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1 INTRODUCTION

This Budget Paper¹ presents financial aggregates for the General Government and Public Trading Enterprise sectors according to internationally recognised statistical standards and in accordance with a resolution of the 1991 Premiers' Conference.² In contrast, other Budget Papers report financial aggregates for the Budget and Non Budget Sectors.

The coverage of the Budget and general government sectors overlap to a significant degree. However as required under the General Government Debt Elimination Act 1995, the Budget will move to a general government basis at a time determined by the Treasurer. Differences in the coverage of the Budget and general government sectors are outlined in the Appendix.

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.

Outlay and revenue data presented in this Budget Paper are provided on two separate bases. Sections 2.1 and 2.2 provide information which excludes the operations of the NSW Treasury Corporation and selected Commonwealth payments which pass through the State's accounts. While the exclusion of these transactions is considered to provide a fairer representation of State finances, Section 2.3 provides information on a standard ABS basis in accordance with the requirements of the 1991 Premiers' Conference resolution. It should be noted that universities have recently been reclassified by the ABS to a multi-jurisdictional sector and therefore are now excluded from all statistics in this Budget Paper.

Chapter 3 presents estimates of the State's financial assets and liabilities based on ABS standards. More comprehensive reporting of the State's financial position will be provided in the Consolidated Financial Statements. Unlike in Chapter 2, it is not necessary to make adjustments to the aggregates for the impact of Treasury Corporation since its inclusion does not distort the State's balance sheet.

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 Budget Paper.

2 A revised uniform reporting framework was agreed at the 1997 Loan Council meeting. The new, enhanced reporting arrangements involving, among other things, the provision of 3 year forward estimates for the general government sector will be introduced in the 1998-99 Budget. Further details of the new arrangements are available on request.

2 OUTLAYS AND REVENUES OF THE NSW PUBLIC SECTOR

2.1 ESTIMATES OF OUTLAYS AND REVENUES FOR 1997-98

Overview

Estimates of NSW public sector outlays and revenues in 1997-98 are presented in Table 2.1. The financial result of the State sector is projected to be a \$218 million deficit. This compares with an estimated surplus of \$708 million in 1996-97.

The result for 1997-98 reflects a deficit for the general government sector of \$32 million and a surplus of \$123 million for the public trading enterprise (PTE) sector. The outcome for the total State sector differs from the sum of the general government and PTE results due to the need to eliminate transactions between the two sectors. It should be noted that, consistent with other Budget Papers, no allowance has been made in the estimates for the impact of the TAB privatisation.

Table 2.1: Estimated Total Public Sector Outlays and Revenues 1997-98

	General Government	Public Trading Enterprises	Total ⁽¹⁾
	\$m	\$m	\$m
Current Outlays	20,873	2,303	21,865
- % increase	4.9	(-) 6.6	4.5
Capital Outlays	3,340	1,839	4,681
- % increase	20.8	32.9	24.6
Total Outlays	24,213	4,142	26,546
- % increase	6.8	7.6	7.5
Revenue and Grants Received	24,180	2,814	24,878
- % increase	5.3	(-)15.3	3.2
Deficit ⁽²⁾	32	(-) 123	218

(1) Does not represent the sum of the general government and public trading enterprise sectors due to the existence of intra-sector transactions and differences between cash and accrual estimates.

(2) Total outlays less both revenue and grants received and increases in provisions. A positive number represents a deficit, while a negative number represents a surplus.

The projected deficit of \$32 million for the general government sector is consistent with the improves achieved in recent years which has seen the deficit fall from a peak of \$1,304 million in 1991-92 to an approximately balanced position.

The forecast result for the PTE sector (and therefore the total State sector) is heavily influenced by an apparent conservative bias in the estimates provided by the State's public trading enterprises which results in actual outcomes being better than projected. For example, the projected result for 1996-97 of a balanced result understates the revised forecast outcome by \$436 million (after adjustment for a number of classification revisions) with a similar pattern being apparent in previous years. This matter is examined in more detail in the section discussing PTE results.

General Government Sector

A summary of aggregates for the general government sector is presented in Table 2.2.

Table 2.2: Summary of General Government Estimates

	1996-97 \$m	1997-98 \$m	% Change
Current Outlays			
- <i>Final Consumption Expenditure</i>	14,863	15,663	5.4
- <i>Interest</i>	1,481	1,597	7.8
- <i>Other Current Transfer Payments</i>	3,557	3,613	1.6
Total Current Outlays	19,901	20,873	4.9
Capital Outlays			
- <i>Gross Fixed Capital Expenditure and Net Purchase of Land</i>	2,174	2,485	14.3
- <i>Other Capital Outlays</i>	592	855	44.4
Total Capital Outlays	2,766	3,340	20.8
Total Outlays	22,667	24,213	6.8
Revenue and Grants Received			
- <i>Taxes, Fees and Fines</i>	12,141	13,241	9.1
- <i>Commonwealth Grants Received</i>	8,245	8,516	3.3
- <i>Other Revenue</i>	2,577	2,423	(-) 6.0
Total Revenue and Grants Received	22,963	24,180	5.3
Deficit ⁽¹⁾	(-) 296	32	n.a.

(1) Total outlays less both revenue and grants received and increases in provisions. A positive number represents a deficit, while a negative number represents a surplus.

• Outlays

Current outlays of the general government sector are expected to increase by 4.9 per cent in 1997-98. The growth in current outlays is made up of a 5.4 per cent increase in final consumption expenditure, a 7.8 per cent increase in interest costs and a 1.6 per cent increase in other current transfer payments. The expected increase in current outlays in 1997-98 follows an estimated increase of 6.5 per cent in 1996-97 bringing the cumulative real increase over the two years to 7.6 per cent.

With the reduction in interest rates over the last two years and the declining impact of the motor vehicle third party unfunded insurance liabilities, the proportion of current outlays attributable to final consumption expenditure has increased. Since 1992-93, consumption expenditure as a proportion of current outlays has risen from 70 per cent to 75 per cent. Over this period, final consumption expenditure has grown by 20.1 per cent in real terms while the growth in total current outlays has been only 12.2 per cent.

In 1997-98, projected the increase in consumption expenditure is concentrated in the areas of education and health as well as superannuation. The increases in 1997-98 come on top of substantial increases in 1996-97 in the same areas.

Interest payments in 1997-98 are expected to increase by \$116 million. The increase in expenditure reflects the impact of debt restructuring in 1995-96 which resulted in a one-off reduction in expenditure in 1996-97. Since 1992-93, interest payments have fallen in real terms by nearly \$500 million or 23 per cent.

While subsidies to public trading enterprises in 1997-98 are projected to fall by \$56 million, this follows a substantial increase in 1996-97 as a result of the restructure of the rail sector. In 1996-97, subsidies to the SRA are expected to increase by \$414 million or 131 per cent under new arrangements whereby some funds previously provided for capital purposes have been converted into recurrent subsidies and cross subsidies between freight and passenger services have been eliminated.

Subsidy payments to other enterprises are also expected to fall substantially for the fifth successive year as a result of the declining call on State funds associated with the closure of the third party motor accident claims scheme. The need to fund these liabilities, once the cash reserves of the scheme were exhausted, resulted in a sharp increase in outlays in both 1991-92 and 1992-93. This has been and continues to be a contributor to the difference between the Budget and general government sector results.

Capital outlays of the general government sector in 1997-98 are projected to increase by 20.8 per cent. The high level of capital outlays in 1997-98 results from a substantial increase in expenditure on new fixed assets of \$343 million or 13.7 per cent partly relating to the Olympic Games. In 1997-98, asset sales of the general government sector are expected to total \$469 million - the same as in 1996-97.

Overall, total outlays, current and capital, are projected to increase in 1997-98 by \$1.5 billion or 6.8 per cent.

• **Revenue and Grants Received**

In 1997-98 revenues (including grants) are projected to increase by \$1.2 billion or 5.3 per cent. This consists of a 9.1 per cent increase in taxation revenue (following an 8.2 per cent increase in 1996-97), a 3.3 per cent increase in grants received and a 6.0 per cent reduction in other revenue.

Taxation revenue will grow sharply in 1997-98 as a result of a number of measures introduced in the Budget, notably in the areas of land tax, electricity, gambling and tourism. In addition, revenue will benefit from continued strong property market activity which is expected to see contracts and conveyancing revenue increase from \$1,123 million in 1995-96 to \$1,575 million in 1997-98.

