NEW SOUTH WALES

REPORT ON STATE FINANCES

2005 - 06

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PREFACE

The 2005-06 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 2005-06 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. This report has been prepared for the first time in accordance with Australian Equivalents to International Financial Reporting Standards.

These reports and associated commentary provide a comprehensive review of the State's financial position and achievements against the fiscal principles outlined in the *Fiscal Responsibility Act 2005*.

Michael Costa
Treasurer

CONTENTS

CONTENTS

AUDITED CONSOLIDATED FINANCIAL REPORT (TOTAL STATE SECTOR ACCOUNTS) – cont

HIGHLIGHTS

- A Budget surplus on a Government Finance Statistics (GFS) basis for the year ended 30 June 2006 of $1,034 million. This is $731 million higher than the original Budget estimate of $303 million. It is also $390 million higher than the revised estimate of $644 million published in the 2006-07 Budget Papers. See Figure 1.

- Total expenses were $40,593 million, which is only $36 million higher than the original budget estimate of $40,557 million and $17 million higher than the revised estimate of $40,576 million published in the 2006-07 Budget Papers.

- Expenses were higher than originally budgeted in key frontline services such as Health, Transport, Education and Police. However, this was offset by savings in other areas. Particularly, the Government's recent tort law reform has contributed to a significant fall in 2005-06 insurance costs.

- Total revenue was $41,627 million, which is $767 million higher than the original budget estimate of $40,860 million and $407 million higher than the revised estimate of $41,220 million.

- Revenues benefited from exceptional investment market conditions. Investment income was $297 million above budget due to strong financial market conditions in the year. In addition, mining royalties were $91 million above budget due to strong coal prices and export volumes.

- A number of other revenues were also above budget including Commonwealth specific purpose grants (up by $247 million), primarily for drought assistance and health and education programs which are offset by higher expenditures in these areas.

- Revenue from sales of goods and services was $191 million above budget.

- Taxation revenues were below the original budget estimate by $352 million principally due to the abolition of vendor duty and the slightly weaker than expected recovery in the residential property market.

- The underlying Budget cash surplus for 2005-06 was $860 million (GFS basis). See Figure 2.

- The State's balance sheet (GFS basis) continues to streng+then. Assets rose by $8,367 million, while liabilities fell by $1,791 million. As a result, the net worth of the Total State Sector rose to $127,818 million. See Figure 3.

- General Government Sector net debt on an underlying basis (excluding investments held for future superannuation contributions) fell by $1,289 million to $1,158 million or 0.4 per cent of Gross State Product.

- Total State Sector net debt fell by $1,932 million to $10,048 million, or 3.1 per cent of Gross State Product (GSP) compared with 3.9 per cent in June 2005.

- Total State Sector net financial liabilities fell sharply to 15.7 per cent of GSP compared to 17.6 per cent in June 2005 as a result of the cash surplus, and a reduction in superannuation liabilities. In 1995, net financial liabilities stood at 25.8 per cent of GSP. See Figure 4.

HIGHLIGHTS

- Information in this report has been prepared for the first time using data measured in accordance with Australian Equivalents to International Financial Reporting Standards (AEIFRS). This has resulted in changes to how defined benefits superannuation liabilities are measured, however the funding plan remains the same. Actuaries have confirmed that the superannuation schemes are on target to be fully funded by 2030.
- The State's credit rating remains AAA, reflecting the strength of the New South Wales Government balance sheet.

Figure 1

Budget Surplus (Net Operating Result)
1999-2000 to 2005-06

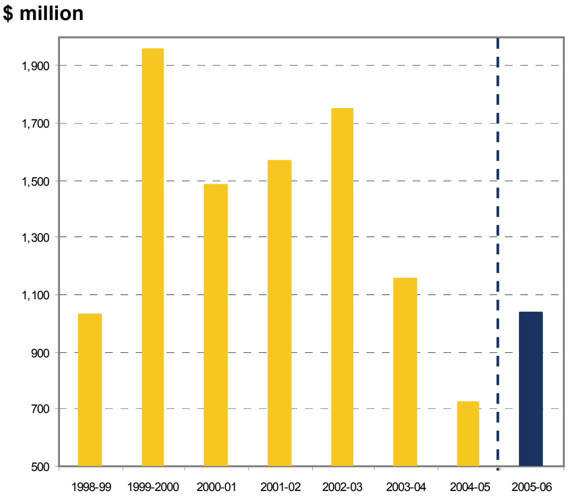
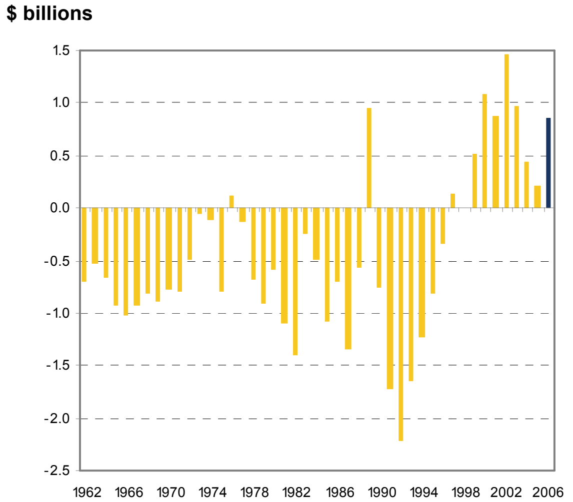


Figure 2

Budget Cash Result (Underlying)
1961-62 to 2005-06 (at constant 2005-06 prices)



- - - *Break in time series from the adoption of AEIFRS*

Figure 3

Total State Sector Net Worth
at 30 June

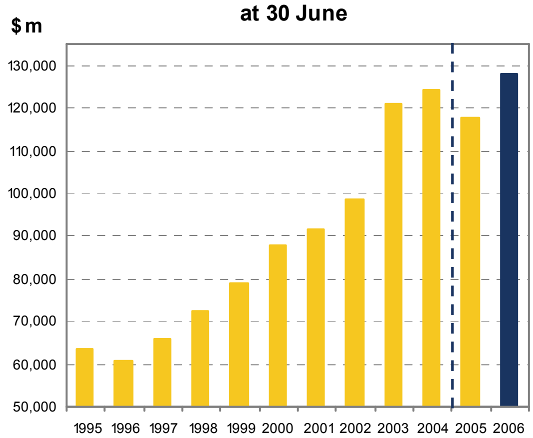
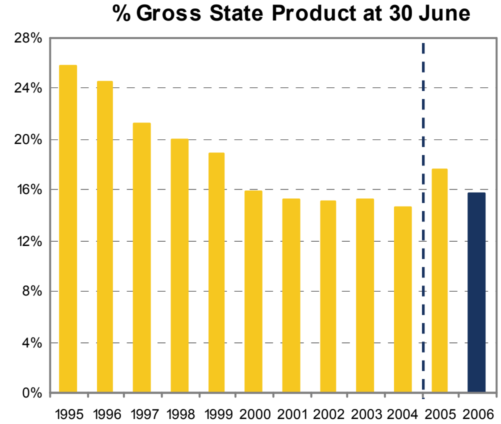


Figure 4

Total State Sector
Net Financial Liabilities as
% Gross State Product at 30 June



- - - *Break in time series from the adoption of AEIFRS*

HIGHLIGHTS

		2004-05	2005-06
General Government Sector			
Budget Surplus – GFS Net Operating Surplus	$m	724	1,034
Underlying Cash Surplus	$m	205	860
GFS Net Lending / (Borrowing)	$m	(178)	(483)
		June 2005	**June 2006**
Underlying Net Debt	$m	2,447	1,158
Underlying Net Debt as a % of Gross State Product	%	*0.8%*	*0.4%*
Underlying Net Unfunded Superannuation Liability	$m	21,653	17,848
Net Financial Liabilities (NFL)	$m	31,065	27,138
NFL as a % of Gross State Product	%	*10.2%*	*8.4%*

		2004-05	2005-06
Total State Sector			
AAS31 Operating Result excluding Significant Items and Other Net Income – Surplus	$m	1,650	2,183
AAS31 Operating Result including Significant Items - Surplus/(Deficit)	$m	(3,264)	7,126
		June 2005	**June 2006**
Net Debt	$m	11,980	10,048
Net Debt as a % of Gross State Product	%	*3.9%*	*3.1%*
Net Unfunded Superannuation Liability	$m	26,737	23,579
Net Financial Liabilities (NFL)	$m	53,886	50,443
NFL as a % of Gross State Product	%	*17.6%*	*15.7%*
GFS Total Assets	$m	198,466	206,833
GFS Total Liabilities	$m	80,806	79,015
GFS Net Worth	$m	117,660	127,818

Throughout this Report NSW Treasury has estimated 2005-06 Gross State Product (GSP). The Australian Bureau of Statistics has yet to publish its 2005-06 estimate of GSP.

2004-05 data has been restated in accordance with Australian Equivalent for International Financial Reporting Standards (AEIRS) except for the 2004-05 Budget and Net Lending Results, which are presented consistent with the original Budget (on a pre AEIFRS basis).

REVIEW OF FINANCIAL PERFORMANCE FOR 2005–2006

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 2005-06 and the actual result. An audited Statement of the Budget Result is disclosed on Page 1-5.

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 AAS 31 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 accrual accounting basis (per AAS 31 *Financial Reporting by Governments*) and refers to the aggregates disclosed in the Consolidated Financial Report at Page 3-6.

4. Intergovernmental GFS Comparisons

Reviews and compares key aggregates for Commonwealth and State jurisdictions on a GFS basis.

5. Financial Framework and Targets

Commentary is provided on the performance of the General Government and Total State 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.

1. Analysis of the GFS Statement of the Budget Result

	Budget $m	Actual $m	Var $m
Total State Revenues	36,053	36,127	74
Total Operating Revenues	4,807	5,500	693
Total Expenses	(40,557)	(40,593)	(36)
Budget Result	303	1,034	731

The Budget result for the financial year ended 30 June 2006 was a surplus of $1,034 million. This represented a $731 million increase on the original 2005-06 projection of a surplus of $303 million (see NSW General Government Sector Statement of the Budget Result page 1-5).

STATE REVENUES

State revenues increased by $74 million against budget as outlined below.

	Budget $m	Actual $m	Var $m
State Revenues			
Taxation	16,269	15,917	(352)
Commonwealth Grants			
- General Purpose	10,675	10,720	45
- Specific Purpose	6,121	6,368	247
Dividends and Tax Equivalents	1,906	1,844	(62)
Fines, Regulatory Fees and Other	1,082	1,278	196
Total State Revenues	36,053	36,127	74

Taxation

Vendor Duty

The abolition of vendor duty for transactions entered into on or after 2 August 2005 resulted in a decrease in revenues from that source of $266 million, the single most significant impact on taxation revenues.

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. As predicted, transfer duty revenue began to recover in 2005-06. However the recovery, particularly in the residential market, was slightly weaker than expected, at least in part, as a result of uncertainty concerning interest rates. As a result, revenue was $106 million lower than the Budget time projection.

Other Taxes

In total, other taxes were $20 million over the Budget estimate.

Land tax was $85 million higher than the Budget time estimate. This was due to stronger than expected growth in land values across the State, partly offset by the 25 January 2006 decision to increase the tax-free threshold for the 2006 land tax year from the $330,000 announced in the Budget to $352,000 at a cost of $43 million.

Payroll tax was $65 million higher than the Budget time estimate. This was due to stronger than expected wage and employment growth.

This was nearly all offset by a $60 million reduction in motor vehicle registration certificates duty due to fewer than expected new vehicle registrations and a reduction in mortgage duty of $55 million due to the impact of the weaker than expected property market on secured lending.

Commonwealth Grants

Commonwealth general purpose payments comprise GST revenue grants and National Competition Policy (NCP) payments. In 2005-06, general purpose grants were $45 million greater than budget. NCP payments were $27 million more than expected following reimbursement of payments that were suspended in 2004-05, and GST revenue grants were $18 million more than expected although still less than expected at the time the GST Agreement was signed.

Specific purpose payments were $247 million above budget mainly due to increases in grants for drought assistance and health and education programs. These additional funds are generally offset by higher expenditures in these areas.

Dividends and Tax Equivalents

Dividends and tax equivalent payments are paid by commercial Government businesses to ensure competitive neutrality with the private sector and encourage the businesses to make commercial investment decisions.

The reduction of $62 million in dividend and tax equivalent payments is primarily due to higher than budgeted contributions by electricity PTEs to the Electricity Tariff Equalisation Fund reducing their level of dividends and tax equivalent payments.

Fines, Regulatory Fees and Other

Revenue from fines, regulatory fees and other revenues was $196 million higher than the 2005-06 Budget estimate. A significant proportion of this increase was due to higher mining royalties arising from greater than expected coal prices and a larger than budgeted volume of exports in the last few months of the year.

OPERATING REVENUES

Operating revenues increased by $693 million against budget as outlined below.

	Budget $m	Actual $m	Var $m
Operating Revenues			
Sale of Goods and Services	2,851	3,042	191
Investment Income	971	1,268	297
Grants and Contributions	638	835	197
Other Revenue	347	355	8
Total Operating Revenues	4,807	5,500	693

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 2005-06, sales of goods and services exceeded the Budget estimate by $191 million.
A significant proportion of this was due to the State's response to the Commonwealth's WorkChoices legislation. Under the Public Sector Employment Legislation Amendment Act, 2006 passed by State Parliament, a restructure occurred transferring employment responsibility for certain employees outside of the general government sector (such as Public Trading Enterprises) to general government agencies. This resulted in an increase in revenues received for personnel services from these agencies, and a commensurate increase in expenses as the employee related costs are also recognised.

In addition, a large number of agencies had other small favourable movements.

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 2005-06, investment revenue improved by $297 million over the Budget estimate. This mainly reflected stronger than expected market returns across a number of agencies, including the NSW Self Insurance Corporation ($209 million), and the Building and Construction Industry Long Service Payments Corporation ($42 million).

Grants and Contributions

Grants and Contributions revenue was $197 million higher than the Budget estimate. A major component of this was associated with increased contributions by Local Government to the Country Towns Water and Sewerage Supply program ($26 million) and the establishment of the Energy and Water Savings Funds ($73 million). In addition, a large number of agencies had smaller favourable movements, including an increase in school generated revenues.

EXPENSES

The response to the Commonwealth's WorkChoice legislation involved transferring employment responsibility for certain employees outside of the general government sector (such as Public Trading Enterprises) to general government agencies. This resulted in an increase in employee related costs of some $68 million offset by a commensurate increase in revenues received for personnel services (refer Sales of Goods and Services). Higher expenses were also recorded in the following areas.

Transport expenses were $335 million higher than the Budget estimate. This mainly reflects additional capital grants to rail agencies for debt repayment and restructuring costs, extension of the Bus Reform program, upgrading of restricted railway lines and additional concessions for community groups.

Health expenses were $289 million higher than the Budget estimate. This mainly reflected higher salary costs for Staff Specialists and Medical Radiation Scientists flowing from new award increases, additional spending for mental health research, patients treated in other states and for reducing elective surgery waiting lists. In addition, spending on Commonwealth programs (immunisation and hospital to home transitions) was higher reflecting the roll over of funds from 2004-05 while grants and contributions were higher than budgeted and a number of transactions were reclassified from capital to recurrent expenditure.

Rural Assistance Authority expenses were $128 million higher than the Budget estimate mainly due to increased drought assistance payments funded by Commonwealth Grants and State contributions.

Education expenses were $83 million higher than the Budget estimate. This increase mainly reflected additional salaries due to a higher number of school students than anticipated, additional costs associated with award increases and higher depreciation expense.

Police expenses were $75 million higher than the Budget estimate. This was mainly due to costs associated with training additional police recruits (including oncosts such as recreation leave and worker's compensation), saturation policing of beaches and setting up security provisions for the 2007 APEC conference.

Department of Natural Resources expenses increased by $74 million over the Budget estimate mainly due to additional grants to support the restructure of the forestry industry at Brigalow and Nandewar, and additional costs associated with the agency's expanded role in national water initiatives and property vegetation projects.

Department of Primary Industries expenses were $46 million higher than the Budget estimate mainly due to an extension of drought assistance, fishing licence buyouts and increased operating expenses associated with departmental restructuring.

Department of the Arts, Sports and Recreation expenses were $44 million higher than the Budget estimate due mainly to additional funding for the Sydney Opera House to facilitate essential maintenance work and a grant to assist the redevelopment of Kogarah Oval.

Crown Finance Entity expenses were $387 million lower than the Budget estimate due to a reduction in the superannuation expense mainly from higher than expected liability discount rates, and lower interest expenses due to reduced borrowings.

Self Insurance Corporation expenses were $352 million lower than the Budget estimate due to a significant downward revision in outstanding claims recognising the favourable claims experience arising from the effectiveness of Workers Compensation and Tort Reform legislation.

Catchment Management Authorities (CMA) expenses were $76 million lower than the Budget estimate due to slower than expected progress in contracting and commencing a number of more complex conservation and sustainability programs.

Roads and Traffic Authority expenses were $39 million lower than the Budget estimate mainly due to lower depreciation charges as a result of a prior period adjustment, and some savings that were directed to capital works undertaken during favourable weather conditions.

Department of Energy, Utilities and Sustainability (DEUS) expenses were $23 million lower than the Budget estimate largely due to under-expenditure of the Energy and Water Savings Funds. This was the first year of the Funds and approved projects were slower than expected to meet milestones for cash drawdowns.

2. Analysis of the GFS Total State Sector Balance Sheet

The Total State Sector Balance Sheet

Over the period June 1994 through to June 2006 the Net Worth of the NSW Total State Sector has doubled.

The Total State Sector's Net Worth was $127,818 million at 30 June 2006, an increase of $10,158 million or 8.6 per cent on the previous year.

The $10,158 million increase in Net Worth comprises an increase in non-financial assets of $6,715 million and a decrease in Net Financial Liabilities of $3,443 million.

The adoption of new international accounting standards (AEIFRS) in 2004-05 resulted in a reduction in net worth of around $11 billion and a similar increase in total state net financial liabilities as at June 2005. The reduction in Net Worth in June 2005 was largely due to a change in the method of calculating unfunded superannuation liabilities ($10 billion). A further $1 billion resulted primarily from the reinstatement under AEIFRS of deferred revenue liabilities for 99 year leased assets, treated under previous standards as sold instead of as leased. Note 32 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 $178,261 million at 30 June 2006, an increase of $6,715 million on the previous year. This included an increase in investments in property and infrastructure of $8,319 million, and asset revaluations of $3,408 million. These were offset by depreciation of $4,189 million asset disposals of $632 million and other movements of $191 million.

Capital expenditure in the State's property and infrastructure in 2005-06 included investments in:

- educational facilities $475 million
- hospitals and equipment $590 million
- roads $1,388 million
- public housing $391 million
- public transport $1,225 million
- energy infrastructure $1,807 million
- water infrastructure $814 million

Several agencies performed cyclical revaluations of their property, plant and equipment during the financial year. As a result the value of roads increased by $1,470 million and schools and TAFE colleges by $1,581 million. At June 2006 the Lane Cove Tunnel, a major privately financed tollway, was in an advanced stage of completion. It is expected to open in 2006-07, as a privately financed road project, 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.

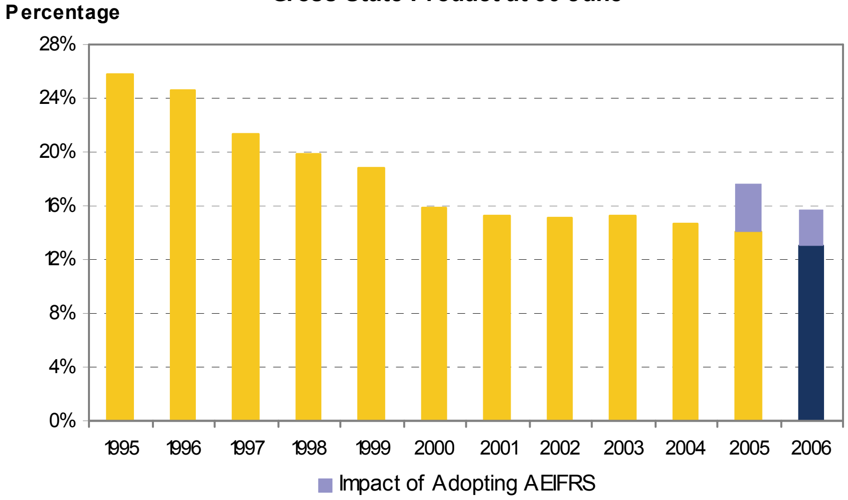
Total State Sector NFL as a per cent of gross state product fell from 25.8 per cent in June 1995 to 15.7 per cent in June 2006. (Refer Figure 5).

This is despite the impact of adopting AEIFRS, which increased NFL by 3.5 per cent of GSP in June 2005 (explained below).

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.

Figure 5

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



Net Financial Liabilities (NFL) comprise:

	June 2006 $m	June 2005 $m
Net Debt	10,048	11,980
Unfunded Superannuation Liabilities	23,579	26,737
Other Employee Entitlements	8,053	7,443
Insurance Obligations	6,910	6,958
Other Net Liabilities	1,853	768
Net Financial Liabilities	50,443	53,886

The $3,443 million net decrease in Total State NFL was due to:

- fall in superannuation liabilities ($3,158 million);
- a reduction in net debt ($1,932 million); and
- a reduction in public liability and other insurance obligations ($48 million).

These were offset by:

- growth in other employee benefit liabilities ($610 million); and
- an increase in other net liabilities ($1,085 million).

Net Debt

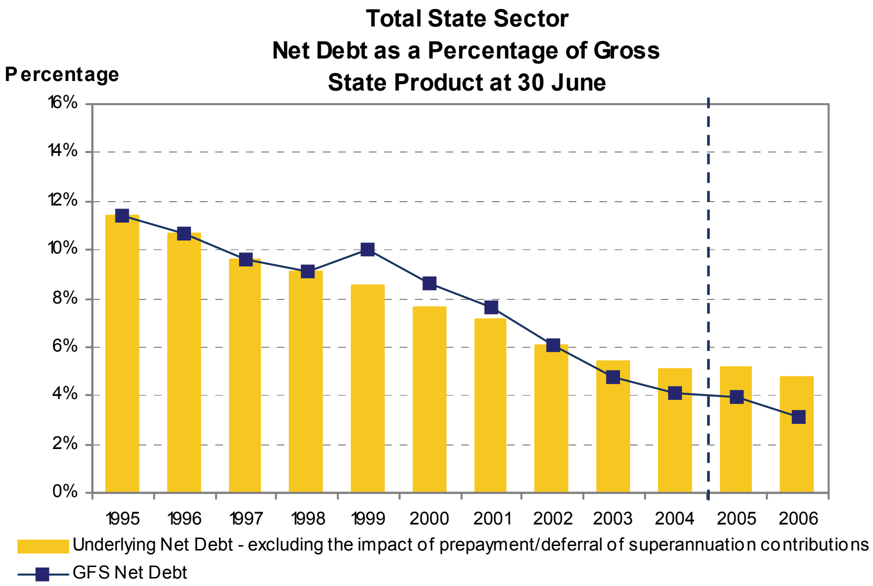
Total State Sector Net Debt fell by $1,932 million to $10,048 million for the year ended 30 June 2006.

Net Debt comprises borrowings less cash, investments and advances receivable. The reduction in Net Debt is primarily the result of the cash surplus for the non-financial public sector in 2005-06 ($1,283 million) and the impact of adopting AASB 139 the Financial Instruments standard ($636 million) from 1 July 2005. Page 3-93 of the Total State Sector Accounts details the major impacts of this standard.

During 2005-06, gross debt fell by $1,133 million and cash and investments increased by $799 million. The fall in gross debt was mainly from the application of the cash surplus to repay debt. The increase in cash and investments primarily relates to funds set aside towards meeting future superannuation obligations.

The Net Debt of the State as a percentage of GSP fell from 3.9 per cent in June 2005 to 3.1 per cent in June 2006. Excluding the investments associated with the deferral of superannuation contributions, Net Debt as a percentage of GSP fell from 5.2 per cent in June 2005 to 4.8 per cent in June 2006, in line with a consistent trend since 1995. (Refer Figure 6).

Figure 6



Break in time series from the adoption of AEIFRS

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 2005-06 net unfunded superannuation liabilities fell by $3,158 million. This is a result of:

- an increase in the State Super Fund liability discount rate from 5.2 per cent to 5.9 per cent (EISS 4.7 per cent to 5.4 per cent), and
- higher investment returns than expected. The actual investment performance of the State Super Fund was positive 15.8 per cent (positive 18.2 per cent for EISS) in 2005-06, which is higher than the long term actuarially applied rate of positive 7.6 per cent per annum for both funds.

This was partly offset by:

- an increase in the accrued benefits due to an additional year of service being provided by current State Super Fund scheme contributors
- one year less discounting for the present value of total future benefit payments
- higher salary increases than expected; and
- the Crown made no superannuation contributions during 2005-06. However $2,420 million of contributions were made during 2005-06 into the General Government Liability Management Fund (GGLMF) rather than into the State Super Fund.

Employer and employee assets in the defined benefits schemes were $27,663 million at 30 June 2006.

The full funding target for superannuation liabilities is 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 favourable 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.

AEIFRS Impact on Superannuation

Note 32 to the Total State Sector Accounts reports that the State's net worth fell by about $11 billion to $117 billion at June 2005 on adopting international accounting standards (AEIFRS). This results primarily from a change in how *superannuation liabilities* must be measured.

The superannuation liabilities are measured in present value dollars using a discount rate. The new standards require the actuaries to apply a risk-free rate. Previously a stable long-term earnings rate was applied (7.3 per cent). Now a (more volatile) government bond rate is required, which was 5.2 per cent at June 2005 (and 5.9 per cent at June 2006). A fall in the discount rate leads to a higher present value for liabilities.

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 2005-06 insurance obligations fell marginally by $48 million to $6,910 million.

The reversal in the growth in insurance liabilities is primarily the result of reduction in claim costs following legislative reforms, particularly for workers compensation insurance.

Other Net Liabilities

Other net liabilities increased during 2005-06 by $1,085 million to $1,853 million.

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

A grant of $960 million was received from the Commonwealth government in late June 2006, from which $952 million is dedicated for works to be carried out over several future years. The revenue has been recognised in the Total State Sector Accounts in the 2005-06 financial year, when the cash was received.

However the Australian Bureau of Statistics has determined, for the purposes of Government Finance Statistics (GFS) reporting, that the specific purpose grant should be accrued to match the timing of the related expenditure by NSW. This accrual treatment is adopted only for the Outcomes Report and in the Statement of the Budget Result, which are both prepared in accordance with GFS principles. The deferred $952 million component is the primary reason why other net liabilities have grown significantly between June 2005 and June 2006.

Net Worth

The movement in various financial and non-financial assets and liabilities, outlined above, resulted in growth in Net Worth during 2005-06 by $10,158 million to $127,818 million.

The 2005-06 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 balance sheet 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 GFS balance sheet includes specific deferred Commonwealth grants revenue liabilities (dedicated for the Australian Road Transport Program) which have been recognised as revenue, and not as liabilities, in the accounting based Total State Sector Accounts.
- 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.

3. Analysis of the AAS 31 Total State Sector Operating Result

The Total State Sector Operating Result is prepared in accordance with Australian Accounting Standards whereas the Budget Result is prepared in accordance with Government Finance Statistics (GFS) principles. The primary differences in the two results arise from:

- different scope. The Budget Result covers only the general government sector whereas the Total State Sector Operating Result also includes public trading and financial enterprises.
- differences in treatment of superannuation expenses. The Total State Sector Result also includes the more volatile actuarial gains/losses that are excluded from the Budget Result, and
- the different treatment of Commonwealth grants for a component of the Australian Road Transport Program. The grant is recognised on a cash basis in the Total State Sector Operating Result, whereas it is recorded on an accrual basis in the budget result, due to a directive from the ABS to accrue such monies for GFS purposes.

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 other net income (ie valuaton gains/losses) and significant items, the accrual operating result for the Total State Sector was a surplus, of $2,183 million in 2005-06 compared with a surplus of $1,650 million in 2004-05. However, a number of significant revenue and expense items (see Note 5) and other net income (mainly superannuation gains) result in an overall surplus of $7,126 million being reported in 2005-06.

