

**NEW SOUTH WALES
REPORT ON STATE FINANCES
2003 - 04**

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PREFACE

The 2003-04 New South Wales Report on State Finances includes:

- a Statement of the Budget Result;
- the Outcomes Report on Government Finances prepared in accordance with the Uniform Presentation Framework adopted by all Australian governments; and
- the Consolidated Financial Report of the Total State Sector.

The Statement of the Budget Result allows a comparison of the end of year aggregates with those estimated in the 2003-04 Budget. The Outcomes Report allows readers to compare the results for New South Wales with other States. These reports are prepared on the basis of the reporting standards of the Australian Bureau of Statistics Government Finance Statistics (GFS) framework.

The Consolidated Financial Report of the Total State Sector is prepared in accordance with Australian Accounting Standards and reports on the financial position and the results of operations of the State. Australian Accounting Standard AAS31 *Financial Reporting by Governments* requires each government to prepare accrual based consolidated financial statements.

These reports and associated commentary provide a comprehensive review of the State's financial position and achievements against the fiscal principles outlined in the *General Government Debt Elimination Act 1995*.

Michael Egan
Treasurer

C O N T E N T S

	Page
Highlights	i
Review of Financial Performance	iv
Scope of the Review	xxii
AUDITED STATEMENT OF THE BUDGET RESULT	
Statement of Compliance (Budget Result)	1 - 2
Independent Audit Report on the Statement of the Budget Result	1 - 3
Statement of the Budget Result	1 - 5
UNAUDITED OUTCOMES REPORT	
Government Finance Statistics Balance Sheets	2 - 3
Government Finance Statistics Sector Reports	2 - 4
Loan Council Allocation	2 - 21
AUDITED CONSOLIDATED FINANCIAL REPORT (TOTAL STATE SECTOR ACCOUNTS)	
Statement of Compliance	3 - 3
Independent Audit Report on the Financial Statements	3 - 4
Statement of Financial Performance	3 - 6
Statement of Financial Position	3 - 8
Statement of Cash Flows	3 - 9
Notes to and forming part of the Financial Report	
1. Statement of Significant Accounting Policies	3 - 10
2. Revenue	3 - 24
3. Expenses	3 - 26
4. Significant Items	3 - 28
5. Receivables	3 - 30
6. Other Financial Assets	3 - 30
7. Inventories	3 - 31
8. Property, Plant and Equipment	3 - 31
9. Other Assets	3 - 32
10. Payables	3 - 32
11. Interest Bearing Liabilities	3 - 33
12. Provisions	3 - 34
13. Other Liabilities	3 - 37
14. Asset Revaluation Reserve	3 - 37
15. Accumulated Funds	3 - 38
16. Cash Flow Information	3 - 39
17. Trusts Under Management	3 - 42
18. Expenditure Commitments	3 - 42
19. Contingent Liabilities and Contingent Assets.....	3 - 44
20. Events Occurring After Reporting Date	3 - 51
21. Compliance With Appropriations	3 - 51
22. Financial Instruments	3 - 51
23. Discontinuing Operations	3 - 56
24. Disaggregated Financial Statements	3 - 56
25. Details of Consolidated Entities	3 - 62

HIGHLIGHTS

- A Budget surplus for the year ended 30 June 2004 of \$6 million. This is \$31 million lower than the estimate published in the 2004-05 Budget Papers and \$37 million below the original Budget estimate of \$43 million.
- An operating surplus of \$1,126 million (GFS basis).
- An underlying cash surplus of \$322 million (GFS basis).
- The State's balance sheet (GFS basis) has been strengthened:
 - Assets have risen by \$5,561 million, while liabilities have risen by \$2,321 million.
 - As a result, the net worth of the Total State Sector rose to \$124,282 million.
- General Government Sector net debt on an underlying basis (excluding investments held for future superannuation contributions) fell by \$602 million to \$2,642 million or 0.9 percent of Gross State Product.
- Total State Sector net debt fell by \$1,187 million to \$12,092 million, or 4.2 percent of Gross State Product compared with 5 percent in 2002-03.
- Total State Sector net financial liabilities remain low at 14.8 percent of Gross State Product compared to 15.8 percent in 2002-03. In 1995 they stood at 26.7 percent of GSP.
- Whilst the overall results for New South Wales remain favourable, future performance will be challenged by a reduction in Commonwealth funding for New South Wales relative to the rest of Australia, and the recent threat to discontinue National Competition Payment support contrary to the related agreement. Since 2001-02 Commonwealth funding has fallen by 5.8 percent in real per capita terms.
- The State's credit rating remains AAA, reflecting the strength of the New South Wales Government balance sheet.

Figure 1

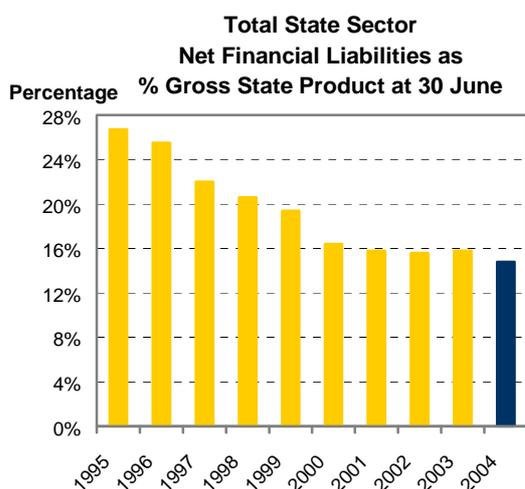
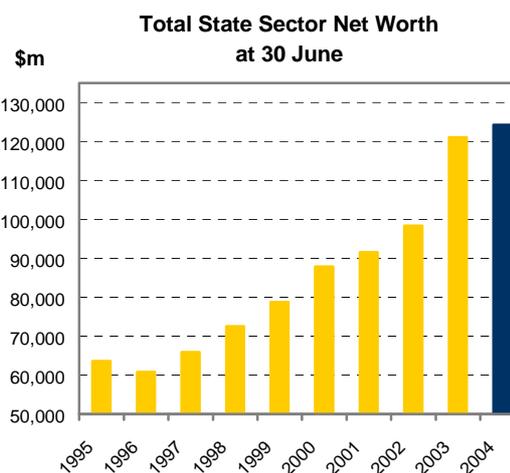


Figure 2



HIGHLIGHTS

KEY GOVERNMENT FINANCIAL RESULTS 2003-04

	Net Operating Balance ^(a) \$m	Net Lending/ (Borrowing) ^(a) \$m	Underlying Cash Surplus/(Deficit) ^(a) \$m	Operating Surplus Excluding Significant Items ^(b) \$m
NSW	1,126	6	322	134
Vic	719	229	695	not available
Qld	2,374	1,716	2,249	not available
SA	264	264	381	not available
WA	793	557	554	not available
Tas	100	161	224	not available
NT	49	12	34	not available
ACT	18	13	216	122
Commonwealth	7,176	6,452	8,036	not available

^(a) Government Finance Statistics General Government Sector Results
Source: 2003-04 Outcomes Report (NSW, WA and the Commonwealth actual result)
2004-05 Budget Papers (other jurisdictions estimated result)

^(b) AAS31 Accounting Based Audited Total State Sector Result
Source: 2003-04 Total State Sector Accounts
2003-04 Annual Financial Statements of the Australian Capital Territory

Figure 3

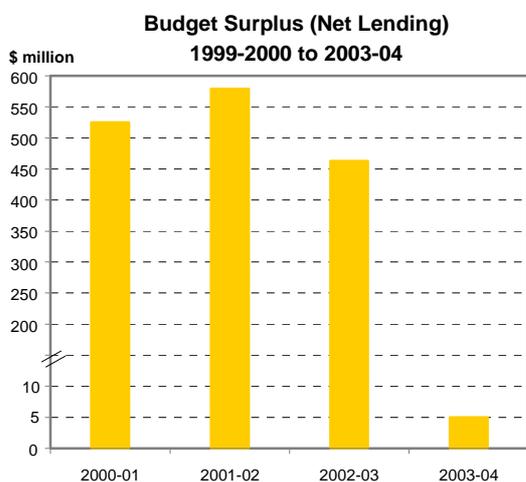
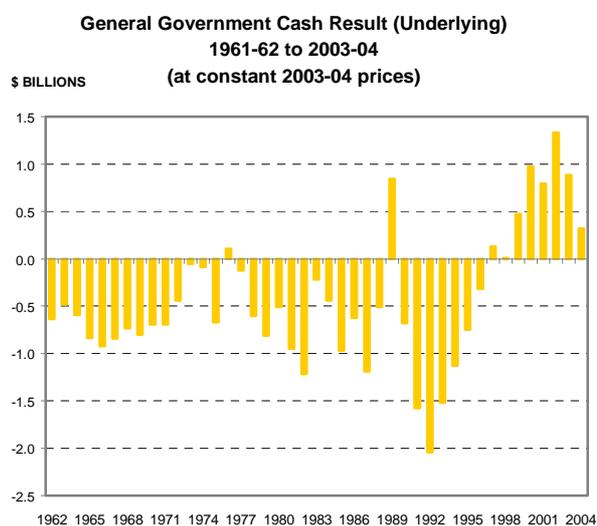


Figure 4



HIGHLIGHTS

KEY FINANCIAL INDICATORS			
		2002-03	2003-04
GENERAL GOVERNMENT SECTOR			
Budget Surplus - Net Lending	\$m	463	6
GFS Net Operating Surplus	\$m	1,752	1,126
Underlying Cash Surplus	\$m	866	322
Underlying Net Debt	\$m	3,244	2,642
Underlying Net Debt as a % of Gross State Product	%	<i>1.2</i>	<i>0.9</i>
Underlying Net Unfunded Superannuation Liability	\$m	13,069	12,600
Net Financial Liabilities (NFL)	\$m	25,158	24,771
NFL as a % of Gross State Product	%	<i>9.5</i>	<i>8.7</i>
TOTAL STATE SECTOR			
AAS31 Operating Result excluding Significant Items – Surplus/(Deficit)	\$m	1,434	134
AAS31 Operating Result including Significant Items - Surplus/(Deficit)	\$m	(424)	(3,783)
Net Debt	\$m	13,279	12,092
Net Debt as a % of Gross State Product	%	<i>5.0</i>	<i>4.2</i>
Net Unfunded Superannuation Liability	\$m	15,456	15,842
Net Financial Liabilities (NFL)	\$m	42,108	42,275
NFL as a % of Gross State Product	%	<i>15.8</i>	<i>14.8</i>
GFS Total Assets	\$m	183,737	189,298
GFS Total Liabilities	\$m	62,695	65,016
GFS Net Worth	\$m	121,042	124,282

The review of financial performance is divided into the following sections:

1. ANALYSIS OF THE GFS STATEMENT OF THE BUDGET RESULT

The Budget Operating Statement has been prepared on a GFS basis and relates to the General Government Sector. The commentary on this statement analyses the variances between the Budget for 2003-04 and the actual result.

Commentary has also been provided on the variances over the same period for the Public Trading Enterprise (PTE) Sector. Reports on the PTE sector has been provided in the Outcomes Report at Pages 2-5, 2-9 and 2-13.

2. ANALYSIS OF THE GFS TOTAL STATE SECTOR BALANCE SHEET

The GFS Total State Sector Balance Sheet is disclosed at Page 2-3 of the Outcomes Report. The commentary provides an analysis of movements in Asset and Liability balances and key financial aggregates including Net Financial Liabilities and Net Debt.

3. ANALYSIS OF TOTAL STATE REVENUES AND EXPENDITURE

An analysis of current year expenditures and revenues for the Total State Sector compared with prior year balances is included here. This is done on an accounting basis and refers to the aggregates disclosed in the Consolidated Financial Report at Page 3-6.

4. INTERGOVERNMENTAL TOTAL STATE COMPARISONS

Reviews and compares key aggregates for Commonwealth and State jurisdictions.

5. FINANCIAL FRAMEWORK AND TARGETS

Commentary is provided on the performance of the General Government and Non General Government sectors against agreed fiscal targets and financial policies.

6. SCOPE OF THE REVIEW

Explains the scope of the Total State Sector Accounts along with the principles of consolidation. It also explains the reports covered in this publication.

ANALYSIS OF THE GFS STATEMENT OF THE BUDGET RESULT

The Budget result for the financial year ended 30 June 2004 was a surplus of \$6 million. This represented a \$37 million decrease on the original 2003-04 projection of \$43 million (see NSW General Government Sector Statement of the Budget Result on page 1-5).

State and operating revenues increased by \$962 million and \$384 million respectively against budget while total expenses increased by \$1,244 million. The net movements in revenues and expenses resulted in a favourable variance of \$102 million against budget in the GFS Net Operating Result.

An unfavourable variance of \$413 million in asset sales and other movements in non-financial asset related transactions was partly offset by a reduction in capital acquisitions of \$141 million.

More detailed explanations of the above movements are provided hereunder.

STATE REVENUES

	Budget \$m	Actual \$m	Var \$m
State Revenues			
Taxation	14,198	15,010	812
Commonwealth Grants			
- General Purpose	10,039	9,942	(97)
- Specific Purpose	5,458	5,552	94
Financial Distributions	1,496	1,609	113
Fines, Regulatory Fees and Other	842	882	40
Total State Revenues	32,033	32,995	962

Taxation

Transfer Duty

Transfer duty on property transfers is the largest single component of stamp duty revenues. It is the most volatile revenue source collected by the State.

The 2003-04 budget assumed a modest weakening in transfer duty revenue, reflecting milder price growth and more subdued activity.

Although the market did slow in the second half of 2003-04, it was stronger than expected in the first half, primarily due to continued low interest rates and historically high levels of investor demand. Accordingly, revenue from property transfer duty exceeded the Budget time projection by \$543 million.

Payroll Tax

Payroll tax revenue of \$4,354 million was \$35 million lower than the Budget time estimate of \$4,389 million. As wages and employment growth was in line with expectations during 2003-04, the minor variance is attributed to the timing of expected industry receipts in June 2004.

Other Taxes

Other taxes were \$304 million higher than the Budget estimate. The major contributors to this positive variance were increases in land tax receipts - due to higher land value and increased mortgage duty receipts - from the continued strength of the property market. There were also and improvements in motor vehicle registration and weight tax revenue - due to better than expected growth in vehicle sales and an increased significance of heavier vehicles.

Commonwealth Grants

Commonwealth general purpose payments mainly comprise GST revenue grants, GST transitional assistance - termed budget balancing assistance (BBA), and National Competition Policy (NCP) payments. In 2003-04, general purpose grants were \$97 million below budget. This reduction was mainly due to penalties imposed by the Commonwealth Treasurer resulting from NCP legislative reviews and revised CPI and population estimates used in determining the State's guaranteed minimum amount (ie. the sum of BBA and GST revenue grants).

Specific purpose payments were \$94 million above budget mainly due to increases in grants for agriculture and drought assistance and for national highways development.

Financial Distributions

Financial distributions represent dividends and tax equivalents paid by government business enterprises.

A favourable increase of \$113 million in financial distributions in 2003-04 was due largely to higher wholesale prices and increased demand for electricity from the State's electricity generators.

Fines, Regulatory Fees and Other

Revenue from fines, regulatory fees and other revenues was \$40 million higher than the 2003-04 budget estimate. A significant proportion of this favourable increase was due to improvements in traffic and other fine collection processes.

OPERATING REVENUES

	Budget \$m	Actual \$m	Var \$m
Operating Revenues			
Sale of Goods and Services	2,671	2,738	67
Investment Income	649	853	204
Grants and Contributions	606	532	(74)
Other Revenue	264	451	187
Total Operating Revenues	4,190	4,574	384

Sale of Goods and Services

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

In 2003-04, sale of goods and services revenues exceeded the Budget estimate by \$67 million. This increase comprised the aggregate of improvements in a number of agencies.

Fees for Education from overseas students and other course fees improved by \$19 million. Other improvements were experienced by the Attorney General's Department from Local and Supreme Court fees; the Roads and Traffic Authority from vehicle plate fees; and Land Titles Office fees.

Investment Income

Revenue from investments includes returns on advances to Public Trading Enterprises, returns on Treasury Corporation deposits and on private sector deposits.

In 2003-04, investment revenue improved by \$204 million over the Budget estimate. This mainly reflected stronger than expected market returns for the New South Wales Insurance Ministerial Corporation, the Building and Construction Industry Long Service Payments Corporation and on private sector deposits held by Health, Education and the Roads and Traffic Authority agencies.

Grants and Contributions

Grants and Contributions revenue was \$74 million lower than the Budget estimate. This was largely due the deferral of contributions to the Waterways Authority for the development of King Street Wharf and a reduction in projected contribution revenue from community sources towards local schools.

Other Operating Revenue

Other operating revenue in 2003-04 was \$187 million higher than the Budget estimate. This increase includes \$79 million in development contributions received by the Roads and Traffic Authority for construction of the Lane Cove Tunnel. The remainder comprises the aggregation of a number of minor revenue improvements across a range of agencies.

EXPENSES

Health expenses were \$368 million higher than the Budget estimate. This was largely due to the in-year Award decisions for nurses and other selected health service occupations. Other increases stemmed from changes in the method of calculating long service leave, increased payments for blood transfusion services and additional Area Health Service costs.

Roads and Traffic Authority expenses were \$364 million higher than the Budget estimate. This was mainly due to increases in maintenance, road safety, traffic and transport management programs and revised depreciation road cost indexes.

Education expenses were higher than the Budget estimate. This increase was mainly due to the Teachers award variation and expenses associated with unbudgeted user charges. These were partly offset by a reduction in depreciation expense due to property asset revaluations.

Coal Royalty Compensation expenses increased by \$109 million over the 2003-04 Budget estimate due to an increase in compensation liabilities resulting from a change in the royalty calculation method, buoyant production levels and the result of court decisions.

Transport expenses were \$90 million higher than the Budget estimate. This reflects additional grants to the rail agencies to meet operating costs; funding for private transport operators to meet the costs of subsidy schemes including school student transport; the establishment of the Independent Transport Safety and Reliability Regulator; and transport costs associated with major sporting events (partially offset by fare revenues).

Community Services expenses were \$55 million higher than the Budget estimate mainly due to increases in payments for high-needs children in out-of-home care; increased costs of children in foster care; and other expenses relating to the establishment of shared corporate services.

Department of Infrastructure, Planning and Natural Resources expenses increased by \$54 million over the Budget estimate due to greater Government support for the Australian Technology Park; higher employee related costs due to delays in implementing the Department's restructure; and higher operating expenses flowing from additional revenues.

NSW Treasury expenses were \$52 million greater than Budget due to an increase in First Home Owner Scheme claims and costs associated with the transfer of the Infringement Processing Bureau to the Office of State Revenue.

NSW Police expenses increased by \$44 million over the Budget due to additional police officers, operational costs associated with Police's information technology network upgrade project, the new Recovered Assets Pool and Operation Gain activities in south western Sydney.

Attorney General's Department expenses were \$42 million more than Budget due to higher operating costs relating to the Office of the Protective Commissioner; salary increases determined by the Statutory and Other Officers Remuneration Tribunal; increased costs associated with Court operations; and from core legal work undertaken by the Crown Solicitors Office.

Rural Assistance Authority expenses were \$40 million higher than the Budget estimate mainly due increased payments relating to drought assistance.

NSW Insurance Ministerial Corporation expenses were \$156 million lower than the Budget estimate due largely to a net reduction in the Treasury Managed Fund outstanding claims liability.

ASSET ACQUISITIONS, ASSET SALES AND OTHER MOVEMENTS IN NON-FINANCIAL ASSETS

Asset Acquisitions

Asset acquisitions, including assets acquired under finance lease arrangements, were \$141 million lower than the Budget estimate for 2003-04.

Agencies with shortfalls in capital program expenditure included Corrective Services due to delays in development decisions relating to the Western Region Correctional Centre and Long Bay Prison Hospital construction projects; Roads and Traffic Authority due to delays in obtaining planning approvals and in purchasing properties for some projects; and Attorney General's Department due to delays in tender processes on a number of projects. In addition, a number of agencies including Health expensed a proportion of their capital project costs which effectively offset reduced capital expenditure with increased expenses.

Asset Sales

Proceeds from the sale of non-financial assets were \$237 million lower than Budget in 2003-04. This was largely due to the deferral of asset sales across a number of agencies, the most significant being the deferral in the sale of the Sydney Maritime Centre. Other deferrals include the sale of the Sydney Fish Markets and the Sheas Creek site by the Crown Property Portfolio.

In addition, proceeds from the sale of government motor vehicles were \$60 million less than projected due to in-year revisions in the number of vehicle sales and a weaker than expected used-car market.

Other Movements in non-Financial Assets

Other movements in non-financial assets include purchases, sales and transfers of inventories and reversals, for GFS accounting purposes, of non-cash capital contributions which are recorded under other operating revenues.

The 2003-04 actual result for other movements in non-financial assets was \$178 million lower than the Budget estimate. A change in the accounting treatment on the recognition of emerging interest in privately financed infrastructure assets - which is now reversed from the Budget Result to align with GFS principles - accounted for \$116 million of this variance.

PUBLIC TRADING ENTERPRISE NET BORROWING RESULT

The State's Public Trading Enterprises (PTEs) form the substantial part of the Non General Government Sector. PTEs principally provide public infrastructure services including electricity, water, ports and public transport.

The PTE sector recorded an operating surplus after dividends and tax of \$24 million. In 2003-04 \$1,829 million was provided to rail agencies to subsidise rail maintenance, capital and other operating expenses. PTEs built or purchased \$3,364 million of new infrastructure. Some of these capital works were funded by borrowings. As a result the PTE sector recorded a Net Borrowing Result (deficit) in 2003-04 of \$1,098 million compared to the budgeted deficit of \$1,612 million.

This \$514 million improvement in the PTE sector result reflected additional grant revenues towards operating costs associated with the recent rail restructure, lower than budgeted capital expenditure due to a delay in the delivery of some Millennium trains and the rescheduling of some electricity infrastructure projects, and improved profitability from land development.

The PTE sector is referred to as the Public Non-Financial Corporation Sector in the Outcomes Report.

ANALYSIS OF THE GFS TOTAL STATE SECTOR BALANCE SHEET

The Total State Sector Balance Sheet

The Total State Sector's Net Worth was \$124,282 million at 30 June 2004, an increase of \$3,240 million or 2.7 percent on the previous year's balance. This increase was despite one-off write backs in the value of rail and water assets of \$4,671 million.

The \$3,240 million increase in Net Worth comprises an increase in non-financial assets of \$3,407 million offset by a small increase in Net Financial Liabilities of \$167 million.

Over the period June 1994 through to June 2004 the Net Worth of the NSW Total State Sector has increased by 94.2 percent.

Non-financial Assets

Non-financial assets comprise the physical assets of the State such as public schools, hospitals, roads, bridges, transport, public housing and sporting facilities, as well as the infrastructure of the State's commercial authorities such as electricity power stations and distribution assets, dams and water pipelines, and ports infrastructure.

The State's non-financial assets were \$166,557 million at 30 June 2004, an increase of \$3,407 million on the previous year. This included an increase in investment in property and infrastructure of \$6,707 million, and asset revaluations of \$6,490 million. These were offset by the transfer of rail infrastructure of \$2,957 million to the Australian Rail Track Corporation, a \$1,714 million recoverable amount write back for State Water assets, and an increased provision for depreciation of \$4,092 million, asset sales of \$625 million and other movements of \$402 million.

The \$2,957 million rail infrastructure transaction resulted from an agreement between the New South Wales and Australian Governments to lease the NSW interstate and Hunter Valley networks for sixty years for \$1. The agreement includes an \$818 million investment program on this infrastructure by ARTC. To give effect to the lease, legislation was passed in the NSW Parliament in May 2004.

The \$1,714 million write back in State Water's assets reflects a change in assessed goals of the State Water unit from a not-for-profit to a commercial entity. Accordingly the State Water assets were revalued in accordance with AASB1010 *Recoverable Amount of Non-Current Assets* to ensure that its assets reflect fair value.

Capital Expenditure in the State's property and infrastructure in 2003-04 included investments in:

• educational facilities	\$425 million
• hospitals and equipment	\$425 million
• roads	\$1,195 million
• public housing	\$349 million
• transport	\$951 million
• energy infrastructure	\$1,330 million
• water infrastructure	\$540 million

In addition several agencies performed cyclical revaluations of their property, plant and equipment during the financial year. As a result the value of public housing assets increased by \$3,408 million, roads by \$961 million and rail infrastructure by \$1,673 million. A number of private sector financed infrastructure projects are in various stages of completion, including the Cross City Tunnel, (completion due July 2005), WestLink M7 Motorway (completion due August 2006) and the Lane Cove Tunnel (completion due May 2007). These private sector financed road projects will be funded by toll revenue.

Net Financial Liabilities

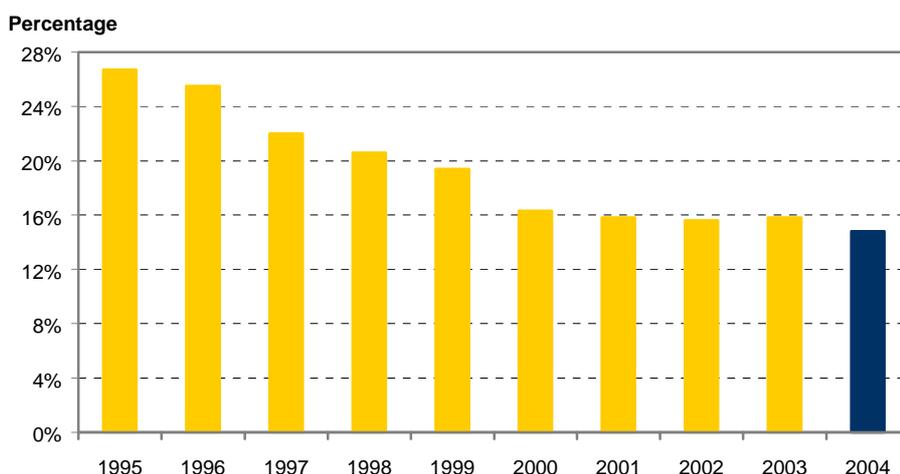
Net Financial Liabilities (NFL) reflect the financial obligations of the Government. They comprise Net Debt, unfunded superannuation and other employee provisions, insurance obligations and other liabilities.

The reduction in NFL as a percentage of GSP, since 1995, reflects an improvement in the State's financial position. Reducing liabilities to a sustainable level allows the Government to maintain or, where applicable, expand government services throughout the economic cycle.

Total State Sector NFL fell from \$44,087 million (26.7 percent of Gross State Product (GSP)) in June 1995 to \$42,275 million (14.8 percent of GSP) in June 2004. (Refer Figure 5).

Figure 5

**Total State Sector
Net Financial Liabilities as a Percentage of
Gross State Product at 30 June**



Net Financial Liabilities (NFL) comprise:

	June 2004 \$m	June 2003 \$m
Net Debt	12,092	13,279
Unfunded Superannuation Liabilities	15,842	15,456
Other Employee Entitlements	6,911	6,436
Insurance Obligations	6,722	6,267
Other Net Liabilities	708	670
Net Financial Liabilities	42,275	42,108

The \$167 million net increase in Total State NFL was due to:

- growth in superannuation liabilities (\$386 million);
- an increase in other employee entitlements (\$475 million);
- an increase in public liability and other insurance obligations (\$455 million); and
- an increase in other net liabilities of (\$38 million).

These were offset by reductions in Net Debt (\$1,187 million).

