during which this sector is forecast to expand by 4 percent.

Business investment in New South Wales is expected to remain subdued in 1999-2000, although the *machinery and equipment* component may record some growth. The December 1998 ABS survey reported expectations of a substantial cut in New South Wales private capital expenditure from the corresponding forecast a year earlier, although this was much more moderate than the reduction expected in some other states. Weak resource sector profitability, maturation of the upswing in Sydney commercial building and completion of some Olympics related activity will reduce *non-residential construction* somewhat in 1999-2000 from its 1998-99 highs.

Growth in *public final demand* should remain moderate in 1999-2000.

The slowdown in output growth is likely to be accompanied by a reduction in New South Wales *employment growth* to around 1: percent in 1999-2000 from 2¼ percent in the previous year. This slowdown appeared already underway in the second half of 1998-99, although a parallel acceleration in leading indicators such as the ANZ Job Advertisements series underscored the degree of uncertainty in such forecasts.

There is expected to be a cyclical weakening in *labour productivity growth* in 1999-2000 as output slows more rapidly than employment. *Labour force participation* was very subdued in 1998-99 despite faster employment growth. Should this pattern continue, even the more moderate employment growth expected ahead should be sufficient to yield a marginal further reduction in the *unemployment rate*.

Wages growth is expected to decline marginally to 3¾ percent in 1999-2000. Growth will remain slightly higher in New South Wales than nationally, due as much to compositional shifts as to pay-rate effects. Award wage increases available under the 1999 Safety Net Decision are modest, and the trend in federal enterprise bargaining agreements shows no tendency to accelerate.

Sydney *consumer price inflation* is expected to rise from 1½ percent in 1998-99 to 2 percent in 1999-2000. World oil prices have recovered substantially from the 20-year lows reached in December 1998. Worldwide competitive discounting for manufactured goods also will provide less of a restraint than it did at the peak of the Asian crisis. Since importers did not pass on the full cost of Australia's currency depreciation in 1998 they are unlikely to pass on the full savings from currency appreciation, should that be sustained, in the year ahead.

With the inflation outlook remaining at the lower end of the 2-3 percent target range for monetary policy, it is assumed that the RBA will not raise *interest rates* before June 2000. Long-term capital markets are driven primarily by overseas developments. Signs of overheating in the United States, the massive expansion in Japanese bond issuance to finance its fiscal expansion, and early indicators of recovery in Asia had already moved bond yields higher by late 1998-99, and they are assumed to remain around those levels in 1999-2000.

Risks to the forecasts in 1999-2000 include uncertainty regarding developments in the world economy, problems related to information technology (the "Y2K Bug"), and business and consumer precautionary responses to proposed tax reform measures. However, the risk to the world outlook appears to be weighted to the upside, noting the nearly continuous upgrades in the second half of 1998-99 to surveyed private sector forecasts for growth in the United States and Asia in the year ahead.

Economic Outlook for the Forward Years

New South Wales economic growth is expected to be slightly higher in 2000-01, with support from stronger world economic activity and a moderate boost from the Sydney Olympics. These factors are likely to lift *GSP growth* to a forecast 3¾ percent with most or all of the gain from the previous year contributed by net exports. *Employment growth* should also improve. Faster growth in wages and demand in 2000-01 are more likely to generate pressures on *consumer prices* than in the previous year. Economic prospects for 2000-01 are subject to an unusual degree of uncertainty, including (in addition to world growth prospects and the Olympic Games factors) the impact of any new federal taxation arrangements that may be implemented.

It is possible that the pace of output and employment growth may moderate somewhat in the first year after the Olympics, but they should return to trend quickly thereafter. Prospects for the economy throughout the period beyond 1999-2000 will remain dominated by factors unrelated to the Olympics – particularly the strength of the global economy, the business cycle and domestic policy settings.

The medium-term framework adopts parameters close to actual average performance achieved over the nine-year period 1991-92 to 1998-99, which is the longest for which consistent data are currently available[9]. During that period economic growth averaged 3.3 percent, population growth averaged 1.0 percent and employment growth averaged 1.2 percent in New South Wales.

The medium-term framework also incorporates assumptions for prices, wages and interest rates as indicated in Table 1.9.

A guide to the consequences of changes in the economic parameters is provided in Section 2.5, which assesses the sensitivity of the Budget cash outcome to alternative economic scenarios.

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[9] *Including Budget estimates for 1998-99.*

Table 1.9: Economic Parameters[a]

	Medium Term
Gross State Product	3¼
Population	1
Employment	1¼
CPI (Sydney)	2½
Wages[b]	4
Ten year bond rate[c]	6

Notes: (a) Year average percent change, unless otherwise indicated..

(b) Average weekly ordinary time earnings of full-time adults in New South Wales.

(c) Year average, percent.

Major Risk Factors

Clearly, the New South Wales economy, together with the rest of Australia, is influenced by events in the world's major economies, in particular the United States, Europe, Japan and the other East Asian economies. Key risks to the forecasts include:

- fear that overheating in the United States economy may lead to strong monetary policy intervention and a steep correction in financial markets; and

- Japan may fail to sustain the tentative resumption of growth it recorded in the March quarter, further delaying the recovery of world growth beyond 2000.

The Budget has been prepared excluding the possible impacts of the Commonwealth's tax reform package. Although new tax policies will not be implemented before 2000-01, some anticipatory changes in economic behaviour might be expected. Areas most likely to be affected include motor vehicle sales, given the proposed reduction in tax on vehicles; and dwelling construction and alterations, which would become more costly following the introduction of the proposed tax reforms. However, businesses, consumers and financial institutions can all be expected to alter their behaviour, to some extent in anticipation of the tax policy changes.

CHAPTER 2: FISCAL POSITION AND OUTLOOK

- An operating surplus (measured on an accrual basis) of $2,097 million in 1999-2000.
- Strong operating surpluses in the forward years of $1,782 million in 2000-01, $2,481 million in 2001-02 and $2,345 million in 2002-03.
- A GFS cash based surplus of $214 million in 1999-2000.
- Cash surpluses in the forward years of $363 million in 2000-01, $976 million in 2001-02 and $766 million in 2002-03.

A key Government objective is to establish a fiscal environment for the future that will permit reductions in state taxes and, at the same time, ensure essential government services are provided at the standard needed by the community.

Commentary on the fiscal position and outlook of the General Government Sector is primarily focussed on accrual based operating statements, rather than the traditional cash based statements.

Under accrual accounting, expenses are recorded at the time they are incurred, rather than when they are paid for. Similarly, revenue is recognised when earned rather than when the cash is received. For example, the operating statement includes:

- the full cost of employing public servants. This includes salary and wages, changes in accrued leave entitlements (annual leave and long service leave) and the full cost of superannuation entitlements whether funded or not; and
- a depreciation charge that reflects the cost of wear and tear of agencies' assets arising from the delivery of services.

Therefore, the accrual based operating statements provide the true full cost of providing government services.

A reconciliation between the accrual based operating surplus and the GFS cash based surplus is included in Section 2.4.

2.1 1999-2000 BUDGET ESTIMATES

The operating surplus for 1999-2000 is expected to be $2,097 million, compared with $2,259 million estimated for 1998-99.

An abnormal revenue item of $860 million is included in the expected surplus for 1999-2000. This primarily reflects an expected reduction in the unfunded superannuation liability arising from an offer to members of two older style defined benefit schemes, the State Superannuation Scheme and the Police Superannuation Scheme, to exit these schemes and join First State Superannuation, a modern accumulation scheme established in 1992.

Table 2.1: General Government Sector 1999-2000 Operating Statement

	1998-99 Revised $m	*1999-2000 Budget $m*	*Change $m*	*Change %*
State Revenues				
Taxation	14,104	13,945	(159)	(-) 1.1
Commonwealth Grants	8,899	9,363	464	5.2
Financial Distributions	1,251	1,381	130	10.4
Fines, Regulatory Fees and Other	728	782	54	7.4
Total State Revenues	**24,982**	**25,471**	**489**	**2.0**
Operating Revenues				
Sale of Goods and Services	2,291	2,359	68	3.0
Investment Income	456	387	(69)	(-) 15.1
Grants and Contributions	463	397	(66)	(-) 14.3
Other	269	217	(52)	(-) 19.3
Total Operating Revenues	**3,479**	**3,360**	**(119)**	**(-) 3.4**
Expenses				
Operating Expenses	18,210	18,412	202	1.1
Maintenance	1,180	1,188	8	0.7
Depreciation and Amortisation	854	876	22	2.6
Grants and Subsidies	4,927	4,957	30	0.6
Finance Costs	1,387	1,315	(72)	(-) 5.2
Other Expenses	419	747	328	78.3
Total Expenses	**26,977**	**27,495**	**518**	**1.9**
Gain/(Loss) on Sale of Non-Current Assets	78	(99)	(177)	(-) 226.9
Net Cost of Services	**23,420**	**24,234**	**814**	**3.5**
Surplus before Abnormal items	**1,562**	**1,237**	**(325)**	**(-) 20.8**
Abnormal items -	**697**	**860**	**163**	**23.4**
Surplus for the Year	**2,259**	**2,097**	**(162)**	**(-) 7.2**

Revenues

State revenues for 1999-2000 are projected to increase by 2.0 percent to $25,471 million.

State Taxation revenues are expected to decrease by 1.1 percent to $13,945 million. One reason for the decrease is the planned reduction in payroll tax and land tax rates in 1999-2000. Payroll tax will reduce from 6.85 percent to 6.4 percent from 1 July 1999. There will also be payroll tax concessions for apprenticeships from 1 July 1999. The land tax rate will decrease from 1.85 percent to 1.7 percent on 31 December 1999.

In addition, an expected downturn in the property and asset cycles from the very high levels of activity experienced during 1998-99 will adversely affect revenues from stamp duties on conveyance and share transactions.

Commonwealth grants are expected to increase by 5.2 percent to $9,363 million largely due to a favourable outcome of the Commonwealth Grants Commission’s 1999 methodology review, the cessation of State Fiscal Contribution Payments to the Commonwealth and a doubling of National Competition Policy payments.

Financial Distributions (ie dividends and tax equivalents earned from the General Government Sector’s investment in public trading enterprises) are expected to rise by 10.4 percent to $1,381 million. In 1998-99, financial distributions are expected to be $68 million below that estimated in the 1998-99 Budget, principally because of lower than anticipated profits in the electricity distribution and water sectors. The strong increase in 1999-2000 reflects the expected return to more normal levels of profitability.

Net Cost of Services

Net Cost of Services for 1999-2000 is projected to increase by 3.5 percent to $24,234 million. The increase in net cost of services comprises a 1.9 percent increase in operating expenses and a 3.4 percent decrease in operating revenues.

Employee related costs are expected to increase by 2.0 percent to $11,539 million in 1999-2000. The estimates for 1999-2000 incorporate all agreed wage increases.

Finance costs are expected to decrease by 5.2 percent to $1,315 million in 1999-2000. Reductions in interest costs are expected to be achieved primarily because of the fall in interest rates. Long term debt that matures in 1999-2000 will be re-financed with debt that has lower interest rates.

The increase in Other Expenses is primarily because 1999-2000 includes the Treasurer's Advance for that year. The Treasurer's Advance for 1998-99 has been allocated to the specific line items for which it has been used.

Investment income is expected to decrease by 15.1 percent to $387 million. Income in 1998-99 was unusually high because $3.2 billion was borrowed to reduce the unfunded superannuation liability. There was a timing difference between raising the funds on the market and transferring the money to the fund trustee. The decrease in income in 1999-2000 reflects the expected return to more normal income levels.

Grants and contributions are expected to decrease by 14.3 percent to $397 million in 1999-2000. In 1998-99, there was a non cash contribution to the General Government Sector, being a transfer of land from State Forests to National Parks and Wildlife Service of $120 million relating to the Government's forestry reform program. The decrease in 1999-2000 reflects the expected return to more normal levels.

Details of specific Budget initiatives are included in Chapter 3 *General Government Sector Revenues*, Chapter 4 *General Government Sector Expenses* and Budget Paper No. 3 *Budget Estimates 1999-2000*.

2.2 2000-01 TO 2002-03 FORWARD ESTIMATES

The projected operating statements of the General Government Sector for the four years from 1999-2000 to 2002-03 are presented in Table 2.2. The General Government Sector is expected to record strong operating surpluses in each of these years. The result for 1999-2000 benefited from the abnormal revenue relating primarily to the superannuation conversion offer of $860 million.

In line with the Government's commitment to reduce the State's overall tax burden, approximately $650 million in taxation reductions have been incorporated in the Budget over the next four years.

This includes a decrease in the payroll tax rate from 6.4 percent to 6.2 percent from 1 July 2001 and to 6.0 percent from 2001-02. In addition, in line with the Government's commitment to reduce the tax burden in New South Wales and ensure the ongoing competitiveness of the State, the Budget provides for tax reductions with a full year cost of $175 million from 2001-02. The allocation of these funds to specific taxes has yet to be determined.

Moderate growth in wages and employment is expected to mean that State taxation revenue will increase at an average of approximately 3 percent per annum.

Commonwealth grants are expected to increase at more normal growth rates after the significant increase in 1999-2000. The forward estimates do not include the effects of the Commonwealth Government's proposed tax reforms, including the GST.

Table 2.2: General Government Sector 1999-2000 to 2002-03 Operating Statements

	1999-2000 Budget $m	*2000-01 Estimate $m*	*2001-02 Estimate $m*	*2002-03 Estimate $m*
State Revenues				
Taxation	13,945	14,352	14,778	15,362
Commonwealth Grants	9,363	9,609	9,906	10,072
Financial Distributions	1,381	1,499	1,553	1,699
Fines, Regulatory Fees and Other	782	777	752	764
Total State Revenues	**25,471**	**26,237**	**26,989**	**27,897**
Operating Revenues				
Sale of Goods and Services	2,359	2,449	2,521	2,543
Investment Income	387	397	405	417
Grants and Contributions	397	458	356	340
Other	217	200	119	87
Total Operating Revenues	**3,360**	**3,504**	**3,401**	**3,387**
Expenses				
Operating Expenses	18,412	18,528	18,754	19,501
Maintenance	1,188	1,114	1,144	1,159
Depreciation and Amortisation	876	1,102	1,071	1,084
Grants and Subsidies	4,957	5,043	5,045	5,108
Finance Costs	1,315	1,215	1,003	1,033
Other Expenses	747	965	862	1,050
Total Expenses	**27,495**	**27,967**	**27,879**	**28,935**
Gain/(Loss) on Sale of Non-Current Assets	(99)	8	(30)	(4)
Net Cost of Services	**24,234**	**24,455**	**24,508**	**25,552**
Surplus before Abnormal items	**1,237**	**1,782**	**2,481**	**2,345**
Abnormal items -	**860**	**...**	**...**	**...**
Surplus for the Year	**2,097**	**1,782**	**2,481**	**2,345**

2.3 1998-99 REVISED ESTIMATES

The Surplus for 1998-99 is expected to be $2,259 million compared with the 1998-99 Budget estimate of $1,966 million.

The surplus includes a number of one-off abnormal adjustments to the State's unfunded superannuation liability. These include the benefits from the distribution of an unallocated balance of the SSS Contributors' Reserve to employer reserves, the benefits of tax credits arising from the accelerated payment of Government contributions and actuarial adjustments.

The surplus before these abnormal superannuation items is expected to be $1,562 million compared with the 1998-99 Budget estimate of $1,316 million.

State revenues estimates have been increased by 3.3 percent to $24,982 million.

The estimate of taxation revenue has been increased by 5.0 percent to $14,104 million. This is primarily due to stronger than expected growth in the economy and asset markets. It is not expected that growth will be sustained at such a high rate in future years.

Estimated Commonwealth Grants are expected to increase by 1.9 percent to $8,899 million. The principal reason is additional funding under the Australian Health Care Agreement.

Total expenses for 1998-99 are expected to be $26,977 million, $889 million higher than the estimate in the 1998-99 Budget. This reflects a number of service delivery and other initiatives of the Government, in a wide range of policy areas, since the 1998-99 Budget.

Trends in expenses, by Policy Area, are addressed in detail in Chapter 4.

Table 2.3: General Government Sector 1998-99 Operating Statement

	1998-99 Budget $m	*1998-99 Revised $m*	*Change $m*	*Change %*
State Revenues				
Taxation	13,430	14,104	674	5.0
Commonwealth Grants	8,731	8,899	168	1.9
Financial Distributions	1,319	1,251	(68)	(-) 5.2
Fines, Regulatory Fees and Other	711	728	17	2.4
Total State Revenues	**24,191**	**24,982**	**791**	**3.3**
Operating Revenues				
Sale of Goods and Services	2,282	2,291	9	0.4
Investment Income	398	456	58	14.6
Grants and Contributions	238	463	225	94.5
Other	234	269	35	15.0
Total Operating Revenues	**3,152**	**3,479**	**327**	**10.4**
Expenses				
Operating Expenses				
Employee Related	11,166	11,314	148	1.3
Superannuation	1,289	1,625	336	26.1
Other Operating Expenses	5,034	5,271	237	4.7
Maintenance	1,093	1,180	87	8.0
Depreciation and Amortisation	817	854	37	4.5
Grants and Subsidies	4,708	4,927	219	4.7
Finance Costs	1,282	1,387	105	8.2
Other Expenses	699	419	(280)	(-) 40.1
Total Expenses	**26,088**	**26,977**	**889**	**3.4**
Gain/(Loss) on Sale of Non-Current Assets	61	78	17	27.9
Net Cost of Services	**22,875**	**23,420**	**545**	**2.4**
Surplus before Abnormal items	**1,316**	**1,562**	**246**	**18.7**
Abnormal items -	**650**	**697**	**47**	**7.2**
Surplus for the Year	**1,966**	**2,259**	**293**	**14.9**

2.4 BUDGET RESULTS PRESENTED ON A GOVERNMENT FINANCE STATISTICS CASH BASIS

Introduction

The data presented in this Section cover the General Government Sector and are on the basis of the ABS definition of the Budget result. Prior years' data have been recast to the same coverage and basis to enable inter-year comparisons.

Government Finance Statistics (GFS) is a system of classifying transactions into an economic framework based on International Monetary Fund standards. This enables valid comparisons to be made with other Australian and International jurisdictions. Adoption of an international standard ensures consistent treatment of transactions resulting in improved transparency and accountability.

Trends in Budget Results

Budget Aggregates

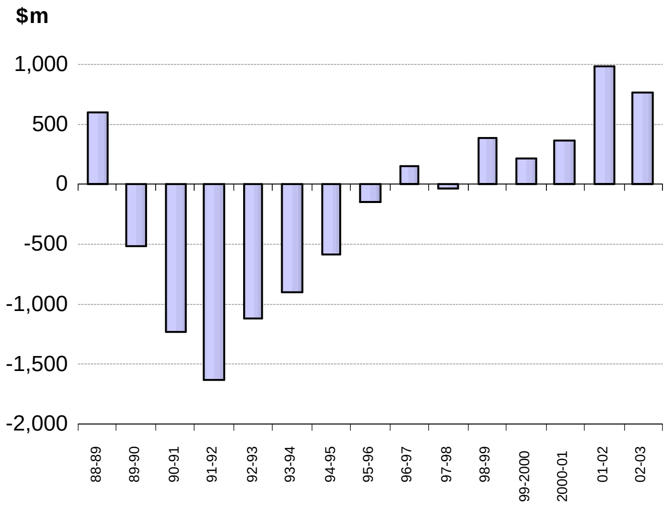
Trends in the Budget position over recent years and projected over the forward estimates period are shown in the following table -

Table 2.4: General Government Results, 1998-99 to 2002-03

Year	Current			Capital			Total
	Outlays $m	Receipts $m	Result $m	Outlays $m	Receipts $m	Result $m	Result $m
1988-89	12,005	13,149	1,144	1,421	879	(542)	602
1989-90	13,803	14,522	719	2,419	1,185	(1,234)	(515)
1990-91	14,773	15,245	472	2,921	1,226	(1,695)	(1,223)
1991-92	16,080	16,101	21	2,692	1,047	(1,645)	(1,626)
1992-93	16,748	16,749	1	2,892	1,776	(1,116)	(1,115)
1993-94	17,069	18,178	1,109	3,315	1,310	(2,005)	(896)
1994-95	17,819	19,122	1,303	2,941	1,048	(1,893)	(590)
1995-96	18,325	20,417	2,092	3,175	936	(2,239)	(147)
1996-97	19,767	22,149	2,382	3,317	1,086	(2,231)	151
1997-98	20,971	23,165	2,194	3,188	965	(2,223)	(29)
1998-99*	22,162	24,910	2,748	3,601	1,235	(2,366)	382
1999-2000*	22,447	25,052	2,605	3,326	935	(2,391)	214
2000-01*	22,948	25,823	2,875	3,430	918	(2,512)	363
2001-02*	22,976	26,527	3,551	3,499	924	(2,575)	976
2002-03*	23,784	27,400	3,616	3,719	869	(2,850)	766

* *Adjusted for superannuation conversion offer – ($3,267m) in 1998-99, $979m in 1999-2000, $1,007m in 2000-01 and $1,081m in 2001-02. The unadjusted results would be a deficit of $2,885m in 1998-99, and surpluses of $1,193m in 1999-2000, $1,370m in 2000-01 and $2,057m in 2001-02.*

Chart 2.1: General Government Budget Results, 1988-89 to 2002-03



The history over many years in New South Wales (as in most other States) has been one of continuing underlying Budget deficits of varying magnitudes.

Table 2.4 and Chart 2.1 show quite clearly a pattern of Budget results deteriorating substantially up to 1991-92 (most noticeably in 1989-90), with a turnaround since 1991-92 leading to a surplus in 1996-97.

The return to a deficit in 1997-98 reflected the impact of the High Court's s90 decision invalidating a range of State licence fees, and additional expenditures in the areas of Health, Transport and Community Services.

The revised Budget result for 1998-99 shows a return to surplus, with the forward years to 2002-03 showing further strong improvements. The improved result in 1998-99 reflects the strong economy and asset markets. However, a slowing is expected during 1999-2000.

Detailed explanations for variations between 1998-99 and 1999-2000 and across the forward years are included in Sections 2.1, 2.2 and 2.3. Although this information is included on an accrual basis, there is a close correlation between the variances.

As discussed in Section 1.2, Current Outlays have been constrained across the forward estimates years. Table 2.2 reflects this trend.

Table 2.5: Growth in Current Outlays 1998-99 to 2002-03

	Growth on Previous Year %
1989-90	15.0
1990-91	7.0
1991-92	8.8
1992-93	4.2
1993-94	1.9
1994-95	4.4
1995-96	5.1
1996-97	5.6
1997-98	6.1
1998-99	5.7
1999-2000	1.3
2000-01	2.2
2001-02	0.1
2002-03	3.5

Table 2.6: General Government Sector GFS Cash Results 1998-99

	1998-99 Budget $m	*1998-99 Latest Projection $m*	*Change $m*	*Change %*
Current Receipts				
Stamp Duties	3,459	3,923	464	13.4
Payroll Tax	3,621	3,611	(10)	(-) 0.3
Land Tax	945	958	13	1.4
Motor Vehicle Taxes	1,002	1,043	41	4.1
Gaming & Betting	1,440	1,419	(21)	(-) 1.5
Commonwealth Safety Net Taxes	1,873	1,964	91	4.9
Other Taxes	1,095	1,243	148	13.5
Commonwealth General Purpose Grants	4,731	4,787	56	1.2
Commonwealth Specific Purpose Grants	3,230	3,329	99	3.1
Dividends/Tax Equivalents	1,251	1,309	58	4.6
Other Current Receipts	1,202	1,324	122	10.1
Total Current Receipts	**23,849**	**24,910**	**1,061**	**4.4**
Current Outlays				
Interest Payments	1,276	1,360	84	6.6
Superannuation	1,462	1,486	24	1.6
Subsidies to Non-General Government Sector	875	1,009	134	15.3
Payments for General Government Services	19,766	20,361	595	3.0
Treasurer's Advance	125	...	(125)	(-) 100.0
Less: User Charges	2,014	2,054	40	2.0
Total Current Outlays	**21,490**	**22,162**	**672**	**3.1**
Current Result Surplus/(Deficit)	**2,359**	**2,748**	**389**	**16.5**

Table 2.6: General Government Sector GFS Cash Results 1998-99 (cont)

	1998-99 Budget $m	*1998-99 Latest Projection $m*	*Change $m*	*Change %*
Capital Receipts				
C'wealth Specific Purpose Grants	788	835	47	6.0
Other Capital Receipts	10	400	390	3,900.0
Total Capital Receipts	**798**	**1,235**	**437**	**54.8**
Capital Outlays				
Gross Fixed Capital Payments	2,841	3,018	177	6.2
Capital Grants	1,016	1,167	151	14.9
Less: Asset Sales	745	583	(162)	(-) 21.7
Total Capital Outlays	**3,112**	**3,602**	**490**	**15.7**
Capital Result Surplus/(Deficit)	**(2,314)**	**(2,367)**	**(53)**	**2.3**
Budget Result Surplus/(Deficit)*	**45**	**382**	**337**	**748.9**
Superannuation Conversion Offer*	**...**	**(3,267)**	**(3,267)**	**...**
Adjusted Budget Result Surplus/(Deficit)*	**45**	**(2,885)**	**(2,930)**	**(-) 6,511.1**
Financing Transactions				
Net Borrowings	67	2,745	2,678	3,997.0
Net Advances Repaid	75	(49)	(124)	(-) 165.3
Movement in Cash and Investments	(97)	189	286	(-) 294.8
	45	**2,885**	**2,840**	**6,311.1**

The projected Budget result has been adjusted for the impact of the superannuation conversion offer. This has the impact of increasing outlays in 1998-99 due to the additional outlays required for borrowings to fund the offer. This is offset by reduced superannuation payments from 1999-2000 to 2001-02.

Table 2.7: General Government Sector GFS Cash Results 1999-2000

	1998-99 Latest Projection $m	*1999-2000 Budget $m*	*Change $m*	*Change %*
Current Receipts				
Stamp Duties	3,923	3,747	(176)	(-) 4.5
Payroll Tax	3,611	3,637	26	0.7
Land Tax	958	859	(99)	(-) 10.3
Motor Vehicle Taxes	1,043	977	(66)	(-) 6.3
Gaming & Betting	1,419	1,558	139	9.8
Commonwealth Safety Net Taxes	1,964	1,989	25	1.3
Other Taxes	1,243	1,245	2	0.2
Commonwealth General Purpose Grants	4,787	5,162	375	7.8
Commonwealth Specific Purpose Grants	3,329	3,449	120	3.6
Dividends/Tax Equivalents	1,309	1,173	(136)	(-) 10.4
Other Current Receipts	1,324	1,256	(68)	(-) 5.1
Total Current Receipts	**24,910**	**25,052**	**142**	**0.6**
Current Outlays				
Interest Payments	1,360	1,124	(236)	(-) 17.4
Superannuation	1,486	1,640	154	10.4
Subsidies to Non-General Government Sector	1,009	926	(83)	(-) 8.2
Payments for General Government Services	20,361	20,707	346	1.7
Treasurer's Advance	...	160	160	
Less: User Charges	2,054	2,110	56	2.7
Total Current Outlays	**22,162**	**22,447**	**285**	**1.3**
Current Result Surplus/(Deficit)	**2,748**	**2,605**	**(143)**	**(-) 5.2**

Table 2.7: General Government Sector GFS Cash Results 1998-99 to 1999-2000 (cont)

	1998-99 Latest Projection $m	*1999-2000 Budget $m*	*Change $m*	*Change %*
Capital Receipts				
C'wealth Specific Purpose Grants	835	784	(51)	(-) 6.1
Other Capital Receipts	400	151	(249)	(-) 62.3
Total Capital Receipts	**1,235**	**935**	**(300)**	**(-) 24.3**
Capital Outlays				
Gross Fixed Capital Payments	3,018	2,798	(220)	(-) 7.3
Capital Grants	1,167	1,104	(63)	(-) 5.4
Less: Asset Sales	583	576	(7)	(-) 1.2
Total Capital Outlays	**3,602**	**3,326**	**(276)**	**(-) 7.7**
Capital Result Surplus/(Deficit)	**(2,367)**	**(2,391)**	**(24)**	**1.0**
Budget Result Surplus/(Deficit)*	**382**	**214**	**(168)**	**(-) 44.0**
Superannuation Conversion Offer*	**(3,267)**	**979**	**4,246**	**(-) 130.0**
Adjusted Budget Result Surplus/(Deficit)*	**(2,885)**	**1,193**	**4,078**	**(-) 141.4**
Financing Transactions				
Net Borrowings	2,745	(1,528)	(4,273)	(-) 155.7
Net Advances Repaid	(49)	(227)	(178)	363.3
Movement in Cash and Investments	189	562	373	197.4
	2,885	**(1,193)**	**(4,078)**	**(-) 141.4**

Table 2.8: General Government Sector GFS Cash Results 1999-2000 to 2002-03

	1999-2000 Budget $m	*2000-01 Estimate $m*	*2001-02 Estimate $m*	*2002-03 Estimate $m*
Current Receipts				
Stamp Duties	3,747	3,736	3,934	4,242
Payroll Tax	3,637	3,913	4,068	4,154
Land Tax	859	848	869	892
Motor Vehicle Taxes	977	947	983	1,019
Gaming & Betting	1,558	1,650	1,760	1,867
Commonwealth Safety Net Taxes	1,989	2,028	2,075	2,120
Other Taxes	1,245	1,265	1,136	1,115
Commonwealth General Purpose Grants	5,162	5,259	5,440	5,518
Commonwealth Specific Purpose Grants	3,449	3,557	3,647	3,773
Dividends/Tax Equivalents	1,173	1,301	1,306	1,367
Other Current Receipts	1,256	1,319	1,308	1,334
Total Current Receipts	**25,052**	**25,823**	**26,527**	**27,400**
Current Outlays				
Interest Payments	1,124	1,099	936	966
Superannuation	1,640	1,706	1,747	2,055
Subsidies to Non-General Government Sector	926	877	782	713
Payments for General Government Services	20,707	21,175	21,261	21,666
Treasurer's Advance	160	270	420	595
Less: User Charges	2,110	2,180	2,170	2,211
Total Current Outlays	**22,447**	**22,948**	**22,976**	**23,784**
Current Result Surplus/(Deficit)	**2,605**	**2,875**	**3,551**	**3,616**

Table 2.8: General Government Sector GFS Cash Results 1999-2000 to 2002-03 (cont)

	1999-2000 Budget $m	2000-01 Estimate $m	2001-02 Estimate $m	2002-03 Estimate $m
Capital Receipts				
C'wealth Specific Purpose Grants	784	821	844	805
Other Capital Receipts	151	97	81	64
Total Capital Receipts	**935**	**918**	**925**	**869**
Capital Outlays				
Gross Fixed Capital Payments	2,798	2,558	2,619	2,674
Capital Grants	1,104	1,120	1,108	1,183
Less: Asset Sales	576	248	228	138
Total Capital Outlays	**3,326**	**3,430**	**3,499**	**3,719**
Capital Result Surplus/(Deficit)	**(2,391)**	**(2,512)**	**(2,574)**	**(2,850)**
Budget Result Surplus/(Deficit)	**214**	**363**	**976**	**766**
Superannuation Conversion Offer	**979**	**1,007**	**1,081**	**...**
Adjusted Result Surplus/(Deficit)	**1,193**	**1,370**	**2,057**	**766**
Financing Transactions				
Net Borrowings	(1,528)	(1,062)	(1,225)	(96)
Net Advances Repaid	(227)	(38)	(172)	(67)
Movement in Cash and Investments	562	(270)	(660)	(603)
	(1,193)	**(1,370)**	**(2,057)**	**(766)**

A reconciliation between the Accrual Operating Result and the GFS Result above follows at Table 2.6.

Table 2.9: Reconciliation Between Accrual Operating Result and GFS Result

	1998-99 Budget $m	*1998-99 Revised $m*	*1999-2000 Estimate $m*
Budget Result – Surplus/(Deficit) prior to conversion offer adjustment	**45**	**(2,885)**	**1,193**
Items included in GFS Budget Result not in the accrual based operating result			
Asset sale proceeds	745	659	843
Gross Fixed Capital Payments	2,841	2,624	2,798
Movement in other operating assets and liabilities	898	3,981	(253)
Items included in the accrual based operating surplus but not in the General Government GFS result			
Depreciation, amortisation and decrements	817	854	876
Gain on asset disposals	61	78	(99)
Other deductions	317	26	(177)
Accrual based operating surplus/(deficit) after abnormal and before extraordinary items	**1,966**	**2,259**	**2,097**

General Government Sector Statement of Cash Flows

Table 2.7 shows the net cash flows of the General Government Sector from operating, investing and financing activities.

The Statement is in accordance with that required under Australian Accounting Standard AAS 28, “Statement of Cash Flows.”

Table 2.10: General Government Statement of Cash Flows

	1998-99 Revised $m	*1999-2000 Budget $m*	*2000-01 Estimate $m*	*2001-02 Estimate $m*	*2002-03 Estimate $m*
Cash Flows from Operating Activities					
Receipts					
Taxation	14,103	13,977	14,355	14,778	15,365
Commonwealth Grants	8,899	9,363	9,609	9,906	10,072
Financial Distributions	1,318	1,145	1,186	1,301	1,361
Sale of Goods & Services	2,461	2,441	2,527	2,608	2,632
Investment Income	274	200	201	195	206
Other	1,816	1,437	1,581	1,423	1,408
Total Receipts	**28,871**	**28,563**	**29,459**	**30,211**	**31,044**
Payments					
Employee Related	(15,890)	(11,879)	(12,175)	(12,392)	(14,045)
Grants and Subsidies	(4,863)	(4,940)	(5,026)	(5,015)	(5,086)
Finance	(1,395)	(1,301)	(1,188)	(966)	(961)
Other	(7,846)	(7,417)	(7,620)	(7,564)	(7,848)
Total Payments	**(29,994)**	**(25,537)**	**(26,009)**	**(25,937)**	**(27,940)**
Net Cash Flows from Operating Activities	**(1,123)**	**3,026**	**3,450**	**4,274**	**3,104**
Cash Flows from Investing Activities					
Proceeds from Sale of Property Plant and Equipment	425	491	198	161	107
Proceeds from Sale of Investments	234	352	219	224	63
Advance Repayments Received	75	63	105	69	72
Purchases of Property, Plant & Equipment	(2,542)	(2,643)	(2,447)	(2,561)	(2,643)
Purchase of Investments	(341)	(218)	(203)	(137)	(169)
Advances Made	(37)	(17)	(29)	(16)	(11)
Other	115	...	...	...	...
Net Cash Flows from Investing Activities	**(2,071)**	**(1,972)**	**(2,157)**	**(2,260)**	**(2,581)**
Cash Flows from Financing Activities					
Proceeds from Borrowings and Advances	3,438	154	67	...	3
Repayments of Borrowings and Advances	(749)	(1,840)	(1,230)	(1,441)	(222)
Net Cash Flows from Financing Activities	**2,689**	**(1,686)**	**(1,163)**	**(1,441)**	**(219)**
Net Increase/(Decrease) in Cash	**(505)**	**(632)**	**130**	**573**	**304**
Opening Cash and Cash Equivalents	1,142	637	5	135	708
Closing Cash and Cash Equivalents Balance	**637**	**5**	**135**	**708**	**1,012**

Statement of GFS and Accounting Principles and Policies

Under the General Government Debt Elimination Act 1995, the Treasurer is required to present a statement that discusses the nature of and the reasons for any departure from Australian Accounting Standards and principles, and from any GFS principles.

The Budget has been prepared on an accrual basis in accordance with generally accepted accounting principles and Australian Accounting Standards except as discussed below. It has been prepared consistent with the accounting policies in the Consolidated Financial Statements of the NSW Total State Sector which incorporate the Public Accounts. However, the Budget only includes the financial statements and does not include detailed disclosures that are included in the annual audited accounts.

The Budget preparation departs from the Standards as follows:

- Lack of reliable information has resulted in undeveloped Crown Land, certain collection assets (such as libraries and museums) and school bank accounts are not recognised in the financial statements.

- Administrative restructures of agencies are treated as adjustments to equity contrary to AAS29. This has no effect on the consolidated General Government Budget but affects the Net Cost of Services of individual agencies for the 1998-99 year as disclosed in Budget Paper 3.

Some assets and liabilities of the FANMAC trusts are not consolidated as it is considered that they are not controlled. The NSW Auditor General disagrees with this treatment.

A discussion of departures on a GFS basis is included in Section 11.3

2.5 BUDGET RISKS

The Budget estimates are predicated on assumptions and judgements influenced by the information available at the time of their preparation. In practice, both revenues and expenses are uncertain, and the degree of uncertainty inevitably increases over the forward estimates period.

Actual revenues and outlays and the timing thereof will be influenced by:

- the economic environment;
- policy execution, policy changes and service delivery parameters;
- general risks and influences that have uncertain timing and/or are of uncertain magnitude, such as those related to technological change;
- Commonwealth Government policy, most notably the outcome of the Commonwealth's proposed tax reforms; and
- the realisation of contingent liabilities.

As no tax reform legislation had been passed by the Federal Parliament at the time this budget was completed, it has been prepared on the basis of the *current* Commonwealth tax system

Risks associated with changes to the macroeconomic outlook are considered below.

Economic Parameters

The economic parameters on which the Budget estimates are based are outlined in Section 1.3, which also identifies the major sources of risk to the economy.

There are two types of uncertainty related to the economic parameters. First, the parameters will be subject to forecasting errors. Second, the relationship between some revenue and outlay items and economic factors can be unpredictable. Therefore even if economic outcomes were identical to those assumed for budgeting purposes, it would be very unlikely that total revenues and outlays would come in on budget, all other factors being unchanged.

Even though, in general, the Budget estimates do not have a consistent bias, large variations between Budget estimates and actual outcomes from time to time are unavoidable. Revenues from contracts and conveyance duty and share transfer duty are particularly volatile and difficult to predict.

Some revenue items appear to have had an inadvertent bias. Most notably there appears to have been a conservative bias in the profit estimates for PTEs which flows through to the Budget via dividend payments.[1]

The best way to illustrate the scope for Budget outcomes to be affected by changes in the economic environment is by considering the consequences for the Budget of three different economic scenarios.

Alternative Economic Scenarios

Revenue items such as payroll tax and stamp duty can be quite sensitive to economic factors. Both employment levels and wage rates affect payroll tax. Stamp duty from contracts and conveyances and share transfers is affected by changes in trading volumes and confidence. In the short term, many expenditure quantities are 'locked in'.

The three scenarios explored are: a *higher growth* scenario, a *lower growth* scenario, and a *US inflation* scenario. While the range of views regarding the economic prospects for New South Wales appears narrower than last year, the scenarios should not be interpreted as the upper or lower limits of the economy.

[1] *See Section 11.3 of 1998-99 Budget Paper No. 2 for details.*

Table 2.11: Alternative Economic Scenarios, 1999-2000

		Alternative Scenarios		
	Budget Economic Forecasts %	*Higher Growth %*	*Lower Growth %*	*US Inflation %*
Gross State Product	3 ¼	4 ¼	2	1 ½
Employment (NSW)	1 ¾	2 ¼	1	¾
Wages	3 ¾	4 ¼	3 ½	4
CPI (Sydney)	2	2 ½	1 ¾	2 ½
10-year bond rate	5 ¾	6	5 ¾	6 ¼

Under the *higher growth* scenario stronger employment accompanies output growth of 4 ¼ percent, putting upward pressure on prices and interest rates. Economic confidence and investor sentiment are assumed to remain high.

Under the *lower growth* scenario output and employment undergo modest growth of 2 percent and 1 percent respectively, but wages and prices are only slightly lower. Economic confidence is assumed to be lower.

The *US inflation* scenario is the most extreme scenario. Stronger-than-expected US inflation raises short interest rates sharply, and triggers a crash in international equity markets, and slower economic growth.

The scenarios are defined in terms of key economic parameters that influence the Budget, with the base forecast and alternative scenarios given in Table 2.4. The alternative Budget outcomes in Table 2.5 show the deviations from the base case Budget (on a GFS cash basis) assuming *no* explicit response to changed economic conditions by the Government.

Transaction-based taxes such as contracts and conveyances and share transfer duties can vary significantly due to changes in investor confidence without visible changes in economic conditions. Transaction-based revenues are currently at a cyclical peak and are expected to decrease in the coming budget year. The timing of this downturn, if different to that assumed, could influence the Budget outcome considerably.

Table 2.12: Alternative Budget Outcomes, 1999-2000

	GFSBudget Estimate $m	Change on Budget Estimate: Higher Growth $m	Lower Growth $m	US Inflation $m
Current Financial Result	**2605**	**320**	**(-) 405**	**(-) 725**
Outlays	22447	65	(-) 30	50
Receipts	25052	385	(-) 435	(-) 675
Tax	14012	355	(-) 390	(-) 600
Non-tax	11040	30	(-) 45	(-) 75
Capital Financial Result	**(-) 2391**	**(-) 10**	**5**	**(-) 10**
Outlays	3326	10	(-) 5	10
Receipts	935	0	0	0
Total Result	**214**	**310**	**(-) 400**	**(-) 735**

The expected Budget outcome is for a cash surplus of $214 million. However under the *higher growth* scenario the Budget outcome could be a $524 million surplus (an improvement of over $300 million), while under the *lower growth* scenario the Budget outcome could be a deficit of $186 million. These are not confidence limits or alternative forecasts, but indicate two possible deviations from the base case.

In the *higher growth* scenario there is a modest increase in outlays but this is more than offset by a significant increase in revenue. The expected downturn in contract and conveyances revenue (from its cyclical peak) is assumed to be delayed, adding $200 million to the budget balance. In the *lower growth* scenario a loss of confidence causes transaction-based revenues to decline. Despite a small decrease in outlays, the Budget surplus reduces by $400 million.

Under the *US inflation* scenario the Budget outcome deteriorates by over $730 million, and with no policy adjustment a deficit of $521 million results. The equity market crash causes transaction-based revenues to decline by $300 million. This scenario illustrates that a *combination* of lower output, higher prices and higher interest rates can be particularly damaging to the Budget.

CHAPTER 3: GENERAL GOVERNMENT SECTOR REVENUES

3.1 INTRODUCTION

Total revenue for 1999-2000 is projected to increase by 2.0 percent to $28.8 billion. Key components include:

- Taxation revenue is expected to fall by 1.1 percent with the announced reductions in payroll tax and land tax rates and an expected easing in stamp duties from conveyances and share transactions.

- Commonwealth grants will increase by 5.2 percent following the favourable outcome of the Grants Commission's 1999 methodology review, the cessation of State Fiscal Contribution Payments to the Commonwealth and a doubling of national competition payments.

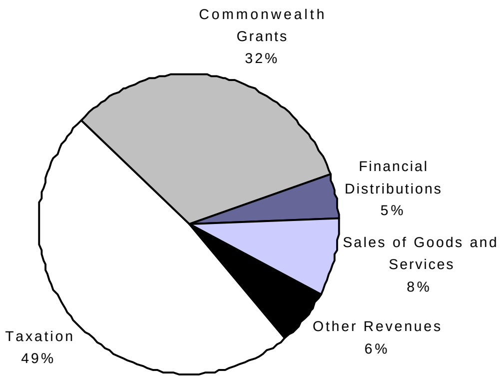
For the first time, Budget revenues are presented on an accrual basis. While there are few differences between cash and accrual estimates for most revenues, financial distributions from Public Trading and Financial Enterprises are significantly affected necessitating caution when comparing against estimates published in previous years.

Estimates of revenue are based on the maintenance of the current arrangements for Commonwealth-State financial relations. No allowance has as yet been made for the impact of national tax reform proposals (see Chapter 9, *Financial Arrangements with the Commonwealth*).

Table 3.1: Summary of Revenues

	1997-98	1998-99		1999-00	2000-01	2001-02	2002-03
	Actual	*Budget*	*Revised*	*Budget*	*Forward Estimates*		
	$m	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*
State Revenues							
Taxation	12,920	13,430	14,104	13,945	14,352	14,778	15,362
Commonwealth Grants	8,365	8,731	8,899	9,363	9,609	9,906	10,072
Financial Distributions	1,806	1,357	1,251	1,381	1,499	1,553	1,699
Other	699	711	728	782	777	752	765
	23,790	**24,228**	**24,982**	**25,471**	**26,237**	**26,989**	**27,897**
Operating Revenues							
Sale of Goods and Services	2,396	2,294	2,291	2,359	2,449	2,521	2,543
Investment Income	422	398	456	387	397	405	416
Grants and Contributions	390	218	463	397	458	356	340
Other	492	180	269	217	200	120	87
	3,700	**3,090**	**3,479**	**3,360**	**3,504**	**3,401**	**3,386**
Total Revenues	**27,490**	**27,317**	**28,461**	**28,831**	**29,741**	**30,389**	**31,283**

Chart 3.1: Summary of Total Revenues, 1999-2000



Total = $28,831m

3.2 TAXATION MEASURES

Measures Introduced Since the 1998-99 Budget

A number of taxation measures have been announced since the 1998-99 Budget. These changes are summarised in Table 3.2.

