

NEW SOUTH WALES REPORT ON STATE FINANCES 2004 - 05

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ISSN 1441-7979

PREFACE

The 2004-05 New South Wales Report on State Finances includes:

- An audited Statement of the Budget Result;
- the Outcomes Report on Government Finances for the general government, public trading enterprises, public financial enterprises, and the non-financial public sectors, prepared in accordance with Government Finance Statistics principles and the Uniform Presentation Framework adopted by all Australian governments; and
- the Consolidated Financial Report of the Total State Sector, prepared in accordance with Australian Accounting Standards.

The Statement of the Budget Result allows a comparison of the end of year aggregates with those estimated in the 2004-05 Budget. The Outcomes Report allows readers to compare the results for New South Wales with other States.

The Consolidated Financial Report of the Total State Sector 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*.

Morris Iemma MP
Premier and Treasurer

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HIGHLIGHTS

- A Budget surplus for the year ended 30 June 2005 of \$695 million. This is \$142 million below the original Budget estimate of \$837 million, however \$126 million higher than the revised estimate published in the 2005-06 Budget Papers.
- The smaller Budget surplus in 2004-05 relative to the original estimate results from higher general government expenditure (\$1,067 million above budget) more than offsetting the increase in revenue (\$925 million above budget).
- The higher expenditure was largely attributed to increases in spending in the key service delivery areas of health (\$421 million) and transport (\$407 million).
- Revenue growth, although higher than estimated at Budget time, softened over the course of 2004-05 on the back of weaker conditions in the property market. The higher growth in revenues also resulted from improved market returns on investments and increases in mining royalties, driven by higher commodity prices.
- The underlying cash surplus for 2004-05 was \$210 million (GFS basis).
- The State's balance sheet (GFS basis) continues to strengthen. Assets rose by \$8,743 million, while liabilities rose by \$4,336 million. As a result, the net worth of the Total State Sector rose to \$128,690 million.
- General Government Sector net debt on an underlying basis (excluding investments held for future superannuation contributions) fell by \$290 million to \$2,303 million or 0.8 percent of Gross State Product.
- Total State Sector net debt fell by \$336 million to \$11,688 million, or 3.8 percent of Gross State Product (GSP) compared with 4.2 percent in June 2004.
- Total State Sector net financial liabilities remain low at 14.1 percent of GSP compared to 15.0 percent in June 2004. In 1995 they stood at 26.9 percent of GSP.
- The Government updated its fiscal strategy with the introduction of the Fiscal Responsibility Act 2005. The Act includes fiscal targets and principles designed to further reduce the level of net financial liabilities and constrain the growth in expenses in the general government sector.
- The State's credit rating remains AAA, reflecting the strength of the New South Wales Government balance sheet.

Figure 1

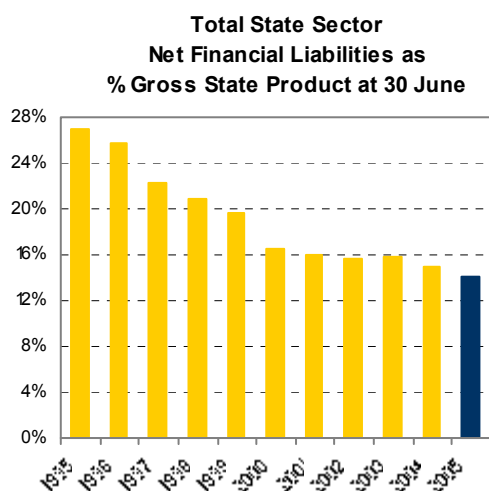
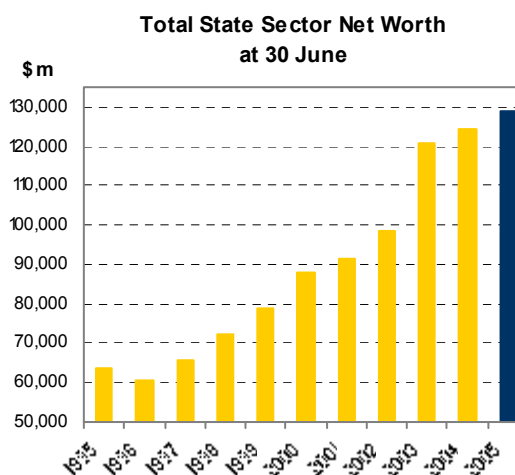


Figure 2



HIGHLIGHTS

KEY GOVERNMENT FINANCIAL RESULTS 2004-05

	Net Operating Balance ^(a)	Net Lending/ (Borrowing) ^(a)	Underlying Cash Surplus/(Deficit) ^(a)
	\$m	\$m	\$m
NSW	695	(202)	210
Vic	795	337	760
Qld	2,725	1,753	3,127
SA	173	59	62
WA	1,240	878	862
Tas	134	92	160
NT	23	(11)	46
ACT	(270)	(149)	(22)
Commonwealth	11,207	11,061	13,616

(a) Government Finance Statistics General Government Sector Results
Source: 2004-05 Outcomes Report (NSW, Victoria, WA and the Commonwealth actual result)
2005-06 Budget Papers (other jurisdictions estimated result)

Figure 3

**Budget Surplus (Net Operating Result)
1999-2000 to 2004-05**

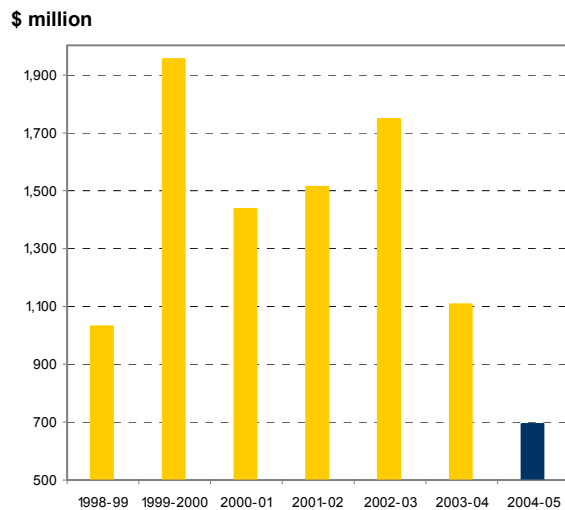
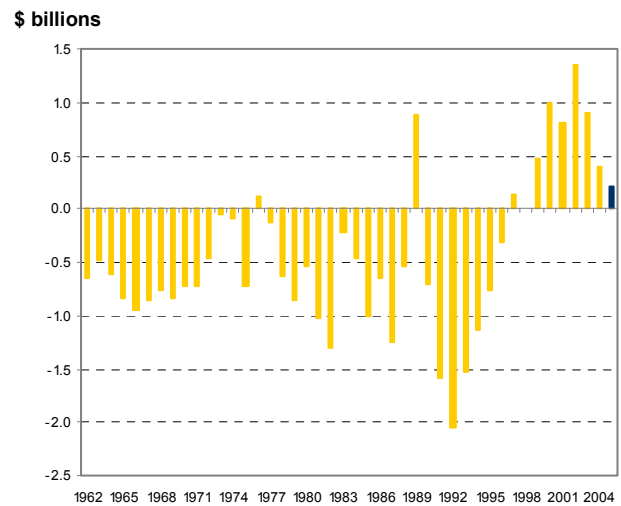


Figure 4

**General Government Cash Result (Underlying)
1961-62 to 2004-05
(at constant 2004-05 prices)**



HIGHLIGHTS

KEY FINANCIAL INDICATORS			
		2003-04	2004-05
GENERAL GOVERNMENT SECTOR			
Budget Surplus – GFS Net Operating Surplus	\$m	1,105	695
GFS Net Lending / (Borrowing)	\$m	35	(202)
Underlying Cash Surplus	\$m	398	210
Underlying Net Debt	\$m	2,593	2,303
Underlying Net Debt as a % of Gross State Product	%	0.9	0.8
Underlying Net Unfunded Superannuation Liability	\$m	12,609	12,458
Net Financial Liabilities (NFL)	\$m	24,790	24,706
NFL as a % of Gross State Product	%	8.8	8.1
TOTAL STATE SECTOR			
AAS31 Operating Result excluding Significant Items – Surplus	\$m	134	395
AAS31 Operating Result including Significant Items - Surplus/(Deficit)	\$m	(3,783)	727
Net Debt	\$m	12,024	11,688
Net Debt as a % of Gross State Product	%	4.2	3.8
Net Unfunded Superannuation Liability	\$m	15,850	16,487
Net Financial Liabilities (NFL)	\$m	42,373	43,066
NFL as a % of Gross State Product	%	15.0	14.1
GFS Total Assets	\$m	189,519	198,262
GFS Total Liabilities	\$m	65,236	69,572
GFS Net Worth	\$m	124,283	128,690

Throughout this Report NSW Treasury has estimated 2004-05 Gross State Product (GSP). The Australian Bureau of Statistics has yet to publish its 2004-05 estimate of GSP.

REVIEW OF FINANCIAL PERFORMANCE FOR 2004–2005

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 2004-05 and the actual result.

Although the Budget relates to the General Government Sector only, commentary has also been provided on the variances over the same period for the Public Trading Enterprise (PTE) Sector, enabling a fuller analysis of GFS results. 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.

REVIEW OF FINANCIAL PERFORMANCE FOR 2004–2005

ANALYSIS OF THE GFS STATEMENT OF THE BUDGET RESULT

	Budget	Actual	Var
	\$m	\$m	\$m
Total State Revenues	33,929	34,268	339
Total Operating Revenues	4,346	4,932	586
Total Expenses	(37,438)	(38,505)	(1,067)
Budget Result	837	695	(142)

The Budget result for the financial year ended 30 June 2005 was a surplus of \$695 million. This represented a \$142 million decrease on the original 2004-05 projection of a surplus of \$837 million (see NSW General Government Sector Statement of the Budget Result page 1-5).

State and operating revenues increased by \$339 million and \$586 million respectively against budget. The net movements in revenues and expenses resulted in an unfavourable variance of \$142 million against budget.

More detailed explanations of the above movements are provided hereunder.

STATE REVENUES

	Budget	Actual	Var
	\$m	\$m	\$m
State Revenues			
Taxation	15,520	15,330	(190)
Commonwealth Grants			
- General Purpose	10,004	10,181	177
- Specific Purpose	5,756	6,011	255
Financial Distributions	1,670	1,600	(70)
Fines, Regulatory Fees and Other	979	1,146	167
Total State Revenues	33,929	34,268	339

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.

Whilst the 2004-05 Budget assumed a weakening in transfer duty revenue, reflecting milder price growth and more subdued activity, the market was weaker than expected. A lower volume of

residential and non-residential transactions, an increase in the cost of the first home buyer concessions, and greater than expected cost of exemptions from vendor duty combined to reduce the revenue from property transfers by \$598 million from the Budget time projection.

Payroll Tax

Payroll tax revenue of \$4,823 million was \$132 million higher than the Budget time estimate due to the stronger than expected wage and employment growth within firms that are liable for payroll tax.

Other Taxes

Other taxes were \$276 million higher than the Budget estimate. The major contributor was an increase in land tax receipts, which was \$196 million higher than the Budget time estimate due to stronger than expected growth in land values across the State. There were also improvements in motor vehicle weight tax revenue (due to an increased number of heavier vehicles), and increases in share transfer duty and gaming and racing taxes. This was partly offset by a reduction of \$39 million in motor vehicle registration revenue due to lower than expected new vehicle registrations.

Commonwealth Grants

Commonwealth general purpose payments are comprised of GST revenue grants, GST transitional assistance - termed budget balancing assistance (BBA), and National Competition Policy (NCP) payments. In 2004-05, general purpose grants were \$177 million greater than budget, although only 2.2% higher than in 2003-04 due to a cut of \$345 million in grants resulting from the Grants Commission process.

Specific purpose payments were \$255 million above budget mainly due to increases in grants for drought assistance, national highways development and to implement national water initiatives.

REVIEW OF FINANCIAL PERFORMANCE FOR 2004–2005

Financial Distributions

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

A reduction of \$70 million in financial distributions in 2004-05 was due largely to lower returns from the State's electricity generators.

Fines, Regulatory Fees and Other

Revenue from fines, regulatory fees and other revenues was \$167 million higher than the 2004-05 Budget estimate. A significant proportion of this increase was due to increased mining royalties arising from higher than expected coal prices and also from improvements in fine collection processes.

OPERATING REVENUES

	Budget	Actual	Var
	\$m	\$m	\$m
Operating Revenues			
Sale of Goods and Services	2,729	2,803	74
Investment Income	778	1,047	269
Grants and Contributions	601	668	67
Other Revenue	238	414	176
Total Operating Revenues	4,346	4,932	586

Sale of Goods and Services

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

In 2004-05, sale of goods and services revenues exceeded the Budget estimate by \$74 million. This increase comprised the aggregate of improvements in a number of agencies.

The main increase was \$23 million in hospital charges resulting from higher throughput.

In addition, a large number of agencies had small favourable movements, including fees for Education mainly from overseas students, Attorney General's Department from Local and Supreme Court fees and New South Wales Fire Brigades from false alarm charges.

Investment Income

Revenue from investments includes returns on advances to Public Trading Enterprises, returns on Treasury Corporation deposits, and on deposits with financial institutions.

In 2004-05, investment revenue improved by \$269 million over the Budget estimate. This mainly reflected stronger than expected market returns for the NSW Self Insurance Corporation, the Building and Construction Industry Long Service Payments Corporation and the Liability Management Ministerial Corporation, and also on Department of Health deposits held with financial institutions.

Grants and Contributions

Grants and Contributions revenue was \$67 million higher than the Budget estimate. This was largely associated with a change in accounting treatment for grants received for the Country Towns Program (\$73 million), which is offset by a similar increase in expenses. The increase is partially offset by deferral of developer contributions to the Waterways Authority for the development of King Street Wharf (\$23 million).

Other Operating Revenue

Other operating revenue in 2004-05 was \$176 million higher than the Budget estimate. This increase includes \$13 million arising from a change in accounting treatment for long term assets held by Sydney Olympic Park Authority and \$21 million increase in valuation of the Government's interest in the Sydney Harbour Tunnel. The remainder comprises the aggregation of a number of minor revenue improvements across a range of agencies and an increase in transfers of land free of charge from the private sector and from Reserve Trusts.

REVIEW OF FINANCIAL PERFORMANCE FOR 2004–2005

EXPENSES

Health expenses were \$421 million higher than the Budget estimate. This mainly reflected spending on increased bed capacity, initiatives to improve patient services and provide additional surgery, and the return of the Port Macquarie Hospital to public ownership. Expenditure was also higher as a result of in-year Award decisions for Career Medical Officers and other selected health service occupations. In addition, a number of transactions were reclassified from capital to recurrent expenditure.

Roads and Traffic Authority expenses were \$266 million higher than the Budget estimate. This was mainly due to increases in maintenance, road safety, traffic and transport management programs funded from increases in motor vehicle taxes, Commonwealth and other grants, and the reclassification of \$35 million of capital expenditure to expenses. Depreciation costs also increased by \$143 million following an asset revaluation review.

Transport expenses were \$141 million higher than the Budget estimate. This reflects additional grants to rail agencies to meet operating and restructure costs, and payments to private bus service operators associated with the reform of Sydney metropolitan bus services.

Education expenses were \$89 million higher than the Budget estimate. This increase was due to executive teacher pay rises, additional expenditure on building maintenance including demountables, depreciation, and school cleaning.

Department of Energy, Utilities and Sustainability expenses were \$80 million higher than the Budget estimate mainly due to the change in accounting treatment of grants for the Country Towns Water and Sewerage Supply Scheme (\$73 million), which is offset by a similar increase in contributions received from Local Water Utilities.

Department of Primary Industries expenses were \$76 million higher than the Budget estimate due to an extension of drought assistance, funded by increased Commonwealth grants, and responses to pest and disease outbreaks. The increased expenses also included voluntary redundancy costs associated with departmental restructuring.

Department of Infrastructure, Planning and Natural Resources expenses increased by \$68 million over the Budget estimate due to additional planning work undertaken for the Metropolitan Strategy and costs associated with implementing national water initiatives and property vegetation plans.

Building and Construction Industry Long Service Payments Corporation expenses were \$45 million higher than the Budget estimate mainly due to an upward revision of long service liabilities in line with actuarial assessment.

Rural Assistance Authority expenses were \$39 million higher than the Budget estimate mainly due to increased drought assistance payments funded by Commonwealth Grants.

NSW Insurance Ministerial Corporation expenses were \$146 million lower than the Budget estimate due to a significant reduction in claims payments, partially offset by a minor upward revision of liabilities for outstanding claims.

Coal Royalty Compensation expenses were \$63 million lower than the Budget estimate due to a downward revision of the compensation liability.

Catchment Management Authorities (CMA) expenses were \$53 million lower than the Budget estimate due to CMA Boards not being fully operational until towards year end.

REVIEW OF FINANCIAL PERFORMANCE FOR 2004–2005

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 \$227 million. In 2004-05 \$2,048 million was provided to rail agencies to subsidise rail maintenance, capital and other operating expenses. PTEs built or purchased \$3,653 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 2004-05 of \$1,380 million compared to the budgeted deficit of \$1,915 million.

This \$535 million improvement in the PTE sector result reflected additional grants provided for rail operating costs, and lower than budgeted capital expenditure. The variance on capital expenditure was due to changes in the timing of delivery and/or completion dates for particular infrastructure projects in the electricity, water, rail, transport and port sectors. Capital expenditure in the property development sector also decreased consistent with the downshift in demand in the property market.

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

Over the period June 1994 through to June 2005 the Net Worth of the NSW Total State Sector has doubled.