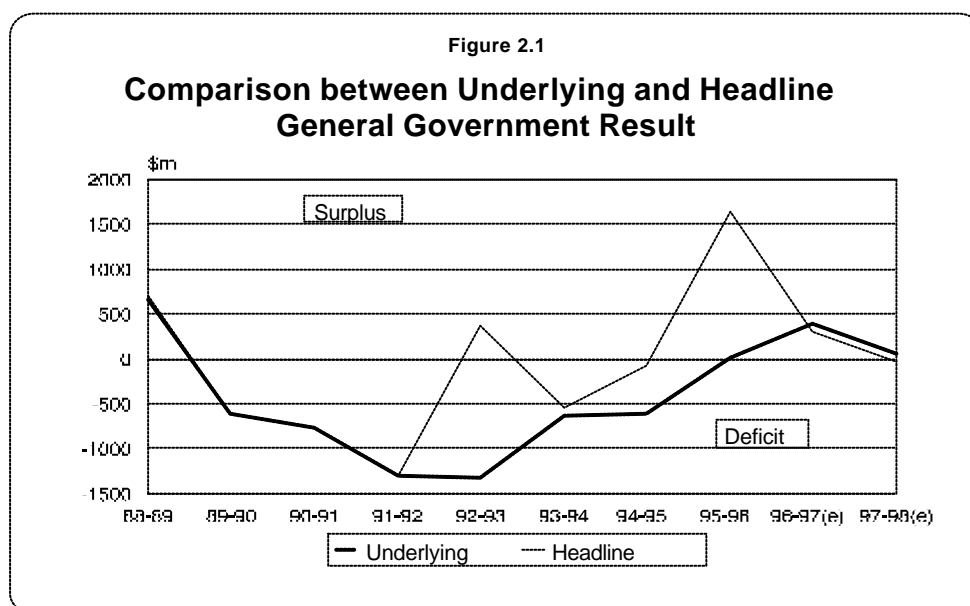
Commonwealth grants will increase as a result of the maintenance of financial assistance grants in real per capita terms although the benefit of this will be offset by further cutbacks in specific purpose payments. In 1997-98, New South Wales is required to make a Fiscal Contribution Payment of \$216 million to assist in reducing the Commonwealth budget deficit. These payments are treated as an offset to Commonwealth grants.

Dividend income is expected to fall in 1997-98 due to a number of one-off factors affecting 1996-97. Firstly, in 1996-97 the general government sector benefited from a cross border lease defeasance gain undertaken in the electricity generation sector. Secondly, a change in the timing of tax payments by the PTE sector boosted revenue in 1996-97.

• Financial Result

The financial result for the general government sector is projected to be a \$32 million deficit. This compares with an estimated surplus of \$296 million in 1996-97. After adjusting for business asset sales and equity restructure payments, the general government surpluses of \$386 million and \$51 million are expected in 1996-97 and 1997-98 respectively. The source of the deterioration in 1997-98 is the spending of Olympic Games funds collected by SOCOG during 1996-97. This factor increases the deficit by \$391 million in 1997-98 relative to 1996-97.

Figure 2.1 shows trends in both the headline and underlying general government result in recent years. Between 1988-89 and 1992-93, there was a sustained increase in the underlying general government deficit. Since that time, the deficit has fallen substantially with a small underlying surplus being expected in 1997-98.



The financial result for the general government sector can be dissected into an operating and capital component. It is expected that the operating result will improve in 1997-98 to a surplus of nearly \$2.4 billion compared with \$2.2 billion in 1996-97 and \$89 million in 1992-93.

The headline deficit for the general government sector in 1997-98 of \$32 million compares with a headline deficit of \$56 million for the Budget Sector. A reconciliation between the Budget result and the general government result is shown below.

Table 2.3: Reconciliation of Budget and General Government Headline Results ⁽¹⁾

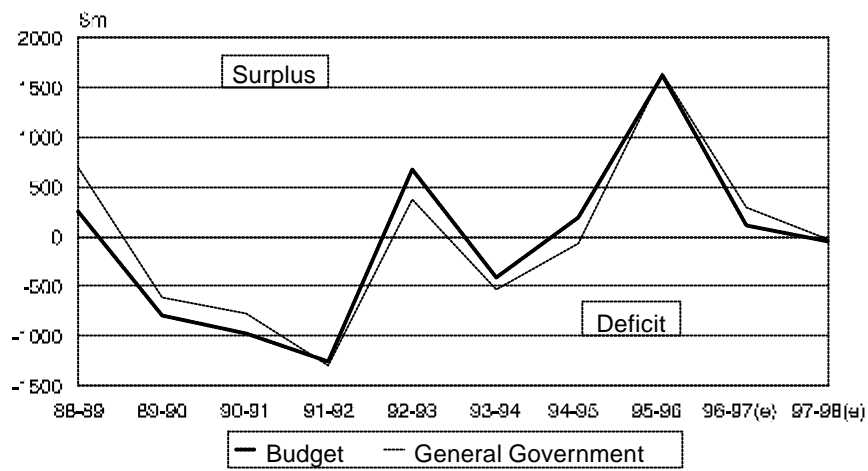
	1996-97 \$m	1997-98 \$m
Budget Result (Headline)	(-) 119	56
plus		
. Building & Construction Industry Long Service Leave Payments Corporation	44	(-) 19
. City West Development Corporation	(-) 7	(-) 35
. Environmental Trusts	19	27
. Honeysuckle Development Corporation	11	12
. Housing Authorities	(-) 27	(-) 9
. Marine Ministerial Holding Corporation	27	8
. Ministerial Development Corporation	(-) 14	(-) 5
. Ministerial Insurance Corporation	(-) 135	(-) 205
. Public Trustee Common Fund	50	...
. Public Works Department	18	19
. Rental Bond Board	(-) 10	(-) 9
. State Forests	19	23
. Sydney Cove Authority	4	(-) 55
. Sydney Organising Committee for Olympic Games	(-) 155	236
. WorkCover Authority	(-) 23	12
. Other	2	(-) 24
General Government Result (Headline)	(-) 296	32

(1) A positive number represents a deficit, while a negative number represents a surplus.

As outlined earlier, the Budget will eventually move to a general government basis and therefore the differences in coverage outlined in the Table 2.3 and in the Appendix will disappear. Figure 2.2 compares the headline Budget and general government results for the period since 1988-89. Clearly there has been a close correspondence between the two headline deficits with the Budget recording slightly better results between 1991-92 and 1994-95.

Figure 2.2

Comparison between Budget and General Government Headline Result



Public Trading Enterprises

A summary of aggregates for the public trading enterprise sector is presented in the table below.

Table 2.4: Summary of Public Trading Enterprise Estimates

	1996-97 \$m	1997-98 \$m	% Change
Current Outlays			
- <i>Interest Payments</i>	942	912	(-) 3.2
- <i>Other Current Transfer Payments</i>	1,525	1,391	(-) 8.8
Total Current Outlays	2,467	2,303	(-) 6.6
Capital Outlays			
- <i>Gross Fixed Capital Expenditure and Net Purchase of Land</i>	1,403	1,838	31.0
- <i>Other Capital Outlays</i>	(-) 19	1	n.a.
Total Capital Outlays	1,384	1,839	32.9
Total Outlays	3,851	4,142	7.6
Revenue and Grants Received			
- <i>Net Operating Surplus</i>	2,252	1,719	(-) 23.7
- <i>Grants Received</i>	747	805	7.8
- <i>Other Revenue</i>	325	290	(-) 10.8
Total Revenue and Grants Received	3,324	2,814	(-) 15.3
Deficit ⁽¹⁾	(-) 766	(-) 123	(-) 83.9

(1) Total outlays less both revenue and grants received and increases in provisions. A positive number represents a deficit, while a negative number represents a surplus.

• Outlays

In 1997-98, total outlays by the public trading enterprise sector are expected to increase by 7.6 per cent to \$4.1 billion. The increase in PTE outlays is made up of a reduction in current outlays of 6.6 per cent while capital outlays are expected to increase by 32.9 per cent.

The reduction in current outlays reflects both lower interest and dividend payments. In the case of interest payments, lower average interest rates and falling levels of debt continue to impact favourably on expenditure levels. In fact, despite significant equity restructure payments in 1995-96 totalling \$1,589 million which increased debt levels, interest payments in 1997-98 are projected to be \$49 million less than 3 years ago. Dividend levels will drop in 1997-98 reflecting the one-off impact of the defeasance gain paid to the general government sector by the electricity generation sector and the bringing forward of tax payments in 1996-97.

Expenditure on new fixed assets is projected to increase \$349 million or 17.1 per cent, mainly as a result of higher expenditure by electricity generators, water and port authorities as well as the Darling Harbour Authority. Asset sales by the PTE sector are expected to continue at a high level with a significant proportion of the proceeds being returned to the general government sector. In 1997-98, asset sales are expected to total \$593 million compared with \$582 million in the previous year.