These include:

- an $8 billion turnaround in defined benefits superannuation liabilities. There was a $4,695 million actuarial gain in 2005-06 compared to a $3,573 actuarial loss in 2004-05. The gain, and previous year loss, are mainly the result of changes in the State Superannuation Fund discount rate. Australian Equivalent to International Accounting Standards (AEIFRS) require the use of a long term government bond rate, which is volatile compared to the previously applied long-term earnings rate (applied prior to 2004-05). Superannuation gains have also been affected by the above average investment returns. The actual investment performance of the State Super Fund was positive 15.8 per cent which is higher than the long-term actuarially applied rate of positive 7.6 per cent per annum.
- a $545 million reduction in the 2005-06 insurance claims expense driven mainly by the outcome of recent tort law reform.
- a one-off $960 million grant revenue in 2005-06 from the Commonwealth government towards future year capital expenditure on the Australian Road Transport Program.

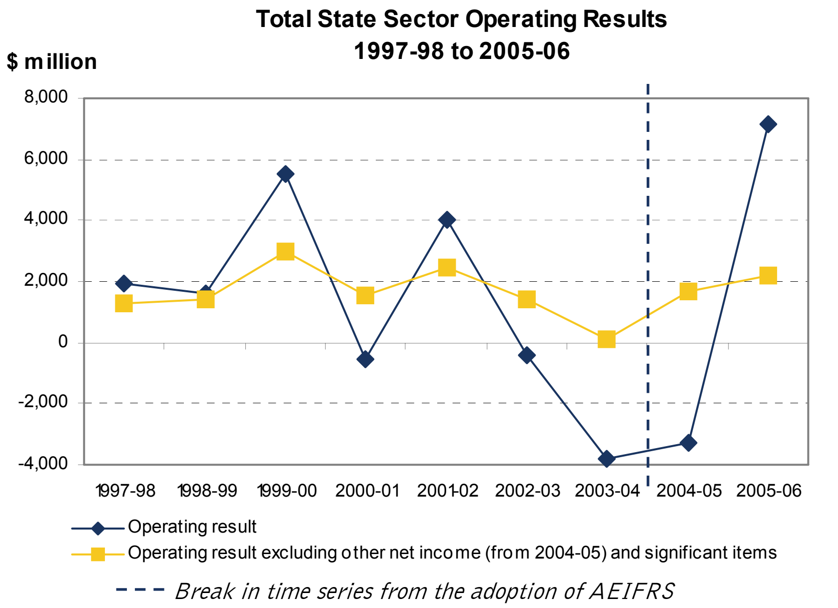
Figure 7 demonstrates the volatile impact that significant items can make when conducting comparisons over time of operating results. By excluding the impact of these one-off large transactions it is possible to perform a more meaningful analysis of the results.

The Total State Sector Operating Result excluding significant items on an accounting basis is shown below.

	2005-06 $m	2004-05 $m
Total State Revenues	33,594	32,094
Operating Revenues	15,669	14,695
Less Total Expenses	(47,080)	(45,139)
Operating Surplus excluding Net Income and Significant Items	2,183	1,650

The following discussion excludes the impact of significant expense and revenue transactions which have been summarised above. Refer to Notes 4 and 5 of the Consolidated Financial Report for further details on other net income (gains/losses) and significant transactions.

Figure 7



Total State Revenues

Total State Revenues, including Commonwealth grants, State taxes, fines and fees, rose $1,500 million or 4.7 per cent between 2004-05 and 2005-06.

Taxation revenue increased in 2005-06 by $487 million or 3.3 per cent.

Payroll tax was up $354 million or 7.6 per cent, mainly driven by growth in employment and wages. Land tax was higher by 4.1 per cent reflecting higher land values. Gambling and betting revenues were up 7.5 per cent, reflecting higher tax rates on club and hotel gaming machines as well as the growth in spending.

Stamp duties were relatively flat, growing by only 0.5 per cent. Purchaser duty revenue was $234 million higher than 2004-05 levels reflecting a recovery in property market activity, while insurance duty was $100 million higher, largely due to an increase in the general insurance rate from 1 September 2005. These were partly offset by reductions of $278 million in vender duty following its abolition for contracts exchanged on or after 2 August 2005, and a $23 million drop in marketable securities duty due to a decline in large transactions.

Other taxes fell by 1.7 per cent. This includes a fall of $168 million in dust disease levies accrued to match the fall in claims expense following an actuarial assessment. Excluding this, other taxes rose $125 million or 5.4 per cent. This includes increases in the value of motor vehicle weight tax of $55 million or 5.5 per cent and motor vehicle registrations duty, which rose by $12 million or 5.7 per cent.

Commonwealth grants revenue rose by 5.5 per cent compared to 2004-05. GST revenue provided to NSW was up $480 million, or 4.8 per cent following growth of only 2.2 per cent in 2004-05, 0.6 per cent in 2003-04, and a fall of 0.3 per cent in 2002-03.

Specific purpose grants increased 5.8 per cent over 2004-05. These included increases in grants dedicated for health programs, agriculture forestry and fishing for reducing salinity and improving water quality, debt redemption assistance, and for indigenous education.

Fines, Fees and Other State Revenues increased by $125 million or 10.8 per cent in 2005-06. This was driven by the growth in mining royalties, up by $108 million, flowing from higher coal prices.

Operating Revenues

Operating revenues comprise the revenues earnt directly by government authorities for the sale of goods and services, grants and other contributions and revenue from investments.

Operating revenues grew by $974 million or 6.6 per cent to $15,669 million in 2005-06. The growth in operating revenues was driven by a broad increase in revenue from all revenue types.

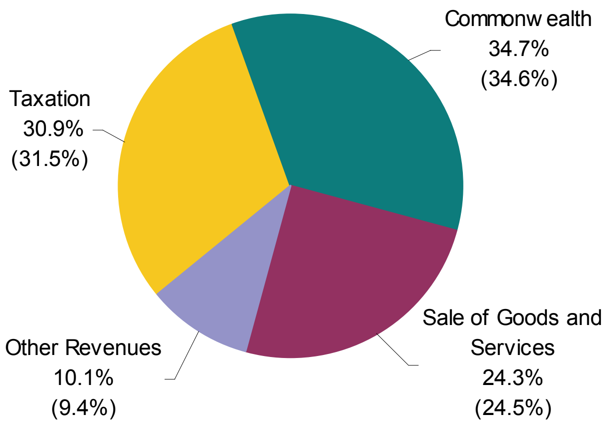
The largest component, revenues from **sale of goods and services** grew by 4.3 per cent or $491 million reflecting a general rise in user charge income across the public sector.

The rise in **Investment revenue** resulted from slightly higher cash and investment balances in 2005-06 as well as a stronger investment market. No contributions were made in 2005-06 by the Crown into the State Super Fund defined benefits superannuation schemes. Instead, the Crown contributed $1 billion into the General Government Liability Management Fund (GGLMF),which remains within the State public sector, rather than into the State Super Fund. Investment earning rates were slightly higher than for 2004-05.

Revenues from **grants and contributions** rose by 3.3 per cent and **other revenues** were up by $55 million on 2004-05 levels.

Figure 8

Total State Sector Revenue 2005-06 (2004-05 in brackets)



Expenses

Total State Sector accrued expenses excluding significant transactions grew by $1,941 million or 4.3 per cent in 2005-06. The growth in expenses has been across various categories explained below.

Employee benefit expenses (excluding superannuation) grew by 6.5 per cent during 2005-06 to $21,150 million, reflecting improved pay levels particularly for teachers, health and police employees.

Superannuation expenses fell by $190 million from the previous year. The decrease in superannuation was the result of lower State Super Fund expenses partly offset by higher contributions for compulsory accumulation schemes. The lower defined benefit State Super Fund expenses resulted from an increase in the liability discount rate under AEIFRS.

During 2005-06 **other operating expenses** rose by $249 million or 2.2 per cent, after excluding significant items.

Depreciation expense rose by $127 million or 3.1 per cent over 2004-05.

Grants and subsidies rose overall by $463 million or 10.4 per cent in 2005-06, reflecting the Government's increased allocation of resources towards education, health, public transport, community, ageing, disability and homecare services.

Accrued **finance costs** remained flat at $2,217 million in 2005-06.

Total state sector debt levels have fallen back slightly under AEIFRS. Finance costs also include the unwinding of discounts on non-employee provision liabilities which reflects the increase in the value of the liabilities as a result of the movement of time (from June 2005 to June 2006).

4. INTERGOVERNMENTAL GFS COMPARISONS

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

Information from these reports enables comparisons between jurisdictions as well as the analysis of trends.

The publishing of consolidated government aggregates focuses 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 2005-06 for all jurisdictions. The following comparisons are therefore based on the latest published information.

2005-06 GFS results for the General Government sector are shown below for each jurisdiction.

Key General Government Financial Results 2005-06

	Net Operating Result [(a)] $m	Net Lending/ (Borrowing) [(a)] $m	Underlying Cash Surplus/(Deficit) [(a)] $m
NSW	1,034	(483)	860
Vic	825	(398)	131
Qld	2,853	1,869	3,381
SA	147	88	145
WA	2,265	1,846	2,301
Tas	88	63	249
NT	(19)	(129)	(47)
ACT	(196)	(177)	(15)
Commonwealth	17,111	16,059	15,843

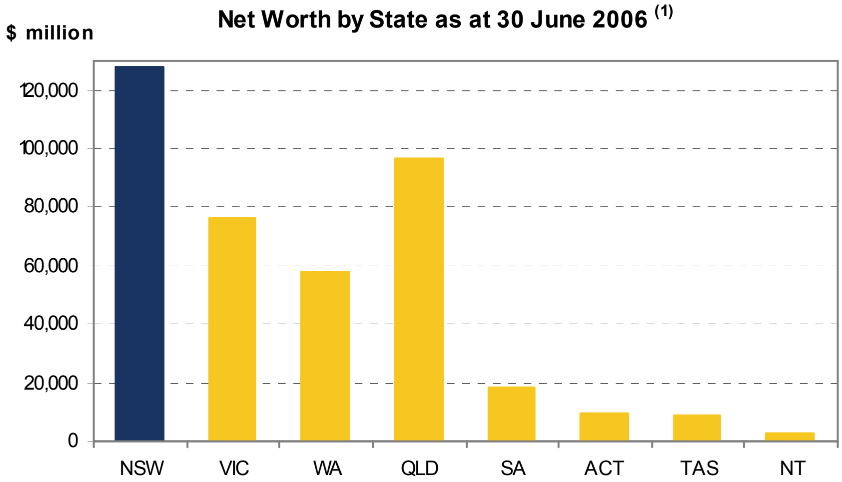
(a) Government Finance Statistics General Government Sector Results
Source: 2005-06 Outcomes Report (NSW, Victoria, WA and the Commonwealth actual result, Tasmania preliminary result)
2006-07 Budget Papers (other jurisdictions estimated result)

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 2006.

The Net Worth of the NSW Public Sector (GFS Basis) at 30 June 2006 was $127,818 million, the strongest of all States.

Figure 9

Total State Sector
Net Worth by State as at 30 June 2006 (1)



(1) 30 June 2006, latest available information
Source: 2005-06 Outcomes Report (NSW, Victoria and WA actual result, Tasmania preliminary result)
2006-07 Budget Papers (other jurisdictions estimated result)

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

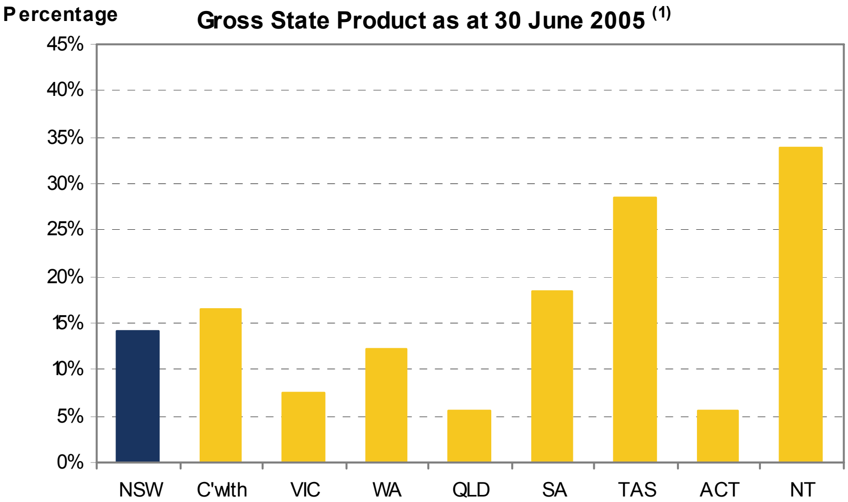
Figure 10 compares Net Financial Liabilities as a percentage of economic output for each State and the Commonwealth. Published (Total Public Sector) Net Financial Liabilities information for other states is not yet available for June 2006.

Figure 10 is therefore based on the latest published Government Finance Statistics information which is for June 2005. Figure 10 does not include the impact of AEIFRS.

Net Financial Liabilities in New South Wales as a percentage of GSP have fallen from 25.8 per cent in June 1995 to 15.7 per cent in June 2006 (refer to Figure 5).

Figure 10

Total Public Sector
Net Financial Liabilities as a percentage of Gross State Product as at 30 June 2005 [1]



[1] 30 June 2005, latest available information

Source: Australian Bureau of Statistics, Government Finance Statistics 2004-05. (Prior to adoption of AEIFRS)
Note: C'wlth is expressed as a % of GDP.

5. 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 *Fiscal Responsibility Act 2005* sets out a number of fiscal principles and targets for the General Government sector[1].

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

1. The Government's medium-term fiscal targets are:

   - To reduce the level of General Government sector net financial liabilities as a proportion of gross state product to 7.5 per cent or less by 30 June 2010;

   - To maintain underlying General Government sector net debt as a proportion of gross state product at or below its level as at 30 June 2005;

2. The Government's long-term fiscal targets are:

   - To reduce the level of General Government sector net financial liabilities as a proportion of gross state product to 6.0 per cent or less by 30 June 2015;

   - To maintain underlying General Government sector net debt as a proportion of gross state product at or below its level as at 30 June 2005;

   - To eliminate total State sector unfunded superannuation liabilities by 30 June 2030.

   General Government net financial liabilities were $27.1 billion as at June 2006, equivalent to 8.4 per cent of GSP. This compares with 10.2 per cent of GSP as at June 2005 and is consistent with achieving both the medium term and long term targets.

   In the year ending 30 June 2006, General Government sector underlying net debt was 0.4 per cent of GSP compared to 0.8 per cent of GSP as at June 2005, consistent with the medium and long term net debt targets..

   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.

   Total State underlying net unfunded superannuation liabilities were $23.6 billion (7.3 per cent of GSP) and will be reduced to $15.5 billion (3.9 per cent of GSP) by June 2010. As a share of the economy, superannuation liabilities have fallen from 8.2 per cent in 1995, including the impact of accounting standards changes. The target of eliminating unfunded superannuation liabilities by June 2030 is achievable on current projections.

3. The Budget should be framed so as to achieve a net operating result for the general government sector that is a surplus consistent with the fiscal targets.

   The General Government Net Operating Result remained in surplus at $1,034 million as at June 2006.

4. The growth in net cost of services (NCOS) and expenses of the General Government sector is to be managed in accordance with the objective of prudently managing State finances. The annual growth in net cost of services and expenses is not to exceed long-term average revenue growth for the 4-year periods ending with the financial year prior to the Budget year and for the Budget year and forward estimates.

[1] *This Act replaced the General Government Debt Elimination Act 1995 on 1 July 2005.*

Average annual growth of total expenses for the 4-year periods ending June 2006 and June 2010 is 5.9 per cent and 3.8 per cent respectively. Average annual growth of NCOS for the 4-year periods ending June 2006 and June 2010 is 5.1 per cent and 4.3 per cent respectively. Long-term average revenue growth is 5 per cent per annum.

Both average annual growth in expenses and net cost of services exceeded long-term annual revenue growth over the 4-year period ending June 2006, but is projected to be lower than long-term revenue growth over the 4-year period ending June 2010.

5. In managing public sector employee costs the Government policy in negotiating rates of pay and conditions is to be consistent with the fiscal targets.

   Employee related expenses grew at an annual rate of 8.0 per cent in the four years ending June 2006. This includes a period of substantial wage increases in areas of skill shortage such as for teachers and nurses. This is projected to slow over the forward estimates as current public sector wage agreements expire. The Budget provides for the maintenance of the aggregate wage bill of agencies in real terms beyond 2008.

6. Capital expenditure proposals are to be evaluated in accordance with government procurement policy requirements.

   Preliminary analysis, based on a sample of 370 major construction projects commenced before and after introduction of Gateway reviews and other procurement reforms (such as agency accreditation and enhanced Treasury assessment and monitoring), indicates a reduction in the order of 50 per cent in cost over-runs.

7. The budget should be framed taking into account the anticipated future fiscal gap likely to develop as a result of demographic changes and other long-term pressures. An assessment of the fiscal gap is to be presented in the 2006-07 budget papers and updated in 5 years. An assessment of the impact of budget measures in respect of expenses and revenue is to be presented in the annual budget papers.

   An assessment of the fiscal gap was presented in the 2006-07 Budget papers with a Long-Term Fiscal Pressures Report (Budget Paper 6). Budget Paper 2 reported that the 2006-07 Budget increased the long-term fiscal gap by 0.1 percentage points, with expense decisions reducing the gap by 0.3 percentage points offset by revenue decisions increasing the gap by 0.4 percentage points.

8. 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 4.7 per cent annually in real terms from June 1997 to June 2006.

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

   See 2 above.

10. Government agencies must align their physical asset management practices (on a whole-of-life basis) with their services delivery priorities and strategies.

    In 2005 Treasury received Total Asset Management (TAM) plans from agencies responsible for 96 per cent of general government asset holdings.

    In October 2005, the Audit Office confirmed that TAM policy provides a best practice framework to improve asset management, and integration of TAM planning with the Budget process was starting to have a positive impact on asset management practices across the government sector.

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

    Aggregate risk is managed by Treasury, TCorp and the NSW Self Insurance Corporation.

This includes ongoing review of asset allocation and risk management policies and procedures of authorities subject to the Public Authorities (Financial Arrangements) Act 1987.

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.

The latter incorporates "Working with Government: Policy and Guidelines for Privately Financed Projects (Nov 2001)" dealing with private sector participation in the provision of public infrastructure.

12. 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 enable predictability and stability of tax regime.

    The net effect of all tax policy changes since 1999-00 is to reduce the NSW tax burden in 2005-06 by around $1 billion p.a.

6. 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 the 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 2005-06 year-end results with the 2005-06 Budget estimates for key aggregates.

The 2004-05 comparatives have been presented based upon pre AEIFRS data in accordance with how the 2005-06 fiscal year was presented in 2005-06 and 2006-07 Budget Papers.

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.

While the Outcomes Report is prepared in accordance with GFS principles, the data that underlies the 2005-06 outcomes has been impacted (primarily superannuation liabilities and expenses) by the adoption of AEIFRS.

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.

The 2005-06 Total State Sector Accounts (including 2004-05 comparatives) have been prepared in accordance with Australian Equivalents to International Financial Reporting Standards.

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.

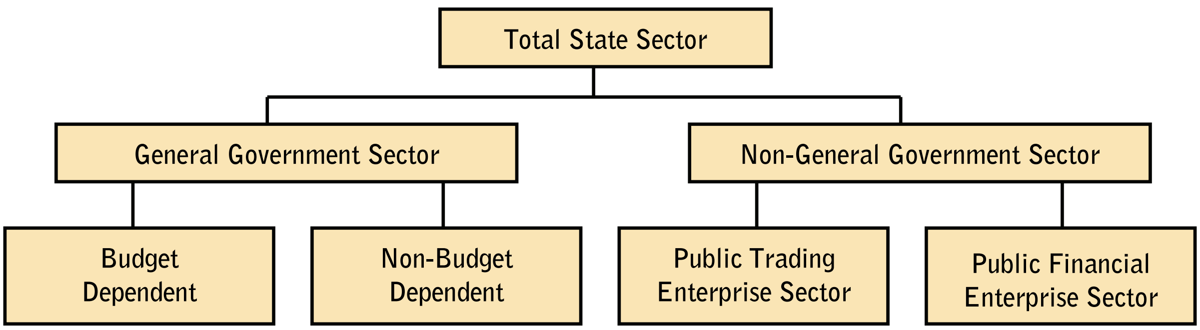
The Non-General Government Sector includes the State's Public Trading Enterprises (PTEs) and Public Financial Enterprises (PFEs). PTEs are responsible for supplying public infrastructure services, including electricity, ports, water and public transport. PTEs are largely self-funded from user charges 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 to Note 33 for a full list of consolidated entities.

The composition of the Total State Sector is summarised in Figure 11.

Figure 11



SCOPE OF THE REVIEW

Consolidation of entities in this financial report has been done in accordance with Australian Accounting Standards AASB 124 and AAS 31, as disclosed in note 1 to the financial report.

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

There are approximately 33,000 Crown reserves in New South Wales. The NSW Government manages some of these reserves and local governments and trusts manage others. A project is in progress to identify and value Crown reserves that are 'controlled' by the NSW Government, and therefore should be recognised as assets of the NSW Government in the Total State Sector Accounts.

To determine which entity controls the Crown reserves requires an evaluation of complex requirements under the Crown Lands Act 1989 and the Local Government Act 1993 and the interaction of these legislative requirements with the concept of control under accounting standards, including AASB 127 *Consolidated and Separate Financial Statements*, AAS 31 *Financial Reporting by Governments* and AAS 27 *Financial Reporting by Local Governments* and AASB 117 *Leases*.

Evaluation to date has not been conclusive and further investigation is necessary to determine the extent to which Crown reserves should be recognised in the Total State Sector Accounts. In finalising this evaluation, current proposed amendments to the current standards will also be taken into account.

Based on the preliminary assessment, it is currently estimated that the total value of reserves controlled by the NSW Government, but not currently recognised in the Total State Sector Accounts, is between $1 billion and $7 billion. However, the total value may even be outside of this range, depending on the current valuation of the controlled assets.

The NSW Government will recognise the value of Crown reserves it controls in future Total State Sector Accounts once this project is complete and the value can be reliably estimated.

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

"As disclosed in Note 1 Statement of Significant Accounting Policies, under the heading Principles of Consolidation, the State is undertaking a project to identify and value the Crown reserves it controls under the Crown Lands Act 1989. Until that project is completed, I am unable to obtain all the information I require to form an opinion on the value of those Crown reserves that should be recognised as land in the Accounts.

My audit report for the year ended 30 June 2005 referred to the same matter."

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 2006:

- 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 Treasurer	Mark Ronsisvalle Deputy Secretary NSW Treasury	Mark Pellowe Senior Director NSW Treasury

18 October 2006

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 the budget result for the year ended 30 June 2006, in accordance with the Notes to the Statement.

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

Scope

The Statement and 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 to the Statement.

The Treasurer is responsible for the preparation and presentation of the Statement. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting estimates inherent in the Statement. He has determined that the accounting policies meet the financial reporting needs of Members of the New South Wales Parliament. The Statement does not require the application of all Accounting Standards and other mandatory financial reporting requirements in Australia.

Audit Approach

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 are appropriate to the needs of the Members of the New South Wales Parliament.

I disclaim any assumption of responsibility for any reliance on this report, or on the Statement to which it relates, to any person other than the Members of the New South Wales Parliament, or for any purpose other than that for which it was prepared.

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.

Peter Achterstraat
Auditor-General

SYDNEY
18 October 2006

NSW GENERAL GOVERNMENT SECTOR STATEMENT OF THE BUDGET RESULT

	2005-06 $m Actual	2005-06 $m Budget	2004-05 $m Actual
State Revenues			
Taxation	15,917	16,269	15,332
Commonwealth Grants			
- General Purpose	10,720	10,675	10,181
- Specific Purpose	6,368	6,121	6,011
Financial Distributions	1,844	1,906	1,600
Fines, Regulatory Fees and Other	1,278	1,082	1,152
Total State Revenues	**36,127**	**36,053**	**34,276**
Operating Revenues			
Sale of Goods and Services	3,042	2,851	2,830
Investment Income	1,268	971	1,051
Grants and Contributions	835	638	675
Other Revenue	355	347	397
Total Operating Revenues	**5,500**	**4,807**	**4,953**
Total Revenues	**41,627**	**40,860**	**39,229**
Expenses			
Employee Related - Superannuation	2,720	3,044	2,443
Employee Related - Other	17,788	17,150	16,690
Other Operating	8,549	9,521	9,235
Depreciation and Amortisation	2,120	2,087	1,994
Recurrent Grants & Subsidies	6,664	6,454	5,949
Capital Grants & Subsidies	1,569	1,407	1,376
Finance Other	1,183	894	818
Total Expenses	**40,593**	**40,557**	**38,505**
BUDGET RESULT - SURPLUS	**1,034**	**303**	**724**

NOTES TO THE STATEMENT

Statement Basis

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

The report has been prepared consolidating agency data initially prepared using

- Australian Equivalents to International Financial Reporting Standards (AEIFRS) for 2005-06, and
- AGAAP pre-AEIFRS for 2004-05 comparatives. This is consistent with the ABS presentation that breaks the time series at 1 July 2005. Conversely, AEIFRS required retrospective application of AEIFRS one year earlier, from 1 July 2004.

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 2005-06 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 2005-06 FINANCIAL OUTCOMES REPORT

This Financial Outcomes Report compares for 2005-06 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. The Outcomes Report, which allows readers to compare the results for NSW with other states, is unaudited.

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 for the first time under Australian Equivalents to International Financial Reporting Standards (AEIFRS). The estimated impact of AEIFRS on June 2005 net worth is disclosed in Note 32 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.

Commonwealth grants are recognised when the state gains control over the grants. Control is normally obtained when the cash is received.

A grant of $960 million was received from the Commonwealth government in late June 2006 dedicated for works to be carried out over several future years. The revenue has been recognised in the Total State Sector Accounts in the 2005-06 financial year, when the cash was received.

However, the Australian Bureau of Statistics has determined, for the purposes of Government Finance Statistics (GFS) reporting only, that the specific grant revenue be accrued and deferred to match the timing of the related expenditure by NSW. This accrual treatment is adopted only for the Outcomes Report and for the Statement of the Budget Result, which are prepared in accordance with GFS principles.

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 2005-06.

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 $3,047 million (i.e. a surplus) outcome for the 2005-06 Loan Council Allocation compared with the Budget-time estimate of a $2,282 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 $1,752 million and $1,079 million respectively. Both were primarily due to improved cash flows from operations. The improved memorandum items were significantly influenced by the superannuation earnings having a positive 15.8 per cent return which is significantly higher than the budgeted long term applied actuarial rate of positive 7.3 per cent.

TABLE 1: NSW PUBLIC SECTOR BALANCE SHEETS (ABS BASIS) AT 30 JUNE 2006

	General Government $m	Public Non-financial Corporation $m	**Total Non-financial Sector [(a)] $m**	Public Financial Corporations $m	**Total State Sector $m**
Assets					
Financial assets					
Cash and deposits	2,395	1,712	4,107	196	4,160
Advances paid	852	...	257	...	257
Investments, loans and placements	13,959	557	14,514	29,433	16,984
Other non-equity assets	9,479	2,978	5,198	857	5,674
PTE/PFE equity	63,990	...	(233)	...	...
Other equity	1,456	40	1,497	...	1,497
Total financial assets	92,131	5,287	25,340	30,486	28,572
Non-financial assets					
Land and fixed assets	89,752	86,566	176,318	3	176,321
Other non-financial assets	1,214	736	1,943	...	1,940
Total non-financial assets	90,966	87,302	178,261	3	178,261
Total assets	183,097	92,589	203,601	30,489	206,833
Liabilities					
Deposits held	92	177	269	1,537	1,140
Advances received	920	599	923	...	923
Borrowing	12,045	15,366	27,410	28,417	29,386
Superannuation liability [(b)]	23,155	424	23,579	...	23,579
Other employee entitlements and provisions	13,139	8,565	15,530	49	15,565
Other non-equity liabilities	5,928	3,235	8,072	719	8,422
Total liabilities	55,279	28,366	75,783	30,722	79,015
Shares and other contributed capital		64,223		(233)	...
NET WORTH (ABS Basis)	127,818	...	127,818	...	127,818
Net Debt [(c)]	(4,149)	13,873	9,724	325	10,048
Net Financial Worth [(d)]	36,852	(87,302)	(50,443)	(3)	(50,443)
Net Financial Liabilities [(e)]	27,138	87,302	50,210	3	50,443

(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)

		2005-06 $m (Budget)	2005-06 $m (Actual)
	GFS Revenue		
	Taxation revenue	16,269	15,917
	Current grants and subsidies	18,379	18,777
	Capital grants	1,068	1,142
	Sales of goods and services	3,134	3,380
	Interest income	971	1,268
	Other	3,365	3,472
	Total revenue	**43,186**	**43,956**
less	**GFS Expenses**		
	Employee expenses	18,762	19,175
	Depreciation	2,087	2,120
	Other operating expenses	10,907	10,013
	Nominal superannuation interest expense	1,224	934
	Other interest expenses	894	1,183
	Other property expenses	...	...
	Current transfers	7,523	7,885
	Capital transfers	1,486	1,612
	Total expenses	**42,883**	**42,922**
equals	**GFS net operating balance**	**303**	**1,034**
less	**Net acquisition of non-financial assets**		
	Purchases of non-financial assets	3,730	3,875
	less Sales of non-financial assets	(547)	(396)
	less Depreciation	(2,087)	(2,120)
	plus Change in inventories	(2)	10
	plus Other movements in non-financial assets	188	148
	equals **Total net acquisition of non-financial assets**	**1,282**	**1,517**
equals	**GFS Net Lending / (Borrowing)** [(a)]	**(979)**	**(483)**

Notes:
(a) Also known as Fiscal Balance.