The Total State Sector's Net Worth was \$128,690 million at 30 June 2005, an increase of \$4,407 million or 3.5 percent on the previous year.

The \$4,407 million increase in Net Worth comprises an increase in non-financial assets of \$5,100 million offset by a small increase in Net Financial Liabilities of \$693 million.

The adoption of new international accounting standards (AEIFRS) in 2005-06 will result in a reduction in net worth of around \$10 billion and a similar increase in total state net financial liabilities. Note 25 of the Total State Sector Accounts details the financial impact of AEIFRS.

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 valued at \$171,756 million at 30 June 2005, an increase of \$5,100 million on the previous year. This included an increase in investment in property and infrastructure of \$7,002 million, and asset revaluations of \$3,669 million. These were offset by depreciation of \$4,106 million, asset disposals of \$1,152 million and other movements of \$313 million.

Capital Expenditure in the State's property and infrastructure in 2004-05 included investments in:

• educational facilities	\$437 million
• hospitals and equipment	\$473 million
• roads	\$1,170 million
• public housing	\$427 million
• transport	\$1,019 million
• energy infrastructure	\$1,472 million
• water infrastructure	\$562 million

In addition, several agencies performed cyclical revaluations of their property, plant and equipment during the financial year. As a result the value of roads increased by \$1,626 million and hospitals by \$1,017 million. At June 2005 a number of private sector financed infrastructure projects were in various stages of completion, including the Cross City Tunnel, (opened in August 2005), WestLink M7 Motorway (scheduled to open in December 2005) and the Lane Cove Tunnel (expected to open in 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.

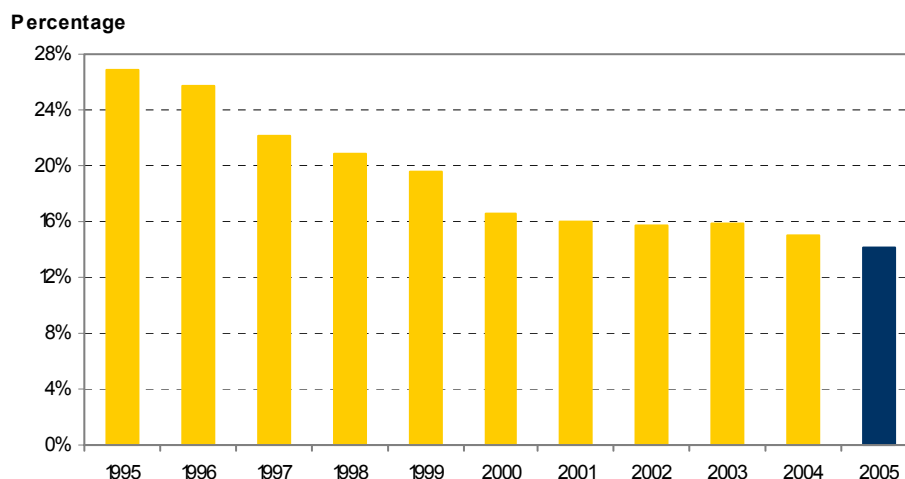
Total State Sector NFL fell from \$44,087 million (26.9 percent of GSP) in June 1995 to \$43,066 million (14.1 percent of GSP) in June 2005. (Refer Figure 5).

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 government services throughout the economic cycle.

REVIEW OF FINANCIAL PERFORMANCE FOR 2004–2005

Figure 5

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



Net Financial Liabilities (NFL) comprise:

	June 2005 \$m	June 2004 \$m
Net Debt	11,688	12,024
Unfunded Superannuation Liabilities	16,487	15,850
Other Employee Entitlements	7,333	6,911
Insurance Obligations	7,277	6,722
Other Net Liabilities	281	866
Net Financial Liabilities	43,066	42,373

The \$693 million net increase in Total State NFL was due to:

- growth in superannuation liabilities (\$637 million);
- an increase in other employee entitlements (\$422 million); and
- an increase in public liability and other insurance obligations (\$555 million).

These were offset by:

- reductions in Net Debt (\$336 million); and
- a decrease in other net liabilities (\$585 million).

Net Debt

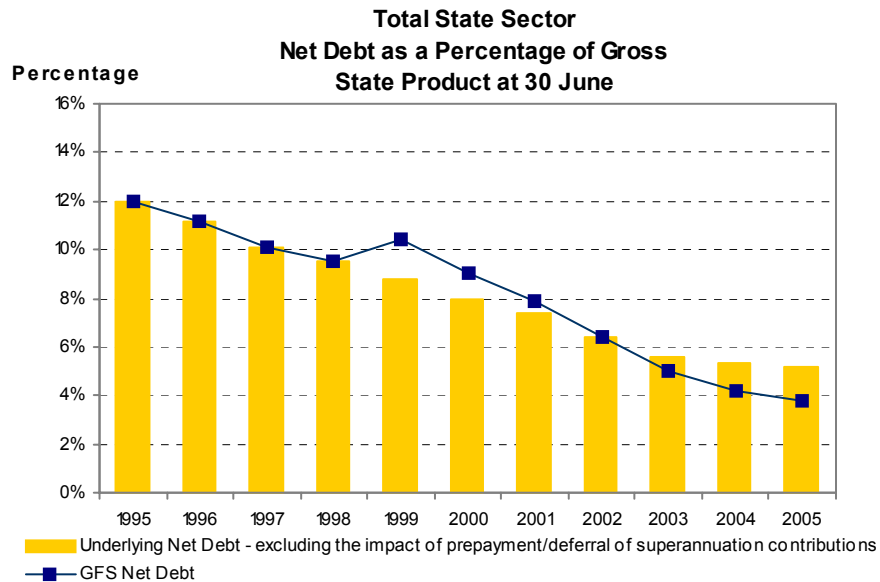
Total State Sector Net Debt fell by \$336 million to \$11,688 million for the year ended 30 June 2005.

Net Debt comprises borrowings less cash, investments and advances receivable. The \$336 million reduction in Net Debt is primarily the result of the cash surplus for the non-financial public sector in 2004-05.

During 2004-05, gross debt increased by \$2,935 million. However, this was more than offset by higher cash and investments of \$3,271 million. The increase in cash and investments primarily relates to funds set aside towards meeting future insurance and superannuation obligations. The increase in gross debt includes the partial funding of the PTE capital program from borrowings.

The Net Debt of the State as a percentage of GSP fell from 4.2 percent in June 2004 to 3.8 percent in June 2005. Excluding the investments associated with the deferral of superannuation contributions, Net Debt as a percentage of GSP fell slightly from 5.3 percent in June 2004 to 5.2 percent in June 2005, 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 2004-05 net unfunded superannuation liabilities grew by \$637 million. This is a result of:

- The Crown set aside a further \$975 million 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 GGLMMC 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 13.0 percent in 2004-05, which is higher than the long-term actuarially applied rate of positive 7.3 percent per annum.

Assets in the defined benefits schemes are \$20,401 million at 30 June 2005.

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.

In this context, “fully funded” means that by 2030 no further employer contributions will need to be made. The amount of reserves at that time, plus expected investment returns for the remainder of the life of the Pooled Fund schemes will be sufficient to fund future expected benefit payments.

Note 25 to the Total State Sector Accounts reports that the State’s net worth will fall by about \$10 billion to \$118 billion on adopting international accounting standards (AEIFRS) in 2005-06. This results primarily from a change in how *superannuation liabilities* must be measured.

The superannuation liabilities are currently measured in present value dollars using a discount rate. The new standards require the actuaries to apply a different discount rate. Previously a stable long-term earnings rate was applied (7.3 percent). Now a (more volatile) government bond rate is required, which was 5.2 percent at June 2005. A fall in the discount rate leads to a higher present value for liabilities.

REVIEW OF FINANCIAL PERFORMANCE FOR 2004–2005

Whilst *public and private sector reporting entities* are now required to apply the long-term bond discount rate, the *superannuation schemes* are required to report using a different standard that follows the previous methodology. The NSW public sector superannuation schemes will continue to report the lower liability on a “funding basis”, whereas statutory bodies (and the Total State Sector Accounts) will be prepared in accordance with the new AEIFRS.

It is the view of Treasury that the funding basis provides a better indication of the level of unfunded liabilities and therefore the amount of employer funding required over the long-term to meet future superannuation obligations.

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 2004-05 insurance obligations grew by \$555 million or 8.3 percent to \$7,277 million.

Insurance liabilities administered by the NSW Self Insurance Corporation (SICCorp) accounted for \$380 million of this growth. SICCorp liabilities increased due to the emergence of a further year’s claims, and a decrease in liability discount rates (a lower discount rate increases the present value of the liability). The increased liability was partly offset by reductions to the size of claims following legislative reforms, particularly for workers compensation insurance.

Other Net Liabilities

Other net liabilities fell during 2004-05 by \$585 million to \$281 million.

Other net liabilities primarily comprise non-employee provisions and payables, less receivables and equity assets. Two transactions significantly reduced other net liabilities between June 2004 and 2005:

- The recognition in 2004-05 of \$248 million in prepaid budget balancing assistance received in 2003-04; and

- A \$168 million increase in 2004-05 in insurance levies receivable, accrued by the Workers Compensation (Dust Diseases) Board. The increase matches a similar level of increase in their insurance claims liabilities, which will be recovered through levies included in workers compensation premiums.

Net Worth

The movement in various financial and non-financial assets and liabilities, outlined above, resulted in growth in Net Worth during 2004-05 by \$4,407 million to \$128,690 million.

The 2004-05 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 \$395 million in 2004-05 compared with a surplus of \$134 million in 2003-04. However, a number of significant revenue and expense items result in an overall surplus of \$727 million being reported in 2004-05.

These comprise a \$1,137 million lower superannuation expense as a result of higher fund earnings than actuarially applied long-term earning rates. Partly offsetting this were downward adjustments to asset values of \$805 million. These include adjustments to Sydney Olympic Park Authority assets for the Showground, Olympic Stadium and Superdome, and a consolidation adjustment by Treasury associated with the treatment of land under roads.

The operating result for 2003-04 included the following significant items:

- 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.

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.

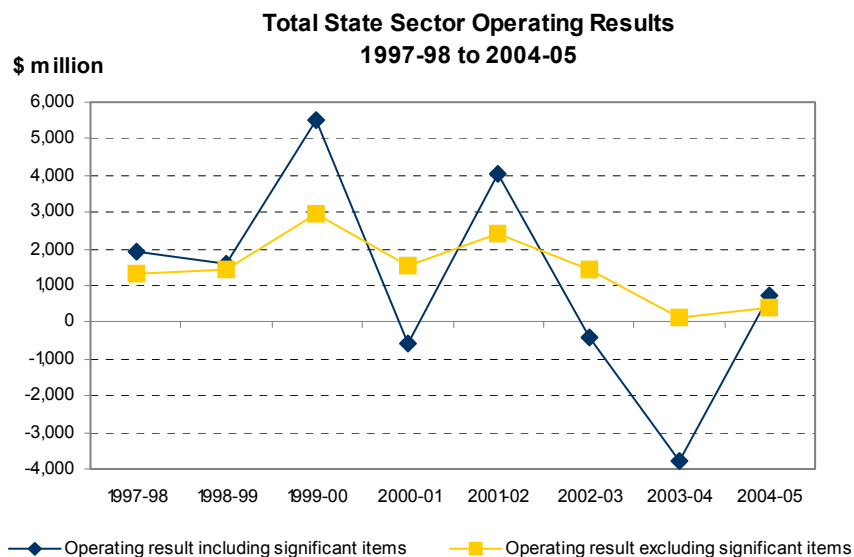
The Total State Sector Operating Result excluding significant items on an accounting basis comprised

	2004-05 \$m	2003-04 \$m
Total State Revenues	32,086	30,591
Operating Revenues	15,279	14,561
Less Total Expenses	(46,970)	(45,018)
<hr/>		
Operating Surplus excluding Significant Items	395	134

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.

REVIEW OF FINANCIAL PERFORMANCE FOR 2004–2005

Figure 7



Total State Revenues

Total State Revenues, including Commonwealth grants, operating revenue and State taxes, rose \$1,495 million or 4.9 percent between 2003-04 and 2004-05.

Taxation revenue increased in 2004-05 by \$550 million or 3.9 percent.

Payroll tax was up \$509 million or 12.2 percent, mainly driven by growth in employment and wages. Land tax was higher by 22.1 percent reflecting growth in land values. Gambling and betting revenues were up 11.3 percent, reflecting the growth in disposable income and the increases in tax rates on club and hotel gaming machines. Other taxes were up 15.3 percent, driven by an increase in contributions for the Workers Compensation (Dust Diseases) Board.

Offsetting these increases, stamp duties fell by \$700 million or 12.7 percent. A downturn in property market activity and expansion of the first home buyer concession from April 2004 led to declines in purchaser transfer duty and mortgage transfer duty of \$1,005 million and \$83 million respectively. This decrease in duties was partly reversed by an additional \$369 million in vendor duty following its introduction in June 2004, and \$26 million in share transfer duty due to an increase in large transactions.

Commonwealth grants revenue rose by 4.5 percent compared to 2003-04. GST revenue provided to NSW was up \$212 million, or 2.2 percent with higher Commonwealth government collections being offset by the impact of the 2004 Grants Commission report which saw NSW grant share fall by \$345 million.

Specific purpose grants increased 8.2 percent over 2003-04. These included increases in grants dedicated for health programs, the Australian Immunisation Agreement, land transport, school building, Natural Heritage Trust and for natural disaster assistance.

Fines, Fees and Other State Revenues increased by \$247 million or 27.4 percent in 2004-05. The major components of this increase were:

- mining royalties, up by \$163 million due to a change in the basis of measurement from volume to price based, and the impact of higher commodity prices; and
- Roads and Traffic Authority licence fees, up \$42 million on 2003-04, reflecting the variable renewal pattern of 3 and 5 year licences.

REVIEW OF FINANCIAL PERFORMANCE FOR 2004–2005

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 \$718 million or 4.9 percent to \$15,279 million in 2004-05. The growth in operating revenues was driven by a broad increase in revenue from the sale of goods and services, grants, and investment income, partly offset by a small fall in other revenues.

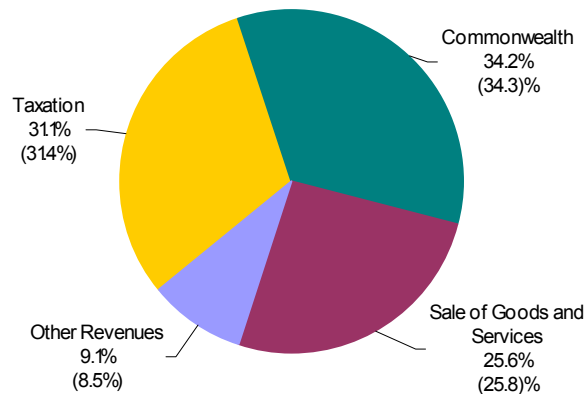
The largest component, revenues from sale of goods and services grew by 4.1 percent or \$477 million reflecting a general rise in user charge income across the public sector.

The rise in **Investment income** resulted from higher cash and investments in 2004-05. It includes a further investment of \$975 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. Investment earning rates were similar between 2003-04 and 2004-05.

Revenues from **grants and subsidies** rose by \$212 million, primarily the result of increased developer contributions, and a change in the accounting treatment that grosses up contributions by local water authorities towards the Country Towns Water Sewerage Supply Scheme. Previously these water revenues, and associated grant expenses, were excluded as transfer payments.

Figure 8

**Total State Sector Revenue 2004-05
(2003-04 in brackets)**



REVIEW OF FINANCIAL PERFORMANCE FOR 2004–2005

Expenses

Total State Sector accrued expenses excluding significant transactions grew by \$1,952 million or 4.3 percent in 2004-05. The growth in expenses has been across various categories explained below.

Employee benefit expenses (excluding superannuation) grew by 7.0 percent during 2004-05 to \$19,790 million, reflecting improved pay levels particularly for teachers, health and police employees.

The New South Wales Public Sector average staffing for the 2004-05 year was 291,000 employees compared with 288,000 in 2003-04.

Superannuation expenses fell by \$370 million from the previous year. The decrease in superannuation was the result of lower pooled fund expenses partly offset by higher contributions for compulsory accumulation schemes.

During 2004-05 **other operating expenses** rose by \$529 million or 5.3 percent, after excluding significant items. This includes a \$192 million increase in insurance expenses following an actuarial update to dust diseases claim liabilities.

Maintenance expenditure increased by \$186 million or 8.0 percent in 2004-05. This reflects higher budget funding for rail infrastructure maintenance, and additional spending for the State's road system. It should be noted that additional maintenance expenditure is recorded in employee benefits expense, where agencies undertake in-house maintenance.

Depreciation expense was constant at 2003-04 levels. However, excluding the 2003-04 depreciation expense on assets transferred to the Australian Rail Track Corporation under an agreement with the Commonwealth, other depreciation expenses increased across the public sector by 4.8 percent during 2004-05.

Grants and subsidies rose overall by \$140 million or 2.9 percent in 2004-05, reflecting the Government's increased allocation of resources towards education, community, ageing, disability and homecare services.

Accrued **borrowing costs** rose by \$153 million or 9.0 percent, due to a small increase in the weighted average effective interest rate, and the level of gross debt, which is supporting further capital expenditure.

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.