Table 3.2: Significant Tax Measures Introduced Since the 1998-99 Budget

Initiative	*Revenue Impact*		
	1998-99 *$m*	*1999-2000* *$m*	*Full Year** *$m*
Reduce the payroll tax rate from 6.7% to 6.4% from 1 July 1999	…	(-) 155.0	(-) 170.0
Provide payroll tax concession for apprenticeships from 1 July 1999	…	(-) 3.7	(-) 4.0
Introduce a new tax regime for Casino revenue sourced from international high-rollers from 10 December 1998	n.a.	n.a.	n.a.
Approval of fixed odds sports betting from 19 March 1998, with a tax rate of 1% of turnover for bookmakers and 20% of monthly gross profit for the TAB	1.0	1.5	1.5
Reduce from 0.6% to 0.3% the duty on share trading on the Newcastle Stock Exchange from 2 November 1998	(-) 0.6	(-) 1.0	(-) 1.0
Provide a discount for early payment of land tax liability**	…	(-) 6.0	(-) 7.0

*	*Full year impacts are expressed in 1999-2000 dollars.*
**	*Indicative only as details have yet to be finalised.*
n.a.	*Not available due to commercial sensitivities*

Reduction in Payroll Tax

With the cessation of Fiscal Contribution Payments to the Commonwealth, the payroll tax rate was legislated to decrease from 6.85 to 6.7 percent from 1 July 1999. However, following a favourable outcome from the 1999 Grants Commission Report (see Chapter 9, *Financial Arrangements with the Commonwealth*), the payroll tax rate will be reduced to 6.4 percent from 1 July 1999.

Payroll Tax Concession for Apprentices

To encourage employers to take on apprentices, a payroll tax concession will be provided from 1 July 1999. For first-year apprentices, 25 percent of the wage bill will be liable to payroll tax. Thereafter, 50 and 75 percent of wages for second and third-year apprentices respectively will be liable to tax. The full rate of payroll tax will apply to all other apprentices except those forming part of a group apprenticeship scheme who will continue to benefit from the 100 percent concession already provided. Employers of both existing and new apprentices will benefit from this scheme.

Casino Taxation – Highrollers

To facilitate the operation of Star City Casino in the international junket and premium player market, special taxation arrangements for revenues sourced from these players have applied since 10 December 1998. These new arrangements were required as the existing casino tax regime, in conjunction with the cost of attracting international junket and premium players, made such a program unprofitable for Star City.

The scheme requires the Casino to make two non-refundable payments to the State of $3 million each year. Once cumulative gross gaming revenues (player loss) exceed $60 million in any calendar year, the Casino is required to pay 10 percent tax on the excess.

Fixed Odds Sports Betting

Fixed odds sports betting in New South Wales was approved on 19 March 1998 and commenced on 27 July 1998. Under fixed odds betting, dividends to punters are determined prior to the event. This is in contrast to conventional pools-based betting where dividends are based on the proportion of monies placed on each outcome.

Both bookmakers and the TAB are permitted to offer fixed odds betting for particular sports and bet types as proclaimed by the Minister for Gaming and Racing. The tax rate applied to bookmakers is 1 percent of turnover - the same rate applied to other bookmaker bets. The tax rate applied to the TAB is 20 percent of monthly gross profit (takings less payouts).

Share Transfer Duty – Newcastle Concession

From 2 November 1998, the rate of duty that applies to transactions on the Newcastle Stock Exchange was reduced to 0.3 percent, equal to the rate applied to the ASX. Prior to this, share duty on transactions not listed on the ASX was levied at a rate of 0.6 percent.

Many small and medium enterprises do not meet the minimum requirements to list on the ASX. The regional stock exchange of Newcastle is now specialising in share transactions for small and medium-sized firms. This concession will assist these enterprises to raise capital and expand their operations. For technical reasons, the concession is restricted to businesses incorporated in New South Wales.

Land Tax – Discount for Early Payment

The Office of State Revenue generally offers two payment options to land tax clients to meet their tax liabilities. Clients are able to pay in three instalments at intervals of 30, 90 and 150 days after the issue of a notice of assessment. Alternatively, clients may pay the whole amount due within 105 days after the date of issue of the assessment.

To encourage prompt payment of tax liabilities and to reduce administration costs, the Government will provide a discount to land tax clients for the early payment of their land tax liability. The discount will be available to all clients who pay the full amount within 30 days after the issue of the assessment. This will replace the current option of paying the whole amount within 105 days of the issue of the assessment. The option to pay by instalments will remain. The level of the discount offered will be determined at a later date taking into account interest rates at the time.

1999-2000 Budget Tax Measures

The tax measures for the 1999-2000 Budget are summarised in Table 3.3.

Table 3.3: 1999-2000 Budget Tax Measures

Initiative	*Revenue Impact*	
	1999-2000 *$m*	*Full Year** *$m*
Provision of discount for early payment of instalments under the First Home Purchase Scheme from 23 June 1999	…	n.a.
Decrease the payroll tax rate from 6.4% to 6.2% from 1 July 2001 and to 6.0% from 1 July 2002	…	(-) 226.0
Provision for future tax reductions from 2001-02	…	(-) 175.0

- *Full year impacts are expressed in 1999-2000 dollars except for provision for future tax reductions.*

n.a. *Not applicable*

First Home Purchase Scheme

In the 1998-99 Budget the up-front discount under the First Home Purchase Scheme was increased from 30 to 50 percent while the option to pay in five annual instalments was removed for new clients.

To encourage first home-owners under the instalment program to fully discharge their outstanding liabilities, the Government will increase the discount offered from 10-25 percent to a flat 50 percent. It is expected that the impacts of earlier but lower payments will result in a revenue-neutral outcome in 1999-2000. The cost to revenue in the forward years is estimated at $2 million in 2000-01, $1 million in 2001-02 and $0.5 million in 2002-03.

Reduction in Payroll Tax

From 1 July 2001 the rate of payroll tax will be reduced from 6.4 percent to 6.2 percent with a further reduction to 6.0 percent on 1 July 2002. The cost of these measures will be $226 million in a full year.

Other Tax Restraint Measures

In line with the Government's commitment to reduce the tax burden in New South Wales and ensure the ongoing competitiveness of the State, the Budget provides for additional tax reductions with a full year cost of $175 million from 2001-02. With the reduction in payroll tax from 6.4 to 6.0 percent and the provision for further tax restraint, the Budget provides for tax cuts totaling $650 million over the next four years.

The allocation of funds from the provision to specific tax cuts has not yet been determined. However, these tax cuts will be designed to maximise the ongoing competitiveness of the New South Wales economy.

3.3 DETAILED REVENUE ESTIMATES

3.3.1 STATE REVENUES

Taxation

In 1998-99 taxation revenues exceeded the Budget estimate by over $500 million or nearly 4 percent. Contracts and Conveyances and Share Transfer Duty contributed $452 million or 90 percent of the increase.

Table 3.4 provides detailed estimates of revenue from taxation for the period to 2002-03. The largest single source of revenue continues to be payroll tax followed by stamp duty from contracts and conveyances.

Table 3.4: Taxation Revenue

	1997-98	1998-99		1999-00	2000-01	2001-02	2002-03
	Actual	*Budget*	*Revised*	*Budget*	*Forward Estimates*		
	$m	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*
Stamp Duties							
Contracts and Conveyances	1,828	1,530	1,880	1,725	1,600	1,675	1,850
First Home Purchase Scheme	17	27	24	22	19	19	20
Insurance	322	338	341	358	380	401	423
Loan Securities	165	156	172	171	177	193	211
Share Transfers	286	293	395	360	380	405	430
Motor Vehicle Registrations	422	425	444	411	445	469	497
Financial Institutions Duty	550	567	553	580	608	638	668
Hiring Arrangements	61	64	67	70	74	78	83
Leases	40	37	37	39	42	44	47
Adhesive Stamps	4	4	4	4	5	5	5
Other Stamp Duties	3	18	6	6	7	7	8
	3,698	**3,459**	**3,922**	**3,747**	**3,736**	**3,934**	**4,242**
Payroll Tax	3,384	3,625	3,615	3,616	3,893	4,034	4,117
Land Tax	908	918	961	830	844	867	891
Debits Tax	322	326	323	325	327	329	331
Taxes on Motor Vehicle Ownership and Operation							
Weight Tax	675	686	694	709	730	757	785
Vehicle Registration and Transfer Fees	193	218	216	217	192	199	207
Other Motor Vehicle Taxes	151	92	125	44	18	19	19
	1,019	**996**	**1,035**	**970**	**940**	**975**	**1,012**
Gambling and Betting							
Racing	285	191	191	197	205	213	222
Club Gaming Devices	520	549	555	590	630	675	720
Hotel Gaming Devices	152	277	255	324	342	368	395
Lotteries and Lotto	272	274	279	290	302	313	326
Casino	110	129	121	138	151	169	181
Other Gambling & Betting	19	20	18	19	20	22	23
	1,358	**1,440**	**1,419**	**1,558**	**1,650**	**1,760**	**1,867**

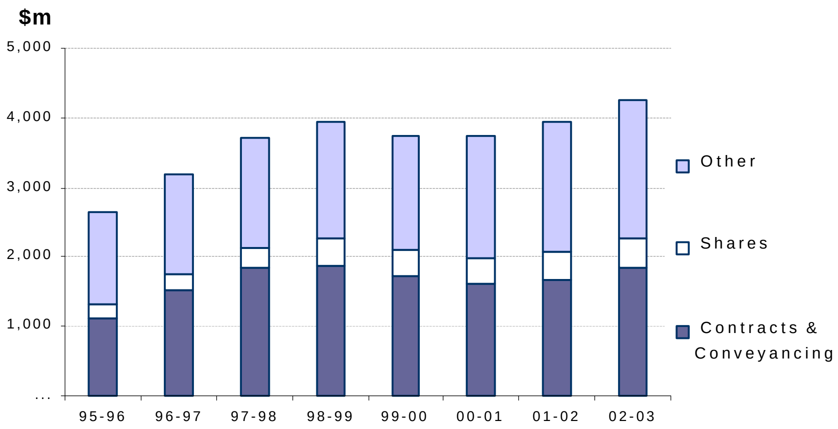
Table 3.4: Taxation Revenue (cont')

	1997-98	1998-99		1999-00	2000-01	2001-02	2002-03
	Actual	*Budget*	*Revised*	*Budget*	*Forward Estimates*		
	$m	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*
Safety Net Revenues (Net of Subsidies)							
Liquor	112	297	315	332	350	373	396
Petroleum	467	599	619	636	660	690	717
Tobacco	815	977	1,030	1,021	1,018	1,012	1,007
	1,394	**1,873**	**1,964**	**1,989**	**2,028**	**2,075**	**2,120**
Other Revenues							
Accommodation Levy	17	48	57	65	84	77	82
Health Insurance Levy	56	58	54	55	57	60	62
Parking Space Levy	16	17	17	17	17	18	18
Fire Brigades Levy	192	217	217	224	222	225	223
Waste Disposal Levy	42	52	65	69	67	64	62
Bush Fire Services Levy	51	51	52	59	59	58	60
Electricity Distributors Levy	93	100	100	100	100	100	100
Government Guarantee of Debt	17	31	32	35	36	35	35
Port Cargo Access Charges	13	12	11	11	11	12	12
Other Taxes	340	207	261	274	280	155	130
	837	**792**	**865**	**910**	**933**	**803**	**784**
Total Tax Revenue	**12,920**	**13,430**	**14,104**	**13,945**	**14,352**	**14,778**	**15,362**

Contracts and Conveyances Duty

The largest single component of stamp duty revenues is contracts and conveyances. Along with share transfer duty, conveyancing duty represents the most volatile revenue source available to the State. Chart 3.2 shows the contribution of these revenues to the movement in total stamp duty revenues.

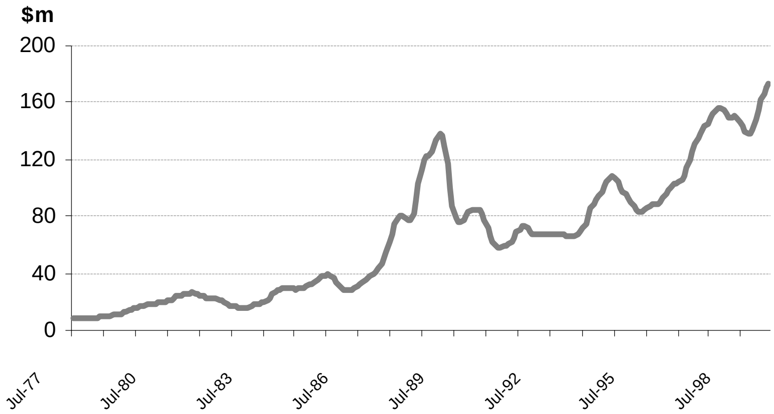
Chart 3.2: Stamp Duty Revenues



Given the volatility of contracts and conveyancing revenues, forecasts of property market activity have an important influence on the Budget outcome. Chart 3.3 shows that the current property market cycle has continued for an extended period despite the slow-down occurring in the 9 months following the December quarter 1997.

For the 1998-99 Budget, conveyance revenues were assumed to continue the decline apparent at that time. This assumption was made amidst a background of an expected slowdown in economic activity stemming from the Asian economic crisis. While this assumption initially proved correct, property market revenue rebounded after September 1998 underpinned by a number of factors including the mild impact on the Australian economy of the Asian economic crisis, strong consumer confidence and expectations of continued low interest rates.

Chart 3.3: Trend Contracts and Conveyances Duty – Monthly Revenue



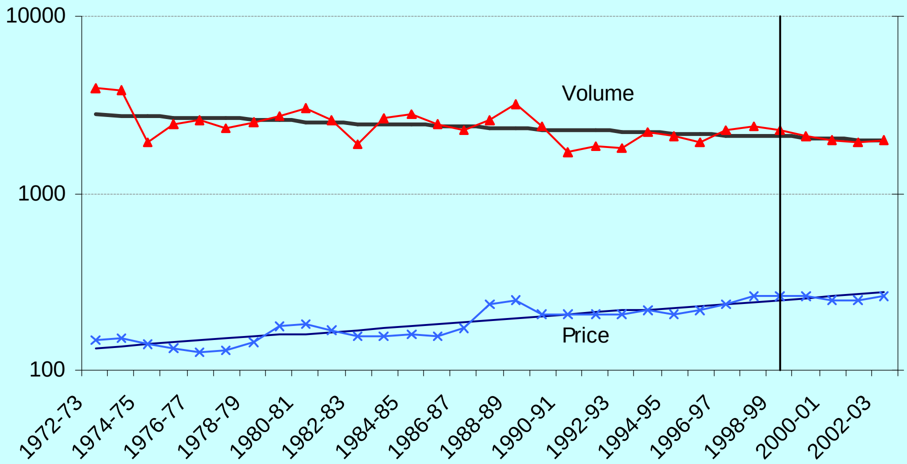
Following an analysis of underlying movements in property prices and volumes (see Box 3.1), contracts and conveyancing revenue estimates are premised on an expected easing in the property market within the first half of the 1999-2000 financial year.

Historically, downturns in the property market tend to be very sharp with monthly revenues typically declining by up to 50 percent within 12 months of the peak. Given the benign economic environment forecast over the next two years, a more modest easing in revenues has been forecast with monthly revenues dropping by around 15 percent during the course of 1999-2000. For the forward years revenues are expected to pick-up and move back towards trend.

Box 3.1: Forecasting of Conveyances Revenue

The growth in conveyancing revenue each year reflects both movements in property prices and the volume of turnover. Chart 3.4 disaggregates policy-adjusted conveyancing revenue into its price and volume components over the past 26 years.

Chart 3.4: Property Market Revenues - Price and Volume



Sydney median house prices, adjusted for inflation, have been used as a proxy for the movement in prices while the volume of turnover per household has been derived from revenue data adjusted for the growth in property prices and the impact of a progressive rate of tax.

The graph highlights the cyclical nature of both prices and volumes and that significant downturns in activity usually coincide with economic cycles and/or significant increases in interest rates. Nevertheless, despite the absence of a defined trigger for a downturn in activity, the Budget assumes that property market revenue will begin to decline within the next 6 months.

Revenue forecasts have been based on the expected deviation of prices and volumes from their respective long-term trends. Forecasts reflect real price and volume growth dipping below trend in 2000-01 with volumes and real prices moving back towards trend levels in the forward years.

Other Stamp Duties

Collections for 1998-99 are anticipated to be above the level predicted in the 1998-99 Budget due mainly to unexpected strength in share market activity. In addition, the Asian economic downturn led to heavy discounting of prices, especially for small vehicles, sustaining motor vehicle transfers and stamp duty revenues.

For 1999-2000, most stamp duties are expected to grow broadly in line with economic activity, with the exceptions of share duty, motor vehicle registration duty and loan security duty. These markets are cyclical in nature and it is assumed that the peak of the current cycle has been reached and that a downturn will occur in 1999-2000. Forecasts for loan security duty are consistent with those for contracts and conveyance duty and credit growth.

For the forward years, stamp duties will again grow broadly in line with economic activity with loan security duty reflecting the growth in contracts and conveyance duty and credit.

Payroll Tax

Collections for 1998-99 are not expected to be significantly different from the level predicted at the time of the Budget. Over the forecast period, underlying revenues are expected to benefit from moderate growth in wages and employment. Annual growth will be kept low over the forecast period due to reductions in the rate of tax from 6.85 percent to 6.4 percent on 1 July 1999, to 6.2 percent on 1 July 2001 and to 6.0 percent on 1 July 2002. In 2000-01 revenues are expected to benefit from a rise in the Superannuation Guarantee Levy.

Land Tax

Land Tax revenues in 1998-99 were revised upwards due to higher than expected increases in land values and the value of assessments issued for prior year tax liabilities.

Land tax revenues are expected to grow in line with increasing land values following indexation of both the investor and premium property tax thresholds in the 1998-99 Budget. The land tax rate will decrease from 1.85 percent to 1.7 percent on 31 December 1999, resulting in a 13.6 percent decline in accrued revenue in 1999-2000.

It should be noted that Land Tax revenue is the only taxation item for which the accrual-based estimates differ significantly from the cash-based estimates.

Taxes on Motor Vehicle Ownership and Operation

The major items in this category are motor vehicle weight tax and vehicle registration fees. Estimates for these revenues reflect growth in the stock of motor vehicles and the indexation of fees.

Collections for 1998-99 are unlikely to be significantly different from last year’s Budget forecasts. The decline in revenue from registration and transfer fees in 2000-01 is due to the conclusion of the temporary surcharges on these fees. These surcharges were imposed from 1 February 1998 to 1 July 2000 in order to meet the Budget shortfall for the Roads and Traffic Authority. This shortfall was caused by the High Court decision leading to the abolition of petroleum franchise fees in August 1997 (which were hypothecated to the RTA).

Accommodation Levy

Collections for 1998-99 are likely to be above last year’s Budget forecast due to stronger than expected occupancy levels. The continued recovery in international visitor numbers following the Asian economic crisis underpins strong growth in revenue over the forecast period. The increase of 14 percent in revenue in 1999-2000 also reflects the full year impact of the 10 percent rate of tax. Revenues will also benefit in 2000-01 from tourism associated with the Sydney Olympics.

Gambling Taxes

Revenue from gambling taxes in 1998-99 is expected to be below the level predicted in last year’s Budget mainly because of the slower take-up by hotels of the 2,300 auctioned poker machine licences. In addition, casino revenues were adversely affected by the Asian economic slowdown.

Revenue from gambling taxes is expected to increase broadly in line with gross household disposable income over the forward estimates period, with additional growth from bracket creep for club and hotel gaming. The high growth rate in 1999-2000 for hotel gaming reflects the full-year impacts of the 2,300 additional poker machine licences and the ending of the requirement to operate one approved amusement device for each poker machine. The high growth for casino revenues over the forecast period is in line with the pick-up in Asian tourism (following some improvement in the economic conditions being experienced in the region) and the progressive tax regime for tables.

Safety Net Revenues

Safety net revenue payments to the States commenced in September 1997 following the High Court's declaration on 5 August 1997 that NSW State licence fees on tobacco were unconstitutional.

Revenue replacement payments for tobacco and petroleum (net of subsidies) were above expectations in 1998-99 due to lower petroleum subsidy payments and forecast errors associated with the uncertainty regarding the 1997-98 revenue base, particularly for tobacco.

Net petroleum safety net revenues are expected to grow moderately in the next few years with the indexation of excise rates and increases in consumption. Tobacco safety net revenues are expected to fall over the forecast period reflecting declining consumption of tobacco products. Net revenue from the liquor wholesale sales tax surcharge is expected to grow in line with gross disposable income.

Commonwealth Grants[1]

In 1998-99 Commonwealth payments are expected to be $168 million higher than originally budgeted. This outcome reflects an increase in Specific Purpose Payments of $213 million offset by a $45 million decline in General Purpose Grants. Financial Assistance Grants are expected to be lower in 1998-99 in line with a better than expected inflation outcome. Table 3.5 provides estimates of Commonwealth payments (capital and recurrent) for the period to 2002-03.

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1. **Growth rates may differ from those in Chapter 9 because of differences in scope and timing of receipt of Commonwealth monies between the Commonwealth and the States.**

Table 3.5: Commonwealth Grants

	1997-98	1998-99		1999-00	2000-01	2001-02	2002-03
	Actual	*Budget*	*Revised*	*Budget*	*Forward Estimates*		
	$m	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*
General Purpose Payments	4,808	4,832	4,787	5,162	5,259	5,440	5,518
Less:							
State Fiscal Contribution	**217**	**101**	**102**	**...**	**...**	**...**	**...**
Net General Purpose Payments	4,591	4,731	4,686	5,162	5,259	5,440	5,518
Specific Purpose Payments							
Companies Regulation	44	45	44	45	46	47	49
Gun Buy-back Scheme	40	...	30	7	...	...	...
Technical & Further Education	278	278	275	307	312	319	327
Schools	461	535	594	534	546	555	568
Highly Specialised Drugs	75	86	87	97	100	103	106
Hospital Funding Grant	1,606	1,776	1,905	1,969	2,050	2,137	2,227
Home and Community Care	150	156	154	160	163	165	168
Supported Accommodation Assistance	44	44	44	45	45	46	47
Assistance to Disabled	104	109	110	116	121	127	129
Pensioner Concessions	50	51	53	54	56	57	58
Debt Redemption Assistance	25	62	64	10	10	10	10
Blood Transfusion Services	18	19	19	22	23	23	24
National Land Care	36	44	45	44	39	39	39
Public Housing	259	256	259	253	274	271	268
Australian Land Transport Development	331	323	317	301	338	367	332
Housing	37	37	37	37	37	37	37
Other	79	58	73	109	108	85	85
	3,774	**4,000**	**4,213**	**4,201**	**4,350**	**4,466**	**4,554**
Total Grants	**8,365**	**8,731**	**8,899**	**9,363**	**9,609**	**9,906**	**10,072**

The better than expected outcome for Specific Purpose Payments reflects a number of factors including an additional $129 million for health care as well as factors associated with the timing of receipts (e.g. payments due by 30 June 1998 but received in July 1998).

Commonwealth payments in 1999-2000 are expected to increase by 5.2 percent. General Purpose Grants are expected to increase by about 10.2 percent while Specific Purpose Payments will fall by 0.3 percent due to continued application of Commonwealth efficiency dividends and the cessation of some payments (e.g. the National Firearms Program).

General Purpose Payments will increase significantly in 1999-2000 following revisions to the Grants Commission formula for the distribution of Financial Assistance Grants, the cessation of State Fiscal Contribution Payments and a doubling of National Competition Policy Payments in line with the Agreement in April 1995.

Growth in Commonwealth funding is expected to return closer to the level of inflation in the forward years. The State's share of Financial Assistance Grants is expected to be adversely affected by recent high tax revenues from the property and share markets entering the Grants Commission's relativities formula.

Financial Distributions

While there are few differences between cash and accrual estimates for taxes and grants, an accruals basis for recording income from Public Trading and Financial Enterprises significantly affects the level of revenues.

Dividends represent a return on equity invested by the State Government in its business enterprises while tax equivalent payments closely mirror tax liabilities that would be incurred if the entity concerned was owned by the private sector.

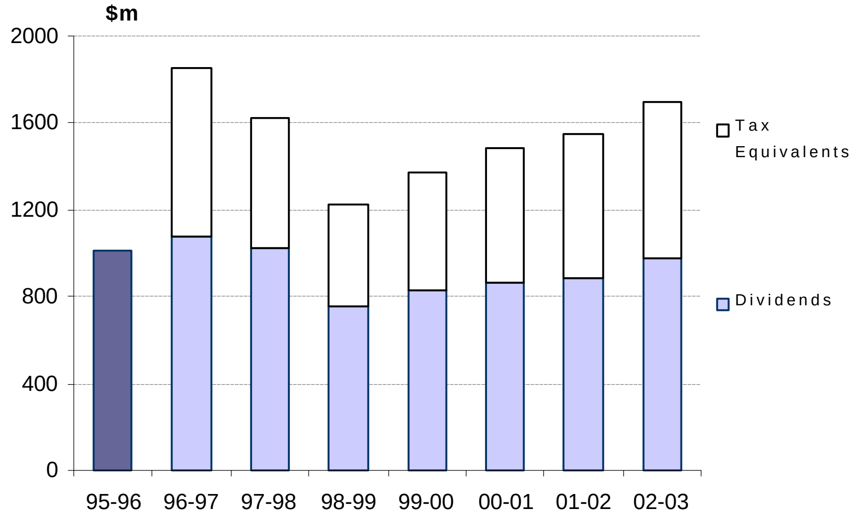
Table 3.6 provides estimates of dividends and tax equivalent payments for the period to 2002-03 by sector.

Table 3.6: Financial Distributions from Public Trading and Financial Enterprises

	1997-98	1998-99		1999-00	2000-01	2001-02	2002-03
	Actual	*Budget*	*Revised*	*Budget*	*Forward Estimates*		
	$m	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*
Dividends							
Electricity	540	475	405	488	555	569	657
Water, Waste Services	252	146	102	153	98	139	131
Property and Resources	21	39	25	72	37	36	27
Ports	29	25	33	24	26	28	30
Transport	116	66	133	55	79	78	94
Financial Services	26	14	13	14	14	14	14
Other	38	13	40	20	57	26	20
	1,023	**778**	**752**	**826**	**866**	**889**	**975**
Tax Equivalent Payments							
Electricity	373	287	253	313	348	356	406
Water, Waste Services	151	130	132	135	159	193	213
Property and Resources	11	26	27	29	38	35	25
Ports	31	30	24	20	20	24	27
Transport	7	50	20	27	29	31	35
Financial Services	17	7	9	7	7	7	7
Other	11	12	15	15	17	13	13
	599	**541**	**478**	**545**	**617**	**659**	**724**
Dividend and Tax Equivalent Payments	1,622	1,319	1,230	1,371	1,483	1,549	1,699
Other Income	183	37	21	10	16	4	…
Total	**1,806**	**1,357**	**1,251**	**1,381**	**1,499**	**1,553**	**1,699**

Chart 3.5 shows that dividends and tax equivalents increased substantially in 1996-97 largely due to increased distributions from electricity sector. The fall in financial distributions in 1997-98 resulted from decreased profitability in the electricity generation sector with the introduction of competition.

Chart 3.5: Financial Distributions from Public Trading and Financial Enterprises



Dividend and tax equivalents for 1998-99 are expected to be around $106 million below last year's Budget estimate with lower distributions from the Electricity and Water and Waste sectors partially offset by better than expected results for the Transport sector. In total, dividend and tax equivalents from the Electricity sector are expected to be around $104 million below last year's Budget estimate with worse than expected returns from distributors offsetting improved profitability in the generation sector following the increase in wholesale electricity prices.

Lower distributions from the Water and Waste sector in 1998-99 relative to last year's forecast mainly reflects the impact on Sydney Water Corporation from the 1998 water quality incidents. This included rebates and the deferral of price increases to affected customers and additional operating costs, such as enhanced testing and monitoring.

Partly offsetting these lower distributions for 1998-99 from the Electricity and the Water and Waste sectors, distributions from the Transport sector are expected to be higher following an increase in profitability and the dividend pay-out ratio.

In 1999-2000, dividends and tax equivalents are expected to increase by 10.4 percent with a return to more normal levels of profitability for the Electricity and the Water and Waste sectors. In addition, growth in revenues will be assisted by the impact of a number of significant abnormal expenses that are expected to artificially lower results for 1998-99.

Apart from the above factors, dividend and tax equivalent payments in 1999-2000 will benefit from an increase in the dividend pay-out ratio and profitability for Landcom. This will be partly offset by one-off factors in the Transport Sector that will decrease distributions in 1999-2000.

Other Revenues

Table 3.7: Other State Revenues

	1997-98	*1998-99*		*1999-00*	*2000-01*	*2001-02*	*2002-03*
	Actual	*Budget*	*Revised*	*Budget*	*Forward Estimates*		
	$m	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*
Licences	62	83	88	125	110	72	70
Fees	77	88	101	101	98	97	102
Fines	180	207	192	218	218	219	224
Royalties	202	195	204	212	226	237	240
Fire Brigades Levy on Local Government	31	36	36	37	37	38	37
Other State Revenues	147	102	108	89	88	89	90
Total Other Revenue	**699**	**711**	**728**	**782**	**777**	**752**	**765**

Licences

This item mainly consists of drivers' and riders' licences. Revenue from this source is volatile because it depends on the renewal pattern of three and five year licences.

Fines

The main item in this category relates to fines under the Motor Traffic Act. The bulk of these fines are collected by the Police Service through on-the spot infringement notices issued by Police and Parking Patrol Officers.

These fines are also collected through Local Courts for the more serious offences and through the Roads and Traffic Authority which has the authority to cancel motor vehicle registrations or drivers' licence fees unless infringement notices are paid.

In addition, the State Debt Recovery Office will have an increasing role in collecting overdue fines. This Office was established in January 1998 and is the main reason for the upward revision in 1998-99 collections and the growth in revenues for 1999-2000.

Royalties

Forecasts for royalties are predominantly associated with the volume of coal production.

3.3.2 OPERATING REVENUES

Operating revenues represent revenues earned by Public Sector agencies in the normal course of their operations. The primary source is user charges largely levied to recover costs.

Grants and Contributions

This item mainly consists of contributions from Public Trading Enterprises and the private sector. The better than expected result for 1998-99 is largely due to a one-off transfer of land from the Department of Housing to the Aboriginal Housing Office (which is recorded as a grants receive and an asset purchase). For 2000-01 a one-off payment from SOCOG to the Olympic Roads and Transport Authority will boost revenues.

Table 3.8: Operating Revenues

	1997-98	1998-99		1999-00	2000-01	2001-02	2002-03
	Actual	*Budget*	*Revised*	*Budget*	*Forward Estimates*		
	$m	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*
Sales of Goods and Services							
Rents and leases	120	113	128	120	121	124	128
Fees for Service	124	92	100	104	110	111	113
Entry Fees	14	16	17	18	19	19	20
Patient Fees	461	446	433	435	442	446	449
Department of Veterans Affairs - Concord Hospital	148	153	194	194	201	206	211
Court Fees	62	57	51	58	63	64	66
Road Tolls	55	55	56	56	57	57	58
Operating Revenue	111	104	73	72	75	79	82
Income from Milk Agents	344	340	326	333	341	348	351
Commercial Land Sales	68	12	6	27	34	47	18
Other Sales of Goods and Services	889	905	908	942	988	1,019	1,047
	2,396	**2,294**	**2,291**	**2,359**	**2,449**	**2,521**	**2,543**
Investment Income	422	398	456	387	397	405	416
Grants and Contributions	390	218	463	397	458	356	340
Other Operating Revenues	492	180	269	217	200	120	87
Total Other Revenue	**3,700**	**3,090**	**3,479**	**3,360**	**3,504**	**3,402**	**3,386**

Sales of Goods and Services

Sales of goods and services include revenue from the use of government assets as well as other revenues generated by agencies in their normal trading activities.

Revenues from sales of goods and services are expected to increase broadly in line with inflation over the forward estimates period. The major source of revenue in this category is private patient fees in public hospitals, reimbursements from the Commonwealth for treating veterans and milk agent fees which represents income on milk sales.

Investment Income

Revenue from investment income includes interest on advances to public trading enterprises, interest on T-Corp deposits and interest on private sector deposits. In 1998-99, interest revenues benefited from monies borrowed and invested pending the implementation of the superannuation conversion offer.

3.4 CASH BASED REVENUE OUTCOMES

With the move to an early Budget in 1996-97 detailed cash-based revenue outcomes for the years 1995-96 and 1996-97 have not been published. To correct this position Table 3.9 provides results for this period.

Table 3.9: Historical Cash-Based Revenue Outcomes

	1995-96	*1996-97*
	$m	*$m*
Taxes, Fees and Fines		
Stamp Duties		
Contracts and Conveyances	1,123	1,527
Insurance	258	272
Loan Securities	122	135
Share Transfers	188	239
Motor Vehicle Registration	314	379
Financial Institutions Duty	497	515
First Home Purchase	25	18
Hiring Arrangements	53	55
Leases	31	35
Other	9	7
	2,620	**3,182**
Payroll Tax	2,846	3,131
Land Tax	575	637
Debits Tax	319	319
Health Insurance Levy	44	44
Accommodation Levy	...	...
Parking Space Tax	7	8
Taxes on Motor Vehicle Ownership and Operation	923	970

	1995-96	1996-97
Business Franchise Licence Fees/Safety Net Taxes		
Petroleum	539	557
Tobacco	871	885
Liquor	281	297
Other	540	572
Total, Taxation	**10,744**	**11,811**
Income from Public Trading and Financial Enterprises		
Dividends	770	843
Tax Equivalent Payments	305	598
Trading and Financial Enterprises	**1,075**	**1,441**
Commonwealth Grants		
General Purpose Payments	4,517	4,673
Specific Purpose Payments	2,841	3,025
Less:State Fiscal Contribution	...	210
State share of higher education superannuation	18	19
Total, Commonwealth Grants	**7,340**	**7,470**
Other Current Receipts	1,259	1,428
Total, Current Receipts	**20,418**	**22,150**
Capital Receipts		
Commonwealth Grants	919	832
Other Capital Receipts	17	254
Total, Capital Receipts	**936**	**1,086**

CHAPTER 4: GENERAL GOVERNMENT SECTOR EXPENSES

4.1 INTRODUCTION

The Government incurs expenses in order to achieve its key objective of delivering services needed by the community.

Estimated total expenses are $27,495 million for 1999-2000, an increase of $518 million compared with the revised estimate for 1998-99.

The expenses incurred in the four-year period between 1996-97 and 1999-2000 have increased strongly in key policy areas: for example, expenses in Education will have increased by 9.4 percent; in Health by 9.8 percent; and in Law Order and Public Safety by 11 percent.

The increases experienced over this period have seen an increase in the standard of services provided in New South Wales and a salary structure for public sector employees comparable to any other State. In the light of the gains made, it is possible to pursue a fiscal strategy which involves a lowering of the rate of growth in expenses in 1999-2000 and the forward years.

The following section outlines the key service delivery initiatives included in the 1999-2000 Budget in line with the Government's broad economic and fiscal strategy framework. It also includes an analysis of trends in the key service delivery areas.

4.2 BUDGET INITIATIVES TO ENHANCE QUALITY OF SERVICES IN NEW SOUTH WALES

Delivering Better Services

The Government will strive to ensure that the highest quality of service is provided by employees in their dealings with the public, whether by telephone, Internet, correspondence, shopfronts or direct service delivery.

Continuing to Improve Coordination to Get Results

Government agencies will work together and in partnership with the community to develop effective solutions. Examples of initiatives are:

- The Department of Transport is managing an Integrated Ticketing Project on behalf of all transport operators, both Government and private. The aim of the project is to enable all travel on rail, light rail, bus and ferry services in the greater Sydney region to be made using a single smartcard. Tenders for delivery of the system were called in May 1999 with the full system expected to be operating by 2002;

- Streamlining of community consultation committees administered through the Department of Land and Water Conservation; and

- During the next decade, the Government will implement its integrated transport plan, "Action for Transport 2010." The Plan outlines a construction timetable for the development of new rail, light rail, rapid bus only transit ways and cross regional bus services up to 2010 that will meet the needs of Sydney's growing population. Key areas of development are in Western and North Western Sydney which are currently relatively poorly serviced in terms of public transport.

The Government will focus on ensuring greater cooperation between agencies to improve service delivery to families and communities. Particular attention will be given to the services provided by the family support agencies. Initiatives include:

- The Government's Families First initiative is to be extended across the State by 2003 with an injection of $29.9 million over the period. This program is an early intervention strategy aimed at new parents to allow them access to direct help and support in the first years of their children's lives. The program encompasses the services of the Departments of Community Services, Education and Training and Health under Cabinet Office coordination;

- The Cabinet Office has been allocated $700,000 for the continuation of the Families First initiative involving the coordination of the establishment of a network of childcare experts and volunteers to assist with parenting skills.

Reshaping and Improving Government Structures

The Government will continue to pursue initiatives that will reduce administration overheads. The savings from these initiatives can be used to fund enhanced frontline services such as health and education.

The Corporate Services Reform Unit in the Premier's Department will continue to lead and coordinate efforts to achieve savings in corporate services across government, with major projects in the areas of shared services arrangements, workers compensation and injury management, property management and purchasing and procurement.

The administrative reviews and the focus on service delivery may result in surplus staff and redundancies.

The Department of Community Services will be developing a centralised Call Centre to improve service to families and communities;

Rural and Regional Initiatives

The rural and regional initiatives:

- Department of Land and Water Conservation will spend $51.8 million to meet commitments in delivering projects in backlog water supply and sewerage schemes in country towns;

- Annual funding on rural health has increased by 37 percent since 1995 and now exceeds $1 billion. Initiatives totalling $35.8 million over four-years include the expansion of telemedicine services, mental health services, drug treatment resources, aboriginal community nursing and greater support and training for health care workers in rural locations;

- The Budget continues the NSW Government's commitment to maintaining and improving country transport services. The Government will provide recurrent funding of $170 million to the Rail Access Corporation to maintain the rail infrastructure throughout rural New South Wales;

- The Rural Assistance Authority has been provided with $12.7 million for the Advancing Australian Agriculture program (including $8.6 million of Commonwealth funding), which includes FarmBis (an assistance scheme for farmers to undertake farm business management training);

  In addition, funding of $75 million has been provided for Freight Rail Corporation to continue providing carriage of freight that would otherwise not be commercially viable, primarily through rural New South Wales;

- The "Action for Transport 2010" includes a number of major road initiatives to support rural and regional industries, including a $100 million average annual "Rebuilding Country Roads" Program over the next ten years. Some of the roads that will be targeted in the initial stage include Inverell to Moree, Narrabri to Wee Waa, Gunnedah to Narrabri, Cowra to Bathurst, Dubbo to Bathurst and Tamworth to Gunnedah; and

- The establishment of the Illawarra Advantage Fund to help ameliorate the effects of industry restructuring within the Illawarra region.

Effective use of Information Technology

The Government will use new technology to enhance service delivery.

The Government established the Department of Information Technology and Management (DITM) in April 1999. DITM has prime responsibility for the development and implementation of whole-of-government information technology and telecommunications policies and the management of spatial and textural land information.

4.3 MANAGEMENT OF RISKS ARISING FROM THE YEAR 2000 (Y2K) PROBLEM

In order to ensure that services are delivered effectively, it is important that risk management plans are in place to identify risks and establish procedures to mitigate those risks. Set out below is an overview of the Government’s strategy to address the potential effects of the Year 2000 (Y2K) computer problem.

Whole-of-Government Strategy

The Government has endorsed a comprehensive strategy for addressing the Y2K issue. This strategy places accountability for meeting the Y2K challenge with the chief executive officers of agencies and requires the implementation of vigorous measures to address it. The strategy is being implemented by all Government agencies including Government businesses.

The Government's Office of Information Technology is managing the Government's Year 2000 Strategy on a coordinated, whole-of-Government basis.

Agency Spending on Y2K Rectification Projects

Government agencies, including Government businesses, have budgeted $409 million for Y2K rectification expenditure in 1998-99 and 1999-2000. At the end of May 1999, agencies had spent $175 million on Y2K rectification works.

Supplementary funding for Y2K rectification projects is being made available to agencies with insufficient funds for Y2K rectification works. At the end of May 1999, supplementary funding of $50 million had been approved for expenditure in 1998-99.

Y2K Preparedness of Agencies

Government agencies have provided progress reports on Y2K projects in their 1997-98 annual reports and will include further reports in their 1998-99 and 1999-2000 annual reports.

OIT also publishes information on the preparedness of individual agencies on its web-site. These reports show a high level of preparedness by the majority of NSW Government agencies. Agencies will continue to be closely monitored to ensure that Y2K deadlines are met.

Use of the Treasury Managed Fund for Y2K Claims

The Treasury Managed Fund does not provide for cover for Y2K losses. It has been recognised, however, that if third party claims eventuate they may require expert management and these claims will be administered by the Fund Manager on behalf of the Crown. Additional funding requirements for any business losses of agencies will be assessed as a part of the Budget process.

4.4 EXPENSE TRENDS AND BUDGET INITIATIVES BY POLICY AREA

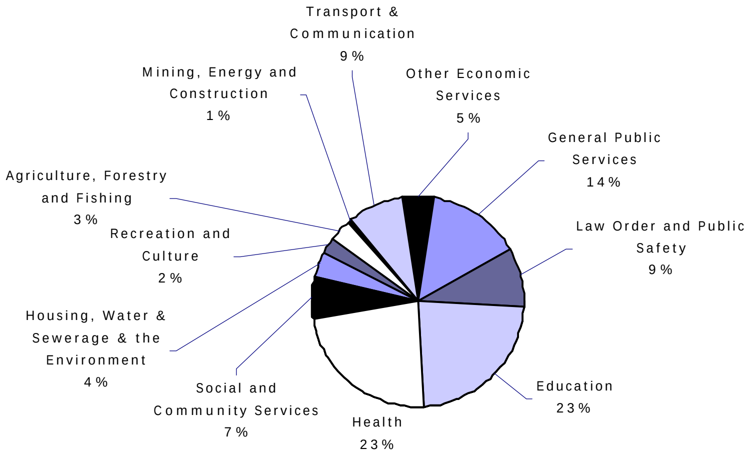
The Policy Area Classification

Under the Westminster system, the structure of Government is based on individual Ministers having control over a number of agencies. Presenting data according to this hierarchy allows Parliament to see the resources being made available to each Minister and agency (in particular the moneys to be appropriated from the Consolidated Fund) and informs each Minister and agency of the financial resources they have available to devote to their programs.

While this presentation may be useful in the short term, changes in agency responsibilities and structures and in Ministerial portfolios make longer term comparisons difficult. This is particularly the case when trying to analyse expenditures on functional areas (eg Law, Order and Public Safety) which cover a number of Ministers and agencies that may change over time.

The basis of the information presented below is the Government Finance Statistics (GFS) coding of payments according to the Government Purpose Classification (GPC). This classification system is that used by the IMF in comparing government outlays over time and across jurisdictions.

Chart 4.1: Total Expenses by Policy Area



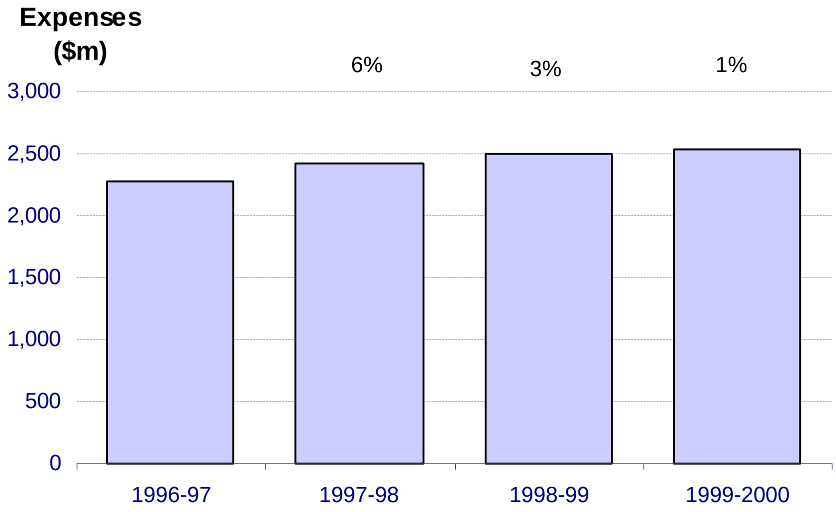
Total Expenses = $27,495 million

Law, Order and Public Safety

The Law, Order and Public Safety policy area covers the cost of maintaining the State's police service, corrective services, fire fighting and emergency services, as well as administration of court systems and legal processes throughout the State.

The policy area includes expenses of the Ministry for Police, Police Integrity Commission, Police Service, Crime Commission, Department of Corrective Services, Department of Juvenile Justice, NSW Fire Brigades, NSW Rural Fire Service, State Emergency Service, Attorney General's Department, Judicial Commission, Legal Aid Commission and the Office of the Director of Public Prosecutions as well as the Ombudsman's Office, the Land Titles Office, the Public Trust Office and the Registry of Births, Deaths and Marriages.

Chart 4.2: Law, Order and Public Safety



In real terms, 1999-2000 base; percentage change on previous year

Total expenses for this policy area will increase by 11 percent in real terms over the three year period to 1999-2000, including an increase in 1999-2000 of 1.4 percent in real terms. The overall trend reflects the continuing appointment of additional police, salary increases, the expansion of correctional facilities, the expansion of fire protection facilities in both metropolitan and rural areas and a significant improvement in services for juvenile offenders.