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

		2005-06 $m (Budget)	2005-06 $m (Actual)
	GFS Revenue		
	Sales of goods and services	10,804	10,432
	Current grants and subsidies	1,817	2,149
	Capital grants	768	964
	Interest income	48	105
	Other	848	793
	Total revenue	**14,285**	**14,443**
less	**GFS Expenses**		
	Employee expenses	3,351	3,328
	Depreciation	2,123	2,067
	Other operating expenses	5,999	5,741
	Interest expenses	919	830
	Other property expenses	1,820	1,777
	Current transfers	119	187
	Capital transfers	...	2
	Total expenses	**14,331**	**13,932**
equals	**GFS net operating balance**	**(46)**	**511**
less	**Net acquisition of non-financial assets**		
	Purchases of non-financial assets	4,425	4,367
	less Sales of non-financial assets	(211)	(285)
	less Depreciation	(2,123)	(2,067)
	plus Change in inventories	46	5
	plus Other movements in non-financial assets	206	153
	equals **Total net acquisition of non-financial assets**	**2,343**	**2,173**
equals	**GFS Net Lending / (Borrowing)** [(a)]	**(2,389)**	**(1,662)**

Notes:
(a) Also known as Fiscal Balance.

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

			2005-06 $m (Budget)	2005-06 $m (Actual)
	GFS Revenue			
	Taxation revenue		15,570	15,242
	Current grants and subsidies		18,348	18,648
	Sales of goods and services		13,789	13,616
	Capital grants		1,066	1,131
	Interest income		963	1,324
	Other		2,375	2,534
	Total revenue		**52,111**	**52,495**
less	**GFS Expenses**			
	Employee expenses		22,111	22,498
	Depreciation		4,210	4,188
	Other operating expenses		16,037	14,876
	Nominal superannuation interest expense		1,224	892
	Other interest expenses		1,756	2,006
	Other property expenses		...	...
	Current transfers		5,822	5,851
	Capital transfers		695	638
	Total expenses		**51,855**	**50,949**
equals	**GFS net operating balance**		**256**	**1,546**
less	**Net acquisition of non-financial assets**			
	Purchases of non-financial assets		8,152	8,237
	less	Sales of non-financial assets	(758)	(681)
	less	Depreciation	(4,210)	(4,188)
	plus	Change in inventories	44	15
	plus	Other movements in non-financial assets	394	303
	equals	**Total net acquisition of non-financial assets**	**3,622**	**3,686**
equals	**GFS Net Lending / (Borrowing)** [(a)]		**(3,366)**	**(2,140)**

Notes:
(a) Also known as Fiscal Balance.

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

		2005-06 $m (Actual) [(a)]
	GFS Revenue	
	Sales of goods and services	24
	Current grants and subsidies	11
	Capital grants	...
	Interest income	1,920
	Other	1
	Total revenue	**1,956**
less	**GFS Expenses**	
	Employee expenses	11
	Depreciation	1
	Other operating expenses	6
	Interest expenses	1,803
	Other property expenses	27
	Current transfers	...
	Capital transfers	...
	Total expenses	**1,848**
equals	**GFS net operating balance**	**108**
less	**Net acquisition of non-financial assets**	
	Purchase of non-financial assets	1
	Sales of non-financial assets	...
	less Depreciation	(1)
	plus Change in inventories	...
	plus Other movements in non-financial assets	...
	equals **Total net acquisition of non-financial assets**	...
equals	**GFS Net Lending / (Borrowing)** [(b)]	**108**

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)

	2006 $m (Budget)	2006 $m (Actual)
Assets		
Financial assets		
Cash and deposits	953	2,395
Advances paid	1,289	852
Investments, loans and placements	12,614	13,959
Other non-equity assets	10,219	9,479
Equity	63,588	65,446
Total financial assets	88,663	92,131
Non-financial assets		
Land and fixed assets	82,335	89,752
Other non-financial assets	1,577	1,214
Total non-financial assets	83,912	90,966
Total assets	172,575	183,097
Liabilities		
Deposits held	67	92
Advances received	1,499	920
Borrowing	11,754	12,045
Superannuation liability [a]	23,209	23,155
Other employee entitlements and provisions	12,669	13,139
Other non-equity liabilities	3,703	5,928
Total liabilities	52,901	55,279
NET WORTH	119,674	127,818
Net Financial Worth [b]	35,762	36,852
Net debt [c]	(1,536)	(4,149)

Notes:

(a) Comprises unfunded obligations.

(b) Net financial worth equals total financial assets minus total liabilities.

(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) Adjusted for Crown deposits to the Liability Management Fund and fund earnings, that have been set aside to meet future superannuation obligations.

GFS net debt [c]	*(1,536)*	*(4,149)*
Impact of deposits to the Liability Management Fund [d]	*5,227*	*5,307*
Underlying net debt [c] [d]	*3,691*	*1,158*

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

	2006 $m (Budget)	2006 $m (Actual)
Assets		
Financial assets		
Cash and deposits	963	1,712
Investments, loans and placements	321	557
Other non-equity assets	2,642	2,978
Equity	33	40
Total financial assets	3,959	5,287
Non-financial assets		
Land and fixed assets	87,939	86,566
Other non-financial assets	891	736
Total non-financial assets	88,830	87,302
Total assets	92,789	92,589
Liabilities		
Deposits held	175	177
Advances received	1,009	599
Borrowing	15,843	15,366
Superannuation liability [(a)]	1,039	424
Other employee entitlements and provisions	8,914	8,565
Other non-equity liabilities	2,572	3,235
Total liabilities	29,552	28,366
Shares and other contributed capital [(b) (c)]	63,237	64,223
NET WORTH [(b) (c)]	...	...
Net financial worth [(c) (d)]	(88,830)	(87,302)
Net debt [(e)]	15,743	13,873

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)

	2006 $m (Budget)	2006 $m (Actual)
Assets		
Financial assets		
Cash and deposits	1,915	4,107
Advances paid	280	257
Investments, loans and placements	12,934	14,514
Other non-equity assets	5,030	5,198
Equity	385	1,264
Total financial assets	20,544	25,340
Non-financial assets		
Land and fixed assets	170,274	176,318
Other non-financial assets	2,484	1,943
Total non-financial assets	172,758	178,261
Total assets	193,302	203,601
Liabilities		
Deposits held	243	269
Advances received	1,499	923
Borrowing	27,593	27,410
Superannuation liability [a]	24,247	23,579
Other employee entitlements and provisions	14,572	15,530
Other non-equity liabilities	5,474	8,072
Total liabilities	73,628	75,783
Shares and other contributed capital		
NET WORTH	119,674	127,818
Net financial worth [b]	(53,084)	(50,443)
Net debt [c]	14,206	9,724

Notes:

(a) Comprises unfunded obligations.

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

(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) Adjusted for Crown deposits to the Liability Management Fund and fund earnings, that have been set aside to meet future superannuation obligations.

GFS net debt [c]	*14,206*	*9,724*
Impact of deposits to the Liability Management Fund [d]	*5,227*	*5,307*
Underlying net debt [c] [d]	*19,433*	*15,031*

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

	2006 $m (Actual) [a]
Assets	
Financial assets	
Cash and deposits	196
Advances paid	...
Investments, loans and placements	29,433
Other non-equity assets	857
Equity	...
Total financial assets	**30,486**
Non-financial assets	
Land and fixed assets	3
Other non-financial assets	...
Total non-financial assets	**3**
Total assets	**30,489**
Liabilities	
Deposits held	1,537
Advances received	...
Borrowing	28,417
Superannuation liability [b]	...
Other employee entitlements and provisions	49
Other non-equity liabilities	719
Total liabilities	**30,722**
Shares and other contributed capital [c] [d]	(233)
NET WORTH [c] [d]	...
Net financial worth [d] [e]	**(3)**
Net debt [f]	**325**

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	2005-06 $m (Budget)	2005-06 $m (Actual)
Cash receipts from operating activities		
Tax received	16,245	15,971
Receipts from sales of goods and services	3,097	3,398
Grants/subsidies received	19,447	20,940
Other receipts	5,181	6,395
Total receipts	**43,970**	**46,704**
Cash payments for operating activities		
Payment for goods and services	(28,748)	(28,414)
Grants and subsidies paid	(8,514)	(9,051)
Interest paid	(1,070)	(1,005)
Other payments	(1,978)	(2,561)
Total payments	**(40,310)**	**(41,031)**
Net cash flows from operating activities	**3,660**	**5,673**
Net cash flows from investments in non-financial assets		
Sales of non-financial assets	563	438
Purchases of non-financial assets	(3,713)	(3,863)
Net cash flows from investments in non-financial assets	**(3,150)**	**(3,425)**
Net cash flows from investments in financial assets for policy purposes	**142**	**47**
Net cash flows from investments in financial assets for liquidity purposes	**(836)**	**(1,994)**
Net cash flows from financing activities		
Advances received (net)	(136)	(135)
Borrowing (net)	(141)	653
Deposits received (net)	...	(5)
Other financing (net)	...	(1)
Net cash flows from financing activities	**(277)**	**512**
Net increase (decrease) in cash held	**(461)**	**813**
SURPLUS / (DEFICIT)		
Net cash from operating activities and investments in non-financial assets	**510**	**2,248**
Finance leases and similar arrangements	(95)	(81)
SURPLUS / (DEFICIT)	**415**	**2,167**

Notes:

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

(b) Deposits by the Crown to the Liability Management Fund and the fund's earnings have been set aside to meet future superannuation contributions.

GFS SURPLUS / (DEFICIT)	*415*	*2,167*
Adjusted for deposits to the Liability Management Fund [(b)]	*(1,239)*	*(1,307)*
UNDERLYING SURPLUS / (DEFICIT) after adjusting for the timing of superannuation contributions	***(824)***	***860***

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

CASH FLOW	2005-06 $m (Budget)	2005-06 $m (Actual)
Cash receipts from operating activities		
Receipts from sales of goods and services	11,040	10,648
Grants/subsidies received	2,593	3,106
Other receipts	2,075	2,276
Total receipts	**15,708**	**16,030**
Cash payments for operating activities		
Payment for goods and services	(9,756)	(9,021)
Grants and subsidies paid	(118)	(185)
Interest paid	(913)	(873)
Other payments	(1,874)	(1,966)
Total payments	**(12,661)**	**(12,045)**
Net cash flows from operating activities	**3,047**	**3,985**
Net cash flows from investments in non-financial assets		
Sales of non-financial assets	242	329
Purchases of non-financial assets	(4,309)	(4,282)
Purchases of second-hand non-financial assets		
Net cash flows from investments in non-financial assets	**(4,067)**	**(3,953)**
Net cash flows from investments in financial assets for policy purposes	**(5)**	**11**
Net cash flows from investments in financial assets for liquidity purposes	**(18)**	**(81)**
Net cash flows from financing activities		
Advances received (net)	(196)	(81)
Borrowing (net)	2,134	1,281
Deposits received (net)	2	(16)
Distributions Paid	(944)	(917)
Other financing (net)	...	(1)
Net cash flows from financing activities	**996**	**266**
Net increase (decrease) in cash held	**(47)**	**228**
SURPLUS / (DEFICIT)		
Net cash from operating activities and investments in non-financial assets	(1,020)	32
Distribution Paid	(944)	(917)
Finance leases and similar arrangements	...	...
SURPLUS / (DEFICIT)	**(1,964)**	**(885)**

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	2005-06 $m (Budget)	2005-06 $m (Actual)
Cash receipts from operating activities		
Taxes received	15,543	15,285
Receipts from sales of goods and services	13,986	13,842
Grants/subsidies received	19,415	20,805
Other receipts	5,797	7,340
Total receipts	54,741	57,272
Cash payments for operating activities		
Payment for goods and services	(37,643)	(36,560)
Grants and subsidies paid	(6,027)	(6,037)
Interest paid	(1,927)	(1,830)
Other payments	(3,381)	(4,104)
Total payments	(48,978)	(48,531)
Net cash flows from operating activities	5,763	8,741
Net cash flows from investments in non-financial assets		
Sales of non-financial assets	806	767
Purchases of non-financial assets	(8,022)	(8,144)
Purchases of second-hand non-financial assets		
Net cash flows from investments in non-financial assets	(7,216)	(7,377)
Net cash flows from investments in financial assets for policy purposes	(57)	(22)
Net cash flows from investments in financial assets for liquidity purposes	(854)	(2,075)
Net cash flows from financing activities		
Advances received (net)	(136)	(127)
Borrowing (net)	1,991	1,933
Deposits received (net)	1	(21)
Distributions Paid	...	...
Other financing (net)	...	1
Net cash flows from financing activities	1,856	1,786
Net increase (decrease) in cash held	(508)	1,053
SURPLUS / (DEFICIT)		
Net cash from operating activities and investments in non-financial assets	(1,453)	1,364
Distributions Paid	...	...
Finance leases and similar arrangements	(95)	(81)
SURPLUS / (DEFICIT)	(1,548)	1,283

Notes:

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

(b) Deposits by the Crown to the Liability Management Fund and the fund's earnings have been set aside to meet future superannuation contributions.

GFS SURPLUS / (DEFICIT)	*(1,548)*	*1,283*
Adjusted for deposits to the Liability Management Fund [(b)]	*(1,239)*	*(1,307)*
UNDERLYING SURPLUS / (DEFICIT) after adjusting for the timing of superannuation contributions	*(2,787)*	*(24)*

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

CASH FLOW	2005-06 $m (Actual) [(b)]
Cash receipts from operating activities	
Receipts from sales of goods and services	23
Grants/subsidies received	11
Interest received	1,931
Other receipts	17
Total receipts	**1,982**
Cash payments for operating activities	
Payment for goods and services	(35)
Grants and subsidies paid	
Interest paid	(1,901)
Other payments	(28)
Total payments	**(1,964)**
Net cash flows from operating activities	**18**
Net cash flows from investments in non-financial assets	
Sales of non-financial assets	...
Purchases of non-financial assets	(1)
Net cash flows from investments in non-financial assets	**(1)**
Net cash flows from investments in financial assets for policy purposes	**...**
Net cash flows from investments in financial assets for liquidity purposes	**525**
Net cash flows from financing activities	
Advances received (net)	...
Borrowing (net)	(1,257)
Deposits received (net)	38
Distributions Paid	(24)
Other financing (net)	1
Net cash flows from financing activities	**(1,242)**
Net increase (decrease) in cash held	**(700)**
SURPLUS / (DEFICIT)	
Net cash from operating activities and investments in in non-financial assets	**17**
Distribution Paid	(24)
Finance leases and similar arrangements	...
SURPLUS / (DEFICIT)	**(7)**

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)

	2005-06 $m (Budget)	2005-06 $m (Actual)
General Public Services		
Government superannuation benefits	66	92
Other general public services	1,375	1,306
Total Other General Public Services	1,441	1,398
Public Order and Safety		
Police and fire protection services		
- Police services	1,966	1,955
- Fire protection services	545	538
Law courts and legal services	874	850
Prisons and corrective services	855	862
Other public order and safety	193	189
Total Public Order and Safety	4,433	4,394
Education		
Primary and secondary education		
- Primary education	3,417	3,295
- Secondary education	3,538	3,468
- Primary and secondary education n.e.c.	1,871	1,914
Tertiary education		
- University education	10	...
- Technical and further education	1,426	1,472
- Tertiary education n.e.c.	...	...
Pre-school education and education not definable by level		
- Pre-school education	23	24
- Special education	577	718
- Other education not definable by level	26	...
Transportation of students		
- Transportation of non-urban school children	258	254
- Transportation of other students	311	271
- Education n.e.c.	...	...
Total Education	11,457	11,416
Health		
Acute care institutions		
- Admitted patient services in acute care institutions	5,976	5,986
- Non-admitted patient services in acute care institutions	1,732	1,718
Mental health institutions	316	327
Nursing homes for the aged	122	117
Community health services		
- Community health services (excluding community mental health)	1,154	1,120
- Community mental health	347	347
- Patient transport	484	480
Public health services	658	773
Health research	84	85
Health administration n.e.c.	34	37
Total Health	10,907	10,990

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

	2005-06 $m (Budget)	2005-06 $m (Actual)
Social Security		
Social Security	272	258
Welfare services		
- Family and children services	719	701
- Welfare services for the aged	415	316
- Welfare services for people with a disability	1,325	1,272
- Welfare services n.e.c.	312	315
Social security and welfare n.e.c.	94	99
Total Social Security	3,137	2,961
Housing and Community Amenities		
Housing and community development		
- Housing	817	851
- Community Development	146	129
Water supply	88	90
Sanitation and protection of the environment	531	413
Other community amenities	...	...
Total Housing and Community Amenities	1,582	1,483
Recreation and Culture		
Recreation facilities and services		
- National parks and wildlife	301	290
- Recreation facilities and services n.e.c.	254	268
Cultural facilities and services	338	459
Broadcasting and film production	10	8
Recreation and culture n.e.c.	...	...
Total Recreation and Culture	903	1,025
Fuel and Energy		
Fuel affairs and services		
- Coal/Petroleum/Nuclear affairs, Fuel affairs and services n.e.c.	19	10
- Gas	1	1
Electricity and other energy		
- Electricity	22	25
- Other energy	1	...
Fuel and Energy n.e.c.	20	27
Total Fuel and Energy	63	63

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

	2005-06 $m (Budget)	2005-06 $m (Actual)
Agriculture, Forestry, Fishing and Hunting		
Agriculture	349	594
Forestry, fishing and hunting	28	42
Total Agriculture, Forestry, Fishing and Hunting	377	636
Mining and Mineral Resources other than Fossil Fuels; Manufacturing and Construction		
Mining and mineral resources other than fuels	39	51
Manufacturing	...	...
Construction	91	93
Total Mining and Mineral Resources other than Fossil Fuels; Manufacturing and Construction	130	144
Transport and Communications		
Road transport		
- Road rehabilitation, and Aboriginal community road transport servises	...	...
- Road maintenance	830	866
- Road transport n.e.c.	1,864	1,827
Water transport		
- Other water transport services	...	...
- Urban water transport services	94	98
Rail transport		
- Urban rail transport services	1,095	1,293
- Non-urban rail transport freight services	169	331
- Non-urban rail transport passenger services	71	82
Air transport		
Pipelines		
Other transport		
- Multi-mode urban transport	239	108
- Other transport n.e.c.	363	467
Communications	...	...
Total Transport and Communications	4,725	5,072
Other Economic Affairs		
Storeage, saleyards and markets	...	...
Tourism and area promotion	52	1
Labour and employment affairs		
- Vocational training	181	173
- Other labour and employment affairs	382	261
Other economic affairs	242	346
Total Other Economic Affairs	857	781

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

	2005-06 $m (Budget)	2005-06 $m (Actual)
Other Purposes		
Public debt transactions	2,125	2,122
General purpose inter-government transactions	474	376
Natural disaster relief	46	48
Other purposes n.e.c.	226	13
Total Other Purposes	2,871	2,559
Total GFS Expenses	**42,883**	**42,922**

Notes:

n.e.c. not elsewhere classified

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

	2005-06 $m (Budget)	2005-06 $m (Actual)
General public services	316	357
Public order and safety	467	432
Education	482	476
Health[(b)]	649	593
Social security and welfare	94	111
Housing and community amenities	152	194
Recreation and culture	135	149
Fuel and energy	...	2
Agriculture, forestry, fishing and hunting	34	25
Mining, manufacturing and construction	2	2
Transport and communications	1,245	1,451
Other economic affairs	23	29
Other purposes[(c)]	131	54
Total GFS Purchases of Non Financial Assets	**3,730**	**3,875**

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

(b) Actuals impacted by budgeted capital expenditure that was subsequently expensed (and not capitalised) by the Department of Health.

(c) The original budget included $95 million Advance to the Treasurer which was allocated across functions as the funds were spent in the actual year.

TABLE 16: 2005-06 LOAN COUNCIL ALLOCATION ESTIMATES FOR NSW

	Budget-time Estimate 2005-06 $m	Actual 2005-06 $m
General government sector cash deficit / (surplus)	(415)	(2,167)
PNFC sector cash deficit / (surplus) [(a)]	1,964	885
Non-financial public sector cash deficit / (surplus) [(b)]	1,548	(1,283)
Minus Net cash flows from investments in financial asset for policy purposes [(c)]	57	22
Plus Memorandum items [(d)]	677	(1,786)
Loan Council Allocation	**2,282**	**(3,047)**

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 State Super Fund earning a positive 15.8% 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.

Contracts entered into in 2005-06

None to be reported.

END OF UNAUDITED OUTCOMES REPORT

AUDITED CONSOLIDATED FINANCIAL REPORT OF THE NSW TOTAL STATE SECTOR (TOTAL STATE SECTOR ACCOUNTS) 2005 - 2006

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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, changes in equity and cash flows of the NSW Total State Sector for the year ended 30 June 2006 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.

Michael Costa	Mark Ronsisvalle	Mark Pellowe
Treasurer	Deputy Secretary	Senior Director
	NSW Treasury	NSW Treasury

18 October 2006

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 of such adjustments, if any, as might have been required had the limitation discussed in the qualification paragraph below not existed, the financial report of the Total State Sector Accounts (the Accounts):

- is properly drawn up in accordance with the *Public Finance and Audit Act 1983* (the Act),
- accords with the books and records of the Treasurer, and
- presents fairly the Total State Sector's financial position as at 30 June 2006 and its performance for the year ended on that date, in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia.

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

Qualification

As disclosed in Note 1 Statement of Significant Accounting Policies, under the heading Principles of Consolidation, the State is undertaking a project to identify and value the Crown reserves it controls under the *Crown Lands Act 1989*. Until that project is completed, I am unable to obtain all the information I require to form an opinion on the value of those Crown reserves that should be recognised as land in the Accounts.

My audit report for the year ended 30 June 2005 referred to the same matter.

Scope

The Financial Report and the Treasurer's Responsibility

The financial report comprises the operating statement, the statement of changes in equity, balance sheet, statement of cash flows and the accompanying notes to the financial statements of the Total State Sector.

The Treasurer is responsible for the preparation and true and fair presentation of the financial report in accordance with the Act. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit Approach

I conducted an independent audit in order 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 Standards and statutory requirements, and I:

- assessed the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the Treasurer in preparing the financial report, and
- examined a sample of evidence that supports the amounts and 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 State,
- that it has carried out its activities effectively, efficiently and economically,
- 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.

Peter Achterstraat
Auditor-General

SYDNEY
18 October 2006

THE NSW TOTAL STATE SECTOR ACCOUNTS OPERATING STATEMENT FOR THE YEAR ENDED 30 JUNE 2006

	Note	2005-06 $m	2004-05 $m
REVENUES			
State Revenues			
Taxation	2	15,234	14,747
Commonwealth Grants	2,5	18,040	16,192
Fines, Regulatory Fees and Other	2	1,280	1,155
Total State Revenues		**34,554**	**32,094**
Operating Revenues			
Sale of Goods and Services	2	11,975	11,484
Investments	2	1,848	1,456
Grants and Contributions		1,115	1,079
Other		731	676
Total Operating Revenues		**15,669**	**14,695**
Total Revenues		**50,223**	**46,789**
EXPENSES EXCLUDING LOSSES			
Employee Benefits			
- Superannuation	3	2,928	3,118
- Other	3	21,150	19,866
Other Operating	3	12,105	12,401
Depreciation and Amortisation	3	4,189	4,062
Grants and Subsidies	3	4,919	4,456
Finance Costs	3	2,217	2,209
Total Expenses Excluding Losses		**47,508**	**46,112**
SURPLUS BEFORE OTHER NET INCOME		**2,715**	**677**
OTHER NET INCOME			
Net Gain/(Loss) from Disposals	4	(23)	(167)
Other Net Gains/(Losses)	4	4,257	(3,823)
Share of Earnings from Equity Investments		177	49
Total Other Net Income		**4,411**	**(3,941)**
SURPLUS/(DEFICIT) FOR THE YEAR		**7,126**	**(3,264)**

The Operating Statement should be read in conjunction with the accompanying notes.

THE NSW TOTAL STATE SECTOR ACCOUNTS STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2006

	Note	2005-06 $m	2004-05 $m
CHANGES IN EQUITY			
Income and Expenses Recognised Directly in Equity			
Net Increase/(Decrease in Property, Plant and Equipment Asset Revaluation Reserve	22	3,408	4,065
Hedging Contracts			
- Valuation Gains/Losses		(119)	...
Movements in NSW's share of equity investments taken directly to equity		102	3
Other Net Increases/(Decreases) in Equity		(8)	(21)
Total Income and Expenses Recognised Directly in Equity		**3,383**	**4,047**
Surplus/(Deficit) for the Year		7,126	(3,264)
Total Income, and Expenses for the Year (Recognised in the Operating Statement and in Equity)		**10,509**	**783**
Adjustments for Changes in Accounting Policy and Correction of Errors			
Adjustments to Accumulated Funds	22	596	(385)
Adjustments to Reserves	22	40	256
Total Adjustments for Changes in Accounting Policy and Correction of Errors		**636**	**(129)**

The above Statement excludes the impact of adopting Australian Equivalents to International Financial Reporting Standards (AEIFRS), which can be found in Note 32.

The Statement of Changes in Equity should be read in conjunction with the accompanying notes.

THE NSW TOTAL STATE SECTOR ACCOUNTS BALANCE SHEET
AS AT 30 JUNE 2006

	Note	2006 $m	2005 $m
Current Assets			
Cash and Cash Equivalent Assets	6	4,160	3,222
Receivables	7	4,217	3,625
Financial Assets at Fair Value	8	4,030	5,256
Investments Accounted for Using the Equity Method	9	...	...
Inventories	10	619	631
Other	16	142	82
Non-current Assets Classified as Held for Sale	11	330	253
Total Current Assets		**13,498**	**13,069**
Non-Current Assets			
Receivables	7	1,350	1,497
Financial Assets at Fair Value	8	12,383	11,595
Investments Accounted for Using the Equity Method	9	1,467	1,043
Inventories	10	475	490
Property, Plant and Equipment			
Land and Buildings	12	84,750	81,411
Plant and Equipment	12	10,316	10,114
Infrastructure Systems	12	76,110	72,944
Investment Properties	13	1,376	1,293
Forestry Stock	14	1,559	1,595
Intangibles	15	1,383	1,334
Other	16	1,271	1,145
Total Non-Current Assets		**192,440**	**184,461**
TOTAL ASSETS		**205,938**	**197,530**
Current Liabilities			
Payables	17	5,204	4,523
Borrowings at Amortised Cost	18	1,158	6,210
Derivatives at Fair Value	19	464	...
Provisions	20	8,573	7,665
Other	21	762	495
Liabilities Directly Associated with Assets Held for Sale	11	5	19
Total Current Liabilities		**16,166**	**18,912**
Non-Current Liabilities			
Borrowings at Amortised Cost	18	28,549	25,468
Derivatives at Fair Value	19	358	...
Provisions	20	30,668	34,120
Other	21	1,715	1,693
Total Non-Current Liabilities		**61,290**	**61,281**
TOTAL LIABILITIES		**77,456**	**80,193**
NET ASSETS		**128,482**	**117,337**
Equity			
Accumulated Funds	22	66,373	58,260
Reserves	22	62,030	59,031
Amounts Recognised in Equity Directly Relating to Assets Held for Sale	22	79	46
TOTAL EQUITY		**128,482**	**117,337**

The Balance Sheet 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 2006

	Note	2005-06 $m	2004-05 $m
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts			
Taxation		15,276	14,439
Commonwealth Grants		18,115	15,944
Sale of Goods and Services		12,880	12,824
Interest		423	574
Fines, Fees, Grants and Other		6,766	6,136
Total Receipts		**53,460**	**49,917**
Payments			
Employee Related		(21,907)	(20,594)
Grants and Subsidies		(4,779)	(4,308)
Finance		(116)	(176)
Other		(17,232)	(17,524)
Total Payments		**(44,034)**	**(42,602)**
NET CASH FLOWS FROM OPERATING ACTIVITIES	23	**9,426**	**7,315**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from Sale of Property, Plant and Equipment		763	630
Proceeds from Sale of Investments		2,029	760
Advance Repayments Received		54	37
Purchase of Property, Plant and Equipment		(7,885)	(6,529)
Purchase of Investments		(3,062)	(3,147)
Advances Made		(78)	(51)
Other		(265)	(13)
NET CASH FLOWS FROM INVESTING ACTIVITIES		**(8,444)**	**(8,313)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from Borrowings and Advances		70	32
Repayments of Borrowings and Advances		(103)	(601)
NET CASH FLOWS FROM FINANCING ACTIVITIES		**(33)**	**(569)**
NET CASH FLOW OF FINANCIAL INSTITUTIONS	23	**(265)**	**1,363**
NET INCREASE/(DECREASE) IN CASH HELD		**684**	**(204)**
Opening Cash and Cash Equivalents		3,153	3,446
Reclassification of Cash Equivalents		184	(89)
CLOSING CASH BALANCE	23	**4,021**	**3,153**

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

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

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

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

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

Budget dependent agencies are those that receive an appropriation in the annual Appropriation Act. The majority of agencies rely predominantly on the State Budget for direct funding (ie 50 per cent 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 2006-07.