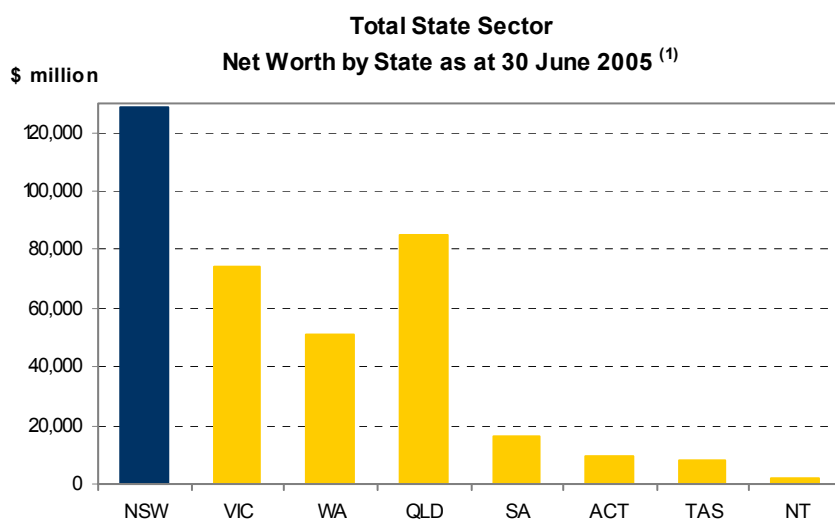
The publishing of consolidated government aggregates will focus the community's attention on how well, over time, governments are managing their total assets and total liabilities.

Final published consolidated financial statements are not yet available for 2004-05 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 2005.

The Net Worth of the NSW Public Sector (GFS Basis) at 30 June 2005 was \$128,690 million, the strongest of all States.

Figure 9



⁽¹⁾ 30 June 2005, latest available information
Source: 2004-05 Outcomes Report (NSW, Victoria and WA actual result)
2005-06 Budget Papers (other jurisdictions estimated result)

Net Financial Liabilities as a percentage of GSP is an important measure of the government's fiscal position.

Figure 10 compares Net Financial Liabilities as a percentage of economic output for each State and the Commonwealth. Published (Total Public Sector) Net Financial Liabilities information for other states is not yet available for June 2005.

Figure 10 is therefore based on the latest published Government Finance Statistics information which is for June 2004. Net Financial Liabilities in New South Wales as a percentage of GSP have fallen from 26.9 percent in June 1995 to 14.1 percent in June 2005 (refer to Figure 5).

REVIEW OF FINANCIAL PERFORMANCE FOR 2004–2005

Figure 10

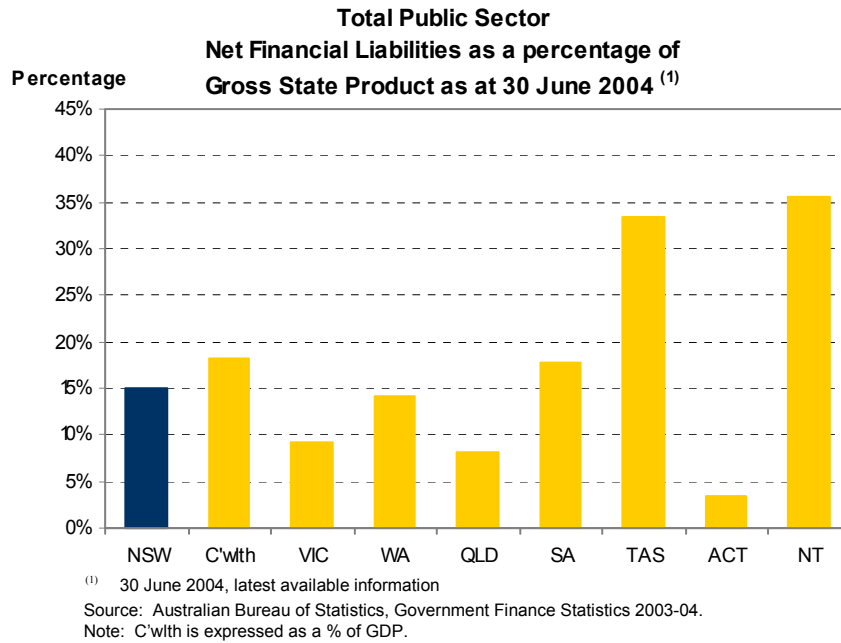
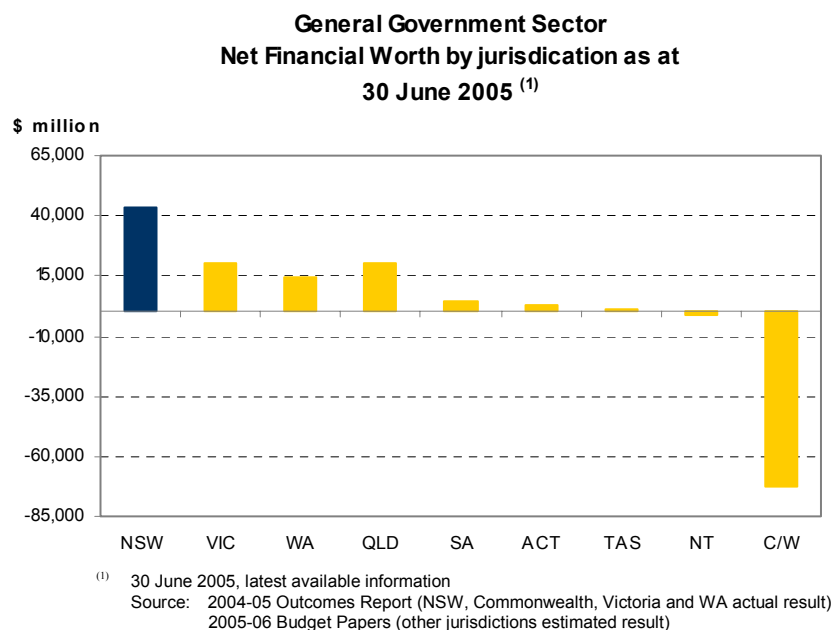


Figure 11



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 sector¹.

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;
 - To eliminate General Government net debt by 30 June 2020; and
 - To eliminate Total State sector unfunded superannuation liabilities by 2030.

The NSW General Government sector has had cash surpluses since 1996-97, and has achieved both short and medium-term targets.

General Government sector underlying net debt was \$2.3 billion as at 30 June 2005 and is already sustainable.

In the year ending 30 June 2005, General Government sector underlying net debt was 0.8 percent of GSP and projected to fall to around 0.7 per cent of GSP by June 2009, indicating that the Government was on target towards achieving the long-term goal 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.

Total State underlying net unfunded superannuation liabilities reduced by \$2.3 billion since June 1996 to be \$12,486 million in June 2005 (or 4.1 percent of GSP).

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.

Although the new international accounting standards will increase the recorded level of unfunded superannuation liabilities from 2005-06, they do not affect the funding plan.

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

Consistent with this principle, General Government net worth increased by 4.6 percent in real terms from June 1997 to June 2005.

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

See 1 above.

¹ This Act was replaced by the Fiscal Responsibility Act 2005 on 1 July 2005. The government will report against the targets and principles of the new Act in 2005-06.

REVIEW OF FINANCIAL PERFORMANCE FOR 2004–2005

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:

- *Since the transfer of responsibility for procurement policy and asset management policy from Department of Commerce to NSW Treasury in June 2003, Treasury has implemented reforms to improve agency performance in physical asset management. Total Asset Management (TAM) policy has been integrated with the budget process. Agencies are now required to demonstrate alignment of their physical asset investment with the services outlined in their Results and Services Plans.*
- *In 2005-06, the TAM guidelines will be expanded to include Information and Communication Technology assets.*

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 GSP.

In the four years ending 30 June 2005, the average annual growth in total expenses of the General Government sector was 5.9 percent and net cost of services 5.7 percent, which is below the 6.3 percent estimated average annual growth in nominal GSP during the same period. Employee related expenses grew at an annual average rate of 7.9 percent in this period. Industrial

Relations Commission decisions, outside the 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. Agency and project level risk identification procedures and strategies are in place or being developed through the Financial Management Framework, the Commercial Policy Framework and Total Asset Management guidelines.

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 since 1999-00 are consistent with the principle of tax restraint.

The net effect of all tax policy changes since 1999-00 is to reduce the NSW Tax burden in 2005-06 by around \$770 million per annum.

SCOPE OF THE REVIEW

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 and The Statement of the Budget Result remove valuation adjustments to reflect costs more appropriately related to the underlying operations of Government. They also compare 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 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 2004-05 year-end results with the 2004-05 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

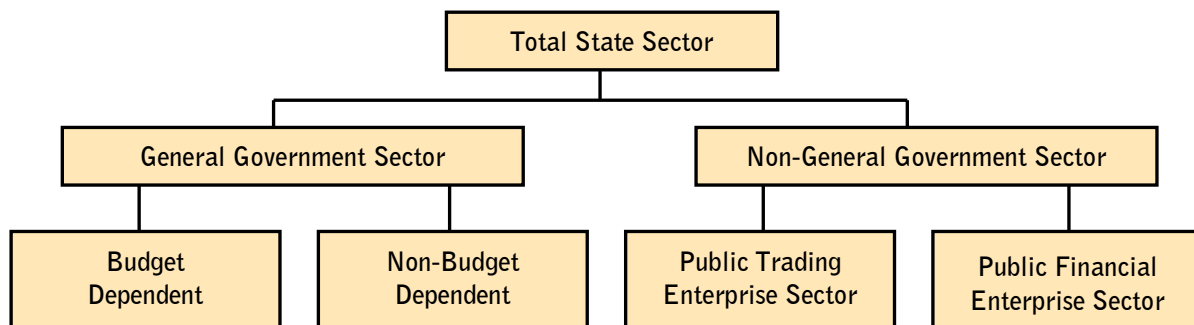
public transport. PTEs are largely self-funded from user charges and have been given a specific charter to run their businesses on commercial lines, including the achievement of a commercial rate of return on the resources employed.

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 26 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 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 dominate decision-making in relation to the WorkCover Scheme Statutory Funds’ financial and operating policies.

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

There are approximately 37,000 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, Australian Accounting Standard AAS 31 “Financial Reporting by Governments” requires the fair value of the Reserves to be recognised 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

STATEMENT OF COMPLIANCE

In our opinion, the Statement of the Budget Result for the NSW General Government Sector for the year ended 30 June 2005:

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

Michael Costa
Minister for Finance

Mark Ronsisvalle
Acting Secretary
NSW Treasury

Mark Pellowe
Senior Director
NSW Treasury

29 September 2005



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 2005.

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,
- regarding 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
29 September 2005

NSW GENERAL GOVERNMENT SECTOR STATEMENT OF THE BUDGET RESULT

	2004-05 \$m Actual	2004-05 \$m Budget	2003-04 \$m Actual
State Revenues			
Taxation	15,330	15,520	15,026
Commonwealth Grants			
- General Purpose	10,181	10,004	9,942
- Specific Purpose	6,011	5,756	5,551
Financial Distributions	1,600	1,670	1,614
Fines, Regulatory Fees and Other	1,146	979	882
Total State Revenues	34,268	33,929	33,015
Operating Revenues			
Sale of Goods and Services	2,803	2,729	2,740
Investment Income	1,047	778	861
Grants and Contributions	668	601	564
Other Revenue	414	238	442
Total Operating Revenues	4,932	4,346	4,607
Expenses			
Employee Related - Superannuation	2,443	2,450	2,314
Employee Related - Other	16,527	16,260	15,373
Other Operating	7,942	7,703	7,648
Maintenance	1,430	1,329	1,366
Depreciation and Amortisation	2,018	1,861	1,927
Recurrent Grants & Subsidies	5,946	5,715	5,879
Capital Grants & Subsidies	1,380	1,335	1,222
Finance Other	819	785	788
Total Expenses	38,505	37,438	36,517
BUDGET RESULT - SURPLUS/(DEFICIT)	695	837	1,105

NSW GENERAL GOVERNMENT SECTOR STATEMENT OF THE BUDGET RESULT

Statement Basis

This Statement is prepared consistent with Government Finance Statistics principles developed by the Australian Bureau of Statistics, except for the departures noted below.

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

This report reflects the presentation and GFS principles adopted for the 2005-06 Budget Papers (Table 1.6). The Budget Result is based on the GFS Net Operating Balance. This is a change from the 2004-05 Budget Papers and from prior years when the Budget Result was based on the GFS Net Lending Result.

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 2003-04 comparatives have been restated.

The back-cast adjustments to 2003-04 comparatives result are minor. They result from late changes to agency data at the conclusion of their 2003-04 audit, which followed the time that the 2003-04 Budget Result was published.

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.

- GFS operating statements disclose a reconciliation from the Net Operating Result to Net Lending. As the Budget is now prepared on a Net Operating Result basis, this additional reconciling information (on the Net Acquisition of Non-Financial Assets) has not been reported in the Statement of the Budget Result. However, the relevant information is available for users in the 2004-05 Outcomes Report; and
- 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.

Budget Coverage

Section 27A of the Public Finance and Audit Act 1983 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

NSW 2004-05 FINANCIAL OUTCOMES REPORT

This Financial Outcomes Report compares for 2004-05 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 (GFS) 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.

Agency data that supports this GFS report is prepared under Australian Accounting Standards (AGAAP). Commencing 2005-06, the agency data will be restated to Australian Equivalents to International Financial Reporting Standards (AEIFRS). The estimated impact of AEIFRS on June 2005 net worth is disclosed in Note 25 to the attached Total State Sector Accounts.

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 2004-05.

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 \$1,188 million (i.e. a surplus) outcome for the 2004-05 Loan Council Allocation compared with the Budget-time estimate of a \$1,353 million deficit. 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 cash results improved against budget by \$585 million and \$453 million respectively. Both were primarily due to improved cash flows from operations and lower capital expenditure. The memorandum items were significantly influenced by the superannuation earnings having a positive 13.0 percent return which is significantly higher than the budgeted long term applied actuarial rate of positive 7.3 percent.

TABLE 1: NSW PUBLIC SECTOR BALANCE SHEETS (ABS BASIS) AT 30 JUNE 2005

	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	1,477	1,434	2,911	784	3,311
Advances paid	1,320	...	279	30	309
Investments, loans and placements	12,020	329	12,349	29,378	17,035
Other non-equity assets	6,223	2,685	5,204	389	5,232
PTE/PFE equity	67,955	...	(336)	...	...
Other equity	589	30	619	...	619
Total financial assets	89,584	4,478	21,026	30,581	26,506
Non-financial assets					
Land and fixed assets	84,189	86,145	170,334	3	170,337
Other non-financial assets	1,252	165	1,418	...	1,419
Total non-financial assets	85,441	86,310	171,752	3	171,756
Total assets	175,025	90,788	192,778	30,584	198,262
Liabilities					
Deposits held	90	166	256	1,691	1,611
Advances received	1,641	1,041	1,641	...	1,641
Borrowing	11,388	13,676	25,064	28,767	29,091
Superannuation liability ^(b)	16,459	29	16,487	...	16,487
Other employee entitlements and provisions	13,042	5,036	15,152	67	15,193
Other non-equity liabilities	3,715	2,549	5,488	395	5,549
Total liabilities	46,335	22,497	64,088	30,920	69,572
Shares and other contributed capital	...	68,291	...	(336)	...
NET WORTH (ABS Basis)	128,690	...	128,690	...	128,690
Net Debt ^(c)	(1,698)	13,120	11,422	266	11,688
Net Financial Worth ^(d)	43,249	(86,310)	(43,062)	(3)	(43,066)
Net Financial Liabilities ^(e)	24,706	86,310	42,726	3	43,066

(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)

	2004-05 \$m (Budget)	2004-05 \$m (Actual)
GFS Revenue		
Taxation revenue	15,521	15,330
Current grants and subsidies	17,148	17,653
Capital grants	1,005	1,130
Sales of goods and services	3,028	3,113
Interest income	778	1,047
Other	2,882	3,091
Total revenue	40,362	41,364
less GFS Expenses		
Employee expenses	17,603	17,670
Depreciation	1,861	2,018
Other operating expenses	10,368	10,628
Nominal superannuation interest expense	913	919
Other interest expenses	785	819
Other property expenses	...	...
Current transfers	6,613	7,199
Capital transfers	1,382	1,416
Total expenses	39,525	40,669
equals GFS net operating balance	837	695
less Net acquisition of non-financial assets		
Purchases of non-financial assets	3,455	3,159
less Sales of non-financial assets	(586)	(493)
less Depreciation	(1,861)	(2,018)
plus Change in inventories	(1)	(26)
plus Other movements in non-financial assets	209	275
equals Total net acquisition of non-financial assets	1,216	897
equals GFS Net Lending / (Borrowing) ^(a)	(379)	(202)

Notes:

(a) Also known as Fiscal Balance.

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

	2004-05 \$m (Budget)	2004-05 \$m (Actual)
GFS Revenue		
Sales of goods and services	10,463	10,229
Current grants and subsidies	1,518	1,741
Capital grants	763	760
Interest income	62	79
Other	835	706
Total revenue	13,641	13,515
less GFS Expenses		
Employee expenses	3,035	3,165
Depreciation	2,170	2,067
Other operating expenses	6,059	5,631
Interest expenses	885	805
Other property expenses	1,573	1,498
Current transfers	132	106
Capital transfers	...	16
Total expenses	13,854	13,288
equals GFS net operating balance	(213)	227
less Net acquisition of non-financial assets		
Purchases of non-financial assets	3,852	3,653
less Sales of non-financial assets	(213)	(196)
less Depreciation	(2,170)	(2,067)
plus Change in inventories	101	88
plus Other movements in non-financial assets	132	129
equals Total net acquisition of non-financial assets	1,702	1,607
equals GFS Net Lending / (Borrowing) ^(a)	(1,915)	(1,380)

Notes:

(a) Also known as Fiscal Balance.