- **Revenues and Grants Received**

Total revenue and grants received is expected to fall in 1997-98 by over \$500 million or 15.3 per cent, reflecting a reduction in the expected net operating surplus. The reduction in PTE revenue is most pronounced in the electricity generation sector where competition has resulted in prices for large consumers of electricity falling by over 20 per cent.

- **Financial Result**

Overall, the public trading enterprise sector is projected to record a \$123 million surplus in 1997-98 compared with a surplus of \$766 million in 1996-97.

There is evidence of a conservative bias in estimates of the PTE sector financial results. Table 2.5 indicates that the financial result of PTE sector has been conservatively forecast in each of the past 6 years. Given this, the actual result for this sector in 1997-98 may well be better than projected.

Table 2.5: Comparison of Estimated and Actual Financial Results ⁽¹⁾

	Estimated \$m	Actual \$m	Forecast Error \$m
1991-92	159	409	250
1992-93	28	441	413
1993-94 ⁽²⁾	433	439	6
1994-95	(-) 24	345	369
1995-96	(-) 84	532	616
1996-97 ⁽³⁾	330	766	436

(1) A positive number represents a surplus.

(2) The inclusion of county councils in the actual result for 1993-94 and not in the estimate for that year had a small impact on the actual result.

(3) The estimated result for 1996-97 has been adjusted for a number of classification changes. In addition, the revised estimate for 1996-97 is affected by the decision to provide substantial increases in funding to the rail sector of around \$200 million.

Like the general government sector, public trading enterprises show a significant surplus on their operating accounts. For 1997-98, the operating result of the public trading enterprise sector is projected as a surplus of \$1 billion while the capital result is projected as a deficit of \$900 million. It should be recognised that subsidies from the general government sector form part of the revenue of the public trading enterprise sector and therefore increase the operating surplus.

Total State Sector

A summary of aggregates for the total state sector is presented in the table below.

Table 2.6: Summary of Total State Estimates

	1996-97 \$m	1997-98 \$m	% Change
Current Outlays			
- <i>Final Consumption Expenditure</i>	14,863	15,663	5.4
- <i>Current Transfer Payments</i>	6,066	6,202	2.2
Total Current Outlays	20,929	21,865	4.5
Capital Outlays			
- <i>Gross Fixed Capital Expenditure and Net Purchase of Land</i>	3,577	4,324	20.9
- <i>Other Capital Outlays</i>	179	357	99.4
Total Capital Outlays	3,756	4,681	24.6
Total Outlays	24,685	26,546	7.5
Revenue and Grants Received			
- <i>Taxes, Fees and Fines</i>	12,141	13,241	9.1
- <i>Commonwealth Grants Received</i>	8,246	8,517	3.3
- <i>Other Revenue</i>	3,713	3,120	(-) 16.0
Total Revenue and Grants Received	24,100	24,878	3.2
Deficit ⁽¹⁾	(-) 708	218	n.a.

(1) Total outlays less both revenue and grants received and increases in provisions. A positive number represents a deficit, while a negative number represents a surplus.

• Outlays

In 1997-98, total state outlays are expected to increase by \$1.9 billion or 7.5 per cent. Current outlays are expected to increase by \$936 million or 4.5 per cent while capital outlays are forecast to increase by \$925 million or 24.6 per cent.

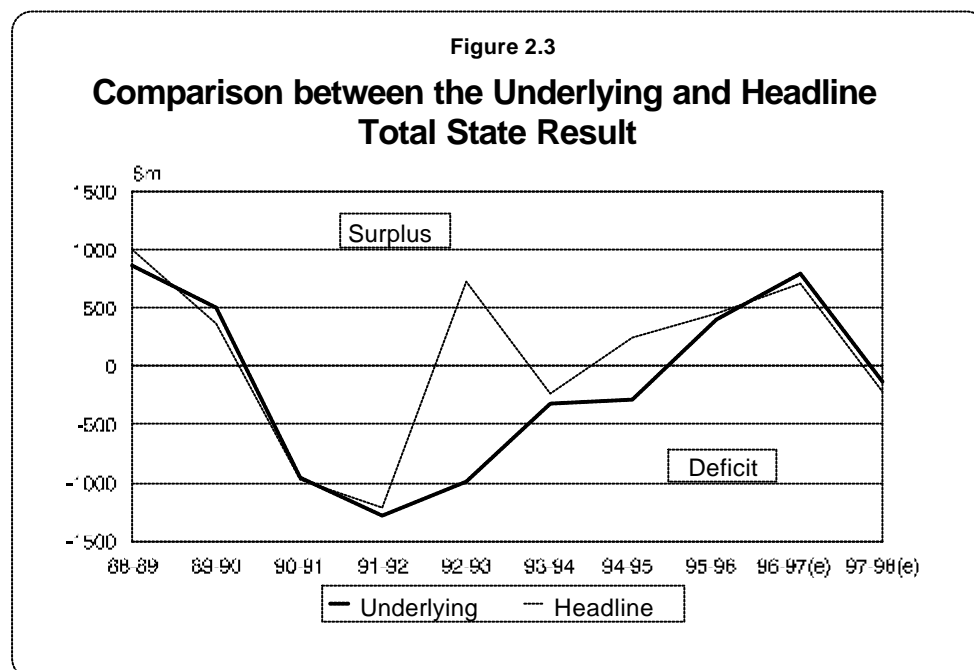
• Revenue and Grants Received

Total state revenues (including grants received) are expected to increase by \$778 million or 3.2 per cent in 1997-98. This follows an increase of 8.6 per cent in 1996-97. Own source revenues and grants are expected to increase by similar amounts in 1997-98. In total, own source revenue makes up 66 per cent of state revenue.

- **Financial Result**

In 1997-98 the financial result for the state sector is expected to be a deficit of \$218 million. This compares with a surplus in 1996-97 of \$708 million. The deterioration in the overall result is caused mainly by the poorer outlook for the PTE sector which may well be subject to significant conservative bias. In the case of the general government sector, the turnaround is mainly caused by the expenditure of Olympics moneys collected by SOCOG in 1996-97.

Figure 2.3 shows trends in both the headline and underlying total state deficit since 1988-89. As with the result for the general government sector, the trend was for a deteriorating position in the years leading up to the early 1990s followed by a sustained improvement with a small deficit expected to be achieved in 1997-98.



As has been the case in previous years, the operating result for the total state sector in 1997-98 is expected to remain in substantial surplus, estimated to be around \$3.4 billion. Since 1991-92, the operating result of the state sector has nearly doubled in real terms underlying the improvement in the State's financial position following the severe recession in the early 1990s.

DETAILED GOVERNMENT FINANCE STATISTICS ESTIMATES - 1992-93 TO 1997-98

Table 2.7: General Government Sector - Outlays, Revenue and Financing Transactions

ECONOMIC TYPE CLASSIFICATION	1992-93	1993-94	1994-95	1995-96	1996-97 Revised	1997-98 Estimate
	\$m	\$m	\$m	\$m	\$m	\$m
Current Outlays	17,019	17,380	18,184	18,685	19,901	20,873
General government final consumption expenditure	11,927	12,435	13,296	13,994	14,863	15,663
Current transfer payments	5,091	4,945	4,888	4,691	5,038	5,210
Interest payments	1,902	1,744	1,727	1,736	1,481	1,597
- On Commonwealth advances	647	507	463	381	314	285
- Other	1,255	1,237	1,264	1,354	1,168	1,312
Subsidies paid to enterprises	1,508	1,348	1,207	908	1,267	1,145
- Subsidies paid to public trading enterprises	708	628	562	480	927	871
- Subsidies paid to other enterprises	801	720	645	429	340	274
Personal benefit payments	927	883	1,001	1,029	1,080	1,198
Current grants to local government	49	76	48	52	52	55
Other current transfer payments	705	894	906	966	1,158	1,214
Capital Outlays	1,420	2,987	2,422	1,394	2,766	3,340
Gross fixed capital expenditure	1,818	2,000	2,094	-4,402	2,170	2,618
- Expenditure on new fixed assets	2,061	2,035	2,052	1,970	2,497	2,840
- Sales of fixed assets and previously rented dwellings	-242	-35	42	-6,372	-327	-221
Increase in stocks	3	17	24	29	37	48
Expenditure on land and intangible assets	-136	35	-388	-1,822	4	-133
- Purchase of land and intangible assets	128	176	153	137	126	109
- Sales of land and intangible assets	263	141	541	1,960	121	243
Capital transfer payments	1,198	1,267	1,225	9,385	948	1,054
- Capital grants to local government	152	157	132	8,181	142	163
- Capital grants to state public trading enterprises	1,020	1,086	1,052	1,143	751	802
- Other capital grants and transfer payments	27	25	41	62	56	89
Advances paid (net)	-1,464	-333	-533	-1,795	-393	-247
- Advances to local government (net)	-16	-3	-1	-1	...	...