The increase in 1999-2000 mainly reflects a continuation of initiatives commenced in the last few years. These initiatives include increased funding to the Police Service to provide for additional police and substantial salary increases arising from awards. An increase in judicial staff has resulted in increasing expenses for the Attorney General's Department. Significant increases in expenses for the Department of Corrective Services between 1996-97 and 1998-99 has been largely due to increases in prisoner numbers, particularly the substantial increase that has occurred in 1998-99.

Initiatives in the 1999-2000 Budget include:

- The first stage of the plan to increase the frontline strength of the Police Service by 2,110 in accordance with the Government's election commitment. This will be achieved by recruiting an additional 1,000 police officers over the four years to December 2003 and undertaking a range of measures to release existing police resources.

- Police Assistance Line (PAL) which involves the establishment of telephone call centres to provide the community with a single point of contact for 24-hour reporting and processing of crime information and also the delivery of qualified advice and support on a range of community issues. It has been designed to free frontline police from minor report taking and data entry and to improve the level of service to the community.

- A total of $18.2 million to meet the remaining compensation for "business loss" arising from the Firearms Compensation Scheme. The Commonwealth Government reimburses these funds to the State.

- Funding for the expansion of the Department of Corrective Services' correctional bed capacity to cope with anticipated increases in inmate numbers. This is estimated to cost the Department $8.4 million in 1999-2000.

Education

The Education policy area incorporates:

- Primary and Secondary Education services provided by the Department of Education and Training, the Office of the Board of Studies and provision of assistance to non-Government schools;

- Tertiary and Vocational Education services provided by the Department of Education and Training and the educational activities of the Department of Agriculture;

- Pre-school Education services including pre-schools administered by the Department of Education and Training and the Department of Community Services;

- the School Student Transport Scheme which encompasses payments for student conveyance to various Government and non-Government service providers funded primarily through the Department of Transport; and

- the training and educational policy activities of the Department of Education and Training.

The Department of Education and Training's allocation for 1999-2000 includes $22.8 million, as part of a four-year program of $171 million, to enable the introduction of a number of key initiatives including:

- Additional funding to enable teachers to identify and work with students with potential difficulties in achieving basic literacy and numeracy standards;

- An additional 25,000 computers in Government schools in four years;

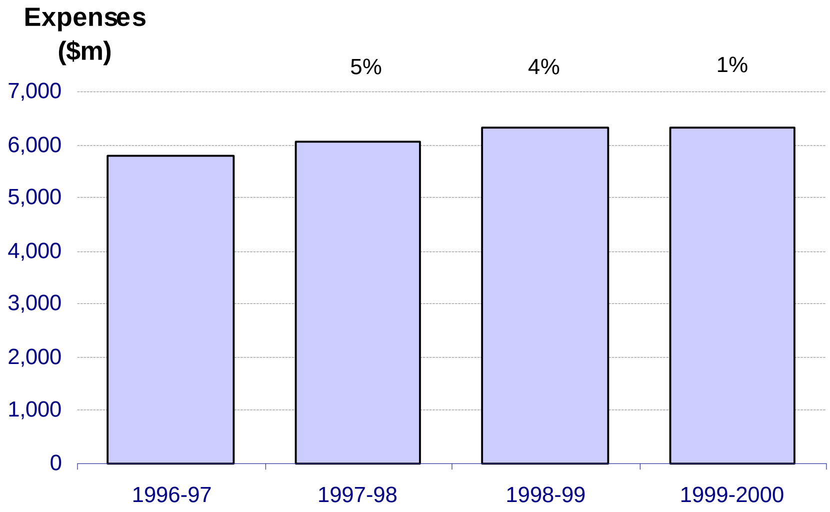
- Additional funding to enable all Government schools to be cabled with local netware infrastructure;

- Additional teacher training in the use of new technology;

- Funding for the development of individual school to work plans for all students in Years 9 to 12; and

- An expanded school maintenance program.

Chart 4.3: Education



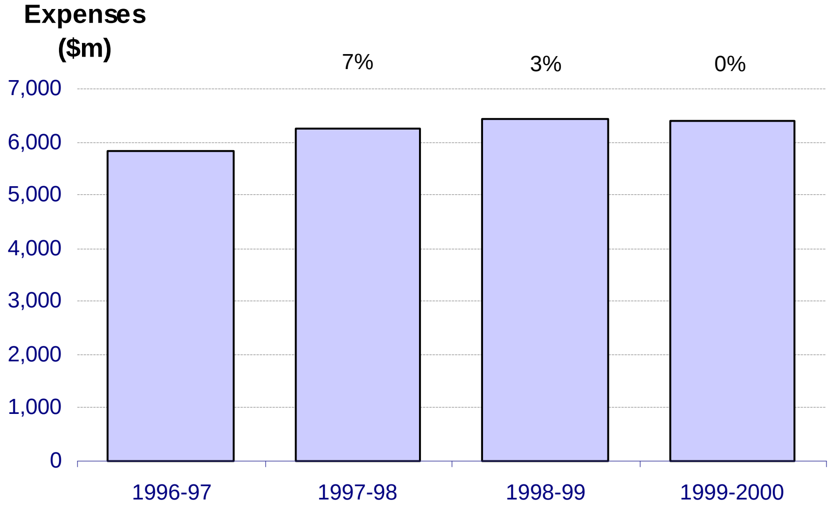
In real terms, 1999-2000 base; percentage change on previous year

Expenses for Education have increased by 9.2 percent in real terms over the period from 1996-97 to 1999-2000. Expenses in 1997-98 increased by 4.9 percent mainly due to the appointment of additional teachers and the introduction of the $50 per student Back to School Allowance. The increase for 1998-99 largely reflects the impact of employing more teachers. The modest increase in 1999-2000 reflects improvements in the delivery of vocational education and training services in response to changes in Commonwealth funding requirements.

Health

The Health policy area includes all expenses and revenues for the health system and includes health-related activities associated with the Health Care Complaints Commission, the NSW Medical Board and the NSW Cancer Council.

Chart 4.4: Health



In real terms, 1999-2000 base; percentage change on previous year

Spending on health services has increased by 9.7 percent in real terms over the three years to 1999-2000. Important components of this increase were enhancement funding of $183 million provided in the 1997-98 Budget to expand and improve overall health services, primarily in growth areas of the State and additional funding provided by the Commonwealth following settlement of the new Australian Health Care Agreement in 1998-99.

Other factors contributing to the growth in expenses were award increases, including retrospective 1996-97 award increases for certain employees following delayed settlement of award negotiations, revised depreciation and leave expenses and reclassification of certain asset acquisitions as recurrent expenditure.

The 1999-2000 Budget will provide a marginal real increase with enhancement funding provided for Government election commitments and other service improvements.

Social and Community Services

Funding provided for current expenses in this policy area covers:

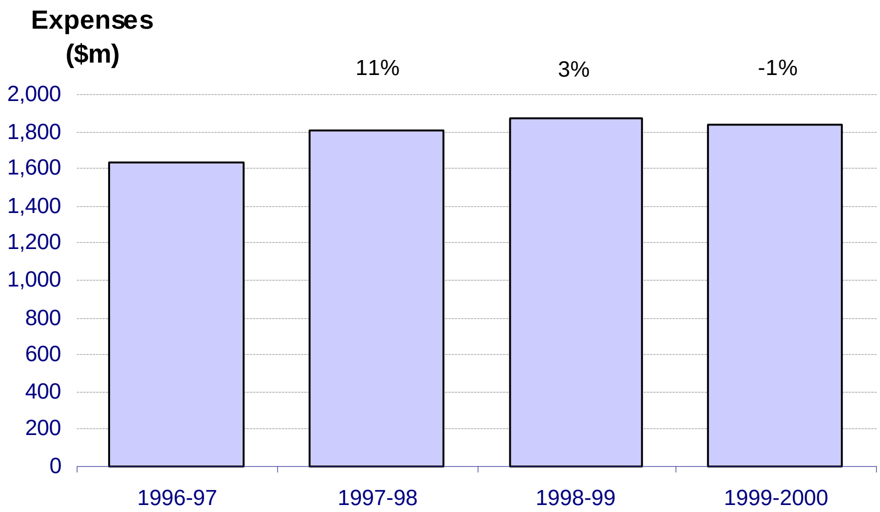
- services for children and families, older people and people with disabilities (it includes the operations of the Department of Community Services; the Ageing and Disability Department; the Community Services Commission; the new Commission for Children and Young People; and the Home Care Service);

- people with special needs or requiring a particular focus and commitment (services provided by the Department of Aboriginal Affairs, the Ethnic Affairs Commission and the Department for Women);

- compensation to victims of crime; and

- Budget-funded concessions to social security beneficiaries (including payments by the Department of Transport and pension rebates for rates and for electricity, water and sewerage services).

Chart 4.5: Social and Community Services



In real terms, 1999-2000 base; percentage change on previous year

Total expenses for social and community services have increased by 12.6 percent in real terms since 1996-97. This movement mainly reflects increased funding for child and family support services and additional supported accommodation and other services for people with disabilities, as well as increases in the Home and Community Care program.

Payments since 1996-97 have also been higher due to the inclusion of the cost of pensioner electricity rebates in the Budget following corporatisation of electricity distribution authorities.

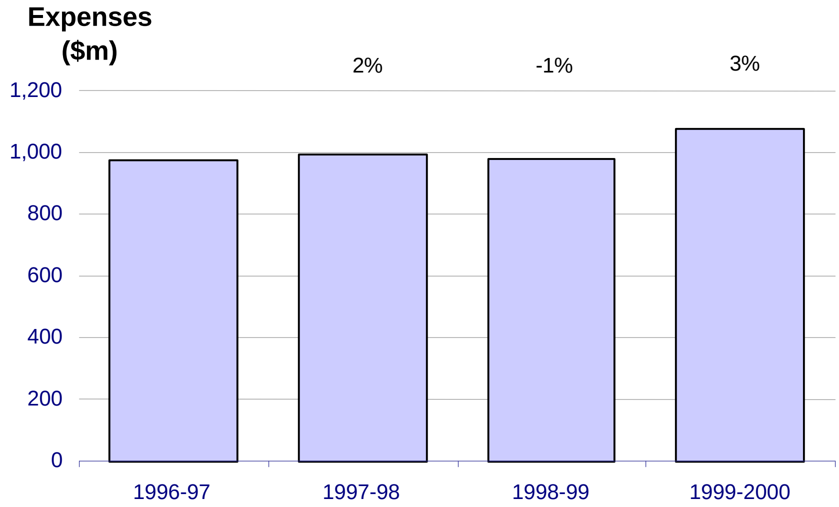
The decrease in expenses of 1.3 percent in 1999-2000 is mainly the result of payments to the NSW Aboriginal Land Council coming to an end under the terms of the Aboriginal Land Rights Act 1983. Increased funding for the Aboriginal Communities Development Program, which is shown under the Housing, Water and Sewerage and the Environment policy area, effectively offsets the reduction under this policy area.

Expenditure in 1999-2000 also includes additional resources for services for people with disabilities, including the relocation of boarding house residents and increased funding for the Home and Community Care Program.

Housing, Water, Sewerage and the Environment

The Housing, Water, Sewerage and Environment policy area covers programs relating to assistance for housing, urban development, water and sewerage schemes, protection of the environment and State and regional planning.

Chart 4.6: Housing, Water, Sewerage and the Environment



In real terms, 1999-2000 base; percentage change on previous year

Growth in expenses from 1996-97 to 1999-2000 is 5 percent in real terms ($45.9 million) and reflects increased expenses for public housing and the environment.

Between 1996-97 and 1997-98, expenses increased by $27 million in real terms, or three percent. A main reason for this a one-off $24 million payment by the Home Purchase Assistance Authority.

Between 1997-98 and 1998-99, expenses decreased by $12 million in real terms, or one percent. As a result of the transfer of the Office of Community Housing from the Department of Urban Affairs and Planning to the Department of Housing, capital acquisitions of the office were expensed from 1998-99. Hence there was a $78 million increase in 1998-99 capital grants.

Other increased expenditures between 1997-98 and 1998-99 include an additional $14 million in grants by the Waste Planning and Management Fund brought forward from 1998-99 and additional payments of $26 million to Sydney Water for backlog sewerage works. However, these increases were offset by a one-off reduction of $20 million in Budget support for

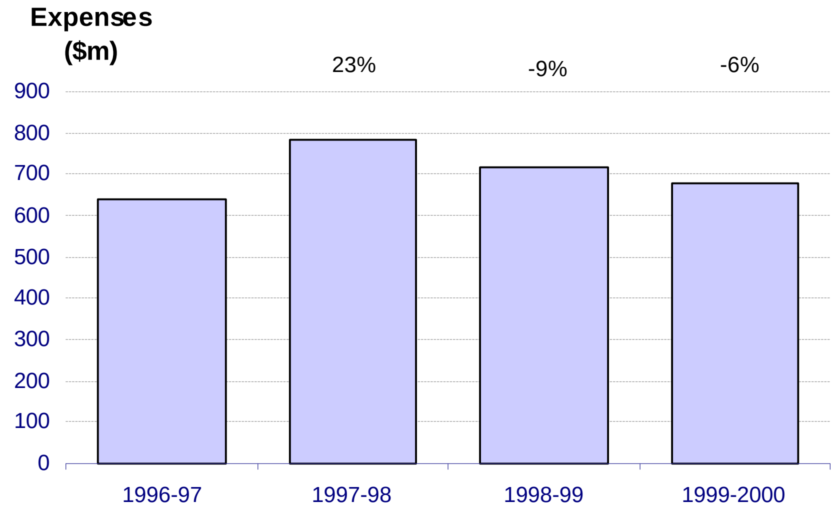
Housing Policy and Assistance (equally offset by a one-off grant by the Rental Bond Board), reduced expenses of $18 million by the Home Purchase Assistance Fund reflecting a run-down of the Home Purchase Scheme, and reduced expenditure of $25 million by the Department of Land and Water Conservation for items including the completion of the Wollongong Entertainment Centre and blue-green algae. In addition there was a $27 million decrease in expenses of Home Purchase Assistance Authority as a result of asset write-offs.

Between 1998-99 and 1999-2000, expenses are expected to increase by $31 million in real terms, or five percent. This is driven by increased payments of $11 million by the Department of Aboriginal Affairs for Aboriginal housing, sewerage and water infrastructure within the Aboriginal Communities Development Program, increased grants of $16 million by the Stormwater Trust, increased expenditure of $12 million by the Honeysuckle Development Corporation due to delays in development planning approvals in 1998-99 and $10 million by the Department of Land and Water Conservation for items including the Native Vegetation Management Fund and the restoration and capping of artesian bores. These increases were offset by $11 million in reduced grants from Waste Planning and Management Fund which were brought forward into 1997-98 and $9 million in reduced grants to Sydney Water for backlog sewerage works.

Recreation and Culture

The Recreation and Culture policy area includes funding for the operating costs of recreation facilities and services and for cultural facilities and support of the arts. The policy area includes major functions of the National Parks and Wildlife Service, the Department of Sport and Recreation, the Olympic Co-ordination Authority, the Casino Control Authority, the Ministry for the Arts and the State’s cultural and historical institutions.

Chart 4.7: Recreation and Culture



In real terms, 1999-2000 base; percentage change on previous year

This policy area also includes the programs of the Royal Botanic Gardens and the Domain Trust, the Centennial Park and Moore Park Trust, the Bicentennial Park Trust and the Zoological Parks Board.

Total expenses over the period 1996-97 to 1999-2000 have increased by 8.4 percent in real terms. This overall increase is mainly due to expenditure on maintaining 151 national parks and reserves established since 1995-96.

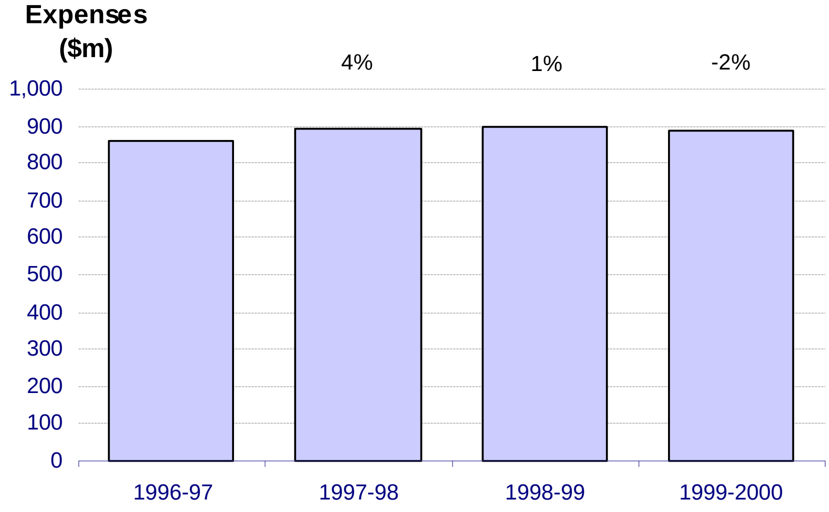
Growth in 1997-98 reflects additional expenditure following the creation of new national parks and reserves and payments to the racing industry after the closure of the Racecourse Development Fund and the Racing Assistance Fund. The decrease in 1999-2000 of 5.7 percent is mainly attributable to the transfer by the Ministry for Arts of the Sydney Entertainment Centre to the Darling Harbour Authority which is a Public Trading Enterprise.

Agriculture, Forestry and Fishing

The Agriculture, Forestry and Fishing policy area consists of the major functions performed by the Department of Agriculture, NSW Fisheries and the Rural Assistance Authority plus certain activities of the Department of

Land and Water Conservation (rural water management and infrastructure and catchment management activities) and the Department of Information Technology and Management (Forest Industry Structural Adjustment Package).

Chart 4.8: Agriculture, Forestry and Fishing



In real terms, 1999-2000 base; percentage change on previous year

From 1996-97 to 1999-2000, total expenses in this policy area have increased by three percent in real terms. Drought expenditure in 1999-2000 is anticipated to be roughly $40 million less than in 1996-97 due to significantly improved drought conditions. After excluding drought expenditure, total expenses in this policy area have increased by eight percent in real terms.

The two key items of increased expenditure in this policy area (compared to 1996-97) are the Government's Water Reform Package and the Forest Industry Structural Adjustment Package.

In 1999-2000, the Government's Water Reform Package includes expenditure of around $20 million more than in 1996-97 for this policy area. Remaining water reform related expenditure is reflected under the Housing, Water and Sewerage and Environment Policy area.

The Forest Industry Structural Adjustment Package is jointly funded by the State and Commonwealth Governments. Under this package $31.5 million is being provided in 1999-2000 for training, redeployment, relocation and redundancy benefits for workers as well as incentives for value adding in the forestry industry.

The increased expenditure in this policy area (compared to 1996-97) also reflects a number of other factors: increased expenditure on the Native Vegetation Management Fund ($5 million); the West 2000 program ($3 million); the Acid Soil Action program ($2.4 million); the Farming for the Future program ($2 million); and the finalisation of the Newcastle Disease eradication program in chickens ($10 million).

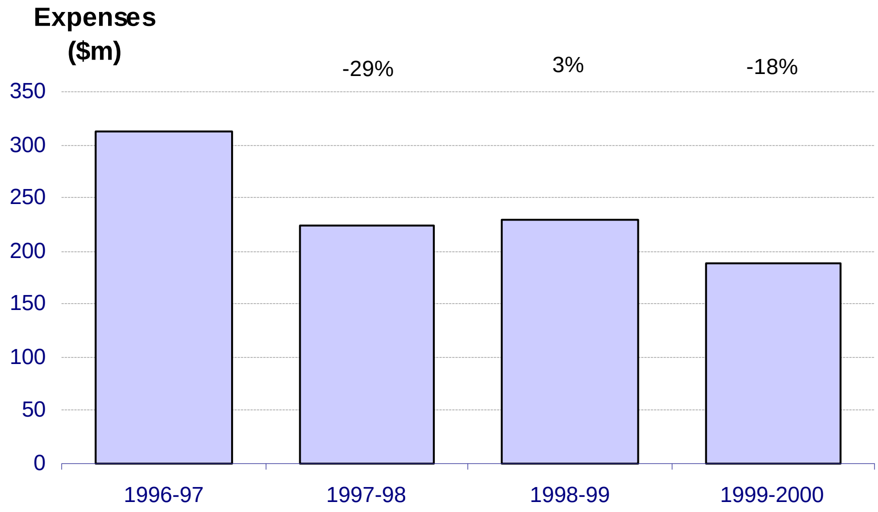
In 1999-2000 $6.05 million will be spent on the protection of the former State forests in national parks and various other reserves, as a result of the Government's decision on forests in Eden and the upper and lower north-east forests in late 1998.

Mining, Energy and Construction

The Mining, Energy and Construction policy area is dominated by the payments of the Coal Compensation Board. The policy area also covers the Departments of Mineral Resources and Fair Trading, the Ministry of Energy and the Utilities and Sustainable Energy Development Authority. A portable long service benefit scheme is administered by the Building and Construction Industry Long Service Payments Corporation (BCILSPC) and funded by a levy on building and construction work. Levies on the mining industry are raised to support the activities of the Mines Rescue and Mine Subsidence Board.

Government priorities undertaken by the above agencies include the payment of compensation to former owners for coal rights acquired by the State, responsible development of the State's mineral resources and consumer protection services related to the energy and building sectors. In addition, funds are allocated for high level oversight of the State's energy sector in the context of national competition policies, the avoidance and mitigation of any adverse environmental impacts of mining and the promotion of commercialisation opportunities associated with sustainable energy technologies.

Chart 4.9: Mining, Energy and Construction



In real terms, 1999-2000 base; percentage change on previous year

Over the four-years to 1999-2000 expenses in this policy area have decreased by 43.7 percent in real terms. The most significant decrease relates to the recognition of expenses for compensation payable to former owners of coal rights acquired by the State. Coal compensation expenses in 1996-97 totalled around $147 million in real terms. The liabilities relating to these expenses have been substantially paid out. The recognition of new expenses is estimated to be only $11 million in 1999-2000. By 2000 all coal compensation claims will have been finalised.

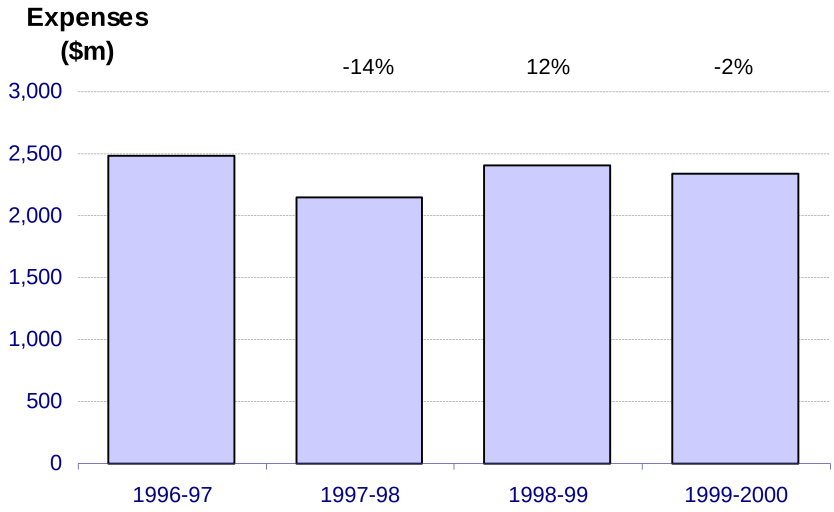
The expenses of the Ministry for Energy and Utilities (formerly Department of Energy) have varied significantly from year to year primarily due to variations in payments to rural electricity distributors and Pacific Power. The movements reflect a reduction in transitional payments to rural distributors from 1996-97 onward offset by increased payments to generators for community service obligations to support non-commercial activities.

Transport and Communication

Budget funding provided for this policy area encompasses:

- the Roads and Traffic Authority's (RTA) motor registry services, maintenance of the State's road network, road safety and traffic management activities and rebates paid through the Government's M4 and M5 Cashback scheme;
- the activities of the Department of Transport, which includes the development, planning and co-ordination of transport services and the payment of subsidies to public and private transport operators, community groups and certain individuals;
- transport planning and support services for the 2000 Olympic and Paralympic Games provided by the Olympic Roads and Transport Authority (ORTA) and carparking facilities and internal road and the Olympic Co-ordination Authority (OCA);
- the operations of the Office of Information Technology;
- the Marine Safety and Environment Program and the Marine Ministerial Holding Corporation within the portfolio of the Minister for Transport and Minister for Ports; and
- the activities of the Motor Accidents Authority, the Motor Vehicle Industry Repair Council and the Tow Truck Authority.

Chart 4.10: Transport and Communication



In real terms, 1999-2000 base; percentage change on previous year

Over the period 1996-97 to 1999-2000, total expenses in this area are forecast to decrease by 3.9 percent in real terms, including a projected 2.3 percent decrease in 1999-2000.

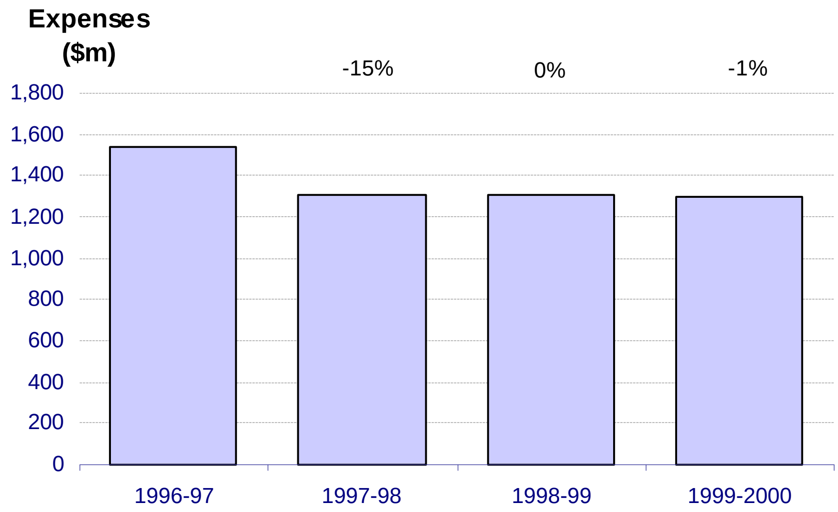
The significant 12.1 percent increase in 1998-99 reflects increased Budget support for expenditure on rail network development ($165 million) and maintenance ($86 million).

The 2.3 percent reduction in 1999-2000 relates primarily to a $95.5 million saving in subsidies and other payments to public transport operators. This reflects the productivity gains and cost savings that have been introduced in the sector. This impact is partly offset by an increase of 321 percent to $23.3 million in expenses of the Olympic Roads and Transport Authority in 1999-2000.

Other Economic Services

The Other Economic Services policy area includes expenses incurred in the Industrial Relations Commission and Compensation Court of the Attorney General's Department, the Department of State and Regional Development, Tourism New South Wales, the Department of Fair Trading, the Department of Industrial Relations and WorkCover. Some small non-budget dependent, General Government agencies are also included in this policy area. The New South Wales Insurance Ministerial Corporation, which in terms of expenditure is the largest component of this policy area, accepts the assets, liabilities, rights and obligations of New South Wales Government insurance activities.

Chart 4.11: Other Economic Services



In real terms, 1999-2000 base; percentage change on previous year

In 1999-2000, total expenses of the Other Economic Services policy area are projected to be $1.3 billion, representing a decline of 16 percent since 1996-97. This downward trend is largely a result of a substantial reduction in claims expenses of the NSW Insurance Ministerial Corporation.

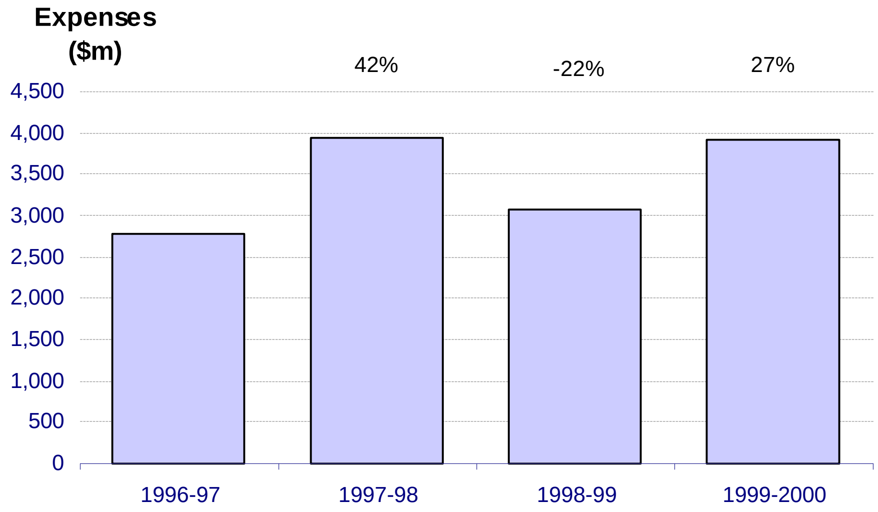
However, in 1999-2000 expenditure of Tourism New South Wales, the Department of Industrial Relations and the Industrial Relations Commission and Compensation Court of the Attorney General's Department is budgeted to be 5.3 percent higher than that of 1998-99, continuing an upward trend since 1996-97.

General Public Services

The General Public Service policy area covers a range of activities including:

- Legislative services including The Legislature and the Parliamentary Counsel's Office;
- Interest payments of the General Government Sector including the RTA and other transactions such as long service leave and superannuation (administered by the Crown Transactions Entity) which cannot be specifically allocated to other policy areas;
- Operations of the central agencies, namely Treasury, Cabinet Office and Premier's Department (excluding the Office of the Director of Equal Opportunity);
- State Electoral Office, Ombudsman's Office, Independent Commission Against Corruption and State Records Authority;
- Operations of the Department of Local Government and the policy and development functions of the Department of Racing and Gaming; and
- Funding provided to the Department of Public Works and Services for the administration and co-ordination of community and general government services and maintenance of certain Crown assets.

Chart 4.12: General Public Services



In real terms, 1999-2000 base; percentage change on previous year

Total expenses in this policy area have fluctuated over the period 1996-97 to 1999-2000 with a 47.4 percent increase in 1997-98 and a turn around in 1998-99 to a 21.9 percent decrease. In 1999-2000 expenses are projected to increase by $831 million or 27%. This increase is due to the impact of the accounting treatment for an abnormal item of $860 million which has resulted from the reduction in the unfunded superannuation liability arising from an offer to members of two, older-style, defined benefit schemes.

Interest has fallen from $1,721 million in 1994-95 to an estimated $1,395 million in 1998-99 ($1513 million in 1997-98). Further reductions are expected in 1999-2000 and future years due to loan roll-overs and the allocation of Budget Surpluses for debt redemption.

Another factor reducing expenses in 1998-99 was a significantly lower superannuation expense after the distribution of $815 million from the Contributor Reserve Account.

The 5.8 percent decrease in 1999-2000 is largely attributable to relatively high expenditure in 1998-99 on the Sydney hail storm, the City Improvement Project and the March 1999 State Election.

CHAPTER 5: ASSET AND LIABILITY MANAGEMENT

5.1 NET WORTH

The Government's capital investment strategy is aimed at increasing the Government's capacity to deliver services to the community to achieve desired social and economic outcomes. The services delivered and assets acquired are funded from taxes, Commonwealth grants, debt and accumulated funds of the Government.

The Statement of Financial Position provides details of all Government assets (including infrastructure and other long-life assets) and of the liabilities (including debt and employee entitlements) incurred in funding the assets and services.

New South Wales Total Public Sector net worth (i.e. total assets less total liabilities) has increased from $63.9 billion as at 30 June 1994 to $72.2 billion as at 30 June 1998. This comprised $125.6 billion of total assets less $53.4 billion of liabilities. Net worth is expected to increase to approximately $73.5 billion as at 30 June 1999.

The net worth of the General Government Sector as at 30 June 1998 was $31.3 billion, and is expected to increase by 7.7 percent to $33.7 billion at 30 June 1999 and by 35.8 percent from 30 June 1998 to 30 June 2003. This increase reflects the Government's commitment to maintain the net worth of the General Government in real terms and to enhance the capacity to deliver services to the community.

Table 5.1: General Government Sector Statement of Financial Position 1998-2003, as at 30 June

	1998	*1999*	*2000*	*2001*	*2002*	*2003*
	Actual	*Revised*	*Budget*	*Estimate*	*Estimate*	*Estimate*
	$m	*$m*	*$m*	*$m*	*$m*	*$m*
ASSETS						
Current Assets						
Cash	1,803	860	672	345	1,007	1,289
Investments	967	1,100	1,028	1,001	955	1,044
Receivables	2,070	1,719	1,700	1,802	1,865	1,949
Inventories	122	136	149	170	150	159
Other	12	48	56	57	58	57
Total Current Assets	**4,974**	**3,863**	**3,605**	**3,375**	**4,035**	**4,498**
Non-Current Assets						
Property, plant and equipment	59,307	60,912	62,309	63,475	64,825	66,308
Investments	2,586	2,697	2,803	3,001	3,174	3,423
Receivables	2,721	2,779	2,956	3,088	3,231	3,377
Inventories	109	115	117	115	118	107
Other	539	573	599	632	667	702
Total Non-Current	**65,262**	**67,076**	**68,784**	**70,311**	**72,015**	**73,917**
Total Assets	**70,236**	**70,939**	**72,389**	**73,686**	**76,050**	**78,415**
LIABILITIES						
Current Liabilities						
Accounts Payable	1,743	1,557	1,586	1,620	1,675	1,791
Borrow ings	3,346	5,446	3,667	5,109	2,198	4,272
Employee Entitlements	378	819	849	871	995	1,073
Superannuation	1,450	...	...	...	1,220	1,196
Other	967	383	391	400	406	406
Total Current	**7,884**	**8,205**	**6,493**	**8,000**	**6,494**	**8,738**
Non-Current Liabilities						
Borrow ings	13,595	13,662	14,283	11,286	12,926	10,669
Employee Entitlements	2,688	2,460	2,582	2,688	2,688	2,730
Superannuation	10,323	8,056	8,301	9,101	8,684	8,509
Other	4,458	4,839	4,841	4,939	5,102	5,267
Total Non-Current Liabilities	**31,064**	**29,017**	**30,007**	**28,014**	**29,400**	**27,175**
Total Liabilities	**38,948**	**37,222**	**36,500**	**36,014**	**35,894**	**35,913**
NET WORTH	**31,288**	**33,717**	**35,889**	**37,672**	**40,156**	**42,502**
Equity						
Reserves	9,560	9,768	9,770	9,764	9,758	9,752
Accumulated Funds	21,728	23,949	26,119	27,908	30,398	32,750
TOTAL EQUITY	**31,288**	**33,717**	**35,889**	**37,672**	**40,156**	**42,502**

Table 5.1 shows the projected trend in the composition of the net worth of the General Government Sector from 1998 to 2003. This shows both an estimated increase in total assets and a decrease in total liabilities. This will be achieved by expected sustained General Government surpluses over the foreward estimate period

5.2 ASSET MANAGEMENT

The increase in General Government total assets primarily reflects an increase in infrastructure and other long-life physical assets (fixed assets), which comprise 85 percent of the General Government total assets as at 30 June 1999. These fixed assets are projected to increase by 2.3 percent ($1.4 billion) from 30 June 1999 to $62.3 billion as at 30 June 2000.

This increase in total assets reflects the Government's capital investment strategy to increase the Government's capacity to deliver services to the community. This investment 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, it provides essential social, cultural and recreational facilities and simultaneously creates employment.

The increase in the value of infrastructure assets also reflects the Government's strategies to minimise the "whole of life" cost of assets. Whole of life costs include both the cost of capital investment and all maintenance costs.

This strategy stresses that capital investments must be linked to the objectives of the agency and the overall strategy of the Government, including non-acquisition options. It also recognises that maintenance costs can exceed the original acquisition cost. Agencies are therefore required to implement asset maintenance plans to properly maintain the physical assets in accordance with the Government's fiscal strategy, and develop long-term strategies to minimise the cost of maintenance over the life of the assets.

The key priorities of the State's capital investment strategy for 1999-2000 and future years are:

- Ongoing investment in the State's infrastructure;
- The Roads and Traffic Authority's investment in the improvement of the State's road network;
- A 12 year construction plan to transform the State's public transport network for the next century.
- Major hospital projects, including the rebuilding of Nepean Hospital and the redevelopment of Blacktown, Mt Druitt and Sutherland Hospitals. In addition, rural hospitals are to be completed at Tweed Heads, Broken Hills, Coffs Harbour and Dubbo; and
- Completion of Olympic facilities and sports venues.

5.3 ASSET ACQUISITION BUDGET INITIATIVES BY POLICY AREA

Law, Order and Public Safety

Asset acquisitions will increase by 84.3 percent in real terms from 1996-97 to $263 million in 1999-2000, with an increase of 15.6 percent in real terms ($35.6 million) projected for 1999-2000. This mainly reflects large increases in the police program. Other increases include a considerable increase for Corrective Services for the construction of new gaols and other gaol redevelopments, as well as new fire stations and expansion of equipment.

Education

Asset acquisitions fluctuate in line with overall priorities, the availability of Commonwealth funding, the need for new educational facilities and the ongoing requirements for the upgrading of existing infrastructure.

Expenditure on the eductation program will increase by $35.9 million (14 percent in real terms) to $292.4 million in 1999-2000. The increase in 1999-2000 mainly reflects expenditure on the Sydney Conservatorium High School and the Conservatorium of Music and an increase in the construction of new primary and secondary school buildings.

Health

NSW Health's asset acquisition program provides for the replacement and maintenance of health facilities and equipment with a written down replacement value of almost $5 billion. In addition, the program supports the redistribution of health facilities to growth areas of the State and it enables the upgrading of facilities in line with modern health care practices.

The 1999-2000 Budget maintains a high level of construction activity of $449.2 million. Significant projects include the replacement of Hickman House at Wollongong Hospital, the Central Sydney Resource Transition Program, construction of a new hospital at Coffs Harbour and the redevelopment of major hospitals at Campbelltown, Camden, Blacktown, Mt Druitt and Nepean.

The program allows for the commencement of a number of new works including the Shoalhaven redevelopment and the second stage of the Multi-Purpose Services program.

Social and Community Services

Asset acquisitions will total $33.2 million in 1999-2000, a real increase of 8.7 percent. The largest component of this relates to capital projects to be undertaken by the Department of Community Services.

Expenditure by the Department of Community Services has increased by over 50 percent in real terms since 1996-97. A further real increase of 7.1 percent to $29.3 million is estimated for 1999-2000, primarily reflecting the Department's upgrading works at its residential facilities, Year 2000 rectification works and the introduction of a centralised Call Centre.

Housing, Water, Sewerage and the Environment

Asset acquisitions between 1996-97 and 1999-2000 have declined by $129.2 million in real terms, or 69 percent. This has been due mainly to the completion of Olympic housing and accommodation projects. Further, it is offsett by capital grants for housing expenditure to Public Trading Enterprise Sector agencies.

In 1998-99, there was a decline in asset acquisitions of $87.9 million in real terms, or 66 percent. These was largely offset by capital grants for housing expenditure to the Public Trading Enterprise.

In 1999-2000, asset acquisitions are expected to increase by $13.2 million in real terms, or 29 percent. This reflects a $2 million increase in coastal land acquisitions by the Department of Urban Affairs and Planning and a $15.7 million increase in other land purchases. This increase is offset by reduced acquisitions by the Sydney Harbour Foreshore Authority of $4.5 million reflecting the completion of development projects.

Recreation and Culture

Over the period 1996-97 to 1999-2000, asset acquisitions are expected to decline by $43.9 million (13.6 percent in real terms), although movements between years have fluctuated. The overall decline and the annual fluctuations reflects the completion or near completion of many Olympic and related projects.

Expenditure peaked in 1997-98 at $634.6 million (an increase of 96.3 percent in real terms) with construction of the Royal Agriculture Society's new premises at Homebush Bay.

Agriculture, Forestry and Fishing

Asset acquisitions will be $31.7 million for 1999-2000. This represents an increase of 26.5 percent between 1996-97 and 1999-2000. The key factors for this increase are $3.7 million for water reform related expenditure and additional water infrastructure works, particularly dam safety enhancements carried out by the Department of Land and Water Conservation.

Mining, Energy and Construction

Over the four years to 1999-2000, asset acquisitions are expected to decrease by $2.6 million or 49.8 percent in real terms. In 1998-99, there was a higher level of asset acquisitions due to the commencement of information technology upgrades and office rationalisation works undertaken by Building and Construction Industry Long Service Leave Payments Corporation and the Department of Fair Trading and major extensions to the Department of Mineral Resources core mineral library at Londonderry.

The above works have largely been completed and, as a result, most agencies in this policy area will have reduced asset acquisition programs in 1999-2000.

Transport and Communication

Between 1996-97 and 1999-2000, asset acquisitions for Transport and Communications are projected to increase by $170 million, representing a real increase of 18.3 percent. For 1999-2000, funding for asset acquisitions is forecast to increase by $86 million, representing a real increase of 8.5 percent.

The increase between 1998-99 and 1999-2000 relates primarily to increased expenditure on road network development ($121 million) and the Office of Information Technology mainly in connection with Olympic Radio Network handsets ($42 million). Expenditure on road, rail and other transport infrastructure at Homebush Bay will significantly decrease by $119 million in 1999-2000 as site preparations near completion in readiness for the Olympic and Paralympic Games.

Other Economic Services

Asset acquisitions in the Other Economic Services policy area are relatively minor, and therefore subject to sharp variations when a new project is commenced or completed. The projected 17.8 percent decrease in asset acquisitions is primarily the result of the completion of several projects.

General Public Services

Asset acquisitions in this area are comparatively small. Over the period 1996-97 to 1999-2000, asset acquisitions will increase by an estimated $8.2 million (22.1 percent in real terms). Growth of $20.2 million (46.2 percent in real terms) in 1998-99 is mainly due to expenditure on information technology projects in the Office of State Revenue, Department of Public Works and Services and The Legislature.

5.4 GENERAL GOVERNMENT LIABILITY MANAGEMENT

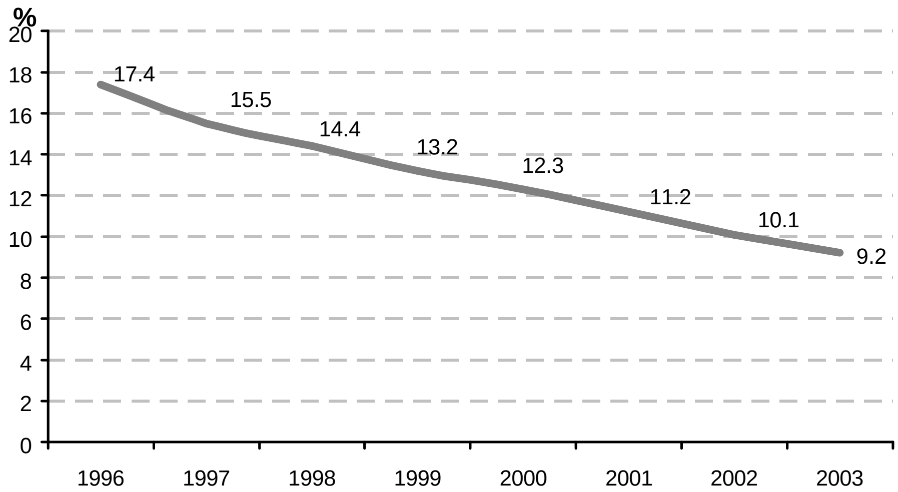
The decrease in net financial liabilities as shown in Table 5.2 primarily reflects the Government's fiscal strategy aimed at to reducing General Government net debt to sustainable levels by 30 June 2005 and eliminating unfunded superannuation liabilities by 2045.

Table 5.2: General Government Projected Statement of Net Financial Liabilities, as at 30 June

	1999 Revised $m	*2000 Budget $m*	*2001 Estimate $m*	*2002 Estimate $m*	*2003 Estimate $m*
Gross Debt					
Borrowings	19,108	17,950	16,394	15,124	14,941
	19,108	**17,950**	**16,394**	**15,124**	**14,941**
Financial Assets					
Cash	860	672	345	1,007	1,289
Investments	3,798	3,831	4,002	4,129	4,467
Advances	1,554	1,564	1,534	1,507	1,430
	6,212	**6,067**	**5,881**	**6,643**	**7,186**
Net Debt	**12,896**	**11,883**	**10,513**	**8,481**	**7,755**
Unfunded Superannuation	**8,056**	**8,301**	**9,101**	**9,904**	**9,705**
Net Debt and Superannuation Liabilities	**20,952**	**20,184**	**19,614**	**18,385**	**17,460**
Other Financial Liabilities and (Assets)					
Other Employee Entitlements	3,279	3,431	3,559	3,683	3,803
Payables	1,557	1,586	1,620	1,675	1,791
Insurance and Other Liabilities	5,222	5,232	5,339	5,508	5,673
Other Receivables and Prepayments	(3,006)	(3,155)	(3,418)	(3,653)	(3,960)
	7,052	**7,094**	**7,100**	**7,213**	**7,307**
Net Financial Liabilities	**28,004**	**27,278**	**26,714**	**25,598**	**24,767**

Since June 1996 General Government Sector net financial liabilities have fallen significantly as a percentage of GSP, as shown in Chart 5.1.