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

	2004-05 \$m (Budget)	2004-05 \$m (Actual)
GFS Revenue		
Taxation revenue	14,841	14,754
Current grants and subsidies	17,118	17,623
Sales of goods and services	13,345	13,177
Capital grants	1,003	1,130
Interest income	788	1,075
Other	2,239	2,308
Total revenue	49,334	50,067
less GFS Expenses		
Employee expenses	20,625	20,839
Depreciation	4,031	4,085
Other operating expenses	15,591	15,512
Nominal superannuation interest expense	913	919
Other interest expenses	1,618	1,574
Other property expenses	...	...
Current transfers	5,333	5,555
Capital transfers	599	661
Total expenses	48,710	49,145
equals GFS net operating balance	624	922
less Net acquisition of non-financial assets		
Purchases of non-financial assets	7,304	6,807
less Sales of non-financial assets	(799)	(689)
less Depreciation	(4,031)	(4,085)
plus Change in inventories	101	62
plus Other movements in non-financial assets	340	404
equals Total net acquisition of non-financial assets	2,915	2,499
equals GFS Net Lending / (Borrowing) ^(a)	(2,291)	(1,577)

Notes:

(a) Also known as Fiscal Balance.

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

		2004-05 \$m (Actual) ^(a)
	GFS Revenue	
	Sales of goods and services	19
	Current grants and subsidies	12
	Capital grants	...
	Interest income	1,733
	Other	1
	Total revenue	1,765
less	GFS Expenses	
	Employee expenses	10
	Depreciation	1
	Other operating expenses	9
	Interest expenses	1,645
	Other property expenses	36
	Current transfers	...
	Capital transfers	...
	Total expenses	1,701
equals	GFS net operating balance	64
less	Net acquisition of non-financial assets	
	Purchase of non-financial assets	2
	Sales of non-financial assets	
	less Depreciation	(1)
	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)	64

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)**

	2005 \$m (Budget)	2005 \$m (Actual)
Assets		
Financial assets		
Cash and deposits	739	1,477
Advances paid	1,374	1,320
Investments, loans and placements	10,332	12,020
Other non-equity assets	5,837	6,223
Equity	69,333	68,544
Total financial assets	87,615	89,584
Non-financial assets		
Land and fixed assets	79,341	84,189
Other non-financial assets	1,200	1,252
Total non-financial assets	80,541	85,441
Total assets	168,156	175,025
Liabilities		
Deposits held	57	90
Advances received	1,631	1,641
Borrowing	10,026	11,388
Superannuation liability ^(a)	16,778	16,459
Other employee entitlements and provisions	12,137	13,042
Other non-equity liabilities	3,073	3,715
Total liabilities	43,702	46,335
NET WORTH	124,454	128,690
Net Financial Worth ^(b)	43,913	43,249
Net debt ^(c)	(731)	(1,698)
<i>Notes:</i>		
<i>(a) Comprises unfunded obligations.</i>		
<i>(b) Net financial worth equals total financial assets minus total liabilities.</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>		
<i>GFS net debt ^(c)</i>	<i>(731)</i>	<i>(1,698)</i>
<i>Impact of deposits to the Liability Management Fund ^(d)</i>	<i>4,021</i>	<i>4,001</i>
<i>Underlying net debt ^{(c) (d)}</i>	<i>3,290</i>	<i>2,303</i>

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

	2005 \$m (Budget)	2005 \$m (Actual)
Assets		
Financial assets		
Cash and deposits	924	1,434
Investments, loans and placements	371	329
Other non-equity assets	2,243	2,685
Equity	48	30
Total financial assets	3,586	4,478
Non-financial assets		
Land and fixed assets	88,983	86,145
Other non-financial assets	343	165
Total non-financial assets	89,326	86,310
Total assets	92,912	90,788
Liabilities		
Deposits held	92	166
Advances received	1,064	1,041
Borrowing	14,785	13,676
Superannuation liability ^(a)	765	29
Other employee entitlements and provisions	5,021	5,036
Other non-equity liabilities	2,057	2,549
Total liabilities	23,784	22,497
Shares and other contributed capital ^{(b) (c)}	69,128	68,291
NET WORTH ^{(b) (e)}	...	...
Net financial worth ^{(c) (d)}	(89,326)	(86,310)
Net debt ^(e)	14,646	13,120

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)**

	2005 \$m (Budget)	2005 \$m (Actual)
Assets		
Financial assets		
Cash and deposits	1,664	2,911
Advances paid	309	279
Investments, loans and placements	10,701	12,349
Other non-equity assets	4,522	5,204
Equity	253	283
Total financial assets	17,449	21,026
Non-financial assets		
Land and fixed assets	168,324	170,334
Other non-financial assets	1,539	1,418
Total non-financial assets	169,863	171,752
Total assets	187,312	192,778
Liabilities		
Deposits held	149	256
Advances received	1,631	1,641
Borrowing	24,809	25,064
Superannuation liability ^(a)	17,543	16,487
Other employee entitlements and provisions	14,241	15,152
Other non-equity liabilities	4,485	5,488
Total liabilities	62,858	64,088
Shares and other contributed capital		
NET WORTH	124,454	128,690
Net financial worth ^(b)	(45,409)	(43,062)
Net debt ^(c)	13,915	11,422
<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)	13,915	11,422
Impact of deposits to the Liability Management Fund ^(d)	4,021	4,001
Underlying net debt ^{(c) (d)}	17,936	15,423

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

	2005 \$m (Actual) ^(a)
Assets	
Financial assets	
Cash and deposits	784
Advances paid	30
Investments, loans and placements	29,378
Other non-equity assets	389
Equity	...
Total financial assets	30,581
Non-financial assets	
Land and fixed assets	3
Other non-financial assets	...
Total non-financial assets	3
Total assets	30,584
Liabilities	
Deposits held	1,691
Advances received	...
Borrowing	28,767
Superannuation liability ^(b)	...
Other employee entitlements and provisions	67
Other non-equity liabilities	395
Total liabilities	30,920
Shares and other contributed capital ^{(c) (d)}	(336)
NET WORTH ^{(c) (d)}	...
Net financial worth ^{(d) (e)}	(3)
Net debt ^(f)	266

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	2004-05 \$m (Budget)	2004-05 \$m (Actual)
Cash receipts from operating activities		
Tax received	15,542	15,041
Receipts from sales of goods and services	3,027	3,232
Grants/subsidies received	17,882	18,535
Other receipts	4,488	5,611
Total receipts	40,939	42,419
Cash payments for operating activities		
Payment for goods and services	(27,154)	(27,011)
Grants and subsidies paid	(7,633)	(7,972)
Interest paid	(747)	(778)
Other payments	(1,612)	(2,572)
Total payments	(37,146)	(38,333)
Net cash flows from operating activities	3,793	4,086
Net cash flows from investments in non-financial assets		
Sales of non-financial assets	615	487
Purchases of non-financial assets	(3,474)	(3,026)
Net cash flows from investments in non-financial assets	(2,859)	(2,539)
Net cash flows from investments in financial assets for policy purposes	1	129
Net cash flows from investments in financial assets for liquidity purposes	(781)	(2,380)
Net cash flows from financing activities		
Advances received (net)	(28)	(28)
Borrowing (net)	(150)	415
Deposits received (net)	(1)	12
Other financing (net)	(22)	(1)
Net cash flows from financing activities	(201)	398
Net increase (decrease) in cash held	(47)	(306)
SURPLUS / (DEFICIT)		
Net cash from operating activities and investments in non-financial assets	934	1,547
Finance leases and similar arrangements	(159)	(187)
SURPLUS / (DEFICIT)	775	1,360
<i>Notes:</i>		
<i>(a) A positive number denotes a cash inflow, a negative (i.e. bracketed) sign denotes a cash outflow.</i>		
<i>(b) Deposits by the Crown to the Liability Management Fund and the fund's earnings have been set aside to meet future superannuation contributions.</i>		
GFS SURPLUS / (DEFICIT)	775	1,360
<i>Adjusted for deposits to the Liability Management Fund ^(b)</i>	<i>(1,140)</i>	<i>(1,150)</i>
UNDERLYING SURPLUS / (DEFICIT) after adjusting for the timing of superannuation contributions	(365)	210

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

CASH FLOW	2004-05 \$m (Budget)	2004-05 \$m (Actual)
Cash receipts from operating activities		
Receipts from sales of goods and services	10,945	10,619
Grants/subsidies received	2,280	2,511
Other receipts	2,093	2,259
Total receipts	15,318	15,389
Cash payments for operating activities		
Payment for goods and services	(9,431)	(9,016)
Grants and subsidies paid	(131)	(103)
Interest paid	(878)	(788)
Other payments	(1,732)	(2,105)
Total payments	(12,172)	(12,012)
Net cash flows from operating activities	3,146	3,377
Net cash flows from investments in non-financial assets		
Sales of non-financial assets	218	150
Purchases of non-financial assets	(3,838)	(3,553)
Purchases of second-hand non-financial assets	...	...
Net cash flows from investments in non-financial assets	(3,620)	(3,403)
Net cash flows from investments in financial assets for policy purposes	(7)	(2)
Net cash flows from investments in financial assets for liquidity purposes	14	202
Net cash flows from financing activities		
Advances received (net)	(42)	(116)
Borrowing (net)	1,450	1,108
Deposits received (net)	1	2
Distributions Paid	(930)	(925)
Other financing (net)	...	(14)
Net cash flows from financing activities	479	55
Net increase (decrease) in cash held	12	229
SURPLUS / (DEFICIT)		
Net cash from operating activities and investments in non-financial assets	(474)	(26)
Distribution Paid	(930)	(925)
Finance leases and similar arrangements	...	...
SURPLUS / (DEFICIT)	(1,404)	(951)

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	2004-05 \$m (Budget)	2004-05 \$m (Actual)
Cash receipts from operating activities		
Taxes received	14,859	14,456
Receipts from sales of goods and services	13,818	13,676
Grants/subsidies received	17,851	18,503
Other receipts	5,374	6,514
Total receipts	51,902	53,149
Cash payments for operating activities		
Payment for goods and services	(35,760)	(35,283)
Grants and subsidies paid	(5,554)	(5,570)
Interest paid	(1,574)	(1,516)
Other payments	(3,003)	(4,249)
Total payments	(45,891)	(46,618)
Net cash flows from operating activities	6,011	6,531
Net cash flows from investments in non-financial assets		
Sales of non-financial assets	832	637
Purchases of non-financial assets	(7,310)	(6,574)
Purchases of second-hand non-financial assets	...	...
Net cash flows from investments in non-financial assets	(6,478)	(5,937)
Net cash flows from investments in financial assets for policy purposes	(55)	24
Net cash flows from investments in financial assets for liquidity purposes	(767)	(2,178)
Net cash flows from financing activities		
Advances received (net)	(28)	(29)
Borrowing (net)	1,307	1,509
Deposits received (net)	...	15
Distributions Paid	...	...
Other financing (net)	(22)	(14)
Net cash flows from financing activities	1,257	1,481
Net increase (decrease) in cash held	(32)	(79)
SURPLUS / (DEFICIT)		
Net cash from operating activities and investments in non-financial assets	(467)	594
Distributions Paid	...	...
Finance leases and similar arrangements	(159)	(186)
SURPLUS / (DEFICIT)	(626)	408
<i>Notes:</i>		
<i>(a) A positive number denotes a cash inflow, a negative (i.e. bracketed) sign denotes a cash outflow.</i>		
<i>(b) Deposits by the Crown to the Liability Management Fund and the fund's earnings have been set aside to meet future superannuation contributions.</i>		
GFS SURPLUS / (DEFICIT)	(626)	408
<i>Adjusted for deposits to the Liability Management Fund ^(b)</i>	<i>(1,140)</i>	<i>(1,150)</i>
UNDERLYING SURPLUS / (DEFICIT) after adjusting for the timing of superannuation contributions	(1,766)	(742)

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

CASH FLOW	2004-05 \$m (Actual) ^(b)
Cash receipts from operating activities	
Receipts from sales of goods and services	19
Grants/subsidies received	12
Interest received	1,679
Other receipts	11
Total receipts	1,721
Cash payments for operating activities	
Payment for goods and services	(25)
Grants and subsidies paid	...
Interest paid	(1,755)
Other payments	(24)
Total payments	(1,804)
Net cash flows from operating activities	(83)
Net cash flows from investments in non-financial assets	
Sales of non-financial assets	...
Purchases of non-financial assets	(2)
Net cash flows from investments in non-financial assets	(2)
Net cash flows from investments in financial assets for policy purposes	...
Net cash flows from investments in financial assets for liquidity purposes	(2,751)
Net cash flows from financing activities	
Advances received (net)	...
Borrowing (net)	2,797
Deposits received (net)	38
Distributions Paid	(33)
Other financing (net)	...
Net cash flows from financing activities	2,802
Net increase (decrease) in cash held	(34)
SURPLUS / (DEFICIT)	
Net cash from operating activities and investments in in non-financial assets	(85)
Distribution Paid	(33)
Finance leases and similar arrangements	...
SURPLUS / (DEFICIT)	(118)

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)**

	2004-05 \$m (Budget)	2004-05 \$m (Actual)
General Public Services		
Government superannuation benefits	80	29
Other general public services	1,301	1,263
Total Other General Public Services	1,381	1,292
Public Order and Safety		
Police and fire protection services		
- Police services	1,859	1,870
- Fire protection services	521	543
Law courts and legal services	809	806
Prisons and corrective services	799	837
Other public order and safety	45	168
Total Public Order and Safety	4,033	4,224
Education		
Primary and secondary education		
- Primary education	3,333	3,336
- Secondary education	3,327	3,285
- Primary and secondary education n.e.c.	1,661	1,739
Tertiary education		
- University education	10	...
- Technical and further education	1,395	1,404
- Tertiary education n.e.c.	...	...
Pre-school education and education not definable by level		
- Pre-school education	22	23
- Special education	547	665
- Other education not definable by level	14	...
Transportation of students		
- Transportation of non-urban school children	277	261
- Transportation of other students	338	333
- Education n.e.c.	...	...
Total Education	10,924	11,046
Health		
Acute care institutions		
- Admitted patient services in acute care institutions	5,739	5,961
- Non-admitted patient services in acute care institutions	1,602	1,672
Mental health institutions	291	314
Nursing homes for the aged	113	118
Community health services		
- Community health services (excluding community mental health)	1,089	1,094
- Community mental health	319	336
- Patient transport	472	480
Public health services	297	292
Health research	76	91
Health administration n.e.c.	36	18
Total Health	10,034	10,376

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

	2004-05 \$m (Budget)	2004-05 \$m (Actual)
Social Security		
Social Security	353	238
Welfare services		
- Family and children services	606	641
- Welfare services for the aged	302	387
- Welfare services for people with a disability	1,170	1,196
- Welfare services n.e.c.	311	303
Social security and welfare n.e.c.	183	129
Total Social Security	2,925	2,894
Housing and Community Amenities		
Housing and community development		
- Housing	754	732
- Community Development	111	130
Water supply	55	134
Sanitation and protection of the environment	431	441
Other community amenities	...	...
Total Housing and Community Amenities	1,351	1,437
Recreation and Culture		
Recreation facilities and services		
- National parks and wildlife	291	297
- Recreation facilities and services n.e.c.	269	256
Cultural facilities and services	334	336
Broadcasting and film production	10	12
Recreation and culture n.e.c.	...	...
Total Recreation and Culture	904	901
Fuel and Energy		
Fuel affairs and services		
- Coal/Petroleum/Nuclear affairs, Fuel affairs and services n.e.c. ^(a)	17	(46)
- Gas	1	1
Electricity and other energy		
- Electricity	35	23
- Other energy	1	...
Fuel and Energy n.e.c.	6	8
Total Fuel and Energy	60	(14)

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

	2004-05 \$m (Budget)	2004-05 \$m (Actual)
Agriculture, Forestry, Fishing and Hunting		
Agriculture	363	423
Forestry, fishing and hunting	79	32
Total Agriculture, Forestry, Fishing and Hunting	442	455
Mining and Mineral Resources other than Fossil Fuels; Manufacturing and Construction		
Mining and mineral resources other than fuels	45	81
Manufacturing	...	...
Construction	73	118
Total Mining and Mineral Resources other than Fossil Fuels; Manufacturing and Construction	118	199
Transport and Communications		
Road transport		
- Road rehabilitation, and Aboriginal community road transport services		
- Road maintenance	802	796
- Road transport n.e.c.	1,486	1,756
Water transport		
- Urban water transport services	93	104
- Other water transport services	...	...
Rail transport		
- Urban rail transport services	928	994
- Non-urban rail transport freight services	128	219
- Non-urban rail transport passenger services	1	47
Air transport	...	...
Pipelines	...	...
Other transport		
- Multi-mode urban transport	207	259
- Other transport n.e.c.	422	411
Communications	...	...
Total Transport and Communications	4,067	4,586
Other Economic Affairs		
Storeage, saleyards and markets	...	...
Tourism and area promotion	51	48
Labour and employment affairs		
- Vocational training	192	205
- Other labour and employment affairs	332	511
Other economic affairs	344	241
Total Other Economic Affairs	919	1,005

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

	2004-05 \$m (Budget)	2004-05 \$m (Actual)
Other Purposes		
Public debt transactions	1,706	1,743
General purpose inter-government transactions	537	358
Natural disaster relief	58	39
Other purposes n.e.c.	66	128
Total Other Purposes	2,367	2,268
Total GFS Expenses	39,525	40,669

Notes:

n.e.c. not elsewhere classified

(a) 2004-05 impacted by a \$63 million write back in provisions expense due to reduced coal compensation liabilities following the introduction of the Coal Acquisition Amendment (Fair Compensation) Act 2005.