- Advances to state public trading enterprises (net)	-83	-123	-11	-1,720	-357	-304
- Other advances (net)	-1,365	-207	-521	-74	-36	57

Table 2.7: General Government Sector - Outlays, Revenue and Financing Transactions (cont)

ECONOMIC TYPE CLASSIFICATION	1992-93	1993-94	1994-95	1995-96	1996-97 Revised	1997-98 Estimate
	\$m	\$m	\$m	\$m	\$m	\$m
Revenue and Grants Received	18,808	19,825	20,535	21,720	22,963	24,180
Taxes, fees and fines	9,309	10,174	10,529	11,226	12,141	13,241
Property income and other revenue	1,841	1,931	2,088	2,233	2,577	2,422
- Income from public trading enterprises	796	987	1,015	985	1,368	1,243
- Income from public financial enterprises	65	71	25	67	44	52
- Interest received	426	323	461	555	517	499
- Other property income and other current revenue	538	541	566	608	638	612
- Capital revenue	15	9	21	17	9	15
Grants received	7,659	7,720	7,918	8,261	8,246	8,518
- Current grants received	5,973	6,419	6,890	7,342	7,383	7,659
- From Commonwealth	5,973	6,419	6,890	7,342	7,382	7,659
- Other	...	...	...	...	...	...
- Capital grants received	1,686	1,301	1,027	919	863	859
- From Commonwealth	1,641	1,247	1,016	919	863	857
- Other	45	54	12	...	...	1
Financing Transactions	-369	542	70	-1,640	-296	32
Net advances received	-1,171	-394	-673	-388	-459	-434
- From Commonwealth	-1,169	-394	-673	-389	-458	-434
- Other	-2	-1	-1	1	-1	...
Net domestic and overseas borrowings	1,371	1,264	865	-850	236	290
Other financing transactions	-569	-328	-121	-403	-73	177
Deficit ⁽¹⁾	-369	542	70	-1,640	-296	32
- Operating result	-89	-1,135	-1,303	-2,098	-2,189	-2,434
- Capital result	-281	1,678	1,373	458	1,894	2,466

(1) Financing Transactions minus Increase in Provisions

(2) ... Nil or less than \$500,000

DETAILED GOVERNMENT FINANCE STATISTICS ESTIMATES - 1992-93 TO 1997-98

Table 2.8: Public Trading Enterprise Sector - Outlays, Revenue and Financing Transactions

ECONOMIC TYPE CLASSIFICATION	1992-93	1993-94	1994-95	1995-96	1996-97 Revised	1997-98 Estimate
	\$m	\$m	\$m	\$m	\$m	\$m
Current Outlays	1,910	2,128	2,112	2,054	2,467	2,303
Current Transfer Payments	1,910	2,128	2,112	2,054	2,467	2,303
Interest payments	1,058	1,008	961	916	942	912
Income transferred by public trading enterprises	730	992	1,005	980	1,367	1,241
Other current transfer payments	122	127	146	158	158	149
Capital	2,294	2,410	2,412	2,025	1,384	1,839
Gross fixed capital expenditure	2,256	2,494	2,457	2,196	1,749	2,151
- Expenditure on new fixed assets	2,364	2,638	2,651	2,379	2,043	2,392
- Net expenditure on secondhand fixed assets	-108	-144	-193	-183	-294	-240
Increase in stocks	-37	-5	-6	-86	-19	...
Expenditure on land and intangible assets	11	-152	-75	-112	-346	-313
- Purchase of land and intangible assets	157	95	147	70	82	40
- Sales of land and intangible assets	146	247	222	182	428	353
Capital transfer payments	66	75	36	27	...	...
- Capital grants to local government	...	...	4	...	...	...
- Other capital grants and transfer payments	66	75	32	27	...	...
Advances paid (net)	-2	-1	...	...	...	...
- Advances to local government (net)	...	...	...	...	...	...
- Other advances (net)	-2	-1	...	...	...	...

Table 2.8: Public Trading Enterprise Sector - Outlays, Revenue and Financing Transactions (cont)

ECONOMIC TYPE CLASSIFICATION	1992-93	1993-94	1994-95	1995-96	1996-97 Revised	1997-98 Estimate
	\$m	\$m	\$m	\$m	\$m	\$m
Revenue and Grants Received	3,249	3,477	3,193	2,676	3,324	2,814
Net operating surplus of PTEs	1,925	2,050	1,553	1,161	2,252	1,719
- Operating revenue	10,375	12,644	12,549	12,379	13,906	13,354
- Charges for goods and services	9,658	12,014	11,998	11,895	12,979	12,479
- Subsidies received	716	630	551	484	927	874
- Operating expenditure	8,450	10,593	10,996	11,218	11,654	11,635
- Depreciation charges	1,469	1,667	1,855	1,743	1,392	1,492
- Other operating expenditure	6,981	8,926	9,141	9,475	10,262	10,143
Property income and other revenue	291	280	517	364	325	291
- Interest received	168	90	186	200	176	133
- Other property income and other current revenue	3	2	2	1	2	1
- Capital revenue	121	188	330	162	148	157
Grants received	1,033	1,147	1,122	1,152	747	805
- Capital grants received	1,033	1,147	1,122	1,152	747	805
- From state general government sector	1,031	1,090	1,059	1,142	747	805
- Other	2	57	64	10		
Financing Transactions	955	1,061	1,331	1,402	527	1,328
Net advances received	-115	-124	-11	-1,717	-355	-304
- From state general government sector	-115	-124	-11	-1,717	-355	-304
- Other	...	-1	...	...	...	...
Net domestic and overseas borrowings	-550	-105	-425	1,450	-456	52
Increase in provisions	1,396	1,500	1,676	1,934	1,293	1,451
Other financing transactions	224	-210	92	-266	46	129
Deficit ⁽¹⁾	-441	-439	-345	-532	-766	-123
- Operating Result	-1,581	-1,514	-1,304	-1,243	-1,255	-1,000
- Capital Result	1,140	1,075	959	711	489	877

- (1) Financing Transactions minus Increase in Provisions
- (2) ... Nil or less than \$500,000

DETAILED GOVERNMENT FINANCE STATISTICS ESTIMATES - 1992-93 TO 1997-98

Table 2.9: Total Government Sector - Outlays, Revenue and Financing Transactions

ECONOMIC TYPE CLASSIFICATION	1992-93	1993-94	1994-95	1995-96	1996-97 Revised	1997-98 Estimate
	\$m	\$m	\$m	\$m	\$m	\$m
Current Outlays	18,107	18,430	19,208	19,677	20,929	21,865
General government final consumption expenditure	11,927	12,435	13,296	13,994	14,863	15,663
Current transfer payments	6,179	5,995	5,912	5,683	6,066	6,202
Interest payments	2,868	2,667	2,605	2,570	2,351	2,441
- On Commonwealth advances	647	507	463	381	314	285
- Other	2,221	2,159	2,142	2,188	2,037	2,155
Subsidies paid to enterprises	1,508	1,348	1,207	909	1,271	1,151
Personal benefit payments	927	883	1,001	1,029	1,080	1,198
Current grants to local government	49	76	48	52	52	55
Other current transfer payments	827	1,021	1,052	1,124	1,312	1,358
Capital	2,734	4,385	3,782	3,996	3,756	4,681
Gross fixed capital expenditure	4,075	4,494	4,551	-2,206	3,919	4,770
- Expenditure on new fixed assets	4,425	4,673	4,703	4,349	4,540	5,231
- Net expenditure on secondhand fixed assets	-351	-179	-152	-6,555	-621	-462
Increase in stocks	-33	12	18	-57	18	48
Expenditure on land and intangible assets	-125	-117	-463	-1,935	-342	-446
- Purchase of land and intangible assets	285	271	301	207	208	149
- Sales of land and intangible assets	410	388	764	2,142	549	595
Capital transfer payments	199	205	198	8,269	197	252
- Capital grants to local government	152	157	136	8,181	142	163
- Other capital grants and transfer payments	47	48	62	88	56	89
Advances paid (net)	-1,382	-210	-522	-75	-37	57
- Advances to local government (net)	-16	-3	-1	-1	...	...
- Other advances (net)	-1,366	-207	-521	-74	-36	57

Table 2.9: Total Government Sector - Outlays, Revenue and Financing Transactions (cont)