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 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. This includes the Home Purchase Assistance Fund.

The New South Wales Total State Sector is a not-for-profit reporting entity for accounting purposes.

The financial report of the New South Wales State Sector (The Total State Sector Accounts) for the year ended 30 June 2006 was authorised for issue by the Treasurer on 18 October 2006. This report was issued from:

NSW Treasury
Level 27
Governor Macquarie Tower
1 Farrer Place,
Sydney NSW 2000
AUSTRALIA

BASIS OF PREPARATION

This financial report is a general purpose financial report prepared in accordance with:

- applicable Australian Accounting Standards which include Australian Equivalents to International Financial Reporting Standards (AEIFRS), and in particular Australian Accounting Standard AAS31 "Financial Reporting by Governments", and
- section 6 of the Public Finance and Audit Act, 1983.

Property, plant and equipment, investment property, forestry stock, assets held for sale, derivatives, and financial assets at fair value through profit or loss and available for sale are measured at fair value. Other financial statement items are prepared in accordance with the historical cost convention.

Judgements, key assumptions and estimations that management has made in the preparation of this financial report are disclosed in the relevant notes to the report.

All amounts are rounded to the nearest million dollars and are expressed in Australian dollars.

STATEMENT OF COMPLIANCE

The Total State Sector Accounts, including notes comply with Australian Accounting Standards, which include AEIFRS.

This is the first Total State Sector Accounts prepared based on AEIFRS and comparatives for the year ended 30 June 2005 have been restated accordingly, unless otherwise permitted.

In accordance with AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* and NSW Treasury Mandates, the date of transition of AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* was deferred to 1 July 2005. As a result, comparative information for these two standards is presented under the previous Australian Accounting Standards which applied to the year ended 30 June 2005. The basis used to prepare the 2004-05 comparative information for financial instruments under previous Australian Accounting Standards is discussed separately below.

UIG 9 has been early adopted effective 1 July 2005 regarding the reassessment of embedded derivatives. AASB 2005-4 has also been early adopted restricting when to designate financial instruments at fair value through profit or loss.

Reconciliations of AEIFRS equity and surplus for 30 June 2005 to the balances in the 2004-05 Total State Sector Accounts are detailed in Note 32. The impact of 1 July 2005 equity adjustments arising from the adoption of the Financial Instruments Standards AASB 132 and AASB 139 are disclosed in Note 22 Changes in Equity.

NEW ACCOUNTING STANDARDS ISSUED BUT NOT EFFECTIVE

The following accounting standards, amendments and Urgent Issues Group Abstracts have been issued, but are not yet effective, and have not been adopted:

- AASB 7 *Financial instruments disclosures*
- AASB 119 *Employee Benefits*
- AASB 2004-03 *Amendments to Australian Accounting Standards*

- AASB 2005-01 *Amendments to Australian Accounting Standards*
- AASB 2005-5 *Amendments to Australian Accounting Standards [AASB 1 & AASB 139]*
- AASB 2005-9 *Amendments to Australian Accounting Standards [AASB 4, AASB 1023 AASB 139 & AASB 132]*
- AASB 2005-10 *Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 138]*
- AASB 2006-1 *Amendments to Australian Accounting Standards [AASB 121]*
- UIG 4, 5, 6, and 7.

It is considered impracticable to presently determine the impact of adopting these standards.

PRINCIPLES OF CONSOLIDATION

This financial report has been consolidated in accordance with Australian Accounting Standard AASB 124 "Consolidated and Separate Financial Statements" and includes the assets, liabilities, equities, revenues and expenses of the New South Wales 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 AAS 31.

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 Workers Compensation Insurance Fund, the NSW Aboriginal Land Council and most professional registration and marketing authorities.

The NSW government holds a 58 per cent financial interest in Snowy Hydro Ltd. However as the NSW government's voting power is restricted to one-third of the total shareholders, Snowy Hydro Ltd is not considered to be "controlled". The government therefore recognises its share in Snowy Hydro Ltd as an equity investment in an associate.

The NSW government holds a 52.5 per cent financial interest in Law Courts Ltd. However as the NSW government's voting power is restricted to equal joint control, Law Courts Ltd is not considered to be "controlled". The government therefore recognises its share in Law Courts Ltd as an equity investment in an associate.

There are approximately 33,000 Crown reserves in New South Wales. The NSW Government manages some of these reserves and local governments and trusts manage others. A project is in progress to identify and value Crown reserves that are 'controlled' by the NSW Government, and therefore should be recognised as assets of the NSW Government in the Total State Sector Accounts.

To determine which entity controls the Crown reserves requires an evaluation of complex requirements under the Crown Lands Act 1989 and the Local Government Act 1993 and the interaction of these legislative requirements with the concept of control under accounting standards, including AASB127 Consolidated and Separate Financial Statements, AAS31 Financial Reporting by Governments and AAS27 Financial Reporting by Local Governments and AASB117 Leases.

Evaluation to date has not been conclusive and further investigation is necessary to determine the extent to which Crown reserves should be recognised in the Total State Sector Accounts. In finalising this evaluation, current proposed amendments to the current standards will also be taken into account.

Based on the preliminary assessment, it is currently estimated that the total value of reserves controlled by the NSW Government, but not currently recognised in the Total State Sector Accounts, is between $1 billion and $7 billion.

However, the total value may even be outside of this range, depending on the current valuation of the controlled assets.

The NSW Government will recognise the value of Crown reserves it controls in future Total State Sector Accounts once this project is complete and the value can be reliably estimated.

All transactions and balances between NSW 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 on a class basis.

INCOME RECOGNITION

Income is measured at the fair value of the consideration or contribution received or receivable. Additional comments regarding the accounting policies for the recognition of income are discussed below.

State Taxation

State taxation is recognised as follows:

- Government-assessed revenues (mainly 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 tax collecting agency. Additional revenues are recognised for assessments following review of returns lodged by taxpayers.

Commonwealth Grants

These are recognised when the State gains control over the grants. Control is normally obtained when the cash is received.

A grant of $960 million was received from the Commonwealth government in late June 2006 dedicated for works to be carried out over several future years. The revenue has been recognised in the Total State Sector Accounts in the 2005-06 financial year, when the cash was received.

However, the Australian Bureau of Statistics has determined, for the purposes of Government Finance Statistics (GFS) reporting only, that the specific grant revenue be accrued and deferred to match the timing of the related expenditure by NSW. This accrual treatment is adopted only for the separately published Outcomes Report, and also in the Statement of the Budget Result, which are prepared in accordance with GFS principles.

Fines, Regulatory Fees and Other State Revenue

- These other state revenues are recognised as follows:
- Fines issued by the Courts are recognised when the fine is issued. When fines become overdue, additional revenue is recognised.

  Traffic infringement fines, such as those administered by the Infringement Processing Bureau are recognised when the cash is received. If they become overdue, responsibility for collection is transferred to the State Debt Recovery Office, and additional revenue is accrued.
- Regulatory fees, such as those collected by the Roads and Traffic Authority, are recognised when the cash is received.
- Royalty revenue is recognised in accordance with AASB 118 *Revenue* on an accrual basis.

Sale of Goods and Services

Revenue from the sale of goods is recognised when the State transfers to the buyer the significant risks and rewards of ownership of the assets.

Revenue is recognised from the rendering of services when the service is provided or by reference to the stage of completion.

Rent from the provision of public housing is included in revenue from the rendering of services (and not within investment revenue) as public housing is treated as a government service and not as a commercial investment. Public housing rental revenue is reported net of rental rebates.

Investment Revenue

Interest revenue is recognised as it accrues using the effective interest method in accordance with AASB 139 *Financial Instruments: Recognition and Measurement*. Investment revenue includes all earnings in NSW Treasury Corporation Hourglass managed funds, including distributions received.

Rental revenue (including those from investment properties) is recognised in accordance with AASB 117 *Leases* on a straight-line basis over the lease term.

Grants and Contributions

Grants and contributions comprise both cash and property assets including assets provided by developers for infrastructure. They are recognised when the State gains control over the assets.

Gains and Losses (in the Operating Statement)

Gains and losses generally arise from adjustments to the measurement of assets and liabilities. They include gains and losses on asset disposals, actuarially assessed gains and losses to defined benefits superannuation liabilities, and fair value adjustments to physical and certain financial instruments such as derivatives.

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.

Superannuation expenses include the current year service cost and interest on obligations, offset by long-term earnings on fund assets. They exclude actuarial assessed gains and losses, which are disclosed separately under "other gains and losses".

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

The recognition and measurement policy for employee benefits expenses is detailed below in the associated liability policy note.

Other Operating Expenses

These expenses generally represent the day-to-day running costs incurred in the normal operation of agencies and. It includes asset maintenance costs (to external parties). They exclude payments such as grants and subsidies to community groups, which are shown separately. The recognition and measurement policy for other provision expenses is detailed below in the associated liability policy note.

Depreciation of Property, Plant and Equipment

Each depreciable property, plant and equipment asset (except certain heritage 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 certain heritage 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	40-80 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	9-60 years
Water system assets	10-200 years
Roads (pavements)	15-50 years
Roads (earthworks)	100 years
Other	various

Grants and Subsidies

They generally comprise cash contributions to local government authorities and non-government organisations. They are expensed when the State transfers control of the assets.

Finance Costs

Finance costs comprise interest on borrowings and the unwinding of discounts on non-employee provisions. Finance costs are recognised as expenses in the period in which they are incurred.

Accounting for the Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except:

- where the amount of GST incurred as a purchaser is not recoverable from the Australian Taxation Office, it is recognised as part of the cost of acquisition of a an asset or as part of an item of expense; and
- receivables and payables are stated with the amount of GST included.

Cash flows are included in the cash flow statement on a gross basis and the GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the Australian Taxation Office are classified as operating cash flows.

ASSETS

Cash and Cash Equivalents

Cash and cash equivalent assets in the balance sheet comprise cash at bank and in hand, short term deposits with an original maturity of three months or less, and deposits in Treasury Corporation's HourGlass Managed Fund Cash Facility.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Receivables – 2005-06 Financial Year

Receivables are recognised initially at fair value, usually based on the transaction cost or face value. Subsequent measurement is at amortised cost using the effective interest method, less an allowance for any impairment of receivables.

Short-term receivables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial. Changes are accounted for in the operating statement when impaired, derecognised or through the amortisation process. Receivables include fines owing to the State Debt Recovery Office and restitution orders made by the Victims Compensation Tribunal. These amounts are recognised only when they comply with the asset recognition criteria of Australian Accounting Standard 29 *Financial Reporting by Departments*.

Levies receivable under the Workers Compensation (Dust Diseases) Act, 1942 reflect the full funding of total claims costs. The claims costs are estimated by actuaries at balance date. This recognises the legislative power given to the State, to impose levies to meet the cost of claim obligations under this Act.

Financial Assets at Fair Value - 2005-06 Financial Year

Financial assets are initially measured at fair value plus, in the case of financial assets through profit or loss, transaction costs. Financial Assets subsequently measured at fair value mainly comprise investments other than cash and receivables. These financial assets are either classified as "held for trading", "available for sale" (the residual category) or are designated at "fair value through profit and loss". Changes in fair value for assets classified or designated at fair value through profit and loss are recognised through the operating statement. In contrast, changes in fair value for available for sale assets are recognised directly in equity, until impaired or disposed.

Purchases and sales of financial assets under contract that require delivery of the asset within the timeframe established by convention or regulation are recognised on the trade date i.e. the date that government was committed to purchase or sell the asset.

Derivatives are held for trading financial instruments, except for designated and effective hedging instruments, which are subject to hedge accounting. The accounting policies in relation to derivatives are discussed further under liabilities.

Other Financial Assets – 2005-06 Financial Year

Other financial assets are initially measured at fair value plus transaction costs. Other financial assets consist of non-derivative financial assets with fixed or determinable payments which are not subsequently valued at fair value either because they are not quoted in an active market or they are intended to be held to maturity. These financial assets are measured at amortised cost using the effective interest method. Changes are accounted for in the operating statement when impaired, derecognised or through an amortisation process.

Equity investments in joint venture entities and associates, such as Snowy Hydro Limited, are measured based on the State's share of the value of their net assets, in the absence of any available market price. Movements in the State's share of profits are recognised in the operating result, and movements in the State's share of revaluations to a reserve are recognised directly to equity.

Impairment of Financial Assets – 2005-06 Financial Year

All financial assets except for those measured at fair value through profit or loss are subject to annual review for impairment.

An allowance for impairment of receivables is established when there is objective evidence that the State will not be able to collect all amounts due. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Bad debts are written off as incurred.

Treatment of Financial Assets in the 2004-05 Financial Year

Receivables were 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 reflected 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 were normally valued at market value, except where a market did not exist, they were valued at cost.

Inventories

Inventories held for distribution are stated at the lower of cost and current replacement cost. Inventories (other than those held for distribution) are valued at the lower of cost or net realisable value. Cost is calculated using the weighted average cost or the "first in first out" method.

The cost of inventories acquired at no cost or for nominal consideration is the current replacement cost as at the date of acquisition. The current replacement cost is the cost the State would incur to acquire the asset on the reporting date. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Property, Plant and Equipment

Property, plant and equipment comprise three asset classes:

- Land and buildings
- Plant and equipment
- Infrastructure systems.

Land and buildings include Crown land, public housing, schools, TAFE colleges and hospitals.

Plant and equipment include computer hardware, rail rolling stock, public buses and ferries, and museum and library collections.

Infrastructure systems comprise the government's power stations, dams, electricity and water system assets, ports, major roads and railway lines.

Property, plant and equipment excludes inventories, investment properties, non-current assets held for sale, intangibles and the emerging interest in private sector financed infrastructure, which are reported separately.

Capitalisation and Initial Recognition

Property, Plant and Equipment is initially recognised at acquisition cost. Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire the asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Australian Accounting Standards.

Assets acquired at no cost or for nominal consideration are initially recognised 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 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, property, plant and equipment with a value greater than $5,000 is 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

Property, plant and equipment, is valued at fair value in accordance with Australian Accounting Standard AASB 116 *Property, Plant and Equipment* and NSW Treasury Policy Paper 05-3 *Accounting Policy on Valuation of Physical Non-Current Assets at Fair Value* .

Property, plant and equipment is measured on an existing use basis, where there are no feasible alternative uses in the existing natural, legal, financial and socio-political environment. However, in the limited circumstances where there are feasible alternative uses, assets are valued at their highest and best use.

Fair value of property, plant and equipment is determined based on the best available market evidence, including current market selling prices for the same or similar assets. Where there is no available market evidence, the asset's fair value is measured at its market buying price, the best indicator of which is depreciated replacement cost.

Assets belong to a cash-generating unit are written down where the recoverable amount of the unit is lower than its carrying amount. Refer to 'Impairment' section below.

Non-specialised assets with short useful lives are measured at depreciated historical cost, as a surrogate for fair value.

Valuation of Land

Land is valued at fair value based on market evidence having regard to its highest and best use. However, where there are natural, legal, financial 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 AASB 1045 *Land under Roads*. However, this land has been recognised in the financial report of the Roads and Traffic Authority at $33,418 million (2005 $36,289 million).

Valuation of Specialised Plant and Infrastructure

Specialised plant and infrastructure is measured based on existing use 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 based on current market prices.

Specialised buildings are designed for a specific, limited purpose, and include hospitals, schools, court houses, emergency services buildings and buildings to house specialised plant and infrastructure and some heritage properties. 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 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 based on existing use. 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 of property, plant and equipment does not materially differ from fair value at the reporting date. Subject to the above, assets are revalued at least every five years.

Where the State revalues non-current assets by reference to current prices for assets newer than those being revalued (adjusted to reflect the present condition of the assets), the gross amount and accumulated depreciation are separately restated.

Otherwise, for non-specialised assets where market based evidence is available, 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 of asset previously recognised as a loss in the operating statement, the increment is recognised as a gain.

Revaluation decrements are recognised immediately as losses, 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.

Where an asset that has previously been revalued is disposed of, any balances remaining in the asset revaluation reserve in respect of that asset is transferred to accumulated funds.

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

Impairment

The State assesses at each reporting date whether there is any indication that a cash generating unit or an asset within, may be impaired. If such an indication exists, the State estimates the recoverable amount. An impairment loss is recognised where the carrying amount of the asset or cash-generating unit exceeds the recoverable amount.

The recoverable amount of specialised assets that form part of a cash generating unit, in the absence of a market selling price, is the value in use, based on the expected future cash flows.

Where an asset does not belong to or constitute a cash generating unit, it cannot be impaired under AASB 136 *Impairment of Assets* unless selling costs are material. This is because for not-for-profit entities, AASB 136 modifies the recoverable amount in such circumstances to be the higher of fair value less costs to sell and depreciated replacement cost.

Non-current Assets (or disposal groups) held for sale

Certain non-current assets (or disposal groups) are classified as held for sale, where their carrying amount will be recovered principally through a sale transaction, not through continuing use.

Non-current assets (or disposal groups) held for sale are recognised at the lower of carrying amount and fair value less costs to sell. These assets are not depreciated while they are classified as held for sale.

Investment Properties

The State owns properties held to earn rentals and/or for capital appreciation. These investment properties are stated at fair value supported by market evidence at the reporting date. Gains or losses arising from changes in fair value are included in the operating statement for the period in which they arise. No depreciation is charged on investment properties.

Management has determined that the following be treated as property, plant and equipment instead of investment properties in interpreting AASB 140 *Investment Properties*.

- public housing is treated as property, plant and equipment and not as investment property because the properties are held to provide a social service rather than for investment purposes; and
- properties sub leased within the NSW public sector by the Crown Property Portfolio are treated as property, plant and equipment because the properties are held to provide a service rather than for investment purposes.

Forestry Stock (Biological Assets)

Forests NSW revalues the softwood plantations growing stock annually at fair value, 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 operating statement as a gain/loss, and as an adjustment to forestry stock assets in the balance sheet. 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 operating statement as a gain/loss and as an adjustment to forestry stock assets in the balance sheet.

Forests NSW 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.

Intangible Assets

The State recognises intangible assets only if it is probable that future economic benefits will flow to the State and the cost of the asset can be measured reliably. Examples of intangibles include computer software and easements to access privately owned land.

Intangible assets are measured initially at cost. Where an asset is acquired at no or nominal cost, the cost is its fair value as at the date of acquisition.

All research costs are expensed. Development costs are only capitalised when certain criteria are met.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised under the straight line method and expensed in the operating statement for the period. Refer to Note 15 Intangibles for categories of the useful lives.

Intangible assets are subsequently measured at fair value only if there is an active market. If there is no active market, the assets are carried at cost less any accumulated amortisation.

Intangible assets are tested for impairment where an indicator of impairment exists and in the case of intangible assets with indefinite lives, annually, either individually or at the cash generating unit level.

Privately Financed Projects

A Privately Financed Project (PFP) or service concession arrangement is a contractual arrangement under which the Government grants a concession to the private sector to supply and operate economic or social infrastructure that would traditionally have been acquired and operated by the public sector.

In the absence of specific Australian accounting requirements, PFPs are accounted for in accordance with Treasury Policy & Guidelines Paper TPP 06-8 *Accounting for Privately Financed Projects*, which adopts the principles set out in Application Note F *Private Finance Initiative and Similar Contracts* in the United Kingdom Accounting Standards Board's Financial Reporting Standard 5 *Reporting the Substance of Transactions.* Those principles guide the determination of whether the public sector concession provider or the private sector concession operator has an asset of the infrastructure that is the subject of the PFP.

Where the infrastructure payments under a PFP are clearly distinguishable, they are accounted for as a lease in accordance with Accounting Standard AASB 117 *Leases*. Where such payments are not clearly distinguishable, the infrastructure asset and the liability to pay for it are only recognised if further analysis of the PFP determines that the public sector concession provider has the majority of the risks and benefits in relation to the infrastructure.

An up-front contribution, that is in substance part of a PFP, made by one party to another, is recognised progressively over the period of the reduced payments (ie the concession period).

A right to receive infrastructure for a nominal sum (including zero) at the end of a concession period is recognised progressively during the concession period as revenue and an asset.
The value is allocated during the period as if it were the compound value of an annuity discounted at the NSW government bond rate applicable at the commencement of the period. Where, during the concession period, the fair value of the right to receive infrastructure increases or decreases, the movement is recognised as a revaluation in accordance with Accounting Standard AASB 116 *Property, Plant and Equipment*.

A land lease in connection with a PFP is treated as an operating lease.

The following PFPs are currently in operation:

Sydney Harbour Tunnel

The State's interest in the Sydney Harbour Tunnel has been valued based on the Road and Traffic Authority's (RTA) 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 $627 million (2005 $605 million). The construction of the Tunnel was financed by 30 year inflation linked bonds issued by the Sydney Harbour Tunnel Company to the private sector of $487 million, Sydney Harbour Tunnel Company shareholders' loans (repaid in 1992) of $40 million, and an interest free, subordinated loan (the Net Bridge Revenue Loan) provided by the RTA of $223 million, based on the projected net toll revenue from the Sydney Harbour Bridge during the construction period.

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

The capital (principal repayment) portion of the obligation arising under the Ensured Revenue Stream Agreement is recognised as a liability. This is measured by reference to the principal outstanding on the bonds issued to private sector bondholders to finance the Harbour Tunnel of $345 million (2005 $359 million). In addition, a tax liability exists for $26 million (2005 $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 Privately Financed Projects

Other large privately financed infrastructure projects include transport and sporting infrastructure listed below.

The State has also entered agreements with the private sector for the design, finance, construction, operation and maintenance of Lane Cove Tunnel, which is presently under construction. Upon completion in the 2006-07 financial year, the State will value its emerging share of the written down replacement cost over the period of the concession agreement.

In estimating the value of the emerging right to the assets, management has adopted the periods included within various major projects' concession agreements as follows:

- M2 Motorway (45 years)
- M4 Motorway (30 years)
- M5 Motorway (31 years)
- Eastern Distributor (48 years)
- Sydney Cross City Tunnel (30 years)
- Westlink M7 Motorway (31 years)
- Airport Line Railway Station (30 years)
- Sydney Olympic Authority Stadium and Superdome (32 years)

LIABILITIES

Payables

These amounts represent liabilities for good and services provided to the State prior to the end of the financial year that are unpaid, and arise when the State becomes obliged to make future payments in respect of the purchases of these goods and services. Payables for goods and services include accrued interest, accrued salaries salaries, wages and on-costs and amounts owing for construction or purchase of assets

Payables are recognised initially at fair value, usually based on the transaction cost or face value. Subsequent measurement is at amortised cost using the effective interest method. Short-term payables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

Borrowings

The State's borrowing 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 public sector agencies (including finance leases).

Year ended 30 June 2006

Borrowings are generally not held for trading. As such they are recognised at amortised cost using the effective interest method.

Amortised cost 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 Operating Statement in the period in which they arise.

Year ended 30 June 2005

Borrowings were recognised at current capital value (amortised cost). Current capital value is the face value of the debt less unamortised discount or plus unamortised premiums. The discount or premiums were treated as finance charges and amortised over the term of the debt.

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

Gains or losses arising from foreign exchange and debt restructuring transactions were included in the Statement of Financial Performance.

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 fair value of the leased property, or if lower, 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. The finance lease liability is determined in accordance with AASB 17 *Leases*. Lease payments are allocated between the principal component of the lease liability and the interest expense.

Long term leases of land are classified as an operating lease, provided title does not pass to the lessee by the end of the lease term. The leased asset is recognised by the State, as lessor, as investment property at fair value. The fair value of land under a prepaid long term lease is generally negligible during the greater part of the lease term due to its encumbrance. The fair value will increase (re-emerge) towards the end of the lease term as the effect of the encumbrance diminishes.

Operating lease payments are charged to the Operating Statement 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.

The leasing arrangements of individual agencies comprise various terms and conditions prevalent in industry practice. These may include the basis on which contingent rental is determined, the terms of renewal or purchase options or escalation clauses or restrictions imposed concerning dividends, additional debt and/or further leasing. Such restrictions are generally enforceable only on the individual agencies concerned and are not normally significant for the Total State Sector Accounts.

Derivatives

The State has derivative assets and liabilities.

Year ended 30 June 2006

Derivatives are considered to be held for trading financial instruments except for designated and effective hedging instruments which are subject to hedge accounting. They are otherwise classified at "fair value through the profit & loss" and are valued on a fair value basis as at balance date, with resultant gains and losses from one valuation date to the next being recognised in the Operating Statement.

Where an active market exists, fair values are determined by reference to the specific market quoted prices / yields at year end. If no active market exists, judgement is used to select the valuation technique which best estimates fair value by discounting the expected future cash flows arising from the financial instruments to their present value using market yields and margins appropriate to the financial instruments. These margins take into account credit quality and liquidity of the financial instruments.

Funding swaps are valued at rates derived from NSW Treasury Corporation's debt securities yield curves being the most appropriate estimation of fair value. All other swaps are valued off the appropriate swap curve.

All derivatives are recognised on the balance sheet at trade date (the date the government becomes party to the contractual provisions of the financial instrument concerned).

Year ended 30 June 2005

For the financial year ending 30 June 2005 Derivatives were not recognised on the State's balance sheet.

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 paid sick leave that fall due wholly within 12 months of the reporting date are recognised and measured in respect of employees' services up to the reporting date at undiscounted amounts based on the amounts expected to be paid when the liabilities are settled.

Long-term annual leave that is not expected to be taken within 12 months is measured at present value in accordance with AASB 119 *Employee Benefits*. Market yields on government bonds are used to discount long-term annual leave.

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 in accordance with AASB 119 *Employee Benefits* at the present value of future payments anticipated for the employee services that the government has taken on at the reporting date, using the projected unit credit method. An actuary calculates this using:

- expected future wage and salary levels
- experience of employee departures
- periods of service.

Estimated future cash outflows are discounted using market yields at the reporting date that closely match the term of maturity of government bonds. The liabilities of budget dependent agencies were calculated using this present value method.

Long service liability for non-budget dependent agencies and Area Health Services were recognised using the short hand measurement techniques of AASB 119 Employee Benefits. It estimates the long service liability for all employees with five and more years service. It is not materially different from the estimated present value confirmed by an actuary.

Although 95 per cent of long service leave liability is classified as current, the total entitlement is not expected to be paid in the next twelve months for budget and non-budget dependent agencies.

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 is based on the long term Commonwealth government bond rate (plus 10 basis points to recognise the extra long term nature of superannuation liabilities) at the reporting date. AASB 119 *Employee Benefits* requires the discount rate be revised each year and tied to the actual long term Commonwealth government bond rate at 30 June.

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 amount 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.

In measuring the net superannuation liability actuarial gains and losses are recognised in the operating statement immediately.

The pension accounting costs are accrued using the projected unit credit method. The cost of pensions is charged to operations to spread the cost over the service lives of current and past employees. Independent actuaries do a full valuation of the plans every three years. Actuarial gains and losses are immediately recognised in profit and loss in the year when they occur.

