

**Public Accounts
of the
NSW Budget Sector**

1996-97

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STATEMENT OF COMPLIANCE

In our opinion, the Public Accounts:

- (a) give a true and fair view of the operating results and cash flows of the NSW Budget Sector for the year ended 30 June 1997 and of its financial position at that date;
- (b) have been prepared on the basis of the financial reporting requirements as prescribed in the Public Finance and Audit Act; and
- (c) are in compliance with all applicable Australian Accounting Standards.

Michael Egan
Treasurer

John Pierce
Secretary
NSW Treasury

Ian Neale
Executive Director
Financial Management
NSW Treasury

December 1997

INDEPENDENT AUDIT REPORT

THE PUBLIC ACCOUNTS

To Members of the New South Wales Parliament and the Treasurer

Scope

I have audited the Public Accounts for the year ended 30 June 1997. The Treasurer is responsible for the Public Accounts. Sections 6(1) and 6(1A) of the *Public Finance and Audit Act 1983* specifies that the Public Accounts consist of a consolidated statement of financial position, a consolidated operating statement and a consolidated statement of cash flows for the budget sector.

I have conducted an independent audit of the Public Accounts in order to express an opinion on them to Members of the New South Wales Parliament and the Treasurer based on my audit as required by sections 34 and 49(1) of the *Public Finance and Audit Act 1983*.

My audit has been conducted in accordance with the provisions of the Act and Australian Auditing Standards to provide reasonable assurance whether the Public Accounts are free of material misstatement. My procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the Public Accounts and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects the Public Accounts are presented fairly in accordance with the requirements of sections 6(1) and 6(1A) of the *Public Finance and Audit Act 1983*, the accounts and records of the Treasurer, Australian Accounting Standards and other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) so as to present a view which is consistent with my understanding of the budget sector's financial position, the results of its operations and its cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Qualifications

1. Note 1, Depreciation, describes methods used to determine depreciation charges for school buildings. As in the previous year, the carrying value and depreciation charges have not taken into consideration condition assessment, maintenance and refurbishment regimes, or estimated useful lives as this information is currently not available. Accordingly, I am unable to determine with certainty the appropriateness of depreciation charges and the carrying values. The carrying value of the Department of School Education's buildings (the majority of which are school buildings) included in the budget sector's statement of financial position is \$7,629m (1995-96 \$7,607m) and the related depreciation expense for the year is \$131m (1995-96 \$124m).
2. Note 1, Non-Current Physical Assets, discloses that as in the previous year undeveloped Crown land has not been recognised pending completion of an identification and valuation exercise. Recognising this land using a similar valuation methodology to that used for other land in this financial report would have a material effect, the amount of which is uncertain, on land and buildings and net assets included in the budget sector's statement of financial position.
3. Note 1, Non-Current Physical Assets, discloses that as in the previous year, land under roads and within road reserves included in the financial report of the Roads and Traffic Authority has not been recognised in this financial report. In my opinion, these assets satisfy the recognition criteria for an asset as set out in Statement of Accounting Concepts, SAC4 "Definition and Recognition of the Elements of Financial Statements" and should be recognised in the budget sector's statement of financial position. The value of these assets ascribed by the Authority was \$14,703m (1995-96 \$14,826m).

