



Treasurer

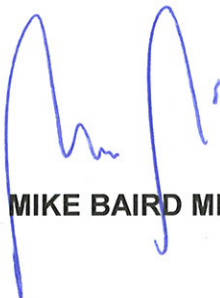
19 December 2011

The Hon. Fred Nile MLC
Chair, General Purpose Standing Committee No.1
Budget Estimates
Room 812, Legislative Council
Parliament House
Macquarie Street
SYDNEY NSW 2000

Dear Chair

Further to supplementary Budget Estimates relating to the portfolio of Treasury on 28 November, I enclose responses to Questions lodged following the hearing.

Yours sincerely



MIKE BAIRD MP

Questions relating to the portfolio of Treasury

28 November 2011, 11am to 1pm

Questions from the Hon Greg Donnelly MLC

Question No. 1

When will Government agencies update NSW Treasury on the status of the following programs: voluntary redundancies, regional relocation grant and payroll tax rebate. Do the Government agencies update NSW Treasury monthly, quarterly, semi-annually or annually?

Answer:

Agencies update NSW Treasury on a regular basis as part of the Budget process.

Question No: 2

Will the Government agencies update to NSW Treasury on the status of programs outlined in question 1. be made available to the public?

- a. If so, is it going to be monthly, quarterly, semi-annually or annually?
- b. Where is the information going to be published?
- c. What website(s) and link(s) would this information be published on?

Answer

The Government will provide a comprehensive update on its programs in the annual Budget.

Question No: 3

What does NSW Treasury do when a program such as voluntary redundancies, regional relocation grant or payroll tax rebate fails to meet projected targeted outcomes?

- a. Does NSW Treasury make recommendations for changing or cancelling the program to the Department?
- b. Does NSW Treasury make recommendations for changing or cancelling the program to the Minister?
- c. Is there a regular monthly, quarterly, semi annual or annual review period on all Budget programs?
- d. Is there a formal process for the review of all Budget programs?
- e. Is there a specific level of underperformance agreed to at the commencement of a program that leads to its cancellation or redesign?
- f. Are there any current programs such as the voluntary redundancies, regional relocation grant and payroll tax rebate that are underperforming at such a level that there is consideration for cancellation of the program?

Answer:

All programs are reviewed in the context of the Budget process.

Question No: 4

As per the upcoming Federal mid-year Economic Review, has NSW Treasury examined the need for a mini-budget for NSW?

- a. Has the reduced level of total GST over the forward estimates, announced on 29 November 2011 as part of the Federal MYEFO, increased the likelihood of a second NSW Budget deficit in 2012-13?

Answer:

Updated estimates of Budget outcomes for 2011-12 and the forward years 2012-13 to 2014-15 are provided in the Half-Yearly Review of the 2011-12 Budget.

Question No: 5

Given the protracted nature of the European and US sovereign debt crisis is a second NSW Budget deficit likely in 2012-13?

Answer:

Updated Budget estimates for 2012-13 are included in the 2011-2012 Half Yearly Review.

Question No: 6

What are the sensitivities of the forecast Budget surplus of \$292 million in 2012-13 to changes in the growth outlook?

- a. Would a -0.25% fall in forecast growth in 2012-13 indicate a deficit for 2012-13?
- b. Would a -0.50% fall in forecast growth in 2012-13 indicate a deficit for 2012-13?
- c. Would a -0.75% fall in forecast growth in 2012-13 indicate a deficit for 2012-13?
- d. Would a -1.0% fall in forecast growth in 2012-13 indicate a deficit for 2012-13?

Answer:

The sensitivity of Budget revenues and expenses to variations in economic parameters are shown in table 3.6 on page 3-18 of Budget Paper No.2.

Question No: 7

What are the sensitivities of the forecast Budget surplus of \$292 million in 2012-13 to changes in the revenue outlook?

- a. Would a -0.25% fall in forecast growth in 2012-13 indicate a deficit for 2012-13?
- b. Would a -0.50% fall in forecast growth in 2012-13 indicate a deficit for 2012-13?
- c. Would a -0.75% fall in forecast growth in 2012-13 indicate a deficit for 2012-13?
- d. Would a -1.0% fall in forecast growth in 2012-13 indicate a deficit for 2012-13?

Answer:

The sensitivity of Budget revenues and expenses to variations in economic parameters are shown in table 3.6 on page 3-18 of Budget Paper No.2.

Question No: 8

What factors were responsible for the bigger than expected surplus of \$1340 million announced in the October 31st Report on State Finances 2010-11?

Answer:

A comprehensive analysis of variances between the 2010-11 Budget and final outcome is in the Report on State Finances, including page 2-1 (Review of Financial Performance) and Page 5-153 (Note 38: Budgetary Information on 2010-11 General Government Sector Financial Statements).

Question No: 9

In the September quarter 2011 the NSW Budget position remains in surplus - \$292 million - despite the forecast of a deficit across the financial year of \$718 million:

- a. What will drive the move into deficit?
- b. In what month is this expected to start being reported?

Answer:

Updated estimates of Budget outcomes for 2011-12 and the forward years 2012-13 to 2014-15 are provided in the Half-Yearly Review of the 2011-12 Budget.