Other Provisions

Other provisions exist when:

- the State has a present legal or constructive obligation as a result of a past event;
- it is probable that an outflow of resources will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

Other provisions are recorded at the estimates of obligation to pay. If the effect of the time value of money is material, provisions are discounted at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability.

These include for example, the Government's obligations arising from several insurance schemes:

- administered by the NSW Self Insurance Corporation (SICorp). These comprise liabilities for closed schemes, the previous workers' compensation and third party insurance schemes, and for the Treasury Managed Fund, a self insurance scheme. The Treasury Managed Fund protects the insurable assets and exposures of its members (government agencies).

  The liability for outstanding claims is measured as the present value of the expected future payments and is determined by the Manager of SICorp in consultation with independent actuary, PricewaterhouseCoopers Actuarial Pty Ltd. The discount rate used is based on investment opportunities available on the amount of funds sufficient to meet claims as they become payable.

  The expected future payments are estimated on the basis of the ultimate cost of settling claims, which is affected by factors arising during the period to settlement such as normal inflation and "superimposed inflation". Superimposed inflation refers to factors such as trends in court awards.

- Workers Compensation (Dust Diseases) Board outstanding claims and WorkCover Authority outstanding claims. The WorkCover Authority liabilities relate to claims assumed by the government from some failed insurance companies. 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 by PricewaterhouseCoopers Actuarial Pty Ltd.

- Some government agencies hold a group self-insurer's licence with the WorkCover Authority for workers' compensation. This self funded liability is actuarially calculated by McMahon Actuarial Services on a discounted cash flows basis using a "central" estimate and assuming an interest rate of 5.4 per cent-5.9 per cent (2005: 5.3 per cent-5.8 per cent) per annum and a future wage inflation rate of 4.0 per cent-4.4 per cent (2005: 4.0 per cent) per annum.

- A provision for loss compensation associated with the former HIH Insurance Limited has been raised by the Government for building warranty 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 the actuaries, Taylor Fry Pty Ltd 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 2005 by Professional Financial Solutions.

The amount and timing of the actual outflows in relation to the above provisions have a degree of uncertainty. Actuals results may depend on a number of factors specific to the type of claim, for example, future economic and environmental conditions may be different to those assumed.

Key actuarial assumptions for the main schemes are:

- For schemes administered by SICorp the following average inflation rates and discount rates were used in measuring the liability for outstanding claims for NSW Treasury Managed Fund (TMF), Transport Accident Compensation Fund (TAC) and Governmental Workers Compensation Account (GWC):

	TMF		GWC		TAC	
	2006 %	2005 %	2006 %	2005 %	2006 %	2005 %
Not Later than one year						
Inflation Rate	3.0-4.5	3.25	4.5	4.0	4.5	4.0
Discount Rate	6.6	6.5	6.6	5.3	6.6	5.3
Superimposed Inflation *	0-10.0	0-7.0	0-3.0	0-3.0	0-2.0	0-2.0
Later than one year						
Inflation Rate	2.5-4.5	3.25	4.5	4.0	4.5	4.0
Discount Rate	6.6	6.4-6.5	6.6	5.1-5.2	6.6	5.1-5.2
Superimposed Inflation *	0-10.0	0-7.0	0-3.0	0-3.0	0-2.0	0-2.0

* Dependent on payment type

For other Schemes details are as follows:

Scheme	Discount Rate %		Inflation Rate %	
	2006	2005	2006	2005
Claims expected to be paid not later than one year				
Workers Compensation (Dust Diseases) Board	6.0	5.25	4.0	3.5
WorkCover Authority	5.83	5.37	4.0	3.75
HIH Loss Compensation	5.8	5.7	4.5 (3.0*)	4.5 (3.0*)
Building and Construction Industry Long Service Payment Scheme	5.1	5.1	4.5	4.5
Claims expected to be paid later than one year				
Workers Compensation (Dust Diseases) Board	6.0	5.25	4.0	3.5
WorkCover Authority	5.73-5.83	5.11-5.23	4.0	3.75
HIH Loss Compensation	5.9	5.7-5.8	4.5 (3.0*)	4.5 (3.0*)
Building and Construction Industry Long Service Payment Scheme	5.1	5.1	4.5	4.5

* Represents the superimposed inflation rate

In addition to insurance provisions 'other provisions' includes a provision for land remediation and other restoration costs.

Land remediation costs are those costs incurred to remove various contaminates primarily from three parcels of land purchased in Newcastle from BHP Billiton. These include the main steel site and Kooragang Island. Provisions for these costs have been recognised at the present value using a discount rate of 5.79 per cent. This rate represents the Australian Government 10 year Government bond rate as at 30 June 2006. In providing this assessment, a number of assumptions were made as to the nature of future development and the method of remediating the sites.

Any change to the liability from the unwinding of the discount due to the passage of time is recognised as a finance cost in the Operating Statement.

Other Liabilities

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

Up-front payments received in respect of Public Private Sector Infrastructure (PPI) transactions, are deferred and amortised over the term of the arrangement.

Up-front rental payments received by the State, as lessor, in respect of long-term leases of land (over 50 years duration), are deferred and amortised on a systematic basis over the entire term of the lease.

AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (AEIFRS)

The 2005-06 Total State Sector Accounts has applied AEIFRS from 1 July 2004.

The State has determined the key areas where changes in accounting policies impact the financial report. Some of these impacts arise because AEIFRS requirements are different from AASB requirements that preceded AEIFRS. Other impacts arise from options in AEIFRS. To ensure consistency at the whole of government level, NSW Treasury has advised agencies of options it has mandated, for the NSW Public Sector.

The Total State Sector Accounts' accounting policies may also be affected by a new standard (AASB 1049 *Financial Reporting of General Government Sectors by Governments*) designed to harmonise accounting standards with Government Finance Statistics (GFS). This standard is operative for financial years commencing on or after 1 July 2008. 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 the impact of adopting AASB 1049 has not yet been analysed and proposals to withdraw AAS 31 have not yet been circulated for comment.

Note 32 details the impacts of adopting AEIFRS on the Total State Sector's equity, balance sheet classifications, and operating result compared to those reported under previous AGAAP. There are no material impacts on cash flows.

Treasury has adopted an option in AASB 1 that deferred by 12 months until 1 July 2005 the adoption of AASB 139 *Financial Instruments: Recognition and Measurement*. The impact of adopting this standard has been separately reported in Note 32.

CHANGE IN ACCOUNTING POLICIES, THE CORRECTION OF ERRORS, AND REVISIONS TO ESTIMATES

The following have resulted in adjustments being made to opening equity in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors.*

Sydney Olympic Park 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 pavilions 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.

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 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 reduction in 1 July 2004 opening accumulated funds of $398 million.

In a separate transaction the Sydney Olympic Park Authority previously recognised an asset, being the $213 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 $213 million reduction in other non-current assets and an equivalent reduction in 1 July 2004 opening accumulated funds, to reverse out the prior years' revenues for the emerging interest in private sector financed infrastructure. The two SOPA adjustments are reported in Note 22 *Changes in Equity*.

The above two SOPA transactions were previously reported as significant expense items in the 2004-05 Total State Sector Accounts (on an AGAAP basis), however they have been restated in accordance with AEIFRS as adjustments to opening equity at 1 July 2004.

Emerging interest in roads

NSW Treasury has mandated the adoption of a policy *Accounting for Upfront Payments and Emerging Assets in Public Private Partnerships* based on the UK Standard FRS 5. In adopting this new policy the State has changed the method it emerges its interest in privately financed infrastructure roads from a straight-line to an annuity method. This change in accounting policy has resulted in a reduction in the opening 1 July 2004 accumulated funds by $115 million.

Road valuations

Certain sections of roads previously valued as infrastructure assets have been revalued down to nil to reflect that the assets are not presently controlled by the State but are accounted for as part of privately financed infrastructure projects. This correction has resulted in a $993 million reduction in the value of infrastructure assets and an equal reduction in the 1 July 2004 asset revaluation reserve.

Vacant Crown land valuation

Vacant Crown land was last valued by the State Valuation Office at 30 June 2002. It was subsequently recorded by management at $4 billion and adjusted annually for any further land transactions. It will be revalued in 2006-07. The Chief Valuer at Valuation Services within Land and Property Information New South Wales has advised that on a reasonable basis, the value of the vacant Crown land has increased by 30 per cent ($1,137 million) since 2002. Given this advice, management has decided to adjust the value of the land upwards by $1,137 million against the asset revaluation reserve. The adjustment has been made effective 1 July 2004, the commencement for the reporting period in these Total State Sector Accounts, on the basis that the major movement in land values occurred prior to this date.

Initial recognition of equity investments

The State has recognised for the first time its share of equity investments in two separate joint venture entities, the Murray Darling Basin Commission (MDBC) and Law Courts Limited.

The State has a 26.67 per cent financial interest in the MDBC, a joint venture with the governments of Victoria, South Australia and the Commonwealth.

The State also has joint control in Law Courts Limited, a company that operates a Sydney building that houses the NSW Supreme Court and the Sydney location of the Federal Court.

Both assets existed prior to the financial reporting period. New South Wale's equity interest has been recognised for the first time as a correction, resulting in an increase to the opening 1 July 2004 accumulated funds for MDBC ($326 million) and Law Courts Limited ($15 million), and to the opening 1 July reserves for MDBC ($39 million) and Law Courts Limited ($73 million).

Changes in Accounting Estimates

Changes are recognised in the period when the estimate is revised. Such changes are not adjusted retrospectively to the financial report.

2. REVENUES

	2005-06 $m	2004-05 $m
STATE REVENUES		
Taxation		
Payroll Tax	5,032	4,678
Stamp Duties	4,823	4,799
Gambling and Betting	1,234	1,148
Land Tax	1,663	1,598
Other	2,482	2,524
	15,234	**14,747**
Commonwealth Grants		
General Purpose - Recurrent	292	234
- GST Revenue	10,428	9,948
Specific Purpose - Recurrent	5,339	5,000
- Capital	1,021	1,010
- Australian Road Transport grant for future year capital expenditure	960	...
	18,040	**16,192**
Fines, Regulatory Fees and Other State Revenues include:		
Royalties from mining	504	396
OPERATING REVENUES		
Sale of Goods and Services comprise revenue from:		
Sale of goods [(a)]	7,426	7,176
Rentals from public housing and other non-investment properties [(b)]	878	823
Rendering of other services	4,887	4,765
less: Cost of sales	(1,216)	(1,280)
	11,975	**11,484**
(a) Includes net revenues from lotteries activities:.		
Gross revenue	*1,170*	*1,148*
Prizes and other statutory payments	*(782)*	*(765)*
Net Revenue	***388***	***383***
(b) Includes net revenues from the provision of public housing:		
Rentals for public housing	*1,287*	*1,138*
Less: Rental rebates	*(676)*	*(566)*
Net Revenue	***611***	***572***
Investment Revenue comprises:		
Interest and managed fund earnings	1,655	1,291
Rentals from investment properties	121	115
Other	72	50
	1,848	**1,456**

3. EXPENSES

	2005-06 $m	2004-05 $m
Superannuation Expense comprises		
Defined benefit plans, excluding actuarial gains/losses [(a)]	1,785	2,012
Defined contribution plans	1,143	1,106
	2,928	**3,118**

(a) Refer Note 20 for a dissection of defined benefits superannuation expense by component.

	2005-06 $m	2004-05 $m
Other Employee Benefits Expenses comprise:		
Salaries and wages (including recreation Leave)	19,237	18,053
Long service leave	775	756
Other	1,138	1,057
	21,150	**19,866**
Other Operating Expenses comprise:		
Operating lease rentals - minimum lease payments	592	583
Consultancy fees	68	86
Inventories written back	14	4
Audit fees [(b)] - for audit	...	...
- for other services	...	...
Insurance claims	428	973
Supplies and other services	8,677	8,506
External maintenance (excluding employee costs associated with maintenance)	2,326	2,249
	12,105	**12,401**

(b) Fees of $23 million for audit and $3 million for other services to the Audit Office of NSW (2004-05 $21 million for audit and $3 million for other services) have not been recognised as expenses because they have been eliminated in consolidation of the NSW Public Sector.

	2005-06 $m	2004-05 $m
Depreciation and Amortisation expense comprise:		
Depreciation on		
- Buildings	995	941
- Plant and equipment	968	1,005
- Infrastructure systems	1,939	1,927
Amortisation	287	189
	4,189	**4,062**
Grants and Subsidies include contributions by the State for:		
Education and training	907	873
Ageing, disability and home care services	741	652
Health	685	620
Public transport	565	491
Community services	497	443
First Home Owners Scheme	286	249
Finance Costs include:		
Charges relating to finance leases	60	70
Unwinding of the discount on provision liabilities	351	376

4. GAINS/(LOSSES)

	2005-06 $m	2004-05 $m
Net Gain/(Loss) from Disposal of:		
Property, plant and equipment	(27)	(140)
Financial instruments	5	(36)
Intangible assets	(1)	9
	(23)	(167)
Other Net Gains/(Losses) - from Fair Value Adjustments through the Operating Statement		
Defined benefits superannuation - actuarial gains and losses [(a)]	4,695	(3,573)
Consolidation adjustment to RTA land under the roads [(b)]	(203)	(196)
Investment property	(9)	117
Non-current assets classified as held for sale	2	3
Forestry stock market value adjustments (biological assets)	(63)	(40)
Intangible assets	(14)	...
Financial instruments	9	...
Impairment of receivables	(128)	(151)
Other	(32)	17
	4,257	(3,823)

(a) *Refer Note 20 for a dissection of the defined benefit superannuation gains and losses by component.*

(b) *No valuation has been included in the Total State Sector Accounts for land under roads and within road reserves. During 2005-06 the Roads and Traffic Authority identified land under roads of $203 million (2005 $196 million) which was reported in previous years as part of Land and Buildings. As it is Treasury's policy to apply the transitional provisions in AASB 1045, and to report land under roads in the Total State Sector Accounts at nil value, an adjustment of $203 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 $203 million cost value of these assets has been recorded as a valuation loss.*

5. SIGNIFICANT ITEMS

	2005-06 $m	2004-05 $m
The Operating Result includes the following Significant Revenue/(Expense) Items:		
Insurance claims expense [(a)]	(428)	(973)
Grant from the Commonwealth Government for future year capital expenditure on the Australian Road Transport Program	960	...
	532	(973)

(a) *The reduction in insurance claims expense is primarily the result of actuarial revisions reducing claims liabilities following recent tort law reform and an increase in the discount rate applied for dust disease liabilities.*

6. CASH AND CASH EQUIVALENT ASSETS

	2006 $m	2005 $m
Cash administered by NSW Treasury Corporation		
Hour Glass Cash Facility (managed fund)	2,577	1,295
Special Client Mandate (Short term deposits facility)	343	59
Cash and deposits held at other financial institutions	1,240	1,868
	4,160	3,222

The State's interest in Hour Glass Cash 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.

7. RECEIVABLES

	2006 $m	2005 $m
Current Receivables		
Debtors and accruals from		
- Sale of goods and services[(a)]	2,184	2,051
- Settlements receivable on new borrowings and other financial instruments	445	...
- Taxation	364	416
- Prepayments	175	242
- Asset sales	46	110
- Interest	28	95
Advances receivable	75	13
Other	1,131	941
	4,448	**3,868**
Less Allowance for Impairment[(b)]	(231)	(243)
Total Current Receivables	**4,217**	**3,625**
Non-Current Receivables		
Dust Diseases' insurance levies accrued[(c)]	968	977
Advances receivable	80	140
Prepayments	9	30
Other	323	383
	1,380	**1,530**
Less allowance for impairment[(b)]	(30)	(33)
Total Non-Current Receivables	**1,350**	**1,497**

(a) Generally trade receivables from sale of goods and services are non-interest bearing with varying terms based on prevalent industry practice.

(b) Allowance for impairment mainly comprises allowance for doubtful debts related to sales of goods and services.

(c) Refer Accounting Policy Note 1 "Receivables" for further details.

8. FINANCIAL ASSETS AT FAIR VALUE

	2006 $m	2005 $m
Current	4,030	5,256
Non-current	12,383	11,595
	16,413	**16,851**

	2006 $m	2005 $m
Financial assets at fair value comprise:		
Financial assets held for trading		
Derivative Assets[a]		
Swaps	23	*
Futures	2	*
Electricity contracts	149	*
Other	2	*
Held for trading	**176**	*****
Designated and effective hedging instruments		
Derivative Assets[a]		
Swaps	22	*
Electricity contracts	1	*
Other	1	
Hedging instruments	**24**	*****
Financial assets designated at fair value through profit and loss		
Fiduciary investments adminstered by NSW Treasury Corporation[a]	12,334	*
Securities and placements held by NSW Treasury Corporation	2,422	*
Other	1,457	*
Designated at Fair Value through profit and loss	**16,213**	*****
Total Financial Assets at Fair Value	**16,413**	**16,851**

(a) Refer Note 29 Financial Instruments.

(*) Due to the introduction of AEIFRS, financial instrument information is not available for June 2005 on a comparable basis. Amounts published in the 2004-05 Total State Sector Accounts, prepared on a pre-AEIFRS basis comprise

Fiduciary investments adminstered by NSW Treasury Corporation [a]		*10,518*
Securities and placements held by NSW Treasury Corporation		*4,865*
Other		*1,417*
Total Financial Assets	***...***	***16,800***

9. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	2006 $m	2005 $m
Current	...	...
Non-current	1,467	1,043
	1,467	**1,043**

Investments in Associates Accounted for Using the Equity Method comprise		
the State's share in:		
Snowy Hydro Ltd [a]	753	582
Murray Darling Basin Commission [b]	588	364
Law Courts Ltd [c]	110	91
Other entities	16	6
	1,467	**1,043**

(a) Snowy Hydro Limited

New South Wales has a 58 per cent share of Snowy Hydro Limited, with the Commonwealth and Victorian governments retaining 13 per cent and 29 per cent respectively. Each jurisdiction has appointed 3 directors following an inter-governmental agreement. Thus as New South Wales does not control the entity it has applied the equity method to account for its investment in Snowy Hydro Limited.

Snowy Hydro Limited is mainly involved in generating and marketing renewable electricity, as well as the storage and diversion of bulk water to the Murray and Murrumbidgee Rivers. The entity was incorporated in Australia and is not listed on any public exchange. Therefore there is no published quotation price for the fair value of this investment.

The reporting date of Snowy Hydro Limited approximates that of the Total State Sector Accounts. In any case, the difference between the reporting dates is no more than 3 months (in this instance a few days) with the length of the reporting periods and any difference in the reporting dates being approximately the same from period to period.

There were no impairment losses relating to the investment in Snowy Hydro Limited, however there were capital and other commitments as follows:

Amount of New South Wales' share of Snowy Hydro Limited's:		
Capital expenditure commitments	*53*	*41*
Operating lease commitments	*47*	*40*
	100	***81***

The following table illustrates summarised information of New South Wales' investment in Snowy Hydro Limited:

	2006 $m	2005 $m
Share of Snowy Hydro Limited's balance sheet:		
Current assets	66	53
Non-current assets	1,263	1,043
Current liabilities	(58)	(87)
Non-current liabilities	(518)	(427)
Net Assets	**753**	**582**
Share of Snowy Hydro Limited's revenue and profit:		
Revenue from ordinary activities	296	246
Profit from ordinary activities before income tax	111	115
Income Tax expense relating to ordinary activities	(37)	(30)
Profit from ordinary activities after income tax	**74**	**85**

(b) Murray-Darling Basin Commission

New South Wales has a 26.67 per cent share of the Murray-Darling Basin Commission along with the Victorian and South Australian governments each retaining 26.67 per cent and the Commonwealth retaining the remaining 20 per cent.

The Murray-Darling Basin Commission is the executive arm of the Murray-Darling Basin Ministerial Council and is responsible for managing the River Murray and the Menindee Lakes system of the lower Darling River, as well as advising the Ministerial Council on matters related to the use of the water, land and other environmental resources of the Murray-Darling Basin.

The Ministerial Council comprises the Ministers responsible for land, water and environmental resources within the Contracting Governments (i.e. the Commonwealth, NSW, Victoria, SA and Qld). Resolutions of the Council require a unanimous vote.

The Commission comprises an independent President, two Commissioners from each Contracting Government and a representative of the ACT Government. Thus as New South Wales does not control the entity it has applied the equity method to account for its investment in the Murray-Darling Basin Commission.

The Commission is an autonomous organisation equally responsible to the governments represented on the Ministerial Council. It is not a government department, nor a statutory body of any individual government. It is not listed on any public exchange. Therefore there is no published quotation price for the fair value of this investment. New South Wales recognises its investment based upon 26.67 per cent of the value of the Commission's net assets reported in its financial report.

The reporting date of the Murray-Darling Basin Commission is the same as the Total State Sector Accounts.

The following table illustrates summarised information of New South Wales' investment in the Murray-Darling Basin Commission:

	2006 $m	2005 $m
Share of Murray-Darling Basin Commission's balance sheet:		
Financial assets	143	13
Non-financial assets	453	360
Interest bearing liabilities	...	...
Other liabilities	(8)	(9)
Net Assets	**588**	**364**
Share of Murray-Darling Basin Commission's profit and movement in reserves		
Revenue from ordinary activities	158	25
Profit from ordinary activities before income tax	132	(2)
Income Tax expense relating to ordinary activities	...	...
Profit from ordinary activities after income tax	**132**	**(2)**
Net credit to asset revaluation reserve	91	...
Total change in equity	**223**	**(2)**

There were no impairment losses relating to the investment in the Murray-Darling Basin Commission, however there were capital and other commitments as follows:

Amount of New South Wales' share of Murray-Darling Basin Commission:		
Capital expenditure commitments	...	...
Operating lease commitments	...	...
Other expenditure commitments	5	3
	5	3

(c) Law Courts Limited

New South Wales has a 52.5 per cent share of Law Courts Limited along with the Commonwealth retaining the remaining 47.5 per cent. Each jurisdiction has appointed 3 directors in accordance with the company's constitution. Thus as New South Wales does not control the entity it has applied the equity method to account for it's investment in Law Courts Limited.

Law Courts Limited is an unlisted public company, limited by guarantee that was incorporated in Australia, to provide building management services for the Law Courts Building in Queen Square, Sydney. There is no published quotation price for the fair value of this investment.

The reporting date of Law Courts Limited is the same as the Total State Sector Accounts.

There were no impairment losses relating to the investment in the Law Courts Limited and there were no material capital or other expenditure commitments.

The following table illustrates summarised information of New South Wales' investment in Law Courts Limited:

	2006 $m	2005 $m
Share of Law Courts Ltd balance sheet:		
Current assets	14	5
Non-current assets	96	86
Current liabilities	...	...
Non-current liabilities	...	...
Net Assets	**110**	**91**
Share of Law Courts Ltd revenue and profit:		
Revenue from ordinary activities	15	7
Profit from ordinary activities before income tax	8	...
Income Tax expense relating to ordinary activities	...	...
Profit from ordinary activities after income tax	**8**	**...**
Net credit to asset revaluation reserve	11	3
Total change in equity	**19**	**3**

10. INVENTORIES

	2006 $m	2005 $m
Current	619	631
Non-current	475	490
	1,094	**1,121**

Inventories comprise:

	2006 $m	2005 $m
Held for Distribution:		
- Consumable Stores		
- At cost	99	90
- At current replacement cost	3	1
Raw Materials:		
- At cost	139	148
- At net realisable value	...	...
Work in Progress:		
- At cost	16	13
- At net realisable value	2	2
Finished Goods:		
- At cost	40	42
- At net realisable value	7	7
Consumable Stores:		
- At cost	180	173
- At net realisable value	39	33
Land Held for Resale [(a)]	569	612
	1,094	**1,121**

(a) Land held for resale, for government authorities that trade in land, has been recorded at:

Acquisition Cost	*320*	*338*
Development Cost	*219*	*237*
Other Costs	*30*	*37*
	569	***612***

11. NON CURRENT ASSETS (OR DISPOSAL GROUPS) HELD FOR SALE

	2006 $m	2005 $m
Assets Held For Sale		
Land and Buildings	329	222
Plant and Equipment	1	...
Victorian and South Australian businesses of Energy Australia	...	31
	330	**253**

The following Liabilities and Equity are associated with the above assets held for sale

	2006 $m	2005 $m
Liabilities Directly Associated with Assets Held For Sale		
Liabilities	5	...
Victorian and South Australian businesses of Energy Australia	...	19
	5	**19**
Amounts Recognised in Equity Directly Relating to Assets Held For Sale		
Property, Plant and Equipment asset revaluation increments	79	46
	79	**46**

Land and Buildings held for sale include properties which were previously used to locate system assets or as maintenance depots, under-utilised non-infrastructure land, residential properties and properties which are now surplus to the needs of the State. Residential properties relate to properties held under the Public Equity Partnership Scheme. Under this Scheme, properties are required to be sold when they meet pre-determined criteria. By the expiration of the Schemes in 2011 and 2013, all of the relevant properties will be sold. Plant and Equipment held for sale includes old buses in the State Transit Authority fleet.

Assets held for sale are expected to be sold in the following financial year (except for land located at Schofields) using a number of disposal options including auction, tender, direct negotiation and through appropriate property swaps. An agreement for deferred settlement was entered into for the land at Schofields with final settlement at 30 September 2007.

Refer Note 30 *Discontinuing Operations* for further information on the sale of the Victorian and South Australian business operations of Energy Australia.

12. PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings $m	Plant and Equipment $m	Infrastructure Systems $m	Total $m
At 1 July 2005				
Gross Value	96,975	14,613	122,066	233,654
Accumulated amortisation and impairment	(15,564)	(4,499)	(49,122)	(69,185)
Net carrying amount	**81,411**	**10,114**	**72,944**	**164,469**
At 30 June 2006				
Gross Value	102,813	15,367	128,578	246,758
Accumulated amortisation and impairment	(18,063)	(5,051)	(52,468)	(75,582)
Net carrying amount	**84,750**	**10,316**	**76,110**	**171,176**
Reconciliation:				
Year ended 30 June 2006				
Net carrying amount at start of year	**81,411**	**10,114**	**72,944**	**164,469**
Additions	1,900	1,487	4,651	8,038
Assets classified to held for sale	(132)	...	(9)	(141)
Disposals	(249)	(290)	(89)	(628)
Net revaluation increments				
recognised in reserves	2,793	40	3,227	6,060
Impairment losses;				
recognised in equity	(11)	(2)	(2,601)	(2,614)
reversals in the Operating Statement	...	...	3	3
Depreciation expense	(995)	(968)	(1,939)	(3,902)
Other movements	33	(65)	(77)	(109)
Net carrying amount at end of year	**84,750**	**10,316**	**76,110**	**171,176**

Revaluations are made with sufficient regularity to ensure that the carrying amount of property, plant and equipment does not materially differ from fair value at the reporting date. The State assesses at each reporting date whether there is any indication that an asset's carrying amount differs materially from fair value. If any indication exists, the asset is revalued. Subject to the above, assets are revalued at least every five years.

During 2005-06, the revaluation movements included the following:

- A notional revaluation of land and building within the Department of Education and Training was made based on valuation factors supplied by the Department of Commerce, Property Valuation Services. These factors are based on written down replacement costs on an existing use basis with appropriate allowances for regional considerations. A full revaluation of land and buildings is scheduled prior to 30 June 2007.

- Independent valuers, in conjunction with senior officers of the Department of Housing undertake an annual revaluation of residential land and buildings. The revaluation is undertaken by selecting a representative sample of properties, taking into account the diversity of the housing stock, property condition and location. The valuation attributable to the representative sample is applied to all residential properties.

- Sydney Opera House building fabric/structure and internal fit out were revalued by independent valuer Rider Hunt Pty Ltd from $640 million in 2004-05 to $1,650 million in 2005-06.