Net Debt

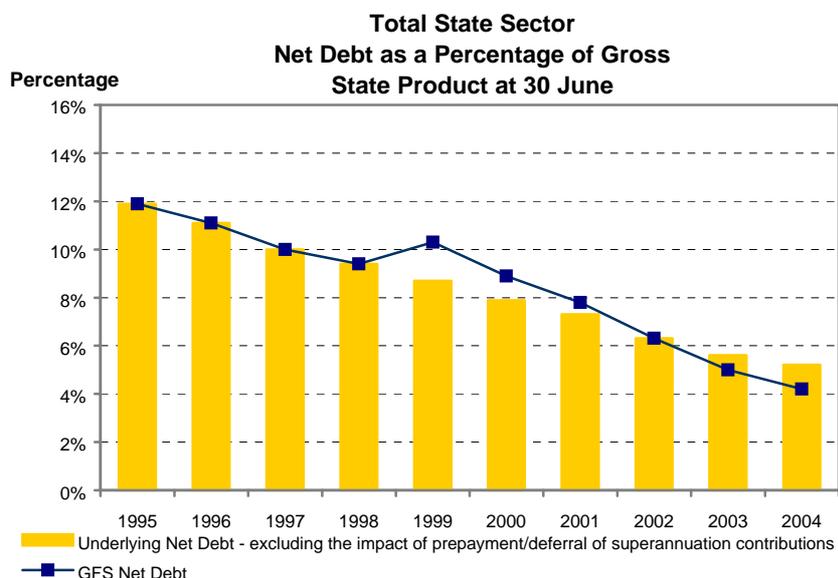
Total State Sector Net Debt fell by \$1,187 million to \$12,092 million for the year ended 30 June 2004.

Net Debt comprises borrowings less cash, investments and advances receivable. The \$1,187 million reduction in Net Debt is primarily the result of the application of the cash surplus, for the non-financial public sector.

The reduction in Net Debt is reflected in higher levels of cash and investment balances at 30 June 2004 whilst gross borrowings have remained fairly constant for 2003-04.

The Net Debt of the State as a percentage of Gross State Product fell from 5 percent in June 2003 to 4.2 percent in June 2004. Excluding the investments associated with the deferral of superannuation contributions, Net Debt as a percentage of GSP fell from 5.6 percent in June 2003 to 5.2 percent in June 2004, in line with a consistent trend since 1995. (Refer Figure 6).

Figure 6



Superannuation Liabilities

Superannuation liabilities represent the actuarially assessed obligations for past and present employees less the net market value of scheme assets set aside to meet these obligations. During 2003-04 net unfunded superannuation liabilities grew by \$386 million. This is a result of:

- A “funding holiday” by the Crown due to the setting aside of a further \$1,124 million of funds into the General Government Liability Management Ministerial Corporation (GGLMMC) rather than into the Pooled Fund defined benefits schemes. Lump sum payments will be made in future years from the GGLMC to the defined benefits schemes.

- The increase in the accrued benefits due to an additional year of service being provided by current defined benefit scheme members.

Offsetting the above:

- The investment performance of the Pooled Fund was positive 13.5 percent in 2003-04, which is higher than the long-term actuarially applied rate of 7 percent per annum.
- The Crown has revised the pooled fund accrued benefits discount rate from 7 percent per annum to 7.3 percent per annum.

Assets in the defined benefits schemes are \$19,744 million at 30 June 2004.

The full funding target for superannuation liabilities is now 2030. This is 15 years earlier than the original funding plan developed in 1993 as a result of higher contributions, various liability management initiatives and actual investment returns over the period since 1993.

Insurance Obligations

These liabilities primarily comprise obligations of the Treasury Managed Fund, a government self-insurance scheme, liabilities for dust disease claims, self funded workers compensation, and closed insurance schemes such as the Transport Accident Compensation Fund (old third party scheme). In 2003-04 insurance obligations grew by \$455 million or 7.3 percent to \$6,722 million.

Insurance liabilities administered by the Insurance Ministerial Corporation accounted for \$444 million of this growth. Included within this growth was an amount of \$139 million that represents a 7.5 percent prudential margin set aside for the first time for all Treasury Managed Fund (TMF) liabilities.

Other Net Liabilities

Other net liabilities rose during 2003-04 by \$38 million to \$708 million.

Other net liabilities primarily comprise non-employee provisions and payables, less receivables and equity assets.

Net Worth

The movement in various financial and non-financial assets and liabilities, outlined above, resulted in growth in Net Worth during 2003-04 by \$3,240 million to \$124,282 million.

The 2003-04 Report on State Finances contains two Asset and Liability reports.

The balance sheet reported in the Outcomes Report is prepared on a Government Finance Statistics (GFS) basis. The Statement of Financial Position reported in the Total State Sector Accounts is prepared on an accounting basis and is similar and reconcilable to the GFS balance sheet. The primary differences between the two reports are:

- Provisions for doubtful debts are excluded from balance sheets presented on a GFS basis.
- The General Government balance sheet in the Outcomes Report shows an equity investment in the Public Financial Corporation and Non-Financial Corporation Sectors (referred to more generally as the PTE Sector and PFE Sector) while the accounting based statement of financial position does not record this item.
- Further, GFS based Balance Sheets are classified into financial and non-financial assets and liabilities, whereas accounting based statements of financial position are grouped by current or non-current assets and liabilities.

ANALYSIS OF THE TOTAL STATE SECTOR OPERATING RESULT

The following analysis compares current year Total State Sector revenues and expenses, on an accounting basis, with prior year amounts. The relevant report is located at Page 3-6.

Excluding significant items, the accrual operating result for the Total State Sector was a surplus, of \$134 million in 2003-04 compared with a surplus of \$1,434 million in 2002-03. However, a number of significant revenue and expense items result in an overall deficit of \$3,783 million being reported.

During the year ended 30 June 2004 a number of significant one-off items totalling \$3,917 million (net expense) have been accounted for. They comprise:

- Downward adjustments to asset values of \$5,822 million. This includes the \$2,957 million book value of assets leased to the Australian Rail Track Corporation for sixty years for \$1, and a \$1,714 million write-down in the value of State Water assets to fair value following an assessment that the unit operates on a for-profit basis.
- An additional insurance expense of \$139 million on adopting a 7.5 per cent prudential margin for the Treasury Managed Fund.

Offset by:

- A \$1,235 million lower superannuation expense as a result of higher fund earnings than actuarially applied long-term earning rates.
- A further \$730 million reduction in superannuation expense following a 0.3 percent increase in the Crown's discount rate for employee benefit liabilities.
- \$79 million in revenue received by the Roads and Traffic Authority following the letting of contracts for the Lane Cove Tunnel.

The operating result for the prior year 2002-03 included the following significant items:

- A \$1,561 million superannuation expense as a result of lower fund earnings than actuarially applied long-term earning rates.
- A further \$830 million superannuation expense due to change in actuarially applied demographic assumptions.
- The write down of assets amounting to \$273 million and an additional \$431 million depreciation expense on revalued rail information assets.

Offset by:

- The first time recognition of assets (ie a revenue) totalling \$1,045 million. These assets include collections of the Australian Museum valued at \$530 million that were brought to account following the conclusion of an extensive valuation exercise, and the recording of the Department of Education and Training's school bank balances of \$226 million.
- A book gain of \$179 million on the sale of Powercoal Pty Ltd. The government repaid \$131 million of debt from the utilisation of Powercoal sale proceeds.

Figure 7 demonstrates the volatile impact that significant items can make when conducting comparisons over time of operating results. By excluding the impact of these one-off large transactions it is possible to perform a more meaningful analysis of the results.

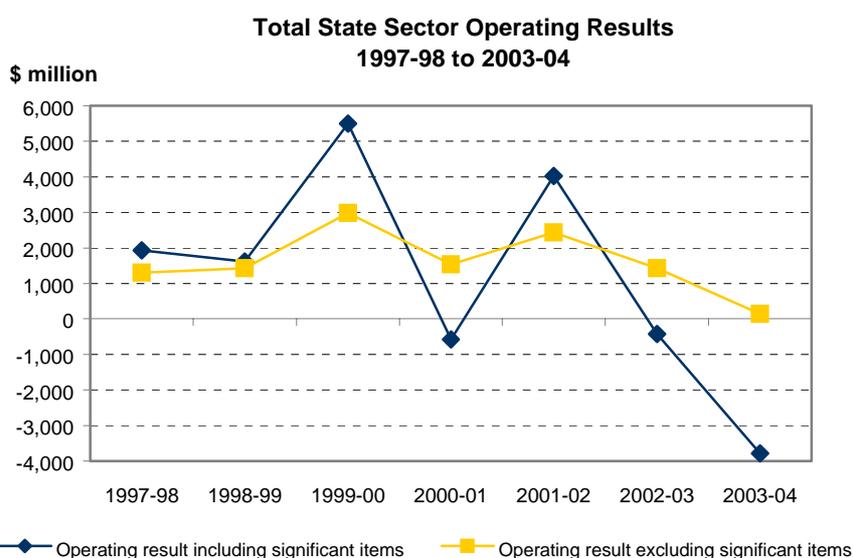
The Total State Sector Operating Result excluding significant items on an accounting basis comprised

	2003-04 \$m	2002-03 \$m
Total State Revenues	30,591	29,534
Operating Revenues	14,561	13,753
Less Total Expenses	(45,018)	(41,853)
Operating Surplus excluding Significant Items	134	1,434

The following discussion excludes the impact of significant expense and revenue transactions which have been summarised above. Refer to

Note 4 of the Consolidated Financial Report for further details on significant transactions.

Figure 7



Total State Revenues

Total State Revenues, including Commonwealth grants, operating revenue and State taxes, rose \$1,057 million or 3.6 percent between 2002-03 and 2003-04.

Taxation revenue increased in 2002-03 by \$759 million or 5.6 percent.

In comparing aggregate taxation revenues by class between 2002-03 and 2003-04, stamp duties increased 5.4 percent due to stronger property market turnover in the first half of the year resulting in higher transfer duty and mortgage duty. This increase was partly offset by lower share duty for non-marketable securities, which reflected fewer large transactions, and a reduction in insurance duty following the effect of a cut in the tax rate.

Payroll tax was up 5.4 percent consistent with increased economic activity and wage growth. Land tax was higher by 19.3 percent mainly due to an increase in land values. Gambling and betting revenues were up 4.6 percent, reflecting the growth in disposable income. Other taxes were consistent with the previous year's revenue.

Commonwealth grants revenue rose only 1.7 percent compared to 2002-03. This is 0.7 percent below the inflation rate. GST revenue provided to NSW was up \$587 million, or 6.5 percent because of higher collections by the Commonwealth government. However, higher GST revenue grants were largely offset by a \$538 million reduction in Budget Balancing Assistance (the amount provided by the Commonwealth to ensure NSW is no worse off under the GST-related tax reforms).

Fines, Fees and Other State Revenues increased by \$32 million or 3.7 percent in 2003-04.

Operating Revenues

Operating revenues comprise the revenues earned directly by government authorities for the sale of goods and services, grants and other contributions and investment income.

Operating revenues grew by \$808 million or 5.9 percent to \$14,561 million in 2003-04. The growth in operating revenues was primarily driven by a significant growth in investment income of 77.7 percent or \$573 million.

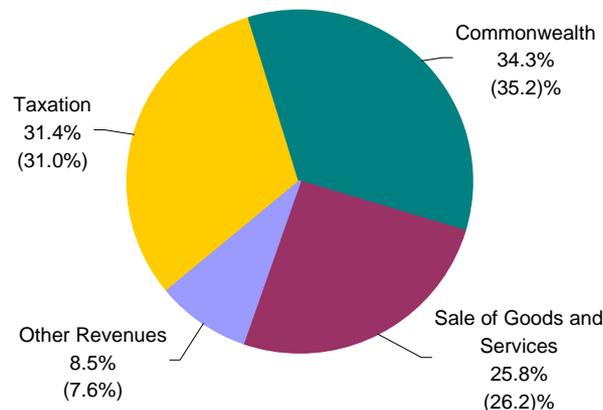
Investment income improved from the previous year's lower returns on local and international financial markets. Further, the size of the underlying base of cash and investments has grown from 2002-03, partly the result of a further investment of \$1,124 million in the General Government Liability Management Ministerial Corporation. These funds and their earnings are dedicated as contributions in future years towards general government defined benefit superannuation schemes.

Revenues from grants and subsidies fell by \$153 million, primarily the result of reduced developer contributions.

The largest component, revenues from sale of goods and services grew by 2.8 percent or \$319 million.

Figure 8

Total State Sector Revenue 2003-04
(2002-03 in brackets)



Expenses

Total State Sector accrued expenses excluding significant transactions grew by \$3,165 million or 7.6 percent in 2003-04. The growth in expenses has been across various categories explained below.

Other employee benefit expenses grew by 5.9 percent during 2003-04 to \$18,490 million, reflecting improved pay levels for teachers, health and police employees.

The New South Wales Public Sector average staffing for the year 2003-04 was 291,000 employees consistent with 2002-03.

Superannuation expenses increased on the previous year. The increase in superannuation was shared between increases in pooled fund expenses and higher contributions for compulsory accumulation schemes. Contributing to these were the increases over time in average salaries due to award increases and the regrading of staff.

During 2003-04 other operating expenses rose by \$294 million or 3 percent, after excluding significant items.

Whilst maintenance expenses increased by \$42 million or 1.8 percent in 2003-04, this followed a significant 10 percent increase in the previous year.

The higher budget funding has been maintained for rail infrastructure maintenance as well as additional spending in 2003-04 being applied towards the State's road system.

Depreciation expense grew by \$249 million or 6.5 percent during 2003-04. Included in this was considerably higher expenditure for road infrastructure as the values of the underlying assets and their usage has grown.

Grants and subsidies rose overall by \$55 million or 1.1 percent in 2003-04. Grants, excluding First Home Owner Scheme grants rose by 2.7 percent, reflecting the Government's increased allocation of resources towards education, health, aging, disability and homecare services.

Offsetting this, the costs associated with the First Home Owners Scheme fell substantially by \$65 million in 2003-04 to \$242 million. A large part of this related to lower demand for First Home Owner grants due to a decline in the number of recipients and the value of the grants.

Accrued **borrowing costs** fell by \$180 million, mainly the result of a decrease in the weighted average effective interest rate.

INTERGOVERNMENTAL TOTAL STATE SECTOR COMPARISONS

Under the Accrual Uniform Presentation Framework all States and Territories must prepare GFS accrual reports.

Information from these reports will enable comparisons between jurisdictions as well as the analysis of trends as time series are built up.

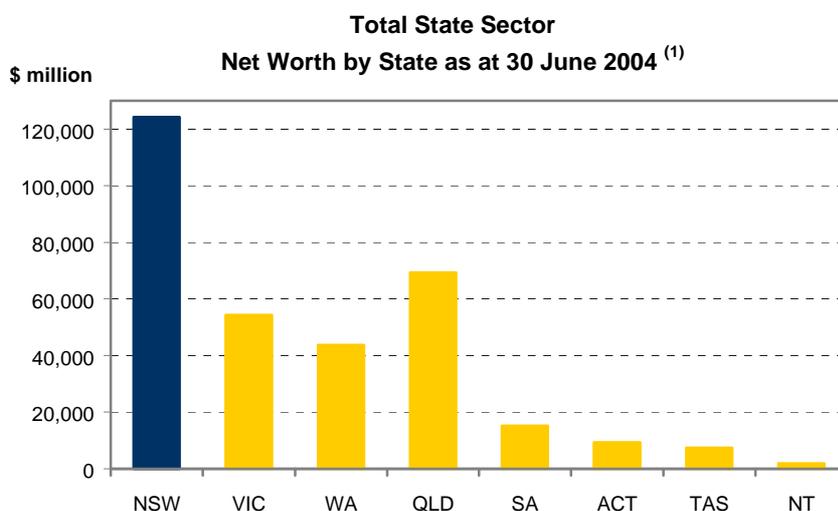
The publishing of consolidated government aggregates will focus the community's attention on how well, over time, governments are managing their total assets and total liabilities.

Final published consolidated financial statements are not yet available for 2003-04 for all other jurisdictions. The following comparisons are therefore based on the latest published information.

Net Worth is a measure used to report upon whether Governments are maintaining the value of their physical and financial resources. Net Worth is the difference between total assets and total liabilities. Figure 9 outlines the published Net Worth by State at 30 June 2004. The Commonwealth 2004 Total State Sector information is not yet available however they recorded a negative Net Worth of \$89 billion in 2003.

The Net Worth of the NSW Public Sector (GFS Basis) at 30 June 2004 was \$124,282 million, the strongest of all States.

Figure 9



⁽¹⁾ 30 June 2004, latest available information
Source: 2003-04 Outcomes Report (NSW and WA actual result)
2004-05 Budget Papers (other jurisdictions estimated result)

Net Financial Liabilities as a percentage of Gross State Product (GSP) is a useful measure as it allows for comparisons between different jurisdictions.

Figure 10 compares Net Financial Liabilities as a percentage of economic output for each State and the Commonwealth. Published Net Financial

Liabilities information for other states is not yet available for June 2004. Figure 10 is therefore based on the latest published Government Finance Statistics information which is for June 2003. Net Financial Liabilities in New South Wales as a percentage of GSP have fallen from 26.7 percent in June 1995 to 14.8 percent in June 2004 (refer to Figure 5).

Figure 10

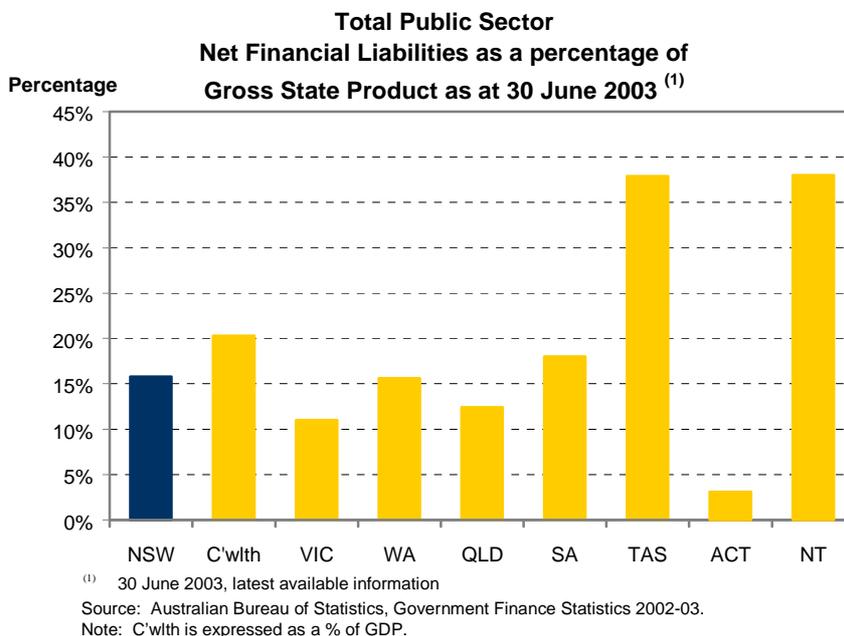
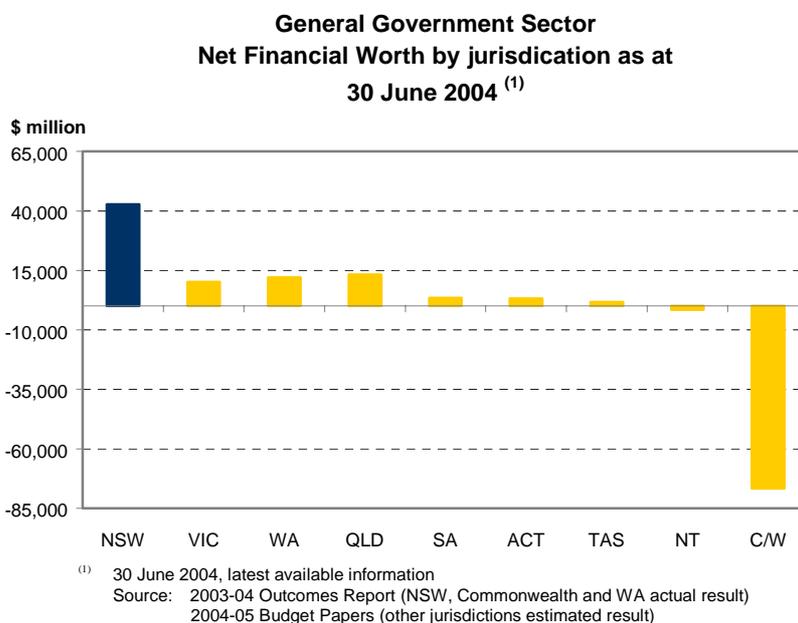


Figure 11



Net Financial Worth (NFW) is comparable to (negative) Net Financial Liabilities for the total state sector. For general government Net Financial Worth, the ABS also records an equity investment in the Public Trading and

Financial Enterprise sectors. Figure 11 compares each jurisdictions general government NFW. It shows NSW as having the strongest financial balance sheet.

FINANCIAL FRAMEWORK AND TARGETS

Both the General Government and Non General Government sectors are subject to financial policies and fiscal targets against which their performance can be assessed.

The General Government Debt Elimination Act 1995 as amended sets out a number of fiscal principles and targets for the General Government sector.

The following commentary reviews the Government's achievement during the year against the fiscal principles and targets identified in that Act:

1. The Government shall adhere to the following short, medium and long-term fiscal targets.
 - To achieve a sustainable surplus budget by 1998-99;
 - To reduce the level of General Government sector net debt to a sustainable level by June 2005; and
 - To eliminate General Government net debt by 30 June 2020.

The NSW General Government sector has had cash surpluses since 1996-97.

General Government sector underlying net debt was \$2.6 billion as at 30 June 2004 and is already sustainable.

In the year ending 30 June 2004, General Government sector underlying net debt was reduced by \$0.6 billion, representing further progress towards achievement of the long-term target of eliminating net debt by 2020. Although consistent with the Government's fiscal targets, results in any one year need to be viewed in the context of an overall strategy that targets debt reduction in the longer term.

2. The Government shall maintain or increase net worth (ie, net assets) in real terms.

Net Assets (ie, Net Worth) increased by \$3.2 billion or 2.7 percent during 2003-04. This increase was despite one-off write backs in the value of rail and water assets of \$4.7 billion. In real terms the value of the state's net assets is likely to have been maintained.

3. Employer superannuation liabilities are to be managed and funded so as to eliminate Total State Sector unfunded superannuation liabilities by 30 June 2030.

In 1993 a funding plan was developed with the objective of fully funding superannuation liabilities by 2045. As a result of higher than originally estimated employer contributions, various liability management initiatives and favourable actual investment returns, the Government has brought forward the full funding target date by fifteen years, from 2045 to 2030.

4. The use of best practice asset maintenance and management policies is to be adopted in the General Government sector.

Significant developments during the year in relation to asset maintenance and management include:

- *The transfer of responsibility for procurement policy and asset management policy from Department of Commerce to NSW Treasury. Policies are being reformed to provide a more systematic approach to procurement and management of capital assets.*
- *Closely integrating the Total Asset Management process with the budget process. This will more accurately link agencies' management of assets over the whole life of the asset and liability with the services outlined in their Results and Services Plans.*

- *A closer liaison between the Departments of Infrastructure Planning and Natural Resources and Commerce in their new roles of strategic planning and procurement practices respectively.*

5. The growth in net cost of services and expenses of the General Government sector is to be managed in accordance with the objective of prudently managing State finances. The 4-year average annual growth in net cost of services and expenses is to be kept at or below the annual growth in nominal gross state product.

In the four years ending 30 June 2004, the average annual growth in total expenses of the General Government sector was 6.3 percent and net cost of services 6.4 percent, a little above the 6.2 percent estimated average annual growth in nominal gross state product during the same period. Employee related expenses grew at an annual average rate of 7 percent in this period. Industrial Relations Commission decisions, outside the actual control of the government, contributed to this strong growth.

6. Financial risk is to be managed prudently on the basis of sound risk management principles.

NSW Treasury Corporation (TCorp) manages the Crown debt portfolio. The primary debt managerial objective is to minimise the market value of debt subject to specified risk constraints over the longer term. Constraints on the management of the portfolio are detailed in a memorandum of understanding between TCorp and Treasury.

Financial risk is also managed through the Commercial Policy Framework for government businesses. During the year revised guidelines were issued in relation to indemnities for officers and directors of State owned corporations.

7. Any adjustments to legislated tax rates, thresholds and bases are to be made with the maximum possible restraint, having regard to the effect of these adjustments on the overall level of tax revenue. Policies should be pursued that are consistent with a reasonable degree of predictability and stability of tax rates, thresholds and bases for future years.

Taxation policy changes implemented in 2003-04 are consistent with the principle of tax restraint. In the mini-Budget, the Government introduced a range of measures that are estimated to raise an additional \$510 million in net terms in 2004-05. These measures were introduced to address the significant fiscal pressures that emerged during 2003-04, which include a reduction in Commonwealth grants following the Commonwealth Grants Commission's 2004 review, and higher than anticipated wage increases.

In shaping the mini-Budget revenue measures, the Government aimed to avoid reversing the major reductions in payroll tax rates, insurance duty rates, motor vehicle related taxes and the Electricity Distributors Levy in order to maintain predictability in tax arrangements that had only recently been changed.

The net effect of all revenue measures since 1999 is still a net reduction in revenue of \$817 million in 2004-05.

The Commercial (Non General Government) Sector (comprising Public Trading Enterprises and Public Financial Enterprises) framework has the following key elements:

- A financial distribution policy for the setting of performance benchmarks (eg rates of return) and the determination of dividend and tax equivalent payments to the Government.
- A capital structure policy which deals with the appropriate debt/equity structure for each commercial agency.

- A social program policy to ensure that commercial agencies have arms-length contractual arrangements with the Government to provide non-commercial services.
- A monitoring policy which covers ongoing performance monitoring against negotiated benchmarks and targets.

The financial management framework for commercial agencies aims to achieve efficient prices (which provide significant benefits to the business sector and general community), reduce operating costs and contribute financial distributions to the Government based upon agreed rates of return.

SCOPE OF THE REVIEW

The review combines the following three reports to provide a broader analysis of Government finances:

- The Statement of the Budget Result
- The Outcomes Report
- The Consolidated Financial Report of the NSW Total State Sector (the Total State Sector Accounts)

Each report gives a different focus on Government finances. The Consolidated Financial Report captures the cost of operating Government services including depreciation on assets and valuation adjustments on assets and liabilities.

The Outcomes Report removes valuation adjustments to reflect costs more appropriately related to the underlying operations of Government.

The Statement of the Budget Result replaces depreciation costs with capital expenditure. This statement also removes valuation adjustments. It also compares the original budget to the actual result.

A commentary has been provided on the key results of each report.

The Statement of the Budget Result

This statement discloses the Budget Result, which is a key indicator of the financial performance of the General Government Sector. It reflects the underlying financial result of the Government's operations during the year. The public financial effects of operating activities are either an ability to reduce borrowings (Net Lending) or the requirement to increase borrowings (Net Borrowing).

The Statement of the Budget Result is based on accrual Government Finance Statistics (GFS) guidelines, in accordance with the principles utilised by the Australian Bureau of Statistics (ABS) in compiling its GFS data.

The report compares the 2003-04 year-end results with the 2003-04 budget estimates for key aggregates.

The Auditor-General has audited the Statement of Budget Result and has issued an unqualified Independent Audit Report.

The Outcomes Report

The May 1991 Premiers' Conference agreed to the introduction of the Uniform Presentation Framework (UPF).

The primary objective of the UPF is to ensure that Commonwealth, State and Territory governments provide a common 'core' of financial information. The UPF requires the release of a budget presentation and an end of year Outcomes Report.

Like the Budget Operating Statement, the Outcomes Report is based on the reporting standards of the ABS GFS framework which has been prepared on an accrual basis since 2000-01. However, it provides a full suite of financial statements for the various sectors of Government, not just the operating statement for the General Government Sector.

The Outcomes Report allows readers to compare financial results with other States and compare certain year-end aggregates with budget time projections.

A key aggregate in measuring the ability of the Government to properly manage the State's financial position, is the level of Net Financial Liabilities. This measure is reported in the Outcomes Report.

The Report also includes a table detailing general government expenses by function, as well as a table on capital expenditure by function.

The Consolidated Financial Report

The Consolidated Financial Report is also known as the Total State Sector Accounts. It is prepared in accordance with Australian Accounting Standards and is fully audited.

SCOPE OF THE REVIEW

It focuses more closely on the Total State Sector, reflecting the government's approach to whole of government reporting. Financial Statements for the General Government and PTE sectors are disclosed in the segment disaggregated financial statement note.

The Total State Sector Accounts report on the operating result, financial position and cash flows of the New South Wales Total State Sector.

The New South Wales Total State Sector includes both the General Government Sector and the Non-General Government Sector.