Chart 5.1: General Government Net Financial Liabilities as percentage of Gross State Product, as at 30 June



Source: NSW Treasury

Further details in regard to the State's major liabilities are provided in the following sections. Debt liability trends are shown on the basis of incorporating the superannuation conversion offer and also on an underlying basis (excluding the conversion offer).

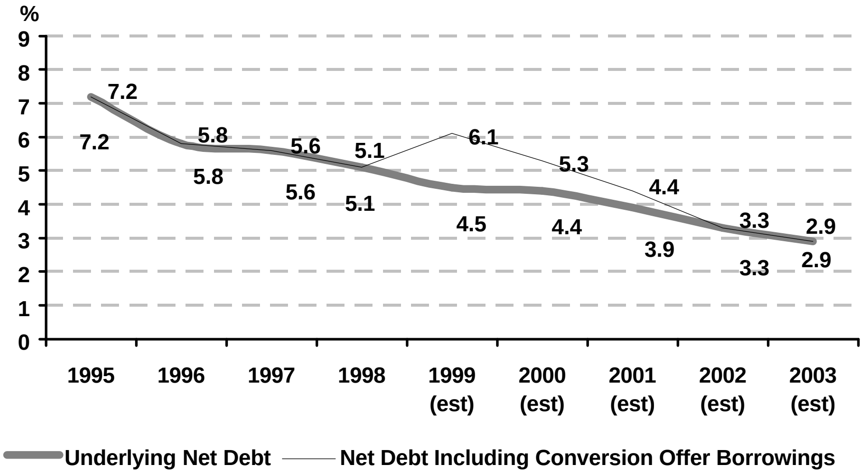
5.5 GENERAL GOVERNMENT NET DEBT MANAGEMENT

As shown in Table 5.3, General Government net debt has fallen by approximately $1.8 billion for the four-year period ended 30 June 1998. The ratio of General Government net debt to GSP has fallen from 7.2 percent to 5.1 percent as shown in Chart 5.2.

The reduction in net debt since 1995 was achieved principally by using the equity restructure receipts from the electricity distribution industry and other agencies and TAB sale proceeds to repay General Government debt. Further, the estimated reduction in 1999 reflects the utilisation of the forecast Budget surplus for debt redemption. This is consistent with the principles set out in the General Government Debt Elimination Act to reduce net debt and to manage it in a prudent manner.

Over the five-year period from 30 June 1998 to 30 June 2003, General Government net debt is expected to continue to reduce with the net debt to GSP ratio falling to 2.9 percent.

Chart 5.2: General Government Net Debt as percentage of Gross State Product, as at 30 June*

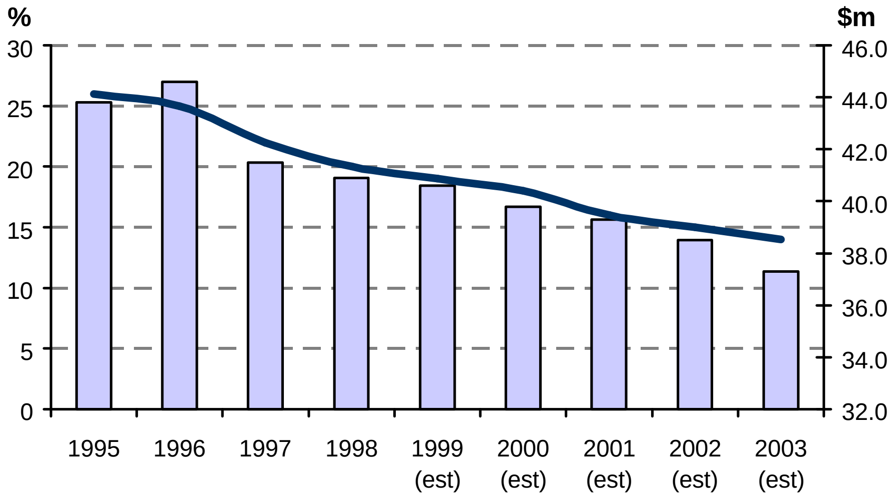


Source: NSW Treasury

5.6 STATE NET FINANCIAL LIABILITIES

For the four-year period ended 30 June 1999, the net financial liabilities of New South Wales are projected to decline by more than $3 billion. This liability reduction trend is illustrated in Chart 5.3.

Chart 5.3: State Net Financial Liabilities as percentage of Gross State Product, as at 30 June



Net financial liabilities shown as dollars in columns, and shown as a percentage of gross state product in line.
Source: NSW Treasury

5.7 STATE NET DEBT

Trends in State Net Debt

The ratio of Public Sector net debt to GSP is expected to decline from 11.8 percent to 6.2 percent for the eight-year period ending 30 June 2003, as shown in Chart 5.4.

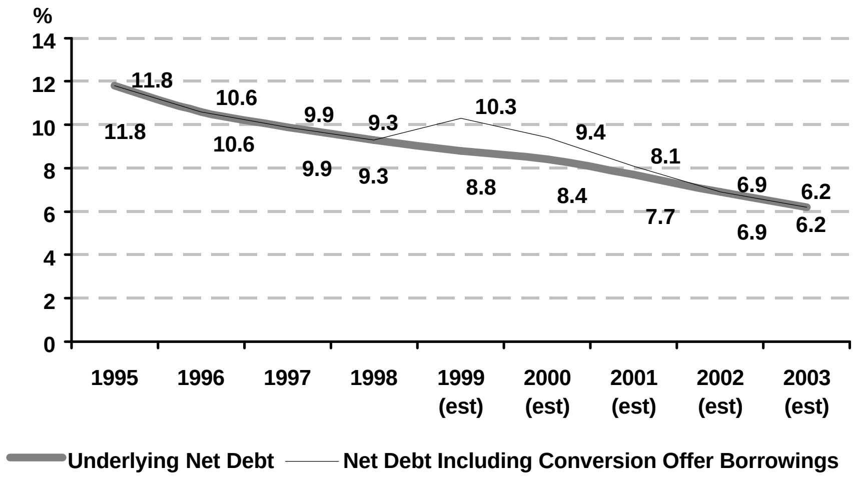
Table 5.3: Public Sector Net Debt As At 30 June

	1995 Actual $m	*1996 Actual $m*	*1997 Actual $m*	*1998 Actual $m*	*1999 Revised $m*	
GENERAL GOVERNMENT SECTOR						
Commonwealth						
Financial Agreement	2,539	2,189	1,771	289	281	
Specific Purpose advances	1,947	1,908	1,868	1,809	1,768	
State						
Treasury Corporation and Other	14,259	13,588	14,675	15,953	14,699	
General Govt Gross Debt	**18,745**	**17,685**	**18,314**	**18,051**	**16,748**	
Financial Assets	6,841	7,343	7,709	7,931	7,115	
General Government Net Debt	**11,904**	**10,342**	**10,605**	**10,120**	**9,632**	◆
PUBLIC TRADING ENTERPRISE SECTOR						
Gross Debt	9,743	11,303	10,637	10,184	10,185	
Financial Assets	2,371	2,619	3,110	2,593	2,312	
Public Trading Enterprise Net Debt	**7,372**	**8,684**	**7,527**	**7,591**	**7,873**	
PUBLIC FINANCIAL ENTERPRISE SECTOR						
Gross Debt	6,282	2,236	3,085	3,571	5,477	
Financial Assets	5,966	2,291	2,459	2,636	4,389	
Public Financial Enterprise Net Debt	**316**	**(55)**	**626**	**935**	**1,088**	
Underlying Net Debt	**19,592**	**18,971**	**18,758**	**18,646**	**18,593**	
Superannuation Conversion Offer	…	…	…	…	3,264	
Total Net Debt	**…**	**…**	**…**	**…**	**21,857**	

** Table prepared in accordance with ABS standards*

◆ ***Net of effect of superannuation conversion offer.***

Chart 5.4: NSW Public Sector Net Debt as percentage of Gross State Product, as at 30 June



Source: NSW Treasury

Management of State Net Debt

Table 5.3 shows that whilst State net debt has reduced by approximately $1 billion, the net debt of both the Public Trading Enterprise Sector and the Financial Enterprises Sector have increased for the four-year period ended 30 June 1998 and that further increases are expected for the year ended 30 June 1999.

The increase in Public Trading Enterprise Sector net debt reflects the equity restructure payments to the Crown made in order to establish appropriate debt/equity ratios and cash levels. Public Financial Enterprise Sector net debt has increased because Treasury Corporation (TCorp) is sometimes required to repurchase securities in the financial markets in order to ensure the liquidity of TCorp stocks.

This activity in a falling interest rate environment involves the repurchase and refinancing of bonds with higher capital values but lower interest rates, compared to the old bonds.

Under the provisions of the Treasury Corporation Act 1983, TCorp is responsible for the raising of loans on behalf of all New South Wales Public Sector organisations.

TCorp raises funds through the issue of inscribed stock and promissory notes in Australia, and issues of bonds and commercial paper overseas. All borrowings are Government guaranteed. Issues of domestic term stock are concentrated into "benchmark" lines which, because of their volume and the market support provided by TCorp, are the most liquid and actively traded in the Australian market, with the exception of Commonwealth Government bonds. With the benefit of the New South Wales Government guarantee and the State's AAA credit rating, TCorp is able to borrow at very competitive interest rates.

TCorp is currently contracted by Treasury to actively manage the Crown debt portfolio in order to minimise the cost of debt within risk parameters acceptable to the Government. The current objectives for Crown debt portfolio management are to:

- minimise the market value of debt over the medium term;

- minimise variations from cash budget estimates of Crown debt cost for the current and three forward year estimates; and

- regularly review Treasury Corporation's debt management performance by reference to a relevant and easily understood benchmark.

The portfolio's debt management memorandum of understanding provides for three portfolio risk parameters. These are:

- a modified duration range of +/- 0.50 years around the benchmark duration range of 3.25 to 3.65 years;

- a limit of 30 percent for the portfolio's exposure to floating interest rates; and

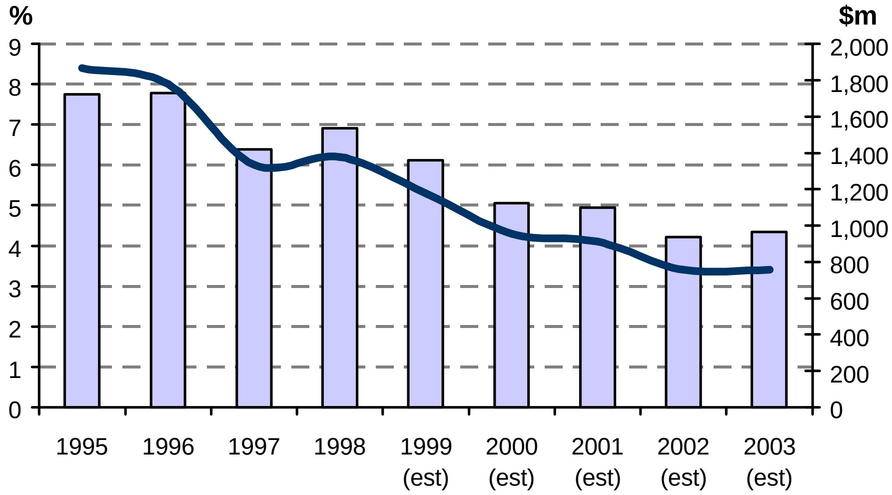
- agreement that TCorp not exceed an agreed debt servicing cost figure without prior Treasury approval.

Impact of Debt Management on General Government Interest Expense

Ongoing reductions in net debt have been a key factor in reducing interest costs since 1995 from approximately $1.7 billion to an estimated $1.4 billion for 1998-99. The reduction in interest rates, which have a lagged effect on debt servicing costs, has also reduced interest costs as new debt is raised and existing debt matures. Interest costs are expected to decline further, to approximately $1 billion p.a. by 2002-03, which would represent an average interest cost of approximately 6.5 percent.

As shown in Chart 5.5 below, the ratio of interest costs to State Budget receipts is projected to fall from 8.4 percent to 3.4 percent for the eight-year period ending 30 June 2003.

Chart 5.5: General Government Cash Interest Costs and as Percentage State Budget Receipts as at 30 June



5.8 SUPERANNUATION MANAGEMENT

Unfunded Superannuation Liabilities

The State's unfunded superannuation liability represents the present value of future benefits that its members have accrued during past service (the gross liability) which are not covered by the present value of fund assets.

The unfunded liability is volatile on an annual basis, being largely dependent on equity market movements, which cause actual investment return to vary from the assumed return.

Gross Superannuation Liabilities

The gross liabilities are estimates calculated by the Government Actuary of the present value of the obligations to meet future defined benefits. Estimation is based on numerous assumptions, including salary growth rate, scheme exit rates, form of benefit taken, consumer price index and longevity of beneficiaries.

However, almost all of the total gross liabilities for the State public sector have been capped in real terms by the closure to new members of the major defined benefit schemes.

These scheme closures were as follows:

- State Superannuation Scheme: 1985;
- Police Superannuation Scheme: 1988; and
- State Authorities Superannuation Scheme and State Authorities Non-contributory Superannuation Scheme: 1992.

The Judges' Pension Scheme and the Parliamentary Contributory Superannuation Scheme are the only defined benefit superannuation arrangements that remain open to new entrants.

Since 1989, Senior Executive Service officers have been able to join an accumulation scheme, the Public Sector Executives Superannuation Scheme, and since 1992, all new public sector employees have joined an accumulation scheme, generally First State Superannuation.

Superannuation Conversion Offer

The unfunded liability will be affected by an offer from the Government to members to convert their accrued superannuation pension benefits to lump sums and join the First State Superannuation accumulation scheme. The offer is being made to members of closed defined benefits schemes (the State Superannuation Scheme and the Police Superannuation Scheme) in the first half of the 1999-2000 Budget year. Acceptance of the offer is entirely voluntary. It may attract members because their superannuation will be portable and they will not have to make matching superannuation contributions.

The Crown borrowed $3,264 million to enable the accelerated payment in 1998-99 of three forward years' of Crown superannuation contributions to the SAS Trustee Corporation (STC) fund.

As a result of borrowing for the conversion offer, General Government net debt has increased by $3,264 million and net unfunded superannuation liabilities have reduced by $3,264 million, resulting in no change to the State's liabilities.

However, the State's unfunded superannuation liability is expected to reduce by at least $1 billion over the four-year period ended 30 June 2002 due to two factors:

- Reduction of past service gross superannuation liabilities resulting from member acceptances of the conversion offer, because the present value of the lump sum offers is less than the present value of future pension benefits; and

- Faster utilisation of the STC fund's Commonwealth superannuation tax funding credits.

Funding Plan

In accordance with the Government's fiscal strategy, the Government has established target dates, by which time the unfunded liability will be eliminated because the Government's superannuation obligations will be fully funded.

Under this approach, the level of employer contributions required depends on the actuarial estimation of the value of gross liabilities and the rate of investment return expected to be achieved on the financial assets.

The target dates for financial assets to equal remaining gross liabilities are 2022 for Public Trading and Financial Enterprises and 2045 for pension benefit schemes in the General Government Sector. Because the State Authorities Superannuation Scheme provides lump sum benefits, this scheme will need to be fully funded by about 2030, which is the time the last of the current contributors are expected to claim their retirement benefits. Table 5.4 shows the reduction in State Public Sector unfunded superannuation liabilities since 1996.

Table 5.4: Public Sector Unfunded Superannuation Liabilities, as at 30 June

	1996 Actual $m	*1997 Actual $m*	*1998 Actual $m*	*1999 Revised $m*
General Government Sector				
Past service liabilities	21,613	22,860	24,929	26,242
Financial assets	9,282	11,911	13,741	18,186
Net liabilities	12,331	10,949	11,188	8,056
Public Trading Enterprise Sector (b)				
Past service liabilities	4,692	5,229	5,189	4,970
Financial assets	3,170	4,917	4,979	4,762
Net liabilities	1,522	312	210	208
Public Financial Enterprise Sector				
Past service liabilities	1	1	1	1
Financial assets	…	1	1	1
Net Liabilities	1	…	…	…
Total State Public Sector				
Past service liabilities	26,306	28,090	30,119	31,213
Financial assets	12,452	16,829	18,721	22,949
Net liabilities	13,854	11,261	11,398	8,264
Assets as proportion of past service accrued liabilities	47.3	59.9	62.2	73.5
Rate of change				
Past service liabilities	n/a	6.8	7.2	3.6
Financial assets	n/a	35.2	11.2	22.6
Net liabilities	n/a	(18.7)	1.2	(27.5)

** Adjusted to show the retrospective effect of actuarial and other adjustments.*

The proportion of accrued liabilities that are funded has increased significantly, from less than half at 30 June 1996 to more than 70 percent by 30 June 1999.

The large increase in financial assets over the period is a result of a number of factors including higher than expected portfolio investment returns, a higher level of Government employer contributions and the accelerated payment of

Crown contributions in 1998-99 to provide liquid assets for the conversion benefits.

Further, a previously unallocated amount in the State Superannuation Scheme contributors' reserve will be distributed to employer reserves. It is expected that about $815 million will be credited to the Crown’s assets. The transfer of this amount has been incorporated in Table 5.4.

In addition, a number of one-off adjustments to employer asset reserves were made in 1996-97, reflecting recalculation of interest and tax credits for the previous ten years.

Superannuation liabilities for university employees who are still contributors to State public sector superannuation schemes have not been reflected in Table 5.4 because the State does not have a direct superannuation liability. Instead, the State has a liability to the Commonwealth, relating to emerging superannuation costs, which is reported as an other liability (see Section 5.9).

Estimated Unfunded Superannuation Liabilities

The estimated unfunded superannnuation liabilities shown in Table 5.5 assumes that 10,000 State Superannuation Scheme and Police Superannuation Scheme contributors will accept the conversion offer and takes into account the cessation of Crown contributions for the three year period ended 30 June 2002.

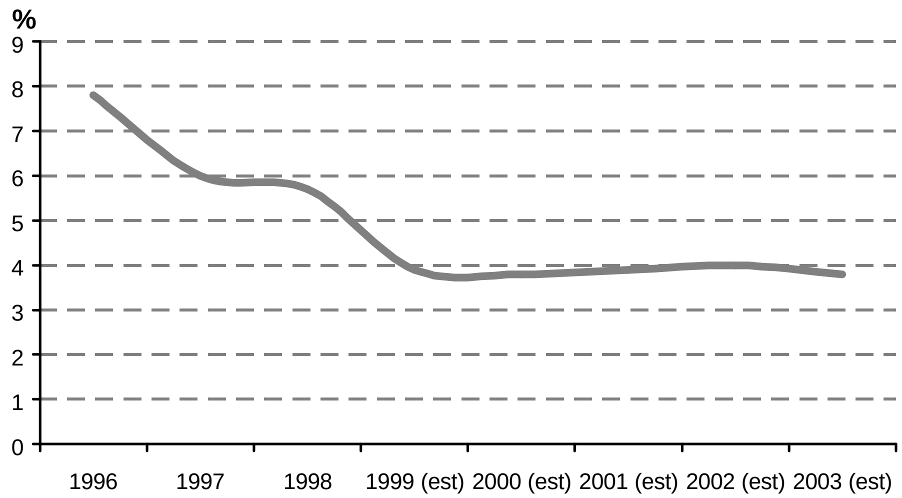
Table 5.5: Public Sector Unfunded Superannuation Liabilities, as at 30 June

	Actual			*Revised*	*Estimate*			
	1996	*1997*	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*
	$m	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*
General Government								
STC schemes	12,119	10,685	10,975	7,808	8,051	8,850	9,651	9,442
Judges	147	194	195	221	229	236	243	250
Parliamentary	65	70	18	27	21	15	8	10
Subtotal	12,331	10,949	11,188	8,056	8,301	9,101	9,904	9,705
Public Trading and Financial Enterprises								
STC schemes	1,523	312	362	389	300	300	400	400
Electricity Scheme (surplus)			(`152)	(181)	(136)	(91)	(46)	…
TOTAL	**13,854**	**11,261**	**11,398**	**8,264**	**8,465**	**9,310**	**10,258**	**10,105**

** Adjusted to show the retrospective effect of actuarial and other adjustments.*

As shown in Chart 5.6, unfunded superannuation liabilities in 2000 will be halved as a proportion of GSP, compared with their level in 1996.

Chart 5.6: State Public Sector Net Superannuation Liabilities, as at 30 June as percentage of Gross State Product



Source: NSW Government Actuary and W M Mercer

SUPERANNUATION CONTRIBUTIONS

Table 5.6: Crown Superannuation Annual Cash Contributions to 30 June

				Estimate				
	1996 $m	*1997 $m*	*1998 $m*	*1999 $m*	*2000 $m)*	*2001 $m)*	*2002 $m)*	*2003 $m)*
Defined benefit								
Closed schemes	866	1,021	1,145	4,301	…	…	…	1,238
Open schemes	17	18	23	23	25	28	29	30
Accumulation								
First State Super	194	238	273	350	371	449	476	568
plus SSS/PSS conversion to FSS	…	…	…	…	22	51	53	62
TOTAL	**1,077**	**1,277**	**1,441**	**4,674**	**418**	**528**	**558**	**1,898**

The high and rising level of Government employer contributions over the period shown, after allowance for the accelerated payment of Crown contributions for the conversion offers, reflects the Government's objective of moving towards full funding of superannuation liabilities.

FSS contributions will grow rapidly in the short term because of the increase in employer contributions from the current 7 percent of salary to 8 percent of salary from 1 July 2000, and then to 9 percent of salary from 1 July 2002.

There is also a longer term labour turnover influence, the gradual replacement of retiring public sector employees who are members of the closed defined benefit schemes by new recruits who join an accumulation scheme.

In addition, eligible contributors who accept the conversion offers will join First State Superannuation.

5.9 INSURANCE AND OTHER LIABILITY MANAGEMENT

Insurance Management

In order to manage New South Wales Government insurance risks a managed fund approach has been adopted. The Treasury Managed Fund provides a systematic, comprehensive and coordinated risk management and self insurance arrangement for members, across the five basic classes of risk, which are workers' compensation, motor vehicle, property, public liability and miscellaneous. Insurable risk administration is outsourced and the current administrator, GIO Australia, was reappointed in 1997 for a further three-year term.

Risk/Return Review

Treasury engaged Tillinghast - Towers Perrin in June 1998 to undertake a detailed risk/return review of Insurance Ministerial Corporation investment policies and procedures. The review included assessments in regard to short and long-term investment objectives, return volatility of various asset allocations, Treasury's risk profile, IMC/TCorp asset management agreement and recommendations in regard to appropriate benchmarks for each asset class.

The report’s recommendations are currently being implemented in conjunction with Treasury Corporation with a view to increasing investment return from an improved strategic asset allocation.

Commonwealth – State Sharing of Superannuation Costs

Some university employees remain as contributors to the closed State public sector superannuation schemes. The universities are financially responsible for making the employer contributions required for these employees.

To the extent universities are publicly funded, the Commonwealth Government provides such funding. Commonwealth funding includes an amount provided for university employer superannuation contributions.

Under funding arrangements negotiated at the time that the Commonwealth Government assumed responsibility for funding universities, New South Wales is obliged to reimburse the Commonwealth Government for a proportion of universities’ emerging superannuation costs relating to past service of members of the closed State public sector schemes.

The State has no direct financial obligation for the superannuation liabilities of universities. The liability is to the Commonwealth Government. Payments to the Commonwealth Government have been fairly stable in recent years at about $18 million per annum. The annual payment is forecast to rise to about $21 million by 2002-03.

The Government Actuary’s preliminary estimate of the present value of the State’s accrued liability for the annual reimbursements to the Commonwealth Government is approximately $350 million at 30 June 1999.

CHAPTER 6: SYDNEY 2000 OLYMPIC AND PARALYMPIC GAMES

6.1 INTRODUCTION

In September 1993, the International Olympic Committee awarded Sydney the right to host the Olympic Games in the year 2000. The Olympic Games will be held between 15 September and 1 October 2000. The Paralympic Games will be held between 18 and 29 October.

In order to secure the Olympics for Sydney, the NSW Government was required to give an unqualified guarantee that the State would underwrite the Olympic budget. The Government has a responsibility, therefore, to maintain close oversight of the planning for the Olympics and implementation of those plans to ensure that essential Olympic facilities are provided on time and within reasonable costs and that the Sydney 2000 Olympic Games are successful.

Four organisations have been established to organise and stage the year 2000 Olympic and Paralympic Games: the Sydney Organising Committee for the Olympic Games, the Sydney Paralympic Organising Committee, the Olympic Co-ordination Authority and the Olympic Roads and Transport Authority.

6.2 SYDNEY 2000 OLYMPIC GAMES

Organising and staging the Games is the responsibility of the Sydney Organising Committee for the Olympic Games (SOCOG), established in January 1994.

Key functions include: the staging of all 28 sports on the Olympic program; organising accommodation for athletes, officials and the media; organising the sports program, the cultural program and the opening and closing ceremonies; establishing a marketing program; and as host broadcaster, providing media facilities and services. SOCOG will raise revenue from television rights, sponsorship, licensing and ticketing.

Achievements in the Past 12 Months

In mid 1998, SOCOG completed the full Olympic competition schedule, across 28 sports, including two additions (triathlon and taekwondo), forty disciplines and sixteen days of competition. There are 300 medal events (29 more than Atlanta) and 35 new events.

The first Olympic test events were held during the year, a sailing regatta in September, an international wrestling competition in December and a World Cup mountain bike event in April. In addition, the Royal Easter Show has served, for the second time, as an Olympic test event at Homebush Bay.

Some 40 National Olympic Committees visited SOCOG for intensive briefings and site visits during the year.

SOCOG announced the ticketing policy in September 1998. Initial requests from National Olympic Committees and International Federations indicate great international demand for tickets. At the end of May 1999, SOCOG launched national sales to the Australian public for about five million tickets.

In October 1998, SOCOG and the Sydney Paralympic Organising Committee launched the call for volunteers. Forty-one thousand Australians responded over and above those who will be sourced from specialist and community groups. SOCOG is now in the process of assessing, interviewing and selecting the volunteer workforce.

The Australian route for the Olympic Torch Relay was also announced in October 1998. It will be the longest torch route in Olympic history, visiting every State and Territory and covering some 26,000 kilometres over 100 days and passing within one hour's drive of 85 percent of all Australian people. The route of the Olympic Torch through twelve countries of Oceania was announced in November.

Throughout 1998 SOCOG held its second Olympic Arts Festival, "A Sea Change", in every State and Territory. The third festival, "Reaching the World", which will showcase Australian art and artists to most continents, was launched in November 1998.

In May 1999, local councils throughout New South Wales and other Australian states were given the opportunity to promote the Olympic Games in local communities through the "Look of the Games" catalogue. This is a comprehensive set of design components, created by SOCOG, which communicate the spirit and mood of the Games through banners, landscaping and temporary structures.

SOCOG continued to attract sponsors throughout the year, announcing new agreements in important areas such as transport and logistics, furniture and electrical goods.

The Olympic Co-ordination Authority (OCA), on behalf of the NSW Government, has the responsibility for co-ordinating the operational planning and management for those areas in Sydney which fall outside specific Olympic venues, areas collectively known as the Urban Domain.

A significant role will be the development and implementation of strategies to ensure that the daily activity of the city remains as unaffected by the Olympic Games as possible. This will require liaison with a number of key groups, including Government agencies, Local Government and other stakeholders.

Urban Domain planning involves such elements as:

- crowd management, entertainment and the provision of Games related information; and

- the staging of major celebrations in the City on the night of the Closing Ceremony of the Games.

Plans for the Next 12 Months

A major cluster of test events will occur during September and October 1999. The events will range across a variety of sports and will include a number of major Olympic conferences in Sydney at that time. SOCOG intends to test the whole Games-time structure and supporting services (i.e. transport, technology, security and accreditation).

SOCOG will finalise its major overlay program during the year, whereby venues are upgraded and fitted out to meet the needs of athletes, spectators, security and accreditation. OCA is co-ordinating the overlay on behalf of SOCOG.

Procurement of goods and services will be substantially concluded by the end of 1999.

When the Olympic Torch arrives in Australia on 8 June 2000, SOCOG intends to be Games-ready. To achieve this SOCOG will seek to maintain the widest possible alliance with all levels of Government, the private sector, sponsors and the Australian community. SOCOG will also continue its close co-operation with its Olympic partners, particularly the OCA, the Olympic Roads and Transport Authority (ORTA) and the Olympic Security Command Centre.

During 1999-2000, Urban Domain planning will take an increasingly operational focus. The key goals for the financial year include:

- developing detailed Precinct Operations Plans, linking the operations of numerous state and local government agencies responsible for managing the Urban Domain during the Games;

- negotiation of agreements for the provision of services for the Urban Domain, including waste management, street cleaning, environmental health and enforcement of parking restrictions;

- implementation of temporary overlay in the Urban Domain, including signs, temporary facilities and other infrastructure to facilitate access and crowd management;
- co-ordination with ORTA for the procurement, delivery and management of park and ride sites; and
- finalisation of a detailed plan of management for all government agencies involved in the Torch Relay.

Essential Public Services Provided by Other Government Agencies

The Host City Contract (signed by the City of Sydney, the International Olympic Committee and the Australian Olympic Committee) and the Endorsement Contract (signed by the State Government and the Australian Olympic Committee) committed the State Government to the provision of certain services. In addition, the Government has recognised that, for efficient operation of the Olympic and Paralympic Games, other government services will need to be provided.

Such services include security, police and emergency support, dedicated rail and bus services and access to health facilities.

OCA has the statutory responsibility for co-ordinating the initiatives on Olympic and Paralympic Games matters of other government agencies.

Budget and Finance

Costs incurred by SOCOG in organising and operating the Games will be financed by revenues generated from staging the Games. (As SOCOG's costs are expected to be more than offset by its receipts, it is treated as a Public Trading Enterprise. Hence its costs and revenues do not appear in the Budget result.)

As a result of successful negotiations with the International and Australian Olympic Committees, amendments to the SOCOG legislation now require SOCOG to distribute all of its profits and net assets to the Treasurer on behalf of the State for payment into Consolidated Fund.

In September 1998, the Minister for the Olympics, with the concurrence of the Treasurer, approved SOCOG's revised Games budget. The approved budget confirms the surplus of $30 million from SOCOG's operations to be returned to the State of New South Wales after gross Games expenditure of $2.6 billion. SOCOG's revenue will be sourced from the sale of tickets, television rights and consumer products and the marketing of Olympic sponsorship agreements.

After a review of likely revenue receipts earlier this year, the SOCOG Board supported a $71.6 million reduction in planned expenditure resulting from a $50 million decrease in revenue targets and a $21.6 million increase in the contingency fund. SOCOG remains committed to returning a $30 million surplus to the State Government.

At the time of preparation of the State Budget, SOCOG was in the process of seeking the concurrence of the Treasurer and the approval of the Minister for the Olympics.

6.3 SYDNEY PARALYMPIC GAMES

The Paralympic Games will be held after the Olympic Games from 18 to 29 October 2000, with the majority of sports to be held at Sydney Olympic Park, Homebush Bay. The Sydney Paralympic Organising Committee (SPOC), which is organising the staging of the Year 2000 Paralympics, is a government controlled public company limited by guarantee.

Achievements in the Past 12 Months

Throughout 1998, a process of operational integration was conducted to bring Olympic and Paralympic preparations and management closer together, resulting in SPOC advancing its operational planning to the same level as SOCOG, improving communication and removing extensive duplication in the planning process.

Plans for venue operations are now complete for all 19 competition venues. Overlay and fitout plans have been developed for all Paralympic venues, with particular emphasis on minimising any transitional works to be undertaken between the Olympic and Paralympic Games.

Plans for the next 12 months

SPOC will continue detailed venue planning during 1999-2000, with continuing emphasis on integrating the Paralympic and Olympic planning to ensure that as much development work as possible is done in parallel or in tandem.

A key focus for SPOC, in the lead up to the Games, is revenue generation and maximisation. Essential to success in this area will be the development of advertising campaigns and refinement of the marketing strategy. Like SOCOG, SPOC will also focus on the preparation and implementation of detailed ticket marketing plans during the next financial year.

In the lead up to the Games, workforce planning and recruitment of staff, including volunteers, will continue to be an important focus to ensure the success of the Paralympics.

In early 1999-2000, SPOC will seek to finalise the choice of a host broadcaster for the Paralympic Games.

Budget and Finance

The estimated cost of staging the Paralympic Games is $157 million. The New South Wales and Commonwealth Governments are contributing $25 million each to the cost of the Games, with SOCOG contributing $15 million in line with the Olympic bid commitments. Other major revenue sources are sponsorship and ticket sales.

There is no budgeted profit from the Paralympic Games. However, if a profit eventuates, the first call on the profit is the repayment of financial contributions made by the Federal and State Governments.

6.4 SPORTING VENUES AND INFRASTRUCTURE

OCA is responsible for implementing strategies for the planning, redevelopment and management of the 760 hectare Homebush Bay area.

It is also responsible for the delivery of new sporting and recreation facilities and venues at Homebush Bay, Penrith Lakes, Blacktown, Bankstown, Horsley Park, Ryde and Cecil Park which will be used during the staging of the Olympic and Paralympic Games.

OCA is required to build facilities which both meet the needs of SOCOG and SPOC for staging the Games and, importantly, provide long-term sporting, social and cultural benefits for the people of New South Wales.

OCA is also responsible for developing the Games overlay at all Olympic and Paralympic venues on behalf of SOCOG to ensure the capacity and standard of each venue meets Games' requirements. OCA personnel will be involved in site management at competition and major non-competition venues during the Games.

OCA is further responsible for co-ordinating the inputs of the various NSW government agencies involved in the provision of services for the Olympic and Paralympic Games and for maintaining close liaison with SOCOG and SPOC.

Achievements in the Past 12 Months

Four new Olympic venues, including Stadium Australia, were opened. A large part of the infrastructure at Homebush Bay was completed, with the site in accordance with the Homebush Bay Masterplan.

Development of Sporting Venues and Infrastructure

Construction of venues is now 85 per cent complete, ahead of both Atlanta and Barcelona with the same period remaining until the Games.

The 110,000 seat Stadium Australia was finished in February 1999, three months ahead of schedule. The stadium was constructed and funded mainly by the private sector. The project cost was $690 million, with a government contribution of $124 million.

Other projects delivered during 1998-99 include:

- completion of the revamped State Hockey Centre;

- Olympic Boulevard and other major avenues at Homebush Bay;
- Sydney International Archery Park;
- removal of the last of 46 high voltage power towers; and
- the Olympic Sailing Shore Base at Rushcutters Bay.

The Olympic Village at Newington is more than 50 percent complete, with construction now underway in all residential precincts including permanent and modular dwellings. At the Lidcombe Media Village, more than 50 percent of work on relocatable accommodation and refurbishment of the old Lidcombe Hospital buildings is complete, with work starting on the infrastructure at the site.

Operation of the Homebush Bay Site

Homebush Bay is estimated to have had almost 19 million visitors since the redevelopment of the site as an Olympic venue began. This is despite it being mainly a construction zone and one of the world's largest development sites.

The first sporting event at the Stadium, the National Rugby League Season Opening, broke records for attendance at a rugby league match anywhere in the world with 104,000 people attending. The event provided an opportunity to test Games-time operation of the site, from both crowd management and transport perspectives.

The Royal Easter Show was again a success in 1999, despite inclement weather during most of the Easter period. Lessons learned from the 1998 Show improved the standard of site management and operational services provided. A number of other major events held in conjunction with the Show highlighted the capacity of the site and OCA's operational staff to manage the staging of large events simultaneously - a positive result in the lead-up to the Games.

Environment

A commitment to the environment underpins all planning and construction management for the Sydney 2000 Olympic and Paralympic Games. OCA has embraced the principles of ecologically sustainable development in all projects and has undertaken to promote biological diversity, conserve water and energy, avoid waste and minimise pollution.

The Homebush Bay Environmental Reference Group (HomBERG) was established in June 1998 as an important consultative mechanism for OCA's long-term remediation strategy. OCA's *Enhanced Remediation Strategy* was released during 1998.

The second Earth Council Review of OCA's ongoing environmental management of Olympic developments was conducted in February 1999. The final report ascribed an overall environmental performance rating of 8 out of 10 to OCA. Highlights of the review included the environmental initiatives of the Athletes Village and the development of Millennium Parklands. The Earth Council will undertake another review early in 2000 with a final review to be conducted post Games in late 2000.

OCA continues to work with the Australian Museum to ensure the long-term well-being of the green and golden bell frog at the Homebush Bay Olympic site. OCA has developed a site wide habitat strategy that involves the staged creation of additional frog habitat. OCA's Water Reclamation and Management System within the brickpit and associated frog habitat works was announced in April 1999.

Plans for the next 12 months

Development of Sporting Venues and Infrastructure

By the end of 1999 construction will be complete on another seven major infrastructure projects:

- Sydney SuperDome;
- Dunc Grey Velodrome at Bankstown;

- Equestrian Centre at Horsley Park;
- Shooting Centre at Cecil Park;
- Tennis Centre at Homebush Bay;
- Slalom Canoe Course at Penrith Lakes; and
- Ibis and Novotel Hotel development at Homebush Bay.

The last new venues to be announced for the Olympics, the Ryde Aquatic Leisure Centre and the softball and second baseball complex at Aquilina Reserve, Blacktown, will be completed early in 2000, well in advance of the Games.

The next 12 months will also see the completion of the extensive public domain infrastructure at Homebush Bay, including the northern water feature and up to 12 public art projects.

With the completion of the permanent infrastructure and venues, the focus is moving toward the temporary overlay for the Olympic and Paralympic Games. OCA, SOCOG and SPOC have agreed on the overlay plans for each venue, which OCA will provide on a cost-recovery basis for SOCOG.

These works include the expansion of seating at the Aquatic Centre, resurfacing of the two pitches at the Hockey Centre and installing temporary seating and facilities at a large number of venues. OCA will also progressively establish temporary facilities for such events as beach volleyball, road cycling and triathlon.

Operation of the Homebush Bay Site

OCA will complete the transition in 1999-2000 from being a construction agency to an owner and operator of venues and facilities. It is anticipated that eight to ten million people will visit the site during the financial year, with all major venues being operational.

A prime responsibility for OCA in 1999-2000 is to ensure the operational integrity of all Olympic and Paralympic venues. Stress testing of all venues and open areas is of prime importance, both to a successful Games and the long-term operational environment.

During 1999-2000, OCA will focus on improving information on how to get to venues and the location of amenities and concessions, and crowd management procedures.

Environment

The main environmental achievement for 1999-2000 will be the completion of stage one of the Millennium Parklands. The parklands will ultimately comprise 450 hectares of diverse landscape, with a network of up to 40 kilometres of pedestrian and cycle trails. The first stage surrounds the Olympic facilities and the Sydney Showground, providing a unique landscape for recreation, conservation and environmental education.

Work will significantly progress on the Water Reclamation and Management Scheme (WRAMS). The system's first stage will be implemented this year and will be in operation during the Games, with the use of recycled water for toilet flushing and irrigation. The system will be fully developed after the Games.

WRAMS is only one element of a wider water management strategy, which includes plans for stormwater runoff from the suburb of Newington to be used as irrigation and a requirement that all developers of Olympic venues utilise water-saving devices and techniques. For example, stormwater from Stadium Australia's roof will be collected and used to irrigate the grassed central arena.

OCA's water conservation plans aim to provide 50 percent of Homebush Bay's water needs annually. This represents a saving of about $640,000 worth of potable mains water each year.

In addition, OCA will progress its remediation, environmental and education programs throughout 1999-2000 to ensure the Sydney Olympics and the Homebush Bay site continue to be recognised for a commitment to the environment.

6.5 OLYMPIC TRANSPORT SERVICES

In liaison with SOCOG, OCA and public and private transport service providers, ORTA will ensure co-ordinated planning and delivery of integrated road and transport services for the Sydney 2000 Olympic and Paralympic Games and for test events and special events.

ORTA was established as a department by the NSW Government in April 1997. ORTA became a statutory authority with specified functions, powers and obligations on 31 December 1998, when the Olympic Roads and Transport Authority Act 1998 commenced.

Achievements in the Past 12 Months

The first test of Olympic transport services was the 1998 Royal Easter Show held at Homebush Bay. The transport system was again trialed for the 1999 Royal Easter Show and was an outstanding success with the community again embracing the use of public transport.

An additional regional bus route from the North Beaches was developed and a number of new ticketing initiatives were introduced for the 1999 Show. Overall, almost one million people travelled to the Show by public transport, with buses increasing their share of passengers from 21.5 percent in 1998 to over 30 percent in 1999.

Under its governing legislation, ORTA may be called upon by the Premier to co-ordinate public transport for special events. In 1999, there have been three special events, the National Rugby League Season Opening, the Rugby League State of Origin game and the Stadium Opening Ceremony which have enabled ORTA to test its overall transport co-ordination and service delivery capabilities. The public again embraced the use of bus and rail transport on these occasions and enabled ORTA to further advance and test Olympic transport planning. A further special event, the Rugby Union Centenary Test is also planned.

A number of SOCOG Olympic test events were also successfully co-ordinated and managed by ORTA, including the 1998 Gold Cup for Paralympic Basketball and the sailing regatta on Sydney Harbour.

Plans for the next 12 months

In 1999-2000, detailed operational and contingency plans will be further developed and finalised in respect of:

- Olympic venues and urban domain precincts, including Sydney Olympic Park, Sydney Central (including Darling Harbour), Sydney East and Sydney West; and

- Olympic and Paralympic transport networks and services, car and bus fleets and spectator and non-spectator transit services.

Effective communication programs and demand management strategies will aim to influence the travel patterns of motorists, commuters and freight in the Sydney area during test events (particularly the Royal Easter Show and special events) and the Olympic and Paralympic Games.

An essential component of the planning process will involve the development and implementation of a communications program as part of the process of consultation with businesses and local communities throughout Sydney. This program will cover traffic and transport matters and provide information on Olympic and Paralympic traffic and transport arrangements.

During 1999-2000, ORTA will also focus on curriculum development and delivery of bus and fleet vehicle driver training and related costs for the spectator and Olympic movement services.

ORTA will continue to support Bus 2000 Pty Ltd to assist in the continuing recruitment of bus operators and drivers to ensure the effective delivery of the required spectator and Olympic Family bus services.

6.6 BUDGET IMPACT OF THE GAMES

While both SOCOG and SPOC have been provided with Government funding, the day-to-day operations of both organisations do not impact on the Budget result.

The major areas of government support are for construction and infrastructure projects, the provision of transport and security services and other government services required for the effective operation of the Olympic and Paralympic Games.

Expenditure in the current and ensuing financial years has been fully provided for in framing the Budget and Forward Estimates to accord with the Government's policy that the costs associated with the year 2000 Games should be funded within the Budget so that a debt is not left to be met by future taxpayers.

The construction budget is funded through the State Budget. The temporary overlay works which OCA is undertaking on behalf of SOCOG are not included in the Budget as they are fully funded by SOCOG.

The total construction program for OCA is estimated at $2,241.2 million (escalated to 1999-2000 dollar values). This has increased from $2,202.6 million (1999-2000 dollar values) in the 1998-99 Budget. The $38.6 million variation represents additional project costs funded by third parties, including Baseball NSW, the Department of Sport and Recreation, SOCOG and local government. There is no increase in the real cost to OCA of constructing Olympic infrastructure and facilities.

The total cost of Olympic projects is offset by grants from the Commonwealth of $175 million, contributions from SOCOG of $303.1 million, contributions from other organisations of $38.4 million and interest received from investments, sale of property and other minor revenue of approximately $66.9 million. The net cost to Government of OCA's Olympic capital program to 2000-01 is estimated at $1,657.8 million in 1999-2000 dollar values. A summary of the provisions made in the 1999-2000 Budget and the Forward Estimates for Olympic projects is provided in Budget Paper No. 4 *State Asset Acquisition Program 1999-2000*.

In relation to the long-term operational costs of the site, OCA will further develop commercial strategies to promote the ongoing viability of the Homebush Bay site and other venues. A key part of OCA's planning has been to ensure that the post-Games management of venues is in place. OCA has entered into commercial agreements whereby many venues are operated prior to and/or following the Games by an appropriate sporting body or other independent operator at minimal cost to the Government.

OCA is also seeking to develop other marketing and operational strategies for Homebush Bay that will assist in achieving the financial viability of the Olympic site. The success of these strategies will have a positive impact on the State Budget in future years through the reduction in government support required to operate the venues and the site.

ORTA's role in relation to transport services for the Olympic and Paralympic Games and related events is to plan, procure and manage delivery of the required services. In this respect, ORTA will not generally be the provider of services but will contract both private and government operators to meet the essential requirements. ORTA does not have any major capital commitments.

During 1998, ORTA and SOCOG negotiated an arrangement whereby SOCOG contributes $120 million to ORTA towards the funding of Olympic movement and spectator transport services for the Games.

The total cost for the provision of essential services to support the Games is estimated at $462 million, up slightly from $454 million estimated in the 1998-99 Budget, reflecting a range of factors including additional funding for temporary facilities. The services-related operating cost is estimated at $380 million, while $82 million will be spent on Olympic-related capital projects.