4. Note 5, Investments, discloses that, as in the previous year, funds held in Government schools' bank accounts comprising cash and investments are not recognised in the budget sector's statement of financial position. In my opinion, these amounts are assets of the budget sector and should be recognised. Although details are not readily available they could be obtained from school financial statements and records. The effect of omission of these balances on cash and current investments is considered material.
5. Employee Related expenses include \$130m for year end accrual of salary and wages related expenses. The expenses have been accounted for as paid to employees and others even though they were not paid until 1997-98. Accordingly, in my opinion the current liability for employee entitlements, is understated by \$130m and the bank overdraft, included in current borrowings, is overstated by \$130m.
6. Note 2, State Taxation, includes \$1,513m collected for tobacco and petroleum products Business Franchise Licences. As disclosed in Note 19, on 5 August 1997, the High Court held that the fee-based licensing provisions in the *Business Franchise Licences (Tobacco) Act 1987* are unconstitutional. The New South Wales Solicitor General advised that, if challenged the High Court would also strike down the equivalent provisions of the *Business Franchise Licences (Petroleum Products) Act 1987*. A consequence of the High Court decision, is that the Government has invalidly collected \$1,513m in Business Franchise Licence fees, (\$1,410m 1995-96). The New South Wales Solicitor General has advised that as the law presently stands, the Government is not required to refund those fees collected prior to the decision. There is no financial effect on the financial report.
7. Note 14, Accumulated Funds, discloses that net assets of \$284m transferred from the non-budget sector to the budget sector resulting from an administrative restructures have been recognised as an adjustment to the opening balance of Accumulated Funds. This is a departure from Australian Accounting Standard AAS1 "Profit or Loss or other Operating Statement" which requires that all items of revenue be taken into account in determining the result for that period. In my opinion, these transactions are not in the nature of contributions by owners but are items of revenue and should have been recognised in the operating statement. Had this been done, the surplus for the year, after abnormal and extraordinary items, would have increased by \$284m to \$2,939m.

The Independent Audit Report on the Public Accounts for the year ended 30 June 1996 was qualified accordingly for the matters at (a) to (d).

Qualified Audit Opinion

In my opinion, except for the effects of the matters referred to in the qualification paragraphs (c) to (g) and the effects of such adjustments, if any, as might have been required had the limitations in the qualification paragraphs (a) and (b) not existed, the Public Accounts are properly drawn up in accordance with the Act, accord with the accounts and records of the Treasurer, and present fairly in accordance with applicable Australian Accounting Standards and other mandatory professional reporting requirements the financial position of the budget sector as at 30 June 1997 and the results of its operations and its cash flows for the year then ended.

A. C. HARRIS

SYDNEY
30 December 1997

**NSW BUDGET SECTOR
CONSOLIDATED FINANCIAL STATEMENTS**

**NSW BUDGET SECTOR
OPERATING STATEMENT
FOR THE YEAR ENDED 30 JUNE 1997**

	Note	96-97 \$m	95-96 \$m
OPERATING EXPENSES			
Employee Related		8,839	11,100
Other Operating		3,159	3,255
Maintenance		1,071	1,036
Depreciation and Amortisation		731	702
Grants and Subsidies		4,575	4,278
Finance		1,553	1,764
Other		<u>1,319</u>	<u>996</u>
TOTAL OPERATING EXPENSES		<u>21,247</u>	<u>23,131</u>
OPERATING REVENUES			
Sale of Goods and Services		1,393	1,316
Investment Income		205	285
Grants and Contributions		399	197
Other		<u>271</u>	<u>462</u>
TOTAL OPERATING REVENUES		<u>2,268</u>	<u>2,260</u>
Gain/(Loss) on Sale of Non Current Assets	<u>2</u>	9	34
NET COST OF SERVICES		18,970	20,837
STATE REVENUES	<u>2</u>		
Taxation, Fines and Regulatory Fees		11,852	10,792
Commonwealth Grants		8,480	8,348
Financial Distributions		2,267	1,454
Other		<u>324</u>	<u>159</u>
TOTAL STATE REVENUES		<u>22,923</u>	<u>20,753</u>
SURPLUS/(DEFICIT) FOR YEAR BEFORE ABNORMAL AND EXTRAORDINARY ITEMS		3,953	(84)
Abnormal Items – Revenue/(Expense)	<u>3A</u>	(1,298)	(1,065)
Extraordinary Item – Revenue/(Expense)	<u>3B</u>	-	<u>(6,179)</u>
SURPLUS/(DEFICIT) FOR YEAR AFTER ABNORMAL AND EXTRAORDINARY ITEMS	<u>14,15</u>	<u>2,655</u>	<u>(7,328)</u>

The above operating statement should be read in conjunction with the accompanying notes.