The Non-General Government Sector includes the State's Public Trading Enterprises (PTEs) and Public Financial Enterprises (PFEs). PTEs are responsible for supplying public infrastructure services, including electricity, ports, water and

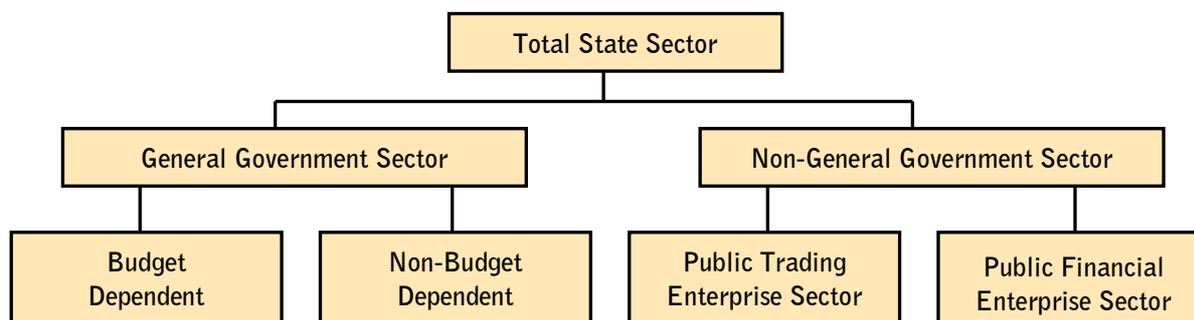
public transport. PTEs are largely self-funded from user charges and have been given a specific charter to run their businesses on commercial lines, including the achievement of a commercial rate of return on the resources employed.

PFEs may accept demand, time or savings deposits and/or have the authority to incur liabilities and acquire financial assets in the market on their own account. An example of a PFE is the NSW Treasury Corporation.

Refer Note 25 for a full list of consolidated entities.

The composition of the Total State Sector is summarised in Figure 12.

Figure 12



Consolidation of entities in this financial report has been done in accordance with Australian Accounting Standards AAS24 and AAS31, as disclosed in note 1 to the financial report. Particular attention is drawn here to the fact that the WorkCover Authority of New South Wales is consolidated in this financial report. It is responsible for the regulation of statutory funds constituted under the Workers Compensation Act 1987. However, these statutory funds, commonly known as the WorkCover Scheme Statutory Funds, are not consolidated because they are regulated, but not controlled.

Treasury's view is that neither the Government nor the WorkCover Authority controls these statutory funds. This is so because the Government does not have a residual interest in the net assets of the statutory funds. It is not exposed to the residual liabilities of the statutory funds and it cannot redeploy the assets for its own benefit. Instead, any liability is placed in one sense on the insurers but effectively on employers who are liable to pay premiums to fund any overall deficit that may arise. The role of the Government is one of regulation. A statutory declaration of trust in the legislation, and the clear intention of the legislation supports this.

SCOPE OF THE REVIEW

In the second reading speech to the Workers Compensation Act 1987, the Hon Mr. Hills said, regarding the provisions relating to the statutory funds:

“The aim of these provisions is to isolate and secure premiums for the benefit of employees and employers.”

Treasury’s view has been confirmed in three separate legal opinions provided by the Crown Solicitor’s Office since 1996, including advice given on the matter by the NSW Solicitor General. On 4 June 1999, the Solicitor General opined:

“It is clear that the legislation places no liability on the authority or any other Government instrumentality. In these circumstances there is no requirement, in my view, under the relevant Accounting Standards for the statutory funds to be included in the consolidated financial statements of the Total State Sector.”

The issue was also the subject of an inquiry held by the Public Accounts Committee of Parliament, which considered views of the WorkCover Authority, the Treasury, the Audit Office and the Institute of Chartered Accountants. In its report (No. 124) published in July 2000, the Committee recommended that an explanatory note be included in the Total State Sector Accounts outlining the accumulated deficit and the reasons for it not being consolidated in the accounts. This information is contained in the financial report at note 1.

Despite the above opinions, the Auditor-General has qualified his opinion on this financial report because he is of the opinion that the State has the capacity to control decision-making in relation to the Authority’s financial and operating policy.

Note 1 also discloses that certain reserve transfer trusts created under the Crown Lands Act, 1989 have been excluded.

There are approximately 30,000 Crown reserves in New South Wales. Some of these reserves are managed by NSW Government and others by local governments and trusts.

A project has commenced to identify and value Crown reserves controlled by the NSW Government.

The likely value of the reserves controlled by the NSW Government cannot be estimated with any certainty. First estimates based on preliminary data are that the total value of these reserves may be between \$1 billion and \$7 billion. However, the total value may even be outside of this range. The NSW Government will recognise the value of Crown reserves it controls in future Total State Sector Accounts once this project is complete.

The Auditor-General has also qualified his opinion on this financial report.

“As disclosed in Note 1 Statement of Significant Accounting Policies, the Accounts do not recognise Crown land that is dedicated or reserved (the Reserves) under the Crown Lands Act 1989. In my opinion, the fair value of the Reserves is required to be recognised by Australian Accounting Standard AAS 31 “Financial Reporting by Governments” because the State has the capacity to benefit from their use and can regulate the access of others to that benefit.”



AUDITED STATEMENT OF THE BUDGET RESULT

AUDITED STATEMENT OF THE BUDGET RESULT
2003-2004

STATEMENT OF COMPLIANCE

In our opinion, the Statement of the Budget Result for the NSW General Government Sector for the year ended 30 June 2004:

- has been prepared as outlined in the Notes to the Statement; and
- presents a bottom line Budget Result that agrees with the Net Lending Result prepared under Australian Bureau of Statistics Government Finance Statistics principles.

Michael Egan
Treasurer

Mark Ronsisvalle
Deputy Secretary
NSW Treasury

Alastair Hunter
Senior Director
NSW Treasury

30 September 2004



GPO BOX 12
SYDNEY NSW 2001

INDEPENDENT AUDIT REPORT

STATEMENT OF THE BUDGET RESULT

To Members of the New South Wales Parliament

Audit Opinion

In my opinion the Statement of the Budget Result (the Statement) presents fairly in accordance with the accounting policies identified in the Notes to the Statement, the budget result for the year ended 30 June 2004.

My opinion should be read in conjunction with the rest of this report.

The Treasurer's Role

The Treasurer is responsible for the preparation of the Statement and has determined that the accounting policies used are appropriate to the needs of the Members of the New South Wales Parliament.

The Statement has been prepared by the Treasurer to report the Government's budget result in accordance with the accounting policies identified in the Notes.

The Auditor's Role and the Audit Scope

As required by the *Public Finance and Audit Act 1983* (the Act), I carried out an independent audit to enable me to express an opinion on the Statement. My audit provides *reasonable assurance* to members of the New South Wales Parliament that the Statement is free of *material* misstatement.

My audit accorded with Australian Auditing and Assurance Standards and statutory requirements, and I:

- evaluated significant accounting estimates used by the Treasurer in preparing the Statement, and
- examined a sample of the evidence that supports the amounts and other disclosures in the Statement.

An audit does *not* guarantee that every amount and disclosure in the Statement is error free. The terms 'reasonable assurance' and 'material' recognise that an audit does not examine all evidence and transactions. However, the audit procedures used should identify errors or omissions significant enough to adversely affect decisions made by users of the Statement or indicate that the Treasurer had not fulfilled his reporting obligations.

My opinion does *not* provide assurance:

- that the activities represented by the Statement of Budget Result have been carried out effectively, efficiently and economically,
- about the effectiveness of internal controls in those activities,
- in the assumptions used in formulating the budget figures disclosed in the Statement, or
- that the accounting policies used are appropriate to the needs of the Members of the New South Wales Parliament.

Audit Independence

The Audit Office complies with all applicable independence requirements of Australian professional ethical pronouncements. The Act further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General, and
- mandating the Auditor-General as auditor of public sector agencies but precluding the provision of non-audit services, thus ensuring the Auditor-General and the Audit Office are not compromised in their role by the possibility of losing clients or income.

R J Sendt
Auditor-General

SYDNEY
30 September 2004

NSW GENERAL GOVERNMENT SECTOR STATEMENT OF THE BUDGET RESULT

	2003-04 \$m Actual	2003-04 \$m Budget ⁽¹⁾	2002-03 \$m Actual
State Revenues			
Taxation	15,010	14,198	14,154
Commonwealth Grants			
- General Purpose	9,942	10,039	9,946
- Specific Purpose	5,552	5,458	5,280
Financial Distributions	1,609	1,496	1,267
Fines, Regulatory Fees and Other	882	842	852
Total State Revenues	32,995	32,033	31,499
Operating Revenues			
Sale of Goods and Services	2,738	2,671	2,710
Investment Income	853	649	440
Grants and Contributions	532	606	704
Other Revenue	451	264	676
Total Operating Revenues	4,574	4,190	4,530
Expenses			
Employee Related - Superannuation	2,330	2,320	2,132
Employee Related - Other	15,393	14,985	14,254
Other Operating	7,539	7,402	7,272
Maintenance	1,363	1,249	1,304
Depreciation and Amortisation	1,924	1,791	1,778
Recurrent Grants & Subsidies	5,885	5,477	5,423
Capital Grants & Subsidies	1,221	1,179	1,311
Finance Other	788	796	803
Total Expenses	36,443	35,199	34,277
GFS Net Operating Result - Surplus/(Deficit)	1,126	1,024	1,752
less Asset Acquisitions	3,358	3,499	3,349
plus Depreciation	1,924	1,791	1,778
plus Asset Sales	447	682	366
plus/(less) Other Movements in Non-Financial Assets	(133)	45	(84)
BUDGET RESULT - SURPLUS/(DEFICIT)	6	43	463

⁽¹⁾ During 2003-04, the financial impact of school bank accounts was consolidated into the budget result for the first time. This increased operating revenues by \$287 million and operating expenses by the same amount – with no impact on the Budget Result. Accordingly, the published budget for 2003-04 has been adjusted to reflect this change.

NSW GENERAL GOVERNMENT SECTOR STATEMENT OF THE BUDGET RESULT
NOTES TO THE STATEMENT

Statement Basis

This Statement is prepared consistent with Government Finance Statistics principles developed by the Australian Bureau of Statistics.

Unlike accounting presentations, the Statement of Budget Result excludes "valuation adjustments", such as non-cash actuarial adjustments and major asset writedowns.

This report reflects the presentation and GFS principles adopted for the 2004-05 Budget Papers (Table 1.2).

GFS principles allow revision to historical data. This includes the back-casting of new treatments to place significant economic transactions within the relevant fiscal year, and the reclassification of transactions, where further information subsequently becomes available. Accordingly, the 2002-03 comparatives have been restated.

The main back-cast adjustments to 2002-03 comparatives are:

- Proceeds from the sale of assets is now disclosed on an accrual basis instead of a cash basis consistent with the treatment of asset acquisitions. This change has reduced the 2002-03 Budget Result by \$131 million; and
- Emerging interest revenue from privately financed infrastructure assets recorded under Operating Revenues is now reversed from the Budget Result under Other Movements in Non-Financial Assets. This change reflects the non-cash nature of the revenue and has reduced the 2002-03 Budget Result by \$105 million.

Departures from GFS Principles

The Statement of the Budget Result has been prepared in accordance with Government Finance Statistics principles except that:

- the Australian Bureau of Statistics (ABS) requires that selected payments that pass through the State's accounts e.g. transfer payments for non-government schools from the Commonwealth, be included in the GFS Operating Statement.
- The Statement of the Budget Result excludes these revenues and expenses as the NSW Government has no control over them. The above transactions have, however, been treated in accordance with GFS principles in the Outcomes Report which is required to be prepared on a strict GFS basis.
- current GFS principles as followed by the 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 that are treated as a balloon interest payment on the maturity of the loan.

Whilst strict accordance with GFS standards requires the ABS approach to be adopted, the ABS has recognised the accounting difficulties of this approach. Given this, a compromise has been reached which involves all jurisdictions and the ABS departing from GFS principles and recording the premium as a negative interest payment in the final year of the loan.

NSW GENERAL GOVERNMENT SECTOR STATEMENT OF THE BUDGET RESULT
NOTES TO THE STATEMENT

Budget Coverage

Section 4 of the General Government Debt Elimination Act 1995 requires the Budget to be presented on a General Government Sector basis as determined by the Australian Bureau of Statistics.

The General Government sector consists of those public sector entities that 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 passed to the State.

END OF AUDITED STATEMENT OF THE BUDGET RESULT



OUTCOMES REPORT

2003-2004 OUTCOMES REPORT

NSW 2003-04 FINANCIAL OUTCOMES REPORT

This Financial Outcomes Report compares for 2003-04 the published NSW Budget with the actual outcome on an accruals basis. Only the actual outcome is presented for the NSW Public Financial Corporations Sector as budget data is not available. In addition to the reporting requirements, a consolidated NSW Total State Public Sector balance sheet by sector (Table 1) has been included. This assists in analysis of key State Sector balance sheet indicators.

The report has been prepared in accordance with the Australian Bureau of Statistics (ABS) Government Finance Statistics standards and the accrual uniform presentation framework as agreed at the 1997 Premiers' Conference.

In accordance with an agreement reached by Loan Council in 2002 an expanded functional presentation of General Government total GFS expenses is provided. In addition a table of general government capital expenditure by function (purchases of non financial assets) is provided.

This Financial Outcomes Report has been prepared on an accruals basis. It incorporates some ABS renaming of sectors. The "Public Trading Enterprises" sector is termed the "Public Non-financial Corporation" sector by the ABS, and the "Public Financial Enterprises" sector is termed the "Public Financial Corporations" sector. These changes have not been adopted in other sections of this Report on State Finances as the name changes do not add to clarity for users.

LOAN COUNCIL REPORTING REQUIREMENTS

Table 16 compares the NSW Loan Council Allocation (LCA) estimate at the time of the Budget with the actual result for 2003-04.

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 as a component of LCAs

Table 16 shows a negative \$1,833 million (i.e. a surplus) outcome for the 2003-04 Loan Council Allocation compared with the Budget-time estimate of \$1,306 million. The result favourably exceeds the tolerance limit in three major areas; improvements in both general government and public trading enterprise sector cash results and an improved memorandum items result. The general government and public trading enterprise sector results improved against the budget by \$633 million and \$888 million respectively. Both were primarily due to improved cash flows from operating activities. The memorandum items were significantly influenced by the superannuation earnings having a positive 13.5 percent return which is significantly higher than the budgeted long term applied actuarial rate of positive 7 percent.

TABLE 1: NSW PUBLIC SECTOR BALANCE SHEETS (ABS BASIS) AT 30 JUNE 2004

	General Government	Public Non-financial Corporation	Total Non-financial Sector ^(a)	Public Financial Corporations	Total State Sector
	\$m	\$m	\$m	\$m	\$m
Assets					
Financial assets					
Cash and deposits	1,820	1,228	3,048	865	3,595
Advances paid	1,352	...	264	4	268
Investments, loans and placements	9,578	491	10,068	26,659	13,389
Other non-equity assets	5,870	2,486	4,883	330	4,886
PTE/PFE equity	67,496	...	(333)	...	...
Other equity	571	32	604	...	603
Total financial assets	86,687	4,237	18,534	27,858	22,741
Non-financial assets					
Land and fixed assets	80,384	84,729	165,112	3	165,115
Other non-financial assets	1,174	262	1,441	...	1,442
Total non-financial assets	81,558	84,991	166,553	3	166,557
Total assets	168,245	89,228	185,087	27,861	189,298
Liabilities					
Deposits held	69	174	243	2,000	1,302
Advances received	1,677	1,088	1,677	...	1,677
Borrowing	10,795	12,567	23,362	25,718	26,365
Superannuation liability ^(b)	15,451	391	15,842	...	15,842
Other employee entitlements and provisions	12,162	4,699	14,148	84	14,196
Other non-equity liabilities	3,809	2,480	5,533	392	5,634
Total liabilities	43,963	21,399	60,805	28,194	65,016
Shares and other contributed capital	...	67,829	...	(333)	...
NET WORTH (ABS Basis)	124,282	...	124,282	...	124,282
Net Debt ^(c)	(209)	12,110	11,902	190	12,092
Net Financial Worth ^(d)	42,724	(84,991)	(42,271)	(3)	(42,275)
Net Financial Liabilities ^(e)	24,771	84,991	41,938	3	42,275

^(a) Amounts may not add across due to inter sector eliminations.

^(b) Comprises unfunded obligations.

^(c) Net Debt equals the sum of deposits held, advances received and borrowing, minus the sum of cash and deposits, advances paid, and investments, loans and placements.

^(d) Net financial worth equals total financial assets minus total liabilities and minus shares and other contributed capital.

^(e) Equals net financial worth excluding equity investments in the Public Non-financial and Financial Corporations Sectors.

TABLE 2: NSW GENERAL GOVERNMENT SECTOR OPERATING STATEMENT (ABS BASIS)

	2003-04 \$m (Budget)	2003-04 \$m (Actual)
GFS Revenue		
Taxation revenue	14,199	15,010
Current grants and subsidies	16,557	16,869
Capital grants	917	900
Sales of goods and services	2,909	3,004
Interest income	637	853
Other	2,651	2,931
Total revenue	37,870	39,567
less GFS Expenses		
Employee expenses	15,941	16,520
Depreciation	1,791	1,924
Other operating expenses	9,862	10,256
Nominal superannuation interest expense	903	861
Other interest expenses	796	788
Other property expenses	...	...
Current transfers	6,338	6,836
Capital transfers	1,215	1,256
Total expenses	36,846	38,441
equals GFS net operating balance	1,024	1,126
less Net acquisition of non-financial assets		
Purchases of non-financial assets	3,152	3,046
less Sales of non-financial assets	(684)	(448)
less Depreciation	(1,791)	(1,924)
plus Change in inventories	2	21
plus Other movements in non-financial assets	302	425
equals Total net acquisition of non-financial assets	981	1,120
equals GFS Net Lending / (Borrowing) ^(a)	43	6

Notes:

^(a) Also known as Fiscal Balance.

TABLE 3: NSW PUBLIC NON-FINANCIAL CORPORATION SECTOR
OPERATING STATEMENT (ABS BASIS)

	2003-04 \$m (Budget)	2003-04 \$m (Actual)
GFS Revenue		
Sales of goods and services	9,821	9,845
Current grants and subsidies	1,467	1,692
Capital grants	634	693
Interest income	52	83
Other	804	771
Total revenue	12,778	13,084
less GFS Expenses		
Employee expenses	3,017	2,991
Depreciation	1,660	2,165
Other operating expenses	5,433	5,509
Interest expenses	900	787
Other property expenses	1,416	1,484
Current transfers	129	106
Capital transfers	...	18
Total expenses	12,555	13,060
equals GFS net operating balance	223	24
less Net acquisition of non-financial assets		
Purchases of non-financial assets	3,640	3,364
less Sales of non-financial assets	(276)	(199)
less Depreciation	(1,660)	(2,165)
plus Change in inventories	13	45
plus Other movements in non-financial assets	118	77
equals Total net acquisition of non-financial assets	1,835	1,122
equals GFS Net Lending / (Borrowing) ^(a)	(1,612)	(1,098)

Notes:

^(a) Also known as Fiscal Balance.

TABLE 4: NSW NON-FINANCIAL PUBLIC SECTOR OPERATING STATEMENT (ABS BASIS)

	2003-04 \$m (Budget)	2003-04 \$m (Actual)
GFS Revenue		
Taxation revenue	13,545	14,204
Current grants and subsidies	16,523	16,843
Sales of goods and services	12,562	12,704
Capital grants	917	900
Interest income	638	883
Other	1,950	2,234
Total revenue	46,135	47,768
less GFS Expenses		
Employee expenses	18,883	19,536
Depreciation	3,451	4,089
Other operating expenses	14,471	14,811
Nominal superannuation interest expense	903	860
Other interest expenses	1,646	1,523
Other property expenses	...	...
Current transfers	4,987	5,221
Capital transfers	547	577
Total expenses	44,888	46,617
equals GFS net operating balance	1,247	1,151
less Net acquisition of non-financial assets		
Purchases of non-financial assets	6,791	6,407
less Sales of non-financial assets	(960)	(646)
less Depreciation	(3,451)	(4,089)
plus Change in inventories	15	65
plus Other movements in non-financial assets	419	503
equals Total net acquisition of non-financial assets	2,814	2,240
equals GFS Net Lending / (Borrowing) ^(a)	(1,567)	(1,089)

Notes:

^(a) Also known as Fiscal Balance.

TABLE 5: NSW PUBLIC FINANCIAL CORPORATIONS SECTOR OPERATING STATEMENT
(ABS BASIS)

		2003-04 \$m (Actual) ^(a)
	GFS Revenue	
	Sales of goods and services	17
	Current grants and subsidies	17
	Capital grants	...
	Interest income	1,682
	Other	...
	Total revenue	1,716
less	GFS Expenses	
	Employee expenses	10
	Depreciation	2
	Other operating expenses	20
	Interest expenses	1,583
	Other property expenses	46
	Current transfers	...
	Capital transfers	...
	Total expenses	1,661
equals	GFS net operating balance	55
less	Net acquisition of non-financial assets	
	Purchase of non-financial assets	1
	Sales of non-financial assets	
less	Depreciation	(2)
plus	Change in inventories	...
plus	Other movements in non-financial assets	1
equals	Total net acquisition of non-financial assets	...
equals	GFS Net Lending / (Borrowing) ^(b)	55

Notes:

^(a) The Uniform Presentation Framework does not require the publishing of results of the Public Financial Corporation sector at budget time and mid-year, therefore a Budget column is not available.

^(b) Also known as Fiscal Balance.

TABLE 6: NSW GENERAL GOVERNMENT SECTOR BALANCE SHEET
AT 30 JUNE (ABS BASIS)

	2004 \$m (Budget)	2004 \$m (Actual)
Assets		
Financial assets		
Cash and deposits	866	1,820
Advances paid	1,438	1,352
Investments, loans and placements	8,410	9,578
Other non-equity assets	5,617	5,870
Equity	51,429	68,067
Total financial assets	67,760	86,687
Non-financial assets		
Land and fixed assets	76,321	80,384
Other non-financial assets	1,122	1,174
Total non-financial assets	77,443	81,558
Total assets	145,203	168,245
Liabilities		
Deposits held	67	69
Advances received	1,694	1,677
Borrowing	10,192	10,795
Superannuation liability ^(a)	16,481	15,451
Other employee entitlements and provisions	10,980	12,162
Other non-equity liabilities	3,402	3,809
Total liabilities	42,816	43,963
NET WORTH	102,387	124,282
Net Financial Worth ^(b)	24,944	42,724
Net debt ^(c)	1,239	(209)
<i>Notes:</i>		
^(a) <i>Comprises unfunded obligations.</i>		
^(b) <i>Net financial worth equals total financial assets minus total liabilities.</i>		
^(c) <i>Net debt equals the sum of deposits held, advances received and borrowing, minus the sum of cash and deposits, advances paid, and investments, loans and placements.</i>		
^(d) <i>Adjusted for Crown deposits to the Liability Management Fund and fund earnings, that have been set aside to meet future superannuation obligations.</i>		
GFS net debt ^(c)	1,239	(209)
Impact of deposits to the Liability Management Fund ^(d)	2,498	2,851
Underlying net debt ^{(c) (d)}	3,737	2,642

TABLE 7: NSW PUBLIC NON-FINANCIAL CORPORATION SECTOR BALANCE SHEET
AT 30 JUNE (ABS BASIS)

	2004 \$m (Budget)	2004 \$m (Actual)
Assets		
Financial assets		
Cash and deposits	848	1,228
Investments, loans and placements	597	491
Other non-equity assets	2,173	2,486
Equity	54	32
Total financial assets	3,672	4,237
Non-financial assets		
Land and fixed assets	69,525	84,729
Other non-financial assets	308	262
Total non-financial assets	69,833	84,991
Total assets	73,505	89,228
Liabilities		
Deposits held	95	174
Advances received	1,056	1,088
Borrowing	13,799	12,567
Superannuation liability ^(a)	988	391
Other employee entitlements and provisions	4,457	4,699
Other non-equity liabilities	1,926	2,480
Total liabilities	22,321	21,399
Shares and other contributed capital ^{(b) (c)}	51,184	67,829
NET WORTH ^{(b) (c)}	...	...
Net financial worth ^{(c) (d)}	(69,833)	(84,991)
Net debt ^(e)	13,505	12,110

Notes:

^(a) *Comprises unfunded obligations.*

^(b) *For entities whose equity is not traded on the market, the GFS net worth is zero as the equity (shares and other contributed capital) is recorded as an asset in the general government balance sheet.*

^(c) *The Australian Bureau of Statistics treats 'shares and other contributed capital' as a liability to the general government sector and deducts it to calculate a zero GFS net worth and negative net financial worth. However, these shares and other contributed capital reflect the value of the government's equity and cumulative earnings over time for the PTE sector.*

^(d) *Net financial worth equals total financial assets minus total liabilities and minus shares and other contributed capital.*

^(e) *Net debt equals the sum of deposits held, advances received and borrowing, minus the sum of cash and deposits, advances paid, and investments, loans and placements.*

TABLE 8: NSW NON-FINANCIAL PUBLIC SECTOR BALANCE SHEET
AT 30 JUNE (ABS BASIS)

	2004 \$m (Budget)	2004 \$m (Actual)
Assets		
Financial assets		
Cash and deposits	1,714	3,048
Advances paid	382	264
Investments, loans and placements	9,007	10,068
Other non-equity assets	4,386	4,883
Equity	300	271
Total financial assets	15,789	18,534
Non-financial assets		
Land and fixed assets	145,846	165,112
Other non-financial assets	1,427	1,441
Total non-financial assets	147,273	166,553
Total assets	163,062	185,087
Liabilities		
Deposits held	162	243
Advances received	1,694	1,677
Borrowing	23,991	23,362
Superannuation liability ^(a)	17,469	15,842
Other employee entitlements and provisions	12,850	14,148
Other non-equity liabilities	4,509	5,533
Total liabilities	60,675	60,805
Shares and other contributed capital		
NET WORTH	102,387	124,282
Net financial worth ^(b)	(44,886)	(42,271)
Net debt ^(c)	14,744	11,902
<i>Notes:</i>		
<i>(a) Comprises unfunded obligations.</i>		
<i>(b) Net financial worth equals total financial assets minus total liabilities and minus shares and other contributed capital.</i>		
<i>(c) Net debt equals the sum of deposits held, advances received and borrowing, minus the sum of cash and deposits, advances paid, and investments, loans and placements.</i>		
<i>(d) Adjusted for Crown deposits to the Liability Management Fund and fund earnings, that have been set aside to meet future superannuation obligations.</i>		
GFS net debt ^(c)	14,744	11,902
Impact of deposits to the Liability Management Fund ^(d)	2,498	2,851
Underlying net debt ^{(c) (d)}	17,242	14,753

TABLE 9: NSW PUBLIC FINANCIAL CORPORATIONS BALANCE SHEET
AT 30 JUNE (ABS BASIS)

	2004 \$m (Actual) ^(a)
Assets	
Financial assets	
Cash and deposits	865
Advances paid	4
Investments, loans and placements	26,659
Other non-equity assets	330
Equity	...
Total financial assets	27,858
Non-financial assets	
Land and fixed assets	3
Other non-financial assets	...
Total non-financial assets	3
Total assets	27,861
Liabilities	
Deposits held	2,000
Advances received	...
Borrowing	25,718
Superannuation liability ^(b)	...
Other employee entitlements and provisions	84
Other non-equity liabilities	392
Total liabilities	28,194
Shares and other contributed capital ^{(c) (d)}	(333)
NET WORTH ^{(c) (d)}	...
Net financial worth ^{(d) (e)}	(3)
Net debt ^(f)	190

Notes:

^(a) The Uniform Presentation Framework does not require the publishing of results of the Public Financial Corporation sector at budget time and mid-year, therefore a Budget column is not available.

^(b) Comprises unfunded obligations.

^(c) For entities whose equity is not traded on the market, the GFS net worth is zero as the equity (shares and other contributed capital) is recorded as an asset in the general government balance sheet.

^(d) The Australian Bureau of Statistics treats 'shares and other contributed capital' as a liability to the general government sector and deducts it to calculate a zero GFS net worth and negative net financial worth. However, these shares and other contributed capital reflect the value of the government's equity and cumulative earnings over time for the PFE sector.