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

	2004-05 \$m (Budget)	2004-05 \$m (Actual)
General public services	384	375
Public order and safety	404	371
Education	390	380
Health ^(b)	601	476
Social security and welfare	54	59
Housing and community amenities	57	68
Recreation and culture	99	137
Fuel and energy	1	1
Agriculture, forestry, fishing and hunting	36	22
Mining, manufacturing and construction	13	7
Transport and communications	1,262	1,209
Other economic affairs	32	34
Other purposes	122	20
Total GFS Purchases of Non Financial Assets	3,455	3,159

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

(b) Actuals impacted by delays in finalising project planning and approvals, as well as budgeted capital expenditure that was subsequently expensed (and not capitalised) by the Department of Health.

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

	Budget-time Estimate 2004-05 \$m	Actual 2004-05 \$m
General government sector cash deficit / (surplus)	(775)	(1,360)
PNFC sector cash deficit / (surplus) ^(a)	1,404	951
Non-financial public sector cash deficit / (surplus) ^(b)	626	(408)
Minus Net cash flows from investments in financial asset for policy purposes ^(c)	55	(24)
Plus Memorandum items ^(d)	672	(756)
Loan Council Allocation	1,353	(1,188)

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

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 in a case of private sector default and disclosed as a footnote to, rather than a component, of Loan Council Allocations.

- Elevated twin "island" platforms for the North Shore and Epping-Chatswood lines;
- A rail concourse beneath the platforms; and
- A new bus and taxi interchange.

The concept design for the new interchange also incorporates adjacent retail and over-rail residential development opportunities.

Contracts entered into in 2004-05

Chatswood Transport Interchange

A new public transport interchange at Chatswood is to be developed, incorporating:

A contract was signed in June 2005 with CRI Australia Pty Ltd.

The Government contribution to the project is limited to around \$64 million. At this stage no contingent liability is expected under the draft contract term.

Government Contingent Liability	Nil
---------------------------------	-----

Sunshine Electricity Co-Generation Joint Venture

The Sunshine Electricity Joint Venture will build 30MW electricity co-generation plants at the Broadwater and Condong sugar mills in the Northern Rivers Region of NSW. The project also includes an existing 8MW co-generation plant at the Broadwater sugar mill.

the joint venture under a Power Purchase Agreement. The Power Purchase Agreement includes a minimum electricity charge.

Each of the 30MW plants is expected to produce around 210 GWh of electricity and 210,000 Renewable Energy Certificates per annum for sale to electricity retailers to meet their obligations under the Renewable Energy (Electricity) Act 2000. Delta Electricity will sell the Electricity and Renewable Energy Certificates generated by

Sunshine Electricity Joint Venture is an unincorporated joint venture between Delta Electricity Australia Pty Ltd, a subsidiary of Delta Electricity, and a subsidiary of the NSW Sugar Milling Co-operative. The contract became effective in May 2005 and construction is expected to commence early in 2005-06. The total project cost of the joint venture is \$215 million. The project is funded by the sale of electricity and Renewable Energy Certificates under the Power Purchase Agreement.

Government Contingent Liability	Nil
---------------------------------	-----

END OF UNAUDITED OUTCOMES REPORT



**AUDITED CONSOLIDATED FINANCIAL REPORT
OF THE NSW TOTAL STATE SECTOR
(TOTAL STATE SECTOR ACCOUNTS)
2004 - 2005**

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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 2005 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 Costa
Minister for Finance

Mark Ronsisvalle
Acting Secretary
NSW Treasury

Mark Pellowe
Senior Director
NSW Treasury

29 September 2005



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 2005 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 recognised in the Accounts. In my opinion, Australian Accounting Standard AAS 24 "Consolidated Financial Reports" requires the transactions and balances of the Scheme to be consolidated 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 \$1,998 million (unaudited) at 30 June 2005 (\$2,353 million (audited) at 30 June 2004.
- (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, Australian Accounting Standard AAS 31 "Financial Reporting by Governments" requires the fair value of the Reserves to be recognised because the State has the capacity to benefit from their use and can regulate the access of others to that benefit. The management of Treasury estimates the value of the Reserves may be between \$1 billion and \$7 billion or even outside this range.

My audit report for the year ended 30 June 2004 was similarly qualified.

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
29 September 2005

**THE NSW TOTAL STATE SECTOR ACCOUNTS STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2005**

	Note	2004-05 \$m	2003-04 \$m
REVENUES FROM ORDINARY ACTIVITIES			
State Revenues			
Taxation	2	14,746	14,196
Commonwealth Grants	2	16,192	15,494
Fines, Regulatory Fees and Other	2	1,148	901
Total State Revenues		32,086	30,591
Operating Revenues			
Sale of Goods and Services	2	12,111	11,634
Investment Income		1,455	1,310
Grants and Contributions		1,078	866
Net Gain/(Loss) on Disposal of Physical Assets	2	(488)	5
Other	2	514	825
Total Operating Revenues		14,670	14,640
Total Revenues		46,756	45,231
EXPENSES FROM ORDINARY ACTIVITIES			
Employee Benefits			
- Superannuation	3	2,100	1,642
- Other	3	19,790	18,490
Other Operating	3	10,655	15,891
Maintenance		2,499	2,313
Depreciation and Amortisation	3	4,106	4,092
Grants and Subsidies	3	5,018	4,878
Borrowing Costs	3	1,861	1,708
Total Expenses		46,029	49,014
SURPLUS/(DEFICIT) FOR THE YEAR	16	727	(3,783)

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 2005**

	Note	2004-05 \$m	2003-04 \$m
OTHER MOVEMENTS IN EQUITY			
(Revenues, Expenses and Valuation Adjustments Recognised Directly in Equity)			
Net Asset Valuation Increments	14	3,672	7,003
Other		4	...
Total Other Movements in Equity		3,676	7,003
Opening Balance Equity		123,989	120,769
Operating Surplus/(Deficit)		727	(3,783)
Other Movements in Equity		3,676	7,003
CLOSING BALANCE EQUITY		128,392	123,989

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 2005**

	Note	2005 \$m	2004 \$m
Current Assets			
Cash Assets	16	3,311	3,595
Receivables	5	3,338	3,218
Other Financial Assets	6	5,184	4,593
Inventories	7	630	641
Other	9	431	323
Total Current Assets		12,894	12,370
Non-Current Assets			
Receivables	5	1,498	1,350
Other Financial Assets	6	12,205	9,059
Property, Plant and Equipment			
Land and Buildings	8	81,467	80,534
Plant and Equipment	8	10,765	10,030
Infrastructure Systems	8	75,102	71,645
Forestry Stock		1,595	1,609
Inventories	7	491	442
Other	9	1,479	1,489
Total Non-Current Assets		184,602	176,158
TOTAL ASSETS		197,496	188,528
Current Liabilities			
Payables	10	4,569	4,361
Interest Bearing	11	6,192	3,808
Provisions	12	2,935	3,053
Other	13	456	731
Total Current Liabilities		14,152	11,953
Non-Current Liabilities			
Interest Bearing	11	25,282	24,718
Provisions	12	28,935	27,083
Other	13	735	785
Total Non-Current Liabilities		54,952	52,586
TOTAL LIABILITIES		69,104	64,539
NET ASSETS		128,392	123,989
Equity			
Asset Revaluation Reserves	14	60,324	58,516
Accumulated Funds	15	68,068	65,473
TOTAL EQUITY		128,392	123,989

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 2005**

	Note	2004-05 \$m	2003-04 \$m
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts			
Taxation		14,439	14,199
Commonwealth Grants		15,944	15,530
Sale of Goods and Services		12,824	11,957
Investment Income		574	412
Fines, Fees, Grants and Other		6,136	5,694
Total Receipts		49,917	47,792
Payments			
Employee Related		(20,594)	(19,190)
Grants and Subsidies		(4,308)	(4,157)
Finance		(176)	(181)
Other		(17,524)	(16,233)
Total Payments		(42,602)	(39,761)
NET CASH FLOWS FROM OPERATING ACTIVITIES	16	7,315	8,031
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from Sale of Property, Plant and Equipment		630	654
Proceeds from Sale of Investments		760	2,771
Advance Repayments Received		37	57
Purchase of Property, Plant and Equipment		(6,529)	(6,259)
Purchase of Investments		(3,147)	(4,129)
Advances Made		(51)	(37)
Other		(13)	(35)
NET CASH FLOWS FROM INVESTING ACTIVITIES		(8,313)	(6,978)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from Borrowings and Advances		32	3
Repayments of Borrowings and Advances		(601)	(573)
NET CASH FLOWS FROM FINANCING ACTIVITIES		(569)	(570)
NET CASH FLOW OF FINANCIAL INSTITUTIONS	16	1,363	92
NET INCREASE/(DECREASE) IN CASH HELD		(204)	575
Opening Cash and Cash Equivalents		3,446	2,898
Reclassification of Cash Equivalents	16	1	(27)
CLOSING CASH BALANCE	16	3,243	3,446

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

THE NSW TOTAL STATE SECTOR ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2005
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

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 percent 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 2005-06.

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 Self Insurance 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.

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

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 37,000 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 2005 is estimated at \$1,998 million. The audited accumulated deficit was \$2,353 million at 30 June 2004. 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.

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

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 consolidated financial statements, unless dissimilar treatments are required by specific accounting standards for individual entities or classes of entities within the Total State Sector Accounts.

Asset revaluation increments and decrements have been offset within an individual entity on a class basis. On consolidation of the Total State Sector no adjustments have been made to account for increments and decrements at a class of assets level (at the economic entity), because it is believed that this is not intended in AAS 24 *Consolidated Accounts*.

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 Infringement Processing 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 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 normally 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.

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

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	20-80 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	10-200 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 normally valued at market value, except where a market does not exist, they are valued at cost.

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.

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

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". NSW Treasury Policy Paper "Accounting Policy on Valuation of Physical Non-Current Assets at Fair Value" 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.

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

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 \$36,289 million (2004 \$34,354 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. Specifically, 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.

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

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. Any upfront payments are also amortised or emerged over the concession period.

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 RTA revalues the tunnel annually using the Road Cost Index. The current written down replacement cost of the Tunnel is \$605 million (2004 \$589 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.

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

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 (2004 \$372 million). In addition, a tax liability exists for \$24 million (2004 \$24 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.

Other Private Sector Financed Infrastructure Projects

Other large projects currently operating include the M2, M4, and M5 Motorways, the Eastern Distributor, the Airport Line Railway Stations, and the Sydney Olympic Authority Stadium and Superdome.

The RTA has also 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. The Cross City Tunnel opened in August 2005, and will be recognised in the 2005-06 financial year. Upon completion, the RTA will value its emerging share of the written down replacement cost over the period of the concession agreement.

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 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.

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

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.

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

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 on behalf of the SAS Trustee Corporation and Future Plus for the Energy Industry Superannuation Scheme. It is calculated based on the latest Triennial Review actuarial economic assumptions, except for the discount rate, which has been revised since the Triennial Review.

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 New South Wales state government employees.

The accrued benefits is calculated having consideration for the following forecasts:

- expected future wage and salary levels;
- expected future investment earning rates;
- the growth rate in the Consumer Price Index;
- the experience of employee departures and their 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 NSW Self Insurance Corporation. The Treasury Managed Fund adds a prudential margin of 7.5 percent (67 percent probability of adequacy) to the central estimate of its outstanding claim liabilities. The margin is to recognise the expected volatility of future liability payments.

- Workers Compensation (Dust Diseases) Board outstanding claims; 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 based upon:

- a full actuarial investigation, that was undertaken as at 30 June 2004; and adjusted for
- an actuarial update undertaken at 30 June 2005 based upon claims data provided by the Corporation for the 12 months ended 30 June 2005, and information provided on new entrants through the period.

Other Liabilities

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

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

Accounting for the Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount incurred is not recoverable from the Australian Taxation Office. In this case, it 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 has adopted AEIFRS for 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.

The Total State Sector Accounts will apply AEIFRS from 2005-06.

As part of its strategy to implement AEIFRS NSW Treasury has undertaken the following actions during 2004-05:

- Identified and assessed the impacts of all significant changes in finalised standards, and made this information available to all agencies;
- Developed new, draft or amended policies and guidance as necessary. This included issuing indicative mandates regarding options within standards;
- Established and maintained an up-to-date website to keep all stakeholders continuously informed. This included keeping the Treasurer, the Government, government agencies and all other stakeholders informed;

- Facilitated 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;

- Progressed the implementation of 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 has been reviewed for the preparation of the Total State Sector Accounts;
- Presented training and development seminars to all NSW public sector agencies;
- Facilitated agencies, which have primary responsibility for assessing the impacts of AEIFRS on their budgets and financial reports, information needs and required system changes. Encouraged all agencies to be actively involved and to provide input and feedback to Treasury. Treasury's analysis of standards has focused 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.

The above process will continue during 2005-06, with further seminars to be held, as required, and final revised accounting policies and guidance being issued.

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

Public sector agencies have managed the transition to the new standards by allocating internal resources and/or engaging consultants to analyse both the 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 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 2005-06. This disclosure reflects these likely mandates.

There is inherent uncertainty in the implementation of AEIFRS. Exposure Drafts are still being issued that may impact on the adoption of AEIFRS.

Note 25 details management's best estimates as at the date of preparing this report of AEIFRS impacts on the Total State Sector's equity and operating result. Treasury does not anticipate any material impacts on its cash flows.

The actual effects of the transition may differ from the estimated figures because of pending changes to the AEIFRS, including the Urgent Issues Group Interpretations, and/or emerging accepted practice in their interpretation and application.

The Total State Sector Accounts' accounting policies may also be affected by a proposed standard (ED 142 Financial Reporting of General Government Sectors by Governments) designed to harmonise accounting standards with Government Finance Statistics (GFS). Further it is possible that AAS 31 *Financial Reporting by Governments* will be withdrawn, on the understanding that whole-of-government reporting is still required by the various AEIFRSs instead of being covered by one accounting standard. However, the impact is uncertain, because it depends on when ED 142 is finalised and AAS 31 is withdrawn.

Note 25 also details the key differences in accounting policies expected to arise from adopting AEIFRS.

CHANGE IN ACCOUNTING POLICIES

Sydney Olympic Park Authority Assets

The former Olympic Co-ordination Authority (OCA) constructed new facilities for the Royal Agricultural Society (RAS) at Sydney Olympic Park in 1998 as part of the RAS move from Moore Park. The RAS were given a 99-year lease (plus option) of the Sydney Olympic Park Showgrounds including an administration centre, exhibition halls, animal pavillions and the Showground Arena. No consideration was paid by the RAS; however, the RAS surrendered a lease at Moore Park to facilitate the move. The RAS administration building vests with the RAS and is included in its balance sheet. All other land and buildings has been held prior to 2004-05 as non-current assets in the books of the Sydney Olympic Park Authority (SOPA). This accounting treatment has been in place since the completion of the RAS buildings, and the RAS Agreement to Lease has been treated by SOPA as an operating lease thus recognising the asset at written down replacement cost.

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

This accounting treatment has been under review by SOPA in recent financial years. It raises complex issues in the interpretation of the relevant accounting standards and the terms of the Showground Lease agreement. In 2004-05, SOPA adopted Treasury Circular TC00/19, Accounting for Long-term Leases of Land and Other Property and ceased to recognise these assets. This has been done on the basis that the Australian Equivalents to International Financial Reporting Standards provides no further clarity in respect to the accounting treatment for this lease.

This change in accounting policy has resulted in a decrease of \$402 million in property, plant and equipment, a decrease of \$4 million in asset revaluation reserves and a corresponding book loss on disposal of non-current assets of \$398 million. The book loss is reported in Note 4 as a Significant Item.

In a separate transaction the Sydney Olympic Park Authority previously recognised an asset, being the \$211 million value of the OCA's contribution to Olympic facility projects, constructed and managed by the private sector, for future transfer back to the Authority at the completion of a concession period.

In 2004-05, SOPA changed its treatment to align with the policy adopted in the Total State Sector Accounts. This resulted in a \$211 million reduction in other non-current assets and an equivalent negative revenue, to reverse out the prior years' revenues for the emerging interest in private sector financed infrastructure. The negative revenue is reported in Note 4 as a Significant Item.

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

	2004-05 \$m	2003-04 \$m
STATE REVENUES		
Taxation		
Payroll Tax	4,678	4,169
Stamp Duties	4,799	5,499
Gambling and Betting	1,148	1,031
Land Tax	1,598	1,309
Other	2,523	2,188
	14,746	14,196
Commonwealth Grants		
General Purpose - Recurrent	234	204
- GST Revenue	9,948	9,667
- Budget Balancing Assistance	...	69
Specific Purpose - Recurrent	5,000	4,691
- Capital	1,010	863
	16,192	15,494
Fines, Regulatory Fees and Other State Revenues include:		
Royalties ^(a)	396	233

(a) From 1 July 2004 New South Wales replaced specific coal royalties based on tonnage with ad valorem royalties based on value. Higher commodity prices increased revenue in 2004-05.

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

	2004-05 \$m	2003-04 \$m
OPERATING REVENUES		
Sale of Goods and Services comprise revenue from:		
Sale of goods ^(b)	7,182	6,941
Rentals	1,504	1,477
Rendering of services	4,694	4,524
less: Cost of sales	(1,269)	(1,308)
	12,111	11,634

(b) Includes net revenues of lotteries activities.