ECONOMIC TYPE CLASSIFICATION	1992-93	1993-94	1994-95	1995-96	1996-97 Revised	1997-98 Estimate
	\$m	\$m	\$m	\$m	\$m	\$m
Revenue and Grants Received	20,164	21,086	21,561	22,188	24,100	24,878
Taxes, fees and fines	9,309	10,174	10,529	11,226	12,141	13,241
Net operating surplus	1,925	2,050	1,553	1,161	2,252	1,719
Property income and other revenue	1,315	1,139	1,508	1,531	1,462	1,401
- Income from public financial enterprises	65	71	25	67	44	52
- Interest received	501	328	564	675	621	563
- Other property income and other current revenue	616	543	568	609	640	613
- Capital revenue	132	197	352	180	157	173
Grants received	7,616	7,724	7,970	8,270	8,246	8,518
- Current grants received	5,973	6,419	6,890	7,342	7,383	7,659
- From Commonwealth	5,973	6,419	6,890	7,342	7,382	7,659
- Other	...	...	...	...	...	...
- Capital grants received	1,643	1,305	1,080	929	863	859
- From Commonwealth	1,643	1,305	1,079	929	863	857
- Other	...	...	...	...	...	1
Financing Transactions	677	1,728	1,429	1,485	585	1,669
Net advances received	-1,170	-394	-673	-389	-459	-434
- From Commonwealth	-1,170	-394	-673	-389	-458	-434
- Other	...	...	-1	...	-1	...
Net domestic and overseas borrowings	821	1,159	439	600	-220	342
Increase in provisions	1,396	1,500	1,676	1,934	1,293	1,451
Other financing transactions	-370	-537	-13	-661	-29	311
Deficit⁽¹⁾	-719	228	-247	-449	-708	218
- Operating result	-1,678	-2,655	-2,598	-3,337	-3,444	-3,432
- Capital Result	960	2,883	2,350	2,888	2,736	3,650

- (1) Financing Transactions minus Increase in Provisions
- (2) ... Nil or less than \$500,000

2.2 ESTIMATED AND REVISED OUTCOME FOR 1996-97

Introduction

Variations between estimated and revised outlays and revenues for 1996-97 reflect the net product of three factors -

- changes in coverage of organisations for which data for this Budget Paper is collected. The public sector in New South Wales contains many more organisations than it is feasible to collect data from. Given this, the coverage of this Budget Paper is based on a criterion of materiality which may involve changes in organisational coverage from year to year;
- refinement of data to correct for errors and the misclassification of transactions as well as changes in statistical standards; and
- errors in projections of revenues and outlays.

General Government Sector

In terms of variation between estimated and actual results for 1996-97, the surplus increased from an estimated \$44 million to \$296 million. The major variations were as follows -

- Current outlays were higher by \$52 million. However, after allowing for the reclassification of SRA maintenance grants from current to capital outlays the underlying increase was \$305 million. This increase was due to a number of factors including -
 - increased Health spending of around \$240 million;
 - increased Transport subsidies and payments for concessional travellers of around \$520 million;
 - lower interest costs of \$216 million;
 - a significant increase in Olympic Games income associated with sponsorship, television rights, ticketing and consumer products;
 - increased premium income in the Treasury managed compensation funds to cover higher assessed accruing liabilities; and
 - lower than expected claims expenses in the WorkCover Authority.
- Capital outlays were lower than forecast by \$219 million. However, after allowing for the reclassification of SRA maintenance grants from current to capital outlays and the reclassification of some dividend income to advance repayments the underlying decrease was \$347 million. This decrease was largely due to lower capital grants to the public trading enterprise sector, especially the rail authorities.

- On the revenue side, receipts were \$85 million higher than projected. After allowing for the reclassification of some dividend revenue to advances repaid, the underlying increase was \$210 million. The main factors resulting in higher revenues were as follows -
 - higher taxation revenues of \$471 million reflecting stronger growth in contracts and conveyancing revenues (\$220 million), share transfer duty (\$40 million) and tobacco licence fees (\$66 million) as well as the impact of tax increases associated with the requirements to make Fiscal Contribution Payments to assist in reducing the Commonwealth Budget deficit (\$216 million); and
 - lower Commonwealth grants of \$315 million associated with the Fiscal Contribution Payments (\$210 million) which are treated as an offset to revenue as well as the impact of lower than forecast inflation on General Revenue Funds (\$57 million).

Table 2.10: Summary of Estimated and Actual Results for the General Government Sector in 1996-97 ⁽¹⁾

ECONOMIC TYPE CLASSIFICATION	1996-97 Estimate \$m	1996-97 Revised \$m	Variation \$m
Current Outlays	19,849	19,901	52
. Final Consumption Expenditure	15,077	14,863	(-) 214
. Current Transfer Payments	4,773	5,038	265
Capital Outlays	2,985	2,766	(-) 219
. Gross Fixed Capital Expenditure	2,174	2,170	(-) 4
. Other Capital Outlays	811	596	(-) 215
Total Outlays	22,834	22,667	(-) 167
Revenue and Grants Received	22,878	22,963	85
. Taxes, Fees and Fines	11,670	12,141	470
. Other Own Source Revenue	2,647	2,576	(-) 71
. Grants	8,561	8,246	(-) 315
Financial Result ⁽²⁾	(-) 44	(-) 296	(-) 252
- Operating Result	(-) 2,075	(-) 2,189	(-) 114
- Capital Result	2,031	1,894	(-) 137

(1) Items may not add to totals due to rounding.

(2) Total outlays less revenue and grants received. A positive number represents a deficit, while a negative number represents a surplus.

Public Trading Enterprise and Total State Sectors

The surplus for the public trading enterprise sector of \$766 million compares with a projected balanced result last year. The dramatic improvement was due to a combination of -

- the reclassification of the gain on a cross border lease from a financing transaction to asset sale proceeds in accordance with advice received from the ABS;
- the reclassification of a component of dividends paid by NSW Lotteries and Landcom to a financing transaction;
- reduced capital expenditure by a number of agencies including the electricity distributors, the rail sector, and the water authorities; and
- a significantly improved net operating surplus for the rail sector and the electricity distributors offset by poorer results for the electricity generators.

Table 2.11: Summary of Estimated and Actual Results for the Public Trading Enterprise Sector in 1996-97 ⁽¹⁾

ECONOMIC TYPE CLASSIFICATION	1996-97 Estimated \$m	1996-97 Revised \$m	Variation \$m
Current Outlays	2,648	2,467	(-) 181
. Interest Payments	1,013	942	(-) 71
. Other Current Transfer Payments	1,636	1,525	(-) 111
Capital Outlays	2,012	1,384	(-) 628
. Gross Fixed Capital Expenditure	2,166	1,749	(-) 417
. Other Capital Outlays	(-) 154	(-) 365	(-) 211
Total Outlays	4,660	3,851	(-) 809
Revenue and Grants Received	3,076	3,324	248
. Net Operating Surplus	1,884	2,252	368
. Other Own Source Revenue	349	325	(-) 24
. Grants	843	747	(-) 96
Financial Result ⁽²⁾	...	(-) 766	(-) 766
- Operating Result	(-) 987	(-) 1,255	(-) 268
- Capital Result	987	489	(-) 498

(1) Items may not add to totals due to rounding.

(2) Total outlays less both revenue and grants received an increases in provisions. A positive number represents a deficit, while a negative number represents a surplus.

The improved net operating surplus for the rail sector has come about mainly as a result of a major industry restructure which has resulted in the elimination of cross subsidies within the rail sector and large increases in Budget subsidy payments and payments for concessional travellers. However, it should be noted that these increases have been offset to some extent by reductions in capital funding.

Reflecting the better than projected results for both the general government and public trading enterprise sectors the total state sector surplus is expected to be \$866 million better than projected.

2.3 UNIFORM REPORTING REQUIREMENTS

Introduction

The standards applied to produce estimates of outlays and revenues in Sections 2.1 and 2.2 are the same as those used by the ABS in its Government Financial Estimates publication (Catalogue No. 5501.0), but with three exceptions -

- Commonwealth payments where the State acts merely as an agent;
- Treasury Corporation; and
- Premiums on loans.

In accordance with the resolutions on uniform presentation of financial information passed by the Premiers' Conference in 1991, Tables 2.12 through to 2.18 of this Section provide estimates on a comparable basis to that published by the ABS. The following sections outline the differences between the estimates in Sections 2.1 and 2.2 and Section 2.3 and the reasons for these variations.

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 than for 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 2.1 and 2.2.

Inclusion of Treasury Corporation

Most public sector borrowing in New South Wales is carried out through the Treasury Corporation (TCorp). At present, the ABS classifies the TCorp as a general government authority on the basis that its predominant purpose is to serve the State Government sector. However, the ABS has indicated that it intends to reclassify T Corp as a public financial enterprise as from the 1998-99 Budget.