^(e) Net financial worth equals total financial assets minus total liabilities and minus shares and other contributed capital.

^(f) Net debt equals the sum of deposits held, advances received and borrowing, minus the sum of cash and deposits, advances paid, and investments, loans and placements.

TABLE 10: NSW GENERAL GOVERNMENT SECTOR CASH FLOW STATEMENT
(ABS BASIS) ^(a)

CASH FLOW	2003-04 \$m (Budget)	2003-04 \$m (Actual)
Cash receipts from operating activities		
Tax received	14,183	14,980
Receipts from sales of goods and services	2,875	2,842
Grants/subsidies received	17,264	17,813
Other receipts	4,181	4,873
Total receipts	38,503	40,508
Cash payments for operating activities		
Payment for goods and services	(24,918)	(25,618)
Grants and subsidies paid	(7,161)	(7,507)
Interest paid	(873)	(862)
Other payments	(1,811)	(2,168)
Total payments	(34,763)	(36,155)
Net cash flows from operating activities	3,740	4,353
Net cash flows from investments in non-financial assets		
Sales of non-financial assets	684	451
Purchases of non-financial assets	(3,152)	(2,934)
Net cash flows from investments in non-financial assets	(2,468)	(2,483)
Net cash flows from investments in financial assets for policy purposes	188	183
Net cash flows from investments in financial assets for liquidity purposes	(1,299)	(1,545)
Net cash flows from financing activities		
Advances received (net)	(95)	(140)
Borrowing (net)	(305)	374
Deposits received (net)	(1)	6
Other financing (net)	...	...
Net cash flows from financing activities	(401)	240
Net increase (decrease) in cash held	(240)	748
SURPLUS / (DEFICIT)		
Net cash from operating activities and investments in non-financial assets	1,272	1,870
Finance leases and similar arrangements	(347)	(312)
SURPLUS / (DEFICIT)	925	1,558
<i>Notes:</i>		
^(a) A positive number denotes a cash inflow, a negative (i.e. bracketed) sign denotes a cash outflow.		
^(b) Deposits by the Crown to the Liability Management Fund and the fund's earnings have been set aside to meet future superannuation contributions.		
GFS SURPLUS / (DEFICIT)	925	1,558
Adjusted for deposits to the Liability Management Fund ^(b)	(847)	(1,236)
UNDERLYING SURPLUS / (DEFICIT) after adjusting for the timing of superannuation contributions	78	322

TABLE 11: NSW PUBLIC NON-FINANCIAL CORPORATION SECTOR
CASH FLOW STATEMENT (ABS BASIS) ^(a)

CASH FLOW	2003-04 \$m (Budget)	2003-04 \$m (Actual)
Cash receipts from operating activities		
Receipts from sales of goods and services	10,023	10,025
Grants/subsidies received	2,123	2,398
Other receipts	1,949	2,296
Total receipts	14,095	14,719
Cash payments for operating activities		
Payment for goods and services	(8,685)	(8,474)
Grants and subsidies paid	(126)	(117)
Interest paid	(889)	(814)
Other payments	(1,574)	(1,890)
Total payments	(11,274)	(11,295)
Net cash flows from operating activities	2,821	3,424
Net cash flows from investments in non-financial assets		
Sales of non-financial assets	276	206
Purchases of non-financial assets	(3,640)	(3,363)
Purchases of second-hand non-financial assets	...	...
Net cash flows from investments in non-financial assets	(3,364)	(3,157)
Net cash flows from investments in financial assets for policy purposes	(27)	(1)
Net cash flows from investments in financial assets for liquidity purposes	22	54
Net cash flows from financing activities		
Advances received (net)	(165)	(165)
Borrowing (net)	1,372	505
Deposits received (net)	8	16
Distributions Paid	(743)	(665)
Other financing (net)	1	6
Net cash flows from financing activities	473	(303)
Net increase (decrease) in cash held	(75)	17
SURPLUS / (DEFICIT)		
Net cash from operating activities and investments in non-financial assets	(543)	267
Distribution Paid	(743)	(665)
Finance leases and similar arrangements	...	...
SURPLUS / (DEFICIT)	(1,286)	(398)

Notes:

^(a) A positive number denotes a cash inflow, a negative (i.e. bracketed) sign denotes a cash outflow.

TABLE 12: NSW NON-FINANCIAL PUBLIC SECTOR CASH FLOW STATEMENT
(ABS BASIS) ^(a)

CASH FLOW	2003-04 \$m (Budget)	2003-04 \$m (Actual)
Cash receipts from operating activities		
Taxes received	13,530	14,293
Receipts from sales of goods and services	12,724	12,679
Grants/subsidies received	17,230	17,778
Other receipts	5,000	6,200
Total receipts	48,484	50,950
Cash payments for operating activities		
Payment for goods and services	(32,721)	(33,232)
Grants and subsidies paid	(5,223)	(5,232)
Interest paid	(1,711)	(1,625)
Other payments	(3,012)	(3,761)
Total payments	(42,667)	(43,850)
Net cash flows from operating activities	5,817	7,100
Net cash flows from investments in non-financial assets		
Sales of non-financial assets	961	657
Purchases of non-financial assets	(6,791)	(6,300)
Purchases of second-hand non-financial assets	...	...
Net cash flows from investments in non-financial assets	(5,830)	(5,643)
Net cash flows from investments in financial assets for policy purposes	(3)	24
Net cash flows from investments in financial assets for liquidity purposes	(1,276)	(1,492)
Net cash flows from financing activities		
Advances received (net)	(95)	(140)
Borrowing (net)	1,067	874
Deposits received (net)	6	22
Distributions Paid	...	...
Other financing (net)	...	7
Net cash flows from financing activities	978	763
Net increase (decrease) in cash held	(314)	752
SURPLUS / (DEFICIT)		
Net cash from operating activities and investments in non-financial assets	(13)	1,457
Distributions Paid		
Finance leases and similar arrangements	(347)	(312)
SURPLUS / (DEFICIT)	(360)	1,145
<i>Notes:</i>		
^(a) A positive number denotes a cash inflow, a negative (i.e. bracketed) sign denotes a cash outflow.		
^(b) Deposits by the Crown to the Liability Management Fund and the fund's earnings have been set aside to meet future superannuation contributions.		
GFS SURPLUS / (DEFICIT)	(360)	1,145
<i>Adjusted for deposits to the Liability Management Fund ^(b)</i>	<i>(847)</i>	<i>(1,236)</i>
UNDERLYING SURPLUS / (DEFICIT) after adjusting for the timing of superannuation contributions	(1,207)	(91)

TABLE 13: NSW PUBLIC FINANCIAL CORPORATIONS SECTOR CASH FLOW STATEMENT
(ABS BASIS) ^(a)

CASH FLOW	2003-04 \$m (Actual) ^(b)
Cash receipts from operating activities	
Receipts from sales of goods and services	20
Grants/subsidies received	17
Other receipts	1,705
Total receipts	1,742
Cash payments for operating activities	
Payment for goods and services	(38)
Grants and subsidies paid	...
Interest paid	(1,817)
Other payments	(48)
Total payments	(1,903)
Net cash flows from operating activities	(161)
Net cash flows from investments in non-financial assets	
Sales of non-financial assets	...
Purchases of non-financial assets	(1)
Net cash flows from investments in non-financial assets	(1)
Net cash flows from investments in financial assets for policy purposes	...
Net cash flows from investments in financial assets for liquidity purposes	8,633
Net cash flows from financing activities	
Advances received (net)	...
Borrowing (net)	1,552
Deposits received (net)	(10,093)
Distributions Paid	(24)
Other financing (net)	...
Net cash flows from financing activities	(8,565)
Net increase (decrease) in cash held	(94)
SURPLUS / (DEFICIT)	
Net cash from operating activities and investments in in non-financial assets	(162)
Distribution Paid	(24)
Finance leases and similar arrangements	...
SURPLUS / (DEFICIT)	(186)

Notes:

^(a) A positive number denotes a cash inflow, a negative (i.e. bracketed) sign denotes a cash outflow.

^(b) The Uniform Presentation Framework does not require the publishing of results of the Public Financial Corporation sector at budget time and mid-year, therefore a Budget column is not available.

TABLE 14: NSW GENERAL GOVERNMENT SECTOR EXPENSES BY FUNCTION
(ABS BASIS) ^(a)

	2003-04 \$m (Budget) ^(a)	2003-04 \$m (Actual)
General Public Services		
Government superannuation benefits	6	56
Other general public services	1,167	1,018
Total Other General Public Services	1,173	1,074
Public Order and Safety		
Police and fire protection services		
- Police services	1,761	1,807
- Fire protection services	506	522
Law courts and legal services	739	761
Prisons and corrective services	755	755
Other public order and safety	58	55
Total Public Order and Safety	3,819	3,900
Education		
Primary and secondary education		
- Primary education	3,153	3,294
- Secondary education	2,762	2,874
- Primary and secondary education n.e.c.	1,513	1,601
Tertiary education		
- University education	10	...
- Technical and further education	1,270	1,313
- Tertiary education n.e.c.	...	...
Pre-school education and education not definable by level		
- Pre-school education	19	19
- Special education	459	557
- Other education not definable by level	14	...
Transportation of students		
- Transportation of non-urban school children	251	269
- Transportation of other students	313	314
- Education n.e.c.	...	...
Total Education	9,764	10,241
Health		
Acute care institutions		
- Admitted patient services in acute care institutions	5,370	5,486
- Non-admitted patient services in acute care institutions	1,497	1,557
Mental health institutions	266	276
Nursing homes for the aged	113	111
Community health services		
- Community health services (excluding community mental health)	1,025	1,047
- Community mental health	295	299
- Patient transport	433	457
Public health services	279	308
Health research	66	77
Health administration n.e.c.	33	37
Total Health	9,377	9,655

TABLE 14: NSW GENERAL GOVERNMENT SECTOR EXPENSES BY FUNCTION
(ABS BASIS) ^(a) (cont)

	2003-04 \$m (Budget) ^(a)	2003-04 \$m (Actual)
Social Security		
Social Security	354	348
Welfare services		
- Family and children services	583	672
- Welfare services for the aged	291	294
- Welfare services for people with a disability	1,076	1,139
- Welfare services n.e.c.	281	240
Social security and welfare n.e.c.	182	215
Total Social Security	2,767	2,908
Housing and Community Amenities		
Housing and community development		
- Housing	722	779
- Community Development	140	199
Water supply	76	71
Sanitation and protection of the environment	385	405
Other community amenities	...	...
Total Housing and Community Amenities	1,323	1,454
Recreation and Culture		
Recreation facilities and services		
- National parks and wildlife	298	298
- Recreation facilities and services n.e.c.	249	246
Cultural facilities and services	348	377
Broadcasting and film production	10	10
Recreation and culture n.e.c.	...	...
Total Recreation and Culture	905	931
Fuel and Energy		
Fuel affairs and services		
- Coal/Petroleum/Nuclear affairs, Fuel affairs and services n.e.c.	23	138
- Gas	1	1
Electricity and other energy		
- Electricity	30	46
- Other energy	...	...
Fuel and Energy n.e.c.	12	14
Total Fuel and Energy	66	199

TABLE 14: NSW GENERAL GOVERNMENT SECTOR EXPENSES BY FUNCTION
(ABS BASIS) ^(a) (cont)

	2003-04 \$m (Budget) ^(a)	2003-04 \$m (Actual)
Agriculture, Forestry, Fishing and Hunting		
Agriculture	527	605
Forestry, fishing and hunting	90	88
Total Agriculture, Forestry, Fishing and Hunting	617	693
Mining and Mineral Resources other than Fossil Fuels; Manufacturing and Construction		
Mining and mineral resources other than fuels	34	10
Manufacturing	...	...
Construction	77	75
Total Mining and Mineral Resources other than Fossil Fuels; Manufacturing and Construction	111	85
Transport and Communications		
Road transport		
- Road rehabilitation, and Aboriginal community road transport services		
- Road maintenance	686	736
- Road transport n.e.c.	1,253	1,546
Water transport		
- Other water transport services	...	...
- Urban water transport services	66	61
Rail transport		
- Urban rail transport services	869	982
- Non-urban rail transport freight services	299	366
- Non-urban rail transport passenger services	53	53
Air transport		
Pipelines	...	...
Other transport		
- Multi-mode urban transport	162	133
- Other transport n.e.c.	283	273
Communications	59	51
Total Transport and Communications	3,730	4,201
Other Economic Affairs		
Storeage, saleyards and markets	...	...
Tourism and area promotion	53	55
Labour and employment affairs		
- Vocational training	181	237
- Other labour and employment affairs	334	309
Other economic affairs	258	253
Total Other Economic Affairs	826	854

TABLE 14: NSW GENERAL GOVERNMENT SECTOR EXPENSES BY FUNCTION
(ABS BASIS) ^(a) (cont)

	2003-04 \$m (Budget) ^(a)	2003-04 \$m (Actual)
Other Purposes		
Public debt transactions	1,759	1,654
General purpose inter-government transactions	391	353
Natural disaster relief	49	68
Other purposes n.e.c.	169	170
Total Other Purposes	2,368	2,245
Total GFS Expenses	36,846	38,440

Notes:

n.e.c. not elsewhere classified

^(a) *This table presents a more detailed dissection of the functional split than was published at budget time. The functional groupings sub totals (eg "Public Order and Safety") differ from what was published at budget time as certain expenses previously included under "Other Economic Affairs" have been reallocated over the other functions. This reallocation has been done so that a more meaningful comparison can be made between the two sets of data.*

TABLE 15: NSW GENERAL GOVERNMENT SECTOR
CAPITAL EXPENDITURE BY FUNCTION (ABS BASIS) ^(a)

	2003-04 \$m (Budget)	2003-04 \$m (Actual)
General public services	250	284
Public order and safety	361	319
Education	408	399
Health	458	433
Social security and welfare	33	49
Housing and community amenities	58	54
Recreation and culture	130	152
Fuel and energy	7	8
Agriculture, forestry, fishing and hunting	48	91
Mining, manufacturing and construction	9	1
Transport and communications	1,276	1,224
Other economic affairs	33	14
Other purposes	81	18
Total GFS Purchases of Non Financial Assets	3,152	3,046

^(a) Includes land and secondhand assets but not assets acquired under finance leases.

TABLE 16: 2003-04 LOAN COUNCIL ALLOCATION ESTIMATES FOR NSW

	Budget-time Estimate 2003-04 \$m	Actual 2003-04 \$m
General government sector cash deficit / (surplus)	(925)	(1,558)
PNFC sector cash deficit / (surplus) ^(a)	1,286	398
Non-financial public sector cash deficit / (surplus) ^(b)	360	(1,145)
Minus Net cash flows from investments in financial asset for policy purposes ^(c)	3	(24)
Plus Memorandum items ^(d)	943	(664)
Loan Council Allocation	1,306	(1,833)

Notes:

^(a) Public Non-financial Corporation (PNFC) Sector.

^(b) Does not directly equate to the sum of the General Government and PNFC cash deficits due to intersectoral transfers which are netted out.

^(c) This item is the negative of net advances paid under a cash accounting framework.

^(d) Memorandum items are used to adjust the ABS deficit to include in LCAs certain transactions, such as operating leases, that have many of the characteristics of public sector borrowings but do not constitute formal borrowings. They are also used, where appropriate, to deduct from the ABS deficit certain transactions that Loan Council has agreed should not be included in LCAs - for example, the funding of more than employers' emerging costs under public sector superannuation schemes, or borrowings by entities such as statutory marketing authorities.

The Memorandum items have been significantly influenced by the investment performance of the Pooled Fund Superannuation investments earning a positive 13% return which is higher than the budget-time earnings estimate.

PRIVATE SECTOR INFRASTRUCTURE

Contracts entered into in 2003-04

Lane Cove Tunnel

The Lane Cove Tunnel will link the M2 Motorway at East Ryde and the Gore Hill Freeway at Artarmon. The proposed 3.6 kilometre twin tunnels have been designed to run under Epping Road as much as practical.

The Project also includes:

- modification to Epping Road / Longueville Road to provide bus lanes in each direction, additional right turn lanes, a continuous bicycle path from Wicks Road, Ryde to Naremburn, and other improvement to the urban environment;

- an extra westbound lane on Epping Road from Pittwater Road to Wicks Road;
- widening the Gore Hill Freeway to include a transit lane in each direction between the Pacific Highway and Warringah Freeway; and
- adding new north facing ramps between Falcon Street and the Warringah Freeway.

The Lane Cove Tunnel Company (sponsored by Thiess Pty Ltd, Transfield Holdings Pty Ltd and ABN AMRO Australia Limited) was selected as preferred proponent to undertake the project in October 2003. The project reached financial close in December 2003, and construction has commenced. The Consortium's estimated total design and construction cost is \$1.1 billion. The project is to be funded by toll revenue.

Government Contingent Liability	Nil
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Contracts Entered into in 2002-03

Waste Service NSW – Alternative Waste Technology

This contract was entered in 2002-03 but was not reported. It is now being reported to ensure complete reporting of privately financed infrastructure projects.

Waste Service NSW entered into a contract with Global Renewables Eastern Creek Pty Limited (Global Renewables) in March 2003. Global Renewables will design, build, own and operate an alternative waste treatment facility on the Eastern Creek land-fill site. The facility will sort

recyclables, compost waste and convert waste to energy, reducing the amount of household waste going to land-fill. The initial total construction cost of the facility is estimated to be \$70 million, with provision to expand the facility under the operating agreement. It is estimated that the facility will be completed by October 2004.

Under the 25 year operating arrangement, Waste Service NSW will:

- secure supply of waste at a specified standard; and
- pay Global Renewables for processed waste at a contracted and performance based price.

Government Contingent Liability	Nil
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END OF UNAUDITED OUTCOMES REPORT



**AUDITED CONSOLIDATED FINANCIAL REPORT
OF THE NSW TOTAL STATE SECTOR
(TOTAL STATE SECTOR ACCOUNTS)
2003 - 2004**

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STATEMENT OF COMPLIANCE

In our opinion the Total State Sector Accounts:

- (a) give a true and fair view of the operating result and cash flows of the NSW Total State Sector for the year ended 30 June 2004 and of the financial position of the NSW Total State Sector at that date;
- (b) have been prepared on the basis of the financial reporting requirements as prescribed in the Public Finance and Audit Act 1983; and
- (c) are in accordance with all applicable Australian Accounting Standards and Urgent Issues Group Consensus Views.

Michael Egan
Treasurer

Mark Ronsisvalle
Deputy Secretary
NSW Treasury

Alastair Hunter
Senior Director
NSW Treasury

30 September 2004



GPO BOX 12
SYDNEY NSW 2001

INDEPENDENT AUDIT REPORT

TOTAL STATE SECTOR ACCOUNTS

To Members of the New South Wales Parliament

Qualified Audit Opinion

In my opinion, except for the effects on the financial report of the matters referred to in the qualification paragraphs below, the financial report of the Total State Sector Accounts (the Accounts):

- (a) is properly drawn up in accordance with the *Public Finance and Audit Act 1983* (the Act),
- (b) accords with the accounts and records of the Treasurer, and
- (c) presents fairly the Total State Sector's financial position as at 30 June 2004 and its financial performance and cash flows for the year ended on that date, in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia.

My opinion should be read in conjunction with the rest of this report.

Qualifications

- (a) As disclosed in Note 1 Statement of Significant Accounting Policies, the WorkCover Scheme Statutory Funds (the Scheme) have not been consolidated in the Accounts. In my opinion, the transactions and balances of the Scheme are required to be consolidated by Australian Accounting Standard AAS 24 "Consolidated Financial Reports" because the State has the capacity to dominate decision-making in relation to the Scheme's financial and operating policies. The management of WorkCover estimates that the Scheme has a net liability of \$2,353 million (unaudited) at 30 June 2004 (\$2,982 million (audited) at 30 June 2003).

My audit report for the year ended 30 June 2003 was similarly qualified.

- (b) As disclosed in Note 1 Statement of Significant Accounting Policies, the Accounts do not recognise Crown land that is dedicated or reserved (the Reserves) under the *Crown Lands Act 1989*. In my opinion, the fair value of the Reserves is required to be recognised by Australian Accounting Standard AAS 31 "Financial Reporting by Governments" because the State has the capacity to benefit from their use and can regulate the access of others to that benefit.

The Treasurer's Role

The financial report is the responsibility of the Treasurer. It consists of the statement of financial performance, the statement of financial position, the statement of cash flows and the accompanying notes.

The Auditor's Role and the Audit Scope

As required by the Act, I carried out an independent audit to enable me to express an opinion on the financial report. My audit provides *reasonable assurance* to members of the New South Wales Parliament that the financial report is free of *material* misstatement.

My audit accorded with Australian Auditing and Assurance Standards and statutory requirements, and I:

- evaluated the accounting policies and significant accounting estimates used by the Treasurer in preparing the financial report, and
- examined a sample of the evidence that supports the amounts and other disclosures in the financial report.

An audit does *not* guarantee that every amount and disclosure in the financial report is error free. The terms 'reasonable assurance' and 'material' recognise that an audit does not examine all evidence and transactions. However, the audit procedures used should identify errors or omissions significant enough to adversely affect decisions made by users of the financial report or indicate that the Treasurer had not fulfilled his reporting obligations.

My opinion does *not* provide assurance:

- about the future viability of the Total State Sector,
- that the Total State Sector has carried out its activities effectively, efficiently and economically, or
- about the effectiveness of its internal controls.

Audit Independence

The Audit Office complies with all applicable independence requirements of Australian professional ethical pronouncements. The Act further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General, and
- mandating the Auditor-General as auditor of public sector agencies but precluding the provision of non-audit services, thus ensuring the Auditor-General and the Audit Office are not compromised in their role by the possibility of losing clients or income.

R J Sendt
Auditor-General

SYDNEY
30 September 2004

THE NSW TOTAL STATE SECTOR ACCOUNTS STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2004

	Note	2003-04 \$m	2002-03 \$m
REVENUES FROM ORDINARY ACTIVITIES			
State Revenues			
Taxation	2	14,196	13,437
Commonwealth Grants	2	15,494	15,228
Fines, Regulatory Fees and Other	2	901	869
Total State Revenues		30,591	29,534
Operating Revenues			
Sale of Goods and Services	2	11,634	11,315
Investment Income		1,310	737
Grants and Contributions		866	1,128
Recognition of Assets for the First Time	4	...	1,045
Net Gain/(Loss) on Disposal of Physical Assets	2	5	(80)
Other	2	825	1,377
Total Operating Revenues		14,640	15,522
Total Revenues		45,231	45,056
EXPENSES FROM ORDINARY ACTIVITIES			
Employee Benefits			
- Superannuation	3	1,642	4,749
- Other	3	18,490	17,743
Other Operating	3	15,891	10,163
Maintenance		2,313	2,271
Depreciation and Amortisation	3	4,092	3,843
Grants and Subsidies	3	4,878	4,823
Borrowing Costs	3	1,708	1,888
Total Expenses		49,014	45,480
DEFICIT FOR THE YEAR		(3,783)	(424)

The Statement of Financial Performance should be read in conjunction with the accompanying notes.

THE NSW TOTAL STATE SECTOR ACCOUNTS STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2004

	Note	2003-04 \$m	2002-03 \$m
OTHER MOVEMENTS IN EQUITY			
(Revenues, Expenses and Valuation Adjustments Recognised Directly in Equity)			
Increase in Accumulated Funds on the Adoption of an Australian Accounting Standard			
- AASB1041 "Revaluation of Non-current Assets"			
- rail infrastructure assets reinstated	15	...	7,828
- other AASB1041 adjustments	15	...	7
- Adjustment to provision liabilities on adopting AASB1044 "Provisions, Contingent Liabilities and Contingent Assets"	15	...	(15)
- Adjustment to employee benefits liabilities on adopting AASB1028 "Employee Benefits"	15	...	(3)
Increase in Accumulated Funds Arising From an Urgent Issues Group Abstract (UIG) Transitional Provision			
- Adjustment to insurance claims liabilities on adopting a claims incurred basis following the release of UIG47	15	...	(826)
- Adjustment to insurance levies receivable on adopting a claims incurred basis following the release of Urgent Issues Group Abstract UIG47	15	...	826
- Derecognition of deferred gains and losses on rolling stock leases following the release of Urgent Issues Group Abstract UIG50	15		39
Net Asset Valuation Increments	14	7,003	15,258
Other	15	...	1
Total Other Movements in Equity		7,003	23,115
Opening Balance Equity		120,769	98,078
Operating Surplus/(Deficit)		(3,783)	(424)
Other Movements in Equity		7,003	23,115
CLOSING BALANCE EQUITY		123,989	120,769

The Statement of Financial Performance should be read in conjunction with the accompanying notes.

THE NSW TOTAL STATE SECTOR ACCOUNTS STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2004

	Note	2004 \$m	2003 \$m
Current Assets			
Cash Assets		3,595	3,057
Receivables	5	3,218	2,954
Other Financial Assets	6	4,593	6,557
Inventories	7	641	695
Other	9	323	217
Total Current Assets		12,370	13,480
Non-Current Assets			
Receivables	5	1,350	1,433
Other Financial Assets	6	9,059	5,837
Property, Plant and Equipment			
Land and Buildings	8	80,534	74,513
Plant and Equipment	8	10,030	9,211
Infrastructure Systems	8	71,645	75,292
Forestry Stock		1,609	1,573
Inventories	7	442	357
Other	9	1,489	1,341
Total Non-Current Assets		176,158	169,557
TOTAL ASSETS		188,528	183,037
Current Liabilities			
Payables	10	4,361	4,139
Interest Bearing	11	3,808	7,359
Provisions	12	3,053	2,957
Other	13	731	542
Total Current Liabilities		11,953	14,997
Non-Current Liabilities			
Interest Bearing	11	24,718	20,627
Provisions	12	27,083	25,794
Other	13	785	850
Total Non-Current Liabilities		52,586	47,271
TOTAL LIABILITIES		64,539	62,268
NET ASSETS		123,989	120,769
Equity			
Asset Revaluation Reserves	14	58,516	57,361
Accumulated Funds	15	65,473	63,408
TOTAL EQUITY		123,989	120,769

The Statement of Financial Position should be read in conjunction with the accompanying notes.

THE NSW TOTAL STATE SECTOR ACCOUNTS STATEMENT OF CASH FLOWS FOR THE
YEAR ENDED 30 JUNE 2004

	Note	2003-04 \$m	2002-03 \$m
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts			
Taxation		14,199	13,390
Commonwealth Grants		15,530	15,440
Sale of Goods and Services		11,957	11,879
Investment Income		412	310
Fines, Fees, Grants and Other		5,694	5,384
Total Receipts		47,792	46,403
Payments			
Employee Related		(19,190)	(17,940)
Grants and Subsidies		(4,157)	(4,047)
Finance		(181)	(169)
Other		(16,233)	(14,977)
Total Payments		(39,761)	(37,133)
NET CASH FLOWS FROM OPERATING ACTIVITIES	16	8,031	9,270
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from Sale of Property, Plant and Equipment		654	799
Proceeds from Sale of Investments		2,771	885
Proceeds from Sale of Powercoal		...	324
Advance Repayments Received		57	98
Purchase of Property, Plant and Equipment		(6,259)	(6,293)
Purchase of Investments		(4,129)	(1,905)
Advances Made		(37)	(36)
Other		(35)	128
NET CASH FLOWS FROM INVESTING ACTIVITIES		(6,978)	(6,000)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from Borrowings and Advances		3	31
Repayments of Borrowings and Advances		(573)	(290)
Other			
NET CASH FLOWS FROM FINANCING ACTIVITIES		(570)	(259)
NET CASH FLOW OF FINANCIAL INSTITUTIONS	16	92	(402)
NET INCREASE/(DECREASE) IN CASH HELD		575	2,609
Opening Cash and Cash Equivalents		2,898	2,653
Reclassification of Cash Equivalents	16	(27)	(2,364)
CLOSING CASH BALANCE	16	3,446	2,898

The Statement of Cash Flows should be read in conjunction with the accompanying notes.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

This general purpose financial report covers the New South Wales State Sector (The Total State Sector Accounts).

The New South Wales State Sector comprises the General Government Sector, the Public Trading Enterprise Sector and the Public Financial Enterprise Sector.