Details of OCA's and ORTA's finances appear in Budget Paper No. 3.

Table 6.1 details the Budget impact of the Olympic and Paralympic Games and outlines the major cash inflows and outflows. The impact excludes the construction cost of the Royal Agricultural Society's new showground at Homebush Bay, which is not considered by NSW Treasury to be an Olympic cost.

Over the period 1991-92 to 2001-02, the net impact of the cost of the Olympic and Paralympic Games is estimated at $1,269.9 million. This is a reduction of $17.6 million on the estimated cost of $1,287.5 million indicated in the 1998-99 Budget.

The variation results from escalation of the venue and infrastructure construction program to 1999-2000 dollars ($17.2 million), an increase in service provision and operational costs of $17.4 million and additional taxation revenue of $51 million. This is due to the inclusion of estimates relating to the 2001-02 financial year.

Over the period 1994-95 to 2005-06 it is estimated that $764 million will be collected in additional Olympic-related taxation revenue. However, only revenue collected during the Olympic period ($653 million) has been included in Table 6.1 as a reduction to the gross cost of the Olympic and Paralympic Games.

The cash outflows relate to:

- venue and infrastructure costs of $1,852.9 million;
- agency service provision and operation costs of $670.5 million; and
- a repayable advance ($28.6 million) and Commonwealth funding ($30.8 million) to SOCOG and a grant to SPOC of $25 million.

Cash inflows relate to:

- Commonwealth receipts of $180.8 million representing $150 million toward the cost of venues and infrastructure and $30.8 million to enable SOCOG to purchase Commonwealth Government services;
- SOCOG's contribution to the cost of construction of venues of $303.1 million, repayment of the SOCOG advance ($28.6 million) and profit payable to the NSW Government of $30 million;
- the post Olympic sale of the Media Officials' Village ($35 million) and other contributions to the cost of the venue and construction program of $39.8 million;
- interest on investments; and
- Olympic-related taxation revenue of $653 million over the Olympic period.

Table 6.1: Net Budget Impact of the Sydney Olympic and Paralympic Games

	1991-92	*1992-93*	*1993-94*	*1994-95*	*1995-96*	*1996-97*	*1997-98*	*1998-99*	*1999-2000*	*2000-01*	*2001-02*	*Total*
	$m	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*
Outflows												
Olympic Stadium	...	...	...	...	...	26.6	46.9	20.5	3.6	10.0	16.7	124.3
Olympic Villages	...	...	...	...	...	0.2	36.3	45.2	95.2	19.0	3.9	199.8
Sydney SuperDome	...	...	...	...	...	...	51.6	86.2	4.6	...	...	142.4
Other venue costs	10.2	1.3	5.7	8.0	12.1	17.0	56.2	148.1	93.7	3.6	9.1	365.0
Transport infrastructure	...	1.6	5.5	2.8	5.1	159.4	122.1	127.3	15.4	2.0	...	441.2
Services infrastructure	...	2.9	0.5	1.1	11.4	28.0	18.5	13.6	18.3	...	...	94.3
Sydney Athletic and Aquatic Centres	...	101.9	98.2	14.7	0.7	0.4	(2.8)	1.4	2.3	...	...	216.8
Other infrastructure	12.8	15.0	15.0	13.8	12.3	20.8	34.5	46.5	62.3	36.1	...	269.1
OCA and ORTA - operating costs	...	...	...	11.1	10.5	17.7	38.5	52.3	63.8	53.7	...	247.6
Other Olympic costs - recurrent	...	...	...	...	...	0.4	3.3	19.7	75.9	242.1	...	341.4
Other Olympic costs - capital	...	...	...	...	...	...	0.5	24.3	50.8	5.9	...	81.5
Advance/Grants to SOCOG	...	...	3.1	6.0	19.5	...	...	...	7.5	23.3	...	59.4
Grant to SPOC	...	...	...	0.4	0.8	2.7	4.0	6.0	6.0	5.1	...	25.0
Total Outflows	**23.0**	**122.7**	**128.0**	**57.9**	**72.4**	**273.2**	**409.6**	**591.1**	**499.4**	**400.8**	**29.7**	**2,607.8**
Inflows												
Commonwealth Government	...	...	50.0	50.0	50.0	...	...	...	7.5	23.3	...	180.8
Interest on investments	...	...	...	...	9.6	18.6	17.8	13.6	6.0	2.0	...	67.6
SOCOG profit	...	...	...	...	...	...	...	...	...	30.0	...	30.0
Sale of assets	...	...	...	...	...	...	...	...	...	35.0	...	35.0
SOCOG contributions	...	...	...	...	...	4.1	218.8	1.0	47.1	32.1	...	303.1
SOCOG advance repayment	...	...	...	...	...	28.6	...	...	...	...	...	28.6
Other contributions	...	...	...	...	1.5	...	1.5	5.6	29.8	0.7	0.7	39.8
Total Inflows	**...**	**...**	**50.0**	**50.0**	**61.1**	**51.3**	**238.1**	**20.2**	**90.4**	**123.1**	**0.7**	**684.9**
Gross Cost to Government	**23.0**	**122.7**	**78.0**	**7.9**	**11.3**	**221.9**	**171.5**	**570.9**	**409.0**	**277.7**	**29.0**	**1,922.9**
Less: Additional taxation revenue	...	...	...	20.0	32.0	46.0	72.0	105.0	135.0	192.0	51.0	653.0
Net Cost to Government	**23.0**	**122.7**	**78.0**	**(12.1)**	**(20.7)**	**175.9**	**99.5**	**465.9**	**274.0**	**85.7**	**(22.0)**	**1,269.9**

CHAPTER 7: TAX EXPENDITURE AND CONCESSIONS STATEMENT

7.1 INTRODUCTION

Direct outlays are examined and subject to public scrutiny through the annual budget process. It is often the case, however, that a less stringent approach applies to tax expenditures and concessional charges.

Tax expenditures or concessional charges are often included in the relevant legislation. However, it is often the case that these provisions are not subject to regular review, even where explicitly funded by the Budget. This makes more difficult the control of total government expenditure (including tax expenditures and concessional charges) on an ongoing basis. Unless reviewed regularly, it is likely that tax expenditures and concessional charges may outlive their original justification, resulting in some loss of overall community wellbeing.

Continuing the practice begun in the 1998-99 Budget Papers, this chapter provides a comprehensive listing and costing of tax expenditures. In addition, this year's statement has been broadened to cover concessional charges.

The purpose of the information in this chapter is to improve transparency and better inform policy choices and public understanding of the Budget. Nevertheless, the inclusion of tax expenditures and concessional charges within this statement does not presume that they are inappropriate.

Both tax expenditures and concessions have been valued on the basis of revenue foregone. A full discussion of the conceptual issues in the measurement of tax expenditures is given in the 1998-99 Budget Papers.

A tax expenditure refers to the cost of granting certain activities or assets favourable tax treatment. Tax expenditures may take the form of:

- An exemption of certain classes of goods or taxpayers from a tax;
- The imposition of a lower rate of tax, the provision of a rebate or deduction; or
- Deferral of the time for payment of a tax liability.

A concession involves the sale by the Government of goods and services at a price that is lower than generally available to the rest of the community. Some agencies providing goods or services for free or at concessional prices to some sections of the community receive compensation from the Consolidated Fund for the revenue foregone. These payments are known as Social Program Policy Payments (SPPPs). Concessions funded by the payment of SPPPs to the agency providing the good or service are included in the estimates of concessions.

7.2 OVERVIEW OF TAX EXPENDITURES AND CONCESSIONS

Tax Expenditures

The estimates of tax expenditures in this statement are for the years 1997-98, 1998-99 and 1999-2000 except for the estimates for land tax, which are for the 1998, 1999 and 2000 land tax years.

Table 7.1 provides a summary of major (i.e. $1 million or greater) tax expenditures for each type of tax. The table does not provide a complete picture, because there are many tax expenditures for which insufficient information is available for an accurate estimation of the cost to be made. Fortunately, most of these inestimable tax expenditures are minor.

On the basis of revenue forgone, quantifiable tax expenditures are estimated to total $2290.3 million in 1997-98, representing 20.4 percent of total tax revenue. Tax expenditures are expected to amount to approximately the same proportion of tax revenue in 1998-99 and 1999-2000.

Tax expenditures are spread across all tax bases, but the amounts are concentrated in insurance duties, payroll tax and land tax, which accounted for about 55 percent of total measurable expenditures in each of the years covered by this statement. Over the three years tax expenditures as a percentage of revenue are largest for insurance duty, marketable securities duty and land tax. Tax expenditures associated with the accommodation levy were exceptionally high in 1997-98 only due to one-off concessions agreed with the hotel industry.

Table 7.1: Major Tax Expenditures by Type of Tax

Tax	*1997-98*		*1998-99*		*1999-2000*	
	$m	*% of tax revenue*	*$m*	*% of tax revenue*	*$m*	*% of tax revenue*
Contracts and Conveyances Duty	119.8	6.5	190.3	10.0	119.5	6.8
General and Life Insurance Duty	401.9	125.6	428.4	125.6	449.9	125.7
Mortgage Duty	39.2	23.7	47.1	27.4	49.1	28.7
Marketable Securities Duty	215.2	75.4	257.6	64.4	233.8	64.9
Financial Institutions Duty	53.4	9.7	53.9	9.7	55.8	9.6
Lease Duty	4.6	11.4	4.8	13.0	5.0	12.8
Payroll Tax	413.3	10.7	447.4	10.8	451.0	10.9
Land Tax	478.7	55.5	491.0	51.0	460.6	53.5
Debits Tax	18.5	5.7	18.5	5.7	18.5	5.7
Taxes on Motor Vehicles	170.3	13.0	176.1	13.7	185.6	13.2
Accommodation Levy	38.0	223.5	6.0	10.5	1.2	1.8
Gambling and Betting Taxes	337.4	25.0	360.0	25.4	384.1	24.7
Total	**2290.3**	**20.4**	**2481.1**	**20.6**	**2414.1**	**20.2**

Table 7.2 provides a functional classification of tax expenditure and compares this with direct outlays. Total quantifiable tax expenditures in 1997-98 were equivalent to 10.4 percent of outlays. Quantifiable tax expenditures are expected to amount to approximately the same proportion of outlays in 1998-99 and 1999-2000.

Tax expenditures are primarily directed toward 'Other' Economic Affairs (as they may constitute assistance to industry generally rather than to a particular type of economic activity), Agriculture, Forestry and Fishing, Recreation and culture and Health. The distribution of tax expenditures by function is broadly similar over the three years covered by this statement.

Table 7.2: Tax Expenditure and Outlays by Function

Function	*1997-98*		*1998-99*		*1999-2000*	
	$m	*% of Outlays*	*$m*	*% of Outlays*	*$m*	*% of Outlays*
General Public Services	153.4	9.3	159.4	3.2	159.5	22.6
Public order and Safety	1.2	0.1	1.2	0.1	1.2	0.1
Education	48.9	0.8	51.9	0.8	51.5	0.7
Health	280.8	5.9	301.1	5.5	300.4	5.4
Social Security and Welfare	141.6	9.3	154.5	8.5	161.5	8.8
Housing and Community Amenities	72.4	18.9	83.4	16.5	80.8	14.6
Recreation and Culture	341.4	83.1	364.4	81.2	388.3	78.1
Fuel and Energy	…	…	…	…	…	…
Agriculture, Forestry and Fishing	264.8	81.5	280.4	68.4	265.8	66.1
Mining, Manufacturing and Construction	…	…	…	…	…	…
Transport and Communications	185.1	11.2	197.3	11.5	207.2	12.7
Other Economic Affairs	768.8	147.8	854.3	154.5	762.3	157.5
Other Purposes	31.9	1.9	33.2	1.9	34.5	1.9
TOTAL	**2290.3**	**10.4**	**2481.1**	**9.3**	**2414.1**	**10.6**

Major Changes to Tax Expenditures

A number of significant tax changes affecting the level of tax expenditures have occurred since 1996-97.

On 1 July 1998 the *Stamp Duties Act 1920* was replaced by the *Duties Act 1997*. The Duties Act emerged from a comprehensive interstate review of stamp duties. As a result of the review, a number of minor stamp duties were abolished and others were modified, affecting the level of tax expenditures. Where appropriate this is noted in the text.

In 1997-98 two new taxes were introduced - the Accommodation Levy and the Electricity Distributors Levy. Also in 1997-98 the basis for the land tax threshold on principal places of residence was changed from a combination of the land area and land value of the property to one based solely on the land value. In 1998-99 this tax was renamed the Premium Property Tax.

Other new tax expenditures have been created since 1996-97 as a result of further payroll tax and stamp duty concessions being granted.

Concessions

Table 7.3 classifies the major concessions provided by the NSW Government by function. The total value of major concessions in 1997-98 was $913.8 million, or 4.1 percent of outlays. The value of major concessions is estimated to rise to $938.1 million in 1998-99, and to $953 million in 1999-2000, which is expected to amount to 4.2 percent of outlays. Concessions are principally provided in the areas of Education (principally as a result of the School Student Transport Scheme) and Social Security and Welfare (principally because of the concessional travel on public transport provided to pensioners).

Table 7.3: Concessions and Outlays by Function

Outlays by Function	*1997-98*		*1998-99*		*1999-2000*	
	$m	*% of Budget Outlays*	*$m*	*% of Budget Outlays*	*$m*	*% of Budget Outlays*
General Public Services	…	…	…	…	…	…
Public Order and Safety	…	…	…	…	…	…
Education	363.4	6.2	387.4	5.7	401.2	5.7
Health	44.1	0.9	45.3	0.8	46.2	0.8
Social Security and Welfare	301.9	19.8	300.7	16.6	298.2	16.2
Housing and Community Amenities	149.6	39.1	150.7	29.8	151.8	27.4
Recreation and Culture						
Fuel and Energy	54.8	91.3	54.0	65.8	56.0	70.9
Agriculture, Forestry and Fishing	…	…	…	…	…	…
Mining, Manufacturing and Construction	…	…	…	…	…	…
Transport and Communications	…	…	…	…	…	…
Other Economic Affairs	…	…	…	…	…	…
Other Purposes	…	…	…	…	…	…
TOTAL	**913.8**	**4.1**	**938.1**	**3.5**	**953.4**	**4.2**

7.3: DETAILED ESTIMATES OF TAX EXPENDITURES

Contracts and Conveyances Duty

The benchmark is defined as the conveyance of property (whether residential or commercial) where a real change in beneficial ownership occurs. The benchmark tax rate is defined against marginal rates of tax varying from 1.25 to 5.5 percent.

Table 7.4: Contracts and Conveyances Duty

Major Tax Expenditures	*1997-98 $m*	*1998-99 $m*	*1999-2000 $m*
First home purchase scheme			
Up to the 1998 Budget first home buyers meeting certain eligibility criteria could either receive a 30 percent discount for up-front payment of stamp duty or pay the duty in five annual instalments. The 1998 Budget increased the discount for up-front payment to 50 percent from 3 June 1998 and abolished the instalment option from 1 August 1998.	5.4	16.2	16.5
Transfer of residences between spouses			
An exemption is granted for property conveyed between spouses where joint holding of property is required.	3.7	4.5	5.1
Transfers of matrimonial property consequent upon divorce			
An exemption is granted for conveyances between parties under the Family Law Act 1975(Cth) or partnership property under the De Facto Relationships Act 1984.	5.6	6.5	7.3

Major Tax Expenditures	*1997-98 $m*	*1998-99 $m*	*1999-2000 $m*
Transfer of property from companies and trusts to individuals			
Exemption for conveyances of a principal place of residence from a corporation or a special trust to certain individuals or conveyance of any land owned as at 31 December 1986 by a special trust from the trust to certain persons.	1.4	1.4	1.4
Intergenerational rural transfers			
An exemption is granted for transfers of rural land used for primary production between generations to facilitate young family members taking over family farms. From 7 May 1997 the concession was extended to transfers between siblings.	13.7	11.7	10.5
Property conveyed on behalf of benevolent institutions	5.3	4.5	3.7
Corporate reconstructions			
An exemption is given for corporate reconstructions provided certain qualifying criteria are satisfied. These criteria were relaxed from 11 November 1998.	84.7	145.5	75.0
Property conveyed for poverty relief or education	n.a.	n.a.	n.a.
Reconveyance by way of discharge for old system titled properties	n.a.	n.a.	n.a.
Public purpose dedication of land			
Conveyances for land dedicated for public use exempted from duty.	n.a.	n.a.	n.a.

Minor Tax Expenditures (< $1 million)

- Stamp duty is reduced by 10 percent in the case of a conveyance of a private dwelling house where the value of the property is $10,000 or less, and is intended to be the purchaser's principal place of residence. The term 'private dwelling house' is defined to include a strata title lot. The introduction of the *Duties Act* made this exemption redundant from 1 July 1998;

- A person who has sold his or her property to a local government council because the home was built on flood-prone land and has then purchased another home may pay duty on the contract by instalments over a five-year period;

- From 23 June 1999 a discount of 50 percent is offered to those eligible for the first home purchase instalment option if they choose to pay the remaining instalments as a lump sum.

The following are exempt:

- Contracts for the purchase of land under an approved rental-purchase scheme. Under a rental-purchase scheme the operator purchases the property and leases it to a prospective purchaser while granting the latter an option to purchase the property within a specified period. The introduction of the *Duties Act* made this exemption redundant from 1 July 1998;

- Conveyances back to a former bankrupt by trustee of his or her estate;

- Conveyances relating to the property of the 'notional estate' of a deceased person;

- Land resumed by operation of a Commonwealth Act where the Crown in right of the Commonwealth is the person upon whom liability of duty would otherwise be imposed. If land is subsequently transferred back to the person who was entitled to the land immediately before the resumption, the instrument of transfer is also exempted from duty provided that no compensation has been paid in respect of the resumption;

- Sales of holdings of discharged soldiers. The introduction of the *Duties Act* made this exemption redundant from 1 July 1998;

- Any instrument for sale or transfer of any ship or vessel, to the extent that it constitutes a hiring arrangement or a hire-purchase arrangement, which would be taxed under hiring arrangement duty. The introduction of the *Duties Act* made this exemption redundant from 1 July 1998;

- Conveyances where public hospitals are the liable party;

- Any agreement made by a council with the Commissioner for Main Roads of New South Wales;

- Instruments executed by or on behalf of a council or county council under the *Local Government Act 1993*;

- Conveyances executed for the purpose of amalgamation or dissolution of clubs or the formation of a new club under section 17A of the *Registered Clubs Act 1976*;

- Any instrument executed by or on behalf of the Board of Commissioners or the Commissioners in relation to the *Nauru Island Agreement Act 1919 (Cth)*;

- Instruments executed by or on behalf of agencies within the meaning of the Convention on the Privileges and Immunities of the Specialised Agencies approved by the General Assembly of the United Nations in 1947;

- Conveyances between associations of employees or employers registered under the *Industrial Relations Act 1988 (Cth)* for the purpose of amalgamation;

- NSW Aboriginal Land Council (ABL), Regional ABL, and Local ABL;

- Conveyance of property between licensed insurers, and between the WorkCover Authority and licensed insurers, under the Workers Compensation Acts of 1926 and 1987 (NSW);

- Tenants of the Department of Housing are given an exemption from contracts and conveyances duty when buying their principal place of residence;

- Community Housing Program administered by the Department of Housing;

- Transfers of property in a statutory trust as a result of an order under s66G of the *Conveyancing Act 1919*; and

- Transfer of a liquor licence in certain circumstances under sections 41, 42 or 61 of the *Liquor Act 1982*.

General Insurance

The benchmark is defined as all premiums for general insurance policies, except those for reinsurance (which is exempt because taxing reinsurance would amount to taxing the same risk twice). The benchmark tax rate is 11.5 percent of premium paid.

Table 7.5: General Insurance

Major Tax Expenditures	*1997-98 $m*	*1998-99 $m*	*1999-2000 $m*
Concessional rates for motor vehicle, aviation, disability income, occupational indemnity and crop and livestock insurance			
A concessional rate of 5 percent applied to a number of categories of insurance including motor vehicle (excluding compulsory third party (the 'green slip')), aviation, disability income and occupational indemnity. Crop and livestock insurance is taxed at 2.5 percent.	157.1	167.5	175.9
Exemption for third party motor vehicle personal injury insurance as per the Motor Vehicle Act 1988	167.0	178.0	186.9

Major Tax Expenditures	*1997-98 $m*	*1998-99 $m*	*1999-2000 $m*
Third party motor vehicle personal injury insurance (the 'green slip') is exempt from stamp duty.			
Marine and cargo insurance			
Exemption for marine insurance covering hulls of commercial ships and the cargo carried by land, sea or by air.	18.1	19.3	20.3

Minor Tax Expenditures (< $1 million)

The following are exempt:

- Insurance by non-profit charities, benevolent, philanthropic and patriotic organisations;
- Insurance by Aboriginal land councils and non-commercial ventures of local councils;
- Insurance covering mortgages acquired for issuing mortgage backed securities;
- Separate policies covering loss by fire of labourer's tools;
- Redundancy insurance in respect of housing that does not exceed $124,000; and
- Insurance covering only property of the Crown.

Life Insurance

The benchmark is defined as all products (or part thereof) where the sum assured is greater than $100 offered by life insurance companies that provide for a payment in the event of death or injury from natural causes of the person insured or upon survival to a specified age. The benchmark tax rate is 10 cents per $200 where the sum assured is between $100 and $2,000 and $1 plus 20 cents per $200 where the sum assured is greater than $2,000.

Table 7.6: Life Insurance

Major Tax Expenditures	*1997-98 $m*	*1998-99 $m*	*1999-2000 $m*
Superannuation			
An exemption is granted to all superannuation other than that offered by life companies to an individual.	59.7	63.6	66.8

Mortgage Duty

The benchmark is defined as all secured loans of greater than $500 that affect property in New South Wales. The benchmark tax rate is $5 for $500 to $16,000 plus 40 cents per $100 or part thereof on excess. Prior to 1 July 1998 Mortgage Duty was known as Loan Security Duty.

Table 7.7: Mortgage Duty

Major Tax Expenditures	*1997-98 $m*	*1998-99 $m*	*1999-2000 $m*
Refinanced loans where the borrower and the security for the loan remain the same			
A loan security that secures the amount of the balance outstanding under an earlier loan security granted for the same borrower over the same or substantially the same property is exempt. Any additional amount above the previously secured amount is liable for duty.	33.8	39.8	41.8
First home purchase mortgage covered by First Home Purchase Scheme			
Mortgages given to assist the financing of a purchase under a contract, which is eligible under the First Home Purchase Scheme, are exempt from duty.	4.4	6.3	6.3
Additional advances up to $10,000 in any 12 month period			
This is a concession given for small loans not exceeding the prescribed amount provided that the additional loan is not made within 12 months after the initial loan.	1.0	1.0	1.0

Major Tax Expenditures	*1997-98 $m*	*1998-99 $m*	*1999-2000 $m*
Declaration of trust over corporate debt securities and mortgages			
Transfers of corporate debt security or a declaration of trust made on or after 1 January 1995 over property identified in the declaration as corporate debt security are exempt from duty. The introduction of the Duties Act made this exemption redundant from 1 July 1998.	n.a.	…	…
Mortgage-backed securities			
An exemption is given for financial institutions using pooled mortgages from their lending assets as security for borrowing funds.	n.a.	n.a.	n.a.
Loan-backed securities			
Securities issued backed by cash flow from loans (secured and unsecured) are exempted from duty.	n.a.	n.a.	n.a.
Fund raisings by finance companies through debenture issues			
A concession is given to companies whose sole or principal business is to provide finance to the public. Debentures issued, trust deeds and mortgages executed by "financial corporations" as defined in the legislation are not liable to duty. However, the trust deed is stamped as a Declaration of a Trust.	n.a.	n.a.	n.a.

Minor Tax Expenditures (< $1 million)

The following are exempt:

- Mortgages created solely for the purpose of providing security in accordance with a condition imposed on the grant of bail in criminal proceedings;
- Mortgages securing amounts under a consumer credit contract, where the amount financed is $35,000 or less;

- Primary producers who refinance their borrowings, or revise their security arrangements, to become eligible for subsidies from the Rural Assistance Authority. This concession is limited to refinancing (i.e. it excludes loans from redraw facilities) and is limited to the same or substantially the same land (i.e. it excludes any changes in boundaries of improvement made to the land);
- Mortgages given by Federal or State/Territory governments or public statutory body;
- Loans given by councils or county councils under *Local Government Act 1993*;
- Any loan security made or given to the WorkCover Authority;
- Instruments executed by or on behalf of a council or county council under the *Local Government Act 1993*;
- Board of Commissioners or the Commissioners in relation to the agreement approved by the *Nauru Island Agreement Act 1919 (Cth)*;
- Loan security given for the relief of poverty and promotion of education;
- Loan security given to institutions of charitable or benevolent nature, or for the promotion of the interest of Aborigines;
- NSW Aboriginal Land Council (ABL), Regional ABL and Local ABL;
- Offshore banking units (as defined in the *Income Tax Assessment Act 1936(Cth)*) where a loan is executed for offshore parties;
- Tenants of Department of Housing or from the Community Tenancy Scheme who, in mortgaging the real property, obtain not less than 25 percent of the beneficial ownership of land and who intend to use the land as their principal place of residence;

- Mortgages granted by a non-profit organisation in conjunction with a lease not subject to duty, the purpose of which is to provide accommodation to an aged or disabled person;

- Bonds to Her Majesty, or any person or authority on her behalf. The introduction of the *Duties Act* made this exemption redundant from 1 July 1998;

- Mortgages by public hospitals;

- Mortgage of liens under the *Liens on Crops and Wool and Stock Mortgage Act 1898*, or a special lien under the *Cooperation Community Settlement and Credit Act 1923*;

- Agencies within the meaning of the Convention on the Privileges and Immunities of the Specialised Agencies approved by the General Assembly of the United Nations in 1947;

- Instrument executed for the purpose of creating, issuing or marketing mortgage-backed securities;

- The amalgamation, dissolution of clubs or the formation of a new club; and

- Mortgages by clearing houses of the Sydney Futures Exchange and Australian Options Market that do not secure an advance.

Marketable Securities Duty

The benchmark is defined as the turnover (sale price *x* quantity traded) of shares traded on the Sydney operations of the Australian Stock Exchange (listed) or of shares of a company registered in New South Wales, with the exception of lending of shares, American Depository Shares (ADS) and American Depository Receipts (relating to ADS). The benchmark tax rate is 15 cents per $100 or part thereof for both buyer and seller for on-market transactions and 30 cents per $100 or part thereof for off-market transactions in listed companies and 60 cents per $100 or part thereof otherwise, with the purchaser paying all of the duty. With the passage of the *Duties Act 1997* duty exemptions for Government securities, mortgage and loan-backed securities and the transfer of corporate debt securities became redundant from 1 July 1998.

Table 7.8: Marketable Securities Duty

Major Tax Expenditures	*1997-98 $m*	*1998-99 $m*	*1999-2000 $m*
Principal trading			
A concessional rate of duty of 0.25 cents per $100 or part thereof applies to traders trading on their own behalf.	209.6	250.0	225.0
Papua New Guinea and New Zealand companies			
From 1 July 1998 concessional rate of duty of 0.25 cents per $100 or part thereof applies to trading in securities of companies incorporated in Papua New Guinea or New Zealand.	5.6	6.6	7.0
Newcastle Stock Exchange			
As the Newcastle Stock Exchange is not an ASX exchange, transactions on this exchange were taxed at 60 cents per $100. From 1 January 1999 marketable securities traded on the Newcastle Stock Exchange are taxed at the rate of 30 cents per $100 or part thereof.	…	1.0	1.8

Minor Tax Expenditures (< $1 million)

The following transfers are exempt:

- Share buy-backs by NSW companies;
- Mining companies whose operations relate solely to New South Wales;
- Transfers to parties outside a marriage where the transfer is pursuant to an order of the Family Court of Australia;

- Certain transfers of shares by superannuation funds to a Pooled Superannuation Fund;
- Transfers to and from the benchmark Australian All Ordinaries Trust; and
- Transfers of stocks to and from Stock Exchange Index Trusts.

Motor Vehicle Registration Duty

The benchmark taxable activity is defined as the purchase of a new vehicle and the subsequent transfer of the vehicle. The benchmark tax rate is $3 per $100 or part thereof of the value of the vehicle for vehicles valued to 45,000. For vehicles valued at above this amount a marginal rate of tax of $5 per $100 or part thereof is applied to the value above $45,000.

Table 7.9: Motor Vehicle Registration Duty

Major Tax Expenditures	*1997-98 $m*	*1998-99 $m*	*1999-2000 $m*
Local councils			
An exemption is granted for the transfer of registration into the name of a local council.	10-15	10-15	10-15
Transfer of ownership after divorce or a breakdown of a defacto relationship			
An exemption is granted for the transfer of registration into the name of one of the parties to a divorce or separation in a de facto relationship.	1.2	1.2	1.2
Transfer of ownership of a deceased registered owner			
An exemption is granted for the transfer of registration to the legal personal representative of a deceased registered owner or the person beneficially entitled to the vehicle in his estate.	2.7	2.7	2.7

Major Tax Expenditures	*1997-98 $m*	*1998-99 $m*	*1999-2000 $m*
New demonstrator motor vehicle			
An exemption is granted for the registration of a motor vehicle to a licensed motor dealer or wholesaler under the Motor Dealers Act 1974 (NSW).	11.7	10.8	11.7

Minor Tax Expenditures (< $1 million)

The following are exempt:

- All vehicles registered by non-profit charitable, benevolent, philanthropic or patriotic organisations;
- Vehicles specially constructed for ambulance or mine rescue work;
- Conveyances weighing less than 255 kg used for transporting invalids;
- Rural lands protection boards;
- Aboriginal Land Councils within the meaning of the Aboriginal Land Rights Act 1983 (NSW); and
- From December 1997 all vehicles purchased by TPI war veterans.

Financial Institutions Duty

The benchmark is defined as all receipts to financial institutions except for receipts to internal and working accounts, clearing and settlement accounts. The benchmark tax rate is 0.06 percent.

Table 7.10: Financial Institutions Duty

Major Tax Expenditures	*1997-98 $m*	*1998-99 $m*	*1999-2000 $m*
Non business activities of government departments			
These bodies are exempt from FID under Section 98A(1)(m) of the *Stamp Duties Act (1920)*. This section allows an exemption for Departments of Commonwealth, State and Territory and Local Governments other than those departments whose sole or principal function is to carry on an activity in the nature of a business.	25-50	25-50	25-50
Direct crediting of social security and veteran affairs pensions			
The direct crediting of pensions from the Department of Social Security and the Department of Veteran Affairs are exempt from FID under Regulation 9A(1) of the Stamp Duties (Financial Institutions Duty) Regulation.	7.9	7.8	7.7
Charitable, educational and religious bodies			
These bodies are exempt from FID under Section 98A(1)(z) of the *Stamp Duties Act 1920*.	4.3	4.6	6.3
Public and non-profit hospitals			
These bodies are exempt from FID under Section 98A(1)(z) of the *Stamp Duties Act 1920*.	3.7	4.0	4.3
Offshore Banking Units			
An exemption is provided in relation to offshore banking activity within the meaning of section 121D of the *Income Tax Assessment Act 1936 (Cth)*.	n.a.	n.a.	n.a.

Minor Tax Expenditures (< $1 million)

The following are exempt:

- Centralised data processing operations of companies;
- Receipts from the sale of goods other than under a credit contract, hiring arrangement or lease;
- Initial receipt by a trustee company of the assets of a deceased person;
- Licensed foreign exchange dealers;
- The initial issue of mortgage-backed securities;
- Association of Credit Unions Ltd, Association of Central Credit Unions Ltd and Co-operative Federation of NSW Ltd;
- Duty paid under corresponding Act from another State;
- Aboriginal land councils;
- Building society transfer of engagements and amalgamation;
- Bill rollovers (reimbursement by a customer);
- Home loan repayments by veterans;
- Accounts of banks with other banks;
- Transfers of receipts of workers compensation insurers;
- Transfers between exempt accounts;
- Deposits of trust money with the Australian Stock Exchange Ltd by members;
- Flemington Markets Commercial Services Co-operative Ltd (farm produce) and Newcastle Markets;

- Scrip Lending;
- Account of Combined Financial Processing Pty Ltd;
- Australian Olympic Committee Incorporated and the New South Wales Olympic Council Incorporated in relation to the Sydney 2000 Games from 1 January 1996;
- Sydney Organising Committee for the Olympic Games and the Sydney Paralympic Organising Committee Ltd;
- Amalgamation of credit unions, with effect from 20 November 1996;
- Private charitable trusts from 29 March 1996;
- Certain government trading enterprises and government businesses;
- Market Settlements Fund operated by Transgrid; and
- ASX CHESS clearing accounts and ASX Settlement Accounts.

Hiring Arrangements Duty

The benchmark is defined as all short-term consumer hiring and other non-finance rentals greater than $6,000 per month and equipment financing arrangements, including hire purchase arrangements. The benchmark tax rate is 0.75 percent with a maximum of $10,ooo tax payable for any single arrangement.

There are no major tax expenditures.

Minor Tax Expenditures (< $1 million)

The following are exempt:

- Prosthetic items;
- Wet hires;

- Gas, water and electricity meters;
- On-site caravans;
- Arrangements between related bodies corporate;
- Certain arrangements in relation to aircraft, ships and vessels;
- Hire of goods as part of a franchise arrangement; and
- Where the use of goods is incidental and ancillary to the provision of a service.

Lease Duty

The benchmark is defined as any lease of property valued at greater than $3,000 in New South Wales. The benchmark tax rate is 35 cents per $100 of total rent. From 1 July 1998 the base has been restricted to leases of real property and franchise arrangements.

Table 7.11: Lease Duty

Major Tax Expenditures	*1997-98 $m*	*1998-99 $m*	*1999-2000 $m*
Exemption for residential leases			
A residential lease under which a person has a right to occupy any premise as a place of residence for a term not exceeding five years is exempt.	4.6	4.8	5.0

Minor Tax Expenditures (< $1 million)

The following are exempt:

- Leases on a movable dwelling site (essentially referring to sites in caravan parks and relocatable home parks);
- Leases of accommodation for aged and disabled persons;
- Leases executed by a public hospital;

- Leases executed by an Aboriginal Land Council; and
- Leases of premises to the Home Care Service of New South Wales.

Payroll Tax

The tax benchmark is defined as aggregate annual gross remuneration paid by a single or group taxpayer in excess of a threshold of $600,000. The benchmark tax rate is 6.85 percent for 1997-98 and 1998-99, and 6.4 percent for 1999-2000.

Table 7.12: Payroll Tax

Major Tax Expenditures	*1997-98 $m*	*1998-99 $m*	*1999-2000 $m*
Public hospitals and Area Health Services			
An exemption is granted for remuneration paid by a public hospital or an area health service to a person while engaged in work of a kind ordinarily performed in connection with the conduct of these organisations.	254.0	272.0	272.0
Schools and colleges			
An exemption is granted for remuneration paid by a school or college (other than a technical school or a technical college) that is not for profit and which provides education at or below, but not above, the secondary level of education to a person while engaged in work of a kind ordinarily performed in connection with the conduct of these organisations.	44.4	47.5	47.5
Religious institutions			
An exemption is granted for remuneration paid by a religious institution to a person while engaged in work of a kind ordinarily performed in the conduct of these institution.	3.9	4.2	4.2

Major Tax Expenditures	*1997-98 $m*	*1998-99 $m*	*1999-2000 $m*
Charitable institutions			
An exemption is granted for remuneration paid by a charitable, benevolent, philanthropic or patriotic institution (other than an instrumentality of the State) to a person while engaged in work of a charitable, benevolent, philanthropic or patriotic nature.	15.0	15.0	15.0
Local councils			
An exemption is granted for remuneration paid by a council or county council, except in connection with a number of trading undertakings including the operation of an abattoir or a public food market, parking station, cemetery, crematorium, hostel, the operation of a coal mine, the supply and distribution of coal, the operation of a transport service and the supply of building materials.	82.2	88.0	88.0
Private hospitals and nursing homes			
An exemption is granted for a hospital which is carried on by a society or association otherwise than for the purpose of profit or gain to the individual members of the society or association to a person in respect of time when the person is engaged in work of a kind ordinarily performed in connection with the conduct of hospitals.	8.8	9.4	9.4
Home Care Service			
From July 1998 an exemption has been provided for the salaries paid to employees of the Home Care Service. An ex gratia payment was provided for the payroll tax liabilities of the Home Care Service for the period to 30 June 1998.	…	6.3	5.9

Major Tax Expenditures	*1997-98 $m*	*1998-99 $m*	*1999-2000 $m*
Apprentices			
From 1 July 1999 employers of apprentices are only required to include in their calculations of 'taxable wages' 25 percent of wages paid to first year apprentices, 50 percent of the wages paid to second year apprentices and 75 percent of the wages paid to third year apprentices.	…	…	4.0
Certain Termination Payments			
Termination payments made in relation to leave accrued prior to 1 January 1990 are exempt from payroll tax.	<$5m	<$5m	<$5m

Minor Tax Expenditures (< $1 million)

The following are exempt:

- Wages paid to an employee who is on leave from employment by reason of service in the Defence Forces;

- Wages paid to persons employed under the Community Development Employment Program administered by the Aboriginal and Torres Strait Islander Commission;

- Wages paid by the Australian-American Educational Foundation;

- Wages paid to members of the official staff by a consular or other non-diplomatic representative of another country or by a Trade Commissioner representing in Australia any other part of Her Majesty's dominions;

- Wages paid by the Governor of the State;

- Wages paid to employees while the employees are providing assistance to the State Emergency Services; and

- Wages that are exempt from income tax under section 23(z) of the *Income Tax Assessment Act 1936 (Cth)* being income derived by way of scholarship or other educational assistance received by a full-time student at a tertiary educational institution.

Land Tax

The benchmark tax base for land tax is defined as the unimproved capital value of all land owned (as defined in the Land Tax Management Act 1956 (NSW)) at 31 December by a person or organisation other than the Commonwealth or NSW Governments which: (i) for owner-occupied residences, is above the threshold for principal places of residences for that year; (ii) for non-concessional companies and special trusts, the total aggregate land values; and (iii) for any other land owners, the aggregate land owned has an unimproved capital value above the threshold for that year. The benchmark tax rate is 1.85 percent for the 1998 and 1999 land tax years and 1.7 percent for the 2000 land tax year.

Table 7.13: Land Tax

Major Tax Expenditures	*1997-98 $m*	*1998-99 $m*	*1999-2000 $m*
Boarding houses for low-income persons			
An exemption is granted for land used by boarding houses which meet approved guidelines, principally that the rent charged is less than the amount prescribed by the Office of State Revenue.	2.0	2.1	2.0
Land used for primary production			
An exemption is granted for land used for primary production. Hobby farms do not meet the requirement for land used for primary production and therefore do not fall within this exemption.	250	265	250
State-owned corporations and government trading enterprises			
Certain Government Trading Enterprises are exempt from land tax.	136	132	122

Major Tax Expenditures	*1997-98 $m*	*1998-99 $m*	*1999-2000 $m*
Racing clubs			
An exemption is granted for land owned by or held in trust for any club for promoting or controlling horse-racing, trotting-racing or greyhound-racing which is used primarily for the purposes of the meetings of the above.	4.0	4.4	4.2
Employer and employee organisations			
An exemption is granted for land owned by or held in trust for employer and employee organisations for that part that it is not used for a commercial activity open to members of the public.	1.3	1.5	1.4
Cooperatives			
An exemption is granted for land owned by a co-operative whose objectives are listed under the Co-operatives Act 1992 (NSW) and whose objectives are listed in section 7 of that Act.	5.4	6.0	5.8
Public cemeteries and crematoriums			
An exemption is granted for any land used as a public cemetery or crematorium.	6.7	7.4	7.0
Retirement villages			
An exemption is given for land owned and used by retirement villages.	56	54	51
Child care centres			
An exemption is granted for land used as a residential child care centre licensed under the Children (Care and Protection) Act 1987 (NSW) or a school registered under the Education Reform Act 1900 (NSW).	4.5	4.4	4.0
Public hospitals and Area Health Services			
An exemption is granted for land used by a public hospital or Area Health Service.	12.8	14.2	13.2

Major Tax Expenditures	*1997-98 $m*	*1998-99 $m*	*1999-2000 $m*
Agricultural showgrounds			
An exemption is granted for land used and occupied for the purpose of holding agricultural shows, or shows of a like nature and owned by, or held in trust for, a society which is established for the purpose of holding such shows not for the pecuniary profit of its members and primarily uses its funds for the holding of such shows.	n.a.	n.a.	n.a.
Friendly societies			
An exemption is granted for any society registered under the Friendly Societies Act 1989 (NSW).	n.a.	n.a.	n.a.
Religious societies			
An exemption is provided for land owned by or in a trust for a religious society if the society is carried on solely for religious, charitable or educational purposes.	n.a.	n.a.	n.a.
Non-profit societies, clubs and associations			
An exemption is provided where a building (or part thereof) is occupied by a society, club or association not carried on for pecuniary profit.	n.a.	n.a.	n.a.
Charitable and educational institutions			
An exemption is provided for land owned by or in a trust for a charitable or educational institution if the institution is carried on solely for charitable or educational purposes and not for pecuniary profit.	n.a.	n.a.	n.a.
Public gardens, recreation grounds and reserves			
An exemption is provided for land used as a public garden, public recreation ground or public reserve.	n.a.	n.a.	n.a.

Major Tax Expenditures	*1997-98 $m*	*1998-99 $m*	*1999-2000 $m*
Sporting clubs			
An exemption is provided for land owned by or in a trust for any club or body of persons where the land is used primarily for the purpose of a game or sport and not used for pecuniary profit of the members of that club or body.	n.a.	n.a.	n.a.
Sydney Light Rail			
An exemption is provided in respect of the land occupied by the Sydney Light Railway.	n.a	n.a	n.a
Land owned and used by a local council	n.a.	n.a.	n.a.

Minor Tax Expenditures (< $1 million)

- Concessions for land subject to heritage orders;

The following are exempt:

- Low Cost Accommodation within 5 km of GPO;
- Nursing Homes;
- Marketing and pastures protection boards;
- Aboriginal Land Councils;
- New rental residential accommodation for five years;
- Bush fire victims;
- Community land development;
- Unoccupied flood-liable land;
- Land used for maintaining endangered animals; and
- Land owned by RSL (NSW Branch), Anzac House.

Debits Tax

The benchmark is defined as all accounts with cheque drawing facilities. The benchmark rate of tax varies from 30 cents to $4.00 per debit.

Table 7.14: Debits Tax

Major Tax Expenditures	*1997-98 $m*	*1998-99 $m*	*1999-2000 $m*
Non-business activities of government departments			
The non-business activities of NSW government departments are exempt from Debits Tax.	10-20	10-20	10-20
Public benevolent and religious bodies			
The debits from cheque linked accounts of public benevolent and religious bodies as defined under the Act are granted an exemption from Debits Tax.	1-3	1-3	1-3
Schools, colleges and non-profit making universities			
The debits from the cheque linked accounts of schools, colleges and non-profit universities as defined under the Act are granted an exemption from Debits Tax.	1-2	1-2	1-2

Minor Tax Expenditures (< $1 million)

The following are exempt:

- Public and private hospitals as defined under the Act;
- Named government trading enterprises and government businesses;
- Foreign governments;
- Governor and Governor-General;
- Debits for the payment of income tax on natural resources for non-residents (section 221 YHZC(1A) of the Income Tax Act (1936) (Cth));

- Debits of Sydney Organising Committee for the Olympic Games and the Sydney Paralympic Organising Committee Ltd; and

- Offshore banking units within the meaning of section 121D of the Income Tax Assessment Act 1936 (Cth).

Vehicle Weight Tax

The benchmark is defined as all vehicles intended for on-road use with the exception of Commonwealth Government vehicles, which for constitutional reasons cannot form part of the tax base. The benchmark tax rate is as defined in the *Motor Vehicles Taxation Act 1988 (NSW)* for private and business vehicles.