	Land and Buildings $m	Plant and Equipment $m	Infrastructure Systems $m	Total $m
At 1 July 2004 (pre-AEIFRS basis)				
Gross Value	96,036	14,890	98,221	209,147
Accumulated amortisation and impairment	(15,502)	(4,860)	(26,533)	(46,895)
Net carrying amount	**80,534**	**10,030**	**71,688**	**162,252**
At 30 June 2005				
Gross Value	96,975	14,613	122,066	233,654
Accumulated amortisation and impairment	(15,564)	(4,499)	(49,122)	(69,185)
Net carrying amount	**81,411**	**10,114**	**72,944**	**164,469**
Reconciliation:				
Year ended 30 June 2005				
Net carrying amount at start of year	**80,534**	**10,030**	**71,688**	**162,252**
Additions	1,582	1,496	3,924	7,002
Assets classified to held for sale	...	...	...	...
Disposals	(205)	(388)	(161)	(754)
Net revaluation increments				
recognised in reserves	1,317	469	2,011	3,797
Impairment losses;				
recognised in equity	...	...	(39)	(39)
reversals in equity	...	...	317	317
Depreciation expense	(941)	(1,005)	(1,927)	(3,873)
Other movements [(a)]	(876)	(488)	(2,869)	(4,233)
Net carrying amount at end of year	**81,411**	**10,114**	**72,944**	**164,469**

(a) Other movements includes amount reclassified at 1 July 2004 in relation to implementation of AEIFRS for assets held for sale, investment properties and intangibles. Other movements also include prior year adjustments of ($398) million for Sydney Olympic Park Authority assets, $1,137 million for vacant Crown land, and ($993) million for road valuations . Refer to Note 1 'Change in accounting policies, the correction of errors, and revisions to estimates'.

13. INVESTMENT PROPERTIES

	2006 $m	2005 $m
FAIR VALUE		
Opening balance 1 July	**1,293**	**1,137**
Additions (from acquisitions or subsequent expenditure)	69	2
Disposals and assets held for sale	...	...
Net gain/(loss) from fair value adjustment	(9)	117
Other changes	23	37
Closing Balance 30 June	**1,376**	**1,293**
The following amounts from Investment Properties activity have been recognised in the operating statement:		
Rental income	121	115
Direct operating expenses;		
- that generated rental income	27	26
- that did not generate rental income	1	1

Property interests held under operating leases, including 99 year leases (where payment has been received upfront), are classified and accounted for as investment property.

The fair value of investment properties comprises valuations carried out by independent, professionally qualified valuer's with recent experience in the location and category of investment property. These include:
FPV Consultants
BEM Property Consultants Pty Ltd
Derek Hill
Preston Rowe Paterson NSW Pty Ltd
Landmark White
M J Davis Valuations Pty Ltd
Urbis JHD

14. FORESTRY STOCK (BIOLOGICAL ASSETS)

	Softwood Plantation Timber $m	Hardwood Plantation Timber $m	Native Forest Timber $m	Total 2006 $m	Total 2005 $m
Valuation					
Net market value	1,133		402	1,535	1,550
Carrying amount		60		60	59
Total timber at beginning of reporting period	1,133	60	402	1,595	1,609
Capital expenditure - plantation establishment & development	17	2	...	19	19
Capitalisation of borrowing costs	8	...	...	8	8
Write-off of growing stock &/or establishment costs	...	...	...	...	(1)
Sale of Plantations	...	...	...	...	(1)
Carrying amount as at year end (prior to adjusting for changes in net market value)	**1,158**	**62**	**402**	**1,622**	**1,634**
Net market value	1,111		386	1,497	1,535
Carrying amount		62		62	60
Total timber at reporting period	**1,111**	**62**	**386**	**1,559**	**1,595**
Net increment/(decrement) in the market value of timber	(47)	(a)	(16)	(63)	(39)
	Hectares	**Hectares**	**Hectares**	**Hectares**	**Hectares**
Total area	200,556	26,475	2,022,112	2,249,143	2,520,288

(a) Refer Note 1 'Forestry Stock (Biological Assets)' for information on the valuation of hardwood plantations.

The Department of Environment and Conservation has forests, including those within national parks and wilderness areas, which do not form part of this note due to the restrictions on their use by virtue of the *National Parks and Wildlife Act 1974* .

15. INTANGIBLES

2005-06 Carrying Amounts and Annual Movement	Computer Software $m	Easements $m	Other $m	Total $m
At 1 July 2005				
Cost (gross carrying amount)	1,637	581	62	2,280
Accumulated amortisation and impairment	(911)	(19)	(16)	(946)
Net carrying amount	**726**	**562**	**46**	**1,334**
At 30 June 2006				
Cost (gross carrying amount)	1,862	610	58	2,530
Accumulated amortisation and impairment	(1,088)	(41)	(18)	(1,147)
Net carrying amount	**774**	**569**	**40**	**1,383**

Annual Movement for Year ended 30 June 2006

Net carrying amount at start of year	**726**	**562**	**46**	**1,334**
Additions	195	51	37	283
Classified to assets held for sale	(1)	...	...	(1)
Impairment	(2)	(12)	...	(14)
Amortisation	(196)	...	(19)	(215)
Other - movements	52	(32)	(24)	(4)
Net carrying amount at end of year	**774**	**569**	**40**	**1,383**

Information is not available on the detailed movement in Intangibles for the 2004-05 comparative year.

Assumptions

Other

16. OTHER ASSETS

	2006 $m	2005 $m
Current	142	82
Non current	1,271	1,145
	1,413	**1,227**
Other Assets comprise:		
Emerging interest in the Sydney Harbour Tunnel	627	605
Right to receive privately financed transport and sporting infrastructure	590	520
Prepaid superannuation contributions [(a)]	45	...
Other	151	102
	1,413	**1,227**

(a) Refer Provisions Note 20 Energy Industries Superannuation Scheme.

17. PAYABLES

	2006 $m	2005 $m
Payables include:		
Accrued employee benefits[(a)]	435	443
Interest accrued on borrowings and advances	411	384
Settlement payable on borrowings and other financial instruments	295	...

(a) Refer to Note 20 Provisions for other employee benefits

Other residual payables include trade creditors which are generally non-interest bearing with various terms based on prevalent industry practice. Settlement payables have been recognised for the first time in 2005-06. Previously borrowing contracts were recorded at settlement date instead of trade date.

18. BORROWINGS AT AMORTISED COST

	2006 $m	2005 $m
Current	1,158	6,210
Non current	28,549	25,468
	29,707	**31,678**

	2006 $m	2005 $m
Borrowings at amortised cost comprise [a]		
Liability to Commonwealth Government	908	1,629
Domestic and foreign borrowings	28,123	29,269
Bank overdraft	139	69
Finance leases[b][c]	537	711
	29,707	**31,678**

(a) A schedule of repayment of borrowings is included in Note 29 Financial Instruments.

(b) The reduction in finance lease liabilities is primarily the result of a change in the financial management of state fleet motor vehicles from finance lease to direct purchases.

(c) Future minimum lease payments under finance leases are payable for each of the following periods:

	2006	2005
Not later than one year	*163*	*316*
Between one and five years	*313*	*328*
Later than five years	*572*	*569*
Minimum lease payments	*1,048*	*1,213*
Less: Future finance charges	*(511)*	*(502)*
Present value of minimum lease payments	537	711

Excludes liabilities with a present value of $67 million for the Department of Corrective Services; the Department entered into a contract with the private sector for the design, finance, construction and maintenance of a prison hospital in Long Bay. As at 30 June 2006 some contractual conditions precedent remained unfulfilled but have since been satisfied. The arrangement requires the Department to make payments over 28 years commencing in 2008-09. The costs of the services provided over the term of arrangement cannot be estimated at present, as they are dependent on uncertain future events. However when construction is complete, the Department will recognise an asset and a liability with an initial value of $67 million.

19. DERIVATIVES AT FAIR VALUE

	2006 $m	2005 $m
Current	464	...
Non current	358	...
	822	...
Derivative liabilities at fair value comprise:		
Derivatives held for trading		
Swaps	316	...
Futures	1	...
Electricity contracts	143	...
Other	4	...
Designated and effective hedging instruments		
Swaps	264	...
Electricity contracts	84	...
Other	10	...
	822	...

Nil balances reported for June 2005 as derivatives were only recognised on the balance sheet from 1 July 2005, upon adoption of AASB 139 *Financial Instruments*.

20. PROVISIONS

	2006 $m	2005 $m
Current	8,573	7,665
Non current	30,668	34,120
	39,241	**41,785**
These comprise:		
Employee Benefits Provisions		
Unfunded superannuation [(a)]	23,624	26,737
Long service leave and other leave entitlements	7,153	6,664
Other	465	336
Total Provision for Employee Benefits [(b)]	**31,242**	**33,737**
Other Provisions		
Outstanding claims:		
- Self Insurance Corporation	4,476	4,507
- for dust diseases	1,551	1,509
- WorkCover Authority	223	261
- Self funded worker's compensation	400	385
HIH loss compensation	177	209
Building and Construction Industry Long Service Payments Scheme	519	479
Provision for Land Remediation and Other Restoration Costs	294	301
Other	359	397
Total Other Provisions	**7,999**	**8,048**
Total Employee Benefits and Other Provisions	**39,241**	**41,785**

	2006 $m	2005 $m
Insurance Recoveries Receivable include those accrued by:		
Self Insurance Corporation - for reinsurance and other recoveries receivable	173	172
Workers' Compensation (Dust Diseases) Board - insurance levies accrued	968	977
HIH loss compensation	5	...
Fair Trading Administration Corporation	29	32
	1,175	**1,181**

(a) Refer to separate table in this note for a dissection of the superannuation liability by scheme.

	2006 $m	2005 $m
(b) Employee Benefit Liabilities comprise:		
Accrued employee benefits reported as payables	*435*	*443*
Employee benefit provisions	*31,242*	*33,737*
Aggregate Employee Benefit Liabilities	***31,677***	***34,180***

PROVISIONS

	Carrying Amount 1 July 2005 $m	Additional Provision 2005-06 $m	Amounts Used During 2005-06 $m	Unused Amounts Reversed 2005-06 $m	Unwinding/ change in discount rate 2005-06 $m	Carrying Amount 30 June 2006 $m
Outstanding claims:						
- Self Insurance Corporation	4,507	774	(617)	(456)	268	4,476
- for dust diseases	1,509	76	(77)	...	43	1,551
- WorkCover Authority	261	(11)	(13)	...	(14)	223
- Self funded worker's compensation	385	49	(34)	...	...	400
HIH loss compensation	209	18	(52)	...	2	177
Building and Construction Industry Long Service Payments Scheme	479	89	(49)	...	...	519
Land Remediation and other Restorations	301	39	(33)	(2)	(11)	294
Other	397	104	(116)	(26)	...	359
Total Other Provisions	**8,048**	**1,138**	**(991)**	**(484)**	**288**	**7,999**

UNFUNDED SUPERANNUATION LIABILITY

The following note provides information about the State's defined benefits superannuation schemes. All references are to the July 2004 version of AASB 119 *Employee Benefits.*

It contains information on:

- the various superannuation schemes
- major economic assumptions
- the movement in 2005-06 liabilities and the impact of assumptions on the 2006-07 results
- composition of the unfunded liabilities by scheme, recognised in the balance sheet
- the annual movement in scheme unfunded liabilities
- annual superannuation expense
- actual return on plan assets
- the scheme liabilities as reported by the trustees (using different discount rates)
- recommended contribution rates, and
- demographic assumptions.

State public sector superannuation liability is made up of the assets and liabilities of the following schemes:

- State Authorities Non Contributory Superannuation Scheme (SANCS)
- Police Superannuation Scheme (PSS)
- State Authorities Superannuation Scheme (SASS)
- State Superannuation Scheme (SSS)
- Energy Industries Superannuation Schemes (EISS).
- Judges' Pension Scheme (JPS), and
- Parliamentary Contributory Superannuation Scheme (PCSS).

All of the above schemes (except for the PCSS and JPS) are closed to new entrants. The PCSS is closing to new entrants from March 2007.

The SAS Trustee Corporation's (STC) actuary Mercer Human Resource Consulting calculated the unfunded liabilities of the State Public Sector superannuation schemes for the year ended 30 June 2006 and 30 June 2005 under AASB 119 *Employee Benefits* and AAS 25 *Financial Reporting by Superannuation Plans.*

SASS, SSS, PSS and SANCS, the State Super Fund schemes are all defined benefit schemes – at least a component of the final benefit is derived from a multiple of member salary and years of membership. These schemes are closed to new members.

The Projected Unit Credit (PUC) valuation method was used to determine the present value of the defined benefit obligations and related current service costs. This method sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligations.

Actuarial gains and losses are recognised immediately in profit and loss in the year in which they occur.

All Fund assets are invested in STC at arm's length through independent fund managers.

The estimate of accrued benefit liabilities of the Total State Sector is based on calculations carried out by Mercer Human Resource Consulting, the STC's actuary. Actuarial calculations were based on scheme membership data as at 30 April 2006 (EISS 30 June 2005) projected to 30 June 2006. The fair value of pooled fund assets comprises the actual June 2006 balance. Forecast demographic assumptions are consistent with the 2006 Triennial Valuation of the State Super Fund schemes.

The principal economic assumptions at the reporting dates are as per the following tables.

MAJOR ECONOMIC ASSUMPTIONS	30 June 2006	30 June 2005
State Super Fund Schemes		
Discount rate at 30 June	5.9%	5.2%
Expected return on plan assets at 30 June	7.6%	7.3%
Expected salary increases	4.0% pa to 2008 3.5% pa thereafter	4.0% pa
Expected rate of CPI increases	2.5% pa	2.5% pa
EISS		
Discount rate at 30 June (*)	5.4%Pa	4.7% pa
Expected return on plan assets at 30 June	7.6%	7.3%
Expected salary increases	4.0%pa	4.0% pa
Expected rate of CPI increases	2.5%pa	2.5% pa

* Tax adjusted

The unfunded superannuation liabilities shown are for employers and employees combined and are the difference between the present value of forecast employees' accrued benefits at balance date and the estimated net market value of scheme assets to meet them at that date.

An employer does not have to recognise the Future Service Liability, as this is used to determine if there should be an asset ceiling limit (AASB 119, paragraph 58, July 2004). Under AASB 119, any recognised prepaid superannuation asset cannot be more than the total unrecognised past service cost and the present value of any available economic benefits in plan refunds or future plan contribution reductions. If there is no surplus in excess of recovery, an asset ceiling limit is not imposed.

The decrease in unfunded liabilities over the twelve months to 30 June 2006 is largely explained by the net affect of several factors:

- an increase in the State Super Fund liability discount rate from 5.2 per cent to 5.9 per cent (EISS 4.7 per cent to 5.4 per cent), and
- higher investment returns than expected. The actual investment performance of the State Super Fund was positive 15.8 per cent (positive 18.2 per cent for EISS) in 2005-06, which is higher than the long term actuarially applied rate of positive 7.6 per cent (positive 7.6 per cent for EISS) per annum.

This was partly offset by:

- an increase in the accrued benefits due to an additional year of service being provided by current State Super Fund scheme contributors
- one year less discounting for the present value of total future benefit payments
- higher salary increases than expected; and
- the Crown made no superannuation contributions during 2005-06. However $2,420 million of contributions were made during 2005-06 ($975 million in 2004-05) into the General Government Liability Management Fund (GGLMF) rather than into the State Super Fund.

The actuaries apply estimating techniques to value the unfunded superannuation liabilities. In estimating these liabilities, there are many assumptions, as well as market forces that can impact the liability value over the next financial year.

The major potential for volatility arises from:

- movements in the market prices of plan assets, and
- the 30 June long-term Commonwealth government bond rate, which will be applied to discount the accrued liabilities.

The future liability value can also be impacted, generally to a lesser degree, by revisions to long-term actuarial assumptions including those listed in the adjacent table, as well as changes to mortality and other actuarially applied rates. Due to the number of variables it is impracticable to provide a meaningful sensitivity analysis on the volatility of the defined benefit superannuation liabilities for changes in assumptions.

2006 Member Numbers and Superannuation Position prepared in accordance with AASB 119

Member Numbers

	SASS	SANCS	SSS	PSS	JPS	PCSS	EISS	Total
Contributors	53,539	81,465	24,721	3,268	149	128	4,533	167,803
Deferred benefits	...	...	3,606	181	...	...	30	3,817
Pensioners	4,691	...	34,868	5,715	145	234	278	45,931
Pensions fully commuted	...	...	15,905	...	...	...	12	15,917

Superannuation Position for AASB 119 purposes

	$m	$m	$m	$m	$m	$m	$m	$m
Accrued Liability	11,371	2,337	27,568	7,069	581	390	1,642	50,958
Estimated reserve account balance	(7,835)	(1,027)	(15,953)	(919)	...	(276)	(1,653)	(27,663)
	3,536	1,310	11,615	6,150	581	114	(11)	23,295
Future Service Liability	(2,307)	(980)	(1,379)	(461)	...	...	(318)	(5,445)
Surplus in excess of recovery available from schemes	30	15	239	...	...	...	...	284
Net (asset)/liability disclosed in balance sheet	3,566	1,325	11,854	6,150	581	114	(11)	23,579

2005 Member Numbers and Superannuation Position prepared in accordance with AASB 119

Member Numbers

	SASS	SANCS	SSS	PSS	JPS	PCSS	EISS	Total
Contributors	55,512	85,775	26,561	3,702	149	132	4,663	176,494
Deferred benefits	...	...	3,822	194	...	...	34	4,050
Pensioners	4,978	...	33,579	5,403	152	242	262	44,616
Pensions fully commuted	...	...	15,852	819	...	...	7	16,678

Superannuation Position for AASB 119 purposes

	$m	$m	$m	$m	$m	$m	$m	$m
Accrued Liability	10,516	2,357	29,422	6,338	431	396	1,556	51,016
Estimated reserve account balance	(6,760)	(997)	(13,919)	(995)	...	(238)	(1,398)	(24,307)
	3,756	1,360	15,503	5,343	431	158	158	26,709
Future Service Liability	(2,551)	(1,100)	(1,967)	(449)	...	...	(340)	(6,407)
Surplus in excess of recovery available from schemes	...	...	28	...	...	...	...	28
Net (asset)/liability disclosed in balance sheet	3,756	1,360	15,531	5,343	431	158	158	26,737

Composition of the unfunded liabilities recognised in the 30 June 2006 balance sheet (AASB 119 basis)

	Present Value of Defined Benefit Obligations [b] 2006 $m	Fair Value of Plan Assets [b] 2006 $m	Surplus in excess of recovery available from Schemes 2006 $m	Unrecognised past service cost 2006 $m	Net Liability 2006 $m
The unfunded superannuation liability is composed of:					
State Super Fund					
- State Authorities Superannuation Scheme	11,371	7,835	30	...	3,566
- State Authorities Non Contributory Superannuation Scheme	2,337	1,027	15	...	1,325
- State Superannuation Scheme	27,568	15,953	239	...	11,854
- Police Superannuation Scheme	7,069	919	...	...	6,150
Judges' Pension Scheme	581	...	...	...	581
Parliamentary Contributory Superannuation Scheme	390	276	...	...	114
Energy Industries Superannuation Scheme liabilities	1,027	993	...	...	34
Unfunded Superannuation Liability	**50,343**	**27,003**	**284**	**...**	**23,624**
Less: Prepaid superannuation contributions of the Energy Industries Superannuation Scheme [a]	615	660	...	...	(45)
Net Superannuation Liabilities	**50,958**	**27,663**	**284**	**...**	**23,579**

Composition of the unfunded liabilities recognised in the 30 June 2005 balance sheet (AASB 119 basis)

	Present Value of Defined Benefit Obligations [b] 2005 $m	Fair Value of Plan Assets [b] 2005 $m	Surplus in excess of recovery available from Schemes 2005 $m	Unrecognised past service cost 2005 $m	Net Liability 2005 $m
The unfunded superannuation liability is composed of:					
State Super Fund					
- State Authorities Superannuation Scheme	10,516	6,760	...	...	3,756
- State Authorities Non Contributory Superannuation Scheme	2,357	997	...	...	1,360
- State Superannuation Scheme	29,422	13,919	28	...	15,531
- Police Superannuation Scheme	6,338	995	...	...	5,343
Judges' Pension Scheme	431	...	...	...	431
Parliamentary Contributory Superannuation Scheme	396	238	...	...	158
Energy Industries Superannuation Scheme liabilities	1,556	1,398	...	...	158
Net Superannuation Liabilities	**51,016**	**24,307**	**28**	**...**	**26,737**

(a) Refer Note 16 Other Assets.

(b) The accrued benefits liability less the net market value of scheme assets represent the defined benefit obligations of the government. It includes the accumulation component (ie employee accrued benefit liabilities and equivalent employee scheme assets.)

2005-06 Movement in net liability/asset recognised in balance sheet

	Net (Asset) Liability at the start of the year 2006 $m	Net Expense recognised in the Operating Statement 2005-06 [b] $m	Contributions 2005-06 $m	Transfers[a] 2005-06 $m	Net (asset)/liability disclosed in the Balance Sheet 2006 $m
State Super Fund					
- State Authorities Superannuation Scheme	3,756	(18)	(172)	...	3,566
- State Authorities Non Contributory Superannuation Scheme	1,360	(8)	(27)	...	1,325
- State Superannuation Scheme	15,531	(3,639)	(38)	...	11,854
- Police Superannuation Scheme	5,343	808	(1)	...	6,150
Judges' Pension Scheme	431	150	...	...	581
Parliamentary Contributory Superannuation Scheme	158	(28)	(16)	...	114
Energy Industries Superannuation Scheme	143	(83)	(26)	...	34
Reported as a liability	26,722	(2,818)	(280)	...	23,624
Prepaid superannuation contributions of the Energy Industries Superannuation Scheme reported as an asset	15	(40)	(20)	...	(45)
	26,737	(2,858)	(300)	...	23,579

2004-05 Movement in net liability/asset recognised in balance sheet

	Net (Asset) Liability at the start of the year 2005 $m	Net Expense recognised in the Operating Statement 2004-05 [b] $m	Contributions 2004-05 $m	Transfers[a] 2004-05 $m	Net (asset)/liability disclosed in the Balance Sheet 2005 $m
State Super Fund					
- State Authorities Superannuation Scheme	4,598	969	(111)	(1,700)	3,756
- State Authorities Non Contributory Superannuation Scheme	1,777	394	(11)	(800)	1,360
- State Superannuation Scheme	10,287	2,840	(96)	2,500	15,531
- Police Superannuation Scheme	4,453	890	...	...	5,343
Judges' Pension Scheme	420	11	...	...	431
Parliamentary Contributory Superannuation Scheme	161	12	(15)	...	158
Energy Industries Superannuation Scheme	97	104	(43)	...	158
	21,793	5,220	(276)	...	26,737

(a) The $2.5 billion transfer in 2005 represents the rebalancing of reserves between schemes in the Crown's superannuation account.
(b) Includes amounts expensed to the operating statement, and a small component capitalised into constructed assets.

Defined benefits expense recognised in operating statement as:	2006 $m	2005 $m
Employee superannuation expense		
Current service cost	892	902
Interest on obligation	2,586	2,727
Expected return on plan assets	(1,693)	(1,617)
Defined benefits expense	**1,785**	**2,012**
(Gains)/Losses		
Net actuarial losses/(gains) recognised in year	(4,914)	3,573
Change in surplus in excess of recovery available from scheme	219	...
Past service cost	...	...
Losses(gains) on curtailments and settlements	...	...
Defined benefits superannuation gains/losses	**(4,695)**	**3,573**
Amount recognised in the operating statement	**(2,910)**	**5,585**

Actual return on plan assets	2006 $m	2005 $m
State Super Fund		
- State Authorities Superannuation Scheme	1,003	629
- State Authorities Non Contributory Superannuation Scheme	111	33
- State Superannuation Scheme	2,454	1,918
- Police Superannuation Scheme	169	158
Judges' Pension Scheme	...	...
Parliamentary Contributory Superannuation Scheme	37	27
Energy Industries Superannuation Scheme	249	161
	4,023	**2,926**

Arrangements for employer contributions for Funding – calculated in accordance with AAS 25

***The following is a summary of the 30 June financial position of the fund calculated in accordance with AAS 25* Financial Reporting by Superannuation Plans**

	2006		
State Super Fund	Accrued Benefits $m	Net Market Value of Fund Assets $m	Net (surplus)/deficit $m
- State Authorities Superannuation Scheme	*10,959*	*7,835*	*3,124*
- State Authorities Non Contributory Superannuation Scheme	*2,220*	*1,027*	*1,193*
- State Superannuation Scheme	*23,050*	*15,953*	*7,097*
- Police Superannuation Scheme	*5,673*	*919*	*4,754*
Judges' Pension Scheme	*343*	*...*	*343*
Parliamentary Contributory Superannuation Scheme	*307*	*276*	*31*
Energy Industries Superannuation Scheme	*1,426*	*1,653*	*(227)*
	43,978	***27,663***	***16,315***

	2005		
State Super Fund	Accrued Benefits $m	Net Market Value of Fund Assets $m	Net (surplus)/deficit $m
- State Authorities Superannuation Scheme	*9,670*	*6,760*	*2,910*
- State Authorities Non Contributory Superannuation Scheme	*2,071*	*997*	*1,074*
- State Superannuation Scheme	*23,024*	*13,919*	*9,105*
- Police Superannuation Scheme	*5,065*	*995*	*4,070*
Judges' Pension Scheme	*343*	*...*	*343*
Parliamentary Contributory Superannuation Scheme	*299*	*238*	*61*
Energy Industries Superannuation Scheme	*1,253*	*1,398*	*(145)*
	41,725	***24,307***	***17,418***

Recommended contribution rates for the State

State Super Fund	
- State Authorities Superannuation Scheme	Multiple of member contributions
- State Authorities Non Contributory Superannuation Scheme	% of member salary
- State Superannuation Scheme	Multiple of member contributions
- Police Superannuation Scheme	Multiple of member contributions
Judges' Pension Scheme	Multiple of member contributions
Parliamentary Contributory Superannuation Scheme	Multiple of member contributions
Energy Industries Superannuation Scheme	
- Division B	Multiple of member contributions
- Division C	% of member salary
- Division D	Multiple of member contributions

Economic Assumptions

The economic assumptions adopted for the last actuarial review of the Fund were:

	2006	2005
State Super Fund		
Weighted-Average Assumption		
Expected rate of return on Fund Assets	7.3% pa	7.0% pa
Expected salary increase rate	4.0% pa	4.0% pa
Expected rate of CPI increase	2.5% pa	2.5% pa
Energy Industries Superannuation Scheme		
Weighted-Average Assumption		
Expected rate of return on Fund Assets	7.5% pa	7.5% pa
Expected salary increase rate	4.0% pa	4.0% pa
Expected rate of CPI increase	2.5% pa	2.5% pa

Nature of asset/liability

If a surplus exists in the employer's interest in the Fund, the employer may be able to take advantage of it in the form of a reduction in the required contribution rate, depending on the approval of the Fund's trustee, based on advice of the Fund's actuary. Where a deficiency exists, the employer is responsible for any differences between the employer's share of fund assets and the defined benefit obligation.

Demographic Assumptions - June 2006

The demographic assumptions at 30 June 2006 are those used for the (current) 2006 triennial actuarial valuation. A selection of the most financial significant assumptions is shown below.

SASS Contributors

Number of members expected in any one year, out of 10,000 members at the age shown, to leave the fund as a result of:

Age nearest Birthday	Death	Total & Permanent Disability	Retirement		Resignation		Redundancy		Additional promotional salary increase rate %
			Part 1	Part 3	Part 1	Part 3	Part 1	Part 3	
Males									
30	4	8	...	...	280	395	150	...	2.90
40	6	10	...	...	150	285	150	...	1.80
50	11	30	...	...	112	172	150	...	0.00
60	30	...	1,400	950	...	...	150	...	0.00
Females									
30	2	2	...	...	372	700	150	...	2.90
40	3	6	...	...	175	320	150	...	1.80
50	7	28	...	...	144	270	150	...	0.00
60	18	...	1,500	1,500	...	...	150	...	0.00

Note: The SASS Act 1987 divides employers into Part 1 (Crown and other employers), Part 2 (Local Government) and Part 3 (Hospitals and other health related bodies).