The NSW General Government Sector comprises Budget dependent agencies, the Consolidated Fund, the Crown Entity - Non-Commercial Activities, and other General Government Non-Budget dependent agencies.

Budget dependent agencies are those that receive an appropriation in the annual Appropriation Act. The majority of agencies rely predominantly on the State Budget for direct funding (ie 50% or more of the total funding of each agency is provided by Parliamentary appropriations). With some exceptions, they are known as departments as defined by section 45A(1) of the Public Finance and Audit Act 1983 and are listed in Schedule 3 of that Act and in Appendix C of Budget Paper No. 2 of 2004-05.

The Crown Entity – Non-Commercial Activities is part of the General Government Sector and reports on service-wide assets, liabilities, revenues and expenses of a non-commercial nature which are the responsibility of the Government as a whole.

The entity is administered by the NSW Treasury on behalf of the Treasurer who is the portfolio Minister.

General Government Non-Budget dependent agencies do not rely on the Consolidated Fund for ongoing financial support. These agencies usually have a regulatory function and the fees collected from the regulatory function fund the ongoing operations of the agency.

Public Trading Enterprises (PTEs) are largely self-funded from user charges and have a commercial charter. However, they may receive funding from the State Budget for social programs (non-commercial activities). The PTE sector is also referred to by the Australian Bureau of Statistics as the Public Non-financial Corporation Sector.

This sector also includes State Owned Corporations. Examples are the water authorities, the electricity distributors and port authorities.

Public Financial Enterprises (PFEs) are government controlled and perform central bank functions, or accept demand, time or savings deposits, or have the authority to incur liabilities and acquire financial assets in the market on their own account. This sector includes NSW Treasury Corporation. The PFE sector is also referred to by the Australian Bureau of Statistics as the Public Financial Corporation Sector.

A number of controlled entities prescribed for the purposes of the "particular audit" provisions of the Public Finance and Audit Act 1983 under section 44(1) have also been consolidated. These bodies include the Home Purchase Assistance Fund and the NSW Insurance Ministerial Corporation.

BASIS OF ACCOUNTING

This financial report is a general purpose financial report prepared in accordance with applicable Australian Accounting Standards (in particular Australian Accounting Standard AAS31 "Financial Reporting by Governments") and other mandatory professional requirements (Urgent Issues Group Consensus Views).

Additionally it is prepared in accordance with the Public Finance and Audit Act 1983 and Regulations. In the event of any inconsistency between accounting standards and legislative requirements, the latter are given precedence.

BASIS OF MEASUREMENT

The financial report is based on historical cost accounting except that certain assets and liabilities are valued at current valuation. All amounts in this financial report are in Australian dollars and have been rounded to the nearest million dollars.

RECLASSIFICATION OF FINANCIAL INFORMATION

Comparative amounts have been adjusted to conform with changes in the present year.

PRINCIPLES OF CONSOLIDATION

This financial report has been consolidated in accordance with Australian Accounting Standard AAS24 "Consolidated Accounts" and includes the assets, liabilities, equities, revenues and expenses of the Government including those of entities controlled by the Government.

Entities are considered to be controlled when the Government has the capacity to dominate their financial and operating policies in pursuing the Government's objectives. Entities are not consolidated where the nature of the "control" exercised is of a regulatory or trust nature, as such control falls outside the concept of "control" as embodied in AAS31.

Excluded entities include local government bodies, universities, certain reserve trusts created under the Crown Lands Act 1989, hospitals listed under Schedule 3 of the Public Hospitals Act, the State's Superannuation Funds, the trust funds of the Protective Commissioner, the Public Trustee and Rental Bond Board, the WorkCover Scheme Statutory Funds, the NSW Aboriginal Land Council and most professional registration and marketing authorities.

There are approximately 30,000 Crown reserves in New South Wales. Some of these reserves are managed by NSW Government and others by local governments and trusts.

A project has commenced to identify and value Crown reserves controlled by the NSW Government.

The likely value of the reserves controlled by the NSW Government cannot be estimated with any certainty. First estimates based on preliminary data are that the total value of these reserves may be between \$1 billion and \$7 billion. However, the total value may even be outside of this range. The NSW Government will recognise the value of Crown reserves it controls in future Total State Sector Accounts once this project is complete.

The WorkCover Authority of New South Wales is consolidated in this financial report. It is responsible for the regulation of statutory funds constituted under the Workers Compensation Act 1987.

However, these statutory funds, commonly known as the WorkCover Scheme Statutory Funds, are not consolidated because they are regulated, but not controlled. This treatment has been confirmed in three separate legal opinions provided by the Crown Solicitor's Office since 1996, including advice given on the matter by the NSW Solicitor-General.

The issue was the subject of an inquiry held by the Public Accounts Committee of Parliament which considered views of the WorkCover Authority, the Treasury, the Audit Office and the Institute of Chartered Accountants. In its report (No. 124) published in July 2000, the Committee recommended that, until such time as ownership of unfunded liabilities of the Scheme is clearly determined, an explanatory note be included in the Total State Sector Accounts outlining the accumulated deficit and the reasons for it not being consolidated in the accounts.

The unaudited amount of the WorkCover Scheme Statutory Funds' accumulated deficit at 30 June 2004 is estimated at \$2,353 million. The audited accumulated deficit was \$2,982 million at 30 June 2003. The legislation provides for the funding of any overall deficit that may arise in the WorkCover Scheme by the payment of a contribution by employers as part of future premiums.

All transactions and balances between government agencies have been eliminated. Dissimilar accounting policies adopted by agencies have been amended to ensure consistent policies are adopted in these financial statements.

REVENUE

State Taxation, Fines and Fees

State taxation is recognised when the underlying transaction or event that gives rise to the right to collect the revenue occurs, and can be measured reliably. Taxation revenue also includes interest and penalties.

- Government-assessed revenues (primarily land tax) are recognised at the time the assessments are issued.
- Taxpayer-assessed revenues including payroll tax and stamp duty, are recognised when the funds are received by the revenue-collecting agency. Additional revenues are recognised for assessments subsequently issued following review of returns lodged by taxpayers.
- Fines (such as those issued by the Traffic Infringement Bureau) and fees (such as those earned by the Roads and Traffic Authority) are recognised when the cash is received. In addition, fines revenue is recognised when the State Debt Recovery Office takes over responsibility for collecting overdue fines of government agencies, after considering the likelihood of recovery.

Commonwealth Grants

These are funds provided by the Commonwealth to assist the State in meeting its expenditure responsibilities. These grants are for either general or specific purposes. They are generally recognised when received. However, grants prepaid by the Commonwealth for Budget Balancing Assistance are accrued, mirroring the treatment by the Commonwealth.

Sale of Goods and Services

Revenue is recognised when the goods or services are provided.

Investment Revenue

Interest and other investment income is recognised in the period in which it is earned.

EXPENSES

Expenses are recognised when incurred and are reported in the financial year to which they relate.

Employee Benefit Expenses

These expenses include all costs related to employment such as salaries and wages, superannuation, leave entitlements, fringe benefits tax, workers' compensation, redundancies and other on-costs associated with leave entitlements.

Payroll tax (a State tax) paid by New South Wales government agencies is eliminated on consolidation. Some employee related expenses are included in maintenance costs or capitalised as part of the construction costs of certain non-current physical assets.

Other Operating Expenses

These expenses generally represent the day-to-day running costs incurred in the normal operation of agencies. They exclude payments such as grants and subsidies to community groups, which are shown separately.

Depreciation

Each depreciable property, plant and equipment asset (except assets with extremely long useful lives) is depreciated over its useful life to write off the cost or revalued amount (net of its residual value at the end of their useful lives). Depreciation is generally calculated at rates determined on a straight-line basis.

However assets with extremely long useful lives, or lives that are indeterminate or indefinite, are not depreciated, because the amount of depreciation is either immaterial or cannot be reliably determined.

Useful lives for assets are as follows:

Buildings

Public housing	10-50 years
Schools and colleges	50-80 years
Hospitals	40 years
Other	various

Plant and Equipment

Rail rolling stock (leased and non leased)	20-35 years
Other	various

Infrastructure

Power stations	20-50 years
Electricity system assets	3-60 years
Water system assets	15-200 years
Roads (pavements)	15-50 years
Roads (earthworks)	100 years
Other	various

ASSETS

Receivables

Receivables are recorded at the amounts expected to be ultimately collected in cash and therefore net of any allowance for bad and doubtful debts.

Levies receivable under the Workers Compensation (Dust Diseases) Act, 1942 reflect the full funding of total claims costs. This recognises the legislative power given to the government 's Dust Diseases Board, to impose levies to meet the cost of claim obligations under this Act.

Other Financial Assets

Other financial assets are valued at cost or market valuation.

Forestry Stock (Self Generating and Regenerating Assets)

State Forests revalues the softwood plantations growing stock annually, using a standing volume net market valuation model for commercial plantations which calculates the net change resulting from price and volume movements. The valuation of growing stock is derived by estimating the volume of merchantable timber and applying schedule prices less direct costs of disposing the timber.

Volume increments are determined both by periodic re-measurement of samples and by modelling growth from the date of most recent measurement to the valuation date.

The net change in market value is recognised in the statement of financial performance and as an adjustment to forestry stock assets in the statement of financial position. Non-commercial plantations, generally less than fifteen years of age, are valued at the historical cost incurred in their establishment, as market prices cannot readily be determined for these plantations.

The value of forestry land, roads and bridges is reported as part of property, plant and equipment assets.

The hardwood plantations estate has been valued on the basis of historical cost of establishment due to their age causing them to be non-commercial (less than fifteen years of age), whereas native forest timber has been valued using a net market value model. The valuation is based on standing volumes adjusted to reflect harvestable volume under current licence conditions and applying current prices less direct costs of disposing of the timber. The net change in market value is recognised in the statement of financial performance and as an adjustment to forestry stock assets in the statement of financial position. State Forests manages the available native forest resource on a sustained yield basis. Sustained yield means the volume harvested will approximate, over time, annual forest growth of the harvestable native forest areas. As a result, costs incurred in managing, maintaining and developing the resource are expensed as incurred.

Inventories

Inventories are valued at the lower of cost or net realisable value. Cost is calculated using the average cost or the "first in first out" method.

Non-Current Physical Assets

Capitalisation and Initial Recognition

Assets are initially recognised at their acquisition cost. Cost is determined as the fair value of the assets given as consideration plus other costs incidental to the acquisition.

Assets acquired at no cost or for nominal consideration are initially recognised as assets at their fair value at the date of acquisition. Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

The cost of non-current physical assets constructed for own use includes the cost of materials, direct labour, attributable interest, other financing costs and foreign exchange gains and losses arising during construction as well as an appropriate proportion of variable and fixed overhead costs that can be reliably attributed to the assets.

In general, non-current physical assets with a value greater than \$5,000 are capitalised except for computer equipment which is normally capitalised irrespective of the \$5,000 threshold where it is considered to be part of a network of assets.

Valuation of Property, Plant and Equipment

Physical Non-Current Assets, commonly called, Property Plant and Equipment, are valued at fair value in accordance with Australian Accounting Standard AASB 1041 "Revaluation of Non-Current Assets" and NSW Treasury Policy Paper "Accounting Policy on Valuation of Physical Non-Current Assets at Fair Value", which provides additional guidance on applying AASB1041 to public sector assets.

Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. Where available, fair value is determined having regard to the highest and best use of an asset that market participants would be prepared to pay. Where a quoted market price in an active and liquid market is available, that price represents the best evidence of fair value. Where a quoted market price is not available, fair value is estimated by reference to the best available market evidence.

Where an asset is specialised, or the market buying price and market selling price differ materially because the asset is usually bought and sold in different markets, or the asset would only be sold as part of the sale of the cash-generating operation of which the asset is a part, fair value is measured at its market buying price. The best indicator of an asset's market buying price is the replacement cost of the asset's remaining future economic benefits.

However, where assets belong to a cash-generating operation, and the sum of the market buying prices of the assets forming that cash-generating operation exceeds the fair value of that operation, the fair values of the assets would be determined after deducting that excess.

Valuation of Land

Land is valued at fair value having regard to its highest and best use. However, where there are natural, legal and socio-political restrictions on the use of land such that there is no feasible alternative use in the near future, such land is valued at market value for its existing use, because that is its highest and best use.

Crown leasehold land includes perpetual leases, term leases, permissive occupancy and enclosure permits. Crown leasehold land is valued at fair value, measured at the net present value of the income stream. Vacant Crown land is all Crown Entity land not included in the leasehold estate, including New South Wales land on the continental shelf within the three nautical mile zone. Vacant Crown land is valued at fair value having regard to its highest and best use.

Land under roads and within road reserves is not recognised in this financial report, as the Total State Sector is utilising the transitional provisions available in AASB1045 "Land under Roads". However, this land has been recognised in the financial report of the Roads and Traffic Authority at \$34,354 million (2003 \$27,471 million).

Valuation of Specialised Plant and Infrastructure

Specialised plant and infrastructure is measured at market buying price, the best indicator of which is the replacement cost of the asset's remaining future economic benefits. Infrastructure includes assets such as roads, bridges, water supply and reservoir systems, sewerage systems, power generation plants and transmission lines.

Replacement cost is measured at 'incremental optimised replacement cost'. Optimised replacement cost is the minimum cost, in the normal course of business, to replace the existing asset with a technologically modern equivalent asset with the same economic benefits, adjusting for any overdesign, overcapacity and redundant components. Incremental optimisation means that optimisation is limited to the extent that optimisation can occur in the normal course of business, using commercially available technology.

Valuation of Buildings

Non-specialised buildings, which include commercial and general purpose buildings for which there is a secondary market, are valued at fair value.

Specialised buildings are designed for a specific, limited purpose, and include hospitals, schools, court houses, emergency services buildings and specialised buildings to house specialised plant and infrastructure. Where there are no feasible alternative uses for such buildings, they are valued at market buying price, the best indicator of which is replacement cost of the remaining economic benefits.

Heritage buildings are valued at fair value. Fair value is represented by market value for existing use, because there are few or no feasible alternative uses for such properties.

Heritage and Collection Assets

Heritage and cultural assets, including library and museum collections and works of art, are assets held because of their unique cultural, historical, geographical, scientific and/or environmental attributes. Heritage and cultural assets are valued at fair value. Artworks, book collections, philately and coin collections are generally valued at market value. However, many heritage assets, including library and museum collections, are of a specialised nature, therefore valued at market buying price. Further, heritage and cultural assets are not recognised where they cannot be reliably measured.

Revaluation of Property, Plant & Equipment

Revaluations are made with sufficient regularity to ensure that the carrying amount does not materially differ from fair value at the reporting date. Subject to the above, assets are revalued at least every five years.

Where an entity revalues depreciable assets by reference to current prices for assets newer than those being revalued, the gross amount and accumulated depreciation are separately stated.

Otherwise, any accumulated depreciation is generally offset against the gross carrying amount of the assets to which they relate, and the net asset carrying amount is increased or decreased by the revaluation increment or decrement.

Revaluation increments are credited directly to the asset revaluation reserve, except that, to the extent that an increment reverses a revaluation decrement for that class previously recognised as an expense in the Statement of Financial Performance, the increment is recognised as revenue.

Revaluation decrements are recognised immediately as expenses, except that they are debited directly to the asset revaluation reserve to the extent that a credit exists in the asset revaluation reserve in respect of the same class of asset.

Assets acquired or constructed since the last revaluation are valued at cost.

Private Sector Financed Infrastructure Assets

There is currently no Australian Accounting Standard that specifically addresses the accounting for private sector financed infrastructure assets. Treasury has adopted the following policies pending the development of an accounting standard.

Agreements Equally Proportionately Unperformed arising from private sector financed infrastructure arrangements are generally not recognised as assets or liabilities because there is significant uncertainty as to whether the definitions and recognition criteria in SAC4 Statement of Accounting Concepts "Definition and Recognition of Elements of Financial Statements" would be satisfied. Instead, the payments under these agreements are expensed systematically over the term of the agreements. Further, the commitments for future payments under these agreements are disclosed as "Commitments" in the notes to the financial statements.

However, certain private sector financed infrastructure arrangements provide for a private sector entity to design, construct, operate and maintain certain infrastructure for a specified concession period, after which the infrastructure is transferred back to the State.

The interest of the State in such arrangements is recognised as an asset, being the emerging interest in the remaining service potential to be transferred to the agency. The emerging interest is valued by reference to the State's emerging share in the written down replacement cost of the asset at the date of transfer. The emerging interest is progressively recognised from the date of completion of construction over the period of the concession agreement.

Sydney Harbour Tunnel

The Road and Traffic Authority's (RTA) interest in the Sydney Harbour Tunnel has been valued based on the Authority's right to the time share of the ownership and total service potential as well as to the remaining useful life at the date of transfer to the Authority in the year 2022. At the date of transfer, it is expected that the value will equate to the then current written down replacement cost of the Tunnel.

The cost of constructing the Tunnel was \$683 million. The current written down replacement cost of the Tunnel is \$589 million (2003 \$568 million). The construction of the Tunnel was financed by 30 year inflation linked bonds issued by the Sydney Harbour Tunnel Company to the private sector of \$487 million, Sydney Harbour Tunnel Company shareholders' loans (repaid in 1992) of \$40 million, and an interest free, subordinated loan (the Net Bridge Revenue Loan) provided by the RTA of \$223 million, based on the projected net toll revenue from the Sydney Harbour Bridge during the construction period.

Under the Ensured Revenue Stream Agreement (ERS), the Government has agreed to make ERS payments (net of tolls collected from the Tunnel) to enable the Sydney Harbour Tunnel Company to meet financial obligations arising from the operation and maintenance of the Tunnel and the repayment of principal and interest on funds borrowed by it for the design, construction and operation of the Tunnel.

The capital (principal repayment) portion of the obligation arising under the Ensured Revenue Stream Agreement is recognised as a liability. This is measured by reference to the principal outstanding on the bonds issued to private sector bondholders to finance the Harbour Tunnel of \$359 million (2003 \$372 million). In addition, a tax liability exists for \$22 million (2003 \$22 million) following negotiations between interested parties including the Australian Taxation Office, for settlement between the RTA, the NSW Government, the Sydney Harbour Tunnel Company Limited and Tunnel Holdings Pty Ltd.

M4, M5 and M2 Motorways and Eastern Distributor

The Roads and Traffic Authority has recognised as an asset its emerging right to receive the M4, M5 and M2 Motorways and the Eastern Distributor. This interest is valued by reference to the Authority's emerging share of the written down replacement cost of the asset at the respective date of transfer to the RTA apportioned over the period of the concession agreement.

The RTA has entered agreements with the private sector for the design, finance, construction, operation and maintenance of Sydney's Cross City Tunnel, Westlink M7 Motorway, and the Lane Cove Tunnel. Each project is in a different phase of construction. Upon completion, the RTA will value its emerging share of the written down replacement cost over the period of the concession agreement.

Airport Line railway stations

Rail Corporation New South Wales (RailCorp) has recognised as a non-current asset its right to receive the four railway stations on the Airport Line, which runs from Central to Turrella via Sydney Airport. Airport Link Company Pty Ltd is to operate the stations until 2030, and then offer to transfer the ownership to RailCorp. The Airport Link Company Pty Ltd went into receivership in November 2000.

The asset is measured by RailCorp as the present value of the estimated written down replacement cost of the stations in 2030, allocated over the term of the arrangement.

LIABILITIES

Payables

Liabilities are recognised for amounts to be paid in the future for goods or services received whether or not billed to the consolidated agency.

It includes accrued salaries, wages and on-costs, which are measured in respect of employees' services up to the reporting date at nominal amounts based on amounts expected to be paid when the liabilities are settled.

Interest Bearing

The State's interest bearing liabilities represent funds raised from the following sources:

- loans raised by the Commonwealth on behalf of the State under the previous Financial Agreement;
- advances by the Commonwealth for housing and other specific purposes;

- domestic and overseas borrowings raised by the NSW Treasury Corporation; and
- private and public domestic borrowings by Non-Budget dependent agencies.

Interest bearing liabilities are recognised at Current Capital Value. Current Capital Value is the face value of the debt less unamortised discount or plus unamortised premiums. The discount or premiums are treated as finance charges and amortised over the term of the debt.

Overseas borrowings are translated at exchange rates prevailing at balance date unless they are subject to forward exchange contracts in which case the contract rate is used.

Gains or losses arising from foreign exchange and debt restructuring transactions are included in the Statement of Financial Performance in the period in which they arise.

Leases

A distinction is made between finance leases that effectively transfer from the lessor to the lessee substantially all the risks and benefits incident to ownership of the leased assets and operating leases under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are recognised as assets and liabilities at the present value of the minimum lease payments. The leased asset is amortised on a straight line basis over the term of the lease or, where it is likely that the entity will obtain ownership of the asset, the useful life of the asset to the entity. Lease payments are allocated between the principal component of the lease liability and the interest expense.

The economic substance of a long term lease of land and other property is that it is a sale. Any difference between the current carrying value and the upfront lease payments is recognised in the Statement of Financial Performance in the period that the lease is entered into.

However, the lessor retains the economic benefits embodied in the reversionary right to the property beyond the lease term. The reversionary right has no value at the inception of the lease. It is recognised as a non-current asset when it has value, which emerges towards the end of the lease. Revaluation of the reversionary right is accounted for in accordance with Australian Accounting Standards on the revaluation of non-current assets.

Operating lease payments are charged to the Statement of Financial Performance systematically over the term of the lease.

The cost of leasehold improvements is capitalised as an asset and amortised over the remaining term of the lease or the estimated useful life of the improvements, whichever is the shorter.

Employee Benefits and Other Provisions

Wages and Salaries, Annual Leave and Sick Leave

Liabilities for salaries and wages (including non-monetary benefits), annual leave and vesting sick leave are recognised and measured in respect of employees' services up to the reporting date at nominal amounts based on the amounts expected to be paid when the liabilities are settled.

Unused non-vesting sick leave does not give rise to a liability as it is not considered probable that sick leave taken in the future will be greater than the benefits accrued in the future.

The outstanding amounts of workers' compensation insurance premiums and fringe benefits tax, which are consequential to employment, are recognised as liabilities and expenses where the employee benefits to which they relate have been recognised.

Long Service Leave

A liability for long service leave is measured at the present value of the estimated future cash outflows to be made by the employer in respect of services provided by employees up to the reporting date. This calculation takes into account future increases in remuneration rates. The liabilities of budget dependent and major non-budget dependent agencies were calculated using this present value method.

Some non-budget dependent agencies and Area Health Services have adopted a short-hand method to produce an estimated liability, where it results in liabilities that are not considered materially different to those determined using the present value basis of measurement.

Superannuation

An unfunded superannuation liability is recognised in respect of the defined benefit schemes. It is measured as the difference between the present value of forecast members' accrued benefits at balance date and the estimated net market value of the superannuation schemes' assets at that date. The liability is assessed annually by actuaries based on data maintained by the Superannuation Administration Corporation.

The present value of accrued benefits is based on expected future payments that arise from membership of the fund to balance date in respect of the contributory service of current and past government employees.

Consideration is given to expected future wage and salary levels, expected future investment earning rates, growth rate in the Consumer Price Index, experience of employee departures and periods of service.

Other Provisions

Other provisions are recorded at the estimates of obligation to pay. These include for example, the Government's obligations arising from several insurance schemes that include:

- the previous workers' compensation and third party insurance schemes, and the Treasury Managed Fund, a self insurance scheme administered by the Insurance Ministerial Corporation. Refer Note 1 *Changes in Accounting Policies* for further information on the inclusion of a prudential margin for the Treasury Managed Fund;
- Workers Compensation (Dust Diseases) Board outstanding claims. In 2005 the Board will re-analyse mortality experience and consider findings from the Special Commission of Inquiry into the Establishment of Medical Research and Compensation Foundation, to enhance outstanding claims estimation ; and
- Workcover Authority outstanding claims.

The liabilities cover claims incurred but not yet paid, incurred but not yet reported and the anticipated fund management fees in respect of the management of those claims. These amounts are determined by independent actuarial assessment.

Some government agencies hold a group self-insurer's licence with the Workcover Authority for workers' compensation. This self funded liability is actuarially calculated on a discounted cash flows basis.

A provision for loss compensation associated with the former HIH Insurance Limited has been raised by the government for building warrant insurance and for motor vehicle claims for which the Nominal Defendant is responsible under the Motor Accidents Compensation Act 1999. The liability is measured by an actuary as the present value of the expected future payments.

The Building and Construction Industry Long Service Payments Corporation liabilities have been assessed by actuaries based upon claims data provided by the Corporation for the 12 months ended 30 June 2004, and information provided on new entrants through the period.

Other Liabilities

All other liabilities are recorded at the estimates of obligation to pay.

Accounting for the Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred by the agency as a purchaser that is not recoverable from the Australian Taxation Office is recognised as part of the cost of acquisition of an asset or as part of an item of expense. Receivables and payables are stated with the amount of GST included.

AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (AEIFRS)

Australia is scheduled to adopt International Accounting Standards from reporting periods beginning on or after 1 January 2005. In addition, the Australian Accounting Standards Board (AASB) has committed to harmonise Government Finance Statistics reporting (GFS) with Accounting Standards as a priority for the public sector.

NSW Treasury's strategy to implement international accounting standards (IAS) and GFS/GAAP convergences includes the following steps:

- Analyse and comment to the Australian Accounting Standards Board on all exposure drafts of standards;
- Identify and assess the impacts of all significant changes in pending and finalised standards, and to make this information available to all agencies;

- Keep the Treasurer, the Government, government agencies and all other stakeholders informed;
- Develop new or amended policies and guidance as necessary;
- Establish and maintain an up-to-date website to keep all stakeholders continuously informed;
- Facilitate a collaborative approach to managing the change by means of an 'IAS Agency Reference Panel'. The Panel includes representatives from a spectrum of public sector agencies including the Audit Office.

The role of the panel is to assist Treasury in identifying the impacts of the changes, including information and systems changes and to provide Treasury with both input and feedback. The state's electricity authorities are also represented on an industry group that is reviewing specific AEIFRS issues pertaining to the electricity industry;

- Implement AEIFRS for the Total State Sector Accounts. This includes reviewing issues from a whole-of government perspective to determine that similar transactions are prepared on a consistent basis. Further some standards will require that transactions (such as Treasury Managed Fund self insurance) be treated differently at the Total State Sector, than at the agency level. The capability of information technology systems is also being reviewed for the preparation of the Total State Sector Accounts.
- Present training and development seminars to all NSW public sector agencies:
- Facilitate agencies, which have primary responsibility for assessing the impacts of AEIFRS on their budgets and financial reports, information needs and required system changes. Encourage all agencies to be actively involved and to provide input and feedback to Treasury. Treasury's analysis of standards will focus on the general impact of significant changes on public sector financial reporting. Each agency must assess any additional impacts that are not addressed in Treasury's analysis.

Public sector agencies are managing the transition to the new standards by allocating internal resources and/or engaging consultants to analyse the pending standards and Urgent Issues Group Abstracts to identify key areas regarding policies, procedures, systems and financial impacts affected by the transition.

The larger agencies have each established a project team to manage the implementation. The team leader generally reports through the Chief Finance Officer to the Audit Committee which monitors AEIFRS implementation.

Public Sector agencies have identified a number of significant differences in accounting policies that will arise from adopting AEIFRS. Some differences arise because AEIFRS requirements are different from existing AASB requirements. Other differences could arise from options in AEIFRS. To ensure consistency at the whole of government level, NSW Treasury has advised agencies of options it is likely to mandate, and will confirm these during 2004-05. This disclosure reflects these likely mandates.

The agencies' accounting policies may also be affected by a proposed standard designed to harmonise accounting standards with Government Finance Statistics (GFS). This standard is likely to change the impact of AEIFRS and significantly affect the presentation of the income statement. However, the impact is uncertain, because it depends on when this standard is finalised and whether it can be adopted in 2005-06.

Based on current information, the following key differences in accounting policies are expected to arise from adopting AEIFRS:

- AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards requires retrospective application of the new AEIFRS from 1 July 2004, with limited exemptions. Similarly, AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors requires voluntary changes in accounting policy and correction of errors to be accounted for retrospectively by restating comparatives and adjusting the opening balance of accumulated

funds. This differs from current Australian requirements, because such changes must be recognised in the current period through profit or loss, unless a new standard mandates otherwise.