The detailed estimates in Sections 2.1 and 2.2 of this Budget Paper exclude the Treasury Corporation from the general government sector. The decision to adopt this position is based on a number of considerations -

- The activities of Treasury Corporation essentially represent financial intermediation, while the rest of the general government sector is mainly involved in the provision of core public services. This position has been confirmed by the exclusion of central borrowing authorities from Loan Council controls and the ABS decision to reclassify T Corp as a public financial enterprise.
- The inclusion of Treasury Corporation in the general government sector seriously distorts intergovernmental and time series comparisons. Given that the main purpose of the government finance statistics is to facilitate these comparisons, the inclusion of central borrowing authorities seriously impacts on the usefulness of the statistics. For example, in 1995-96, the inclusion of Treasury Corporation within the general government sector reduced the State surplus by around \$94 million despite the fact that it recorded an accounting profit before dividends and tax.
- The application of Government Finance Statistic standards require that realised and unrealised gains and losses on financial instruments not be recognised as a revenue or outlay. Given that these gains and losses are offset in present value terms by higher or lower future interest payments and receipts (which impact on the recorded deficit), the adoption of this approach can seriously distort underlying trends. This is particularly a problem with active debt management during periods of significant interest rate movement.
- The forward estimates of central borrowing authorities are highly influenced by the assumptions made. In fact, differing assumptions can greatly affect the projected growth in general government and total state aggregates. As an example of this, last year's Budget Paper estimated that the inclusion of Treasury Corporation in the general government sector would increase the State deficit in 1996-97 by around \$28 million. In fact, current estimates show Treasury Corporation will impact in the opposite direction and improve the State result by \$80 million.

With the above factors in mind, it is considered appropriate to exclude Treasury Corporation from the estimates contained in Sections 2.1 and 2.2.

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.

Table 2.12: General Government Sector - Outlays, Revenue and Financing Transactions (ABS basis)

ECONOMIC TYPE CLASSIFICATION	1996-97 Revised \$m	1997-98 Estimated \$m
Current Outlays	20,817	21,796
Final consumption expenditure	14,881	15,642
Interest payments	1,372	1,524
Other current payments	4,564	4,630
Capital Outlays	2,746	3,376
Gross fixed capital expenditure	2,171	2,619
Capital grants	983	1,089
Advances	(-) 449	(-) 247
Other Capital Outlays	41	(-) 85
Revenue and Grants Received	23,939	25,117
Taxes, fees and fines	12,141	13,241
Property income and other revenue (net)	2,510	2,306
Grants received	9,289	9,570
Financing Transactions	(-) 376	55
Net advances received	(-) 459	(-) 434
Net domestic and overseas borrowings	832	257
Other financing transactions (net)	(-) 749	232
Deficit ⁽¹⁾	(-) 376	55

(1) For the general government sector this equals Financing Transactions.

Table 2.13: Public Trading Enterprises - Outlays, Revenue and Financing Transactions (ABS basis)

ECONOMIC TYPE CLASSIFICATION	1996-97 Revised \$m	1997-98 Estimated \$m
Current Outlays	2,467	2,303
Interest payments	942	912
Other current transfer payments	1,525	1,391
Capital Outlays	1,384	1,839
Gross fixed capital expenditure	1,749	2,151
Capital grants	...	...
Advances	...	...
Other Capital Outlays	(-) 365	(-) 312
Revenue and Grants Received	3,324	2,814
Net operating surpluses of PTEs	2,252	1,719
Property income and other revenue (net)	325	291
Grants received	747	805
Financing Transactions	527	1,328
Net advances received	(-) 355	(-) 304
Net domestic and overseas borrowings	(-) 456	52
Increase in provisions	1,293	1,451
Other financing transactions (net)	46	129
Deficit ⁽¹⁾	(-) 766	(-) 123

(1) Financing Transactions minus Increase in Provisions.

Table 2.14: State Government Sector - Outlays, Revenue and Financing Transactions (ABS basis)

ECONOMIC TYPE CLASSIFICATION	1996-97 Revised \$m	1997-98 Estimated \$m
	\$m	\$m
Current Outlays	21,766	22,723
Final consumption expenditure	14,881	15,642
Interest payments	2,163	2,302
Other current payments	4,722	4,779
Capital Outlays	3,736	4,717
Gross fixed capital expenditure	3,920	4,770
Capital grants	233	287
Advances	(-) 93	57
Other Capital Outlays	(-) 324	(-) 397
Revenue and Grants Received	24,997	25,749
Taxes, fees and fines	12,141	13,241
Net operating surpluses of PTEs	2,252	1,719
Property income and other revenue (net)	1,316	1,219
Grants received	9,289	9,570
Financing Transactions	505	1,691
Net advances received	(-) 459	(-) 434
Net domestic and overseas borrowings	376	309
Increase in provisions	1,293	1,451
Other financing transactions (net)	(-) 705	366
Deficit ⁽¹⁾	(-) 788	241

(1) Financing Transactions minus Increase in Provisions.

**Table 2.15: Current Outlays of the Total State Sector by Function,
- ABS Basis**

FUNCTION	1996-97 Revised \$m	1997-98 Estimated \$m
	\$m	\$m
General Public Services	1,629	1,741
Public Order and Safety	2,005	2,039
Education	5,784	6,046
Health	4,587	4,779
Social Security and Welfare	1,694	1,728
Housing and Community amenities	447	435
Recreation and Culture	324	520
Fuel and Energy	88	90
Agriculture, Forestry and Fishing	431	435
Mining, Manufacturing and Construction	43	45
Transport and Communication	1,758	1,684
Other Economic Affairs	510	453
Other Purposes ⁽¹⁾	2,466	2,727
TOTAL CURRENT OUTLAYS	21,766	22,723

(1) Treasurer's Advance is included in this item.

**Table 2.16: Capital Outlays of the Total State Sector by Function,
- ABS Basis**

FUNCTION	1996-97 Revised \$m	1997-98 Estimated \$m
	\$m	\$m
General Public Services	61	166
Public Order and Safety	190	187
Education	255	244
Health	341	420
Social Security and Welfare	56	38
Housing and Community amenities	508	635
Recreation and Culture	436	654
Fuel and Energy	261	556
Agriculture, Forestry and Fishing	91	97
Mining, Manufacturing and Construction	1	1
Transport and Communication	1,530	1,754
Other Economic Affairs	67	9
Other Purposes	(-) 62	(-) 43
TOTAL CAPITAL OUTLAYS	3,736	4,717

**Table 2.17: Total Outlays of the Total State Sector by Function,
- ABS Basis**

FUNCTION	1996-97 Revised \$m	1997-98 Estimated \$m
	\$m	\$m
General Public Services	1,690	1,907
Public Order and Safety	2,196	2,226
Education	6,039	6,290
Health	4,928	5,199
Social Security and Welfare	1,751	1,766
Housing and Community amenities	955	1,070
Recreation and Culture	760	1,175
Fuel and Energy	349	646
Agriculture, Forestry and Fishing	521	532
Mining, Manufacturing and Construction	44	46
Transport and Communication	3,288	3,438
Other Economic Affairs	577	461
Other Purposes ⁽¹⁾	2,405	2,684
TOTAL OUTLAYS	25,503	27,440

(1) Treasurer's Advance is included in this item.

Table 2.18: Taxes, Fees and Fines - ABS Basis

TAXES, FEES AND FINES CLASSIFICATION	1996-97 Revised \$m	1997-98 Estimated \$m
	\$m	\$m
Payroll Tax	3,114	3,305
Taxes on Property	3,447	3,786
Land Tax	625	786
Other Taxes on Immovable Property	23	31
Estate, Inheritance and Gift Taxes	...	...
Stamp Duties on Financial and Capital Transactions	1,946	2,101
Financial Institutions Transaction Taxes	835	856
Government Borrowing Levies	18	12
Taxes on Provision of Goods and Services	2,052	2,325
Levies on Statutory Authorities	45	49
Taxes on Gambling	1,223	1,392
Taxes on Insurance	784	884
Taxes on the Use of Goods and the Performance of Activities	3,126	3,380
Motor Vehicle Taxes	1,261	1,320
Franchise Taxes	1,805	1,846
Other Taxes on the Use of Goods and the Performance of Activities	59	214
Fees and Fines	401	445
Fees	209	219
Fines	192	226
TOTAL TAXES, FEES AND FINES	12,141	13,241

2.4 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 either 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 Darling Harbour 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 major PTEs in New South Wales are Pacific Power, Sydney Water Corporation and the State Rail Authority.