SSS Contributors

Number of members expected in any one year, out of 10,000 members at the age shown, to leave the fund as a result of:

Age nearest Birthday	Death	Ill-Health Retirement	Retirement (R60 for females)	Cash Resignation (R60 for females)	Preservation (R60 for females)	Additional promotional salary increase rate %
Males						
30	4	42	...	178	95	2.90
40	6	54	...	80	140	1.80
50	11	144	...	20	50	0.00
60	30	...	6,500	...	...	0.00
Females						
30	2	6	...	204	124	2.90
40	3	21	...	72	105	1.80
50	7	103	...	30	90	0.00
60	18	...	6,300	...	...	0.00

Note: R60 refers to females who elected to retire at age 60 rather than 55

SSS Commutation *- the proportion of SSS members assumed to commute their pension to a lump sum in one year*

Age	Proportion of pension commuted	
	Retirement	Breakdown
Later of commencement or age 55	0.15	0.20
	Widow	Widower
55	0.2500	0.2500
65	0.5380	0.5800
75	0.4825	0.5160
85	0.3928	0.3728

SSS Pensioner Mortality- *assumed mortality rates (in 2006-07) for SSS pensioners*

Age	Retirement Pensioners and Spouses and Widows		Invalidity Pensioners	
	Males	Females	Males	Females
55	0.0025	0.0014	0.0081	0.0066
65	0.0070	0.0055	0.0112	0.0125
75	0.0194	0.0157	0.0505	0.0314
85	0.0945	0.0634	0.1134	0.1268

SSS Pensioner Mortality Improvements - *per annum assumed rates of mortality improvement for SSS pensioners*

Age	Improvement Rates (for years post 2006)	
	Males	Females
55	0.0152	0.0113
65	0.0101	0.0065
75	0.0087	0.0068
85	0.0052	0.0080

Demographic Assumptions - June 2005

The demographic assumptions at 30 June 2005 are those used in the 2003 triennial actuarial valuation. A selection of the most financial significant assumptions is shown below.

SASS Contributors

Number of members expected in any one year, out of 10,000 members at the age shown, to leave the fund as a result of:

Age nearest Birthday	Death	Total & Permanent Disability	Retirement		Resignation		Redundancy		Additional promotional salary increase rate %
			Part 1	Part 3	Part 1	Part 3	Part 1	Part 3	
Males									
30	5	10	...	...	280	395	150	...	2.90
40	6	13	...	...	145	285	150	...	1.80
50	12	41	...	...	88	172	150	...	0.00
60	36	...	1,600	1,300	...	...	150	...	0.00
Females									
30	2	2	...	...	372	700	150	...	2.90
40	3	7	...	...	190	320	150	...	1.80
50	8	41	...	...	172	270	150	...	0.00
60	20	...	1,800	1,600	...	...	150	...	0.00

Note: The SASS Act 1987 divides employers into Part 1 (Crown and other employers), Part 2 (Local Government) and Part 3 (Hospitals and other health related bodies).

SSS Contributors

Number of members expected in any one year, out of 10,000 members at the age shown, to leave the fund as a result of:

Age nearest Birthday	Death	Ill-Health Retirement	Retirement (R60 for females)	Cash Resignation (R60 for females)	Preservation (R60 for females)	Additional promotional salary increase rate %
Males						
30	5	30	...	178	92	2.90
40	6	39	...	52	63	1.80
50	12	103	...	23	80	0.00
60	36	...	6,800	...	...	0.00
Females						
30	2	6	...	204	124	2.90
40	3	21	...	72	105	1.80
50	8	103	...	30	90	0.00
60	20	...	6,400	...	...	0.00

Note: R60 refers to females who elected to retire at age 60 rather than 55

SSS Commutation *- the proportion of SSS members assumed to commute their pension to a lump sum in one year*

Age	Proportion of pension commuted	
	Retirement	Breakdown
Later of commencement or age 55	0.20	0.25
	Widow	Widower
55	0.2500	0.2500
65	0.5380	0.5800
75	0.4825	0.5160
85	0.3928	0.3728

SSS Pensioner Mortality- *assumed mortality rates (in 2003-04) for SSS pensioners*

Age	Retirement Pensioners and Spouses and Widows		Invalidity Pensioners	
	Males	Females	Males	Females
55	0.0025	0.0015	0.0093	0.0092
65	0.0072	0.0051	0.0158	0.0152
75	0.0232	0.0145	0.0371	0.0275
85	0.1063	0.0487	0.1063	0.0681

SSS Pensioner Mortality Improvements *- per annum assumed rates of mortality improvement for SSS pensioners*

Age	Short term Improvement rates (for years 2002-2006)		Long term Improvement rates (for years post 2006)	
	Males	Females	Males	Females
55	0.0342	0.0231	0.0152	0.0113
65	0.0230	0.0174	0.0101	0.0065
75	0.0188	0.0144	0.0087	0.0068
85	0.0062	0.0065	0.0052	0.0080

21. OTHER LIABILITIES

	2006 $m	2005 $m
Current	762	495
Non-current	1,715	1,693
	2,477	**2,188**
Other Liabilities comprise:		
Deferred rental revenue on long term leases of property	706	657
Deferred revenue on the private provision of infrastructure [(a)]	365	370
Other deferred revenue	637	431
The Sydney Harbour Tunnel Agreement obligations[(b)]	369	381
Other	400	349
	2,477	**2,188**

(a) The RTA under various Private Sector Provided Infrastructure transactions received $365 million (2005 $370 million) following the letting of the Lane Cove Tunnel, Cross City Tunnel and Westlink M7 Motorway contracts, as reimbursement of development costs. These up-front payments are amortised over the term of the arrangement rather than recognised as revenue up-front. This change in accounting policy follows the adoption of the 7 February 2005 endorsed HOTARAC paper "Accounting for Upfront Payments and Emerging Assets in Public Private Partnerships". [HOTARAC is the Heads of Treasuries Accounting and Reporting Advisory Committee]

(b) The liability in respect of the Sydney Harbour Tunnel (SHT) has been recognised at the Net Present Value (NPV) of the Ensured Revenue Stream (ERS) Agreement. This has been calculated at $344 million (2005 $358 million) being the principal outstanding on the 30 year inflation linked bonds issued by the Sydney Harbour Tunnel Company (SHTC) to the private sector, and a tunnel related tax liability $26 million (2005 $24m). Under the ERS agreement the NSW Government has agreed to make payments net of tolls collected from the SHT, to enable the SHTC to meet financial obligations arising from repayment of principal and interest on funds borrowed for the design, construction and the operation and maintenance of the SHT.

22. CHANGES IN EQUITY [(a)]

	Accumulated Funds		Reserves [(b)]		Amounts Recognised in Equity Relating to Assets Held For Sale		Total Equity	
	2006 $m	2005 $m	2006 $m	2005 $m	2006 $m	2005 $m	2006 $m	2005 $m
Opening Balance	58,260	59,846	59,031	56,837	46	...	117,337	116,683
Adjustments for Changes in Accounting Policy and Correction of Errors								
AASB 139 first-time adoption								
- Hedging reserves recognised	...	...	40	...	...	...	40	...
- Other adjustments adopting AASB 139 [(a)]	596	...	...	...	...	...	596	...
Olympic Park asset adjustments [(c)]	...	(611)	...	...	...	...	...	(611)
Emerging interests in roads [(c)]	...	(115)					...	(115)
Road valuation adjustment [(c)]	...	...	...	(993)	...	...	...	(993)
Vacant Crown land adjustment [(c)]	...	...	...	1,137	...	...	...	1,137
Recognise share of equity investments for the first time [(c)]	...	341	...	112	...	...	...	453
Adjustments for Changes in Accounting Policy and Correction of Errors	596	(385)	40	256	...	...	636	(129)
Restated Opening Balance	58,856	59,461	59,071	57,093	46	...	117,973	116,554
Surplus/(deficit) for the year	7,126	(3,264)	...	...	...	...	7,126	(3,264)
Income and Expenses Recognised Directly in Equity								
Property, plant and equipment								
- Net increment/(decrement) on revaluation [(d)]	...	...	3,408	4,065	...	...	3,408	4,065
Hedging Contracts								
- Net Unrealised Gains/Losses	...	...	(119)	...	...	...	(119)	...
Movements in NSW's share of equity investments taken directly to equity	...	...	102	3	...	...	102	3
Other net increases/(decreases) in equity	(8)	(21)	...	...	...	...	(8)	(21)
Transfers within Equity								
Revaluation reserves transferred to accumulated funds on disposal [(e)]	394	2,084	(394)	(2,084)	...	...	...	...
For assets reclassified as held for sale	5	...	(38)	(46)	33	46	...	...
Closing Balance	66,373	58,260	62,030	59,031	79	46	128,482	117,337

(a) Information reported in this note is prepared on an AEIFRS basis. Refer Note 32 for a reconciliation of the 1 July 2005 opening balance of equity from AGAAP (pre-AEIFRS basis) to an AEIFRS basis, and details of the 1 July 2005 financial impact of AASB 139 'Financial Instruments: Recognition and Measurement.

(b) Reserves comprise asset revaluation reserve, equity investment revaluation reserve, and a hedging reserve.

(c) Refer to Note 1 'Changes in Accounting Policies, the Correction of Errors and the Revision to Estimates' for further details

(d) In 2006 the net increments on revaluation include increments for RTA roads ($1,470 million), Schools and TAFE colleges ($1,581 million) and the Sydney Opera House ($1,017 million). These were partly offset by impairment decrements on water infrastructure of $1,299 million. The 2005 net valuation increments include $1,626 million increments for Roads and Traffic Authority roads and property, and $1,017 million for hospitals.

(e) 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.

23. CASH FLOW INFORMATION

RECONCILIATION OF OPERATING RESULT TO NET CASH FLOWS FROM OPERATING ACTIVITIES EXCLUDING FINANCIAL INSTITUTIONS

	2005-06 $m	2004-05 $m
Surplus/(Deficit) for the year	7,126	(3,264)
Adjust for:		
- Surplus of financial institutions	(44)	(18)
- Operating cash flow of financial institutions eliminated on consolidation	1,512	1,378
Non-cash items added back:		
- Depreciation and amortisation	4,189	4,062
- Loss/(Gain) on disposals	23	167
- Other	(1,119)	(349)
Change in operating assets and liabilities		
- Defined Benefits superannuation schemes	(2,910)	5,585
- Other	649	(246)
Net cash flows from operating activities	**9,426**	**7,315**

RECONCILIATION OF CLOSING CASH AND CASH EQUIVALENT BALANCES:

Cash and cash equivalent assets recognised in the Balance Sheet are reconciled at the end of the financial year to the Cash Flow Statement as follows:

	2005-06 $m	2004-05 $m
Cash and deposits at call	4,160	3,222
Bank overdraft	(139)	(69)
	4,021	**3,153**

RESTRICTED CASH ASSETS

Public sector agency cash balances at 30 June 2006 include $1,352 million of cash (2005 $1,201 million), which is dedicated for a specific purpose. It includes restricted cash of $429 million (2005 $482 million) under the control of the public health system, $410 million of school bank monies (2005 $334 million) and $127 million (2005 $108 million) for land remediation works to remove various contaminations associated with a former steel works site in Newcastle.

In respect to the Crown, $151 million (2005 $114 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.

DISPOSAL OF ENTITIES

During 2005-06 the Government received $65 million in cash for the partial disposal of the South Australian and Victorian business operations of Energy Australia.

During 2004-05 the Government disposed of two business units, QStores and cmSolutions, for a consideration of $38 million.

ACQUISITION OF ENTITIES

During 2005-06 and 2004-05 there were no major acquisitions of entities.

NON-CASH FINANCING AND INVESTING ACTIVITIES

During 2005-06:

- A total of $82 million (2005 $54 million) was recognised for an emerging interest in private sector provided infrastructure. $54 million was recognised for roads (2005 $32 million), $15 million for Olympic Park infrastructure (2005 $14 million), $7 million for maritime infrastructure (2005 nil), $5 million for light rail (2005 $5 million), and $1 million for Airport Line stations (2005 $4 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 Cash Flow Statement 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 (2005 $52 million);

- During 2006, the Ministry of Transport acquired new buses under the Metropolitan Bus System contracts to the value of $33 million under finance lease arrangements (2005 nil).

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.

NET CASH FLOWS OF FINANCIAL INSTITUTIONS

	2005-06 $m Gross	2005-06 $m [(a)] Net of Elimination	2004-05 $m Gross	2004-05 $m [(a)] Net of Elimination
CASH INFLOWS (OUTFLOWS) FROM OPERATING ACTIVITIES				
Receipts				
Finance	1,931	364	1,679	264
Other	41	32	42	29
Total Receipts	**1,972**	**396**	**1,721**	**293**
Payments				
Employee Related	(11)	(10)	(10)	(9)
Finance	(1,904)	(1,848)	(1,759)	(1,724)
Other	(40)	(33)	(35)	(21)
Total Payments	**(1,955)**	**(1,891)**	**(1,804)**	**(1,754)**
NET CASH FLOW FROM OPERATING ACTIVITIES	**17**	**(1,495)**	**(83)**	**(1,461)**
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of Property, Plant & Equipment	(1)	(1)	(2)	(2)
Purchase of Investments & Loans Made to Authorities	(6,311)	...	(4,275)	...
Proceeds from Sale of Investments	2,479	2,479	...	...
Loans to Authorities Repaid & Other Investing	4,396	...	1,562	15
Net Cash Flows From Investing Activities	**563**	**2,478**	**(2,715)**	**13**
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from Borrowings	23,867	23,867	21,098	21,098
Repayments of Borrowings	(25,123)	(25,115)	(18,301)	(18,287)
Other	(24)	...	(33)	...
NET CASH FROM FINANCING ACTIVITIES	**(1,280)**	**(1,248)**	**2,764**	**2,811**
NET CASH FLOWS FROM FINANCIAL INSTITUTIONS	**(700)**	**(265)**	**(34)**	**1,363**

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

24. TRUSTS UNDER MANAGEMENT

	2006 $m	2005 $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.		
Trusts under management mainly comprise various forms of estates under management, unclaimed monies and Supreme Court trust funds held in statutory accounts by the:		
Protective Commissioner [(a)]	1,382	1,316
WorkCover Authority	1,321	1,209
Office of the Public Trustee [(a)]	1,153	1,081
Rental Bond Board	648	609
NSW Treasury Corporation (fiduciary investments)	348	303
Workers' Compensation (Dust Diseases) Board	77	70
Department of State and Regional Development	62	...
Department of Health	42	43
Others	99	145
	5,132	**4,776**

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

25. EXPENDITURE COMMITMENTS

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

	2006 $m	2005 $m
Capital Expenditure (including expenditure for private sector financed infrastructure assets)		
Sydney Water Corporation	1,176	934
Roads and Traffic Authority	1,056	1,703
Department of Health	823	421
Transport Infrastructure Development Corporation	571	653
State Transit Authority	321	66
Rail Corporation New South Wales	309	397
Macquarie Generation	172	57
NSW Police	142	113
Department of Education and Training	134	85
Integral Energy	122	90
Delta Electricity	105	99
Ministry of Transport	93	102
TransGrid	68	69
Sydney Catchment Authority	57	6
Energy Australia	55	30
Country Energy	53	34
Crown Finance Entity	53	41
Redfern-Waterloo Authority	41	1
Hunter Water Corporation	32	71
Zoological Parks Board NSW	30	4
NSW Land and Housing Corporation	27	41
Eraring Energy	23	24
Landcom	4	168
Other agencies	132	75
	5,599	**5,284**

	2006 $m	2005 $m
Capital Expenditure Commitments:		
not later than one year	3,489	3,207
later than one year and not later than five years	1,826	1,915
later than five years	284	162
	5,599	**5,284**
Future minimum lease payments under non-cancellable operating leases:[(a)]		
not later than one year	601	626
later than one year and not later than five years	1,117	1,219
later than five years	295	546
	2,013	**2,391**
Other Expenditure Commitments:[(b)]		
not later than one year	2,827	3,079
later than one year and not later than five years	4,682	4,110
later than five years	3,090	2,930
	10,599	**10,119**

(a) Total future minimum sub-lease payments expected to be received under non-cancellable sub-leases is approximately $29 million (2005 $13 million).

(b) Includes $34 million (2005 $19 million) for school maintenance contracted by the Department of Education and Training.

The above expenditure commitments are inclusive of Goods and Services Tax (GST). GST Input Tax Credits are expected to be recoverable from the Australian Taxation Office.

GST input tax credits included in the above commitments:		
Capital Expenditure	492	395
Future minimum lease payments under non-cancellable operating leases	204	205
Other Expenditure	955	871
Major Service Agreements for Filtered Water by Sydney Water Corporation		
not later than one year	109	107
later than one year and not later than five years	463	457
later than five years - Net Present Value [(c)]	445	463

(c) 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.

Operating Lease Commitments - Receivables		
Future operating lease rentals not provided for in the financial statements and receivable:		
not later than one year	129	118
later than one year and not later than five years	412	382
later than five years	1,442	1,226
	1,983	**1,726**

The above expenditure commitments recceivable are inclusive of Goods and Services Tax of $180 million (2005 $157 million) expected to be payable to the Australian Taxation Office.

26. CONTINGENCIES

CONTINGENT LIABILITIES

Contingent Liabilities have been disclosed according to type. Note 26(A) reports quantifiable contingent liabilities, Note 26(B) guarantees, and Note 26(C) other contingent liabilities that cannot be quantified.

***(A) QUANTIFIABLE CONTINGENT LIABILITIES** comprise:*

	2006 $m	2005 $m
NSW Treasury Corporation		
(stock lending facility - bonds on loan)	487	157
(less securities held)	(28)	...
Rail Corporation		
(contractual and other claims) [(a)]	...	106
Attorney General's Department		
(Victims Compensation and other claims)	69	60
Sydney Water Corporation		
(claims in respect of compensation and litigation)	55	54
Roads and Traffic Authority		
(contractual claims)	43	41
NSW Coal Compensation Board		
(claims involving litigation)	25	...
Eraring Energy		
(contractual claims)	13	13
State Rail Authority		
(commercial disputes, employee disputes, environmental, personal injury and property claims)	...	6
Department of Lands		
(claims involving legal proceedings of Land and Property Information)	3	5
Other agencies	12	31
TOTAL	**679**	**473**

(a) Claims made against RailCorp and State Rail Authority by the Airport Link Company Limited (ALC) were settled in October 2005 when RailCorp and ALC entered into a Restated Stations Agreement.

(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 $81 million (2005 $96 million).
- The State supported the borrowing of FANMAC Trusts via the Home Purchase Assistance Fund to facilitate the provision of housing loans to low income earners. FANMAC Trusts not consolidated into these financial statements matured in May 2006 and the total principal and interest were paid to external private parties. Previously the capital value of borrowings not consolidated was $68 million at 30 June 2005.
- 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 method that the Independent Pricing and Regulatory Tribunal used to set a rate of return in the original 1998 fee determination.

  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 $30 billion (2005 $31 billion) have been guaranteed by the NSW Government under the Public Authorities (Financial Arrangements) Act 1987.
- 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 2006 the total guaranteed liabilities of the Bank amounted to $10 million (2005 $107 million).

  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 $4 million (2005 $6 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 2005 $m	31 December 2004 $m
General insurance	215	234
Life insurance	75	80
Inward reinsurance	68	107
	358	421

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.

- On 28 June 2002 the Commonwealth's Snowy Mountain Hydro–electric Authority and the electricity trading company, Snowy Hydro Trading Propriety Limited were formed into a new public company, Snowy Hydro Limited (SHL). This is owned by NSW, Victoria, and the Commonwealth. NSW owns 58 per cent share in the company and it has entered into 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.

  Each of the initial five SHL directors have a Deed of Indemnity against claim costs from liabilities transferred from the former Authority and for putting corporatisation agreements in place. The duration of the risk is for any claim lodged before June 2007. There are currently no known claims. Directors must maintain risk insurance cover and SHL has a back to back indemnity indemnifying the governments for any legally allowable claim costs incurred. These directors are no longer on the board.

  If any change to the Snowy Water licence has an adverse financial impact for SHL, the company will receive that corresponding amount in compensation. NSW may recover 42 per cent of this compensation if Victoria and the Commonwealth agree to water licence changes. No major amendments to the Snowy Licence are currently proposed. The licence expires in 2079 or when ended.

  If an instruction from the Water Ministerial Corporation to SHL causes spills or a Jindabyne Dam release causes downstream damage, the State will compensate SHL for the proportion of claims it incurs. NSW will pay 58 per cent of the cost if the Commonwealth and Victoria also agreed with the instruction. No claims currently exist. The risk of exposure should be very low for several years after corporatisation while sufficient water savings are found and allocated to the Snowy River. This indemnity lasts while the licence is in place.

  If legislation requires SHL to modify its structures or lower dam levels to reduce the impact of cold-water releases, NSW will provide 58 per cent of the amount necessary to maintain financial covenants and credit rating for up to 2009. Applicable legislation is the Water Management Act 2000. The Environmental Protection Authority has never asked for a dam structure to be modified for this reason in NSW. Any likelihood of this is further lessened by NSW's cold-water strategy where SHL does not have to modify dams or dam levels to reduce cold-water pollution until 2009.

  Under a Tax Compensation Deed, NSW can receive 58 per cent of the income tax SHL pays under a tax sharing agreement with the Commonwealth. If accumulated dividend imputation credits within the company have not been fully distributed to a shareholder government before the sale of more than 5 per cent of its shares, the government selling its shares must repay the Commonwealth the value of the undistributed dividend imputation credits it was entitled to receive. The deed expires either with the end of the licence in 2077 or when government shareholders sell their shares.

- 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 $571 million (2005 $542 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.

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

- 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:

  - Macarthur Water Filtration Plant
  - Illawarra and Woronora Water Treatment Plants
  - Prospect Water Filtration Plant and Treatment Works
  - Eastern Creek Waste Treatment Plant
  - Visy Mill: Tumut Timber Supply Agreement
  - Olympic Stadium, and
  - Olympic Multi-Use Arena.

  These guarantees are considered unlikely to ever be exercised.

  The Roads and Traffic Authority (RTA) has certain obligations under contracts with private sector parties with the performance of these obligations guaranteed by the State. The current guarantees outstanding are for the:

  - Sydney Harbour Tunnel
  - M2 Motorway
  - Eastern Distributor
  - Cross City Tunnel
  - Western Sydney Orbital, and
  - Lane Cove Tunnel.

  There is no reason to believe that these guarantees are ever to be exercised.

Following a Modification Approval from the Minister for Planning, the RTA made changes to certain traffic arrangements in the Sydney CBD that had been implemented for the Cross City Tunnel project. Some of the changes may entitle Cross City Motorway Pty Ltd to claim compensation from the RTA. No claim has yet been made and the potential quantum is not known.

- The State's motor vehicles are financed under three external leasing arrangements (Tranche 3) and one internal leasing arrangement (Tranche 4) managed by StateFleet and funded by NSW Treasury Corporation. Two of the external leasing arrangements, Tranches 1 and 2, terminated June 2006.

  The two 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 $578 million as at 30 June 2006 (2005 $599 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 $7 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 affect native title undertaken after 1 January 1994 and for which the Native Title Act 1993 provides that compensation is payable) by the State and its instrumentalities. [The State has an indemnity under Section 104 of the Native Title (New South Wales) Act in respect to compensation arising from a compulsory acquisition of native title by an authority which is not the Crown in the right of the State.]

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

- The assets of the State in the form of unallocated and reserved Crown land may be reduced in value by operation of the Aboriginal Land Rights Act 1983 (NSW). Under that legislation a land council can apply for the grant of the freehold of claimable Crown land (as defined in Section 36 (1) of the Act) and the claim must be granted. The amount of any of loss in value cannot be quantified.

- Based on the definition of control in Australian Accounting Standard AASB 127, 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 $543 million (2005 $460 million). The amount of the counter-party 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 2005-06 financial year there have been no changes in the credit standing of the deposit counterparties which range from BBB+ to AAA.

  Two leases over rail stock involve certain swap transactions for which the Crown Entity has provided indemnity. An additional potential exposure arises under the swaps. However the overall lease transactions are structured such that there is a zero net position under the swaps.

- 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.

- 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.

- Macquarie International Health Clinic Pty Ltd, lessee of certain property controlled by Sydney South West Area Health Service (SSWAHS) has made a claim against SSWAHS. The claim is in relation to Supreme Court proceedings in respect of recision of an agreement and lease regarding a proposed private hospital on the Royal Prince Alfred Hospital Campus which was constructed and operated by the lessee. Litigation is ensuing with a claim by the lessee for compensation in respect to rentals unpaid to date together with damages which have not been quantified.

- A contingent liability exists concerning the Mater Private/Public Partnership under which the Health Administration Corporation has entered into a contract with a private sector provider, Novocare Project Partnerships for financing, design, construction and commissioning of a range of health facilities.

  The liability to pay Novocare for the redevelopment of the Mater Hospital is based on a financing arrangement involving CPI linked finance and fixed finance. An interest rate adjustment will be made as appropriate for the CPI linked interest component over the project term. The estimated value of the contingent liability is unable to be fully determine because of uncertain future events.

- 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 (4.5 per cent pa excluding CPI).

  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 (2005: nil).

- TransGrid is disputing claims lodged by its contractor on a construction work-related contract.

  A claim for compensation is also being pursued via arbitration against TransGrid, for 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 about the likely outcome of the above two matters.

CONTINGENT ASSETS

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

- 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. An actuary estimated the discounted present value of the outstanding liability to be $177 million as at 30 June 2006.

  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 in a dollar. In 2006, the Crown Entity received the initial payments totalling $28 million.

- 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.

27. EVENTS AFTER THE BALANCE SHEET DATE

The below disclosure relates to an event that is indicative of conditions that arose after the reporting date:

- In 2005-06 a private sector company, PPP Solutions (Long Bay) Pty Limited, was engaged to finance, design, construct and maintain a forensic hospital at Long Bay. At 30 June 2006 one contractual condition precedent remained unfulfilled but it has since been satisfied. The PPP Project Deed became effective on 19 July 2006. Under the arrangement, Justice Health, a Health Service under the control of the Department of Health, is obligated to make payments commencing in 2008-09 until the end of the contract term in July 2034 as an asset and liability with an initial value of $86 million for the Forensic Hospital. The costs of the services to be provided over the term of the arrangement cannot be estimated at present as they are dependent on uncertain future events.

- The Commonwealth Treasury issued a consultation paper in July 2006 titled "Amendment of legislative provisions governing use of pre 1 July 1988 funding credits." The principles outlined in this paper may affect NSW's entitlement to funding tax credits.

28. COMPLIANCE WITH APPROPRIATIONS

Details of compliance with parliamentary appropriations are contained in the annual financial reports of Budget dependent agencies. The "Summary of Compliance with Financial Directives" in each agency's annual financial report includes a summary of recurrent and capital appropriations disclosing separately the original and revised amounts appropriated, and relevant expenditure for the reporting period.

29. 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. These are average market yields of the financial assets and liabilities with a range of maturities that extend from overnight to beyond five years. As such they are not directly comparable to current prevailing 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	Floating interest rate 2006 $m	Fixed interest / Contract maturity: 1 year or less 2006 $m	1 to 5 years 2006 $m	Over 5 years 2006 $m	Non-interest bearing 2006 $m	TOTAL 2006 $m	Weighted average effective interest rate 2006 %
Financial Assets								
Cash and cash equivalents	6	4,160	...	...	...	...	4,160	
Receivables	7	...	...	...	...	5,567	5,567	
Financial assets at fair value:								
- Administered by TCorp [b]	8	3,953	799	6,627	955	...	12,334	10.3
- TCorp Placements	8	...	2,090	1	331	...	2,422	5.6
- Other	8	77	514	305	556	5	1,457	9.0
Derivative Assets [a]	8							
- Swaps	8	5	19	15	6	...	45	
- Futures	8	...	2	...	...	...	2	
- Electricity contracts	8	...	58	92	...	...	150	
- Other	8	...	1	...	2	...	3	
Total Financial Assets		8,195	3,483	7,040	1,850	5,572	26,140	
Financial Liabilities								
Bank Overdraft	18	139	...	...	...	...	139	
Payables		...	...	...	...	5,204	5,204	
Domestic and Foreign Borrowings	18	...	832	13,889	13,402	...	28,123	6.7
Liability to Commonwealth Government	18	...	34	112	762	...	908	4.6
Finance Leases	18	...	84	160	293	...	537	
Derivative Liabilities [a]	19							
- Swaps	19	526	10	39	6	...	581	
- Futures	19	...	1	...	...	...	1	
- Electricity contracts	19	...	90	137	...	...	227	
- Other	19	...	1	3	...	9	13	
Total Financial Liabilities		665	1,052	14,340	14,463	5,213	35,733	

(a) The contract maturity analysis of derivatives are at best approximations and are derived from reasonable estimates being calculated from information sourced from major NSW government entities. These entities carried comparatively larger derivative positions for the type of derivative contract, open as at year end. Note that notional principal amounts and face values were applied to estimate contract maturity schedules for swaps and electricity derivatives respectively. Fair Value is generally on a Mark-to-Market basis, rather than net of buys and sells. Thus fair value generally equals the unrealised gain or loss.