- AASB 116 Property, Plant and Equipment requires the cost and fair value of property, plant and equipment to be increased to include restoration costs, where restoration provisions are recognised under AASB 137 Provisions, Contingent Liabilities and Contingent Assets.

Major inspection costs must be capitalised and this will require the fair value and depreciation of the related asset to be re-allocated.

For-profit entities must account for asset revaluation increments and decrements on an individual asset basis, rather than on a class basis. This change may decrease accumulated funds.

- AASB 119 Employee Benefits requires the defined benefit obligation to be discounted using the government bond rate as at each reporting date rather than the long-term expected rate of return on plan assets. Where the unfunded superannuation liability is not assumed by the Crown, this will increase the amount and the future volatility of the unfunded superannuation liability and the volatility of the employee benefit expense. The financial impact of the adoption of this standard will likely result in a significant increase in the State's unfunded superannuation liabilities. This change is likely to have the largest dollar impact on the Total State Sector's balance sheet than the impact from adopting any other AEIFRS.
- AASB 136 Impairment of Assets requires an entity to assess at each reporting date whether there is any indication that an asset (or cash generating unit) is impaired and if such indication exists, the entity must estimate the recoverable amount. However, the effect of this Standard should be minimal because all the substantive principles in AASB 136 are already incorporated in Treasury's policy Valuation of Physical Non-Current Assets at Fair Value.

- AASB 139 Financial Instruments: Recognition and Measurement results in the recognition of financial instruments that were previously off balance sheet, including derivatives. The standard adopts a mixed measurement model and requires financial instruments held for trading and available for sale to be measured at fair value and valuation changes to be recognised in profit or loss or equity, respectively. Previously they were recognised at cost. This may increase the volatility of the operating result and balance sheet.

The standard also includes stricter rules for the adoption of hedge accounting, and where these are not satisfied, movements in fair value will impact the income statement.

To achieve full harmonisation with Government Finance Statistics, entities would need to designate all financial instruments at fair value through profit or loss. However, at this stage it is unclear whether this option will be available under the standard and, if available, whether Treasury will mandate this option for all agencies.

The following standards will to a lesser extent impact New South Wales public sector agencies when adopting AEIFRS, in that they would only impact select agencies or groups of public sector agencies.

- AASB 102 Inventories for not-for-profit entities requires inventory "held for distribution" at no or nominal cost to be valued at the lower of cost and current replacement cost rather than the lower of cost and net realisable value. This may increase the amount of inventories recognised.
- AASB 110 Events after the Balance Sheet Date states that only dividends "declared" or appropriately "authorised" before the reporting date can be recognised. This is more restrictive than the current approach which is based on "valid expectations". However, this change is not expected to impact on dividend recognition as the signing of the Statement of Corporate Intent /

Statement of Business Intent before the reporting date to which it relates, "authorises" the dividend and any change in the amount of the dividend after the reporting date constitutes an "adjusting event after the reporting date". Further, any such dividends declared by public sector agencies would be eliminated on consolidation within the Total State Sector Accounts. However, the amount of the dividend may be affected by other AEIFRS, such as AASB 139 Financial Instruments: Recognition and Measurement and AASB 119 Employee Benefits (refer above) as these standards may impact on retained earnings (on first adoption) and the amount and volatility of profit/loss.

- AASB 112 Income Taxes requires a balance sheet approach where the entity must identify differences between the accounting and tax value of assets and liabilities. The previous approach was to account for tax by adjusting accounting profit for temporary and permanent differences to derive taxable income. The AASB 112 approach may alter the quantum of tax assets and liabilities recognised by public sector agencies.

In addition, the income tax expense and deferred tax assets and liabilities may be affected by other AEIFRS to the extent that they impact on the balance sheet and profit or loss. However, any such tax accrued by public sector agencies would be eliminated on consolidation within the Total State Sector Accounts.

- AASB 117 Leases requires operating lease contingent rentals to be recognised as an expense on a straight-line basis over the lease term rather than expensing in the financial year incurred.
- AASB 120 Accounting for Government Grants and Disclosure of Government Assistance applies to for-profit entities only. Entities will either apply the current AASB 120 or early adopt a revised AASB 120, based on the grant requirements in AASB 141 Agriculture.

The current AASB 120 spreads income recognition over the period necessary to match related costs. A revised AASB 120 based on AASB 141 is likely to require revenue recognition when conditions are satisfied. Both of these alternatives may have the effect of delaying revenue recognition.

- AASB 1004 contributions applies to not-for-profit entities only. Entities will either continue to apply the current requirements in AASB 1004 where grants are normally recognised on receipt, or alternatively apply the proposals on grants included in ED 125 Financial Reporting by Local Governments. If the ED 125 approach is applied, revenue and/or expense recognition will be delayed until the agency supplies the related goods and services (where grants are in-substance agreements for the provision of goods and services) or until conditions are satisfied.
- AASB 123 Borrowing Costs provides the option to expense or capitalise borrowing costs. NSW Treasury is likely to mandate expensing of borrowing costs to harmonise with GFS. Previously, borrowing costs related to qualifying assets were capitalised.
- AASB 132 Financial Instruments: Disclosure and Presentation prohibits in-substance defeasance. Agencies can no longer offset financial assets and financial liabilities when financial assets are set aside in trust by a debtor for the purposes of discharging an obligation, without assets having been accepted by the creditor in settlement of the obligation. This will have the effect of increasing both assets and liabilities but will have no net impact on equity.
- AASB 137 Provisions, Contingent Liabilities and Contingent Assets includes an Australian Guidance section that accompanies but is not a part of AASB 137. The Guidance section states that at an individual level where a contract involves the transfer of significant insurance risk from an entity within the group to a captive insurer, it is an insurance contract. However, in the group's consolidated financial statements, the insurance arrangements entered into do not meet the definition of an 'insurance contract' and the Provisions Standard applies.

The Treasury Managed Fund is considered a self-insurance arrangement for the Total State Sector Accounts and AASB137 will apply. AASB137 requires the application of a discount rate that reflects the time value of money adjusted for the risks specific to the liability, rather than the expected rate of return on Fund assets under the previous AASB1023. Further, it is likely that the Treasury Managed Fund's prudential margin will not be required for the Total State Sector Accounts.

- AASB 138 Intangibles requires that all research costs must be expensed and restricts capitalisation of development costs. Some previously recognised internally generated intangible assets may need to be derecognised. Further, intangibles assets can only be revalued where there is an active market, which is unlikely to occur. As a result, it is likely that any revaluation increments will need to be derecognised and intangible assets recognised at cost.
- AASB 140 Investment Property requires investment property to be measured at cost or fair value. NSW Treasury is likely to mandate the adoption of fair value. In contrast to current treatment as an asset classified within property, plant and equipment, investment property recognised at fair value is not depreciated and changes in fair value are recognised in the income statement.

NSW Treasury is likely to mandate that any investment property interest held by a lessee under an operating lease should be classified and accounted for as investment property. Previously such operating lease payments were accounted for as an expense over the lease term based on the pattern of benefits.

CHANGES IN ACCOUNTING POLICIES

State Waters' Land and Infrastructure Assets

The Department of Energy Utilities and Sustainability has historically valued its assets as a not-for-profit entity at written down replacement cost. In 2003-04 the Department assessed that its State Water business unit operates as a for-profit commercial unit. Accordingly the State Water units' assets were revalued in accordance with AASB1010 *Recoverable Amount of Non-Current Assets*, to ensure that its assets reflect fair value.

This resulted in a significant asset decrement expense of \$1,714 million being recorded to the 2003-04 operating result, as the assets had not been previously revalued to a reserve.

Treasury Managed Fund

The Treasury Managed Fund (TMF) is a self insurance scheme administered by the Insurance Ministerial Corporation (IMC). During 2003-04 a prudential margin of 7.5% (67% probability of adequacy) was added to the central estimate of the TMF outstanding claims liability.

This margin has been introduced to recognise the expected volatility of future liability payments. It is consistent with the prudential margin that is added to the IMC's workers compensation. The change increases the outstanding claims liability and insurance claims expense by \$139 million, and it has been disclosed as a significant expense item in Note 4.

Aside from the above, the accounting principles adopted are consistent with those of the previous year.

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

2. REVENUE

	2003-04	2002-03
	\$m	\$m
STATE REVENUES		
Taxation		
Payroll Tax	4,169	3,952
Stamp Duties	5,499	5,219
Gambling and Betting	1,031	986
Land Tax	1,309	1,097
Other	2,188	2,183
	14,196	13,437
Commonwealth Grants		
General Purpose - Recurrent	204	252
- GST Revenue	9,667	9,080
- Budget Balancing Assistance	69	599
Specific Purpose - Recurrent	4,691	4,420
- Capital	863	877
	15,494	15,228
Fines, Regulatory Fees and Other State Revenues include:		
Royalties	233	235

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

	2003-04 \$m	2002-03 \$m
OPERATING REVENUES		
Sale of Goods and Services comprise revenue from:		
Sale of goods ^(a)	6,941	6,636
Rentals	1,477	1,456
Rendering of services	4,524	4,399
less: Cost of sales	(1,308)	(1,176)
	11,634	11,315

^(a) Includes net revenues of lotteries activities.

The lotteries net revenue comprises:

Gross revenue	1,137	1,119
Prizes and other statutory payments	(757)	(743)
Net Revenue	380	376

Net Gain/(Loss) on Disposal of Physical Assets

Proceeds from disposal	630	690
Less written down value of disposed assets	(625)	(770)
	5	(80)

Other Operating Revenues include the following Significant Items (refer Note 4 for further detail):

Proceeds from the sale of Powercoal Pty Ltd	...	324
Revenues received by the Roads and Traffic Authority following the letting of contracts for the Lane Cove Tunnel (2003 Cross City Tunnel and Westlink M7 Motorway)	79	291

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

3. EXPENSES

	2003-04	2002-03
	\$m	\$m
Superannuation Entitlements ^(a)	1,642	4,749

^(a) Includes significant negative expense of \$1,965million in 2003-04 (2003 significant expense \$2,391 million). Refer Notes 4 and 12.

Other Employee Benefits Expenses comprise:

Salaries and Wages (including Recreation Leave)	16,643	15,689
Long Service Leave	774	995
Other	1,073	1,059
	18,490	17,743

Other Operating Expenses comprise:

Bad and Doubtful Debts	191	189
Operating Lease Rentals	513	487
Consultancy fees	96	99
Net Asset Valuation Decrements, Reversals and Write-downs		
- Land and Buildings	440	21
- Plant and Equipment	6	...
- Infrastructure ^(b)	4,671	309
Inventory Write-Downs	26	8
Audit fees ^(c)		
- for audit	...	...
- for other services	...	...
Insurance claims	1,170	1,223
Supplies and other services	8,006	7,509
Book Value and costs of sale of Powercoal Pty Ltd	...	145
Other ^(d)	772	173
	15,891	10,163

^(b) Includes Significant Item adjustment for rail and water assets in 2003-04 . Refer Notes 4(b) and 4(c).

^(c) Fees of \$20 million for audit and \$3 million for other services to the Audit Office of NSW (2003 - \$20 million for audit and \$3 million for other services) have not been recognised as expenses because they have been eliminated in consolidation of the NSW Public Sector.

^(d) Includes Significant Item adjustment of asset values 2004 \$710 million (2003 \$151 million). Refer Note 4(d).

	2003-04	2002-03
	\$m	\$m
Depreciation and Amortisation expense comprise:		
Depreciation on		
- Buildings	945	937
- Plant and Equipment	954	863
- Infrastructure	2,069	1,934
Amortisation	124	109
	4,092	3,843

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

	2003-04	2002-03
	\$m	\$m
Grants and Subsidies include expenses by the:		
Department of Education and Training	820	744
Department of Housing	675	692
Department of Health	620	597
Department of Ageing, Disability and Home Care	598	574
Ministry of Transport	463	446
Department of Community Services	428	390
NSW Treasury (First Home Owner Grant Scheme)	242	307
Borrowing Costs include:		
Charges relating to finance leases	76	79
Capitalised Borrowing Costs are excluded from expenses	33	24

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

4. SIGNIFICANT ITEMS

	2003-04 \$m	2002-03 \$m
The Operating Result includes the following Significant Revenue/(Expense) Items:		
Sale of Powercoal Pty Ltd ^(a)		
- Proceeds from the sale of Powercoal	...	324
- Book value of Powercoal net assets sold	...	(140)
- Other costs	...	(5)
Book gain on sale	...	179
Adjustment of asset values. This includes:		
- Rail Infrastructure Corporation - assets transferred to the Australian Rail Track Corporation (ARTC) ^(b)	(2,957)	...
- Department of Energy, Utilities and Sustainability - State Water assets ^(c)	(1,714)	...
- Roads and Traffic Authority - land under roads ^(d)	(710)	(151)
- Roads and Traffic Authority - writedown of roads and bridges infrastructure	...	(122)
- Sydney Harbour Foreshore Authority - valuation decrements	(287)	...
- Crown Leasehold Entity - land values written back	(154)	...
- Depreciation on revalued rail infrastructure assets (this was significant for 2002-03 in comparison to 2001-02, however it is no longer considered significant compared to 2003-04 \$387 million)	...	(431)
Recognition of assets for the first time		
- Australian Museum collections	...	530
- School bank balances	...	226
- Taxation receivables	...	171
- Other	...	118
Revenues received by the Roads and Traffic Authority following the letting of contracts for the Lane Cove Tunnel (2003 Cross City Tunnel and Westlink M7 Motorway)	79	291
Increase in Treasury Managed Funds self insurance liability on adoption of a 7.5% prudential margin	(139)	...
Land remediation to the former BHP steel works site at Newcastle and to the Kooragang Island waste emplacement site		
- Contribution revenue from BHP Billiton towards remediation and other works	...	109
- Provision for expense for land remediation and other works	...	(109)
Additional long service leave liability measured resulting from a change from the short-hand method to the present value method	...	(278)
Decrease/(increase) in defined benefit unfunded superannuation liability as a result of: ^(e)		
- higher/(lower) fund earnings than actuarially applied long-term earning rates	1,235	(1,561)
- a change in the employee benefits discount rate from 7.0% to 7.3%	730	
- changes to actuarial demographic assumptions	...	(830)
TOTAL SIGNIFICANT ITEMS	(3,917)	(1,858)

- (a) On 24 August 2001 the Treasurer of New South Wales announced the Government's intention to sell Powercoal Pty Ltd to private parties and thereby discontinue Pacific Power's operations in the coal mining business segment. Powercoal owns seven underground mines in New South Wales. The sale occurred on 6 August 2002, with Centennial Coal Limited purchasing the subsidiary for a consideration of \$324 million in exchange for net assets with a book value of \$140 million and after the Crown incurred costs of \$5 million associated with the sale. This resulted in a book gain in 2002-03 of \$179 million for the Government.
- (b) The Australian and New South Wales Governments have agreed that the Australian Rail Track Corporation (ARTC) will lease the NSW interstate and Hunter Valley networks for sixty years for \$1. The agreement includes an \$818 million investment program on this infrastructure by ARTC. The lease was signed by the NSW Government and the ARTC on 4 June 2004 and will take effect from 4 September 2004. To give effect to the lease legislation was passed in the NSW Parliament in May 2004. In accordance with Treasury Directions the lease is a finance lease which is to be treated as a sale. Accordingly the Rail Infrastructure Corporation has written down the relevant infrastructure assets by their previous book value of \$2,957 million.
- (c) The Department of Energy Utilities and Sustainability has historically valued its assets as a not-for-profit entity at written down replacement cost. In 2003-04 the Department assessed that its State Water business unit operates as a for-profit commercial unit. Accordingly the State Water units' assets were revalued in accordance with AASB1010 *Recoverable Amount of Non-Current Assets*, to ensure that its assets reflect fair value. This resulted in a significant asset decrement expense of \$1,714 million being recorded to the 2003-04 operating result, as the assets had not been previously revalued to a reserve.
- (d) No valuation has been included in the Total State Sector Accounts for land under roads and within road reserves.
- During 2003-04 the Roads and Traffic Authority identified land under roads of \$822 million (2003 \$151 million) which was reported in previous years as part of Land and Buildings. A large component in 2003-04 is for land used towards the Liverpool to Parramatta Transitway. As it is Treasury's policy to apply the transitional provisions in AASB1045, and to report land under roads in the Total State Sector Accounts at nil value, an adjustment of \$822 million has been made to derecognise the value of these assets which has been included in the accounts of the Roads and Traffic Authority. The \$710 million cost value of these assets has been expensed, and the revaluation increments of \$112 million have been reversed against the asset revaluation reserve in 2003-04.
- (e) Over the years the government has set aside investments towards meeting accruing superannuation liabilities for its closed defined benefits schemes. In 2003-04 the actual investment performance of the Pooled Fund investments was positive 13.5% (Energy Industries Superannuation Scheme was positive 13.6%) which is higher than the long term actuarially applied rate of positive 7.0% per annum (positive 7.5% for EISS). Due to the size of the underlying investments, this resulted in accrued superannuation expense being lower than the long term expected average annual expense by an amount of \$1,235 million.
- In 2002-03 the Pooled Fund performance was negative 2.1% and the EISS was negative 0.8% resulting in accrued superannuation expense being higher than the long term expected average annual expense by an amount of \$1,561 million.
- In preparation for the 2003 triennial review the actuary has revised the underlying assumptions, which have been adopted in the calculation of the June 2003 unfunded superannuation liability. This resulted in 2002-03 an increase in the estimated liability of about \$830 million due to revised assumptions about increased longevity in average scheme pensioners, and a decrease in the percentage of scheme members converting their pensions to lump sums.

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

5. RECEIVABLES

	2004 \$m	2003 \$m
Current Receivables		
Debtors and Accruals		
- Sale of Goods and Services	2,025	1,720
- Asset Sales	48	47
- Taxation	355	359
- Interest	43	17
Advances Receivable	15	19
Other	1,002	1,041
	3,488	3,203
Less Allowance for Doubtful Debts	(270)	(249)
Total Current	3,218	2,954
Non-Current Receivables		
Advances Receivable	159	181
Workers Compensation (Dust Diseases) Board Insurance Levies Accrued	816	826
Other	377	428
Less Allowance for Doubtful Debts	(2)	(2)
Total Non-Current	1,350	1,433

6. OTHER FINANCIAL ASSETS

	2004 \$m	2003 \$m
Current	4,593	6,557
Non-current	9,059	5,837
	13,652	12,394
Other financial assets comprise:		
Fiduciary investments administered by NSW Treasury Corporation ^(a)	7,604	6,717
Securities and placements held by NSW Treasury Corporation	3,789	3,521
Investments accounted for using the equity method	567	590
Other	1,692	1,566
	13,652	12,394

^(a) Refer Note 22 Financial Instruments.

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

7. INVENTORIES

	2004 \$m	2003 \$m
Current		
Raw Materials	154	205
Work in Progress	44	18
Finished Goods	52	53
Consumable Stores	232	220
Land Held for Resale ^(a)	159	199
	641	695
Non-Current		
Land Held for Resale ^(a)	406	310
Work in Progress		
Other	36	47
	442	357
<i>^(a) Land held for resale has been recorded at:</i>		
<i>Acquisition Cost</i>	<i>314</i>	<i>311</i>
<i>Development Cost</i>	<i>225</i>	<i>165</i>
<i>Other Costs</i>	<i>26</i>	<i>33</i>
	<i>565</i>	<i>509</i>

8. PROPERTY, PLANT AND EQUIPMENT

	2004 \$m	2003 \$m
Land and Buildings		
At fair value	96,036	89,916
Accumulated depreciation	(15,502)	(15,403)
	80,534	74,513
Plant and Equipment (includes Collections)		
At fair value	14,890	15,888
Accumulated depreciation	(4,860)	(6,677)
	10,030	9,211
Infrastructure Systems		
At fair value ^(a)	98,178	105,971
Accumulated depreciation ^(a)	(26,533)	(30,679)
	71,645	75,292
Total Property, Plant and Equipment at Net Book Value	162,209	159,016

MOVEMENT IN PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings \$m	Plant and Equipment \$m	Infrastructure Systems \$m
TOTAL STATE SECTOR			
Carrying amount at 1 July 2003	74,513	9,211	75,292
Additions	1,523	1,107	4,077
Transfer of rail infrastructure assets to ARTC ^(a)	(31)	(44)	(2,882)
State Water assets recoverable amount write back ^(b)	(79)	...	(1,635)
Disposals	(345)	(234)	(45)
Net revaluation increments/(decrements)	7,232	701	(1,443)
Depreciation expense	(931)	(875)	(2,163)
Other movements	(1,348)	164	444
Carrying amount at 30 June 2004	80,534	10,030	71,645

^(a) Refer Note 4 Significant Items, for further information regarding the transfer of rail infrastructure assets to ARTC.

^(b) Refer Note 4 Significant Items, for further information regarding the write back of State Water asset values.

9. OTHER ASSETS

	2004 \$m	2003 \$m
Current	323	217
Non current	1,489	1,341
	1,812	1,558
Other Assets include:		
Emerging interest in the Sydney Harbour Tunnel	589	568
Right to receive M2/M4/M5 Motorways and the Eastern Distributor	305	258
Prepayments	219	149
Prepaid superannuation contributions ^(a)	98	57
Other	601	526
	1,812	1,558

^(a) Refer Note 12 Energy Industries Superannuation Scheme.

10. PAYABLES

Interest on borrowings and advances	375	512
Accrued employee benefits - refer Note 12 ^(b)	411	477
Other	3,575	3,150
	4,361	4,139

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

11. INTEREST BEARING LIABILITIES

	2004	2003
	\$m	\$m
Current	3,808	7,359
Non current	24,718	20,627
	28,526	27,986
Interest bearing liabilities comprise:		
Liability to Commonwealth Government	1,672	1,776
Domestic and foreign borrowings	25,876	25,225
Bank overdraft	149	159
Finance leases ^(a)	829	826
	28,526	27,986

^(a) Finance lease commitments are payable as follows:

Not later than one year	352	498
Between one and five years	493	669
Later than five years	537	227
Minimum lease payments	1,382	1,394
Less: Future finance charges	(553)	(568)
Finance lease liability	829	826

Prior to 30 June 2003 NSW Police entered into a new finance lease for its Corporate Headquarters at Parramatta. NSW Police did not obtain control over the asset and recognise it until the 2003-04 financial year. NSW Police received independent advice that the lease was an operating lease. Subsequent advice, which NSW Police has accepted determined that the lease was a finance lease. The finance lease liability (\$187 million) and aggregate minimum lease payments (\$359 million) were not reported in the above liabilities in 2003.

The Department of Commerce's Office of Government Procurement manages the government's motor vehicle fleet on behalf of budget dependent agencies and the Crown. The vehicles were previously funded through a series of three finance lease arrangements. Commencing 1 July 2003, the government ceased renewing finance leases for two of the three arrangements. Instead, replacement vehicles have been financed by direct borrowings, which the Department of Commerce has arranged through NSW Treasury Corporation. The value of motor vehicle lease liabilities at 30 June 2004 was \$380 million (2003 \$584 million).

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

12. PROVISIONS

	2004 \$m	2003 \$m
Current	3,053	2,957
Non current	27,083	25,794
	30,136	28,751
These comprise:		
Employee Benefits Provisions		
Unfunded superannuation ^(a)	15,940	15,513
Long service leave and other leave entitlements	6,169	5,684
Other	331	275
Total Provision for Employee Benefits ^(b)	22,440	21,472
Other Provisions		
Outstanding claims:		
- Insurance Ministerial Corporation	4,442	3,998
- Workers' Compensation (Dust Diseases) Board	1,307	1,298
- WorkCover Authority	256	250
- Self funded worker's compensation	366	349
HIH loss compensation	269	333
Building and Construction Industry Long Service Payments Scheme	394	363
Other	662	688
Total Other Provisions	7,696	7,279
Total Employee Benefits and Other Provisions	30,136	28,751

MOVEMENT IN OTHER PROVISIONS

	Carrying Amount 1 July 2003 \$m	Additional Provision 2003-04 \$m	Payments During 2003-04 \$m	Remeasure- ment Reductions 2003-04 \$m	Carrying Amount 30 June 2004 \$m
Outstanding claims:					
- Insurance Ministerial Corporation	3,998	1,073	(629)	...	4,442
- Workers' Compensation (Dust Diseases) Board	1,298	61	(52)	...	1,307
- WorkCover Authority	250	26	(20)	...	256
- Self funded worker's compensation	349	88	(71)	...	366
HIH loss compensation	333	25	(89)	...	269
Building and Construction Industry					
Long Service Payments Scheme	363	68	(37)	...	394
Other	688	125	(106)	(45)	662
Total Other Provisions	7,279	1,466	(1,004)	(45)	7,696

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

	Accrued Benefits ^(d) 2004 \$m	Net Market Value of Scheme Assets ^(d) 2004 \$m	Net Liability 2004 \$m	Net Liability 2003 \$m
<i>^(a) The unfunded superannuation liability is composed of:</i>				
<i>Pooled Fund</i>				
- State Authorities Superannuation Scheme	5,966	1,902	4,064	3,538
- State Authorities Non Contributory Superannuation Scheme	1,938	338	1,600	1,376
- State Superannuation Scheme	21,339	15,102	6,237	6,997
- Police Superannuation Scheme	4,644	1,041	3,603	3,251
Judges' Pension Scheme	343	...	343	266
Parliamentary Contributory Superannuation Scheme	281	188	93	85
Unfunded Superannuation Liability	34,511	18,571	15,940	15,513
<i>Less: Prepaid superannuation contributions of the Energy Industries Superannuation Scheme ^(c)</i>	<i>1,075</i>	<i>1,173</i>	<i>(98)</i>	<i>(57)</i>
Net Superannuation Liabilities	35,586	19,744	15,842	15,456

	2004 \$m	2003 \$m
<i>^(b) Employee Benefit Liabilities comprise:</i>		
<i>Accrued employee benefits reported as payables</i>	<i>411</i>	<i>477</i>
<i>Employee benefit provisions</i>	<i>22,440</i>	<i>21,472</i>
Aggregate Employee Benefit Liabilities	22,851	21,949

^(c) Refer Note 9 Other Assets.

^(d) The accrued benefits liability less the net market value of scheme assets represent the defined benefit obligations of the government. It excludes the accumulation component (ie employee accrued benefit liabilities and equivalent employee scheme assets) of the State Authorities Superannuation Scheme, as all the benefits and risks of the accumulation component of this scheme reside with the employees.

UNFUNDED SUPERANNUATION LIABILITY

State public sector superannuation liabilities are predominantly comprised of the four defined benefit schemes that make up the Pooled Fund and the Energy Industries Superannuation Scheme (EISS), the assets and liabilities of which were separated from the Pooled Fund in 1997.

The estimate of accrued benefit liabilities of the Total State Sector is based on calculations carried out by Mercer Human Resource Consulting, the SAS Trustee Corporation's actuary. Actuarial calculations were generally based on membership data as at 31 March 2004 projected to 30 June 2004.

The net market value of pooled fund assets comprises the actual June 2004 balance.

Forecast demographic assumptions are consistent with the 2003 Triennial Valuation of the Pooled Fund schemes. The forecast economic assumptions are as per the following tables.

	2004-05 and Thereafter
Pooled Fund Schemes	
Salary growth rate	4.0% pa
CPI growth rate	2.5% pa
Accrued benefits discount rate	7.3% pa
EISS	
Salary growth rate	4.0% pa
CPI growth rate	2.5% pa
Accrued benefits discount rate	7.5% pa

The unfunded superannuation liabilities shown are for employers and are the difference between the accrued benefit liabilities and the net market value of scheme assets to meet them.

The increase in unfunded liabilities over the twelve months to 30 June 2004 is largely explained by several factors:

- The increase in the accrued benefits due to an additional year of service being provided by current Pooled Fund scheme contributors; and
- The Crown made no superannuation contributions during 2003-04. However \$1,124 million of contributions were made during 2003-04 into the General Government Liability Management Ministerial Corporation (GGLMMC) rather than into the Pooled Fund. Lump sum payments will be made in future year(s) from the GGLMMC to the Pooled Fund; and

Offsetting the above:

- The actual investment performance of the Pooled Fund was positive 13.5% (positive 13.6% for EISS) in 2003-04, which is higher than the long term actuarially applied rate of positive 7% (positive 7.5% for EISS) per annum; and
- The Crown has revised the pooled fund accrued benefits discount rate from 7.0% per annum to 7.3% per annum.