**NSW BUDGET SECTOR
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 1997**

	Note	1997 \$m	1996 \$m
CURRENT ASSETS			
Cash		321	206
Investments	5	1,245	1,061
Receivables	4	1,796	1,664
Inventories	6	111	110
Other		<u>83</u>	<u>56</u>
TOTAL CURRENT ASSETS		<u>3,556</u>	<u>3,097</u>
NON CURRENT ASSETS			
Land and Buildings	7	24,137	23,123
Plant and Equipment	7	1,984	1,983
Infrastructure Systems	7	25,603	23,837
Investments	5	173	110
Receivables	4	2,755	2,120
Other	8	<u>517</u>	<u>680</u>
TOTAL NON CURRENT ASSETS		<u>55,169</u>	<u>51,853</u>
TOTAL ASSETS		<u>58,725</u>	<u>54,950</u>
CURRENT LIABILITIES			
Payables	9	1,192	1,236
Borrowings	10	3,513	2,189
Employee Entitlements	11	2,080	2,049
Other	12	<u>469</u>	<u>282</u>
TOTAL CURRENT LIABILITIES		<u>7,254</u>	<u>5,756</u>
NON CURRENT LIABILITIES			
Borrowings	10	13,505	14,657
Employee Entitlements	11	13,094	14,273
Other	12	<u>1,919</u>	<u>1,169</u>
TOTAL NON CURRENT LIABILITIES		<u>28,518</u>	<u>30,099</u>
TOTAL LIABILITIES		<u>35,772</u>	<u>35,855</u>
NET ASSETS		<u>22,953</u>	<u>19,095</u>
EQUITY			
Reserves	13	4,921	3,937
Accumulated Funds	14	<u>18,032</u>	<u>15,158</u>
TOTAL EQUITY		<u>22,953</u>	<u>19,095</u>

The above statement of financial position should be read in conjunction with the accompanying notes.

**NSW BUDGET SECTOR
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 1997**

	Note	96-97 \$m	95-96 \$m
CASH FLOWS FROM OPERATING ACTIVITIES			
RECEIPTS			
Taxation, Fines and Regulatory Fees		11,882	10,762
Commonwealth Grants		8,490	8,318
Financial Distributions		1,836	1,374
Sale of Goods and Services		1,398	1,113
Investment Income		206	237
Other		501	2,096
		-----	-----
TOTAL RECEIPTS		<u>24,313</u>	<u>23,900</u>
PAYMENTS			
Employee Related		(10,551)	(10,136)
Grants and Subsidies		(4,864)	(4,243)
Finance		(1,469)	(1,698)
Other		(5,467)	(6,303)
		-----	-----
TOTAL PAYMENTS		<u>(22,351)</u>	<u>(22,380)</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	15	<u>1,962</u>	<u>1,520</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from Sale of Property, Plant & Equipment		604	156
Proceeds from Sale of Investments		215	53
Advances Repayments Received		177	132
Purchases of Property, Plant and Equipment		(2,306)	(1,765)
Purchases of Investments		(392)	(145)
Advance Made		(73)	(7)
		-----	-----
NET CASH FLOWS FROM INVESTING ACTIVITIES		<u>(1,775)</u>	<u>(1,576)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds of Equity Restructure		11	1,641
Proceeds from Borrowings and Advances		442	549
Repayment of Borrowings and Advances		(942)	(1,824)
		-----	-----
NET CASH FLOWS FROM FINANCING ACTIVITIES		<u>(489)</u>	<u>366</u>
NET INCREASE (DECREASE) IN CASH		<u>(302)</u>	<u>310</u>
Opening Cash and Cash Equivalents		714	404
Reclassification of cash equivalents		(838)	-
Agencies transferred into the Budget Sector		(91)	-
Other		(12)	-
		-----	-----
CLOSING CASH BALANCE	15	<u>(529)</u>	<u>714</u>

The above statement of cash flows should be read in conjunction with the accompanying notes.

NSW Budget Sector
Notes to and forming part of the financial statements

1. Summary of significant accounting policies

REPORTING ENTITY

This general purpose financial report is for the Budget Sector of the New South Wales Public Sector. The Budget Sector reporting entity encompasses all Budget Sector agencies, the Consolidated Fund and the Crown Transactions Entity - Non Commercial activities, as well as non-commercial entities that they control. It excludes commercial entities consistent with the Budget presentation.

Budget Sector agencies are those which receive an appropriation in the Annual Appropriation Act. The majority of agencies rely predominantly on the State Budget for direct funding (that is, 50% or more of the total funding of each agency is provided by way of Parliamentary appropriations). With some exceptions, they are known as departments as defined by section 45A(1) of the Public Finance and Audit Act and they are listed in Schedule 3 of that Act and in Appendix D of Budget Paper No. 2 of 1996-97.