Question No: 10

Can NSW Treasury explain how there was an average of \$650 million of Windfall revenue gains over the last decade?

- a. What accounting or economic reporting standard does this operate under?

Answer:

The deviation from Budget estimates is due to differences between actual economic activity and Budget forecasts.

The accounting standard used by Treasury is AGAAP, Australian Generally Accepted Accounting Principles. Under this standard, taxation revenue is accrued at the point when an assessment is issued.

Question No: 11

What was the actual Windfall revenue gain for 2010-11?

Answer:

The deviation in 2010-11 of the sum of taxation revenue and mining royalties from the original Budget estimates was - \$327 million, a shortfall of revenue compared with Budget expectations.

There was a -\$528 million shortfall in mining royalties, while taxation revenue exceeded the original Budget estimate by \$201 million.

Question No: 12

What was the actual Windfall revenue gain for the September quarter 2011?

Answer:

Any windfall gain can only be determined on an annual basis.

Question No: 13

What is the Windfall revenue gain expected to be for the overall 2011-12 period?

Answer:

Updated Budget forecasts are provided in the Half-Yearly Review of the 2011-12 Budget.

Question No: 14

How are these funds to be used in the current financial year and across the forward estimates?

Answer:

Any windfall revenue gains will be placed into Restart NSW.

Question No: 15

The Government announced on 24 November 2011 that it intended to sell the electricity generators and associated facilities:

- a. What is the current expectation of how much money will be raised through this sale process?
- b. How will these proceeds be used?
- c. Will the funds be distributed to Restart NSW, to lower the expected deficit for 2011-12 or retire debt?

Answer:

- a. Determining expected sale proceeds is subject to ongoing analysis however, proceeds will be subject to an assessment of value for money in current market conditions.

- b. The Government has announced that the proceeds of the sale would be put into crucial infrastructure projects across New South Wales, with at least a third directed towards regional areas.
- c. Refer to response (b) above.

Question No: 16

How does the rise in global sovereign debt risk since the US credit downgrade on 2 August 2011 effect the success or otherwise of the Waratah bonds retail program?

Answer:

Recent downgrades have focused attention on credit ratings. The NSW Government's AAA rating will help support the Waratah Bond programme.

Question No: 17

What is the capacity of the poor performance of the German Government bond auction on Wednesday 23 November to disrupt investor confidence in Waratah bonds?

Answer:

Retail investors are unlikely to focus on specific European events. However market conditions in Europe are likely to encourage demand for Waratah bonds.

Question No: 18

With respect to the lack of demand for German Government bonds at the auction and the associated spike in sovereign debt uncertainty, does NSW Treasury believe that retail investors are adequately informed about the true risks associated with Waratah bonds?

Answer:

Yes

Question No: 19

In the wake of the disappointing German Government bond auction, does NSW Treasury believe that the Waratah bond program will need to be redesigned to make it more attractive in terms of offering a higher yield?

Answer:

No.

Question No: 20

Does NSW Treasury believe that the increased market volatility and increasingly poor sentiment towards sovereign debt, will limit the success of the Waratah bond program?

Answer:

No.

Question No: 21

If the success of the Waratah bond program is impacted by the rise in sovereign debt risks, where will NSW Treasury source the \$300 million of funds that were expected to be raised?

Answer:

NSW Treasury Corporation is currently forecast to borrow around \$10 billion this year.

Question No: 22

In the 28 November 2011 Budget Estimates Treasury transcript, on page 12 it was noted with respect to the Waratah bonds "Treasury Corporation, which manages the program, has not set an overall borrowing target for a specified period of time".

- a. Will this lack of a fund raising target be reviewed if Treasury fails to raise \$50 million over the next 12 months?
- b. Will this lack of fund raising target be reviewed if Treasury fails to raise \$75 million over the next 12 months?
- c. Will this lack of a fund raising target be reviewed if Treasury fails to raise \$100 million over the next 12 months?
- d. Would advertising be increased if any of the amounts outlined in a to c are not met?

Answer:

I am advised that TCorp will outline details on the Waratah Bonds program in its annual financial statements. As the program commenced in September 2011, these will first be outlined for the 30 June 2012 financial year.

Question No: 23

Is the Commission of Audit still going to release the expenditure and management review in January 2012?

Answer:

This is a matter to be determined by the government in accordance with State priorities.

Question No: 24

In Budget Paper 2.0 on page 4-13 Table 4-13 it notes in 2011-12 that employee related costs will rise by 6.6% to \$26,034 million:

- a. Can NSW Treasury explain what are the core drivers of this significant increase?
- b. Can NSW Treasury explain why in 2012-13, employee expenses will only rise by 1.6%

Answer:

- a. Pages 3-3, 3-7 and 4-13 of the Budget Paper No. 2 – Budget Statement explain the core drivers of employee related costs in 2011-12 and forecast growth in employee expenses over the forward estimates.
- b. Factors contributing to the slowing growth of employee related expenses over the period 2011-12 to 2012-13 are outlined in the sections of Budget Paper No. 2 referred to above.