The lotteries net revenue comprises:

Gross revenue	1,148	1,137
Prizes and other statutory payments	(765)	(757)
Net Revenue	383	380

Net Gain/(Loss) on Disposal of Physical Assets

Proceeds from disposal	665	630
Less written down value of disposed assets ^(c)	(1,153)	(625)
	(488)	5

(c) 2004-05 includes \$398 million Significant Item for Sydney Olympic Park Authority asset disposal via 99 year lease. Refer to Note 1 Change in Accounting Policies and Note 4 Significant Items, for further details.

Other Operating Revenues includes the following Significant Items:

Revenues received by the Roads and Traffic Authority following the letting of contracts for the Lane Cove Tunnel	...	79
Reversal of Sydney Olympic Park Authority revenues for the emerging interest in private sector financed infrastructure assets	(211)	...

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

3. EXPENSES

	2004-05	2003-04
	\$m	\$m
Superannuation Entitlements ^(a)	2,100	1,642

(a) Includes significant negative expense of \$1,137million in 2004-05 (2004 significant negative expense \$1,965 million). Refer Notes 4 and 12.

Other Employee Benefits Expenses comprise:

Salaries and Wages (including Recreation Leave)	17,790	16,643
Long Service Leave	771	774
Other	1,229	1,073
	19,790	18,490

Other Operating Expenses comprise:

Bad and Doubtful Debts	128	191
Operating Lease Rentals	494	513
Consultancy fees	86	96
Net Asset Valuation Decrements, Reversals and Write-downs		
- Land and Buildings ^(b)	28	440
- Plant and Equipment	...	6
- Infrastructure ^(c)	19	4,671
Inventory Write-Downs	4	26
Audit fees ^(d)		
- for audit	...	...
- for other services	...	...
Insurance claims	1,321	1,170
Supplies and other services	8,374	8,006
Other ^(e)	201	772
	10,655	15,891

(b) Includes Significant Item adjustment for Sydney foreshore and other land assets in 2003-04 . Refer Note 4.

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

(d) Fees of \$21 million for audit and \$3 million for other services to the Audit Office of NSW (2004 - \$20 million for audit and \$3 million for other services) have not been recognised as expenses because they have been eliminated in consolidation of

(e) Includes Significant Item adjustment of asset values 2005 \$196 million (2004 \$710 million). Refer Note 4(d).

	2004-05	2003-04
	\$m	\$m
Depreciation and Amortisation expense comprise:		
Depreciation on		
- Buildings	951	945
- Plant and Equipment	1,083	954
- Infrastructure	1,959	2,069
Amortisation	113	124
	4,106	4,092

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

	2004-05 \$m	2003-04 \$m
Grants and Subsidies include expenses by the:		
Department of Education and Training	873	820
Department of Ageing, Disability and Home Care	651	598
Department of Housing	642	675
Department of Health	619	620
Ministry of Transport	490	463
Department of Community Services	443	428
NSW Treasury (First Home Owner Grant Scheme)	249	242
Borrowing Costs include:		
Charges relating to finance leases	70	76
Capitalised Borrowing Costs excluded from expenses	52	33

4. SIGNIFICANT ITEMS

	2004-05 \$m	2003-04 \$m
The Operating Result includes the following Significant Revenue/(Expense) Items:		
Adjustment of asset values. This includes:		
- Sydney Olympic Park Authority - recognition of asset disposal ^(a)	(398)	...
- Sydney Olympic Park Authority - partial reversal of emerging assets ^(a)	(211)	...
- Roads and Traffic Authority - land under roads ^(b)	(196)	(710)
- Rail Infrastructure Corporation - assets transferred to the Australian Rail Track Corporation (ARTC) ^(c)	...	(2,957)
- Department of Energy, Utilities and Sustainability - State Water assets ^(d)	...	(1,714)
- Sydney Harbour Foreshore Authority - valuation decrements	...	(287)
- Crown Leasehold Entity - land values written back	...	(154)
Revenues received by the Roads and Traffic Authority following the letting of contracts for the Lane Cove Tunnel	...	79
Increase in Treasury Managed Funds self insurance liability on adoption of a 7.5% prudential margin	...	(139)
Decrease in defined benefit unfunded superannuation liability as a result of:		
- higher fund earnings than actuarially applied long-term earning rates ^(e)	1,137	1,235
- a change in the employee benefits discount rate from 7.0% to 7.3%	...	730
TOTAL SIGNIFICANT ITEMS	332	(3,917)

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

- (a) The Sydney Olympic Park Authority expensed in 2004-05 \$398 million for facilities that were previously leased for 99 years (ie disposed of) to the Royal Agricultural Society.

Further, the Authority reversed back in 2004-05 \$211 million of an emerging interest in privately financed infrastructure assets.

Refer Note 1 Change in Accounting Policies for further details of both transactions.

- (b) No valuation has been included in the Total State Sector Accounts for land under roads and within road reserves.

During 2004-05 the Roads and Traffic Authority identified land under roads of \$196 million (2004 \$710 million) which was reported in previous years as part of Land and Buildings. A large component in 2003-04 was for land used for 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 \$196 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 \$196 million cost value of these assets has been expensed, and the revaluation increments of \$1,739 million have been reversed against the asset revaluation reserve in 2004-05.

- (c) 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 took 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 wrote down in 2003-04 the relevant infrastructure assets by their previous book value of \$2,957 million.

- (d) 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 operated 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.

- (e) Over the years the government has set aside investments towards meeting accruing superannuation liabilities for its closed defined benefits schemes. In 2004-05 the actual investment performance of the Pooled Fund investments was positive 13.0 percent (Energy Industries Superannuation Scheme was positive 12.5 percent) which is higher than the long term actuarially applied rate of positive 7.3 percent per annum (positive 7.5 percent 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 \$1,137 million.

In 2003-04 the Pooled Fund performance was positive 13.5 percent and the EISS was positive 13.6 percent resulting in accrued superannuation expense being lower than the long term expected average annual expense by an amount of \$1,235 million.

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

5. RECEIVABLES

	2005 \$m	2004 \$m
Current Receivables		
Debtors and Accruals		
- Sale of Goods and Services	2,086	2,025
- Asset Sales	110	48
- Taxation	416	355
- Interest	96	43
Advances Receivable	13	15
Other	860	1,002
	3,581	3,488
Less Allowance for Doubtful Debts	(243)	(270)
Total Current	3,338	3,218
Non-Current Receivables		
Advances Receivable	154	159
Workers Compensation (Dust Diseases) Board Insurance Levies Accrued	984	816
Other	394	377
Less Allowance for Doubtful Debts	(34)	(2)
Total Non-Current	1,498	1,350

6. OTHER FINANCIAL ASSETS

	2005 \$m	2004 \$m
Current	5,184	4,593
Non-current	12,205	9,059
	17,389	13,652
Other financial assets comprise:		
Fiduciary investments administered by NSW Treasury Corporation ^(a)	10,518	7,604
Securities and placements held by NSW Treasury Corporation	4,865	3,789
Investments accounted for using the equity method	589	567
Other	1,417	1,692
	17,389	13,652

(a) Refer Note 22 Financial Instruments.

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

7. INVENTORIES

	2005 \$m	2004 \$m
Current		
Raw Materials	148	154
Work in Progress	15	44
Finished Goods	48	52
Consumable Stores	255	232
Land Held for Resale ^(a)	164	159
	630	641
Non-Current		
Land Held for Resale ^(a)	450	406
Other	41	36
	491	442
<i>(a) Land held for resale, for government authorities that trade in land, has been recorded at:</i>		
<i>Acquisition Cost</i>	<i>338</i>	<i>314</i>
<i>Development Cost</i>	<i>239</i>	<i>225</i>
<i>Other Costs</i>	<i>37</i>	<i>26</i>
	614	565

8. PROPERTY, PLANT AND EQUIPMENT

	2005 \$m	2004 \$m
Land and Buildings		
At fair value	97,061	96,036
Accumulated depreciation	(15,594)	(15,502)
	81,467	80,534
Plant and Equipment (includes Collections)		
At fair value	16,198	14,890
Accumulated depreciation	(5,433)	(4,860)
	10,765	10,030
Infrastructure Systems		
At fair value ^(a)	106,604	98,178
Accumulated depreciation ^(a)	(31,502)	(26,533)
	75,102	71,645
Total Property, Plant and Equipment at Net Book Value	167,334	162,209

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

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 2004	80,534	10,030	71,645
Additions	1,582	1,496	3,924
Disposals	(603)	(388)	(161)
Net revaluation increments/(decrements)	1,230	469	1,970
Depreciation expense	(951)	(1,083)	(1,959)
Other movements	(325)	241	(317)
Carrying amount at 30 June 2005	81,467	10,765	75,102

9. OTHER ASSETS

	2005 \$m	2004 \$m
Current	431	323
Non current	1,479	1,489
	1,910	1,812
Other Assets include:		
Emerging interest in the Sydney Harbour Tunnel	605	589
Right to receive M2/M4/M5 Motorways and the Eastern Distributor	352	305
Prepayments	286	219
Prepaid superannuation contributions ^(a)	146	98
Other	521	601
	1,910	1,812

(a) Refer Note 12 Energy Industries Superannuation Scheme.

10. PAYABLES

Interest on borrowings and advances	384	375
Accrued employee benefits - refer Note 12	337	411
Other	3,848	3,575
	4,569	4,361

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

11. INTEREST BEARING LIABILITIES

	2005 \$m	2004 \$m
Current	6,192	3,808
Non current	25,282	24,718
	31,474	28,526
Interest bearing liabilities comprise:		
Liability to Commonwealth Government	1,629	1,672
Domestic and foreign borrowings	29,172	25,876
Bank overdraft	68	149
Finance leases ^(a)	605	829
	31,474	28,526

(a) Finance lease commitments are payable as follows:

<i>Not later than one year</i>	204	352
<i>Between one and five years</i>	340	493
<i>Later than five years</i>	586	537
<i>Minimum lease payments</i>	1,130	1,382
<i>Less: Future finance charges</i>	(525)	(553)
<i>Finance lease liability</i>	605	829

12. PROVISIONS

	2005 \$m	2004 \$m
Current	2,935	3,053
Non current	28,935	27,083
	31,870	30,136

These comprise:

Employee Benefits Provisions

Unfunded superannuation ^(a)	16,633	15,940
Long service leave and other leave entitlements	6,667	6,169
Other	329	331
Total Provision for Employee Benefits ^(b)	23,629	22,440

Other Provisions

Outstanding claims:

- Self Insurance Corporation	4,822	4,442
- Workers' Compensation (Dust Diseases) Board	1,509	1,307
- WorkCover Authority	261	256
- Self funded worker's compensation	389	366
HIH loss compensation	209	269
Building and Construction Industry Long Service Payments Scheme	460	394
Other	591	662
Total Other Provisions	8,241	7,696
Total Employee Benefits and Other Provisions	31,870	30,136

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

MOVEMENT IN OTHER PROVISIONS

	Carrying Amount 1 July 2004	Additional Provision 2004-05	Payments During 2004-05	Remeasure- ments 2004-05	Carrying Amount 30 June 2005
	\$m	\$m	\$m	\$m	\$m
Outstanding claims:					
- Self Insurance Corporation	4,442	1,011	(631)	...	4,822
- Workers' Compensation (Dust Diseases) Board	1,307	258	(56)	...	1,509
- WorkCover Authority	256	19	(14)	...	261
- Self funded worker's compensation	366	73	(50)	...	389
HIH loss compensation	269	16	(76)	...	209
Building and Construction Industry Long Service Payments Scheme	394	109	(43)	...	460
Other	662	158	(209)	(20)	591
Total Other Provisions	7,696	1,644	(1,079)	(20)	8,241

	Accrued Benefits ^(d) 2005 \$m	Net Market Value of Scheme Assets ^(d) 2005 \$m	Net Liability 2005 \$m	Net Liability 2004 \$m
<i>(a) The unfunded superannuation liability is composed of:</i>				
<i>Pooled Fund</i>				
- State Authorities Superannuation Scheme	6,261	3,505	2,756	4,064
- State Authorities Non Contributory Superannuation Scheme	2,055	1,043	1,012	1,600
- State Superannuation Scheme	22,581	14,105	8,476	6,237
- Police Superannuation Scheme	4,568	640	3,928	3,603
Judges' Pension Scheme	364	...	364	343
Parliamentary Contributory Superannuation Scheme	297	200	97	93
Unfunded Superannuation Liability	36,126	19,493	16,633	15,940
<i>Less: Prepaid superannuation contributions of the Energy Industries Superannuation Scheme^(c)</i>				
	762	908	(146)	(98)
Net Superannuation Liabilities	36,888	20,401	16,487	15,842

	2005 \$m	2004 \$m
<i>(b) Employee Benefit Liabilities comprise:</i>		
Accrued employee benefits reported as payables	337	411
Employee benefit provisions	23,629	22,440
Aggregate Employee Benefit Liabilities	23,966	22,851

(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.

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

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 2005 projected to 30 June 2005.

The net market value of pooled fund assets comprises the actual June 2005 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.

	2005-06 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 2005 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 2004-05. However \$975 million of contributions were made during 2004-05 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 13.0 percent (positive 12.5 percent for EISS) in 2004-05, which is higher than the long term actuarially applied rate of positive 7.3 percent (positive 7.5 percent for EISS) per annum.

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

13. OTHER LIABILITIES

	2005 \$m	2004 \$m
Current	456	731
Non-current	735	785
	1,191	1,516
Other Liabilities comprise:		
The Sydney Harbour Tunnel Agreement obligations	382	396
Deferred income ^(a)	369	616
Other	440	504
	1,191	1,516

(a) The 2004 balance includes a \$248m GST grant prepaid by the Commonwealth government, related to the overpayment of budget balancing assistance in 2004.

14. ASSET REVALUATION RESERVE

	2005 \$m	2004 \$m
Opening Balance	58,516	57,361
Net transfer to accumulated funds ^(a)	(1,864)	(5,848)
Net valuation increment ^(b)	3,672	7,003
Closing Balance	60,324	58,516

(a) In 2005 seventeen Area Health Services were amalgamated into eight. This resulted in the transfer by the Department of Health of \$1.3 billion of asset revaluation reserves into accumulated funds. 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 2005, the net valuation increments include \$1,626 million increments for Roads and Traffic Authority roads and property, and \$1,017 million for hospitals. The 2004 net valuation increments include \$3,408 million for public housing, \$1,673 million for rail assets, and \$961 million for Roads and Traffic Authority infrastructure and property assets.

15. ACCUMULATED FUNDS

	2005 \$m	2004 \$m
Opening balance	65,473	63,408
Net transfer from Asset Revaluation Reserve	1,864	5,848
Other net adjustments	4	...
Add: Surplus/(Deficit) for the year	727	(3,783)
Closing Balance	68,068	65,473

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

16. CASH FLOW INFORMATION

	2004-05 \$m	2003-04 \$m
RECONCILIATION OF OPERATING RESULT TO NET CASH FLOWS FROM OPERATING ACTIVITIES EXCLUDING FINANCIAL INSTITUTIONS		
Surplus/(Deficit) for the year	727	(3,783)
Adjust for:		
- Surplus of financial institutions	(18)	(108)
- Operating cash flow of financial institutions eliminated on consolidation	1,378	1,397
Non-cash items added back:		
- Depreciation and amortisation	4,106	4,092
- Loss/(Gain) on asset disposals	488	(5)
- Other	(349)	2,032
Change in operating assets and liabilities	983	4,406
Net cash flows from operating activities	7,315	8,031

	2005 \$m	2004 \$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	3,311	3,595
Bank overdraft	(68)	(149)
	3,243	3,446

RESTRICTED CASH ASSETS

Public sector agency cash balances at 30 June 2005 include \$1,201 million of cash (2004 \$1,510 million), which is dedicated for a specific purpose. It includes restricted cash of \$482 million under the control of the public health system, \$334 million of school bank monies and \$108 million for land remediation works to remove various contaminations associated with a former steel works site in Newcastle.

In respect to the Crown, \$114 million (2004 \$97 million) of cash held in Special Deposit Accounts can only be used in accordance with the legislation that established the Account.

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.

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

DISPOSAL OF ENTITIES

During 2004-05 the Government disposed of two business units, QStores and cmSolutions, for a consideration of \$38 million. (Refer to note 23 Discontinuing Operations)

There were no entities disposed of during 2003-04.

ACQUISITION OF ENTITIES

During 2004-05 and 2003-04 there were no major acquisitions of entities.

NON-CASH FINANCING AND INVESTING ACTIVITIES

During 2004-05:

- A total of \$68 million was recognised for an emerging interest in private sector provided infrastructure. \$47 million was recognised by the Roads and Traffic Authority (2004 \$47 million), \$13 million by the Sydney Olympic Park Authority (2004 \$54 million) and \$5 million by the Ministry of Transport (2004 \$15 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 \$56 million (2004 \$58 million);

- During 2004-05, the Crown acquired motor vehicles to the value of \$123 million under finance lease arrangements (2004 \$96 million).

In 2003-04 \$187 million in assets and borrowings was recognised for the first time by New South Wales Police for a finance lease on its headquarters in Parramatta.

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 reported in individual agency financial statements.