The Crown Transactions Entity – Non Commercial activities 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.

BASIS OF ACCOUNTING

The Public Accounts are prepared in accordance with applicable Australian Accounting Standards and other mandatory professional requirements (Urgent Issues Group Consensus Views), the Public Finance and Audit Act 1983 and Regulation and guidance in both Australian Accounting Standard AAS29 "Financial Reporting by Government Departments" and in the Financial Reporting Code for Budget Dependent Agencies. In the event of any inconsistency between accounting standards and legislative requirements, the latter are given precedence.

Basis of Measurement

The financial report is based on historical cost accounting except that certain assets are valued at current valuation.

All amounts in the Public Accounts have been rounded to the nearest million dollars.

Due to additional disclosures in the current year, certain comparative information is not available (indicated by an asterisk in the comparative column) and comparative figures have been restated to be consistent with the disaggregation in the current year.

Changes in Accounting Policy

The accounting policies adopted are consistent with those of the previous year, except that certain agencies have made a change in accounting policy to comply with amendments to Australian Accounting Standards which specifically require an initial adjustment against accumulated funds.

During 1996-97 some recently corporatised electricity, lottery and transport authorities implemented tax effect accounting resulting in their initial recognition of a future income tax asset and a provision for deferred income tax. Accordingly, the Treasury has recognised for the first time a reciprocal liability for future income tax benefit of agencies and a receivable deferred income tax of agencies.

The net effect of Treasury accounting for the introduction of tax effect accounting has resulted in a \$54 million reduction in the Budget Sector's Opening Balance of Accumulated Funds for 1996-97.

PRINCIPLES OF CONSOLIDATION

This general purpose financial report has been consolidated using the guidance in Australian Accounting Standard AAS31 "Financial Reporting by Governments" and Australian Accounting Standard AAS24 "Consolidated Financial Reports". The Public Accounts therefore include the assets, liabilities, equities, revenues and expenses of the Government's Budget Sector agencies including those of non-commercial entities controlled by Budget Sector agencies.

Entities are considered to be controlled by the Budget Sector reporting entity where Budget Sector agencies have the capacity to dominate the financial and operating policies of those entities so as to enable the other entities to operate with them in pursuing their own objectives. The Public Accounts however only consolidates Budget Sector agencies and the Non-Commercial entities that they control. It excludes commercial entities controlled consistent with the Budget presentation.

Entities are not consolidated where the "control" exercised is only of a regulatory or trust nature as such control falls outside the principles of "control" as embodied in AAS24.

All transactions and balances between Budget Sector agencies have been eliminated. Dissimilar accounting policies adopted by agencies have been amended to ensure that consistent policies are applied within these financial statements.

REVENUE

State Taxation, Fines and Fees

State taxation is recognised based on the following principles:

- Government-assessed revenues (primarily land tax) are recognised at the time the assessments are issued.
- Taxpayer-assessed revenues (including payroll tax and stamp duty) are recognised when the funds are received by the revenue collecting agency. Additional revenues are recognised for assessments subsequently issued following review of returns lodged by taxpayers.
- Revenue from traffic penalties is accounted for on a cash basis according to the amount collected in a financial year. This may include penalties imposed in an earlier financial year. Recipients of penalty notices have a variety of options available to them to dispose of the penalty. The payment option is generally taken in about 70% of cases. All other fines and fees are also recognised when cash is received.

Sale of Goods and Services

Revenue is recognised when the good or service is provided.

Commonwealth Grants

These are funds provided by the Commonwealth to assist the States in meeting their expenditure responsibilities. These grants are for either general or specific purposes. They are recognised when received.

Financial Distributions from the Non Budget Sector

These amounts comprise dividends, income tax equivalents and sales tax equivalents paid to the Government by certain Non Budget Sector agencies (particularly State Owned Corporations and other Public Trading Enterprises). They are recognised in the period in which they are earned.