PFEs are the third category of authorities in the ABS framework. The State Superannuation Board is the major entity in New South Wales operating in this sector. PFEs are not included in this publication as they operate in competitive markets and are at arms length from Government.

The classification of government organisations as between GGEs and PTEs is broadly similar to the distinction between budget and non budget sectors in Budget Papers 2, 3 and 4.

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 can be either in the form of a grant or advance. Advances represent the provision of repayable financial assistance with the intention of furthering a policy objective. Advances are distinguished from investments which are motivated by liquidity management purposes and the need to earn a commercial rate of return.

- **Revenue and Grants Received**

Within the revenue and grants category, an important distinction needs to be made between taxes, fees 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, which can be termed 'above the line' items, financing transactions involve changes in financial assets and liabilities and, as such, can be considered 'below the line' items. Total financing transactions is defined as current and capital outlays less revenue and grants received.

Within this Budget Paper financing transactions have been divided into four categories -

- net advances received;
- 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).

3 SELECTED FINANCIAL ASSETS AND LIABILITIES OF THE NSW PUBLIC SECTOR

3.1 INTRODUCTION

In May 1991, Premiers' Conference endorsed the recommendations contained in the Report on Uniform Presentation of Government Financial Information. New South Wales strongly supports the concept of uniformity and consistency in the reporting of State financial asset and liability positions. Indeed New South Wales has based its reporting of financial assets and liabilities on the Australian Bureau of Statistics (ABS) concepts, since their formulation in 1988.

The ABS and jurisdictions agreed, in June 1993, that public sector financial asset and liability data would be presented according to the methodology set out in the paper "Uniform Presentation of Information on Financial Assets and Liabilities".

This chapter provides information on selected financial assets and liabilities in accordance with the agreed short-form presentation format.

3.2 ESTIMATES OF FINANCIAL ASSETS AND LIABILITIES - UNIFORM PRESENTATION

Table 3.1 sets out the major components of the State's total liabilities and assets dissected between general government and public trading enterprises sectors based on the scope and definitions of the ABS. On this basis, the estimated net debt of New South Wales as at 30 June 1997 is \$18,717 million, a reduction of \$128 million as compared to 1996.

The improvement in net debt reflects an unchanged position for the general government sector in line with the outcome achieved for the Budget and continuing trading surpluses in the public trading enterprise sector. In relation to GSP, net debt of the general government sector is expected to fall from 6.0 to 5.8 per cent between June 1996 and June 1997. Similarly, PTE net debt will fall from 5.1 to 4.8 per cent of GSP with total public sector debt falling from 11.1 to 10.7 per cent of GSP.

Table 7.2 of Budget Paper 2 discloses the financial assets and liabilities of the Budget and Non Budget sectors.

**TABLE 3.1: PRESENTATION OF INFORMATION ON SELECTED FINANCIAL ASSETS AND LIABILITIES (FALS)
AS AT 30 JUNE**

	General Government		Public Trading Enterprises		Total Non-Financial Public Sector ⁽¹⁾	
	1996	1997 est	1996	1997 est	1996	1997 est
	\$m	\$m	\$m	\$m	\$m	\$m
<u>Financial Liabilities</u>						
Deposits Held	1,127	1,213	194	201	944	1,110
Advances Received	3,532	2,992	1,500	1,478	3,543	3,071
Borrowings	14,279	15,113	9,495	9,229	23,585	24,082
Total Gross Debt	18,938	19,318	11,189	10,908	28,072	28,263
<u>Financial Assets</u>						
Cash and Deposits	3,147	3,745	1,333	1,270	4,103	4,711
Advances Paid	1,939	1,806	1	...	450	407
Other Lending	3,618	3,517	1,244	1,171	4,674	4,428
Total Cash, Deposits and Lending	8,704	9,068	2,578	2,441	9,227	9,546
Net Debt	10,234	10,250	8,611	8,467	18,845	18,717
Unfunded Employee Entitlements ⁽²⁾	16,536	17,537	2,794	1,980	19,330	19,517

Note (1) Sector totals do not add across because inter sector holdings of financial assets and liabilities have not been eliminated.

(2) General Government unfunded employee entitlements increase is mainly due to the Consolidated Fund Entity (Crown) assuming the unfunded superannuation liabilities of the State Rail Authority and Pacific Power which have been restructured.

3.3 CLASSIFICATION FRAMEWORK

Scope

The information presented in this chapter relates to entities comprising the non-financial public sector, as defined in Australian Bureau of Statistics (ABS) government finance statistics. Debt estimates for 1996 and 1997 are based on a full coverage of public sector organisations in accordance with the ABS methodology and definitions. Unfunded superannuation component is based on the Government Actuary's estimates of the liabilities at 30 June 1996 and 1997 with the balance of the amount shown representing long service, recreation leave and salary accruals.

The general basis of valuation reported is current capital value.

The following points on the data under Uniform Presentation should be noted -

- Uniform Presentation includes information on non debt liabilities, namely unfunded employee entitlements which covers superannuation and leave entitlements.
- Uniform Presentation is based on the ABS classification of General Government Sector and Public Trading Enterprises.
- All Budget Sector and Non-Budget Sector agencies other than Public Trading Enterprises agencies fall under the General Government Sector.
- NSW Treasury Corporation, a financial intermediary, is classified as a General Government Sector agency.
- Under Uniform Presentation, local government councils are excluded.

ABS Classifications and the Balance Sheet

The balance sheet is a major financial statement for entities operating on an accrual basis and summarises the levels of assets and liabilities at the end of the accounting period. The assets covered by a balance sheet include both physical assets and financial assets.

In concept the ABS classifications reflect the structure of the balance sheet, with the exception that FALS do not include physical assets (ie plant and equipment).

FINANCIAL LIABILITIES

Deposits held - holdings of cash balances or deposits from other public or private sector bodies including trust accounts held on behalf of private bodies, public financial enterprises, or the non financial public sector. Excludes employee superannuation trust fund balances or any trust balances held to reduce employee entitlement liability.

Advances Received - loans received from non-financial government authorities for policy purposes rather than income generation/liquidity management. Excludes loans from all financial authorities, grants and non-repayable funds received.

Borrowing - comprises

- Finance leases - lease arrangements in which most of the risks and benefits of ownership rest with the lessee; includes all leases defined as finance leases under AAS17 but can include other leases where the economic effect is the same as a finance lease. Excludes operating leases.
- Foreign and domestic borrowing - bank overdrafts, long and short term loans in both Australian currency and foreign currency, credit foncier loans, deferred payment schemes (re-purchase agreements). Excludes loans from government authorities (except government institutions outside own jurisdiction).
- Borrowing from the Central Borrowing Authority (CBA) - all borrowing from the CBA in the same jurisdiction.
- Securities maturing in less than one year and later - maturity calculated on the basis of remaining term to maturity not original term to maturity. Includes promissory notes, bills of exchange, certificates of deposit, fixed term deposits, Treasury notes and bonds, debentures, long term notes, net value of swaps and other derivatives in a net liability position.

Unfunded Liability for Employee Entitlements - employers' liability to pay future benefits to employees less amounts paid into separately constituted funds not able to be used by government and established to pay these benefits as they arise. Includes liability for superannuation (measured as present value of future benefit payments discounted by an appropriate rate), sick leave paid on resignation or retirement, recreation leave, long service leave, workers' compensation (where benefits are paid by an employer and not a separate insurer) and accrued wages and salaries.

Financial Assets

Cash and deposits - notes and coins on hand, cheques held but not yet deposited, cash and deposits in both Australian currency and foreign currency at all banks, non-bank financiers and other deposit taking institutions which are recoverable or transferable on demand, deposits placed in Short Term Money Market (for example grants received from the Commonwealth deposited overnight); and units issued by cash management trusts and withdrawable share capital of building societies. Excludes bank certificates of deposit and fixed deposits held with banks.

Advances paid - loans motivated by policy considerations rather than for liquidity management purposes; as a general rule, all loans made by general government to other government bodies, except loans made by central borrowing authorities, are deemed to be for policy purposes. Includes long and short term loans, non-marketable debentures and long and short term promissory agreements (bonds and bills) issued to Non-Financial Public Sector (NFPS) for the purpose of achieving government policy objectives. Excludes: Government equity in government owned enterprises, grants and non-repayable funds and investment for liquidity management and income generation.

Other Lending - comprises

- Loans and Placements, non-negotiable, non-transferable loans, other than advances, credit foncier loans and deferred payment schemes (repurchase agreements); and
- Securities maturing in less than one year and later, promissory notes, bills of exchange, certificates of deposit, fixed term deposits, Treasury notes and bonds, redeemable preference shares, debentures, long term notes, net value of swaps and other derivatives that are in a net asset position.