Table 7.15: Vehicle Weight Tax

Major Tax Expenditures	*1997-98 $m*	*1998-99 $m*	*1999-2000 $m*
Selected social security recipients			
An exemption is granted in respect to any motor vehicle owned by holders of pensioner concession card, Department of Veteran Affairs (DVA), TPI cards and DVA Gold War Widow's card. The vehicle must be used by those pensioners substantially for social, domestic or pleasure purposes.	84.7	87.1	89.0
Primary producers			
Primary producer concessions include, for motor vehicles not greater than 4.5 tonnes of gross vehicle mass, private rates rather than business rates for cars and station wagons and 55 percent of business rates for trucks, tractors and trailers.	14.8	15.4	15.8

Major Tax Expenditures	*1997-98 $m*	*1998-99 $m*	*1999-2000 $m*
Local government roadwork equipment			
An exemption is granted to any motor vehicle or plough, bulldozer, mechanical scoop or shovel, road grader, road roller or similar machinery that is owned by a local council within the meaning of the Local Government Act 1993 and which is used for the purposes of road construction, road maintenance, road repair, removal of garbage or night soil, bush fire fighting, civil defence work or to any roller, lawn mower or similar machinery used solely or principally for the rolling or maintenance of tennis courts, cricket pitches, lawns or pathways.	6.2	6.4	6.5
Bush fire or civil defence work			
Any motor vehicle (other than Government owned) that is used for or in connection with civil defence work or in connection with fire fighting work is exempt from weight tax.	1.2	1.2	1.3
General purpose plant			
Concessions are provided for machines which can not carry any load other than tools and accessories necessary for the operation of the vehicle.	4.8	4.9	5.0

Minor Tax Expenditures (< $1 million)

- A concessional rate of 55 percent of business rates (or 30 percent if outside the Sydney metropolitan area, Newcastle or Wollongong districts) is applied to any motor vehicle which is used solely or principally as a tow truck;
- A concession is provided for mobile cranes;
- A concessional rate of tax is applied to any motor vehicle that is owned by a rural land protection board and is used solely for the carrying out of the functions of the board;

The following are exempt:

- All vehicles registered by non-profit charitable, benevolent, philanthropic or patriotic organisations;
- Any motor vehicle that is used principally as an ambulance;
- Motor vehicles that are designed for people with disabilities;
- Motor vehicles used by the State Emergency Services; and
- Any motor vehicle on which a trader's plate is being used in accordance with the Traffic Act 1909 (NSW) or the regulations under that Act.

Drivers' Licences

The benchmark is considered to be the licensing of all persons to drive a vehicle in New South Wales on public roads. The benchmark tax rates in 1997-98 were $34 for a one-year licence, $83 for a three-year licence and $111 for a five-year licence.

Table 7.16: Drivers' Licences

Major Tax Expenditures	*1997-98 $m*	*1998-99 $m*	*1999-2000 $m*
Selected social security recipients			
An exemption is granted to any licence holder who also holds a pensioner concession card, Department of Veteran Affairs (DVA) TPI cards, DVA Gold War Widows Card and who can provide evidence that their income is below a certain level or can provide a DVA letter regarding their disability rate. The vehicle owned by the licence holder must be used by those pensioners substantially for social or domestic purposes.	5.9	8.8	13.3

Vehicle Transfer Fees

The benchmark is considered to be all transfers of previously registered vehicles. The benchmark tax rate was $20 per vehicle until 31 January

1998. From 1 February 1998 until 30 June 2000 the rate is increased to $40 for individuals and to $25 for motor dealers.

Minor Tax Expenditures (< $1 million)

The following are exempt:

- Consignees;
- Beneficiaries under wills;
- Executors and administrators of deceased estates;
- Vehicles awarded in court decisions;
- Representatives of unincorporated organisations;
- Adding/removing a trading name.

Motor Vehicle Registration Fees

The benchmark is defined to be all vehicles intended for on-road use. The benchmark tax rate in 1997-98 was $41 for most motor vehicles, $139 for lorries with mass of 5 tonnes or more and $198 for articulated trucks. From 1 February 1998 to 30 June 2000 the $41 fee is increased to $46.

Table 7.17: Motor Vehicle Registration Fees

Major Tax Expenditures	*1997-98 $m*	*1998-99 $m*	*1999-2000 $m*
Selected Social Security Recipients			
Holders of pensioner concession cards, Department of Veteran Affairs (DVA) TPI Card, DVA Gold War Widows Card (based on income or based on disability pension rate) are exempt from the fee.	24.6	25.1	25.6

Minor Tax Expenditures (< $1 million)

- Exemption for Mobile Disability Conveyance.

Accommodation Levy

The benchmark is defined to be a levy equal to 10 percent of the value of accommodation provided by all commercial premises in the areas of the Sydney and North Sydney Central Business Districts described in the *Accommodation Levy Act 1997*. The tax commenced on 1 September 1997.

Table 7.18: Accommodation Levy

Major Tax Expenditures	*1997-98 $m*	*1998-99 $m*	*1999-2000 $m*
Pre-existing contracts			
Rooms covered by fixed price contracts for the period to 31 March 1998 were exempt from the levy.	15.0	…	…
Backpackers and Youth Hostel exemption			
Backpacker hostels and youth hostels are exempt from the levy	1.0	1.0	1.2
Contracts signed with SOCOG by 31 December 1997			
Establishments signing contracts with SOCOG by 31 December 1997 to provide rooms over the period of the Olympics pay only 5 percent from 1 September 1997, 7 percent from 1 April 1998 and 10 percent from 1 September 1998.	22.0	5.0	…

Minor Tax Expenditures (< $1 million)

- Exemption for accommodation provided by cruise ships while in Port Jackson;

Gambling and Betting Taxes

The only areas where a different tax treatment is provided to essentially the same activity are in respect of gaming machines in hotels and registered clubs and the taxation of totalisators operated by racing clubs. The benchmark for gaming machines in hotels and registered clubs is defined to be the rates of taxation applying to hotels.

The benchmark for totalisators to 28 February 1998 was the various tax rates applying to different types of bets placed with the TAB. From 1 March 1998 these rates were replaced with an average tax of 28.2 percent of player loss.

Table 7.19: Gambling and Betting Taxes

Major Tax Expenditures	*1997-98 $m*	*1998-99 $m*	*1999-2000 $m*
Club gaming machines			
From 1 April 1997 hotels have been permitted to operate poker machines. Poker machines installed in clubs registered under the *Registered Clubs Act 1976* are taxed at lower rates than poker machines installed in hotels.	337.4	360	384.1

Minor Tax Expenditures (< $1 million)

- A full rebate of tax is provided to racing clubs operating non-TAB Ltd pools;

7.4: DETAILED ESTIMATES OF CONCESSIONS

Details of concessions by function are shown below. Each concession is classified by type and a distinction is drawn between major concessions ($1million or more) and minor concessions (less than $1million).

Table 7.20: Education

Major Concessions	*1997-98 $m*	*1998-99 $m*	*1999-2000 $m*
TAFE Concession for needy students			
Fees for TAFE courses are waived for students considered to be in need of financial assistance.	18.2	19.6	20.2
School transport subsidy scheme			
Private transport operators, the State Rail Authority and State Transit Authority provide eligible students with free transport to and from school.	345.2	367.8	381.0

Table 7.21: Health

Major Concessions	*1997-98 $m*	*1998-99 $m*	*1999-2000 $m*
Ambulance service for pensioners			
Free transport by ambulance is provided for holders of pensioner health benefit cards.	42.1	43.2	44.1
Outpatient Pharmaceutical Scheme for Pensioners			
Free pharmaceuticals are provided for holders of pensioner health benefit cards.	2.0	2.1	2.1

Table 7.22: Social Security and Welfare

Major Concessions	*1997-98 $m*	*1998-99 $m*	*1999-2000 $m*
Spectacles program			
The Department of Community Services covers the cost of spectacles for people in financial need.	3.6	3.8	4.0
Charitable Goods Transport Scheme			
The Department of Community Services funds the costs incurred by charities in transporting clothing for recycling**.**	2.4	2.0	2.0
Taxi Transport Subsidy scheme			
People with disabilities receive a concession on the cost of taxi travel.	8.8	9.2	9.7
Pensioner Public Transport Concession Scheme			
Pensioners travel for less than full fare on public transport.	287.1	285.7	282.5

Table 7.23: Housing and Community Amenities

Major Concessions	*1997-98 $m*	*1998-99 $m*	*1999-2000 $m*
Local council rates concession			
Local council rates are reduced by up to $250 for holders of pensioner health benefit cards.	69.9	71.3	71.3
Sydney Water Corporation Pensioner Rate Concession			
Holders of pensioner health benefit cards receive a 50 percent discount on water rates.	45.9	46.6	47.2
Sydney Water Corporation Exempt Properties concession			
Owners of properties which are used to provide non-profitable community services and	12.1	11.3	11.8

Major Concessions	*1997-98 $m*	*1998-99 $m*	*1999-2000 $m*
amenities (principally local councils and charities) are exempt from the payment of water charges.			
Transitional Water Rebates			
An additional special rate reduction for holders of pensioner health benefit cards to reduce the hardship associated with the move to greater reliance on usage pricing.	14.5	14.1	14.1
Hunter Water Corporation Water Rate Concession			
Holders of pensioner health benefit cards receive a 50 percent discount on water rates.	7.2	7.4	7.4

Minor Tax Expenditures (< $1 million)

- Blue Mountains septic pump-out service

Table 7.24: Recreation and Culture

Minor Tax Expenditures (< $1 million)

- Waterways Authority concessional boat licence, registration and mooring fees for pensioners;

- Royal Botanic Gardens concessional admission charges for pensioners and Seniors Cardholders for entry to the Tropical Centre Historic Houses Trust concessional admission charges for children and holders of seniors cards;

- Australian Museum concessional admission charges for entry to special exhibitions for students, the unemployed and holders of pensioner health care cards, free general admission to seniors card holders, disadvantage school students, accompanying adults with school groups, Museum Society members and children under five years old;

- Powerhouse Museum – free entry for holders of Seniors cards and group supervisors, concessional membership fees for students, pensioners and the unemployed, free admission and reduced membership fee for schools for the disadvantaged, discount of $30 on household membership for country residents and free or reduced charges for public program activities and free use of venue for meetings for community and charitable groups.

Table 7.25: Fuel and Energy

Major Concessions	*1997-98 $m*	*1998-99 $m*	*1999-2000 $m*
Electricity concession			
The Department of Community Services funds electricity costs incurred by pensioners, for life support and in emergencies to consumers in financial need.	52.8	52.0	54.0
Gas concession			
The Department of Community Services funds gas costs incurred by holders of pensioner health benefit cards.	2.0	2.0	2.0

Minor Tax Expenditures (< $1 million)

- Sustainable Energy Development Authority rebates to purchasers of certain hot water systems.

Table 7.26: Agriculture Forestry and Fishing

Minor Tax Expenditures (< $1 million)

- State Forests provides pensioner discounts on firewood permits which allow the collection of firewood and discounts to charitable organisations on the purchase of Christmas trees.

CHAPTER 8: STATE ECONOMIC REFORM

8.1 RATIONALE FOR REFORM

New South Wales has been actively implementing economic reform for over a decade. Since 1995, the majority of the reform process has taken place under the auspices of National Competition Policy (NCP). NCP has assisted in coordinating and implementing reforms across jurisdictional borders.

The rationale for NCP is that competition, properly harnessed, can boost economic performance and enhance consumer welfare. But the reasons for reform extend beyond economic efficiency considerations and encompass environmental sustainability and social equity.

New South Wales is at the forefront of implementing NCP reforms to improve the economic wellbeing of Australians. Competition Policy, however, is only one part of the NSW Government's policy aims and its application complements the Government's other policy objectives. The overall rationale of the Government's policy objectives is to improve the living standards of all people in New South Wales.

NSW economic reform has created a more competitive economy and produced a number of improvements:

- lower prices and increased choice for consumers;
- greater attention to ecologically sustainable development;
- increased business choice and innovation;

- enhanced allocative, productive and technical efficiency;
- the promotion of equity, as the disciplines of competition become shared more evenly across society;
- progressive distributional effects as the energy reforms expand to take in the household sector;
- increased opportunities for NSW business to effectively compete for international market share;
- strengthened State finances resulting from getting better value for money from expenditure while supporting revenue through economic growth; and
- an improvement in the productivity and flexibility of the NSW economy (to help protect against external shocks).

8.2 NATIONAL COMPETITION POLICY (NCP) REFORM ACHIEVEMENTS

NCP consists of three inter-governmental agreements: The Conduct Code Agreement (CCA), the Competition Principles Agreement (CPA), and the Agreement to Implement NCP and Related Reforms (RRA).

Conduct Code Agreement (CCA)

The CCA requires the extension of Part IV (which relates to anti-competitive conduct) of the *Trade Practices Act 1974*, to Government Business Enterprises (GBEs) and unincorporated businesses (e.g. professional partnerships) operating within a single State border.

The NSW Government complied with this agreement by enacting the *Competition Policy Reform (NSW) Act 1995*. This Act has applied to unincorporated associations and corporations since 21 July 1996, and to GBEs since 1 July 1997.

Competition Principles Agreement (CPA)

The CPA lists six competition-enhancing principles (discussed individually below) for introduction. The principles mostly apply to GBEs.

Independent Prices Oversight of Government Business Enterprises

In 1992, the NSW Government established an independent pricing tribunal, the Government Pricing Tribunal (GPT). The GPT was reformed and renamed the Independent Pricing and Regulatory Tribunal (IPART) in 1996. The functions of IPART are essentially to:

- set maximum prices and review pricing of scheduled monopoly services including electricity, gas, water and public transport; and
- undertake general reviews of industry, pricing or competition issues as required by the Premier.

Competitive Neutrality

The objective of this principle is to ensure government businesses do not distort the efficient use of the economy's resources through any competitive advantages as a result of being government owned. Government signatories to the CPA are required to ensure their businesses adopt:

- a corporatisation model;
- full Commonwealth, State and Territory taxes or tax equivalents;
- debt guarantee fees (which, in effect, restore the true cost of debt); and
- regulations to which private sector businesses are normally subject.

The above requirements may only be exempted where it can be shown that there is a net public benefit from not implementing competitive neutrality.

The NSW Government published its *Policy Statement on the Application of Competitive Neutrality* in June 1996.

A State-Owned Corporation (SOC) model has been adopted in New South Wales and is effectively the basis for compliance with the requirement for competitive neutrality. The *State-Owned Corporations (NSW) Act 1989* creates two alternative SOC structures - a company SOC and a statutory SOC. Both have a board of directors, share capital and a memorandum and articles of association similar to a public company limited by shares. The full extent of *Corporations Law* applies to company SOCs, whereas statutory SOCs are only required to observe the aspects of the *Law* relating to officers' duties and liabilities. To date, corporatisations have occurred in the electricity generation and distribution sectors, ports, transport, and water and waste services.

Structural Reform of Public Monopolies

This principle requires the commercial activities of a government business to be separated from its non-contestable regulatory functions before it is subjected to competition. The commercial activities are then separated into monopoly activities and competitive (or potentially competitive) activities. This process ensures that any monopoly rents of competitive activities are removed through competition, while IPART's independent price oversight of monopoly elements optimises community benefits.

The NSW Government has been systematically applying the principles of structural reform to its public monopolies, particularly those in the electricity and rail industries.

Electricity

New South Wales has restructured the regulatory and commercial sectors of the electricity industry, with the commercial sector further divided into its natural monopoly (transmission and distribution) and competitive components (generation and retail). NSW regulatory arrangements have developed in line with the National Electricity Market (NEM) timetable.

Rail

The NSW Government has separated the operation of rail services from the ownership, provision of access, and the maintenance components of the State Rail Authority (SRA).

The restructure of the SRA, outlined in the *Transport Administration Amendment (Rail Corporatisation and Restructuring) Act 1996*, has led to the formation of four entities:

- State Rail Authority (provides passenger services);
- Rail Access Corporation (manages the rail network and administers access by public and private operators);
- Rail Services Australia (undertakes track maintenance on contract to the Rail Access Corporation); and
- FreightCorp (runs freight services).

Review of Legislation

This principle requires jurisdictions to review (by the year 2000) legislation 'that restricts competition'. The guiding principle is that legislation should not restrict competition unless it can be demonstrated that the benefits to the community as a whole outweigh the costs and that the objectives of the legislation can only be achieved by restricting competition.

The determination of whether particular legislation 'restricts competition' and requires review is for each jurisdiction to determine. New South Wales has prepared a comprehensive program of review, encompassing some 200 pieces of legislation identified as restricting or potentially restricting competition.

These reviews have benefited the State by removing certain anti-competitive practices (particularly those relating to statutory marketing authorities), streamlining administrative arrangements, reducing compliance costs and repealing unnecessary (and often outdated) legislation.

Development of Third-Party Access Regimes

This principle indicates that States can develop regimes for the provision of third-party access to services that are provided by significant infrastructure facilities. State-based access regimes are to apply where:

- it would not be economically feasible to duplicate the facility;
- access to the service is necessary in order to permit effective competition in a downstream or upstream market; and
- access can be provided safely.

Electricity

On 13 December 1998, New South Wales moved from a State wholesale market operating under the *Electricity Supply Act 1995* to the NEM operating under the National Electricity Code. Third-party access provisions are incorporated in the Code. (The NEM is discussed below under the heading 'Agreement to Implement the National Competition Policy and Related Reforms')

Gas

New South Wales has taken a leading role in achieving free trade in gas in Australia. In August 1996, the NSW Government implemented the NSW Gas Pricing and Access Regime. This regime was the first of any State to be certified as effective under Section 44M of the *Trade Practices Act 1974*. New South Wales was also instrumental in establishing the National Third Party Access Code (as part of the *Gas Pipelines Access (NSW) Act 1998*), which commenced in August 1998 replacing the 1996 regime.

The NSW Government submitted its Access Regime (as embodied in the *Gas Pipelines Access (NSW) Act*) to the National Competition Council (NCC) in October 1998 for recommendation as an 'effective regime' under the *Trade Practices Act 1974*. The Council is expected to make a recommendation for certification to the Commonwealth Treasurer in mid 1999.

Third-party access rights for customers have been phased in gradually from 1996. At present, all customers using more than 10 terajoules per annum are able to choose their own supplier. From 1 October, 1999 this will be extended to those using more than 1 terajoule per annum and from 1 July 2000 it will apply to all users.

Rail

In August 1996, the Government gazetted the NSW Third-Party Access Regime for all rail services in New South Wales, along with associated amendments to the *Transport Administration Act 1988*. The Regime was submitted to the NCC for certification as an effective access regime. On 9 April 1998, the NCC issued its draft recommendation on the Regime for public comment, and on 2 November 1998 issued a circular stating that if New South Wales gazetted a Regime in the terms set out in the circular, the NCC would send its final recommendation to the Commonwealth Treasurer for his decision. An amended regime was gazetted on 19 February 1999 and has been provided to the NCC for final assessment.

Application of Competition Principles to Local Government

The State has made significant progress in applying the competition principles to local government, especially in developing guidelines for implementation. In 1997-98, the NSW Department of Local Government issued various guidelines to local councils on competitive neutrality, including *Pricing and Costing for Council Businesses: A Guide to Competitive Neutrality*. This publication included a timetable for applying competitive neutrality to significant business activities.

Agreement to Implement the National Competition Policy and Related Reforms (RRA)

The RRA includes specific industry reforms (to the electricity, gas, water and road transport industries), which had already been subject to separate agreements. The reforms were seen as crucial to securing the full benefits of national economic reform and were accordingly brought into the NCP package.

The RRA also sets out the conditions under which the Commonwealth Government will provide financial assistance to the States, subject to their being no major financial deterioration in Australia's economic circumstances.

Based on NCC assessment of compliance, the State is expected to receive $1.4 billion (1994-95 dollars), in financial assistance over the nine years to 2005-06, a per capita allocation of around 34 percent of the competition payments. Payments are also linked under the RRA to Financial Assistance Grant payments, which are paid according to a Commonwealth Grants Commission formula and are worth approximately $16.1 billion in aggregate to the year 2005-06.

Electricity

New South Wales has been at the forefront of moves to establish a fully competitive electricity market in Australia. Between 4 May 1997 and 12 December 1998, New South Wales, Victoria and the ACT operated an interim NEM in advance of the fully competitive market. The full NEM commenced operation on 13 December 1998, when Queensland and South Australia joined the ACT, Victoria and New South Wales.

New South Wales has operated a competitive market for trade in wholesale electricity since May 1996, and has been progressively introducing competition to retail customers. The first customers became eligible to choose their electricity supplier from October 1996. Since April 1997 users of 4 gigawatt hours (GWh) of electricity per year have been able to choose their electricity supplier. Three months later this was extended to customers using more than 750 megawatt hours (MWh) (generally energy intensive businesses). Since July 1998 customers using more than 160 MWh of electricity per year have been selecting their electricity supplier. Competition derived savings to electricity customers have amounted to $1.2 billion since 1995.

The next major milestone in the NSW Government's reform of the electricity industry is to open the retail market to all remaining customers, including households. This is planned to commence from 1 January 2001 with detailed transitional arrangements to be developed and announced in due course. On completion of this stage, both the wholesale and retail electricity markets will be fully competitive.

Gas

Reforms to access arrangements have led to a significant reduction in the price of gas. IPART's (17 July 1997) determination of AGL's proposal for providing third party access to its gas distribution system provides for:

- a 60 percent reduction (in real terms) in the cost of transporting gas. Average charges per gigajoule will fall from $2.26 to $1.05 by 1999-2000; and

- elimination over three years of the cross-subsidy from business customers to households, while keeping price increases to households capped to well below increases in the CPI.

Another benefit of reform is the construction in 1997-98 of a 146-kilometre pipeline interconnecting NSW and Victorian gas pipelines. During the recent crisis of the failure of the Longford plant in Victoria, emergency gas supplies were transported from the Cooper Basin to the Victorian network via this link. Duke Energy International has recently acquired the rights to develop and operate an 800 kilometre pipeline from Longford to Sydney. They plan to begin construction by July this year and to have gas flowing before September 2000. This will provide security of supply between the two states and greatly enhance the development of a national gas market.

Road Transport

The National Road Transport Commission was established to develop and implement reforms in six agreed areas: uniform heavy vehicle charges, uniform arrangements for transportation of dangerous goods, national driver licensing, national heavy vehicle registration, uniform vehicle operations standards, and consistent compliance and enforcement arrangements.

New South Wales implemented the heavy vehicle charges and the associated permit reforms by State legislation on 1 July 1996 and is progressing with the required reforms under the timetable agreed at the November 1997 meeting of the Ministerial Road Council on Road Transport. The NCC determined that the State had complied with its first tranche road transport reform commitments.

Water

Water reform objectives are based on the February 1994 COAG Strategic Framework for Water Reform. They emphasise pricing reform on the principles of linking charges to consumption, full cost recovery and the reduction or elimination of cross-subsidies. Where subsidies remain, they must be made transparent. Apart from pricing, the framework involves the clarification of property rights, the allocation of water, institutional reform and public consultation and participation.

Pricing reform in metropolitan New South Wales has resulted in savings to non-residential customers of $63 million since 1995. This represents a saving of approximately 20 percent in real terms. A further $40 million will be saved over the next two years.

With respect to residential customers, total costs have increased slightly since 1995 (4.7 percent in real terms). This is mostly attributable to an increase in variable costs. Variable costs are those costs directly related to the consumption of water, whereas fixed costs are associated with service provision. The rise in variable costs is consistent with the NSW Government's water conservation policy since higher consumption charges should reduce waste.

8.3 OTHER MICRO-ECONOMIC REFORM ACHIEVEMENTS

Performance of NSW Government Businesses

NSW Government businesses have substantially improved their operational efficiency, financial performance and the level of service they provide. The benefits of economic reform are evident across the spectrum of GBEs. Since 1991-92, the weighted improvement in labour productivity for NSW GBEs has been 94 percent. In addition, between 1994-95 and 1998-99 the NSW Government Charges Index (GCI) fell by almost 12.9 percent in real terms. (The GCI measures the weighted change in prices of the most significant GBEs). Dividends remitted by GBEs to the Government have almost doubled in real terms since 1991-92 to over $1.4 billion in 1997-98.

Progress in Implementing Financial System Inquiry (FSI) Reforms

The Federal Treasurer presented a *Statement on the Reform of the Australian Financial System* to the Commonwealth Parliament in September 1997, as the Commonwealth Government's formal response to the FSI.

A key proposed reform in the Statement related to the transfer of prudential and corporate regulatory responsibility for building societies, credit unions and friendly societies from the states/territories to the Commonwealth. Transfer would be effected through the establishment of two major national regulatory bodies, namely: the Australian Prudential Regulatory Authority (APRA) and the Australian Securities and Investments Commission (ASIC).

The Prime Minister wrote to Premiers seeking co-operation and support. The Acting Premier of New South Wales responded in January 1998 indicating in-principle support, subject to resolution of a number of issues, including the need for APRA's headquarters to be located in Sydney. The Prime Minister's response in March 1998, indicated that APRA headquarters would be located in Sydney and proposed:

- early introduction of legislation to provide for the first stage of reforms to be in place from 1 July 1998, including establishment of APRA (this Stage 1 legislation was passed in June 1998); and
- interim arrangements for the establishment of ASIC, because of the need for changes to the Australian Securities Commission Act and agreement of the Ministerial Council for Corporations (MINCO).

A Commonwealth/State Working Party would develop the necessary administrative and legislative requirements for transferring prudential regulatory responsibilities from the States to the Commonwealth. Proposals emanating from the Working Party could then be considered by the respective jurisdictions as part of the process of determining whether to proceed with the 'in principle' support given in early 1998.

At its first meeting in April 1998, the Working Party agreed to develop a Framework Agreement to enable "in principle" endorsement of the key legislative and administrative proposals. Finalisation of the Framework

Agreement was delayed by the Federal Election and as a consequence endorsement of the States and Territories was not achieved until early 1999.

During this process the Commonwealth (and FINCOM in New South Wales) consulted with the peak industry bodies representing building societies, credit unions and friendly societies on the options and proposed approach for the transfer of prudential supervision responsibilities to the Commonwealth. The NSW Government did not endorse the Framework Agreement until it was satisfied that the proposed transfer mechanisms were fully supported by these groups.

The States and Territories are currently drafting the necessary legislative changes to enable the transfer to proceed on 1 July 1999. The achievement of this date will be dependent upon all states having their legislation passed in this timeframe. New South Wales passed the necessary legislation in late May 1999.

Infrastructure

The provision and management of infrastructure assets have traditionally rested with government, however the significance of private sector investment is gradually increasing. In most cases, private sector involvement reduces the funding burden for the state and improves the efficiency of infrastructure investment and operation through:

- equitable sharing of risks between the private sector and the government;
- a market-based approach to investment decisions;
- cost reflective pricing;
- greater response to consumer preferences; and
- a commercial culture with strong pressures for efficiency gains.

Much of the increased private sector involvement in New South Wales has involved Build, Own, Operate and Transfer (BOOT) projects. BOOT projects are schemes where the private sector builds, owns, operates and then transfers the infrastructure, usually after 20 years, to the public sector. They are a form of structured financing with contractual relations based on equitable risk sharing. New South Wales has contracted nearly $5 billion in BOOT projects providing transport, electricity, water and sewerage infrastructure.

In 1996, the Government issued *Guidelines for Private Sector Participation in the Provision of Public Infrastructure*. The broad policy is that:

- involvement of the private sector must show a net benefit;
- risks and returns must be appropriately shared between the Government and the private sector; and
- preference is given to projects which are financially free standing without any Government capital contributions.

Load Based Licensing

In late 1997, the Government gave approval for the Environment Protection Authority to prepare a Regulatory Impact Statement (RIS) to assist introduction of a Load Based Licensing (LBL) Scheme. LBL is a performance-based pollution regulatory regime. It contrasts with the current regulatory approach in two main areas.

Firstly, it limits the overall load of pollutants released to the environment (the current scheme focuses on concentration levels). A concentration focus fails to effectively regulate overall pollution loads. LBL will retain concentration limits where required to prevent acute localised impacts.

Secondly, it applies the 'polluter pays' principle. LBL rewards licensees who emit less than their maximum loads. The Scheme also allows for fee rebates to be applied where licensees make specific commitments to reduce emissions by a future date or where they adopt effluent re-use practices.

Other advantages include licensees being afforded maximum flexibility to implement least-cost pollution control measures and polluters bearing the administrative costs of regulating emissions.

It is proposed that LBL will initially apply to the more significant pollution activities covering 80 classes of economic activity and 3,500 licenses.

While the LBL Scheme has been approved for commencement in July 1999, the Government announced a range of changes to the Scheme in response to industry feedback to the RIS. These include:

- an initial year of estimating loads with no load fees payable, meaning that no load fees will be payable before September 2001;
- larger rebates of up to 100 percent for licensees who commit to 3-year load reduction agreements, allowing licensees to use their funds for environmental improvement instead of paying fees; and
- provision of refunds of administration fees where the actual activity level is significantly less than licensed capacity.

CHAPTER 9: FINANCIAL ARRANGEMENTS WITH THE COMMONWEALTH

9.1 INTRODUCTION

Commonwealth-State[1] financial relations in Australia have traditionally been characterised by the following:

- A high degree of *vertical fiscal imbalance* (VFI), referring to the mismatch between tax powers and expenditure responsibilities of the Commonwealth and State Governments. The Commonwealth collects significantly more tax revenue than it requires for its own purposes. Consequently, it transfers funds to the States in the form of general purpose payments (GPPs)[2] and specific purpose payments (SPPs)[3]; and

- An extensive system of *horizontal fiscal equalisation* (HFE**)** which governs the interstate distribution of Financial Assistance Grants (FAGs) and is overseen by the Commonwealth Grants Commission (CGC). This results in the transfer of over $2 billion annually from

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1 *All references to 'States' in this chapter should be interpreted as referring to States and Territories.*

2 *GPPs are unconditional grants originally intended to compensate the States for losses on tariff revenue at Federation and the Commonwealth's takeover of income taxing powers after 1942. GPPs consist of financial assistance grants (FAGs) and special revenue assistance. For a number of years FAGs were determined annually. At present they are governed by a rolling 3-year real terms per capita guarantee subject to certain conditions relating to the implementation of National Competition Policy, as agreed by the Council of Australian Governments in April 1995.*

3 *SPPs are grants contingent on the States' compliance with certain conditions - for example, the purposes for which the funds may be used; specific monitoring and review arrangements; annual increases in funding; and/or maintenance of expenditure requirements. SPPs generally have a duration of one to five years depending on the terms of the individual SPP agreements, which are separately negotiated between the Commonwealth and States.*

donor States (New South Wales, Victoria, Western Australia and the ACT) to other States.

A major development in Commonwealth-State financial relations in the last year has been the progress towards national tax reform. A key element of the reforms originally proposed by the Commonwealth Government in August 1998 is the introduction of a Goods and Services Tax (GST) from 1 July 2000 to replace the Commonwealth's wholesale sales tax and a number of indirect State taxes.

The Commonwealth proposed to fully pass the GST revenue to States in lieu of general purpose payments and the abolished State taxes. The Commonwealth also proposed that States take over the funding of general purpose payments to local governments.

Although all States participated in discussions on the proposed reforms, some States, including New South Wales, indicated that this does not imply their endorsement of a GST.

Following passage in the House of Representatives, tax reform legislation was introduced in the Senate. Negotiations over various aspects of the Commonwealth legislation resulted in a number of changes to the original Commonwealth proposals. These changes, as announced on 28 May 1999, are described in more detail later in this chapter. Among other things, the changes entail a deferral of the abolition of some State taxes and the retention of local government funding by the Commonwealth.

The latest proposals still represent a major change in Commonwealth-State relations, but will leave in place the disadvantages of both VFI and HFE. In respect to HFE, while FAGs will be abolished, GST revenues will be distributed on the same basis as existing FAGs. This will mean the continuation of cross-subsidies from donor States to recipient States in the future.

The CGC 1999 Methodology Review yielded a gain of $165.3 million for New South Wales in 1999-2000. However, this falls far short of resolving the inequities associated with HFE as it stands.

New South Wales expects a nominal increase in GPPs (before deducting Fiscal Contribution Payments in 1998-99) of about 7.9 percent in 1999-2000 (or 6.2 percent in real terms). However, Specific Purpose Payments (excluding the Gun Buyback Scheme in 1998-99) are expected to grow by only 1.4 percent in nominal terms, representing a fall of 0.2 percent in real terms.

Data on 1999-2000 Commonwealth payments to New South Wales and measures of VFI and HFE are provided in the tables at the end of this chapter. The remainder of the chapter describes developments during the past year, and canvasses issues in intergovernmental financial relations which are likely to remain of concern in the immediate future.

9.2 RECENT DEVELOPMENTS

National Tax Reform

The Commonwealth Government's *Not a New Tax – A New Tax System* (ANTS) document sets out not only a plan for national tax reform - with a GST at its core - but also significant changes in Commonwealth-State financial relations. On the basis of the ANTS document, a Special Premiers' Conference was held on 13 November 1998 to agree on the broad principles for the reform of Commonwealth-State financial relations.

Subsequently, the Prime Minister and all Premiers and Chief Ministers signed an *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (the IGA) at the Premiers' Conference on 9 April 1999.

The IGA acknowledges that the agreement of some States, including New South Wales, to the reform of Commonwealth-State financial relations does not imply their in-principle endorsement of the GST. New South Wales participated in the discussions to protect its interests, acknowledging that the reforms were a real prospect.

The key elements of the IGA originally signed by the Commonwealth and States on 9 April 1999 are summarised in Box 9.1.

Box 9.1: Key Elements of Intergovernmental Agreement Signed 9 April 1999

- A 10 percent GST, with the proceeds to be distributed to States. Commonwealth FAGs and Revenue Replacement payments to States to cease on 1 July 2000.
- The States to abolish nine indirect taxes (and not reintroduce them, or similar taxes in the future) effective the following dates:
  - Bed taxes – from 1 July 2000.
  - Financial Institutions Duty and Debits Tax - from 1 January 2001.
  - Stamp duty on marketable securities - from 1 July 2001.
  - Stamp duty on business conveyances (other than real property) - from 1 July 2001. Stamp duty on business conveyances (real property) will cease to apply from a date yet to be determined.
  - Stamp duties on the following: credit arrangements, instalment purchase arrangements and rental (hiring) agreements; leases; mortgages, bonds, debentures and other loan securities; cheques, bills of exchange and promissory notes - from 1 July 2001.
- Adjustments to gambling tax arrangements taking into account the impact of the GST to apply from 1 July 2000.
- The Commonwealth to make transitional assistance payments to States where necessary so that no State will be worse off. During the first two transitional years, States which gain financially will cross-subsidise States which lose. From the third year, States enjoying a financial gain will keep this gain.
- States to take over the payment of general purpose grants to local government from 1 July 2000 and maintain these grants in real per capita terms on an ongoing basis.
- States to fund and administer a new First Home Owners' Scheme to mitigate the impact of the GST on the price of homes for first home owners, entailing a lump sum payment to eligible home owners of $7,000 from 1 July 2000.
- The Commonwealth to amend the Trade Practices Act 1974 to enable the Australian Competition and Consumer Commission (ACCC) to ensure no overpricing due to the introduction of a GST. States to apply mirror legislation and extend the coverage of the ACCC to those areas outside the Commonwealth's constitutional power.
- Government entities to be subject to a GST except for specified government taxes and charges determined to be GST-free by the Commonwealth Treasurer.
- A Ministerial Council comprising the Commonwealth, States and Territories to be established from 1 July 1999 to oversee the operation of the IGA.

Under the proposed reforms, States would receive the entire revenue generated by the GST as compensation for the abolition of nine indirect State taxes, the elimination of FAGs and Revenue Replacement Payments[4], and for taking on financial responsibilities for funding local government and the new First Home Owners' Scheme. The States would also compensate the Commonwealth for the costs to the Australian Taxation Office (ATO) of administering the GST.

In the lead-up to the Premiers' Conference in April 1999, negotiations between the Commonwealth and the States on the tax reform package proceeded on the assumption that the proposals set out in the ANTS document would be substantially implemented. It was intended that the IGA would be appended to relevant Commonwealth and State legislation implementing the new arrangements. This represents an attempt to ensure that the new arrangements are not eroded over time by future governments.

The Commonwealth Government introduced the first tranche of its tax reform legislation into Parliament on 2 December 1998. These Bills passed the House of Representatives on 10 December 1998 and were introduced into the Senate the same day, where they remain at the date of completion of this budget.

A second tranche of tax reform Bills was introduced into the Federal Parliament on 24 March 1999. These included *A New Tax System (Commonwealth-State Financial Arrangements) Bill 1999* and *A New Tax System (Commonwealth-State Financial Arrangements – Consequential Provisions) Bill 1999*, each of which deals with changes to Commonwealth-State financial arrangements. These Bills passed the House of Representatives on 31 March 1999 and were introduced into the Senate the same day, where they remain.

On 28 May 1999, the Commonwealth Government announced the outcome of negotiations with the Australian Democrats over the tax reform proposals (see Box 9.2).

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[4] *These are payments made by the Commonwealth to States under the temporary safety net arrangements agreed between governments following the August 1997 High Court decision invalidating State business franchise fees.*

Box 9.2: Major Changes Announced by the Commonwealth on 28 May 1999

- The removal of bed taxes and share transfer duties to proceed as originally proposed.
- The removal of Financial Institutions Duty (FID) to be deferred six months to 1 July 2001. Debits tax to be removed from 1 July 2005, or four and a half years after the original timetable.
- The removal of the remaining State taxes (stamp duties on business conveyances, credit arrangements, instalment purchase arrangements and rental (hiring) agreements; leases; mortgages, bonds, debentures and other loan securities; cheques, bills of exchange and promissory notes) to be reviewed by the Ministerial Council in light of State fiscal circumstances after 2005.
- The Commonwealth to retain responsibility for the payment of general purpose funding to local governments.
- The partial removal of food from the GST base to result both in higher administration costs which the States must fund, and a lower GST revenue take for States. The Commonwealth estimates the revenue loss at an average of $3.5 billion per annum in the first three years.
- As a result of the proposed changes to the tax reform proposals, the guarantee payments from the Commonwealth to States during the transitional years to increase. The Commonwealth estimates the additional guarantee payments at $1,325 million for the first three years.
- Subject to approval by the Ministerial Council, the Federal Minister for Health and the Federal Minister for Education will be able to make GST-free determinations for appropriate public health goods and education and training to develop employment-related skills. This could affect State receipts or outlays in these areas.

While details of the original IGA are yet to be renegotiated, the most immediate implication of the revised proposals is the deferral of the abolition of a number of State taxes.

Other changes to the original tax reform proposals may impact on State budgets. For instance, the proposed 100 percent excise credit for rail transport – a component of measures to make the GST more environmentally friendly – will benefit State rail authorities.

In regard to public housing, the Commonwealth has agreed to negotiate with States to ensure that the increase in pensions will not flow through to increased rents. This would reduce receipts of the NSW public housing authority by about $16 million per annum.

GST transitional arrangements will be subject to further consultation between the Australian Democrats and the Federal Government. This means that there may be further sector-specific amendments prior to passage of the tax reform bills.

From the perspective of Commonwealth-State financial relations, the Commonwealth's proposals should be assessed against a number of criteria.

1. *Revenue autonomy (degree of State control over the tax rate and/or base).* The Commonwealth package does not address VFI, since the States will give up key revenue sources in exchange for the GST, whose rate and base the States will not control.

2. *Revenue buoyancy (ability of the tax base to reflect growth in the general economy).* The Commonwealth package will eventually provide a financial gain for States as the GST revenue base grows. This contrasts with the current real per capita terms guarantee on FAGs and the relatively slow growth in revenue from the State taxes to be abolished.

   However, with the removal of all the State taxes proposed, current projections suggest that substantial net revenue benefits to New South Wales from the Commonwealth proposals will not occur until late in the next decade, assuming no further changes to the GST base.

3. *Revenue certainty (vulnerability of revenue to decay of tax bases or arbitrary Commonwealth decisions on grants to States).* Given the relative robustness of the GST tax base, there will be some improvement in revenue certainty under the Commonwealth reform proposals.

   However, the Commonwealth continues to have the constitutional power to unilaterally change GST revenue-sharing arrangements, including changes which would erode the GST revenue take.

4. *Efficiency of State taxation*. It is widely recognised that the State taxes originally marked for abolition are narrowly based, inefficient and unreliable in the long term as growing sources of revenue. The delay in the abolition of these taxes under the revised Commonwealth proposals is to be regretted.

The proposals represent a major change in Commonwealth-State financial relations and in State taxation, but leave in place the disadvantages of both VFI and HFE.

Access to the revenue from a growth tax provides a platform that will facilitate further reform of Commonwealth-State financial relations into the future. In particular, the States will be in a better position to assess the merits of Commonwealth offers of SPP funding, and future negotiations concerning issues surrounding VFI are likely to be more productive.

Commonwealth Grants Commission 1999 Review

The Commonwealth Grants Commission (CGC) recommends for each financial year the appropriate distribution of FAGs between the States. As well as updating its database every year, the CGC undertakes a major Methodology Review every five years in which it updates its calculations of relativities.

The relativities are calculated in accordance with the principle of Horizontal Fiscal Equalisation (HFE). This principle is intended to ensure that Commonwealth general purpose payments are distributed to the States so as to allow each State to provide government services at a level not appreciably different from that of other States, without having to impose taxes and charges at levels appreciably different from those in other States.

The CGC uses a complex revenue and expenditure model to determine how best to distribute FAGs in accordance with the HFE principle.

The findings of the latest Methodology Review were released in February 1999. The Premiers' Conference on 9 April 1999 endorsed these findings and confirmed that the CGC would continue to base its assessments on the average need over a five-year assessment period. Highlights of the 1999 Review include:

- A net gain of $165.3 million for New South Wales in 1999-2000 as a result of the implementation of the new relativities.

- The expansion of the scope of State expenditures assessed by the CGC to include depreciation costs.

- Confirmation of the shift of the position of Western Australia from that of a net recipient through the CGC equalisation process to that of a net donor. Queensland is a marginal recipient through the CGC equalisation process, but remains a major recipient in tax equalisation terms.

Much of the net $165.3 million gain for New South Wales in the 1999 Review can be explained by changes on the expenditure side of the CGC's assessments.

The introduction of a new depreciation expenditure category, along with increased recognition of New South Wales' urban transit and road maintenance needs, were major reasons for the net gain.

Gains from the CGC review were the major impetus for a rollback in the payroll tax rate from 6.7 percent to 6.4 percent in 1999-2000.

General Purpose Payments and Loan Council Allocations

The Commonwealth financial offer to States for 1999-2000 and the subsequent Commonwealth Budget for 1999-2000 provided for funding to all States of $17,720 million (a 4.2 percent nominal increase before deducting Fiscal Contribution Payments (FCPs) in 1998-99[5]).

New South Wales' share of this pool is $5,179 million (an increase of 7.9 percent over 1998-99).

FAGs are the single largest component of general purpose payments. FAGs to all States will amount to $17,267 million, an increase of 2.9 percent over 1998-99. FAGs to New South Wales in 1999-2000 will total $5,031 million, an increase of 6.4 percent relative to 1998-99.

Loan Council endorsed the Loan Council Allocation (LCA) nominations for 1999-2000. The 1999-2000 Budget time LCA of New South Wales[6] amounts to negative $279 million, compared with an estimate of negative $610 million in 1998-99.

Since an LCA is intended to provide an indication of the call on financial markets in the coming year, the negative LCA bid by New South Wales indicates that the State expects to contribute to (rather than make demands on) national savings in 1999-2000.

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[5] *As agreed at the 1996 Premiers' Conference, the final year for Fiscal Contribution Payments from States to the Commonwealth is 1998-99.*

[6] *Consistent with the current Commonwealth treatment of LCAs, the LCA for New South Wales is expressed in ABS "headline" terms, whereby advances paid are treated as part of capital outlays rather than as a financing transaction. Notwithstanding this, New South Wales' preference is for a measure of LCAs on an "underlying" rather than "headline" basis, in line with revised ABS Government Finance Statistics reporting standards.*

Developments in Specific Purpose Payments

Renegotiations undertaken or completed in respect of major SPPs during the past year include the Australian Health Care Agreement (AHCA) and the Commonwealth-State Housing Agreement (CSHA).

New South Wales signed the AHCA in August 1998. The Agreement will yield health care funding for New South Wales totalling approximately $10.3 billion over the five years from 1998-99.

In respect of the CSHA, States argued (and the Commonwealth acknowledged) that the proposed national tax reforms would increase the cost of providing public housing because State housing authorities would be input-taxed under a GST.

It was agreed at the April 1999 Premiers' Conference that the Commonwealth would fund these costs to the extent of $269 million over three years commencing 2000-01, based on the net cost to States.

Following the changes on 28 May 1999, the Commonwealth stated its intention to negotiate with States to ensure that public housing rents would not rise with the increase in pensions accompanying the GST. Thus the States are seeking compensation under the CSHA on a gross basis.

In the near future, the States intend to put to the Commonwealth proposals to improve the management and administration of SPPs. These proposals are intended to address the issues of financial flexibility and the sharing of financial risk, duplication and administrative costs, maintenance of effort and matching requirements, indexation arrangements and efficiency dividends.

9.3 THE TASKS AHEAD

National Tax Reform

The Commonwealth's tax reform proposals will require a substantial implementation task to be carried out in New South Wales over the next year. The tasks include further policy development and new legislation, and the preparation of agencies for the GST and other tax reforms.

The most immediate task is the renegotiation of the IGA based on the changes to the tax proposals announced by the Commonwealth on 28 May 1999.

Assuming that a revised IGA is agreed by the parties, specific tasks in the year ahead are as follows:

- Passage of legislation to apply the Commonwealth's amendments to the *Trade Practices Act 1974* giving the ACCC new price monitoring powers in those areas outside the Commonwealth's constitutional power.

  It is intended that the monitoring and prohibition of unreasonable pricing decisions will commence on 1 July 1999 and continue until 30 June 2002. The States and Territories have agreed to work towards having legislation in place by 1 July 1999.

- Legislation to implement a new First Home Owners' Scheme designed to mitigate the impact of a GST on the price of homes for first home owners. The Scheme is to operate from 1 July 2000 and is to be funded and administered by the States and Territories. In New South Wales the Office of State Revenue will administer the Scheme.