Investment Revenue

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

EXPENSES

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

Employee Related Expenses

These expenses include all costs related to employment such as salaries and wages, superannuation, leave entitlements, fringe benefits tax, workers' compensation, redundancies and other on-costs associated with leave entitlements. Payroll tax (a State tax) is eliminated on consolidation. Some employee related expenses are included in maintenance costs or capitalised as part of the construction costs of certain non-current physical assets.

Other Operating Expenses

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

Depreciation

Depreciation is generally calculated at rates determined on a straight line basis to allocate the cost or valuation of an asset, less any estimated residual value, over its estimated useful life to the entity.

School buildings are depreciated at a rate of 1% per annum based on an estimated life expectancy of one hundred years. However, over a 100 year cycle, school buildings would normally be subject to a number of major refurbishments in order to achieve their estimated service potential. This element has not been taken into account in assessing the depreciation charges and the carrying value of school buildings.

The Roads and Traffic Authority recognises depreciation of roads based on condition-based assessment. The annual depreciation charge reflects the changes in the road condition during the year from normal wear, tear and deterioration. It is calculated by comparing the written down replacement value of the roads at the end of the year (reflecting current condition) with the value at the beginning of the year. Depreciation is not based on the useful life of roads because the useful life cannot be reliably determined.

Recurrent and Capital Allocations

These are monies appropriated by Parliament to Budget Sector agencies. They are eliminated on consolidation of the Budget Sector.

ASSETS

Non-Current Physical Assets

Capitalisation and Initial Recognition

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

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

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

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

Valuation of Land Assets

Land held for continued use that would be replaced because of government policy is valued at the greater of the current market buying price for that land in its existing use and current market selling price based on feasible alternative use. However, for most public sector land assets, there is no prospect of alternative use because there are natural, legal or socio-political restrictions on their use and disposal. Such land is valued at "value in use".

Land held for continued use that would not necessarily be replaced is valued at the greater of the present value of future net cash flows and the current market selling price based on feasible alternative use.

Surplus land is valued at market selling price.

Undeveloped Crown land is currently not recognised pending the completion of an extensive identification and valuation program which is expected to be completed by June 1998. Land under roads and within road reserves, which have been recognised in the financial report of the Roads and Traffic Authority, has not been recognised in the Public Accounts as there is currently no methodology available to reliably determine the value.

Valuation of Plant and Equipment, Infrastructure Systems and Buildings

Plant and equipment, infrastructure systems and specialised buildings that are held for continued use and would be replaced because of government policy are valued at depreciated current cost. Current cost is the minimum cost (eg current market buying price, current reproduction cost or current replacement cost) of replacing the remaining service potential of an asset with a modern equivalent asset. Non-specialised buildings are valued at market selling price.

Assets held for continued use that would not necessarily be replaced because of government policy are valued at the greater of the net present value of the cash flows and the current market selling price.

Surplus assets are valued at market selling price.

Infrastructure systems include assets such as roads, bridges, water supply assets and reservoirs.

Revaluation Policies

All physical non-current assets are revalued at least every five years to current value. Revaluation increments are credited directly to the asset revaluation reserve unless they reverse any previous decrements which have been charged to the Operating Statement.

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

Budget Sector agencies are not-for-profit entities. In accordance with accounting standards, the recoverable amount test has not been applied because the service potential of their assets is not related to the generation of net cash inflows.

Receivables

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

Investments

Investments are valued at cost or market valuation.

Inventories

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

Private Sector Financed Infrastructure Assets

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

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

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

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

Sydney Harbour Tunnel

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

The cost of constructing the Tunnel was \$683 million. The current written down replacement cost of the Tunnel is \$434 million (1996 \$434 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, the 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 its 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 \$443 million (1996 \$451 million).

M4, M5 and M2 Motorways

The Roads and Traffic Authority has recognised as an asset its emerging right to receive the M4, M5 and M2 Motorways. This interest is valued by reference to the Authority's emerging share of their gross replacement costs apportioned over the period of the concession agreement.

Collection Assets

Certain collection assets such as library, museum and archival collections have not been valued pending the development of methodologies that can be applied to derive reliable values. Australian Accounting Standard AAS29 allows the non-recognition of "difficult to value" assets during the transitional period until 1 July 1997.