4 LOAN COUNCIL REPORTING REQUIREMENTS

Table 4.1 presents estimates of the State's Loan Council Allocation (LCA) for 1996-97 and 1997-98.

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 \$785 million for New South Wales for 1997-98.

Table 4.1: Loan Council Allocation Estimates

	1996-97 Current Estimate	1997-98 Bid	1997-98 Budget Estimate
	\$m	\$m	\$m
Total State Sector Deficit (ABS Basis)	(-) 788	(-) 230	241
University Borrowings ⁽¹⁾	7	...	20
Memorandum Items			
• Operating Leases	(-) 16	(-) 24	(-) 32
• Private Sector Infrastructure ⁽²⁾	3	n/a	n/a
• Recourse asset sales	...	...	...
• Local government financing requirement	180	226	226
• Superannuation	(-) 1,095	(-) 1,247	(-) 1,205
• Net financing requirement for statutory marketing authorities	(-) 3	(-) 3	...
• Treasury Corporation	80	(-) 28	(-) 23
• Home Finance Schemes	(-) 192	(-) 107	(-) 107
LOAN COUNCIL ALLOCATION	(-) 1,824	(-) 1,413	(-) 880

(1) Universities have been reclassified to a multi jurisdictional sector by the Australian Bureau of Statistics and therefore do not form part of the State's deficit result in Budget Paper 6. The 1997-98 LCA bid was formulated on the old basis and included an estimate of \$34 million for university borrowings in the State deficit figure.

(2) As confirmed at the 1997 Loan Council meeting, contingent exposures to private sector projects in the 1997-98 LCA are to be reported as a footnote. New South Wales' exposure is estimated to be \$3.8 million.

APPENDIX A: CLASSIFICATION OF PUBLIC SECTOR AGENCIES

Public sector entities can be classified by either institutional or administrative sector. The classification of entities into institutional sectors involves determining whether a public sector body is either a General Government authority, a Public Trading Enterprise or a Public Financial Enterprise.

General Government authorities 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 and transfers 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, WorkCover) fit into this category.

In contrast, Public Trading Enterprises charge for services provided and hence have a broadly commercial orientation. They do not, however, necessarily operate in competitive markets. While public trading enterprises are not required to be fully self funding, a substantial portion of their costs must be met by user charges. The major public trading enterprises in New South Wales are the various electricity generators and distributors, Sydney Water Corporation and the State Rail Authority.

A third category entity, Public Financial Enterprises, is also identified by the ABS. Public financial enterprises are not included in this publication as they operate in competitive markets and at arms length from Government. New South Wales does not have any significant entities operating in this sector following the sale of the GIO and State Bank.

In contrast to an institutional classification, the State separates public sector bodies as belonging to either in the Budget or Non Budget Sectors. The Budget Sector is essentially defined as those bodies which rely for more than half their income on general purpose taxation. In addition to this funding criterion, consideration is also given to the extent to which the financial operations of an organisation should be controlled through the Budget process.

The following table classifies organisations within both an institutional and administrative framework.

Classification of Agencies

Agency/Activity	ABS Category		Budget Category	
	General Government	Public Trading Enterprise	Budget Sector	Non Budget Sector
Aboriginal Affairs, Department of	*		*	
Aboriginal Land Council, New South Wales	*			*
Adult Migrant English Service	*			*
Advance Energy		*		*
Ageing and Disability Department	*		*	
Agriculture, Department of	*		*	
Archives Authority of New South Wales	*		*	
Art Gallery of New South Wales	*		*	
Arts, Ministry for the	*		*	
Attorney General's Department	*		*	
Audit Office of NSW, The	*			*
Australian Inland Energy		*		*
Australian Museum	*		*	
Axiom Funds Management Corporation (b)				*
Bicentennial Park Trust	*		*	
Board of Studies, Office of the	*		*	
Broken Hill Water Board		*		*
Building and Construction Industry Long Service Leave Payments Corporation	*			*
Bush Fire Services, Department of	*		*	
Cabinet Office	*		*	
Casino Control Authority	*		*	
Centennial Park and Moore Park Trust	*		*	
City West Development Corporation	*			*
Coal Compensation Board	*		*	
Cobar Water Board		*		*
Community Services Commission	*		*	
Community Services, Department of	*		*	
Corrective Services, Department of	*		*	
Crime Commission, New South Wales	*		*	
Crown Land Development		*		*
Crown Land Homesites		*		*
Crown Transactions	*		*	
Dairy Corporation, NSW	*			*
Darling Harbour Authority		*		*
Delta Electricity		*		*
Energy, Department of	*		*	
energyAustralia		*		*
Environment Protection Authority	*		*	
Environmental Trusts	*			*
Ethnic Affairs Commission	*		*	
Fair Trading, Department of	*		*	
Film and Television Office, New South Wales	*		*	
Financial Counselling Trust Fund	*			*
Financial Institutions Commission, New South Wales	*			*
Fire Brigades, New South Wales	*		*	

Classification of Agencies (cont)

Agency/Activity	ABS Category		Budget Category	
	General Government	Public Trading Enterprise	Budget Sector	Non Budget Sector
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	*		*	
HomeFund Commissioner's Office	*		*	
Home Purchase Assistance Authority	*			*
Home Purchase Assistance Fund	*			*
Honeysuckle Development Corporation	*			*
Housing, Department of		*		*
Hunter Water Corporation		*		*
Independent Commission Against Corruption	*		*	
Independent Pricing and Regulatory Tribunal	*		*	
Industrial Relations, 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 Corporation, New South Wales		*		*
Luna Park Reserve Trust	*			*
Macquarie Generation		*		*
Marine Ministerial Holding Corporation	*			*
Marine Administration, Office of	*		*	
Meat Industry Authority NSW	*			*
Medical Board	*			*
Mineral Resources, Department of	*		*	
Mines Rescue Board	*			*
Mines Subsidence Board	*			*
Ministerial Development Corporation	*			*

Classification of Agencies (cont)

Agency/Activity	ABS Category		Budget Category	
	General Government	Public Trading Enterprise	Budget Sector	Non Budget Sector
Motor Accidents Authority	*			*
Motor Vehicle Repair Industry Council	*			*
Murrumbidgee Region Irrigation Areas and Districts		*		*
Museum of Applied Arts and Sciences	*		*	
National Parks and Wildlife Service	*		*	
Newcastle Port Corporation		*		*
NorthPower		*		*
Olympic Co-ordination Authority	*		*	
Ombudsman's Office	*		*	
Pacific Power		*		*
Parliamentary Counsel's Office	*		*	
Police Integrity Commission	*		*	
Police, Ministry for	*		*	
Police Service, New South Wales	*		*	
Port Kembla Port Corporation		*		*
Powercoal Pty Ltd		*		*
Premier's Department	*		*	
Public Trustee	*			*
Public Trustee Common Fund	*			*
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		*		*
Railway Services Authority		*		*
Registry of Births, Deaths and Marriages	*			*
Rental Bond Board	*			*
Roads and Traffic Authority	*		*	
Royal Botanic Gardens and Domain Trust	*		*	
Rural Assistance Authority	*		*	
School Education, Department of	*		*	
South-West Tablelands Water Supply Authority		*		*
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 Transit Authority		*		*
State Valuation Office	*			*
Sustainable Energy Development Authority	*		*	
Sydney Cove Authority	*			*
Sydney Cricket and Sports Ground Trust		*		*

Classification of Agencies (cont)

Agency/Activity	ABS Category		Budget Category	
	General Government	Public Trading Enterprise	Budget Sector	Non Budget Sector
Sydney Market Authority		*		*
Sydney Opera House Trust		*		*
Sydney Organising Committee for the Olympic Games	*			*
Sydney Ports Corporation		*		*
Sydney Water Corporation		*		*
Technical and Further Education Commission, New South Wales	*		*	
Teacher Housing Authority of NSW		*		*
Totalisator Agency Board of NSW		*		*
Tourism New South Wales	*		*	
Tow Truck Industry Council of New South Wales	*			*
Training and Education Co-ordination, Department of	*		*	
TransGrid		*		*
Transport, Department of	*		*	
Treasury	*		*	
Treasury Corporation of New South Wales (1)	*			*
Upper Parramatta River Catchment Trust	*			*
Urban Affairs and Planning, Department of	*		*	
Urban Infrastructure Management, Ministry of	*		*	
Valuer General's Department	*			*
Vocational Education and Training Accreditation Board	*			*
Waste Service NSW		*		*
Waterways Authority	*		*	
Women, Department for	*		*	
WorkCover Authority (includes Sporting Injuries Committee)	*			*
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.

(1) Treated as a Public Financial Enterprise for the purposes of Sections 2.1 and 2.2 of this Budget Paper.