- Legislation for the staggered removal of the indirect State taxes to be abolished under the tax plan. Given the changes to the tax proposals announced by the Commonwealth on 28 May 1999, the timetable for further policy development and legislation to remove various stamp duties will be reviewed. It is also intended that an amended IGA be appended to appropriate State legislation.

- The NSW Government and its agencies will be liable for the GST in the same way as the private sector. Agencies will register with the ATO and the GST will apply to prices charged for goods and services (unless specifically exempted).

  Agencies will be able to claim input tax credits on purchases, with the exception of input-taxed residential rents and financial services. It is expected that most agencies will be in a net credit position, where their input tax credits exceed the GST collected.

  The introduction of a GST will result in substantial new administrative requirements for the day-to-day business of agencies, including the need to issue, collect and retain GST invoices. Although operation of the GST is subject to finalisation and does not commence until 1 July 2000, early planning and follow-up action is needed by agencies to implement the required systems and procedures to comply with the GST.

- The IGA provides that the GST will not apply to the payment of some taxes and compulsory charges. The list of taxes and compulsory charges that are outside the scope of the GST needs to be developed and agreed between the Commonwealth and the States. This list will be promulgated by a determination by the Commonwealth Treasurer.

- The States are to compensate the Commonwealth for the agreed costs incurred by the ATO in administering the GST. Accountability and performance arrangements need to be established between the ATO and the State and Territory Governments, consistent with the guiding principles for the GST Administration Performance Agreement set out in the IGA.

  These arrangements will include maximising compliance, cost efficiency, simplicity for taxpayers and administrative transparency. The Performance Agreement is to be finalised by the end of the GST transitional year ending June 2002, and is to be endorsed by the Ministerial Council prior to being signed.

Reciprocal Taxation

Governments remain committed to implementing reciprocal taxation as soon as practicable. An interjurisdictional tax agreement dealing with reciprocal taxation arrangements was close to being agreed in 1998. However, this was set aside after the Commonwealth released its national tax reform plan, and the matter was taken up once more in the IGA.

Jurisdictions have stated in the IGA their intention to progress reciprocal taxation on a revenue-neutral basis. A Reciprocal Taxation Agreement is intended to improve the transparency of tax arrangements between levels of government, ensure tax neutrality, and replace arrangements previously agreed under the Statement of Policy Intent (SOPI) for the taxation treatment of Government Business Enterprises.

As a starting point, the IGA commits governments to the implementation of a National Tax Equivalent Regime (NTER) for income taxes for State government business enterprises, to apply from 1 July 2000.

State governments also agreed to initiate discussions with local governments for the purpose of applying the NTER for income tax to wholly owned local government businesses from the same target date.

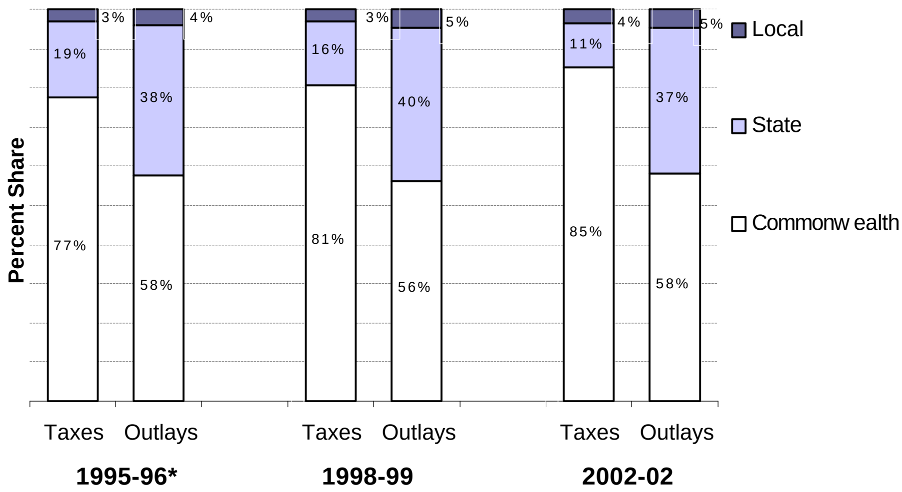
With the introduction of a GST, it is intended that the reciprocal application of other Commonwealth, State and Territory taxes will be implemented as soon as practicable. Where full reciprocal taxation cannot be implemented due to Constitutional constraints, jurisdictions will develop voluntary payment arrangements. The inclusion of local government in the Reciprocal Taxation Agreement is expected at a later date.

Vertical Fiscal Imbalance

The degree of imbalance between the Commonwealth and State Governments remains excessive compared with other federations. Moreover, regardless of the benefits of national tax reform, it will leave in place the problem of VFI.

The chart below provides an indication that VFI is expected to deteriorate between 1998-99 and 2001-02 (the first full year of GST implementation). The estimates in this chart are based on the original reform proposals.

Chart 9.1: Vertical Fiscal Imbalance, Pre - and Post-Tax Reform (Percentage of Total General Government)



** Prior to the introduction of safety net taxes.*

VFI produces a number of negative consequences:

- ♦ It undermines governmental accountability for taxing and spending decisions because governments responsible for providing services are not necessarily responsible for raising the revenue to finance those services. This hampers States' ability to respond to community needs in a timely and effective manner;

- Where the Commonwealth imposes fund matching requirements on its payments to States, VFI produces a bias towards over-expenditure, distorts States' spending priorities, and serves as a disincentive for States to exercise fiscal discipline. The imbalance results in costly duplication and overlap of services and/or associated administrative systems;

- VFI is a disincentive to the pursuit of microeconomic reform, since States must bear most of the implementation costs but cannot directly access the major increase in Commonwealth revenue resulting from these reforms.

The VFI problem may be remedied in the future through a redistribution of either taxation powers or expenditure responsibilities. Whether or not the Commonwealth tax reform plan proceeds, New South Wales remains open to pursuing such options in future in cooperation with the Commonwealth and/or other States.

Horizontal Fiscal Equalisation

As indicated above, New South Wales will receive a $165.3 million increase in FAGs in 1999-2000 as a result of the outcome of the Commonwealth Grants Commission's 1999 Methodology Review.

Notwithstanding this, the State's FAG per capita remains 29.3 percent less than the average of the six smallest States.

New South Wales and Victoria will receive an estimated average of $765 per head compared with an average of $1,104 for the other jurisdictions. The estimated FAG per capita by State for 1999-2000 is given in the table below.

Based on the 1999-2000 equalisation relativities calculated by the CGC, New South Wales, Victoria, Western Australia and the ACT are net donors.

Table 9.1: Financial Assistance Grants Per Capita, By State 1999-2000

State/Territory	*Financial Assistance Grants (In $ Per Capita)*
New South Wales	780
Victoria	745
Queensland	915
Western Australia	848
South Australia	1,122
Tasmania	1,665
Northern Territory	5,497
Australian Capital Territory	1,100
Six smallest States	**1,104**
AUSTRALIAN AVERAGE	**905**

The level of transfers from donor States to recipient States can be measured on two different bases. The first is measured by reference to the difference between actual FAG payments and an equal per capita distribution of funding (this is called "CGC equalisation"). On this basis, New South Wales will be transferring $805 million to other States in 1999-2000. The combined transfer from New South Wales, Victoria and Western Australia is about $1.7 billion[7].

The Commonwealth originally intended FAGs as compensation to States for their loss of income taxing powers. Therefore a second method measures the equalisation transfer as the difference between FAGs paid to each State and the level of Commonwealth personal income tax raised in that State (this is called "tax equalisation"). On this measure, the transfer from donor States (New South Wales, Victoria, Western Australia and the ACT)[8] is of the order of $2.3 billion in 1999-2000, of which New South Wales will be contributing over half.

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[7] *The estimated cross-subsidies in this chapter differ from those in Commonwealth Budget papers because the latter calculates the cross-subsidy based on the sum of FAGS and unquarantined Health Care Grants. The estimates in this chapter are based solely on FAGs.*

[8] *The ACT is a donor in terms of tax equalisation but a recipient in terms of CGC equalisation. Once these two opposing effects are taken into account, the ACT is a donor jurisdiction in net terms.*

The total cross-subsidy by New South Wales will be $204 per head in 1999-2000. This differs little from the $199 per head contributed by this State in 1993-94. Over the long run, such sizeable cross-subsidies are not sustainable. New South Wales highlighted the problem of HFE through a public media campaign prior to the November 1998 Special Premiers' Conference. The table at the end of this chapter indicates the amounts expected to be transferred from donor States to recipient States in 1999-2000.

In relation to interstate competition, some jurisdictions which have historically been recipients of HFE transfers are in a position to offer incentives to private business which they may not otherwise have been able to do in the absence of HFE. In this respect, the current HFE process remains an obstruction to the design of efficient State tax regimes.

Implementation of the Commonwealth's ANTS package will not resolve the long-term financial burdens on donor States associated with HFE cross-subsidies. While GST revenues will replace FAGs, the IGA stipulates that the pool of GST revenue grants will be distributed according to HFE principles based on CGC recommendations. Likewise, the current situation - whereby recipient States could offer tax incentives to business through their remaining State taxes, with these incentives effectively funded by HFE - would remain essentially unchanged.

New South Wales believes that should national tax reform proceed, this should not preclude fundamental changes to fiscal equalisation in future which would allow States to engage in beneficial interstate tax competition without compensation being provided through the CGC process.

Thus, irrespective of the Commonwealth tax reform package, New South Wales will continue to seek basic changes to HFE and remains committed to reformed arrangements. Ideally, these would put the fiscally stronger States (New South Wales, Victoria, the Australian Capital Territory, Queensland and Western Australia) on equal ground while preserving full equalisation for the three fiscally weakest jurisdictions.

Table 9.2: Inter-governmental Financial Relations, Selected Indicators, 1994-95 to 1999-2000

Item	*1994-95*	*1995-96*	*1996-97*	*1997-98*	*1998-99*	*1999-2000*
COMMONWEALTH PAYMENTS TO NEW SOUTH WALES						
Million $, Nominal						
General Purpose – Total excluding Fiscal Contribution Payments (FCPs) (1, 2)	4,278	4,517	4,673	4,808	4,801	5,179
General Purpose (excluding FCPs and Competition Payments) (1, 2)	4,278	4,517	4,673	4,736	4,728	5,031
Specific Purpose (2)	3,439	3,480	3,478	3,519	4,180	4,238
Gross Payments (2)	7,718	7,997	8,151	8,327	8,980	9,418
Net Payments (Gross less Total Repayments)	7,044	7,609	7,692	6,782	8,936	9,306
% Annual Change, Real (1999-2000) Terms (2)						
General Purpose - Total excluding FCPs (1, 2)	5.7	2.5	1.4	1.4	(-) 1.0	6.2
General Purpose (excluding FCPs and Competition Payments) (1,2)	5.7	2.5	1.4	(-) 0.1	(-) 1.0	4.7
Of which: FAGs (excl. FCPs)	6.0	2.3	1.4	2.5	3.1	4.7
Specific Purpose	1.9	(-) 1.8	(-) 2.0	(-) 0.2	17.8	(-) 0.2
Gross Payments	4.0	0.6	(-) 0.1	0.7	6.9	4.9
Net Payments (Gross less Total Repayments)	0.2	4.9	(-) 0.9	(-) 13.1	30.6	2.5
Real Per Capita (1999-2000 dollars) (2)						
General Purpose - Total excluding FCPs (1, 2)	768	778	778	781	765	803
General Purpose (excluding FCPs and Competition Payments) (1,2)	768	778	778	770	753	780
Of which: FAGs (excl. FCPs)	720	728	728	739	753	780
Specific Purpose	617	599	579	572	666	657
Gross Payments	1,363	1,356	1,336	1,332	1,408	1,461
Net Payments (Gross less Total Repayments)	1,264	1,311	1,281	1,102	1,424	1,444

Table 9.2: Inter-governmental Financial Relations, Selected Indicators, 1994-95 to 1999-2000 (cont')

Item	*1994-95*	*1995-96*	*1996-97*	*1997-98*	*1998-99*	*1999-2000*
VERTICAL FINANCIAL RELATIONS						
Ratio of % share of own-source tax revenue to % share of own-purpose outlays (3, 4)						
Commonwealth	1.35	1.34	1.36	1.39	1.45	1.46
States	0.50	0.51	0.50	0.48	0.41	0.40
Local Government	0.94	0.76	0.68	0.79	0.69	0.66

n.a. - not available.

Sources: Commonwealth Budget Papers, various years; ABS Cat 5501.0; NSW Treasury estimates.

Notes to Table 9.2:

1. *Identified Roads Grants to States are subsumed into FAGs as from 1997-98.*
2. *Specific and general purpose payments are adjusted for letterbox, extraordinary or reclassified items (listed below, this footnote). In the calculation of real growth rates, nominal amounts are deflated using the Gross Non Farm Product deflator. Real per capita dollars and real annual growth rates reflect the following adjustments to nominal amounts published in the Commonwealth Budget Papers -*
   - *Only payments for State's own purposes are included. The following recurrent/capital payments are the major payments "through" States which are excluded - Higher Education; Non Government Schools including cost escalation; Research at Universities; Financial Assistance to Local Government; and Local Government Identified Roads.*
   - *Reclassification of Building Better Cities funding as a specific purpose payment rather than a general purpose capital payment.*
   - *Exclusion of Gun Buyback Scheme specific purpose payments in 1996-97, 1997-98 and 1998-99.*
   - *For comparability across years, dollar amounts and growth rates are adjusted to account for the following changes during the period -*
     - *(a) Reclassification of TAFE payments as a Commonwealth own-purpose payment beginning in 1994-95.*
     - *(b) Conversion of Higher Education and Research at Universities into a Commonwealth own-purpose payment from 1997-98.*
3. *Own purpose expenditures include payments to public trading enterprises.*
4. *The ABS classifies safety net revenues as State own-source revenue. Since the High Court decision invalidating State business franchise fees occurred in August 1997, for purposes of this table safety net revenues are attributed to the Commonwealth from 1998-99. Prior to this year, we adopt the ABS approach.*

Table 9.3: Estimates of Redistribution Through Fiscal Equalisation, 1999-2000

	RECIPIENT STATES				
DONOR STATES	*QLD* *$m*	*SA* *$m*	*TAS* *$m*	*NT* *$m*	*Total* *$m*
CGC Redistribution					
NSW	17.6	161.9	178.2	446.6	804.6
VIC	16.7	153.1	168.5	422.1	760.5
WA	2.4	21.6	23.8	59.6	107.3
TOTAL	**36.6**	**336.6**	**370.5**	**928.3**	**1,672.3**
Tax Equalisation					
NSW	347.4	281.8	230.9	454.7	1,315.0
VIC	33.7	159.2	171.2	422.6	786.9
ACT	15.9	16.0	14.1	29.8	75.9
WA	14.5	26.0	25.7	59.9	126.1
TOTAL	**411.5**	**483.1**	**441.9**	**967.0**	**2,303.9**
NSW PER CAPITA CONTRIBUTION (in $)					
CGC Redistribution	3	25	28	69	125
Tax Equalisation	54	44	36	71	204

SOURCE: NSW Treasury estimates

Notes to Table 9.3:

1. *This Table measures the amounts redistributed due to (i) Commonwealth Grants Commission (CGC) equalisation and (ii) tax equalisation. CGC equalisation consists of revenue equalisation (i.e., taking into account the underlying revenue raising capacity of each State) and expenditure equalisation (i.e., taking into account differential demand and supply factors which affect expenditure levels). Tax equalisation is defined as the difference between FAGs paid to each State and the level of Commonwealth personal income tax raised in that State.*
2. *The following examples illustrate how to interpret the numbers in the Table. New South Wales contributes a total of $804.6 million to other States through CGC fiscal equalisation, of which Queensland receives $17.6 million, South Australia receives $161.9 million and so on. On the part of recipient States, the Table shows that the Northern Territory receives a total of $928.3 million from all States through CGC equalisation, of which New South Wales contributes $446.6m.*
   - *The ACT is a minor recipient in terms of CGC redistribution, but a net donor in terms of the total redistribution. To prevent the ACT from simultaneously being a donor and a recipient, there is no ACT column and no ACT row in the section of the table dealing with CGC redistribution. (The ACT's small share of CGC redistribution receipts has been proportionately allocated to the other four recipient jurisdictions.) The total redistribution reports the ACT's net subsidy to other jurisdictions.*
   - *Some subtotals may not add up to totals due to rounding.*

CHAPTER 10: INTERSTATE PUBLIC SECTOR COMPARISONS

10.1 INTRODUCTION

In an environment where government is under constant review, interstate comparisons provide a useful performance benchmark[1]. Comparisons in this Chapter are made using information sourced from the Australian Bureau of Statistics, Commonwealth Grants Commission, published accrual financial statements and credit rating agency reports. While the most recent data have been used, it should be recognised that the fiscal circumstances of governments can and do change rapidly, requiring caution to be used in interpreting published data. In particular, estimates of outlays, revenues and deficits are based on Budget estimates for 1998-99 while Grants Commission data relate to 1997-98. In some cases actual outcomes for 1998-99 will depart significantly from Budget estimates.

Table 10.1 shows that the ratio of State Government outlays to economic output is generally higher in States with smaller populations. In part reflecting this, the imbalance between outlays and revenues is higher in the smaller jurisdictions, although the pattern is far from uniform. Over time these divergent fiscal outcomes have resulted in widely differing levels of net assets and net financial liabilities.

[1] Unless otherwise stated, references to “States” in this Chapter should be interpreted as referring to States and Territories.

Table 10.1: Overview of Key Performance Indicators

	General Government Sector				*Total State*
	Outlays [1] % GSP	*Revenue [1] % GSP*	*Deficit [1] % GSP*	*Employment [2] Per 1000 population*	*Net Financial Liabilities [3] % GSP*
NSW	12.1	12.2	0.0	49.5	20.4
Vic	11.0	11.4	(-) 0.3	45.1	19.8
Qld	14.3	14.8	(-) 0.5	55.6	6.5
WA	12.5	12.1	0.4	56.9	18.6
SA	16.4	15.7	0.7	55.5	30.9
Tas	17.7	17.8	0.0	67.8	n.a.
ACT	9.7	9.6	0.0	56.0	11.3
NT	29.0	27.7	1.3	87.4	n.a.
Other States	13.1	13.2	(-) 0.1	51.2	n.a.
All States	12.8	12.8	(-) 0.1	50.6	n.a.

[1]Budget Estimates for 1998-99

[2]As at December 1998

[3]As at June 1998

Sources: ABS Government Financial Estimates 5501.0, ABS Public Sector Financial Assets and Liabilities 5513.0, ABS Australian Demographic Statistics 3101.0, ABS Employed Wage and Salary Earners, Australia 6248.0, NSW Treasury GSP Estimate; State accrual consolidated financial statements.

In most cases, comparisons in this Chapter relate to the general government sector, as opposed to the total non-financial public sector. A definition of government that excludes both public trading enterprises (PTEs) and public financial enterprises provides the most relevant guide to the core activities of government.

However, comparisons of accrual results and aggregates derived from statements of financial position are provided on a total public sector basis because of differences in segment accounting conventions between jurisdictions and because the allocation of debt between sectors is within the policy control of government. In view of this, the use of general government sector data alone would provide a misleading picture of the financial position of governments.

For the first time this year, interstate comparisons are also provided using data from accrual financial statements. Unfortunately, not all States publish such data at this time.

10.2 GFS RESULTS

Outlays

The performance of government is often measured by the level of services and infrastructure provided. Table 10.2 provides details of both current outlays (i.e. ongoing expenditures) and capital outlays (e.g. the construction of public buildings and provision of public infrastructure). Under ABS conventions, asset sales are treated as an offset to capital expenditure and therefore capital outlays can sometimes provide a false picture of the level of government spending. Fortunately, this problem is considerably less than in previous years following the reclassification of advances (including proceeds from the sale of government business) as a financing transaction.

Table 10.2: General Government Outlays, 1998-99 (% of GSP)

	Current	*Capital*	*Total*
NSW	10.6	1.5	12.1
Vic	9.9	1.1	11.0
Qld	11.2	3.1	14.3
WA	10.8	1.7	12.5
SA	14.9	1.5	16.4
Tas	16.8	1.0	17.7
ACT	9.0	0.7	9.7
NT	24.3	4.7	29.0
Other States	11.3	1.8	13.1
All States	11.1	1.7	12.8

Notes: General government outlays include payments made to or on behalf of other governments and public trading enterprises and Local Government.

Sources: ABS Government Financial Estimates 5501.0, NSW Treasury GSP Estimates.

As has been the case in previous years, in 1998-99 general government sector current outlays in New South Wales relative to GSP are expected to be lower than the all States average reflecting lower costs of service provision and higher levels of per capita income. In contrast to recent years, capital outlays are expected to be lower than average in New South Wales as a result of strong growth in expenditure in other States combined with higher expected asset sales in New South Wales in 1998-99. In total, general government outlays as a proportion of GSP are expected to be above the all States average in Queensland, South Australia, Tasmania and the Northern Territory in 1998-99, reflecting policy choices of government as well as differing debt servicing ratios and costs of service provision.

Trends in Outlays

In analysing the underlying fiscal position of the States, trends in both current and capital outlays provide a valuable insight. While asset sales constitute an offset to capital outlays and potentially distort underlying trends, the reclassification of proceeds from the sale of government businesses as a financing transaction by the ABS has reduced considerably the magnitude of this problem. Nevertheless because of their ongoing nature, trends in current outlays provide the best indicator of the sustainability of the fiscal policy of each jurisdiction.

Table 10.3: Growth in General Government Sector Current Outlays (%)

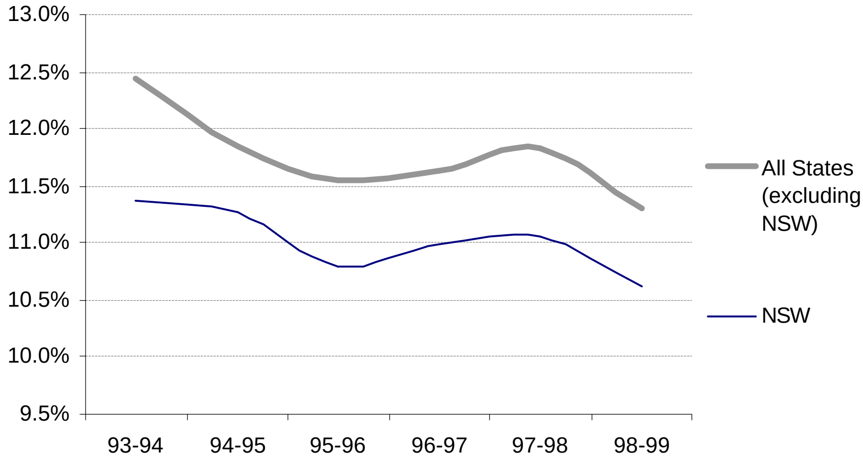
	1998-99	*5 Years to 1998-99 (Annual Average)*
NSW	1.8	4.7
Vic	(-) 3.5	1.4
Qld	4.0	7.1
WA	1.3	5.1
SA	2.3	2.3
Tas	7.5	3.2
ACT	0.3	2.9
NT	0.8	4.0
Other States	0.6	3.6
All States	1.0	4.0

Sources: ABS Government Financial Estimates 5501.0.

In 1998-99, current outlays by all State governments are expected to rise by 1.0 percent, with growth in New South Wales expected to be higher at 1.8 percent. In Victoria, reduced spending on housing and community services has seen current outlays fall by 3.5 percent. In contrast, growth in current outlays of 7.5 percent in Tasmania reflects ongoing increases in education, housing and community services and general public services expenditure. After declining in 1997-98, current outlays in South Australia and the Australian Capital Territory are expected to rise in 1998-99 by 2.3 percent and 0.3 percent respectively.

A comparison of the movements in general government current outlays relative to GSP for the period 1993-94 to 1998-99 for New South Wales and the other States is provided in Chart 10.1. As is apparent, the level of current outlays relative to the size of the economy has fallen slightly in recent years in New South Wales and on average in the other States. This fall is mainly a consequence of growth in the size of the economy and policies directed toward fiscal consolidation.

Chart 10.1: General Government Sector Current Outlays (% of GSP)



Sources: ABS Government Financial Estimates 5501.0, NSW Treasury GSP Estimates.

The trend in current outlays relative to GSP has been generally downward for all the States apart from Queensland, where current outlays relative to GSP have remained around 11 percent of GSP over the period 1993-94 to 1998-99. In Victoria, Tasmania, the Australian Capital Territory and South Australia, current outlays have fallen significantly over the period.

Over the five years to 1998-99 Queensland recorded the highest growth in current outlays. This reflects the State's rapidly growing population and economy. A similar situation applies to Western Australia, which also recorded large increases in both current and capital outlays.

Service Levels

The Commonwealth Grants Commission (CGC) provides estimates of the level of expenditure each State would need to undertake to provide a national average standard of recurrent public services assuming average levels of technical efficiency. This assessment takes into account differences between States including demographic characteristics, dispersion of population and economies of scale in the provision of public services. Comparing actual levels of expenditure with Grants Commission standardised expenditure provides an indicator of the standard of public services in each State.

According to the CGC's latest estimates, shown in Table 10.4, New South Wales provided a level of service slightly higher than the national average in 1997-98. Higher than national average levels of services were provided by New South Wales in areas such as education, health and social and community services.

Table 10.4: Grants Commission Service Provision Index

	NSW	*Vic*	*Qld*	*WA*	*SA*	*Tas*	*ACT*	*NT*	*Other States*
1997-98	101.7	96.9	94.0	104.3	110.4	96.8	101.6	100.2	99.1
1993-94	93.5	116.6	85.8	99.4	108.9	97.6	103.7	107.2	103.3

Source: Commonwealth Grants Commission, Report on General Revenue Grant Relativities, 1998 Update.

In 1997-98, the public service provision ratios were higher than average in New South Wales, South Australia, Western Australia, Northern Territory and the Australian Capital Territory. CGC data also show that service provision ratios have increased since 1993-94 in New South Wales, Queensland, South Australia and Western Australia, while there have been significant reductions in Victoria and the Northern Territory.

Revenues

The main sources of State revenue are taxes, grants received from the Commonwealth, dividends and tax equivalent payments from public trading enterprises (PTEs) and royalty incomes.

The estimated level of revenue for each State in 1998-99, as a percentage of GSP, is shown in Table 10.5. This table shows that tax revenues in New South Wales, Victoria, South Australia and Tasmania in 1998-99 represent a higher proportion of GSP than in other States. The position of New South Wales and Victoria is little different from most of the post-war period and can be attributed to higher per capita incomes in these States. Higher income creates a relatively large tax base, which in turn reduces the level of Commonwealth funding.

The proportions of total revenue raised from taxation for New South Wales, Victoria, Western Australia and the Australian Capital Territory are expected to be higher than the all State average in 1998-99. For New South Wales, this proportion has increased from 47.8 percent in 1993-94 to an expected 52.2 percent in 1998-99, while in Victoria the proportion has increased from 49.2 percent to an expected 50.7 percent over the same period.

Table 10.5: Revenue of General Government Sector, 1998-99 (% of GSP)

	Grants	*Taxes*	*Other*	*Total*
NSW	4.6	6.4	1.2	12.2
Vic	4.7	5.8	1.0	11.4
Qld	6.4	4.7	3.7	14.8
WA	5.3	4.9	1.9	12.1
SA	7.4	6.0	2.3	15.7
Tas	10.4	5.6	1.8	17.8
ACT	4.4	4.4	0.8	9.6
NT	21.3	5.2	1.2	27.7
Other States	6.0	5.3	1.9	13.2
All States	5.5	5.7	1.7	12.8

Sources: ABS Government Financial Estimates 5501.0, NSW Treasury GSP Estimates.

Grants from the Commonwealth

Table 10.6 indicates that the Northern Territory and Tasmania are more dependent on Commonwealth grants as a source of revenue than on own-source revenue. Northern Territory remains the most heavily dependent, with over 70 percent of its total revenue in the form of Commonwealth grants for the past five years while in the case of Tasmania nearly 60 percent of funding is derived from the Commonwealth.

Over the five year period to 1998-99 the proportion of total revenue made up by grants has shown a downward trend for all States.

Taxation Revenue

Since 1993-94 taxation revenue in New South Wales has grown faster than the average of all States. The gap between the performance of New South Wales and the other States has arisen as a result of a number of factors. Firstly, growth in tax revenue in Victoria has been slow following sharp increases in the early 1990s associated with fiscal adjustment measures. Secondly, New South Wales has adopted a policy of funding an expansion of public sector expenditure designed to meet community needs. Thirdly, the growth in the NSW economy has been relatively good compared with most other States resulting in additional revenues flowing to the State Government. In 1998-99, growth in tax revenues in New South Wales was estimated by the ABS to be close to the national average.

Table 10.6: Growth of Tax Revenue (%)

	1998-99	*5 Years to 1998-99 (Annual Average)*
NSW	4.1	6.6
Vic	2.6	4.2
Qld	4.2	6.0
WA	4.6	6.4
SA	6.5	6.2
Tas	4.4	3.4
ACT	1.2	3.9
NT	1.9	9.7
Other States	3.7	5.2
All States	3.9	5.7

Sources: ABS Government Financial Estimates 5501.0, NSW Treasury GSP Estimates.

Composition and Trends in Tax Receipts

There have been some significant trends in the composition of State taxation revenue during the five-year period to 1997-98.

While payroll tax remains the largest single source of tax revenue for the States, stamp duty on conveyances has increased its share from 7.4 percent in 1992-93 to 9.4 percent in 1997-98.

Gambling taxes also increased their contribution to State tax revenue. In 1997-98 gambling taxes represented 11.7 percent of total tax revenue compared with only 9.7 percent in 1992-93. The growth in revenues from this source came from an expansion in casino gambling and increased availability of gaming machines. States that saw the fastest growth in revenue from gambling were Victoria and South Australia.

Over the 5 years to 1997-98 reliance on land taxes declined significantly from 6.5 percent to 5.3 percent of total taxes.

Severity of Taxes

Table 10.7 presents CGC data comparing actual tax revenue with the revenue a State could raise if it applied the average national tax rate. Grants Commission data indicate that New South Wales applies higher than average tax rates and the relative severity of New South Wales taxation has increased slightly during the five-year period from 1993-94 to 1997-98. Large increases were also experienced in South Australia, Tasmania and Northern Territory over the same period, while Victoria experienced the largest decline.

Table 10.7: Grants Commission Tax Severity Index

	NSW	*Vic*	*Qld*	*WA*	*SA*	*Tas*	*ACT*	*NT*	*All States excl NSW*
1997-98	104.7	106.8	81.8	89.9	105.1	108.2	100.2	109.8	97.1
1993-94	102.1	113.8	79.9	94.5	94.5	105.3	100.6	104.5	98.8

Source: Derived from Commonwealth Grants Commission, Report on General Revenue Grant Relativities, 1998 Update.

A detailed comparison of tax rates and charges can be found in the publication *Interstate Comparison of Taxes 1998-99* available from the NSW Treasury.

10.3 AGGREGATE ACCRUAL RESULTS

In recent years there has been a trend away from traditional cash based-financial reporting and for greater reliance to be placed on accrual financial statements of government. These statements are prepared in accordance with accounting standards and report the consolidated results of the total public sector for each State. While accrual data is not yet available in a timely fashion for all jurisdictions, Table 10.8 provides estimates of the operating result (before extraordinary and abnormal items) for most States for 1997-98.

Table 10.8: Operating Surplus, 1997-98

	$m	*% of GSP*
NSW	1,307	0.7
Vic	1,979	1.4
Qld	976	1.1
WA	118	0.2
SA	289	0.7
Tas	n.a.	n.a.
ACT	(-) 148	(-) 1.3
NT	n.a.	n.a.

Source: State accrual consolidated financial statements

Table 10.8 shows the superior financial performance of New South Wales, Victoria, Queensland and South Australia.

The annual operating result provides a useful indicator of the direction in which the financial position of government is moving. However, a more comprehensive picture of the sustainability of fiscal policy is obtained by considering aggregate measures derived from statements of financial position.

Table 10.9 provides one measure of the financial health of government. As is shown, the net asset position of New South Wales is strong.

Table 10.9: Net Assets June 1998

	$m	*% of GSP*
NSW	72,204	36.1
Vic	28,003	19.5
Qld	55,255	60.2
WA[1]	28,260	45.9
SA	7,805	20.0
Tas	n.a.	n.a.
ACT	6,853	59.7
NT	n.a.	n.a.

[1]To improve comparability between States land under roads has been excluded.

Source: State accrual consolidated financial statements

10.4 DEFICITS, DEBT AND DEBT COSTS

Important indicators of the fiscal position of a jurisdiction are the rate at which it is accumulating liabilities, its stock of liabilities and the burden this imposes on the finances of the State.

The allocation of debt between the general government and PTE sectors is a policy variable available to government. For example, in 1995-96 around $1.5 billion of general government debt in New South Wales was transferred to the PTE sector to ensure appropriate debt/equity levels were in place within the electricity sector. Given this measure of control, debt levels can only be discussed sensibly at the total State sector level.

Deficits

The deficit of a government is equal to its outlays (net of any increases in provisions) less revenues. The deficit provides a measure[2] of the extent to which a government is adding to its total liabilities and consequently its demand on total savings within the economy.

Table 10.10 shows estimated general government sector deficits relative to GSP for 1998-99.

[2] Deficits do not capture increases in accruing liabilities such as superannuation.

Table 10.10: General Government Sector Deficit[1], 1998-99 (% of GSP)

	Current	*Capital*	*Total*
NSW	(-) 1.1	1.1	0.0
Vic	(-) 1.2	0.9	(-) 0.3
Qld	(-) 3.1	2.6	(-) 0.5
WA	(-) 0.9	1.3	0.4
SA	(-) 0.5	1.2	0.7
Tas	(-) 0.3	0.3	0.0
ACT	(-) 0.6	0.6	0.0
NT	(-) 2.1	3.4	1.3
Other States	(-) 1.5	1.4	(-) 0.1
All States	(-) 1.4	1.3	(-) 0.1

Sources: ABS Government Financial Estimates 5501.0, NSW Treasury GSP Estimates.

1 (-) indicates a surplus.

As indicated in Table 10.10:

- all States are expected to record a current account surplus combined with a capital account deficit in 1998-99; and
- current account surpluses are expected to more than offset the deficits on capital transactions for Victoria and Queensland in 1998-99.

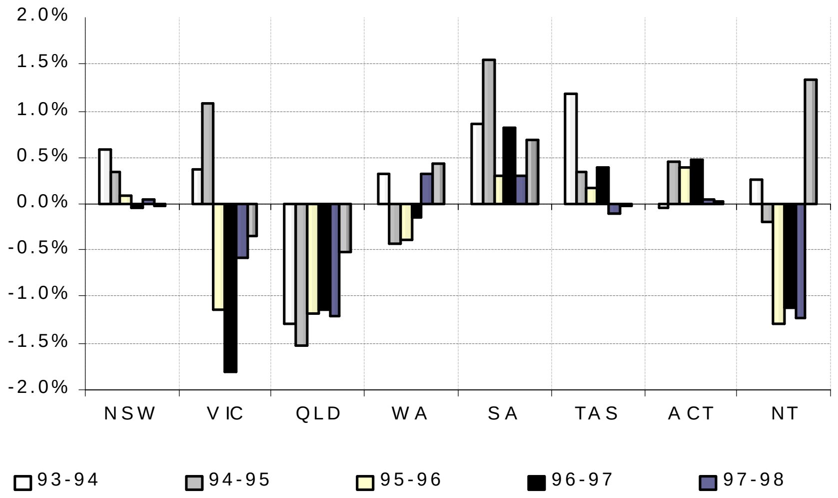
New South Wales is expected to record a current surplus slightly below the average of other States, but this is offset by a below average capital deficit.

Trends in Deficits

Most States have implemented medium-term deficit reduction strategies involving restraint in the growth of outlays. Chart 10.2 indicates that fiscal positions of States have varied considerably over the past five years but with an improving trend.

In New South Wales and Tasmania the deficit has been eliminated, while Queensland continues to record a surplus and Victoria moved strongly into a surplus position following a significant program of fiscal adjustment.

Chart 10.2: General Government Sector Deficit (% of GSP)



Sources: ABS Government Financial Estimates 5501.0, NSW Treasury GSP Estimates.

Net Debt

Table 10.11 provides information on total public sector net debt for each State.

Table 10.11: Total Public Sector Net Debt, June 1998

	$m	*% GSP*	*$ per capita*
NSW	18,403	8.7	2,902
Vic	2,349	1.6	504
Qld	(6,298)	(-) 6.5	(1,822)
WA	4,694	7.3	4,014
SA	5,969	14.9	2,564
Tas	2,720	23.2	5,763
ACT	(50)	(-) 0.4	(162)
NT	1,138	18.1	5,989
Other States	10,521	2.7	848
All States	28,924	4.9	1,543

Sources: ABS Public Sector Financial Assets and Liabilities 5513.0, ABS Australian Demographic Statistics 3101.0, ABS State Accounts 5220.0, NSW Treasury GSP Estimates.

Net debt in New South Wales relative to GSP has fallen significantly since 1993-94, assisted by total public sector surpluses in a number of years.

In Victoria, significant total public sector deficits, including a deficit equivalent to over 2 percent of GSP in 1989-90, led to net debt increasing to the equivalent of 30.8 percent of GSP in 1992. Since then, Victoria has seen large reductions in debt levels, largely through the use of major electricity assets sales to retire debt.

Queensland has a strong net financial asset position that improved further over the period June 1997 to June 1998 from 4.7 percent to 6.5 percent of GSP. This favourable situation reflects both continuing public sector surpluses and institutional arrangements which allow the financial assets of its superannuation schemes to be offset against debt unlike the situation in other States. The net asset position of Queensland also benefits from the significant level of debt held by its Local Government sector which is considerably larger than in other States.

Interstate comparisons based on net debt can sometimes be misleading as they fail to recognise non-debt liabilities that can easily substitute for debt. For example in 1998-99, New South Wales will borrow over $3 billion to reduce its unfunded superannuation liabilities.

In addition, under ABS standards for calculating net debt, assets associated with government run third party motor vehicle and workers compensation schemes are netted off against gross debt. In New South Wales, both these schemes are operated by the private sector. Placing Victoria on a comparable basis to New South Wales would increase net debt in that State by around $5 billion.

Table 10.12 provides an interstate comparison of net debt plus unfunded employee entitlement liabilities as a proportion of GSP, as well as comparisons of net financial liabilities where this is available. The data indicate that on the broadest basis the financial position of New South Wales is comparable to other States.

Table 10.12: Net Debt and Unfunded Employee Entitlements and Net Financial Liabilities, June 1998

	Net Debt and Unfunded Employee Entitlements		*Net Financial Liabilities*	
	$m	*% GSP*	*$m*	*% GSP*
NSW[1]	35,989	18.0	40,897	20.4
Vic	19,761	13.8	28,441	19.8
Qld	3,600	3.9	5,999	6.5
WA	10,753	17.5	11,428	18.6
SA	10,918	28.0	12,028	30.9
Tas	4,737	42.7	n.a.	n.a.
ACT	1,249	10.9	1,295	11.3
NT	2,367	39.5	n.a.	n.a.
Other States	53,385	14.6	n.a.	n.a.
All States	89,374	15.8	n.a.	n.a.

Sources: ABS Public Sector Financial Assets and Liabilities 5513.0, ABS State Accounts 5220.0, NSW Treasury GSP Estimates; State accrual consolidated financial statements.

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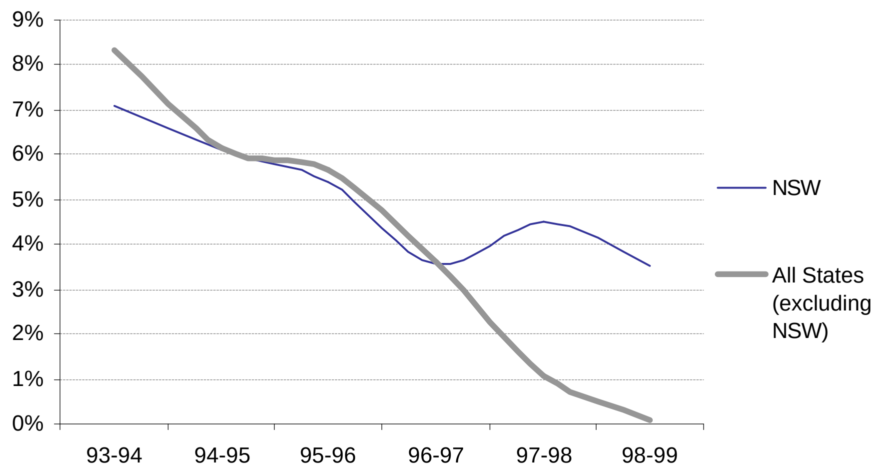
Debt Costs

Debt costs are an indication of the recurrent burden created by past borrowings and the limitation they impose on budgetary flexibility. Chart 10.3 shows movements in the ratio of net interest paid to total revenue (excluding interest received) for New South Wales and the other States.

As is apparent there has been a significant improvement in debt servicing ratios over the past five years both in New South Wales and other States reflecting lower interest rates and lower levels of debt. The faster improvement in the position of other States reflects the massive reductions in debt achieved by Victoria where the debt servicing ratio has fallen from 14.6 percent in 1993-94 to a projected 4.1 percent in 1998-99.

Chart 10.3: Ratio of Net Interest Paid to Total Revenue (%)



Source: ABS Government Financial Estimates 5501.0,

10.5 EMPLOYMENT

State public sector employment in the General Government and PTE sectors has fallen significantly since 1992. Nationally, the number of State government employees was 1,107,600 in November 1993 and fell to 1,071,300 in December 1998 - a reduction of 3.3 percent.

The reduction in overall employment levels reflects mainly changes in employment in the PTE sector, flowing from business asset sales and labour productivity improvements. Over the period November 1993 to December 1998, total State General Government sector employment increased by 3.2 percent to 972,800, while PTE employment fell by 33.5 percent to 93,200.

New South Wales General Government sector employment increased over the period by 6.6 percent although this was substantially offset by a fall in PTE employment of 22.5 percent. Total State sector employment in Queensland increased by 9.3 percent from its 1993 level, essentially due to increased employment in the PTE sector. Queensland was the only State to record an increase in PTE employment over the period.

Table 10.13 provides interstate comparisons of State public sector employment expressed per 1,000 of population.

Table 10.13: State Public Sector Employment, December 1998 (per 1,000 of Population)

	General Government Sector	*PTE Sector*	*Total State Public Sector*
NSW	49.5	6.4	56.0
Vic	45.1	2.2	47.3
Qld	55.6	6.9	62.5
WA	56.9	4.8	61.7
SA	55.5	4.6	60.2
Tas	67.8	1.3	69.1
ACT	56.0	5.3	61.8
NT	87.4	0.0	87.4
Other States	51.2	4.2	55.4
All States	50.6	5.0	55.6

Note: Excludes financial sector employment.

Sources: ABS Demographic Statistics 3101.0, Employed Wage and Salary Earners, Australia 6248.0.

Expressing the level of State public sector employees relative to State population further emphasises the reduction since 1993. Nationally, State sector employment fell from 62.3 employees per 1,000 of population in 1993 to 55.6 in December 1998 with employment in the general government sector falling from 53.1 to 50.6 and PTE employment falling from 7.9 to 5.0 persons per 1,000 of population.

Victoria’s relatively low level of PTE sector employment of 2.2 persons per 1,000 of population reflects the transfer of government businesses and employment to the private sector, most notably through the electricity industry business sales.

10.6 CREDIT RATINGS

Prior to June 1990, the domestic debt of all mainland States was rated equally at triple A. The movement towards a differential ratings structure commenced with a decision by Moody's Investors Service and Standard & Poor's Ratings Group in June 1990 to lower the credit ratings assigned to the debt of Victoria. Under the current arrangements, both of the major agencies conduct an annual review of State credit ratings.

The States have become increasingly attuned to the need to maintain high credit ratings as a means of minimising borrowing costs, ensuring continued access to international capital markets and demonstrating the effectiveness of their financial management. It is estimated that retaining a Triple A credit rating saves New South Wales up to $30 million per annum compared with a credit rating one level lower.

Current Credit Ratings of the States

Table 10.14 outlines the current rating profiles of the States. The most recent change in a State rating was an upgrade by Standard & Poor's Ratings Group for Western Australia's long-term debt from AA+ to AAA in January this year.

On 8 October 1998 Moody's Investor Service announced that the AAA credit rating for New South Wales was re-affirmed. Underlying this reaffirmation were the State's sound fiscal policy and budgetary position, the strength of the economy and the modest debt burden compared with other Australian States and international counterparts.

Table 10.14: State Domestic Credit Ratings

	Moody's Investors Service		*Standard & Poor's Ratings Group*	
	Short-term	*Long-term*	*Short-term*	*Long-term*
NSW	P-1	Aaa	A-1+	AAA
Vic	P-1	Aa1	A-1+	AAA
Qld	P-1	Aaa	A-1+	AAA
WA	P-1	Aaa	A-1+	AAA
SA	P-1	Aa2	A-1+	AA
Tas	P-1	Aa2	A-1+	AA-

New South Wales, Queensland and Western Australia have the highest ratings on both indexes.