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

NET CASH FLOWS OF FINANCIAL INSTITUTIONS

	2004-05 \$m Gross	2004-05 \$m (a) Net of Elimination	2003-04 \$m Gross	2003-04 \$m (a) Net of Elimination
CASH INFLOWS (OUTFLOWS) FROM OPERATING ACTIVITIES				
Receipts				
Finance	1,679	264	1,689	282
Other	42	29	54	34
Total Receipts	1,721	293	1,743	316
Payments				
Employee Related	(10)	(9)	(10)	(9)
Finance	(1,759)	(1,724)	(1,820)	(1,807)
Other	(35)	(21)	(72)	(56)
Total Payments	(1,804)	(1,754)	(1,902)	(1,872)
NET CASH FLOW FROM OPERATING ACTIVITIES	(83)	(1,461)	(159)	(1,556)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of Property, Plant & Equipment	(2)	(2)	(1)	(1)
Purchase of Investments & Loans Made to Authorities	(4,275)	...	(5,602)	...
Loans to Authorities Repaid & Other Investing	1,562	15	4,143	49
Net Cash Flows From Investing Activities	(2,715)	13	(1,460)	48
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from Borrowings	21,098	21,098	22,873	22,873
Repayments of Borrowings	(18,301)	(18,287)	(21,321)	(21,273)
Other	(33)	...	(24)	...
NET CASH FROM FINANCING ACTIVITIES	2,764	2,811	1,528	1,600
NET CASH FLOWS FROM FINANCIAL INSTITUTIONS	(34)	1,363	(91)	92

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

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

17. TRUSTS UNDER MANAGEMENT

	2005	2004
	\$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:		
NSW Treasury Corporation (fiduciary investments)	2,389	1,156
Protective Commissioner	2,003	1,202
WorkCover Authority	1,209	1,192
Office of the Public Trustee ^(a)	1,081	1,024
Rental Bond Board	609	571
Department of Health	92	44
Workers' Compensation (Dust Diseases) Board	70	64
Others	145	98
	7,598	5,351

(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.

	2005	2004
	\$m	\$m
Capital Expenditure (including expenditure for private sector financed infrastructure assets)		
Roads and Traffic Authority	1,703	774
Sydney Water Corporation	934	375
Transport Infrastructure Development Corporation	653	608
Rail Corporation New South Wales	397	356
Department of Health	353	537
Landcom	175	165
NSW Police	113	139
Ministry of Transport	102	100
Delta Electricity	99	7
Integral Energy	90	74
Department of Education and Training	85	121
TransGrid	69	51
State Transit Authority	66	12
Hunter Water Corporation	64	44
Macquarie Generation	57	68
NSW Land and Housing Corporation	41	35
Country Energy	34	37
Energy Australia	30	40
Eraring Energy	24	37
Other agencies	81	116
	5,170	3,696

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

18. EXPENDITURE COMMITMENTS (cont)

	2005 \$m	2004 \$m
Capital Expenditure Commitments Payable:		
not later than one year	3,061	2,509
later than one year and not later than five years	1,945	968
later than five years	164	219
	<hr/> 5,170	<hr/> 3,696
Operating Lease Expenditure payable:		
not later than one year	626	673
later than one year and not later than five years	1,219	1,347
later than five years	546	572
	<hr/> 2,391	<hr/> 2,592
Other Expenditure Commitments payable:		
not later than one year	3,079	2,109
later than one year and not later than five years	4,110	1,955
later than five years	2,930	2,307
	<hr/> 10,119	<hr/> 6,371

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	98	100
later than one year and not later than five years	415	416
later than five years - Net Present Value ^(a)	421	443

(a) 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.

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

19. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

CONTINGENT LIABILITIES	2005	2004
	\$m	\$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)	157 ...	252 (231)
Rail Corporation (contractual and other claims)	106	98
Attorney General's Department (Victims Compensation and other claims)	60	65
Sydney Water Corporation (claims in respect of compensation and litigation)	54	43
Roads and Traffic Authority (contractual claims)	41	3
Eraring Energy (contractual claims)	13	15
Department of Community Services (claims mainly relating to children and persons in care)	11	9
State Rail Authority (commercial disputes, employee disputes, environmental, personal injury and property claims)	6	12
Department of Lands (claims involving legal proceedings of Land and Property Information)	5	8
Home Purchase Assistance Fund (potential income and cash shortfalls in FANMAC Trust system and excess rate caps)	4	9
NSW Fire Brigades (claims involving retrospective entitlements to fire fighters)	3	9
Department of Housing - Land and Housing Corporation	1	10
Sydney Catchment Authority (claims including legal proceedings and contractual disputes)	...	22
Other agencies	23	34
TOTAL	484	358

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

(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 \$96 million (2004 \$113 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 \$68 million at 30 June 2005 (2004 \$59 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 \$2 million per month for the months May through December 2004 following the redetermination of the monitoring fee by the Minister in April 2004. The NSW Government is disputing this claim.

- Issued securities, borrowings and derivative liabilities of the NSW Treasury Corporation with a market value of \$31 billion (2004 \$28 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 2005 the total guaranteed liabilities of the Bank amounted to \$107 million (2004 \$500 million).

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

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 \$6 million (2004 \$11 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 2004 \$m	31 December 2003 \$m
General insurance	234	225
Life insurance	80	87
Inward reinsurance	107	117
	421	429

The guarantee on these policies continues under the terms of the State Government Deed issued for the privatisation of the GIO and its subsequent purchase by AMP Limited.

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.

- 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.

To date, the Environmental Protection Authority has never requested a dam structure in NSW to be modified to mitigate the effect of cold-water pollution. The likelihood of such an event occurring is further reduced under the NSW cold-water strategy that sets out that SHL will not be required to undertake any modifications to dams or dam levels for the purposes of mitigating cold-water pollution until 7 years after corporatisation.

Under the Tax Compensation Deed, NSW is entitled to receive 58 percent of the income tax paid by SHL 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.

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

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 maintain 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 major 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 SHL 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 \$542 million (2004 \$539 million).

- 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.

An Interim Final Certificate (IFC) has been issued to the consortium for the Callide C power station. An IFC is also currently being issued for the Pacific Power (Subsidiary No.1) Pty Ltd under the EPC contract for Tarong North power station. These will significantly reduce the exposure from guarantees up to their scheduled varying final completion dates in 2006.

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

- 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 internal leasing 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 with the liability for the exposure borne by the Crown Entity. The Crown Entity has an effective floating rate principal exposure of \$599 million as at 30 June 2005 (2004 \$600 million).

- Landcom has given bank guarantees to various councils/government agencies that certain infrastructure works will be carried out including electrical infrastructure works, construction of community centre etc. To date there are six bank guarantees outstanding totalling \$6.9 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:

- (i) 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.
- (ii) 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.]

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

- 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 \$460 million (2004 \$649 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 2005 financial year there have been no changes in the credit standing of the deposit counterparties which range from BBB+ to AAA.

- Some government authorities have claims 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.
- 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.

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

It is not possible at this time 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.

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.

- 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.

- 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 percent 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 nil.

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

CONTINGENT ASSETS

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

- The Ministry of Transport holds guarantees of \$100 million from Pacific National as security for contractual performance in its grain business. These guarantees comprise \$90 million held for completion of mandatory works specified in the Works Deed (Grain) and \$10 million relating to obligations under the Grain Haulage Service Deed.
- 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 liquidators have recently stated that they plan to set up a scheme of arrangement to make an initial distribution of 10 cents in the dollar, with a further payment of between 10 cents and 15 cents at some time in the future. The first interim dividend is not expected until the second half of 2006.

- Transgrid initiated legal proceedings during the year to recover \$6 million of adjudicated payments from its contractors. It is not possible for management to form an opinion on the likely outcome of the proceedings.

20. EVENTS OCCURRING AFTER REPORTING DATE

On 18 April 2005, EnergyAustralia received Shareholding Ministers' approval to enter into a Partnership between Energy Australia Pty Ltd and IPower Pty Ltd, a subsidiary of International Power (Retail) Pty Ltd to retail energy in Victoria and South Australia. The Partnership came into effect on 7 July 2005. Consideration provided was \$56 million plus a payment for contributed working capital subject to final audit verification.

EnergyAustralia and IPower Pty Ltd (or its nominee) have a put and call option respectively on the remaining 50 percent shareholding in the partnership. These options are exercisable in April 2007. The EnergyAustralia put option is at a maximum price of \$77 million and the IPower Pty Ltd call option has a minimum price of \$60 million. The financial effects of the above transaction have not been brought to account in the financial statements for the year ended 30 June 2005.

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 2005 \$m	Fixed interest rate maturing in:			Non- interest bearing 2005 \$m	TOTAL 2005 \$m	Weighted average effective interest rate 2005 %
			1 year or less 2005 \$m	1 to 5 years 2005 \$m	Over 5 years 2005 \$m			
Financial Assets								
Cash ^(a)	16	3,311	...	...	...	...	3,311	
Receivables	5	...	...	...	...	4,836	4,836	
Investments								
- Administered by								
T Corp ^(b)	6	3,289	2,095	4,061	1,073	...	10,518	10.4
- T Corp Placements	6	...	4,713	87	65	...	4,865	5.6
- Other	6	125	66	534	4	688	1,417	5.5
Total Financial Assets		6,725	6,874	4,682	1,142	5,524	24,947	
Financial Liabilities								
Bank Overdraft	11	68	...	...	...	...	68	
Payables	10	...	...	...	...	4,569	4,569	
Domestic and Foreign								
Borrowings	11	...	6,103	7,403	15,666	...	29,172	6.6
Liability to Commonwealth								
Government	11	...	143	184	1,302	...	1,629	4.6
Finance Leases	11	...	111	181	313	...	605	
Total Financial Liabilities		68	6,357	7,768	17,281	4,569	36,043	

	Notes	Floating interest rate 2004 \$m	Fixed interest rate maturing in:			Non- interest bearing 2004 \$m	TOTAL 2004 \$m	Weighted average effective interest rate 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								
T Corp ^(b)	6	3,024	626	3,328	626	...	7,604	10.1
- T Corp Placements	6	...	3,603	120	66	...	3,789	5.0
- Other	6	739	176	262	39	476	1,692	5.6
Total Financial Assets		7,358	4,405	3,710	731	5,044	21,248	
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 TO AND FORMING PART OF THE FINANCIAL REPORT

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.

	2005	2004
	<i>\$m</i>	<i>\$m</i>
<i>Hour Glass Cash</i>	1,223	1,214
<i>Special Client Mandate</i>	114	577
<i>Cash administered by Tcorp</i>	<i>1,337</i>	<i>1,791</i>
<i>Other^(#)</i>	1,974	1,804
<i>Total Cash</i>	<i>3,311</i>	<i>3,595</i>

^(#) *Other includes cash bank balances adjusted for unpresented 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 Self Insurance 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>	130	121
<i>Medium to Long Term</i>	638	576
<i>Treasury Managed Fund (Hour Glass facility)</i>	2,311	1,947
<i>Special Client Mandate</i>	7,439	4,960
<i>Total Investments Administered by TCorp</i>	<i>10,518</i>	<i>7,604</i>

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

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 2005 \$m	Aggregate net fair value 2005 \$m	Total carrying amount 2004 \$m	Aggregate net fair value 2004 \$m
Financial Assets				
Cash	3,311	3,311	3,595	3,595
Receivables	4,836	4,836	4,568	4,568
Investments - Administered by TCorp	10,518	10,518	7,604	7,604
- TCorp Placements	4,865	4,872	3,789	3,797
- Other	1,417	1,417	1,692	1,692
Total Financial Assets	24,947	24,954	21,248	21,256
Financial Liabilities				
Bank Overdraft	68	68	149	149
Payables	4,569	4,569	4,361	4,361
Domestic and Foreign Borrowings	29,172	29,869	25,876	26,080
Liability to Commonwealth Government	1,629	1,496	1,672	1,471
Finance Leases	605	605	829	829
Total Financial Liabilities	36,043	36,607	32,887	32,890

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.

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

DERIVATIVE FINANCIAL INSTRUMENTS ^(c)

	Floating interest rate 2005 \$m	Fixed interest rate maturing in:			Non-interest bearing 2005 \$m	TOTAL 2005 \$m	Aggregate net fair value 2005 \$m
		1 year or less 2005 \$m	1 to 5 years 2005 \$m	Over 5 years 2005 \$m			
Receivable							
Swaps	...	4,189	3,602	1,267	...	9,058	
Futures	...	...	38	42	...	80
Payable							
Swaps	(9,058)	...	...	...	...	(9,058)
Futures	...	...	(1,715)	(507)	...	(2,222)

	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)
Futures	...	...	(3)	(6)	...	(9)

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

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

ELECTRICITY HEDGING CONTRACTS

	2005 Face Value \$m	2005 Fair Value \$m
1 year or less	1,266	
1 to 5 years	2,243	
More than 5 years	1	
	3,510	(140)

	2004 Face Value \$m	2004 Fair Value \$m
1 year or less	1,067	
1 to 5 years	1,769	
More than 5 years	10	
	2,846	(205)

Information for the table above is sourced from major NSW government electricity generators and distributors / retailers. Some information for the previous year was unavailable as a number of contracts have settled since 30 June 2004. Where information was not available, reasonable estimates were calculated for comparison to the current year.

Additionally these agencies made system changes to prepare for the implementation of the new AEIFRS Financial Instruments standards AASB 132 and 139. As mentioned in Note 25, NSW Treasury has deferred the date of transition for both standards to 1 July 2005. This is due to significant uncertainty regarding the final form of AASB 139, and as comparative information for 2004-05 need not comply with AASB 132 and 139 (refer AASB 1), this effectively defers the date of transition by 12 months to 1 July 2005, rather than 1 July 2004.

The above table excludes electricity hedging contracts between NSW government entities as they have been eliminated on consolidation of the Total State Sector. Fair Value is on a Mark-to-Market (MTM) basis, rather than net of buys and sells. Thus fair value also equals the unrealised gain or loss.

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

23. DISCONTINUING OPERATIONS

In December 2004, the Budget Sub-Committee of Cabinet gave the Department of Commerce approval for the divestment of its mail, printing and office supplies business. This business competed for work with the private sector and required significant investment to become a viable competitive business under Government ownership. The decision to divest was consistent with the Department's strategy of continually reviewing its operations to ensure its resources are employed to the maximum benefit of NSW Government.

The business was sold by a competitive tender process run by a steering committee chaired by NSW Treasury. The tender process was overseen by an independent probity adviser and the successful bids exceeded the calculated value of retaining the business in Government ownership.

The discontinuing operation comprised two business units QStores and cmSolutions and its disposal was completed in three stages. The office supplies business unit (QStores) was sold to National Office Products Limited on 31 January 2005. cmSolutions was sold in two parts; State Mail Service was sold to Toll Transport Pty Limited on 28 February 2005 and the Government Printing Service was sold to Salmat Document Management Solutions Pty Limited on 15 April 2005.

In the disposal, only the inventory, plant and equipment were sold. All other assets and liabilities remained with the Department of Commerce.

Consultant costs associated with the divestments (including legal, financial and accounting advisers) were incurred by the Crown Entity and therefore are not included in the following financial information.

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

	Qstores & cmSolutions (business units)	
	2004-05 \$m	2003-04 \$m
Financial performance information for the years ended 30 June 2005 and 2004		
Revenue from ordinary activities	69	107
Expenses from ordinary activities	(74)	(108)
Profit on disposal of discontinuing operation	13	...
Profit (Loss) from ordinary activities before income tax	8	(1)
Income tax benefit (expense)	...	...
Net profit/(loss)	8	(1)
Cash flow information for the years ended 30 June 2005 and 2004		
Net cash inflow (outflow) from operating activities	(10)	...
Net cash inflow (outflow) from investing activities	14	...
Net cash inflow (outflow) from financing activities	...	...
Net increase (decrease) in cash generated by the division	4	...
Profit on disposal of continuing operation		
Sale Proceeds	38	...
Less:		
Employee termination payment	(7)	...
Cost of inventory sold	(11)	...
Written down value of non-current assets sold	(1)	...
Other costs of sale	(6)	...
Profit on sale	13	...

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 (NTER). On consolidation, all NTER related income tax entries are eliminated for the Total State Sector Accounts.