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

Whereas financial instruments have been reclassified and measured for June 2006 under AASB 139, the comparative June 2005 information is presented on a pre-AEIFRS basis, consistent with how it was presented in the 2004-05 audited Total State Sector Accounts. Amounts published in the 2004-05 Total State Sector Accounts, prepared on a pre-AEIFRS basis considered derivatives to be off-balance sheet.

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.

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.

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.

Refer to Note 6 for a dissection of cash assets.

	2006 $m	2005 $m
(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.		
Fixed Interest	*131*	*130*
Medium to Long Term	*1,036*	*638*
Treasury Managed Fund (Hour Glass facility)	*2,798*	*2,311*
Special Client Mandate	*8,369*	*7,439*
Total Investments Administered by TCorp	***12,334***	***10,518***

Fair Values of Financial Assets and Liabilities

Financial instruments are carried at cost or market value.

The 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 2006 $m	Aggregate fair value 2006 $m	Total carrying amount 2005 $m	Aggregate fair value 2005 $m
Financial Assets				
Cash	4,160	4,160	3,311	3,311
Receivables	5,567	5,567	4,836	4,836
Investments - Administered by TCorp	12,334	12,334	10,518	10,518
- TCorp Placements	2,374	2,422	4,865	4,872
- Other	1,457	1,457	1,417	1,417
Derivative Assets	200	200	...	...
Total Financial Assets	**26,092**	**26,140**	**24,947**	**24,954**
Financial Liabilities				
Bank Overdraft	139	139	68	68
Payables	5,204	5,204	4,569	4,569
Domestic and Foreign Borrowings	28,123	28,220	29,172	29,869
Liability to Commonwealth Government	908	908	1,629	1,496
Finance Leases	537	537	605	605
Derivative Liabilities	822	822	...	...
Total Financial Liabilities	**35,733**	**35,830**	**36,043**	**36,607**

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 balance sheet.

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.

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.

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.

30. DISCONTINUING OPERATIONS

On 18 April 2005, Energy Australia announced its intention to sell its Victorian and South Australian businesses. These operations were sold on 7 July 2005 (effective 1 July 2005).

The financial performance information is only for the year ended 30 June 2005 as the sale was effective as at the end of the 2005 financial year.

	2005-06 $m	2004-05 $m
Revenue	...	250
Expenses	...	(253)
Loss of discontinuing operation	...	(3)
Gain on sale	37	...
Profit/(Loss) from discontinuing operation	37	(3)

31. 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 (NTER) for Public Trading Enterprises and some General Government agencies.

Tax effect accounting principles have therefore been adopted by all agencies, which are part of the National Tax Equivalents Regime. On consolidation, all NTER related income tax entries are eliminated for the Total State Sector Accounts.

The 2004-05 comparative year columns in the following tables have been restated on an AEIFRS basis, consistent with the 2005-06 columns.

THE NSW TOTAL STATE SECTOR ACCOUNTS DISAGGREGATED STATEMENT OF REVENUE AND EXPENSES FOR THE YEAR ENDED 30 JUNE 2006

	General Government		Public Trading Enterprises	
	2005-06	2004-05	2005-06	2004-05
	$m	$m	$m	$m
REVENUES				
State Revenues				
Taxation	15,910	15,324	...	...
Commonwealth Grants	18,040	16,192	...	...
Financial Distribution	2,027	1,444	...	...
Fines, Regulatory Fees and Other	1,278	1,152	...	...
Total State Revenues	**37,255**	**34,112**	...	...
Operating Revenues				
Sale of Goods and Services	3,030	2,737	9,234	9,146
Investments	1,356	1,081	216	195
Grants and Contributions	825	757	3,488	2,829
Other	361	358	371	321
Total Operating Revenues	**5,572**	**4,933**	**13,309**	**12,491**
EXPENSES EXCLUDING LOSSES				
Employee Benefits				
- Superannuation	2,707	2,816	220	301
- Other	17,807	16,686	3,484	3,323
Other Operating	8,469	8,721	3,972	3,875
Depreciation and Amortisation	2,120	1,992	2,068	2,069
Grants and Subsidies	8,342	7,386	187	125
Finance Costs	1,211	1,195	997	966
Total Expenses	**40,656**	**38,796**	**10,928**	**10,659**
OTHER NET INCOME				
Net Gain/(Loss) on Disposals	(19)	(38)	2	(132)
Other Net Gains/(Losses)	3,764	(3,667)	605	(151)
Share of Earnings from Equity Investments	170	49	7	...
SURPLUS/(DEFICIT) FOR THE YEAR BEFORE FINANCIAL DISTRIBUTIONS	**6,086**	**(3,407)**	**2,995**	**1,549**

THE NSW TOTAL STATE SECTOR ACCOUNTS DISAGGREGATED STATEMENT OF REVENUE AND EXPENSES FOR THE YEAR ENDED 30 JUNE 2006

Public Financial Enterprises		Eliminations		Total State Sector	
2005-06	2004-05	2005-06	2004-05	2005-06	2004-05
$m	$m	$m	$m	$m	$m
...	...	(676)	(577)	15,234	14,747
...	...	...	...	18,040	16,192
...	...	(2,027)	(1,444)	...	...
...	...	2	3	1,280	1,155
...	...	(2,701)	(2,018)	34,554	32,094
24	19	(313)	(418)	11,975	11,484
1,922	1,736	(1,646)	(1,556)	1,848	1,456
11	12	(3,209)	(2,519)	1,115	1,079
1	1	(2)	(4)	731	676
1,958	1,768	(5,170)	(4,497)	15,669	14,695
1	1	...	...	2,928	3,118
10	10	(151)	(153)	21,150	19,866
5	5	(341)	(200)	12,105	12,401
1	1	...	...	4,189	4,062
	...	(3,610)	(3,055)	4,919	4,456
1,785	1,715	(1,776)	(1,667)	2,217	2,209
1,802	1,732	(5,878)	(5,075)	47,508	46,112
...	...	(6)	3	(23)	(167)
(96)	(7)	(16)	2	4,257	(3,823)
...	...	...	...	177	49
60	29	(2,015)	(1,435)	7,126	(3,264)

THE NSW TOTAL STATE SECTOR ACCOUNTS
DISAGGREGATED BALANCE SHEET
AS AT 30 JUNE

	General Government		Public Trading Enterprises	
	2006 $m	2005 $m	2006 $m	2005 $m
Current Assets				
Cash and Cash Equivalent Assets	2,395	1,429	1,712	1,476
Receivables	3,458	2,976	1,954	1,980
Financial Assets at Fair Value	2,179	1,047	376	273
Investments Accounted for Using the Equity Method	...	...	...	...
Inventories	119	113	500	518
Other	3	3	138	74
Non-Current Assets Held for Sale	235	170	95	83
Total Current Assets	**8,389**	**5,738**	**4,775**	**4,404**
Non-Current Assets				
Receivables	6,614	7,182	947	881
Financial Assets at Fair Value	11,859	11,373	182	86
Investments Accounted for Using the Equity Method	1,452	1,039	15	4
Inventories	41	37	434	453
Property, Plant and Equipment				
Land and Buildings	45,451	42,807	39,298	38,603
Plant and Equipment	6,486	6,117	3,829	3,996
Infrastructure Systems	36,682	34,198	39,428	38,746
Investment Properties	240	240	1,136	1,053
Forestry Stock	...	...	1,559	1,595
Intangibles	498	445	884	888
Other	1,211	1,121	70	26
Total Non-Current Assets	**110,534**	**104,559**	**87,782**	**86,331**
TOTAL ASSETS	**118,923**	**110,297**	**92,557**	**90,735**
Current Liabilities				
Payables	2,587	2,303	2,451	2,348
Borrowings at Amortised Cost	2,621	3,684	2,509	2,960
Derivatives at Fair Value	41	...	152	...
Provisions	6,501	6,083	3,505	2,659
Other	542	334	272	213
Liabilities Directly Associated with Assets Held for Sale	...	...	5	19
Total Current Liabilities	**12,292**	**12,404**	**8,894**	**8,199**
Non-Current Liabilities				
Borrowings at Amortised Cost	10,302	9,448	13,209	11,941
Derivatives at Fair Value	...	...	95	...
Provisions	29,846	32,385	5,528	6,458
Other	1,887	1,803	684	689
Total Non-Current Liabilities	**42,035**	**43,636**	**19,516**	**19,088**
TOTAL LIABILITIES	**54,327**	**56,040**	**28,410**	**27,287**
NET ASSETS	**64,596**	**54,257**	**64,147**	**63,448**
Equity				
Reserves	34,293	30,622	27,737	28,409
Accumulated Funds	30,232	23,589	36,402	35,039
Amounts Recognised in Equity Directly Relating to Assets Held for Sale	71	46	8	...
TOTAL EQUITY	**64,596**	**54,257**	**64,147**	**63,448**

THE NSW TOTAL STATE SECTOR ACCOUNTS
DISAGGREGATED BALANCE SHEET
AS AT 30 JUNE

Public Financial Enterprises		Eliminations		Total State Sector	
2006 $m	2005 $m	2006 $m	2005 $m	2006 $m	2005 $m
196	784	(143)	(467)	4,160	3,222
827	386	(2,022)	(1,717)	4,217	3,625
8,128	11,686	(6,653)	(7,750)	4,030	5,256
...	...	...	...	...	...
...	...	...	...	619	631
...	...	1	5	142	82
...	...	...	...	330	253
9,151	12,856	(8,817)	(9,929)	13,498	13,069
2	1	(6,213)	(6,567)	1,350	1,497
20,654	17,080	(20,312)	(16,944)	12,383	11,595
...	...	...	...	1,467	1,043
...	...	...	...	475	490
1	1	...	...	84,750	81,411
1	1	...	...	10,316	10,114
...	...	...	...	76,110	72,944
...	...	...	...	1,376	1,293
...	...	...	...	1,559	1,595
1	1	...	...	1,383	1,334
...	...	(10)	(2)	1,271	1,145
20,659	17,084	(26,535)	(23,513)	192,440	184,461
29,810	29,940	(35,352)	(33,442)	205,938	197,530
719	397	(553)	(525)	5,204	4,523
1,723	6,476	(5,695)	(6,910)	1,158	6,210
309	...	(38)	...	464	...
26	38	(1,459)	(1,115)	8,573	7,665
...	...	(52)	(52)	762	495
...	...	...	...	5	19
2,777	6,911	(7,797)	(8,602)	16,166	18,912
27,007	23,369	(21,969)	(19,290)	28,549	25,468
264	...	(1)	...	358	...
23	28	(4,729)	(4,751)	30,668	34,120
...	...	(856)	(799)	1,715	1,693
27,294	23,397	(27,555)	(24,840)	61,290	61,281
30,071	30,308	(35,352)	(33,442)	77,456	80,193
(261)	(368)	...	...	128,482	117,337
...	...	...	...	62,030	59,031
(261)	(368)	...	...	66,373	58,260
...	...	...	...	79	46
(261)	(368)	...	...	128,482	117,337

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

For all periods up to and including the year ended 30 June 2005, the State prepared its financial statements in accordance with Australian generally accepted accounting practice (AGAAP). These financial statements for the year ended 30 June 2006 are the first the State is required to prepare in accordance with Australian Equivalents to International Financial Reporting Standards (AEIFRS).

Accordingly, the State has prepared financial statements that comply with AEIFRS applicable for periods beginning on or after 1 January 2005 and the significant accounting policies meeting those requirements are described in Note 1. In preparing these financial statements, the State has started from an opening equity as at 1 July 2004, the State's date of transition to AEIFRS, and made those changes in accounting policies and other restatements required by AASB 1 *First-time adoption of AEIFRS.*

Note 1 *Accounting Policies* in the 2004-05 Total State Sector Accounts detailed 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 mandates the Total State Sector Accounts has applied 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 were applied from 1 July 2005.

The financial impacts of AEIFRS on the Total State 1 July 2004 equity and balance sheet reclassifications, and 2004-05 operating result are shown below. There were no material impacts on the Total State Sector cash flows.

Following this disclosure is a separate statement on the impacts of financial instruments, which have been adjusted directly to equity effective 1 July 2005.

RECONCILIATION OF KEY AGGREGATES

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

	Notes	30 June 2005 $m	1 July 2004 $m
Total Equity under previous AGAAP Pre-AEIFRS (*)		**128,565**	**123,989**
Adjustments to accumulated funds			
Defined benefit superannuation adjustment for change in discount rate	a	(10,177)	(5,542)
Recognition of deferred revenue liability on prepaid long-term property leases	b	(663)	(664)
Increase due to write back of asset revaluation reserve for investment properties	c	453	365
Write back of RTA up-front payments and emerging assets in Public-Private Partnerships previously recognised as revenue	d	(370)	(370)
Effect of offsetting asset valuation increments/decrements individually rather than by class	e	339	361
Group adjustment to the Treasury Managed Fund's insurance liability	f	314	286
Recognition of developer assets	g	177	182
Write down of impaired assets to recoverable amount	h	(68)	(74)
Write back of reimbursements receivable	i	(37)	(43)
Derecognition of developer capital contributions	j	(37)	(31)
Write back of intangible assets	k	(36)	(33)
Increase in employee benefits liabilities from a change in the actuarial basis	l	(26)	(26)
Recognition and capitalisation of provision for asset restoration costs	m	(21)	(14)
Prior period adjustment to RTA's emerging interest in privately financed infrastructure	n	(130)	...
Prior period adjustment to recognise equity investments	o	340	...
Other net adjustments		(144)	(22)
Adjustments to asset revaluation reserves			
Write down of impaired assets to recoverable amount	h	(629)	(948)
Write back of asset revaluation reserve for investment properties to accumulated funds	c	(453)	(365)
Effect of offsetting asset valuation increments/decrements individually rather than by class	e	(339)	(361)
Recognition of developer assets	g	125	121
Defined benefit superannuation adjustment to asset values for change in discount rate for capitalised superannuation	a	(96)	(96)
Write back of intangible assets	k	(49)	(48)
Prior period adjustment to recognise equity investments	o	115	...
Prior period adjustment to RTA's road valuations	p	(993)	...
Prior period adjustment to the valuation of vacant Crown land	p	1,137	...
Other net adjustments		40	16
Total Equity under AEIFRS		**117,337**	**116,683**

(*) The 30 June 2005 Equity (AGAAP pre-AEIFRS) has been revised by $173 million from that published in the 2004-05 Total State Sector Accounts to reflect late adjustments to 2004-05 AGAAP equity of agencies consolidated in the Total State Sector Accounts.

RECONCILIATION OF SURPLUS UNDER AGAAP TO SURPLUS UNDER AEIFRS

FOR YEAR ENDED 30 JUNE 2005

	Notes	2004-05 $m
Surplus under previous AGAAP Pre-AEIFRS		**727**
Adjustments to the operating result		
Defined benefit superannuation adjustment for change in discount rate	a	(4,635)
Write back of depreciation and recognition of fair value adjustments for investment properties	c	82
Group adjustment to the Treasury Managed Fund's insurance liability	f	29
Effect of offsetting asset valuation increments/decrements individually rather than by class	e	(22)
Amortisation of deferred rental revenue on prepaid long-term property leases	b	8
Impairment of intangible assets	k	(7)
Recognise depreciation and finance costs for the provision for asset restorations	m	(7)
Prior period adjustment to RTA's emerging interest in privately financed infrastructure	n	(15)
Prior year adjustment to Olympic Park assets removed from 2004-05 AGAAP operating result, and adjusted to 1 July 2004 opening AEIFRS accumulated funds	q	611
Other net adjustments		(35)
Deficit under AEIFRS		**(3,264)**

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 *Financial Reporting by Superannuation Plans*. The level of liabilities that they report are similar to those reported in the Total State Sector Accounts using previous 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) The State changed its treatment for recognising up-front rental payments received in respect of long-term leases of land of over 50 tears duration. This follows Accounting Standard AASB 117 *Leases*, adopted as part of the transition to AEIFRS, which clarifies the accounting treatment to be applied to such leases and necessitated a change to the past accounting policy. The up-front payments had previously been recognised as revenues upon receipt. The new policy requires them to be deferred and amortised on a systematic basis over the entire term of the lease. This resulted in the State establishing a deferred liability and adjusting downwards the opening accumulated funds on 1 July 2004 by the same amount.

(c) Under AASB 140 *Investment Property* and Treasury's mandates, investment property will be recognised at fair value. In contrast to their 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 have been written back to accumulated funds.

(d) NSW Treasury has mandated the adoption of a 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. This has resulted in an increase in deferred revenue liabilities and a reduction in accumulated funds.

(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) The Treasury Managed Fund is a self-insurance arrangement for the general government sector and the Total State Sector Accounts, and AASB 137 *Provisions, Contingent Assets and Contingent Liabilities* therefore applies. AASB 137 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 AASB 1023. Further, the Treasury Managed Fund's prudential margin has not been 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.

(g) 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.

(h) 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 accumulated funds and asset revaluation reserve.

(i) 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 previous AGAAP, the test was less stringent and allows recognition of the asset if recovery was probable. This change will decrease both accumulated funds and the asset.

(j) 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.

(k) AASB 138 *Intangible Assets* requires all research costs to be expensed and restricts the capitalisation of development costs. 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.

(l) AAB 119 *Employee Benefits* requires the assessment of long service leave liabilities on a straight-line basis when benefits are earned disproportionately. Based upon actuarial advice this resulted in an increase in 1 July long service leave liabilities and an equivalent reduction in accumulated funds.

(m) 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.

(n) NSW Treasury has mandated the adoption of a policy *Accounting for Upfront Payments and Emerging Assets in Public Private Partnerships* based on the UK Standard FRS 5. In adopting this new policy the State has changed the method it emerges its interest in privately financed infrastructure roads from a straight-line to an annuity method. This change in accounting policy has resulted in a direct reduction the opening 1 July 2004 accumulated funds and a reduction in the 2004-05 operating result.

(o) The State has recognised for the first time its share in equity investments in the Murray Darling Basin Commission and in Law Courts Limited. This correction has resulted in an increase in the opening AEIFRS accumulated funds and reserves.

(p) Certain sections of roads previously valued as infrastructure assets have been revalued down to nil to reflect that the assets are not presently controlled by the State but are accounted for as part of privately financed infrastructure projects. This correction has resulted in a reduction in the asset revaluation reserve.

Vacant Crown land has been revalued by management to reflect fair value. This adjustment increased the value of the asset revaluation reserve effective 1 July 2004.

(q) The previous AGAAP (pre-AEIFRS) operating result included asset value decrements for Olympic Park assets that related to periods prior to 1 July 2004. Under AEIFRS the openly 1 July accumulated funds has been written back to reflect this prior period adjustment, instead of recognising it in the 2004-05 operating result.

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

- The adoption of AASB 5 will result in the reclassification of non-current assets classified as held for sale from property, plant and equipment to a new balance sheet category (1 July 2004 $230 million, 1 July 2005 $253 million).
- The adoption of AASB 138 will result in the reclassifications of certain software assets and land easements, to a new intangible assets balance sheet category from property, plant and equipment., (1 July 2004 $1,249 million, 1 July 2005 $1,334 million).
- The adoption of AASB 140 will result in the in reclassification of investment properties from property, plant and equipment to a new balance sheet category(1 July 2004 $1,172 million, 1 July 2005 $1,293 million).
- AASB 101 *Presentation of Financial Statements*, requires that gains including fair value adjustments be excluded from total revenues, that are reported on the operating statement. Whilst AEIFRS permits total expenses to include losses, for consistency, all gains and losses have been removed from revenues and expenses respectively. Gains and Losses are reported towards the foot of the AEIFRS based Operating Statement in a new category. While this has nil impact on the operating result, the 2004-05 revenues have fallen by $47 million, 2004-05 expenses have risen by $3,943 million and the net $3,990 million impact has been reclassified to *other gains/losses* near the foot of the Operating Statement.

- 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. 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.

- The adoption of AASB 139 *Financial Instruments*: *Recognition and Measurement* on 1 July 2005 has resulted in the reclassification of prepayments from other assets to receivables. For consistency purposes prepayments to the value of $272 million were accordingly reclassified at 30 June 2005. [Note 22 changes in Equity details the financial impact of AASB 139 on the 1 July 2005 opening equity].

THE FINANCIAL IMPACT OF ADOPTING AASB 139 *FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT* EFFECTIVE 1 JULY 2005

The State adopted AASB 139 *Financial Instruments: Recognition and Measurement* effective 1 July 2005. As a result of the initial adoption of the standard an adjustment has been made to increase opening accumulated funds by $596 million as follows:

- AASB 139 requires that certain financial assets and liabilities classified or designated at fair value through profit or loss and available for sale financial assets must be measured at fair value instead of at amortised cost. Further, the opening value of financial assets has been adjusted to reflect quoted bid and ask prices, rather than mid-point market prices. These adjustments have resulted in an increase in the value of borrowings by $32 million, an increase in the value of investments by $305 million, and a net increase in accumulated funds of $273 million.

- Derivative assets and derivative liabilities previously treated off-balance sheet have been recognised at fair value for the first time. Further certain derivatives managed by NSW Treasury Corporation previously reported on a net basis within financial assets have been restated on a gross asset and gross liability basis. The initial adjustment has increased derivative assets by $63 million, derivative liabilities by $236 million and reduced accumulated funds by $173 million.

- An adjustment has been made to reduce the book value of low-interest and interest-free loan assets and liabilities. AASB 139 requires these types of loans to initially be recognised at fair value, and thereafter at amortised cost. The fair value of a long term loan that carries no interest or below market interest is estimated at the present value of all future cash receipts/payments, discounted using the NSW Treasury Corporation government bond rate (or equivalent). Any additional amount lent is a grant expense / revenue. Amortisation of the loan is recognised as interest revenue/expense. Previously, such loans were measured at nominal amount or face value, with no grant recognised. The initial 1 July 2005 adjustment to loan assets and liabilities has resulted in a $504 million increase in accumulated funds.

- Other adjustments to the values of receivables, allowance for doubtful debts and deposit liabilities as a result of adopting AASB 139 have resulted in a net decrease in accumulated funds of $8 million. In part, this has arisen because under AASB 139, agencies can no longer raise a general provision for doubtful debts. The Standard requires a specific impairment test which needs to be supported by objective evidence that the group of assets is impaired or uncollectible.

- Financial assets and liabilities are recognised at trade date from 1 July 2005 with an equivalent liability or asset recognised to reflect the amount due or receivable at settlement date. There has been no financial impact to the 1 July 2005 accumulated funds.

For the comparative information to have complied with AASB 139, similar types of adjustments, as discussed above, would have been required. However, for the above changes, it is not practicable for the State to detail the amounts of the adjustments to the surplus/deficit and opening accumulated funds for the comparative period, had the new accounting policies been applied from the beginning of the comparative period. In addition, it is not practicable for the State to detail for the current period the amounts of the adjustments resulting to each line item in the financial report.

Designation of financial assets at fair value through profit or loss

The State designated $12,257 million financial assets at fair value through profit or loss as at 1 July 2005. These include units held in the TCorp Hour-Glass Investment facilities and other managed fund investments and some bond portfolios. Under previous AGAAP they were classified as other financial assets, but were generally measured on the same basis, i.e. at fair value through profit or loss.

These investments were designated at fair value through profit or loss using the second leg of the fair value option i.e. these financial assets are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management strategy, and information about those assets is provided internally on that basis to key management personnel. These risk management or investment strategies, include investment management objectives and requirements to report and evaluate investments on a fair value basis.

33. DETAILS OF CONSOLIDATED ENTITIES

The Total State Sector comprises the following entities and the entities that they control. Unless stated otherwise (below) the government has a full ownership interest in the controlled entities . 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.

Only two controlled entities have reporting dates dissimilar to the 30 June Total State Sector Accounts reporting date. The reporting dates for the Sydney Cricket and Sports Ground Trust (28 February) and the Parramatta Stadium Trust (31 December) are different as they are aligned to the sporting year associated with their primary activities. It is considered impracticable and not material to the results and financial position of the Total State Sector Accounts to attempt to align the two Trusts' reporting periods to 30 June. Accordingly the annual financial results of these two trusts for their previous year (ending February and December respectively) have been consolidated into the 30 June based Total State Sector Accounts.

General Government Sector Agencies

Aboriginal Housing Office
Adult Multicultural 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 (*)
Australian Museum

Board of Vocational Education and Training (*)
Building and Construction Industry Long Service Leave Payments Corporation
Building Insurers Guarantee Corporation (*)

General Government Sector Agencies (continued)

Cabinet Office
Cancer Institute NSW [a]
Casino Control Authority
Catchment Management Authorities
CB Alexander Foundation [*]
Centennial Park and Moore Park Trust
Chipping Norton Lakes Authority [*]
Coal Compensation Board
Community Relations Commission
Consolidated Fund
Crown Entity
Crown Leaseholds Entity
Crown Property Portfolio
Crown Solicitor's Office [*]

Dams Safety Committee [*]
Department of Aboriginal Affairs
Department of Ageing, Disability and Home Care
Department of Arts, Sport and Recreation [b]
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 Health
Department of Juvenile Justice
Department of Lands
Department of Local Government
Department of Natural Resources [c]
Department of Planning [c]
Department of Primary Industries
Department of Rural Fire Service
Department of State and Regional Development
Dumaresq-Barwon Border Rivers Commission [*]

Electricity Tariff Equalisation Ministerial Corporation
Energy and Water Ombudsman [*]
Environmental Trust

Farrer Memorial Research Scholarship Fund [*]
Festival Development Corporation [*]

Game Council of New South Wales [*]
Greyhound and Harness Racing Regulatory Authority
Growth Centres Commission [d]

General Government Sector Agencies (continued)

Health Care Complaints Commission
Health Foundation of NSW [*]
Heritage Office [e]
Historic Houses Trust of New South Wales
Home Care Service of New South Wales
Home Purchase Assistance Fund
Honeysuckle Development Corporation
Hunter – Central Rivers Catchment Management Authority [*]

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)
Ministry for Police
Ministry of Science and Medical Research [e]
Ministry of Transport
Motor Accidents Authority
Museum of Applied Arts and Sciences

Natural Resources Commission
New South Wales Businesslink
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 for Children [e]
Office of Protective Commissioner and Public Guardian [*]
Office of the Board of Studies
Office of the Director of Public Prosecutions
Office of Transport Safety Investigations [f]
Ombudsman's Office

General Government Sector Agencies (continued)

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

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

Sporting Injuries Committee (*)
State Council of Rural Lands Protection Boards (*)
State Electoral Office
State Emergency Service
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 Fund (g)
Wild Dog Destruction Board (*)
WorkCover Authority
Workers Compensation (Dust Diseases) Board

Public Trading Enterprises	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 Forests New South Wales Hunter Water Corporation Integral Energy Jenolan Caves Reserves Trust (*) Landcom Macquarie Generation Newcastle International Sports Centre Trust (*) Newcastle Port Corporation Newcastle Showground and Exhibition Trust (*) 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 Rail Authority State Transit Authority State Water Sydney Catchment Authority Sydney Cricket Ground and Sports Ground Trust Sydney Ferries Sydney Harbour Foreshore Authority Sydney Olympic Park Aquatic and Athletic Centres (*) Sydney Opera House Sydney Ports Corporation Sydney Water Corporation Sydney 2009 World Masters Games Organising Committee (h) Teacher Housing Authority Transport Infrastructure Development Corporation TransGrid

Public Trading Enterprises (continued)	Waste Recycling and Processing Corporation (WSN Environmental Solutions) Wentworth Park Sporting Complex Trust (*) Wollongong Sports Ground Trust Zoological Parks Board
Public Financial Enterprises	Fair Trading Administration Corporation FANMAC Trusts New South Wales Treasury Corporation

(*) 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.

(a) On 19 October 2005, Cancer Institute NSW was established.

(b) On 3 March 2006, the Ministry for the Arts, Department of Gaming and Racing and Department of Tourism, Sport and Recreation were abolished and replaced by Department of Arts, Sport and Recreation.

(c) On 29 August 2005, Department of Infrastructure, Planning and Natural Resources was abolished and its functions transferred to Department of Planning and Department of Natural Resources.

(d) The Growth Centres Commission became operational from 1 July 2005.

(e) On 3 April 2006, the Commission for Children and Young People and the Office for Children's Guardian were abolished and replaced by the Office for Children. The Heritage Office and the Ministry of Science and Medical Research were also abolished on this date.

(f) The Office of Transport Safety Investigation became operational from 1 July 2005.

(g) The Waste Fund was abolished in 2005-06 under the Brigalow and Nundewar Community Conservation Area Act, 2005.

(h) The Sydney World Masters Games Organising Committee became operational on 1 July 2005.

END OF AUDITED FINANCIAL REPORT