CHAPTER 11: GOVERNMENT FINANCE STATISTICS AND UNIFORM REPORTING FRAMEWORK

11.1 INTRODUCTION

This chapter[1] presents financial aggregates for the General Government and Public Trading Enterprise Sectors according to internationally recognised statistical standards and in accordance with a revised uniform reporting framework agreed at the 1997 Premiers' Conference. The new, enhanced reporting arrangements involve, among other things, the provision of 4 year forward estimates for the General Government Sector.

The financial aggregates presented in this Budget Paper serve a number of purposes including:

- allowing interstate comparisons on a consistent basis;
- facilitating time series comparisons since they are relatively unaffected by changes in public sector administrative structures; and
- permitting an assessment of the impact of NSW Public Sector transactions on the economy by providing data classified by economic type.

1 New South Wales Treasury acknowledges the assistance of the Sydney and Canberra offices of the Australian Bureau of Statistics in the preparation of this Chapter.

Outlay and revenue data presented in this Chapter are provided on two separate bases. Section 11.3 provides information which excludes selected Commonwealth payments which pass through the State's accounts. While the exclusion of these payments is considered to provide a fairer representation of State finances, section 11.4 provides information on a standard ABS basis in accordance with the requirements of the 1997 Premiers' Conference agreement.

Section 11.5 presents estimates of the State's Loan Council Allocation (LCA) for 1998-99 and 1999-2000.

11.2 CLASSIFICATION FRAMEWORK

INTRODUCTION

The economic type classification adopted in this Budget Paper closely follows international conventions as outlined in the ABS publication, "*Government Finance Statistics Australia - Concepts, Sources and Methods, 1994*", Catalogue Number 5514.0.

Classification of Public Sector Entities

Public sector entities in New South Wales can be classified as General Government Enterprises (GGEs), Public Trading Enterprises (PTEs) or Public Financial Enterprises (PFEs).

GGEs consist of those public sector entities which provide, in the main, goods and services outside the market mechanism as well as providing for the transfer of income for public policy purposes. The major form of financing of these goods and services is by taxation, imposed by the State or by the Commonwealth and subsequently on passed to the State. In New South Wales most government departments and a number of statutory authorities (for example Sydney Harbour Foreshore Authority) fit into this category.

In contrast, PTEs charge for services provided and hence have a broadly commercial orientation. They do not, however, necessarily operate in competitive markets. While PTEs are not required to be fully self funding, a substantial portion of their costs must be met by user charges. The PTE sector in New South Wales includes Pacific Power, Sydney Water Corporation and the State Rail Authority.

PFEs are the third category of authorities in the ABS framework. Treasury Corporation is the major entity in New South Wales operating in this sector. PFEs are not included in this chapter as data is only published on an "actuals" basis for this sector.

Economic Type Classification

Transactions of public entities can be placed into one of four major economic categories, these categories being subdivided into approximately 150 groups. The four major categories are current outlays, capital outlays, revenue and grants received, and financing transactions.

Current Outlays

Current outlays consist of final consumption expenditure and current transfer payments.

Final consumption expenditure is recorded only for the general government sector. This is due to the convention of valuing the services produced by general government on the basis of the costs incurred in providing these services, less any revenues from sales. In effect, the general government sector is treated as both a producer and a consumer of publicly provided goods and services on behalf of the community. For other sectors of the economy, consumption expenditure is allocated to the end user. In the case of the public trading enterprise sector, net receipts from the purchases and sales of goods and services are classified within the revenue and grants received category. The placement of these transactions in this category reflects these authorities being considered producers of goods and services, with consumption of these services recorded in the private sector.

Transfer payments cover transactions such as interest payments, subsidies, personal benefit payments and grants. In these cases there is no exchange of ownership of goods and services. While transfer payments are a very important part of Commonwealth Government current outlays, this is not the case at the State level.

Capital Outlays

Capital outlays can be divided into capital expenditure and capital transfer payments.

Capital expenditure represents expenditure on durable goods intended to be employed in the production process and providing services for longer than one year, net purchases of land and intangible assets and increases in stocks. The sale of fixed assets is offset against expenditure.

Capital transfer payments are mainly in the form of grants.

Revenue and Grants Received

Within the revenue and grants category, an important distinction needs to be made between taxes and fines and other forms of revenue.

Taxes are compulsory levies imposed by government in order to raise general revenue. As such, there is no linkage between the payment of tax and the provision of goods and services. Taxes should be distinguished from user charges in which there is a clear linkage between the provision of goods and services and the payment of the charge. Examples of user charges include electricity, water and public transport charges.

A major sub-category within revenue and grants received is the net operating surplus of public trading enterprises. It should be noted that interest paid is classified as a current outlay while interest received is classified to its own sub-category within revenue and grants received. As interest paid generally exceeds interest received, the net operating surplus of public trading enterprises is substantially higher than the operating surplus recorded by the authorities concerned in their annual reports. Furthermore subsidies received by public trading enterprises are recorded in this publication as operating revenue.

Financing Transactions

In contrast to outlays and revenue, financing transactions involve changes in financial assets and liabilities and, as such, can be considered 'below the line' items. Total financing transactions are defined as current and capital outlays less revenue and grants received.

Within this Budget Paper financing transactions have been divided into five categories:

- net advances received;
- net advances paid;
- net borrowings;
- increases in provisions; and
- other financing transactions.

The deficit is defined as the difference between outlays and revenues after deducting any increases in provisions. It represents the call on savings by the public sector (including the call on the savings of the Commonwealth).

Within the deficit a distinction can be made between that part which results from current outlays and revenues and that part which results from capital outlays and revenues. The operating deficit is calculated as current outlays less both current revenues and increases in provisions. The capital deficit is calculated as capital outlays less capital revenues (including Commonwealth capital grants).

11.3 DETAILED GOVERNMENT FINANCE STATISTICS RESULTS ON A TREASURY BASIS

TREASURY BASIS

The standards applied to produce estimates of outlays and revenues in this section are the same as those used by the ABS in its Government Financial Estimates publication (Catalogue No. 5501.0), but with two exceptions:

- Commonwealth payments where the State acts merely as an agent; and
- premiums on loans.

Treatment of Certain Commonwealth Payments

For certain Commonwealth payments (eg non-government schools and local government tax sharing and road funding), the State essentially acts as an agent of the Commonwealth.

Despite the fact that the State has no control over these payments and is not involved in any negotiations concerning them, GFS conventions require their inclusion in the State sector.

While the inclusion of these payments does not distort the underlying financial position, the growth in expenditure in these areas can be significantly different compared with that of the remainder of the State sector.

In light of these considerations, certain Commonwealth grants classified as passing through (rather than to) the State in the Commonwealth Budget are excluded from the tables in section 11.3.

Loan Premiums

Current ABS statistical standards require a premium on a loan to be classified as a negative interest payment in the year the loan is raised. New South Wales disagrees with this approach since it results in an asymmetric treatment with discounts on loans which are treated as a balloon interest payment on the maturity of the loan.

The position put by New South Wales can be illustrated by considering a par loan to be made up of two loans, one at a discount and one at a premium. Under the ABS approach the transactions recorded under GFS standards result in a difference in the timing of interest payments between the par loan and the combined premium-discount loan. To avoid this problem, New South Wales has proposed recording the premium as a negative interest payment in the final year of the loan.

While strict accordance with GFS standards requires the ABS approach to be adopted for the estimates in this section, the ABS has recognised the accounting difficulties of this approach. Given this, a compromise has been reached on this issue which involves all jurisdictions and the ABS departing from GFS principles on this matter.

CONSERVATIVE BIAS IN PUBLIC TRADING ENTERPRISE RESULTS

There is evidence of a conservative bias in estimates of the PTE sector financial results. Table 11.1 indicates that the financial result of PTE sector has been conservatively forecast in each of the past 7 years, with the exception of 1998-99. Given this, the actual result for this sector in 1999-2000 may well be better than projected.

Table 11.1: Comparison of Estimated and Actual Financial Results[1]

	Estimated[2] *$m*	*Actual* *$m*	*Forecast Error* *$m*
1992-93	31	448	417
1993-94	442	441	(1)
1994-95	(41)	312	353
1995-96	(86)	509	595
1996-97[3]	465	1,166	701
1997-98	(136)	170	306
1998-99	(30)	(57)[4]	(27)

1. A positive number represents a surplus.
2. The estimated results have been adjusted for a number of reclassification changes.
3. The 1996-97 outcome is affected by the decision to provide substantial increases in funding to the rail sector of around $200 million.
4. Revised estimate as at June 1999.

DETAILED GOVERNMENT FINANCE STATISTICS ESTIMATES - 1994-95 TO 1999-2000

Table 11.2: General Government Sector - Outlays, Revenue and Financing Transactions

ECONOMIC TYPE CLASSIFICATION	*1994-95* *$m*	*1995-96* *$m*	*1996-97* *$m*	*1997-98* *$m*	*1998-99 Revised* *$m*	*1999-2000 Estimate* *$m*
Current Outlays	17,819	18,325	19,767	20,971	25,461	21,468
General government final consumption expenditure	13,765	14,485	15,684	16,485	20,937	17,124
Current transfer payments	4,055	3,840	4,083	4,486	4,523	4,345
Interest payments	1,721	1,729	1,429	1,538	1,395	1,271
- On Commonwealth advances	463	381	328	342	106	108
- Other	1,258	1,348	1,101	1,196	1,289	1,163
Subsidies paid to enterprises	1,256	957	1,247	1,277	1,457	1,240
- Subsidies paid to public trading enterprises	611	528	933	939	1,009	927
- Subsidies paid to other enterprises	645	429	315	338	448	314
Personal benefit payments	125	136	150	267	295	306
Current grants to local government	48	52	52	61	62	89
Other current transfer payments	906	966	1,205	1,342	1,314	1,439
Capital Outlays	2,941	3,175	3,317	3,188	3,602	3,326
Gross fixed capital expenditure	2,087	(4,410)	2,241	2,120	2,407	2,389
- Expenditure on new fixed assets	2,039	1,952	2,364	2,369	2,385	2,642
- Sales of fixed assets and previously rented dwellings	48	(6,362)	(123)	(249)	22	(253)
Increase in stocks	4	3	...	...	...	...
Expenditure on land and intangible assets	(411)	(1,848)	84	(7)	28	(167)
- Purchase of land and intangible assets	130	112	139	160	291	156
- Sales of land and intangible assets	541	1,960	56	167	263	323
Capital transfer payments	1,262	9,431	993	1,075	1,167	1,104
- Capital grants to local government	132	8,181	147	158	205	177
- Capital grants to state public trading enterprises	1,052	1,151	743	735	843	796
- Other capital grants and transfer payments	77	98	103	182	119	130

Table 11.2: General Government Sector - Outlays, Revenue and Financing Transactions (cont')

ECONOMIC TYPE CLASSIFICATION	*1994-95* *$m*	*1995-96* *$m*	*1996-97* *$m*	*1997-98* *$m*	*1998-99 Revised* *$m*	*1999-2000 Estimate* *$m*
Revenue and Grants Received	20,171	21,354	23,235	24,130	26,177	25,987
Taxes	10,080	10,744	11,811	12,908	14,161	14,012
Property income and other revenue	2,174	2,352	2,867	2,632	2,669	2,470
- Income from public trading enterprises	1,033	1,008	1,393	1,359	1,268	1,151
- Income from public financial enterprises	25	67	48	37	40	21
- Interest received	461	555	636	439	450	377
- Other property income and other current revenue	634	704	782	784	902	875
- Capital revenue	21	17	8	14	8	46
Grants received	7,917	8,258	8,558	8,589	9,347	9,506
- Current grants received	6,890	7,339	7,480	7,638	8,120	8,616
- From Commonwealth	6,890	7,339	7,470	7,637	8,117	8,611
- Other	...	...	9	1	4	5
- Capital grants received	1,027	919	1,078	951	1,227	890
- From Commonwealth	1,016	919	832	725	835	784
- Other	12	...	246	227	392	105
Financing Transactions	589	147	(151)	29	2,885	(1,193)
Net advances received	(673)	(388)	(458)	(1,568)	(67)	(167)
- From Commonwealth	(673)	(389)	(458)	(1,541)	(50)	(114)
- Other	(1)	1	...	(27)	(18)	(54)
Net advances paid	527	1,776	518	1,128	18	(60)
Net domestic and overseas borrowings	851	(887)	(121)	793	2,745	(1,528)
Other financing transactions	(116)	(354)	(90)	(324)	189	562
Deficit/(Surplus)(1)	589	147	(151)	29	2,885	(1,193)
- Operating result	(1,303)	(2,092)	(2,382)	(2,193)	519	(3,584)
- Capital result	1,892	2,239	2,232	2,223	2,367	2,391
Adjusted Deficit/(Surplus)(2)	**589**	**147**	**(151)**	**29**	**(382)**	**(214)**

(1) Financing Transactions minus Increase in Provisions
(2) Adjusted for effects of superannuation conversion offer
... Nil or less than $500,000

DETAILED GOVERNMENT FINANCE STATISTICS ESTIMATES - 1994-95 TO 1999-2000

Table 11.3: Public Trading Enterprise Sector - Outlays, Revenue and Financing Transactions

ECONOMIC TYPE CLASSIFICATION	*1994-95* *$m*	*1995-96* *$m*	*1996-97* *$m*	*1997-98* *$m*	*1998-99 Revised* *$m*	*1999-2000 Estimate* *$m*
Current Outlays	2,144	2,075	2,461	2,394	2,080	1,923
Current Transfer Payments	2,144	2,075	2,461	2,394	2,080	1,923
Interest payments	965	922	942	886	804	773
Income transferred by public trading enterprises	1,024	1,003	1,392	1,355	1,248	1,097
Other current transfer payments	154	149	127	152	29	53
Capital Outlays	2,453	2,072	1,276	2,048	2,338	3,055
Gross fixed capital expenditure	2,472	2,208	1,285	1,820	2,096	2,571
- Expenditure on new fixed assets	2,671	2,401	1,968	2,006	2,596	2,782
- Net expenditure on secondhand fixed assets	(199)	(192)	(683)	(187)	(499)	(210)
Increase in stocks	15	(58)	27	188	188	539
Expenditure on land and intangible assets	(70)	(105)	(293)	(197)	(333)	(138)
- Purchase of land and intangible assets	152	77	61	81	59	138
- Sales of land and intangible assets	222	182	354	278	392	276
Capital transfer payments	36	27	257	238	388	83
- Capital grants to local government	4	...	10	5	...	...
- Other capital grants and transfer payments	32	27	246	233	388	83

Table 11.3: Public Trading Enterprise Sector - Outlays, Revenue and Financing Transactions (cont')

ECONOMIC TYPE CLASSIFICATION	*1994-95 $m*	*1995-96 $m*	*1996-97 $m*	*1997-98 $m*	*1998-99 Revised $m*	*1999-2000 Estimate $m*
Revenue and Grants Received	3,226	2,697	3,550	3,350	2,584	2,654
Net operating surplus of PTEs	1,586	1,173	2,467	2,312	1,389	1,540
- Operating revenue	12,377	12,198	13,809	13,363	12,918	13,396
- Charges for goods and services	11,807	11,703	12,898	12,385	11,922	12,518
- Subsidies received	570	495	910	977	996	878
- Operating expenditure	10,791	11,026	11,341	11,051	11,529	11,856
- Depreciation charges	1,868	1,753	1,418	1,416	1,430	1,488
- Other operating expenditure	8,923	9,272	9,923	9,635	10,099	10,367
Property income and other revenue	518	364	342	354	353	326
- Interest received	186	200	208	157	106	87
- Other property income and other current revenue	2	1	1	2	38	42
- Capital revenue	330	162	133	196	209	198
Grants received	1,122	1,160	741	684	842	787
- Capital grants received	1,122	1,160	741	684	842	787
- From state general government sector	1,059	1,151	741	684	842	787
- Other	64	10	...	...	...	...
Financing Transactions	1,370	1,449	187	1,092	1,835	2,324
Net advances received	(5)	(1,698)	(345)	(245)	(47)	(40)
- From state general government sector	(5)	(1698)	(345)	(244)	(44)	(40)
- Other	...	...	...	(1)	(3)	...
Net advances paid	...	...	...	...	...	19
Net domestic and overseas borrowings	(412)	1,487	(618)	(44)	(247)	247
Increase in provisions (net)	1,683	1,958	1,353	1,262	1,777	2,073
Other financing transactions	104	(298)	(203)	119	352	25
Deficit/(Surplus)[(1)]	(312)	(509)	(1,166)	(170)	57	251
- Operating Result	(1,313)	(1,258)	(1,568)	(1,339)	(1,230)	(1,819)
- Capital Result	1,000	749	402	1,169	1,288	2,071

(1) Financing Transactions minus Increase in Provisions

... Nil or less than $500,000

DETAILED GOVERNMENT FINANCE STATISTICS ESTIMATES - 1994-95 TO 1999-2000

Table 11.4: Total Non Financial Sector - Outlays, Revenue and Financing Transactions

ECONOMIC TYPE CLASSIFICATION	*1994-95*	*1995-96*	*1996-97*	*1997-98*	*1998-99 Revised*	*1999-2000 Estimate*
	$m	*$m*	*$m*	*$m*	*$m*	*$m*
Current Outlays	18,856	19,315	20,767	21,939	26,222	22,197
General government final consumption expenditure	13,765	14,485	15,684	16,485	20,937	17,124
Current transfer payments	5,092	4,830	5,083	5,454	5,285	5,074
Interest payments	2,603	2,570	2,301	2,354	2,135	1,979
- On Commonwealth advances	463	381	328	342	106	108
- Other	2,140	2,188	1,974	2,012	2,029	1,872
Subsidies paid to enterprises	1,256	957	1,247	1,277	1,457	1,240
Personal benefit payments	125	136	150	267	295	306
Current grants to local government	48	52	52	61	62	89
Other current transfer payments	1,060	1,115	1,332	1,494	1,336	1,459
Capital Outlays	4,331	4,095	3,603	4,265	4,710	5,502
Gross fixed capital expenditure	4,559	(2,202)	3,526	3,940	4,503	4,960
- Expenditure on new fixed assets	4,710	4,353	4,332	4,375	4,980	5,423
- Net expenditure on secondhand fixed assets	(152)	(6,555)	(806)	(435)	(477)	(463)
Increase in stocks	19	(56)	27	188	188	539
Expenditure on land and intangible assets	(481)	(1,953)	(210)	(208)	(305)	(305)
- Purchase of land and intangible assets	282	189	201	240	349	295
- Sales of land and intangible assets	764	2,142	411	448	655	600
Capital transfer payments	235	8,306	260	345	325	308
- Capital grants to local government	136	8,181	157	163	205	177
- Other capital grants and transfer payments	98	125	103	182	119	130

Table 11.4: Total Non Financial Sector - Outlays, Revenue and Financing Transactions (cont')

ECONOMIC TYPE CLASSIFICATION	*1994-95* *$m*	*1995-96* *$m*	*1996-97* *$m*	*1997-98* *$m*	*1998-99 Revised* *$m*	*1999-2000 Estimate* *$m*
Revenue and Grants Received	21,212	21,811	24,366	25,082	26,195	26,543
Taxes	10,080	10,744	11,811	12,908	14,161	14,012
Net operating surplus	1,586	1,173	2,467	2,312	1,389	1,540
Property income and other revenue	1,576	1,627	1,780	1,499	1,689	1,577
- Income from public financial enterprises	25	67	48	37	40	21
- Interest received	564	675	777	528	491	400
- Other property income and other current revenue	635	706	814	726	941	912
- Capital revenue	352	180	141	210	217	243
Grants received	7,970	8,268	8,308	8,363	8,955	9,414
- Current grants received	6,890	7,339	7,477	7,638	8,117	8,613
- From Commonwealth	6,890	7,339	7,470	7,637	8,117	8,611
- Other	...	...	7	2	...	2
- Capital grants received	1,080	929	831	725	838	801
- From Commonwealth	1,079	929	832	725	835	784
- Other	...	...	(1)	...	3	17
Financing Transactions	1,975	1,599	4	1,122	4,737	1,156
Net advances received	(673)	(389)	(458)	(1,569)	(71)	(168)
- From Commonwealth	(673)	(389)	(458)	(1,541)	(50)	(114)
- Other	(1)	...	...	(28)	(21)	(54)
Net advances paid (net)	522	75	173	921	(26)	(97)
Net domestic and overseas borrowings	439	600	(739)	749	2,498	(1,281)
Increase in provisions	1,683	1,958	1,353	1,262	1,777	2,073
Other financing transactions	4	(645)	(325)	(241)	559	629
Deficit/(Surplus)(1)	292	(359)	(1,349)	(140)	2,960	(916)
- Operating result	(2,607)	(3,346)	(3,980)	(3,471)	(695)	(5,374)
- Capital Result	2,899	2,987	2,631	3,331	3,655	4,458
Adjusted Deficit/(Surplus) (2)	**292**	**(359)**	**(1,349)**	**(140)**	**(307)**	**63**

(1) Financing Transactions minus Increase in Provisions

(2) Adjusted for effects of superannuation conversion offer

... Nil or less than $500,000

11.4 UNIFORM REPORTING FRAMEWORK REQUIREMENTS

In accordance with the revised Uniform Reporting Framework agreed by the 1997 Premiers' Conference, Tables 11.5 through to 11.14 of this Section provide estimates on a comparable basis to that published by the ABS.

Table 11.5: General Government Sector - Outlays, Revenue and Financing Transactions (ABS basis)

	1998-99	*1999-2000*	*2000-01*	*2001-02*	*2002-03*
	Revised	*Estimated*	*Estimated*	*Estimated*	*Estimated*
	$m	*$m*	*$m*	*$m*	*$m*
Current Outlays					
Final Consumption Expenditure	20,937	17,124	17,830	18,076	20,008
Interest Payments	1,395	1,271	1,191	970	966
Subsidies Paid to PTEs and PFEs	1,009	927	877	782	714
Current Grants	2,594	2,800	2,859	2,994	3,077
Other Current Payments	766	684	587	546	547
Total Current Outlays	26,701	22,805	23,344	23,368	25,311
Capital Outlays					
Gross Capital Expenditure	2,407	2,389	2,346	2,476	2,571
New Fixed Capital Expenditure	2,385	2,642	2,467	2,567	2,635
Expenditure on Secondhand Assets (net)	22	(253)	(121)	(91)	(64)
Capital Grants	1,198	1,133	1,150	1,139	1,214
Other Capital Outlays	28	(167)	(36)	(84)	(34)
Total Capital Outlays	3,632	3,355	3,460	3,530	3,751
Total Outlays	**30,333**	**26,160**	**26,804**	**26,898**	**29,062**

Table 11.5: General Government Sector - Outlays, Revenue and Financing Transactions (ABS basis) (cont')

	1998-99 Revised $m	1999-2000 Estimated $m	2000-01 Estimated $m	2001-02 Estimated $m	2002-03 Estimated $m
Revenue					
Taxes	14,161	14,012	14,387	14,825	15,409
Interest Received	450	377	393	401	410
Grants Received	10,618	10,872	11,148	11,481	11,698
Dividends Received from PTEs and PFEs	1,308	1,172	1,301	1,305	1,366
Other Revenue (incl Fines)	911	920	945	943	944
Total Revenue and Grants Received	27,448	27,353	28,174	28,955	29,828
Financing Transactions					
Net Advances Received	(67)	(167)	(79)	(196)	(144)
Net Advance Paid	18	(60)	41	24	77
Net Domestic and Overseas Borrowings	2,745	(1,528)	(1,062)	(1,225)	(96)
Increase in Provisions (net)	...	...	...	...	...
Other Financing Transactions	189	562	(270)	(660)	(603)
Total Financing Transactions	2,885	(1,193)	(1,370)	(2,057)	(766)
Less Increase in Provisions	...	...	...	...	...
Deficit/(Surplus) (1)	2,885	(1,193)	(1,370)	(2,057)	(766)
Adjusted Deficit/(Surplus) (2)	**(382)**	**(214)**	**(363)**	**(976)**	**(766)**
Net Debt	**12,896**	**11,883**	**10,513**	**8,481**	**7,757**
Net Debt Adjusted for Superannuation Conversion Offer	**9,632**	**9,632**	**9,334**	**8,481**	**7,757**

(1) Financing Transactions minus Increase in Provisions *... Nil or less than $500,000*
(2) Adjusted for effects of superannuation conversion offer

Table 11.6: Public Trading Enterprises - Outlays, Revenue and Financing Transactions (ABS basis)

	1998-99 Revised $m	*1999-2000 Estimated $m*
Current Outlays		
Interest Payments	804	773
Other Current Payments	1,277	1,150
Total Current Outlays	2,080	1,923
Capital Outlays		
Gross Capital Expenditure	2,096	2,571
New Fixed Capital Expenditure	2,596	2,782
Expenditure on Secondhand Assets (net)	(499)	(210)
Capital Grants	388	83
Other Capital Outlays	(145)	401
Total Capital Outlays	2,338	3,055
Total Outlays	4,419	4,978
Revenue		
Net Operating Surplus of PTEs	1,389	1,540
Interest Received	106	87
Grants Received	842	787
Other Revenue	247	239
Total Revenue and Grants Received	2,584	2,654
Financing Transactions		
Net Advances Received	(47)	(40)
Net Advances Paid	...	19
Net Domestic and Overseas Borrowings	(247)	247
Increase in Provisions (net)	1,777	2,073
Other Financing Transactions	352	25
Total Financing Transactions	1,835	2,324
less Increase in Provisions (net)	1,777	2,073
Deficit	57	251
Net Debt	**7,539**	**8,009**

Table 11.7: Total Non-Financial Public Sector - Outlays, Revenue and Financing Transactions (ABS basis)

	1998-99 Revised $m	*1999-2000 Estimated $m*
Current Outlays		
Final Consumption Expenditure	20,937	17,124
Interest Payments	2,135	1,979
Current Grants	2,616	2,820
Other Current Payments	1,774	1,610
Total Current Outlays	27,462	23,534
Capital Outlays		
Gross Capital Expenditure	4,503	4,960
New Fixed Capital Expenditure	4,980	5,423
Expenditure on Secondhand Assets (net)	(477)	(463)
Capital Grants	355	337
Other Capital Outlays	(118)	234
Total Capital Outlays	4,740	5,531
Total Outlays	32,203	29,065
Revenue		
Taxes, Fees and Fines	14,161	14,012
Net Operating Surplus of PTEs	1,389	1,540
Interest Received	491	400
Grants Received	10,225	10,779
Other Revenue	1,198	1,177
Total Revenue and Grants Received	27,465	27,908
Financing Transactions		
Net Advances Received	(71)	(168)
Net Advances Paid	(26)	(97)
Net Domestic and Overseas Borrowings	2,498	(1,281)
Increase in Provisions (net)	1,777	2,073
Other Financing Transactions	559	629
Total Financing Transactions	4,737	1,156
less Increase in Provisions (net)	1,777	2,073
Deficit/(Surplus)	2,960	(916)
Adjusted Deficit/(Surplus)	**(307)**	**63**
Net Debt	**20,435**	**19,892**
Net Debt Adjusted for Superannuation Conversion Offer	**17,171**	**17,641**

Table 11.8: General Government Sector - Current Outlays by Function (ABS basis)

FUNCTION	*1998-99 Revised $m*	*1999-2000 Estimated $m*
General Public Services	4,985	708
Public Order and Safety	2,123	2,196
Education	6,818	6,998
Health	5,468	5,575
Social Security and Welfare	1,816	1,843
Housing and Community Amenities	506	553
Recreation and Culture	449	497
Fuel and Energy	82	79
Agriculture, Forestry, Fishing and Hunting	410	402
Mining Manufacturing and Construction	65	70
Transport and Communications	1,718	1,631
Other Economic Affairs	553	484
Other Purposes	1,708	1,770
Current Outlays	**26,701**	**22,805**

Table 11.9: General Government Sector - Capital Outlays by Function (ABS basis)

FUNCTION	*1998-99 Revised $m*	*1999-2000 Estimated $m*
General Public Services	110	36
Public Order and Safety	262	302
Education	267	306
Health	264	435
Social Security and Welfare	29	37
Housing and Community Amenities	952	536
Recreation and Culture	312	359
Fuel and Energy	61	49
Agriculture, Forestry, Fishing and Hunting	34	33
Mining, Manufacturing and Construction	5	2
Transport and Communications	1,289	1,322
Other Economic Affairs	29	(49)
Other Purposes	20	(11)
Capital Outlays	**3,632**	**3,355**

Table 11.10: General Government Public Sector - Total Outlays by Function (ABS basis)

FUNCTION	1998-99 Revised $m	1999-2000 Estimated $m
General Public Services	5,095	743
Public Order and Safety	2,385	2,498
Education	7,085	7,304
Health	5,732	6,010
Social Security and Welfare	1,845	1,880
Housing and Community Amenities	1,458	1,089
Recreation and Culture	761	856
Fuel and Energy	142	128
Agriculture, Forestry, Fishing and Hunting	444	435
Mining, Manufacturing and Construction	70	71
Transport and Communications	3,007	2,953
Other Economic Affairs	582	435
Other Purposes	1,727	1,759
Total Outlays	**30,333**	**26,160**

Table 11.11: Total Non-Financial Sector - Current Outlays by Function (ABS basis)

FUNCTION	1998-99 Revised $m	1999-2000 Estimated $m
General Public Services	4,985	708
Public Order and Safety	2,123	2,196
Education	6,818	6,998
Health	5,468	5,575
Social Security and Welfare	1,816	1,843
Housing and Community Amenities	527	573
Recreation and Culture	449	497
Fuel and Energy	82	79
Agriculture, Forestry, Fishing and Hunting	410	402
Mining Manufacturing and Construction	65	70
Transport and Communications	1,718	1,631
Other Economic Affairs	553	484
Other Purposes	2,447	2,478
Current Outlays	**27,462**	**23,534**

Table 11.12: Total Non-Financial Sector - Capital Outlays by Function (ABS basis)

FUNCTION	*1998-99 Revised $m*	*1999-2000 Estimated $m*
General Public Services	110	36
Public Order and Safety	262	302
Education	267	306
Health	264	435
Social Security and Welfare	29	37
Housing and Community Amenities	1,036	989
Recreation and Culture	366	361
Fuel and Energy	589	822
Agriculture, Forestry, Fishing and Hunting	61	76
Mining, Manufacturing and Construction	5	2
Transport and Communications	1,585	1,717
Other Economic Affairs	29	(49)
Other Purposes	139	498
Capital Outlays	**4,740**	**5,531**

Table 11.13: Total Non-Financial Sector - Total Outlays by Function (ABS basis)

FUNCTION	*1998-99 Revised $m*	*1999-2000 Estimated $m*
General Public Services	5,095	743
Public Order and Safety	2,385	2,498
Education	7,085	7,304
Health	5,732	6,010
Social Security and Welfare	1,845	1,880
Housing and Community Amenities	1,563	1,563
Recreation and Culture	815	858
Fuel and Energy	671	901
Agriculture, Forestry, Fishing and Hunting	471	478
Mining, Manufacturing and Construction	70	71
Transport and Communications	3,303	3,347
Other Economic Affairs	582	435
Other Purposes	2,586	2,977
Total Outlays	**32,203**	**29,065**

Table 11.14: Taxes (ABS basis)

TAXES CLASSIFICATION	*1998-99 Revised $m*	*1999-2000 Estimated $m*
Payroll Tax	3,611	3,637
Taxes on Property	4,476	4,223
Land Tax	958	859
Stamp Duties on Financial and Capital Transactions	2,616	2,433
Financial Institutions Transaction Taxes	876	905
Other	26	26
Taxes on Provision of Goods and Services	2,349	2,495
Excises and Levies	37	29
Taxes on Gambling	1,419	1,558
Taxes on Insurance	893	908
Taxes on the Use of Goods and the Performance of Activities	3,725	3,656
Motor Vehicle Taxes	1,489	1,388
Franchise Taxes	1,971	1,993
Other	265	276
Total Taxes	**14,161**	**14,012**

11.5 LOAN COUNCIL REPORTING REQUIREMENTS

Table 11.15 presents estimates of the State's Loan Council Allocation (LCA) for 1998-99 and 1999-2000.

As confirmed at the 1997 Loan Council meeting, States are to report their full contingent exposure to infrastructure projects with private sector involvement. Exposure is to be measured by the government's termination liabilities and disclosed as a footnote to, rather than a component of, LCAs.

Overall, there is a negative Loan Council Allocation requirement of $279 million for New South Wales for 1999-2000.

Table 11.15: Loan Council Allocation Estimates

	1998-99 Current Estimate $m	*1999-2000 Bid $m*	*1999-2000 Budget Estimate $m*
Non Financial Public Sector Deficit/(Surplus) GFS Basis	2,960	(865)	(916)
Plus Net advances paid	26	19	97
Equals "Headline" Deficit/(Surplus)1	**2,986**	**(846)**	**(819)**
Memorandum Items:			
Operating Leases	157	(38)	(42)
University Borrowings	10	10	10
Recourse asset sales	…	…	…
Local government financing requirement	280	280	280
Superannuation	(3,916)	149	355
Net financing requirement for statutory marketing authorities	…	…	…
Home Finance Schemes	(127)	(67)	(63)
Loan Council Allocation	**(610)**	**(512)**	**(279)**

(1) Loan Council requires the Public sector result to be reported on the old "Headline" basis as used by the Australian Bureau of Statistics prior to 1998. Under this approach net advances paid were classified as part of capital outlays. The current GFS treatment of net advances paid as part of financing transactions has made the "headline" concept redundant in GFS reporting.

11.6 PRIVATE SECTOR INFRASTRUCTURE PROJECTS

CONTRACTS SIGNED IN 1998-99

St George Hospital Car Park

Project Description:

International Parking (Randwick) Pty Limited has contracted to build, own and operate and transfer back (BOOT) a 580 space multi storey car park at the St George Hospital campus of the South Eastern Sydney Area Health Service (SESAHS). The contract period is 25 years. The anticipated total construction cost for the project, including capitalised interest is $13 million. The car park operator will manage and operate under licence the whole campus car parking of 1,148 spaces, including the 580 new spaces.

The contract was signed in April 1999. No government liability arises under the proposed termination provisions of the contract except following a decision by SESAHS not to rebuild the car park in the event of its destruction. In such a circumstance SESAHS would pay compensation to IPR which would include a pro rata refund of licence fees and a termination amount.

Under the termination arrangements, in the event of operator default which is not rectified, the operator is required to sell and novate the car park operator's interest in the contract and the purchaser would obtain the rights and assume the liabilities and obligations existing under the contract. SESAHS is not obliged to assume responsibility for the operator's payments to the financiers.

The facility is wholly debt funded. The proposed term of the project (the minimum period of the contract in which no penalties are incurred) is 25 years.

Government Contingent Liability	nil

CONTRACTS TO BE ENTERED INTO IN 1999-2000

Royal Prince Alfred Hospital Car Park, Camperdown

Project Description:

It is proposed to invite the private sector to fund and build a new 950 space car park on the Royal Prince Alfred Hospital campus over a contract period of 25 years. The anticipated total construction cost for the project, including capitalised interest is $12 million. The successful consortium's car park operator will manage and operate under licence or lease the whole campus car parking of 1,150 spaces including the 950 new spaces.

The form of the arrangement is expected to be similar to that for the Randwick and St George Hospital Car Parks. The expected sign up date is June 2000. At this time no government liability is anticipated under the proposed termination provisions of the contract to be negotiated. The details are to be determined.

The facility is expected to be wholly debt funded. The proposed term of the project (the minimum period of the contract in which no penalties are incurred) is 25 years.

Government Contingent Liability	To Be Determined

Royal North Shore Hospital Car Park

Project Description:

A study is currently being undertaken into the feasibility of inviting the private sector to build, own and operate and transfer back (BOOT) a 400 space car park at the Royal North Shore (RNS) Hospital campus. The contract period would be for 25 years. The anticipated total construction cost for the project, including capitalised interest is $6 million. The operator would manage and operate under licence or lease the whole campus car parking, including the 400 new spaces.

The expected sign up date is June 2000. At this time no government liability is anticipated under the proposed termination provisions of the contract to be negotiated. The details are to be determined.

The Royal North Shore Hospital car park project is subject to the outcome of a feasibility study and an economic appraisal and project parameters could be subject to change.

Government Contingent Liability	To Be Determined

Inner West Light Rail Extension

Project Description:

The Ultimo Pyrmont Light Rail Transit system (UPLRT) operates between Central Railway Station and Wentworth Park to serve the growing residential, commercial and recreational areas of the Ultimo-Pyrmont peninsula.

The Government has assessed a proposal submitted by the Sydney Light Rail Company Limited (SLRC) to design, construct and operate extensions to the UPLRT. An extension westward from Wentworth Park along the disused railway line in a dedicated right of way through Glebe and North Annandale terminating at the Catherine Street bridge in Lilyfield is proposed. A contract is expected to be signed in August 1999.

The anticipated total construction cost is $20 million. The financing arrangements and the Government liability under termination provisions of the contract are yet to be finally determined. The project term is still under negotiation. The current light rail project is 30.5 years.

Government Contingent Liability	To Be Determined

Gerringong/Gerroa Sewerage Treatment Plants

Project Description:

The preferred option, announced in May 1999, will provide advanced tertiary level treatment and reuse of treated effluent in adjacent areas. Unused treated effluent will be released to sand dunes and artificial wetlands on site.

An Environmental Impact Statement will be displayed by November 1999. Construction should commence shortly thereafter.

The successful tenderer will finance, design and construct a system, which it will then operate and maintain for 20 years.

The estimated cost for the scheme is approximately $20 million.

Government Contingent Liability	To Be Determined

Pedestrian Overbridges and Variable Message Signs

Project Description:

A program of installing 26 pedestrian overbridges and 130 variable Message Signs (VMS) is under consideration by the Roads and Traffic Authority (RTA). The RTA would sell controlled advertising rights in the road reserves of State Roads for a period of up to 15 years in return for the construction of the infrastructure by the private sector.

RTA will not guarantee or underwrite the revenue of the advertisers. The bridges and the VMS will be the property of RTA immediately upon completion but other details of the arrangement are still in the course of negotiation. The total value of the program is estimated to be approximately $50 million.

Government Contingent Liability	Nil

APPENDIX: CLASSIFICATION OF AGENCIES

Agency/Activity	ABS Category		Budget Funding Category	
	General Government	Public Trading Enterprise	Budget Dependent	Non Budget Dependent
Aboriginal Affairs, Department of	*		*	
Aboriginal Housing Office	*			*
Adult Migrant English Service	*			*
Advance Energy		*		*
Ageing and Disability Department	*		*	
Agriculture, Department of	*		*	
Art Gallery of New South Wales	*		*	
Arts, Ministry for the	*		*	
Attorney General's Department	*		*	
Audit Office of NSW, The	*			*
Australian Inland Energy		*		*
Australian Museum	*		*	
Bicentennial Park Trust	*		*	
Board of Studies, Office of the	*		*	
Broken Hill Water Board		*		*
Building and Construction Industry Long Service Leave Payments Corporation	*			*
Cabinet Office	*		*	
Cancer Council, New South Wales	*			*
Casino Control Authority	*		*	
Centennial Park and Moore Park Trust	*		*	
City West Housing Pty Ltd		*		*
Coal Compensation Board	*		*	
Cobar Water Board		*		*
Coleambally Irrigation Area		*		*
Commission for Children and Young People	*		*	
Community Services Commission	*		*	

Agency/Activity	ABS Category		Budget Funding Category	
	General Government	Public Trading Enterprise	Budget Dependent	Non Budget Dependent
Community Services, Department of	*		*	
Corrective Services, Department of	*		*	
Crime Commission, New South Wales	*		*	
Crown Land Development		*		*
Crown Land Homesites		*		*
Crown Leaseholds	*		*	
Crown Transactions	*		*	
Darling Harbour Authority		*		*
Delta Electricity		*		*
Eastern Creek Raceway	*			*
Education and Training, Department of	*		*	
Energy and Utilities, Ministry of	*		*	
EnergyAustralia		*		*
Environment Protection Authority	*		*	
Environmental Planning and Assessment Act	*			*
Environmental Trust	*		*	
Ethnic Affairs Commission	*		*	
Fair Trading, Department of	*		*	
Film and Television Office, New South Wales	*		*	
Financial Institutions Commission, New South Wales	*			*
Fire Brigades, New South Wales	*		*	
Fisheries, New South Wales	*		*	
Fish River Water Supply Authority		*		*
Freight Rail Corporation		*		*
Gaming and Racing, Department of	*		*	
Great Southern Energy		*		*
Greyhound Racing Control Board	*			*
Harness Racing Authority of New South Wales	*			*
Health Care Complaints Commission	*		*	
Health, Department of (including Area Health Services, Public Hospitals, Ambulance Services)	*			*
Health Professional Registration Boards	*			*
Heritage Office (including Heritage Conservation Fund)	*		*	
Historic Houses Trust of New South Wales	*		*	
Home Care Service of New South Wales	*		*	
Home Purchase Assistance Fund	*			*

Agency/Activity	ABS Category		Budget Funding Category	
	General Government	Public Trading Enterprise	Budget Dependent	Non Budget Dependent
Honeysuckle Development Corporation	*			*
Housing, Department of		*		*
Hunter Water Corporation		*		*
Independent Commission Against Corruption	*		*	
Independent Pricing and Regulatory Tribunal	*		*	
Industrial Relations, Department of	*		*	
Information Technology and Management, Department of	*		*	
Insurance Ministerial Corporation	*			*
Integral Energy		*		*
Judicial Commission of New South Wales	*		*	
Juvenile Justice, Department of	*		*	
Land and Water Conservation, Department of	*		*	
Land Titles Office	*			*
Landcom		*		*
Legal Aid Commission of New South Wales	*		*	
Legislature, The	*		*	
Local Government, Department of	*		*	
Lotteries, New South Wales State		*		*
Luna Park Reserve Trust	*			*
Macquarie Generation		*		*
Marine Ministerial Holding Corporation	*			*
Meat Industry Authority NSW	*			*
Medical Board	*			*
Mineral Resources, Department of	*		*	
Mines Rescue Board	*			*
Mines Subsidence Board	*			*
Ministerial Development Corporation	*			*
Motor Accidents Authority	*			*
Motor Vehicle Industry Repair Council	*			*
Museum of Applied Arts and Sciences	*		*	
National Parks and Wildlife Service	*		*	
Newcastle Port Corporation		*		*
NorthPower		*		*
Olympic Co-ordination Authority	*		*	
Olympic Roads and Transport Authority	*		*	
Ombudsman’s Office	*		*	

Agency/Activity	ABS Category		Budget Funding Category	
	General Government	Public Trading Enterprise	Budget Dependent	Non Budget Dependent
Pacific Power		*		*
Parliamentary Counsel's Office	*		*	
Parramatta Stadium Trust		*		*
Police Integrity Commission	*		*	
Police, Ministry for	*		*	
Police Service, New South Wales	*		*	
Port Kembla Port Corporation		*		*
Premier's Department	*		*	
Public Trustee	*			*
Public Prosecutions, Office of the Director of	*		*	
Public Works and Services, Office of the Minister for	*		*	
Public Works and Services, Department of	*			*
Rail Access Corporation		*		*
Rail Services Authority		*		*
Registry of Births, Deaths and Marriages	*			*
Rental Bond Board	*			*
Roads and Traffic Authority	*		*	
Royal Botanic Gardens and Domain Trust	*		*	
Rural Assistance Authority	*		*	
Rural Fire Service, Department of	*		*	
Safe Food Production NSW	*			*
Sport and Recreation, Department of	*		*	
State and Regional Development, Department of	*		*	
State Electoral Office (includes Election Funding Authority of NSW)	*		*	
State Emergency Service	*		*	
State Forests of New South Wales		*		*
State Library of New South Wales	*		*	
State Rail Authority		*		*
State Records Authority	*		*	
State Sports Centre Trust	*			*
State Transit Authority		*		*
State Valuation Office	*			*
Stormwater Trust	*			*
Superannuation Administration Authority	*			*
Sustainable Energy Development Authority	*		*	

Agency/Activity	ABS Category		Budget Funding Category	
	General Government	Public Trading Enterprise	Budget Dependent	Non Budget Dependent
Sydney Catchment Authority		*		*
Sydney Cricket and Sports Ground Trust		*		*
Sydney Harbour Foreshore Authority	*			*
Sydney Opera House Trust		*		*
Sydney Organising Committee for the Olympic Games		*		*
Sydney Paralympic Organising Committee Ltd		*		*
Sydney Ports Corporation		*		*
Sydney Water Corporation		*		*
Teacher Housing Authority of NSW		*		*
Tourism New South Wales	*		*	
Tow Truck Authority	*			*
TransGrid		*		*
Transport, Department of	*		*	
Treasury	*		*	
Upper Parramatta River Catchment Trust	*			*
Urban Affairs and Planning, Department of	*		*	
Vocational Education and Training Accreditation Board	*			*
Waste Planning and Management Fund	*			*
Waste Service NSW		*		*
Waterways Authority	*		*	
Wollongong Sports Ground Trust		*		*
Women, Department for	*		*	
WorkCover Authority (includes Sporting Injuries Committee)	*			*
Workers Compensation (Dust Diseases) Board	*			*
Zoological Parks Board		*		*

Note: This table only includes those agencies which have had information collected directly from them for the Budget Papers. Other agencies not specifically listed may be incorporated within other agencies.