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

13. OTHER LIABILITIES

	2004 \$m	2003 \$m
Current	731	542
Non-current	785	850
	1,516	1,392
Other Liabilities comprise:		
The Sydney Harbour Tunnel Agreement obligations	394	407
Deferred income	616	498
Other	506	487
	1,516	1,392

14. ASSET REVALUATION RESERVE

	2004 \$m	2003 \$m
Opening Balance	57,361	42,681
Net transfer to accumulated funds ^(a)	(5,848)	(578)
Net valuation increment ^(b)	7,003	15,258
Closing Balance	58,516	57,361

^(a) In 2004, the State Rail Authority and Rail Infrastructure Corporation (RIC) were restructured and a significant portion of their net assets were transferred to the newly established Rail Corporation New South Wales and the Transport Infrastructure Development Corporation. At the time of transferring out these assets State Rail and RIC wrote back to their accumulated funds an amount of \$5,698 million which represents the reserves associated with the assets transferred out.

^(b) In 2004, the net valuation increments include \$3,408 million valuation increments for public housing, \$1,673 million increments for rail assets, and \$961 million increments for Roads and Traffic Authority infrastructure and property assets. The 2003 net valuation increments include \$7,972 million valuation increments for public housing, \$3,269 million for Roads and Traffic Authority's infrastructure and property assets, and \$2,179 million for rail infrastructure assets.

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

15. ACCUMULATED FUNDS

	2004 \$m	2003 \$m
Opening balance	63,408	55,397
Adjustments due to changes in accounting policy ^(a)	...	7,856
Net transfer from Asset Revaluation Reserve	5,848	578
Other net adjustments	...	1
Add: Surplus/(Deficit) for the year	(3,783)	(424)
Closing Balance	65,473	63,408
<i>(a) On the adoption of Australian Accounting Standards</i>		
<i>- AASB1041 "Revaluation of Non-current Assets"</i>		
<i>- rail infrastructure assets reinstated - refer Note 1 Changes in Accounting Policies</i>	...	7,828
<i>- other AASB1041 adjustments</i>	...	7
<i>- Adjustment to provision liabilities on adopting AASB1044 "Provisions, Contingent Liabilities and Contingent Assets"</i>		
	...	(15)
<i>- Adjustment to employee benefits liabilities on adopting AASB1028 "Employee Benefits"</i>		
	...	(3)
<i>- Adjustment to insurance claims liabilities on adopting a claims incurred basis following the release of Urgent Issues Group Abstract UIG47</i>		
	...	(826)
<i>On the adoption of abstracts issued by the Urgent Issues Group</i>		
<i>- Recognition of insurance levies receivable on adopting a claims incurred basis following the release of Urgent Issues Group Abstract UIG47</i>		
	...	826
<i>- Derecognition of deferred gains and losses on rolling stock leases following the release of Urgent Issues Group Abstract UIG50</i>		
	...	39
	...	7,856

16. CASH FLOW INFORMATION

	2003-04 \$m	2002-03 \$m
RECONCILIATION OF OPERATING RESULT TO NET CASH FLOWS FROM OPERATING ACTIVITIES EXCLUDING FINANCIAL INSTITUTIONS		
Surplus/(Deficit) for the year	(3,783)	(424)
Adjust for:		
- Surplus of financial institutions	(108)	104
- Operating cash flow of financial institutions eliminated on consolidation	1,397	1,375
Non-cash items added back:		
- Depreciation and amortisation	4,092	3,843
- Loss/(Gain) on asset disposals	(5)	80
- Other	2,032	(690)
Change in operating assets and liabilities	4,406	4,982
Net cash flows from operating activities	8,031	9,270
	2004 \$m	2003 \$m

CLOSING CASH AND CASH EQUIVALENT BALANCES:

For purposes of the cash flow statement, deposits in the Treasury Corporations Hour-Glass cash facilities and other Treasury Corporation deposits (less than 90 days) are reported as cash and deposits at call.

Cash and deposits at call	3,595	3,057
Bank overdraft	(149)	(159)
	3,446	2,898

RESTRICTED CASH ASSETS

Public sector agency cash balances at 30 June 2004 include \$1,510 million of cash (2003 \$2,577 million), which is dedicated for a specific purpose. It includes \$487 million of cash funds set aside for future superannuation contributions by the General Government Liability Management Ministerial Corporation, restricted cash of

\$390 million under the control of the public health system, and \$300 million of school bank monies. In the Total State Sector Accounts, agency restricted cash balances within the Treasury Banking System are offset against the Crown's cash overdraft for cash management purposes.

DISPOSAL OF ENTITIES

There were no entities disposed of during 2003-04.

During 2002-03 the Government disposed of Powercoal Pty Ltd for a consideration of \$324 million.

Refer Note 4 (a) *Significant Items*, for further information on the sale transactions for Powercoal Pty Ltd.

ACQUISITION OF ENTITIES

During 2003-04 and 2002-03 there were no major acquisitions of entities.

NON-CASH FINANCING AND INVESTING ACTIVITIES

During 2003-04:

- A total of \$120 million was recognised for an emerging interest in private sector provided infrastructure. \$47 million was recognised by the Roads and Traffic Authority (2003 \$47 million), \$54 million by the Sydney Olympic Park Authority (2003 \$53 million) and \$15 million by the Ministry of Transport (2003 \$5 million);

- In respect of Sydney Water Corporation and its entities, assets which are acquired under finance leases, other financing arrangements or assets handed over at no cost by developers are not included in the Statements of Cash Flows as these are regarded as non-cash.

The amount capitalised during the financial year in respect of Sydney Water assets handed over at no cost by developers to the Corporation was \$58 million (2003 \$108 million).

- During 2003-04 \$187 million (2003 nil) in assets and borrowings was recognised for the first time by New South Wales Police for a finance lease on its headquarters in Parramatta. A further \$96 million was recognised by the Crown for finance lease motor vehicles (2003 \$44 million).

In 2002-03 the Australian Museum recognised its collection assets for the first time at a value of \$530 million.

It is impracticable to report on the numerous assets donated to NSW public sector agencies particularly dedicated for health, education and cultural purposes. They are generally recognised in individual agency financial statements.

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

NET CASH FLOWS OF FINANCIAL INSTITUTIONS	2003-04	2003-04	2002-03	2002-03
	\$m	\$m	\$m	\$m
	Gross	^(a) Net of Elimination	Gross	^(a) Net of Elimination
CASH INFLOWS (OUTFLOWS) FROM OPERATING ACTIVITIES				
Receipts				
Finance	1,689	282	1,664	262
Other	54	34	38	21
Total Receipts	1,743	316	1,702	283
Payments				
Employee Related	(10)	(9)	(9)	(9)
Finance	(1,820)	(1,807)	(1,402)	(1,374)
Other	(72)	(56)	(29)	(13)
Total Payments	(1,902)	(1,872)	(1,440)	(1,396)
NET CASH FLOW FROM OPERATING ACTIVITIES	(159)	(1,556)	262	(1,113)
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from Sale of Property, Plant & Equipment	...	...	...	...
Purchase of Property, Plant & Equipment	(1)	(1)	(1)	(1)
Purchase of Investments & Loans Made to Authorities	(5,602)	...	(4,827)	(25)
Loans to Authorities Repaid & Other Investing	4,143	49	4,626	...
Net Cash Flows From Investing Activities	(1,460)	48	(202)	(26)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from Borrowings	22,873	22,873	14,108	14,108
Repayments of Borrowings	(21,321)	(21,273)	(13,371)	(13,371)
Other	(24)	...	(18)	...
NET CASH FROM FINANCING ACTIVITIES	1,528	1,600	719	737
NET CASH FLOWS FROM FINANCIAL INSTITUTIONS	(91)	92	779	(402)

^(a) The cash flows from financial institutions have been reported separately within the Consolidated Cash Flow Statement net of eliminations with other consolidated entities.

17. TRUSTS UNDER MANAGEMENT

	2004	2003
	\$m	\$m
Trusts under management are held on behalf of beneficiaries and are not controlled by the State. Therefore, these trusts are not included in the Total State Sector assets.		
Trust under management mainly comprise various forms of estates under management, unclaimed monies and Supreme Court trust funds held in statutory accounts by the:		
Protective Commissioner	1,202	1,154
WorkCover Authority	1,192	960
NSW Treasury Corporation (fiduciary investments)	1,156	654
Office of the Public Trustee ^(a)	1,024	1,006
Rental Bond Board	571	531
Workers' Compensation (Dust Diseases) Board	64	58
Department of Health	44	39
Others	98	143
	5,351	4,545

^(a) The trust balances of the Public Trustee exclude certain property assets administered by the Public Trustee as they cannot be reliably measured.

18. EXPENDITURE COMMITMENTS

The following represents expenditure contracted for at balance date, but not recognised in the financial statements.

	2004	2003
	\$m	\$m
Capital Expenditure (including expenditure for private sector financed infrastructure assets)		
Roads and Traffic Authority	774	440
Transport Infrastructure Development Corporation ^(a)	608	...
Department of Health	537	451
Sydney Water Corporation	375	526
Rail Corporation New South Wales ^(a)	356	...
Landcom	165	84
NSW Police	139	40
Department of Education and Training	121	163
Ministry of Transport	100	130
NSW Land and Housing Corporation	83	112
Integral Energy	74	43
Macquarie Generation	68	54
TransGrid	51	163
Eraring Energy	37	51
Rail Infrastructure Corporation ^(a)	17	1,080
Department of Corrective Services	1	67
State Rail Authority ^(a)	...	466
Other agencies	238	204
	3,744	4,074

18. EXPENDITURE COMMITMENTS (cont)

	2004 \$m	2003 \$m
Capital Expenditure Commitments Payable:		
not later than one year	2,557	2,611
later than one year and not later than five years	968	1,445
later than five years	219	18
	3,744	4,074
Operating Lease Expenditure payable:		
not later than one year	673	605
later than one year and not later than five years	1,347	1,382
later than five years	572	630
	2,592	2,617
Other Expenditure Commitments payable:		
not later than one year	2,061	1,224
later than one year and not later than five years	1,955	1,510
later than five years	2,307	2,313
	6,323	5,047

The above expenditure commitments include, where appropriate, a component for goods and services tax, which is generally recoverable from the Australian Taxation Office.

Major Service Agreements for Filtered Water by Sydney Water Corporation

not later than one year	100	97
later than one year and not later than five years	416	407
later than five years - Net Present Value ^(b)	443	454

^(a) On 1 January 2004 The Transport Infrastructure Development Corporation was established. It has assumed the role of managing and constructing the Epping to Chatswood Rail Link. Rail Corporation New South Wales was also established on 1 January 2004 and operates and maintains the rail network, functions that were previously performed by the State Rail Authority and the Rail Infrastructure Corporation.

^(b) The cash flow amounts beyond five years are expressed in terms of net present value as these contracts extend over twenty five years. The discount rate used is 11.28% per annum nominal before tax, comprising 7% per annum real before tax and an estimated average inflation rate of 4% per annum.

19. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

CONTINGENT LIABILITIES	2004 \$m	2003 \$m
------------------------	-------------	-------------

Contingent Liabilities have been disclosed according to type. Note 19(A) reports quantifiable contingent liabilities, Note 19(B) guarantees, and Note 19(C) other contingent liabilities that cannot be quantified.

(A) QUANTIFIABLE CONTINGENT LIABILITIES comprise:

NSW Treasury Corporation (stock lending facility - bonds on loan) (less securities held)	252 (231)	261 (137)
NSW Police (claims including legal proceedings)	111	110
Rail Corporation (contractual and other claims)	98	...
Attorney General's Department (Victims Compensation and other claims)	65	77
Sydney Water Corporation (claims in respect of compensation and litigation)	43	29
Sydney Catchment Authority (claims including legal proceedings and contractual disputes)	22	22
FANMAC		
Eraring Energy (contractual claims)	15	...
State Rail Authority (commercial disputes, employee disputes, environmental, personal injury and property claims)	12	58
Department of Housing - Land and Housing Corporation (other claims)	10	10
Department of Community Services (claims mainly relating to children and persons in care)	9	13
Home Purchase Assistance Fund (potential income and cash shortfalls in FANMAC Trust system and excess rate caps)	9	12
NSW Fire Brigades (claims involving retrospective entitlements to fire fighters)	9	...
Department of Lands (claims involving legal proceedings of Land and Property Information)	8	8
Other agencies	37	27
TOTAL	469	490

(B) GUARANTEES provided to facilitate the provision of certain services and the construction of several infrastructure assets may give rise to contingent liabilities.

The major guarantees are:

- State guarantees are given to various organisations under statute. They mainly relate to certain co-operative housing societies \$113 million (2003 \$91 million).
- The State supports the borrowing of the FANMAC Trusts via the Home Purchase Assistance Fund to facilitate the provision of housing loans to low income earners. The total capital value of borrowings of the FANMAC Trusts not consolidated into these financial statements was \$59 million at 30 June 2004 (2003 \$51 million).
- The NSW Government indemnified TAB Ltd against decreases in revenue resulting from reductions in the monitoring fee determined by the Minister for Gaming and Racing. This fee is payable to TAB Ltd by hoteliers and registered clubs for gaming devices connected to the Centralised Monitoring System (CMS).

The NSW Government also indemnified TAB Ltd against losses during the term of the CMS licence resulting from a redetermination of the monitoring fee. However this excludes redeterminations made in accordance with the methodology and assumptions to derive the rate of return used by the Independent Pricing and Regulatory Tribunal in recommending the monitoring fee to the Minister.

In July 2004, TAB Ltd made a claim of up to \$3.03 million per month following the recent redetermination of the monitoring fee. The NSW Government is disputing this claim.

The NSW Government will also indemnify TAB Ltd against additional costs incurred to comply with amendments to TAB Ltd's CMS licence, but only to the extent that TAB Ltd is not adequately compensated for the additional costs by any increase in the monitoring fee.

- Issued securities, borrowings and derivative liabilities of the NSW Treasury Corporation with a market value of \$27.6 billion (2003 \$27.2 billion) have been guaranteed by the NSW Government under the Public Authorities (Financial Arrangements) Act 1987.
- The Sydney Olympic Park Authority (SOPA) has a liability for the Olympic Stadium and Sydney Superdome only in the event of a natural disaster or a breach of contract by SOPA. In the event of a natural disaster SOPA would be responsible for the full cost of replacing the stadium and superdome less any insurance recoveries by these venues. The possibility of either of these events occurring is considered remote.
- Pursuant to the State Bank (Privatisation) Act 1994, the State guaranteed all existing and future liabilities of the Bank until 31 December 1997. Thereafter while existing liabilities continue to be guaranteed until maturity, any new liabilities incurred after that date will not be guaranteed by the State. As at 30 June 2004 the total guaranteed liabilities of the Bank amounted to \$500 million (2003 \$1.2 billion).

Additionally, the State provided indemnities in respect of any losses incurred by the Bank as a result of matters existing in the books of the Bank as at 31 December 1994. These are estimated at \$11 million (2003 \$14 million).

- Under the Government Insurance Act 1927 the State guarantees the liabilities of the GIO in respect of general, life and reinsurance policies issued by it up until 15 July 1992.

Actuarial assessment of these liabilities:

	31 December 2003 \$m	31 December 2002 \$m
General insurance	225	216
Life insurance	176	209
Inward reinsurance	117	135
	<u>518</u>	<u>560</u>

The guarantee on these policies continues under the terms of the State Government Deed issued for the privatisation of the GIO.

Pursuant to clause 9 of the Deed, AMP merged all capital guaranteed policyholders into the AMP Statutory Fund No.1 including capital guaranteed "S" units in savings bonds. Thus the capital guarantee that could have arisen in respect of an option to convert "S" investment-linked units is no longer offered for new policies.

Consequently the Government guarantee which covered certain unit-linked life insurance policies with investment units convertible to capital guaranteed status, will no longer give rise to a policy liability. The maximum potential liability is estimated to be NIL (31 December 2002 \$912 million).

- On 28 June 2002 the Commonwealth's Snowy Mountain Hydro-electric Authority and Snowy Hydro Trading Pty Ltd as the electricity trading company, were formed into a new public company, Snowy Hydro Limited (SHL), owned by NSW, Victoria, and the Commonwealth. NSW owns 58 percent of the share in the company. The Treasurer of NSW entered into the following guarantees, indemnities and deeds as part of the agreements leading to the corporatisation of the Snowy Scheme.

It is not possible to estimate the amount of exposure at this time for the following five situations.

If under the Environmental Planning and Assessment Act or Water Management Act, SHL is required to modify its structures or lower dam levels to reduce the impact of cold-water releases from the scheme then, for up to 7 years from the corporatisation date, NSW will provide 58 percent of the amount necessary to maintain financial covenants and credit rating. The likelihood of such an event occurring will be significantly reduced if the proposed cold-water strategy is implemented by NSW. The strategy sets out that Snowy Hydro will not be required to undertake any modifications to dams or dam levels to mitigate the impact of cold water pollution until the seven year shareholder indemnity expires.

NSW is entitled to receive 58 percent of the income tax paid by Snowy Hydro Limited under a tax sharing agreement with the Commonwealth Government. However, if accumulated dividend imputation credits within the company have not been fully distributed to a shareholder government prior to the sale of more than 5 percent of its shares, the government selling their shares must repay the Commonwealth the value of the undistributed dividend imputation credits it was entitled to receive. The deed concludes when the 75 year Snowy Water licence is terminated, or when NSW sells its shares.

An indemnity has been provided to each of the 5 initial directors of SHL against the cost of claims arising as the result of liabilities transferred from the operation of the former Snowy Mountains Hydro-electric Authority and for implementing the corporatisation agreements. The duration of the risk relates to any claim lodged within 5 years of the corporatisation date. Currently there are no known claims.

Directors are required to seek insurance cover against the risk and there is a back-to-back indemnity from SHL to indemnify the governments for the cost of claims incurred, up to the amount that can lawfully be paid.

In the event that the Snowy Water Licence is changed in a manner that causes adverse financial impact for SHL, compensation for the amount of the impact will be paid to the company. NSW may be able to recover 42 percent of the compensation due if Victoria and the Commonwealth agree to the water licence changes. No amendments to the Snowy Licence are currently proposed. The Snowy Water Licence expires in 75 years or when terminated.

If the Water Ministerial Corporation gives an instruction to Snowy Hydro Limited which results in spills or releases from Jindabyne Dam that cause downstream damage to persons or property, SHL will be compensated by the Crown Entity for the proportion of claims incurred by the company. NSW will incur 58 percent of the cost of the claims against the company, if the Commonwealth and Victoria previously agreed with the instruction issued. No claims exist currently. However, the risk of exposure should be very low for several years while sufficient water savings are found and allocated to the Snowy River. This indemnity lasts until the Snowy Water Licence is terminated or expires in 75 years.

- The NSW Treasury Corporation has issued unconditional payment undertakings on behalf of some New South Wales government authorities participating in the wholesale electricity market to pay to the system administrators any amount up to an aggregate maximum agreed with individual participants.

The Corporation has also issued undertakings on behalf of other NSW government authorities in respect of those authorities' performance under contracts with third parties.

Amounts paid under these undertakings are recoverable from the NSW government authority participants. This financial accommodation is government guaranteed.

At year-end the agreed aggregate amounts totalled \$535 million (2003 \$627 million).

- Rail Infrastructure Corporation has provided secured guarantees and letters of credit to customers and insurers amounting to \$50 million (2003 \$61 million). All contingent liabilities represent rail maintenance operational commitments including license obligations for self insurance of workers compensation, contractual obligations for minor maintenance contracts and unquantifiable potential liabilities relating to environmental licenses and minor legal claims.
- Pacific Power, through its subsidiary Pacific Power (Subsidiary No.1) Pty Ltd was part of a consortium to construct the Tarong North and Callide C power stations. The engineering procurement and construction contracts required the parent company of each consortium member to provide a guarantee. When Pacific Power was dissolved, the Treasurer issued a guarantee to replace the previous guarantee issued by Pacific Power and some other Pacific Power guarantees were transferred to the Treasurer. Although these guarantees are enforceable under a range of conditions, they mainly cover the failure of the consortium to meet its obligations under the engineering procurement and construction contracts.

- To enable major projects to be undertaken the state has guaranteed the performance of the obligations of various statutory authorities under contracts with private sector parties. The current guarantees outstanding are for the following projects:

- Sydney Harbour Tunnel
- Macarthur Water Filtration Plant
- M2 Motorway
- Olympic Multi-Use Arena
- Olympic Stadium
- Eastern Distributor
- Illawarra and Woronora Water Treatment Plants
- Prospect Water Filtration Plant
- Cross City Tunnel
- Western Sydney Orbital
- Eastern Creek Waste Treatment Plant
- VISY Mill: Tumut Timber Supply Agreement.
- Lane Cove Tunnel

These guarantees are considered unlikely to ever be exercised.

- The State's motor vehicles are financed under three external leasing arrangements (Tranches 1-3) and one direct funding arrangement (Tranche 4) managed by StateFleet and funded by TCorp. Two of the external leasing arrangements, Tranches 1 and 2 have expired with no new leases entered into after June 2003. Agencies involved in Tranches 1 and 2 are now obtaining their motor vehicles under Tranche 4.

All four tranches are funded on a floating rate basis. Effectively there is a floating rate principal exposure of \$600 million as at 30 June 2004 (2003 \$584 million).

(C) OTHER CONTINGENT LIABILITIES exist, for example from pending litigation, which cannot be quantified. Included in these are:

- The State has a contingent liability under the Native Title Act 1993 (Commonwealth) and the Native Title (New South Wales) Act 1994. The extent of the liability cannot be quantified.

The liability arises as follows:

- Liability of the State to pay compensation to native title holders in respect to past acts and intermediate period acts (i.e. acts undertaken between October 1975 and December 1996 which were invalid because of native title) which were validated by operation of the Native Title Act 1993 and the Native Title (New South Wales) Act 1994.
- Liability of the State to pay compensation to native title holders arising from the undertaking of future acts (i.e. acts which effect native title undertaken after 1 January 1994 and for which the Native Title Act 1993 provides that compensation is payable) by the State and its instrumentalities. [The State has an indemnity under Section 104 of the Native Title (New South Wales) Act in respect to compensation arising from a compulsory acquisition of native title by an authority which is not the Crown in the right of the State.]

- The assets of the State in the form of Crown land and water may be reduced in value in the event that native title is determined to exist in all or any of these assets. The extent of the reduction in value cannot be quantified.

- The assets of the State in the form of unallocated and reserved Crown land may be reduced in value by operation of the Aboriginal Land Rights Act 1983 (NSW). Under that legislation a land council can apply for the grant of the freehold of claimable Crown land (as defined in Section 36 (1) of the Act) and the claim must be granted. The amount of any of loss in value cannot be quantified.
- Based on the definition of control in Australian Accounting Standard AAS24, Affiliated Health Organisations listed in the Third Schedule of the Health Services Act 1997 are only recognised in the Department's Consolidated Financial Statements to the extent of cash payments made.

However, it is accepted that a contingent liability exists which may be realised in the event of cessation of health service activities by any affiliated health organisation.

In this event the determination of assets and liabilities would be dependent on any contractual relationship that may exist or be formulated between the administering bodies of the organisation and the Department.

- Through the New South Wales Structured Finance Activities, the State entered into several cross border leases in respect of electricity and rolling stock assets. There are two categories of contingent liabilities with respect to these transactions:
 - (i) The first type of contingency arises by virtue of the NSW Government indemnity provided for each transaction. The exposure relates to the change of law risk and administration risk in relation to the covenants given under the lease transactions; and

- (ii) The second type of contingency is where the Crown Entity has a third party risk in terms of monies being placed on deposit with a counter party. The counterparty contingent liability is estimated to be \$649 million (2003 \$648 million). The amount of the counterparty contingent liability reflects the term nature of the deposits and the valuation of the Australian dollar against the US dollar. NSW Treasury Corporation regularly monitors this risk.

During the 2004 financial year there have been no changes in the credit standing of the deposit counterparties which range from BBB+ to AAA.

- The Department of Environment and Conservation has a prior claim for compensation for land acquired under the Land Acquisition (Just Terms Compensation) Act 1991. The estimated cost will be determined by the Land and Environment Court in due course.

Additionally, the department has prior claims for compensation or is involved in litigation in relation to fires across a large portion of the State, and other incidents resulting in death, injury or damage to persons and/or property generally within or adjacent to National Parks. The Department has no basis for quantifying the future liability.

These claims were previously under the former National Parks and Wildlife Service.

- In March 1997 the Department of Education and Training was advised that long service leave entitlements for casual teaching staff were extended to cover relief employment retrospective to May 1985. Entitlement requires demonstration of continuous service.

It is not possible to determine how many casual teachers may have entitlement for long service leave. Consequently it is not possible to quantify the liability for long service leave for casual teachers.

- Landcom has entered into several development projects that include possible contingent liabilities. In the event of realisation, Landcom would be entitled to receive property to the estimated value of the liability. For instance Landcom commenced the Rouse Hill Regional Centre Project this year. Should the contractors default, Landcom would be required to purchase the site for \$71 million.

Last year Landcom purchased a block of land at Edmondson Park. If the land is rezoned by 21 August 2005 Landcom would be required to make a further payment of \$2 million.

Road repairs of structural failures on Landcom constructed roads are guaranteed in the Narellan release area for a twenty year period commencing October 1988. The cost is not quantifiable at this stage.

- The Land and Environment Court have before it a claim that all land valuations are flawed and need to be reduced. In the first instance, the Court found in favour of the Commissioner and on appeal to the High Court the matter was referred back to the Land and Environment Court for rehearing. At this point it is not possible to determine what impact this may have on the State's financial position. The impact will be reviewed once the Land and Environment Court deliver their determination.
- Government authorities own some land that may require future remediating. No liability is recognised until the value of the remediation can be reliably measured.

- A claim for compensation is being pursued via arbitration against Transgrid for an alleged reduction in the value of a coal mine due to the construction of a transmission tower.

At this stage it is not possible for management to form an opinion on the likely outcome of the proceedings.

- British American Tobacco is currently suing the NSW Government for repayment of tobacco franchise fees. These fees were declared unconstitutional by the High Court in 1997. For NSW to be financially disadvantaged BAT would have to overcome NSW legislation preventing repayment in such cases and Commonwealth windfall gains tax legislation enacted in 1997.

- As a condition of the sale of Pacific Power International Pty Ltd the State has an obligation to compensate the trustee of the electricity industry superannuation fund if certain conditions exist at a certain time. The time will be the earlier of:

- Connell Wagner (the purchaser) ceasing to be an employer in the fund; or
- the last benefit is paid; or
- the relevant assets are exhausted.

The conditions that must exist are that:

- there is actually a shortfall of assets; and
- the investment return has been less than assumed (7% pa).

The amount of the contribution to be paid if these conditions are met at this time is the lesser of:

- the actual shortfall of the assets; and
- the shortfall in the assets due to lower than assumed investment return.

Based on currently forecast investment returns, the expected liability is zero.

- The State of NSW has been involved in a court case (Amaca Pty Ltd v State of New South Wales) claiming a contribution by the State to damages payable as a result of exposure to asbestos dust. Following an appeal to the High Court, on 7 August 2003, the High Court remitted the matter to the New South Wales Court of Appeal for rehearing. On 17 May 2004 the NSW Court of Appeal held that the State of NSW was not liable. Amaca is now seeking special leave to appeal to the High Court again. The High Court has not

yet heard this application for leave. The damages, if any, cannot be quantified.

- The Australian Taxation Office (ATO) has raised an issue with the Ministry of Transport regarding the treatment of GST. The matter is the subject of negotiations between the ATO and NSW government officials. At this stage, it is not possible to quantify any impact on the financial statements.

CONTINGENT ASSETS

Contingent assets exist in respect of guarantees received and from pending litigation. These include:

- The Ministry of Transport is holding performance bonds and deeds including bonds for \$100 million (2003 \$110 million) relating to the sale of Freight Rail Corporation.
- As a result of the collapse of HIH Insurance Limited the Crown Entity took over liabilities of approximately \$650 million. This was in respect of building warranty and third party motor insurance.