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

THE NSW TOTAL STATE SECTOR ACCOUNTS
DISAGGREGATED STATEMENT OF REVENUE AND
EXPENSES FOR THE YEAR ENDED 30 JUNE 2005

	General Government		Public Trading Enterprises	
	2004-05	2003-04	2004-05	2003-04
	\$m	\$m	\$m	\$m
REVENUES FROM ORDINARY ACTIVITIES				
State Revenues				
Taxation	15,322	15,002	...	...
Commonwealth Grants	16,192	15,494	...	...
Financial Distribution	1,537	1,480	...	...
Fines, Regulatory Fees and Other	1,145	901	...	...
Total State Revenues	34,196	32,877	...	...
Operating Revenues				
Sale of Goods and Services	2,734	2,619	9,776	9,410
Investment Income	1,127	964	78	84
Grants and Contributions	753	599	2,836	2,657
Net Gain/(Loss) on Disposal of Physical Assets	(372)	(10)	(116)	15
Other	183	357	334	468
Total Operating Revenues	4,425	4,529	12,908	12,634
EXPENSES FROM ORDINARY ACTIVITIES				
Employee Benefits				
- Superannuation	2,026	1,474	74	167
- Other	16,520	15,415	3,412	3,228
Other Operating	8,143	10,362	2,698	5,850
Maintenance	1,439	1,381	1,060	932
Depreciation and Amortisation	2,019	1,924	2,086	2,166
Grants and Subsidies	7,407	7,158	670	695
Borrowing Costs	828	784	920	926
Total Expenses	38,382	38,498	10,920	13,964
NET COST OF SERVICES	(33,957)	(33,969)	1,988	(1,330)
SURPLUS/(DEFICIT) FOR THE YEAR BEFORE FINANCIAL DISTRIBUTIONS				
Income Tax Equivalent Expense	...	...	565	521
Dividend Provisions	...	...	933	915
SURPLUS/(DEFICIT) FOR THE YEAR AFTER FINANCIAL DISTRIBUTIONS	239	(1,092)	490	(2,766)

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

THE NSW TOTAL STATE SECTOR ACCOUNTS
DISAGGREGATED STATEMENT OF REVENUE AND
EXPENSES FOR THE YEAR ENDED 30 JUNE 2005

Public Financial Enterprises		Eliminations		Total State Sector	
2004-05	2003-04	2004-05	2003-04	2004-05	2003-04
\$m	\$m	\$m	\$m	\$m	\$m
...	...	(576)	(806)	14,746	14,196
...	...	...	...	16,192	15,494
...	...	(1,537)	(1,480)	...	...
...	...	3	...	1,148	901
...	...	(2,110)	(2,286)	32,086	30,591
19	17	(418)	(412)	12,111	11,634
1,736	1,682	(1,486)	(1,420)	1,455	1,310
12	17	(2,523)	(2,407)	1,078	866
...	...	...	...	(488)	5
1	...	(4)	...	514	825
1,768	1,716	(4,431)	(4,239)	14,670	14,640
...	1	...	...	2,100	1,642
10	10	(152)	(163)	19,790	18,490
12	31	(198)	(352)	10,655	15,891
...	...	...	...	2,499	2,313
1	2	...	...	4,106	4,092
...	...	(3,059)	(2,975)	5,018	4,878
1,716	1,553	(1,603)	(1,555)	1,861	1,708
1,739	1,597	(5,012)	(5,045)	46,029	49,014
29	119	581	806	(31,359)	(34,374)
29	119	(1,529)	(1,480)	727	(3,783)
11	12	(576)	(533)	...	...
24	33	(957)	(948)	...	...
(6)	74	4	1	727	(3,783)

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

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

	General Government		Public Trading Enterprises	
	2005	2004	2005	2004
	\$m	\$m	\$m	\$m
Current Assets				
Cash Assets	1,477	1,820	1,434	1,228
Receivables	2,884	2,947	1,791	1,734
Other Financial Assets	1,002	1,088	246	355
Inventories	113	135	517	506
Other	94	106	375	217
Total Current Assets	5,570	6,096	4,363	4,040
Non-Current Assets				
Receivables	4,260	3,899	218	216
Other Financial Assets	11,980	9,320	88	144
Property, Plant and Equipment				
Land and Buildings	41,985	40,541	39,481	39,992
Plant and Equipment	6,569	5,805	4,193	4,223
Infrastructure Systems	35,197	33,667	39,905	37,978
Forestry Stock	...	...	1,595	1,609
Inventories	37	39	454	403
Other	1,262	1,196	866	643
Total Non-Current Assets	101,290	94,467	86,800	85,208
TOTAL ASSETS	106,860	100,563	91,163	89,248
Current Liabilities				
Payables	2,424	2,333	2,278	2,181
Interest Bearing	3,559	2,426	2,959	2,063
Provisions	2,285	2,320	1,756	1,792
Other	322	607	185	180
Total Current Liabilities	8,590	7,686	7,178	6,216
Non-Current Liabilities				
Interest Bearing	9,470	10,045	11,758	11,593
Provisions	27,255	25,252	3,741	3,396
Other	1,019	979	252	293
Total Non-Current Liabilities	37,744	36,276	15,751	15,282
TOTAL LIABILITIES	46,334	43,962	22,929	21,498
NET ASSETS	60,526	56,601	68,234	67,750
Equity				
Asset Revaluation Reserves	27,512	24,916	32,812	33,600
Accumulated Funds	33,014	31,685	35,422	34,150
TOTAL EQUITY	60,526	56,601	68,234	67,750

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

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

Public Financial Enterprises		Eliminations		Total State Sector	
2005	2004	2005	2004	2005	2004
\$m	\$m	\$m	\$m	\$m	\$m
784	865	(384)	(318)	3,311	3,595
386	304	(1,723)	(1,767)	3,338	3,218
11,686	8,479	(7,750)	(5,329)	5,184	4,593
...	...	...	...	630	641
1	...	(39)	...	431	323
12,857	9,648	(9,896)	(7,414)	12,894	12,370
1	...	(2,981)	(2,765)	1,498	1,350
17,079	17,606	(16,942)	(18,011)	12,205	9,059
1	1	...	...	81,467	80,534
3	2	...	...	10,765	10,030
...	...	...	...	75,102	71,645
...	...	...	...	1,595	1,609
...	...	...	...	491	442
...	...	(649)	(350)	1,479	1,489
17,084	17,609	(20,572)	(21,126)	184,602	176,158
29,941	27,257	(30,468)	(28,540)	197,496	188,528
397	392	(530)	(545)	4,569	4,361
6,476	4,001	(6,802)	(4,682)	6,192	3,808
39	51	(1,145)	(1,110)	2,935	3,053
...	...	(51)	(56)	456	731
6,912	4,444	(8,528)	(6,393)	14,152	11,953
23,369	23,142	(19,315)	(20,062)	25,282	24,718
28	33	(2,089)	(1,598)	28,935	27,083
...	...	(536)	(487)	735	785
23,397	23,175	(21,940)	(22,147)	54,952	52,586
30,309	27,619	(30,468)	(28,540)	69,104	64,539
(368)	(362)	...	...	128,392	123,989
...	...	...	...	60,324	58,516
(368)	(362)	...	...	68,068	65,473
(368)	(362)	...	...	128,392	123,989

25. THE FINANCIAL IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (AEIFRS)

The Total State Sector Accounts will apply the Australian Equivalents to International Financial Reporting Standards (AEIFRS) from 2005-06. Note 1 *Accounting Policies* details Treasury's strategies for implementing AEIFRS across the NSW public sector.

There is inherent uncertainty in the implementation of AEIFRS. Exposure drafts are being issued that may impact on the adoption of AEIFRS.

In accordance with NSW Treasury's indicative mandates the Total State Sector Accounts will apply the exemption provided in AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* not to restate the 2004-05 comparative information for AASB 132 *Financial Instruments: Presentation and Disclosures* and AASB 139 *Financial Instruments: Recognition and Measurement*.

These Standards will apply from 1 July 2005. None of the information provided below includes any impacts for financial instruments. However, when these Standards are applied, they are likely to impact on accumulated funds (on first adoption) and the amount and volatility of the surplus/deficit. Further, the impact of these Standards will in part depend on whether the fair value option can or will be mandated consistent with a proposed standard on GFS/GAAP harmonisation.

Management's best estimates as at the date of preparing the 30 June 2005 financial report of the financial impacts of AEIFRS on the Total State equity and operating result are shown below. Treasury does not anticipate any material impacts on the Total State Sector cash flows.

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

RECONCILIATION OF KEY AGGREGATES

RECONCILIATION OF EQUITY UNDER EXISTING STANDARDS (AGAAP) TO EQUITY UNDER AEIFRS

	Notes	30 June 2005 \$m	1 July 2004 \$m
Total Equity under AGAAP		128,392	123,989
Adjustments to accumulated funds			
Defined benefit superannuation adjustment for change in discount rate	a	(10,090)	(5,519)
Increase due to write back of asset revaluation reserve for investment properties	b	497	339
Write back of RTA up-front payments and emerging assets in Public-Private Partnerships previously recognised as revenue	c	(370)	(370)
Group adjustment to the Treasury Managed Fund's insurance liability	d	297	267
Effect of offsetting asset valuation increments/decrements individually rather than by class	e	254	267
Recognition of developer assets	f	177	182
Recognition and capitalisation of provision for asset restoration costs	g	(53)	(46)
Write back of reimbursements receivable	h	(36)	(35)
Derecognition of developer capital contributions	i	(37)	(31)
Write back of intangible assets	j	(36)	(33)
Grant revenue accrued (for-profit entities)	k	(34)	(29)
Write back of prudential margin of self insurance liabilities	l	17	18
Effect of discounting long-term employee leave	m	14	13
Derecognition of capitalised interest	n	(12)	(10)
Other net adjustments		50	70
Adjustments to asset revaluation reserves			
Write back of asset revaluation reserve for investment properties to accumulated funds	b	(497)	(339)
Effect of offsetting asset valuation increments/decrements individually rather than by class	e	(335)	(357)
Write down of impaired assets to recoverable amount	o	(169)	(488)
Recognition of developer assets	f	125	121
Write back of intangible assets	i	(49)	(48)
Other net adjustments		(41)	(114)
Total Equity under AEIFRS		118,064	117,847

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

RECONCILIATION OF SURPLUS UNDER AGAAP TO SURPLUS UNDER AEIFRS

FOR YEAR ENDED 30 JUNE 2005

	Notes	2004-05 \$m
Surplus under AGAAP		727
Adjustments to the operating result		
Defined benefit superannuation adjustment for change in discount rate	a	(4,571)
Write back of depreciation and recognition of fair value adjustments for investment properties	b	133
Group adjustment to the Treasury Managed Fund's insurance liability	d	30
Effect of offsetting asset valuation increments/decrements individually rather than by class	e	(11)
Recognise depreciation and finance costs for the provision for asset restorations	p	(9)
Other net adjustments		(14)
<hr/>		
Deficit under AEIFRS		(3,715)
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Notes:

- (a) AASB 119 *Employee Benefits* requires the defined benefit superannuation 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. This will increase the defined benefit superannuation liability, reduce the opening accumulated funds and increase the annual superannuation expense. During 2004-05 the long-term bond rate fell by nearly one per cent, resulting in a significant increase in the AEIFRS superannuation liability and expense.

The superannuation schemes are required to report unfunded liabilities on a funding basis in accordance with AAS 25. The level of liabilities that they report are similar to those reported in the Total State Sector Accounts using existing AGAAP. Whilst the Total State Sector Accounts will be prepared according to the requirements of AAS 119, it is the view of Treasury that the funding basis provides a better indication of the level of unfunded liabilities and therefore the amount of employer funding required over the long-term to meet future benefit obligations.

- (b) Under AASB 140 *Investment Property* and Treasury's indicative mandates, investment property will be recognised at fair value. In contrast to their current treatment as property, plant and equipment, investment property recognised at fair value will not be depreciated and changes in fair value will be recognised in the income statement, rather than the asset revaluation reserve. This means that any asset revaluation reserve balances relating to such property will be written back to accumulated funds.
- (c) NSW Treasury has indicatively mandated the adoption of a draft policy *Accounting for Upfront Payments and Emerging Assets in Public Private Partnerships*, based on the UK Standard FRS 5. The policy requires that upfront payments received in respect of a private sector provided infrastructure project should be recognised over the concession period.

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

- (d) The Treasury Managed Fund is a self-insurance arrangement for the general government sector and the Total State Sector Accounts, and AASB137 *Provisions, Contingent Assets and Contingent Liabilities* will therefore 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 current AASB1023. Further, it is likely that the Treasury Managed Fund's prudential margin will not be recognised in the consolidated general government sector and the Total State Sector Accounts. Prudential margins are required to be recognised under the revised AASB 1023 but not AASB 137.
- (e) AASB 116 *Property, Plant and Equipment* requires for-profit entities to recognise revaluation increments and decrements on an individual asset basis, rather than a class basis. This change will decrease accumulated funds and increase the asset revaluation reserve.
- (f) As a result of initial adoption the accounting treatment of some past transactions has been reviewed and amended to be consistent with AEIFRS. This adjustment to retained earnings and asset revaluation reserve mainly relates to a different interpretation under AEIFRS of the treatment of developer assets, than under AGAAP.
- (g) AASB 116 *Property, Plant and Equipment* requires the cost and fair value of property, plant and equipment to be increased to include the estimated restoration costs, where restoration provisions are recognised under AASB 137. These restoration costs must be depreciated and the unwinding of the restoration provision must be recognised as a finance expense. This treatment is not required under current AGAAP.
- (h) AASB 137 *Provisions, Contingent Assets and Contingent Liabilities* prevents the recognition of an asset for reimbursements receivable associated with a provision liability unless the recovery is virtually certain. Under AGAAP, the test is less stringent and allows recognition of the asset if recovery was probable. This change will decrease both accumulated funds and the asset.
- (i) UIG 1017 *Developer and Customer Contributions for Construction in a Price Regulated Market* requires developer and customer capital contributions to be recognised when the asset is completed in accordance with the term and conditions of the contribution. Contributions must be recognised at fair value. Under AGAAP, revenue is recognised progressively as the required network extension or modification is being carried out. The opening accumulated funds will be adjusted to represent only revenue receivable (asset) or revenue prepaid (liability), in accordance with the UIG.
- (j) AASB 138 *Intangible Assets* requires all research costs to be expensed and restricts the capitalisation of development costs. Current AGAAP permits some research and development costs to be capitalised when certain criteria are met. As a result, some previously recognised intangible assets will be derecognised. Further, intangibles can only be revalued where there is an active market, which is unlikely. Therefore, revaluation increments and decrements will be derecognised and intangible assets recognised at amortised cost.
- (k) AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance for for-profit entities* spreads income recognition over the period necessary to match related costs. This has the effect of delaying revenue recognition and increasing liabilities. Under current AGAAP grants are normally recognised on receipt.
- (l) AASB 137 *Provisions, Contingent Assets and Contingent Liabilities* requires the removal of risk margins from provisions for outstanding claims not relating to general insurance contracts.

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

- (m) AASB 119 *Employee Benefits* requires all long-term employee benefits to be measured at their present value. Current AGAAP provides that wages, salaries annual leave and sick leave are measured at nominal value in all circumstances. Accordingly, long-term employee benefits will be remeasured at present value, rather than nominal value, thereby decreasing the employee benefits liability as well as decreasing the employee benefits expense.
- (n) AASB 123 *Borrowing Costs* provides the option to expense or capitalise borrowing costs. NSW Treasury's indicative mandate requires all general government sector agencies to expense all borrowing costs to harmonise with GFS. Current AGAAP requires borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset to be capitalised and other borrowing costs to be expensed. Treasury's mandate will reduce the recognised value of assets and reduce profits.
- (o) AASB 136 *Impairment of Assets* requires an entity to assess at each reporting period 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. The adoption of AEIFRS has resulted in an adjustment to the opening asset revaluation reserve.

Other Significant Issues with No Material Impact on Consolidated Equity and Results

- The Crown Property Portfolio has investment properties that generate a rental income. Certain properties of the Crown Property Portfolio are tenanted primarily by general government agencies and therefore are considered owner-occupied (and therefore not investment property) for the general government sector and Total State Sector Accounts. Such owner-occupied properties are accounted for in accordance with AASB116 as property, plant and equipment of the total state sector.
- The adoption of AASB 138 will result in balance sheet reclassifications from property, plant and equipment to intangible assets, for certain software assets and for land easements.
- AASB 112 *Income Taxes* uses a balance sheet approach which requires the differences between the accounting and tax value of assets and liabilities to be identified. Current AGAAP uses an operating statement method that accounts for tax by adjusting accounting profit for temporary and permanent differences to derive taxable income. The AASB 112 approach alters the quantum of tax assets and liabilities recognised. In particular, the balance sheet approach results in the recognition of a deferred tax liability in relation to revalued assets that are not recognised under current AGAAP. This also changes the quantum of the tax expense. However, any such tax liabilities accrued by PTEs would be eliminated upon consolidation within the NSW Total State Sector Accounts.

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

26. 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 Sector Agencies

Aboriginal Housing Office
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
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 Commerce
Department of Community Services
Department of Corrective Services
Department of Education and Training
Department of Energy, Utilities and Sustainability
Department of Environment and Conservation
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 Primary Industries
Department of Rural Fire Service
Department of State and Regional Development
Department of Tourism, Sport and Recreation
Dumaresq-Barwon Border Rivers Commission ^(*)

Eastern Creek Raceway
Energy and Water Ombudsman ^(*)
Environmental Trust
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
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 for Police
Ministry for Science and Medical Research
Ministry for the Arts
Ministry of Transport
Motor Accidents Authority
Motor Vehicle Repair Industry Council (*)
Museum of Applied Arts and Sciences

Natural Resources Commission
New South Wales businesslink
New South Wales Cancer Council (*)
New South Wales Cancer Institute (*)
New South Wales Crime Commission
New South Wales Film and Television Office
New South Wales Fire Brigades
New South Wales Food Authority
New South Wales Self Insurance Corporation
New South Wales Maritime Authority
New South Wales Medical Board (*)
New South Wales Police

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
Parramatta Park Trust (*)
Police Integrity Commission
Premier's Department
Psychiatry Institute of NSW (*)
Public Trust Office - Administration

Redfern-Waterloo Authority^(a)
Registry of Births, Deaths and Marriages
Rental Bond Board
Roads and Traffic Authority
Royal Botanic Gardens and Domain Trust
Rural Assistance Authority

South Sydney Development Corporation (*)
Sporting Injuries Committee (*)
State Council of Rural Lands Protection Boards (*)
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
Sydney Olympic Park Authority

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

Upper Parramatta River Catchment Trust ^(*)

Vocational Education and Training Accreditation Board ^(*)

Waste Planning and Management Fund
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 ^(b)

Integral Energy

Hunter Water Corporation

Jenolan Caves Reserves Trust ^(*)

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 Stadium Trust
Port Kembla Port Corporation

Rail Corporation New South Wales
Rail Infrastructure Corporation
Residual Business Management Corporation

State Forests of New South Wales
State Rail Authority
State Transit Authority
State Water ^(b)
Sydney Catchment Authority
Sydney Cricket Ground and Sports Ground Trust
Sydney Ferries
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
TransGrid

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

Zoological Parks Board

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

Public Financial Enterprises

Fair Trading Administration Corporation
FANMAC Trusts

New South Wales Treasury Corporation

(a) On 15 December 2004 Redfern-Waterloo was established.

(b) On 15 December 2004 Fish River Water Supply was abolished and its functions transferred to State Water.

() 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