The liquidation of HIH Insurance Limited has commenced and the Crown Entity expects a return which cannot be reliably measured.

- Transgrid initiated legal proceedings during the year to recover \$8 million of adjudicated payments from its contractors. Additionally Transgrid lodged a claim against a contractor for liquidated damages and recovery of overpayments to the value of \$6 million. It is not possible for management to form an opinion on the likely outcome of the proceedings.

20. EVENTS OCCURRING AFTER REPORTING DATE

As at the date of this report, there are no known significant events occurring after reporting date.

21. COMPLIANCE WITH APPROPRIATIONS

Details of compliance with parliamentary appropriations are contained in the annual reports of Budget dependent agencies. The "Summary of Compliance with Financial Directives" in each agency's annual report includes a summary of

recurrent and capital appropriations disclosing separately the original and revised amounts appropriated, and relevant expenditure for the reporting period.

22. FINANCIAL INSTRUMENTS

INTEREST RATE RISK EXPOSURES

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The State's exposure to interest rate risks and the effective weighted

average interest rate for each major class of financial assets and financial liabilities are set out in the following tables:

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

	Notes	Floating interest rate 2004 \$m	Fixed interest rate maturing in:			Non- interest bearing 2004 \$m	TOTAL 2004 \$m	Weighted average effective interest 2004 %
			1 year or less 2004 \$m	1 to 5 years 2004 \$m	Over 5 years 2004 \$m			
Financial Assets								
Cash ^(a)	16	3,595	...	...	...	...	3,595	
Receivables	5	...	...	...	...	4,568	4,568	
Investments								
- Administered by TCorp ^(b)	6	3,024	626	3,328	626	...	7,604	10.1
- TCorp Placements	6		3,603	120	66	...	3,789	5.0
- In Associates					560	7	567	16.1
- Other	6	739	176	262	39	476	1,692	5.6
Total Financial Assets		7,358	4,405	3,710	1,291	5,051	21,815	
Financial Liabilities								
Bank Overdraft	11	149	...	...	...	...	149	
Payables	10	...	...	...	...	4,361	4,361	
Domestic and Foreign								
Borrowings	11	...	3,404	12,984	9,488	...	25,876	6.1
Liability to Commonwealth								
Government	11	...	44	229	1,399	...	1,672	4.6
Finance Leases	11	...	211	296	322	...	829	
Total Financial Liabilities		149	3,659	13,509	11,209	4,361	32,887	

	Notes	Floating interest rate 2003 \$m	Fixed interest rate maturing in:			Non- interest bearing 2003 \$m	TOTAL 2003 \$m	Weighted average effective interest 2003 %
			1 year or less 2003 \$m	1 to 5 years 2003 \$m	Over 5 years 2003 \$m			
Financial Assets								
Cash ^(a)	16	3,057	...	...	...	...	3,057	
Receivables	5	...	...	...	...	4,387	4,387	
Investments								
- Administered by TCorp ^(b)	6	4,892	94	833	898	...	6,717	-0.2
- TCorp Placements	6		3,314	160	47	...	3,521	5.4
- In Associates		4	...	...	545	41	590	13.2
- Other	6	655	128	137	29	617	1,566	4.8
Total Financial Assets		8,608	3,536	1,130	1,519	5,045	19,838	
Financial Liabilities								
Bank Overdraft	11	159	...	...	...	...	159	
Payables	10	...	...	...	...	4,139	4,139	
Domestic and Foreign								
Borrowings	11	...	6,699	10,907	7,619	...	25,225	6.6
Liability to Commonwealth								
Government	11	...	104	269	1,403	...	1,776	4.7
Finance Leases	11	...	320	430	76	...	826	
Total Financial Liabilities		159	7,123	11,606	9,098	4,139	32,125	

ASSETS ADMINISTERED BY NEW SOUTH WALES TREASURY CORPORATION (TCORP)

TCorp acts as a manager of funds or actively manages asset portfolios on behalf of state government entities. Management of these funds is primarily through Hour Glass facilities and Special Client Mandates. TCorp appoints external fund managers to manage the bulk of these monies and monitors their performance against appropriate investment guidelines. These administered assets are reported as fiduciary activities in TCorp's financial statements.

Special Client Mandates occur when TCorp undertakes management of cash and asset portfolios on behalf of clients who do not wish to participate in the pooled arrangements of the Hour Glass facilities.

The value of Hour Glass facilities and Special Client Mandates can vary depending upon market conditions. The value that best represents the maximum credit risk exposure is the net fair value.

A typical Hour Glass investment is represented by a number of units of a managed investment Pool, with each particular pool having different investment horizons and being comprised of a mix of asset classes appropriate to that horizon.

^(a) *Cash*

The State's interest in Hour Glass Cash and Cash Plus facilities are brought to account as cash because they enable deposits and withdrawals to be made on a daily basis and are not subject to significant risk of a change in value.

	2004	2003
	\$m	\$m
<i>Hour Glass Cash</i>	1,214	1,114
<i>Special Client Mandate</i>	577	113
<i>Cash administered by Tcorp</i>	1,791	1,227
<i>Other</i> ^(#)	1,804	1,830
<i>Total Cash</i>	3,595	3,057

^(#) *Other includes cash bank balances adjusted for unrepresented cheques and outstanding deposits.*

^(b) *Investments - Hour Glass Facilities and Special Client Mandates*

TCorp manages investment portfolios on behalf of state entities through Hour Glass facilities which are reported at market value. TCorp also manages the Special Client Mandate investment portfolio of the New South Wales Insurance Ministerial Corporation's Treasury Managed Fund, General Government Liability Management Ministerial Corporation, the Crown Entity's liquidity fund and the Electricity Tariff Equalisation Ministerial Corporation.

<i>Fixed Interest</i>	121	96
<i>Medium to Long Term</i>	576	501
<i>Treasury Managed Fund (Hour Glass facility)</i>	1,947	1,792
<i>Special Client Mandate</i>	4,960	4,328
<i>Total Investments Administered by TCorp</i>	7,604	6,717

NET FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Financial instruments are carried at cost or market value.

The net fair value of cash and cash equivalents and non-interest bearing monetary financial assets and financial liabilities of the State approximates their carrying value.

The net fair value of other monetary financial assets and financial liabilities is based upon market prices where a market exists or by discounting the expected future cash flows by the current interest rates for assets and liabilities with similar risk profiles.

	Total carrying amount 2004 \$m	Aggregate net fair value 2004 \$m	Total carrying amount 2003 \$m	Aggregate net fair value 2003 \$m
Financial Assets				
Cash	3,595	3,595	3,057	3,057
Receivables	4,568	4,568	4,387	4,387
Investments	7,604	7,604	6,717	6,717
- Administered by TCorp				
- TCorp Placements	3,789	3,797	3,521	3,546
- In Associates	567	567	590	590
- Other	1,692	1,692	1,566	1,566
Total Financial Assets	21,815	21,823	19,838	19,863
Financial Liabilities				
Bank Overdraft	149	149	159	159
Payables	4,361	4,361	4,139	4,139
Domestic and Foreign Borrowings	25,876	26,080	25,225	26,315
Liability to Commonwealth Government	1,672	1,471	1,776	1,656
Finance Leases	829	829	826	826
Total Financial Liabilities	32,887	32,890	32,125	33,095

Credit Risk

Credit risk is the risk of financial loss arising from another party to a contract/financial position failing to discharge a financial obligation. The State's maximum exposure to credit risk is best represented by the carrying amounts of the financial assets included in the consolidated Statement of Financial Position.

The State is not materially exposed to concentrations of credit risk to a single debtor or to a group of debtors. The entities comprising the NSW State Sector are required to exercise prudential controls over the investment of financial assets.

OFF-BALANCE SHEET DERIVATIVE FINANCIAL INSTRUMENTS

The State is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in interest and foreign exchange rates.

Interest Rate Derivatives

New South Wales Treasury Corporation manages the debt portfolio of the Crown, the Roads and Traffic Authority and a number of the State's commercial entities. A number of other commercial entities engage private sector financial institutions to manage, or advise on the management of their debt portfolios.

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

The Treasury's Debt Management Policy requires that entities with significant debt portfolios manage the portfolio against a benchmark portfolio. This benchmark portfolio reflects the risk and return preferences of the individual entities. The debt manager must ensure that the average maturity of the actual debt portfolio is within an agreed range of the benchmark portfolio.

In order to achieve this, NSW Treasury Corporation and/or individual agencies use swaps, forward rate agreements and futures.

Foreign Exchange Derivatives

In order to achieve the most cost effective funding of the State's debt, NSW Treasury Corporation conducts a number of debt issues in foreign currencies in foreign capital markets.

All such exposures are fully hedged through the use of cross currency swaps and forward foreign exchange contracts.

A number of entities in the NSW Public Sector enter into forward foreign exchange contracts to hedge certain purchase and sale commitments entered into in the normal course of business.

Electricity Hedging Contracts

The State-owned electricity generation and retail businesses enter into various types of hedging contracts with electricity market counterparties to manage the risks associated with fluctuations in wholesale electricity market prices in accordance with Board approved policy.

DERIVATIVE FINANCIAL INSTRUMENTS ^(c)

	Floating interest rate 2004 \$m	Fixed interest rate maturing in:			Non-interest bearing 2004 \$m	TOTAL 2004 \$m	Aggregate net fair value 2004 \$m
		1 year or less 2004 \$m	1 to 5 years 2004 \$m	Over 5 years 2004 \$m			
Receivable							
Swaps	...	2,699	4,349	717	...	7,765	...
Futures	...	360	108	99	...	567	...
Payable							
Swaps	(7,765)	...	...	...	...	(7,765)	(214)
Futures	...	...	(3)	(6)	...	(9)	(1)

	Floating interest rate 2003 \$m	Fixed interest rate maturing in:			Non-interest bearing 2003 \$m	TOTAL 2003 \$m	Aggregate net fair value 2003 \$m
		1 year or less 2003 \$m	1 to 5 years 2003 \$m	Over 5 years 2003 \$m			
Receivable							
Swaps	...	2,902	2,447	538	...	5,887	1
Futures	...	...	71	2	...	73	...
Payable							
Swaps	(5,837)	(100)	...	...	...	(5,937)	(386)
Futures	...	(50)	(577)	(104)	...	(731)	...

^(c) Notional Principal Amounts. Brackets indicate a net liability. Net fair value amounts are only available on a net receivable/payable basis.

23. DISCONTINUING OPERATIONS

There are no discontinuing operations to report for 2003-04

24. DISAGGREGATED FINANCIAL STATEMENTS

Assets, liabilities, revenues and expenses that are reliably attributable to each broad sector of activities of the Government are set out below. The broad sectors have been determined in accordance with the Government Finance Statistics Standards of the Australian Bureau of Statistics.

For the purpose of this disclosure, effects of transactions and balances between sectors have not been eliminated, but those between entities within each sector have been eliminated.

Pursuant to National Competition Policy, the Government has implemented a National Tax Equivalents Regime for Public Trading Enterprises and some General Government agencies.

Tax effect accounting principles have therefore been adopted by all agencies, which are part of the National Tax Equivalents Regime. On consolidation, the general government sector adopts the same policy to enable elimination of deferred tax amounts for the Total State Sector Accounts.

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THE NSW TOTAL STATE SECTOR ACCOUNTS
DISAGGREGATED STATEMENT OF REVENUE AND
EXPENSES FOR THE YEAR ENDED 30 JUNE 2004

	General Government		Public Trading Enterprises	
	2003-04	2002-03	2003-04	2002-03
	\$m	\$m	\$m	\$m
REVENUES FROM ORDINARY ACTIVITIES				
State Revenues				
Taxation	15,002	14,154	...	...
Commonwealth Grants	15,494	15,228	...	...
Financial Distribution	1,480	1,471	...	...
Fines, Regulatory Fees and Other	901	866	...	...
Total State Revenues	32,877	31,719	...	...
Operating Revenues				
Sale of Goods and Services	2,619	2,598	9,410	9,063
Investment Income	964	512	84	100
Grants and Contributions	599	818	2,657	2,457
Recognition of Assets for the First Time	...	1,045	...	...
Net Gain/(Loss) on Disposal of Physical Assets	(10)	(110)	15	30
Other	357	607	468	776
Total Operating Revenues	4,529	5,470	12,634	12,426
EXPENSES FROM ORDINARY ACTIVITIES				
Employee Benefits				
- Superannuation	1,474	4,140	167	608
- Other	15,415	14,653	3,228	3,251
Other Operating	10,362	7,514	5,850	2,890
Maintenance	1,381	1,353	932	918
Depreciation and Amortisation	1,924	1,773	2,166	2,068
Grants and Subsidies	7,158	6,795	695	724
Borrowing Costs	784	831	926	937
Total Expenses	38,498	37,059	13,964	11,396
NET COST OF SERVICES	(33,969)	(31,589)	(1,330)	1,030
SURPLUS/(DEFICIT) FOR THE YEAR BEFORE FINANCIAL DISTRIBUTIONS				
Income Tax Equivalent Expense	...	...	521	510
Dividend Provisions	...	...	915	939
SURPLUS/(DEFICIT) FOR THE YEAR AFTER FINANCIAL DISTRIBUTIONS	(1,092)	130	(2,766)	(419)

THE NSW TOTAL STATE SECTOR ACCOUNTS
DISAGGREGATED STATEMENT OF REVENUE AND
EXPENSES FOR THE YEAR ENDED 30 JUNE 2004

Public Financial Enterprises		Eliminations		Total State Sector	
2003-04	2002-03	2003-04	2002-03	2003-04	2002-03
\$m	\$m	\$m	\$m	\$m	\$m
...	...	(806)	(717)	14,196	13,437
...	...	...	...	15,494	15,228
...	...	(1,480)	(1,471)	...	...
...	...	...	3	901	869
...	...	(2,286)	(2,185)	30,591	29,534
17	13	(412)	(359)	11,634	11,315
1,682	1,647	(1,420)	(1,522)	1,310	737
17	21	(2,407)	(2,168)	866	1,128
...	...	...	...	...	1,045
...	...	...	...	5	(80)
...	2	...	(8)	825	1,377
1,716	1,683	(4,239)	(4,057)	14,640	15,522
1	1	...	...	1,642	4,749
10	9	(163)	(170)	18,490	17,743
31	12	(352)	(253)	15,891	10,163
...	...	...	...	2,313	2,271
2	2	...	...	4,092	3,843
...	...	(2,975)	(2,696)	4,878	4,823
1,553	1,754	(1,555)	(1,634)	1,708	1,888
1,597	1,778	(5,045)	(4,753)	49,014	45,480
119	(95)	806	696	(34,374)	(29,958)
119	(95)	(1,480)	(1,489)	(3,783)	(424)
12	8	(533)	(518)	...	...
33	25	(948)	(964)	...	...
74	(128)	1	(7)	(3,783)	(424)

**THE NSW TOTAL STATE SECTOR ACCOUNTS
DISAGGREGATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE**

	General Government		Public Trading Enterprises	
	2004	2003	2004	2003
	\$m	\$m	\$m	\$m
Current Assets				
Cash Assets	1,820	1,091	1,228	1,157
Receivables	2,947	2,561	1,734	1,501
Other Financial Assets	1,088	3,231	355	454
Inventories	135	116	506	579
Other	106	70	217	147
Total Current Assets	6,096	7,069	4,040	3,838
Non-Current Assets				
Receivables	3,899	3,900	216	184
Other Financial Assets	9,320	5,518	144	183
Property, Plant and Equipment				
Land and Buildings	40,541	38,518	39,992	35,994
Plant and Equipment	5,805	5,622	4,223	3,587
Infrastructure Systems	33,667	34,465	37,978	40,827
Forestry Stock	...	...	1,609	1,573
Inventories	39	38	403	319
Other	1,196	1,072	643	636
Total Non-Current Assets	94,467	89,133	85,208	83,303
TOTAL ASSETS	100,563	96,202	89,248	87,141
Current Liabilities				
Payables	2,333	2,179	2,181	1,926
Interest Bearing	2,426	2,820	2,063	2,326
Provisions	2,320	2,173	1,792	1,540
Other	607	508	180	97
Total Current Liabilities	7,686	7,680	6,216	5,889
Non-Current Liabilities				
Interest Bearing	10,045	9,151	11,593	10,837
Provisions	25,252	23,707	3,396	3,529
Other	979	1,007	293	338
Total Non-Current Liabilities	36,276	33,865	15,282	14,704
TOTAL LIABILITIES	43,962	41,545	21,498	20,593
NET ASSETS	56,601	54,657	67,750	66,548
Equity				
Asset Revaluation Reserves	24,916	21,766	33,600	35,595
Accumulated Funds	31,685	32,891	34,150	30,953
TOTAL EQUITY	56,601	54,657	67,750	66,548

THE NSW TOTAL STATE SECTOR ACCOUNTS
DISAGGREGATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE

Public Financial Enterprises		Eliminations		Total State Sector	
2004	2003	2004	2003	2004	2003
\$m	\$m	\$m	\$m	\$m	\$m
865	1,008	(318)	(199)	3,595	3,057
304	312	(1,767)	(1,420)	3,218	2,954
8,479	8,768	(5,329)	(5,896)	4,593	6,557
...	...	...	...	641	695
...	...	...	...	323	217
9,648	10,088	(7,414)	(7,515)	12,370	13,480
...	...	(2,765)	(2,651)	1,350	1,433
17,606	15,854	(18,011)	(15,718)	9,059	5,837
1	1	...	...	80,534	74,513
2	2	...	...	10,030	9,211
...	...	...	...	71,645	75,292
...	...	...	...	1,609	1,573
...	...	...	...	442	357
...	...	(350)	(367)	1,489	1,341
17,609	15,857	(21,126)	(18,736)	176,158	169,557
27,257	25,945	(28,540)	(26,251)	188,528	183,037
392	528	(545)	(494)	4,361	4,139
4,001	7,222	(4,682)	(5,009)	3,808	7,359
51	40	(1,110)	(796)	3,053	2,957
...	...	(56)	(63)	731	542
4,444	7,790	(6,393)	(6,362)	11,953	14,997
23,142	18,562	(20,062)	(17,923)	24,718	20,627
33	29	(1,598)	(1,471)	27,083	25,794
...	...	(487)	(495)	785	850
23,175	18,591	(22,147)	(19,889)	52,586	47,271
27,619	26,381	(28,540)	(26,251)	64,539	62,268
(362)	(436)	...	...	123,989	120,769
...	...	...	...	58,516	57,361
(362)	(436)	...	...	65,473	63,408
(362)	(436)	...	...	123,989	120,769

25. DETAILS OF CONSOLIDATED ENTITIES

The Total State Sector comprises the following entities and the entities that they control. Data was not consolidated for a number of small entities controlled by the state government (identified below with an asterisk) as they are not considered material for whole-of-government purposes. For completeness, they have been listed below as part of the government reporting entity:

General Government	Aboriginal Housing Office
Sector Agencies	Adult Migrant Education Service (*)
	Air Transport Council (*)
	ANZAC Memorial Building Trustees (*)
	Art Gallery of NSW Foundation (*)
	Art Gallery of New South Wales
	Attorney General's Department
	Audit Office of New South Wales
	Aus Health International Pty Ltd (*)
	Australia Day Council (*)
	Australian Museum
	Board of Vocational Education and Training (*)
	Building and Construction Industry Long Service Leave Payments Corporation
	Building Insurers Guarantee Corporation (*)
	Cabinet Office
	Casino Control Authority
	Catchment Management Authorities (a)
	CB Alexander Foundation (*)
	Chipping Norton Authority (*)
	Centennial Park and Moore Park Trust
	Coal Compensation Board
	Coastal Council of NSW (*)
	Commission for Children and Young People
	Community Relations Commission
	Consolidated Fund
	Crown Solicitor's Office (*)
	Crown Entity
	Crown Leaseholds Entity
	Crown Property Portfolio
	Dams Safety Committee (*)
	Department of Aboriginal Affairs
	Department of Ageing, Disability and Home Care
	Department of Agriculture (b)
	Department of Commerce
	Department of Community Services
	Department of Corrective Services
	Department of Education and Training
	Department of Energy, Utilities and Sustainability (c)
	Department of Environment and Conservation (d)
	Department of Gaming and Racing
	Department of Health

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

General Government
Sector Agencies
(continued)

Department of Infrastructure, Planning and Natural Resources
 Department of Juvenile Justice
 Department of Lands
 Department of Local Government
 Department of Mineral Resources ^(b)
 Department of Primary Industries ^(b)
 Department of Rural Fire Service
 Department of Sport and Recreation ^(e)
 Department of State and Regional Development
 Department of Tourism, Sport and Recreation ^(e)
 Department for Women ^(f)

Eastern Creek Raceway
 Energy and Water Ombudsman ^(*)
 Environmental Trust
 Environment Protection Authority ^(d)
 Electricity Tariff Equalisation Ministerial Corporation

Farrer Memorial Research Scholarship Fund ^(*)
 Festival Development Corporation ^(*)

Game Council of New South Wales ^(*)
 Greyhound Racing Authority ^(*)

Harness Racing Authority ^(*)
 Health Care Complaints Commission
 Health Foundation of NSW ^(*)
 Heritage Office
 Historic Houses Trust of New South Wales
 Home Care Service of New South Wales
 Home Purchase Assistance Fund
 Honeysuckle Development Corporation
 Hunter Catchment Management Trust ^(*)

Independent Commission Against Corruption
 Independent Pricing and Regulatory Tribunal
 Independent Transport Safety and Reliability Regulator ^(a)
 Institute of Sport (NSW) ^(*)
 Institute of Teachers ^(*)
 Internal Audit Bureau ^(*)

Judicial Commission of New South Wales

Lake Illawarra Authority ^(*)
 Land and Property Information New South Wales
 Legal Aid Commission of New South Wales
 Lord Howe Island Board ^(*)
 Liability Management Ministerial Corporation
 Luna Park Reserve Trust
 Mines Subsidence Board ^(*)
 Minister Administering Environmental Planning and Assessment Act
 (incorporating Sydney Region Development Fund and Land Development
 Contribution Fund)

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

General Government
Sector Agencies
(continued)

Ministry of Energy and Utilities ^(c)
Ministry for Police
Ministry for Science and Medical Research ^(g)
Ministry for the Arts
Ministry of Transport ^(m)
Motor Accidents Authority
Motor Vehicle Repair Industry Council ^(*)
Museum of Applied Arts and Sciences

National Parks and Wildlife Service ^(d)
Natural Resources Commission ^(h)
New South Wales Adult Migrant English Service
New South Wales businesslink ⁽ⁱ⁾
New South Wales Cancer Council ^(*)
New South Wales Crime Commission
New South Wales Film and Television Office
New South Wales Fire Brigades
New South Wales Fisheries ^(b)
New South Wales Food Authority ^(j)
New South Wales Insurance Ministerial Corporation
New South Wales Medical Board ^(*)
New South Wales Police

Office of Co-ordinator General of Rail ^(k)
Office of Government Business
Office of Government Procurement
Office of the Board of Studies
Office of the Children's Guardian
Office of the Director of Public Prosecutions
Office of Protective Commissioner and Public Guardian ^(*)
Ombudsman's Office

Parliamentary Counsel's Office
Police Integrity Commission
Premier's Department
Psychiatry Institute of NSW ^(*)
Public Trust Office - Administration

Registry of Births, Deaths and Marriages
Rental Bond Board
Resource NSW ^(d)
Roads and Traffic Authority
Royal Botanic Gardens and Domain Trust
Rural Assistance Authority

Safe Food Production NSW ^(j)
South Sydney Development Corporation ^(*)
Sporting Injuries Committee ^(*)
State Electoral Office
State Emergency Service

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

**General Government
Sector Agencies
(continued)**

State Library of New South Wales
State Records Authority
State Sports Centre Trust
Stormwater Trust
Superannuation Administration Corporation
Sustainable Energy Development Authority
Sydney Olympic Park Authority

Technical Education Trust Fund ^(*)
The Cabinet Office
The Legislature
The Sequicentenary of Responsible Government Trust ^(*)
Tourism New South Wales ^(e)
Tow Truck Authority of New South Wales ^(*)
Treasury

Upper Parramatta River Catchment Trust ^(*)

Vocational Education and Training Accreditation Board ^(*)

Waste Planning and Management Fund
Waterways Authority
Wild Dog Destruction Board ^(*)
WorkCover Authority
Workers Compensation (Dust Diseases) Board

**Public Trading
Enterprises**

Australian Inland Energy Water Infrastructure

City West Housing Pty Ltd
Cobar Water Board ^(*)
Country Energy
Crown Entity - Trading Activities

Delta Electricity
Department of Housing – Land and Housing Corporation

EnergyAustralia
Eraring Energy

Fish River Water Supply Authority

Integral Energy

Hunter Water Corporation

Jenolan Caves Reserves Trust ⁽¹⁾

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

Public Trading
Enterprises (continued)

Landcom

Macquarie Generation

Newcastle International Sports Centre Trust ^(*)
Newcastle Port Corporation
Newcastle Showground ^(*)
New South Wales Lotteries Corporation

Parramatta Rail Link ^(m)
Parramatta Stadium Trust
Port Kembla Port Corporation

Rail Corporation New South Wales ^(m)
Rail Infrastructure Corporation ^(m)
Residual Business Management Corporation ⁽ⁿ⁾

State Forests of New South Wales
State Rail Authority ^(m)
State Transit Authority
State Water ^(o)
Sydney Catchment Authority
Sydney Cricket Ground and Sports Ground Trust
Sydney Ferries ^(p)
Sydney Harbour Foreshore Authority
Sydney International Aquatic and Athletic Centres ^(*)
Sydney Opera House
Sydney Ports Corporation
Sydney Water Corporation

Teacher Housing Authority
Transport Infrastructure Development Corporation ^(m)
TransGrid

Waste Recycling and Processing Corporation
Wentworth Park Sporting Complex Trust ^(*)
Wollongong Sports Ground Trust

Zoological Parks Board

Public Financial
Enterprises

Fair Trading Administration Corporation
FANMAC Trusts

New South Wales Treasury Corporation

- ^(a) Established on 1 January 2004.
- ^(b) On 1 July 2004 the Department of Agriculture, NSW Fisheries, Department of Mineral Resources were abolished and replaced by the Department of Primary Industries.
- ^(c) On 1 January 2004, the Ministry of Energy and Utilities was abolished and replaced by the Department of Energy, Utilities and Sustainability.
- ^(d) On 24 September 2003 the National Parks and Wildlife Service, Environment Protection Authority and Resource NSW were abolished and replaced by the Department of Environment and Conservation.
- ^(e) On 29 August 2003 the Department of Sport and Recreation and Tourism New South Wales were abolished and replaced by the Department of Tourism, Sport and Recreation.
- ^(f) On 1 July 2004 the Department for Women was abolished and its functions transferred to the Premier's Department.
- ^(g) Established 1 December 2003.
- ^(h) Established 11 December 2003.
- ⁽ⁱ⁾ Established 1 July 2004.
- ^(j) On 1 April 2004 Safe Food Production NSW was abolished and replaced by the NSW Food Authority.
- ^(k) Abolished 31 December 2003.
- ^(l) Abolished 31 January 2004 and functions transferred to the Department of Environment and Conservation.
- ^(m) On 1 January 2004 Rail Corporation New South Wales (RailCorp) and the Transport Infrastructure Development Corporation (TIDC) were established. Assets were vested to RailCorp from the State Rail Authority and Rail Infrastructure Corporation primarily to operate and maintain the rail network. Assets were vested to TIDC from State Rail Authority, Ministry for Transport and the Rail Infrastructure Corporation, primarily for the management and construction of the Epping to Parramatta Rail Link.
- ⁽ⁿ⁾ Pacific Power was dissolved on 1 July 2003. The Residual Business Management Corporation was established and assumed the residual net assets of the former Pacific Power.
- ^(o) Established 1 July 2004 as a separate Public Trading Enterprise from the previous State Water Unit of the Department of Energy Utilities and Sustainability.
- ^(p) Sydney Ferries was established on 1 July 2004 as a separate Public Trading Enterprise from the State Transit Authority
- ^(*) Data was not consolidated for a number of small entities controlled by the state government as they are not considered material for whole-of-government purposes. For completeness, they have been listed above as part of the government reporting entity.

END OF AUDITED FINANCIAL REPORT