LIABILITIES

Borrowings

Budget Sector borrowings represent funds raised from the following sources:

- loans raised by the Commonwealth on behalf of New South Wales under the previous Financial Agreement;
- advances by the Commonwealth for housing and other specific purposes; and
- domestic and overseas borrowings raised by the NSW Treasury Corporation.

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

Gains and losses arising from debt restructuring transactions are included in the Operating Statement in the period in which they arise.

Leases

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

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

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.

EMPLOYEE ENTITLEMENTS

Wages and Salaries, Annual Leave and Sick Leave

Liabilities for wages and salaries, annual leave and vested sick leave are recognised and are measured as the amount unpaid at balance date at current pay rates in respect of the employees' services up to that date.

Non-vested sick leave is generally not recognised, as future sick leave taken is not expected to exceed future entitlements accruing.

Long Service Leave

A liability for long service leave is recognised. It is measured at either the present value of expected future payments to be made in respect of services provided by employees up to the balance date or by applying the "nominal method". The nominal method is an estimation technique which is considered to be adequate in reliably measuring the liability in certain circumstances. It is calculated by applying the current remuneration rates to the entitlements at year end for all employees with five or more years of service. All Budget Sector agencies apply the nominal method.

Superannuation

An unfunded superannuation liability is recognised in respect of defined benefits schemes. It is measured as the difference between the present value of employees' accrued benefits at balance date and the net market value of the superannuation schemes' assets at that date. The liability is assessed annually by the Government Actuary based on data maintained by the Superannuation Administration Authority. It is calculated based on the latest actuarial triennial assessment adjusted for any subsequent material movements in value.

The present value of accrued benefits is based on expected future payments which arise from membership of the fund to balance date in respect of the contributory service of current and past government employees. Consideration is given to expected future wage and salary levels, expected future investment earning rates, growth rate in the Consumer Price Index, experience of employee departures and periods of service.

Other Liabilities

All other liabilities are recorded at estimates of obligation to pay. They include for example, the Government's obligations arising from the previous workers' compensation and third party insurance schemes. These amounts are determined by independent actuarial assessments.

2. REVENUE	96-97	95-96
	\$m	\$m
State Taxation		
Stamp Duty	3,187	2,631
Payroll Tax	3,167	2,895
Gambling and Betting	1,209	1,115
Petroleum, Tobacco and Liquor Licences	1,741	1,813
Land Tax	672	567
Other Taxes and Levies	<u>1,876</u>	<u>1,771</u>
	<u>11,852</u>	<u>10,792</u>
Commonwealth Grants		
General Purpose - Recurrent	4,664	4,577
- Capital	-	49
Specific Purpose - Recurrent	2,991	2,847
- Capital	<u>825</u>	<u>875</u>
	<u>8,480</u>	<u>8,348</u>
Financial Distributions from Non Budget Sector		
Dividends	1,117	1,010
Tax Equivalents	783	444
Proceeds from asset sales and equity restructure	<u>367</u>	<u>-</u>
	<u>2,267</u>	<u>1,454</u>
Gain/Loss on Disposal of Non Current Assets		
Proceeds from asset disposal	330	236
Less Written Down value of disposed assets	<u>321</u>	<u>202</u>
Net Gain on disposal	<u>9</u>	<u>34</u>

Certain revenues and assets have not been recognised in the accounts as they do not meet the recognition criteria for revenue as set out in the Statement of Accounting Concepts SAC4 "Definition and Recognition of the Elements of Financial Statements" in that these revenues cannot be reliably measured. The major items are:

- Fines collected by the Attorney-General's Department: the Department has identified approximately \$191 million of debtors as at 30 June 1997 (1996 \$139m) in respect of fines revenue of which it has provided for doubtful debts of \$170 million (1996 \$124m). The revenue and net receivable of \$21 million (1996 \$15m) has not been brought to account as the subjective nature of the methodology used did not allow for reliable measurement.
- Unexecuted Police Warrants: about 617,000 warrants were on hand at 30 June 1997 (1996 604,000) with an estimated value of \$133 million (1996 \$120m). However past experience indicates that there are difficulties associated with locating offenders due to the passage of time prior to issue of warrants and therefore only very few warrants will actually be able to be finalised.

3. EXPENSES	96-97 \$m	95-96 \$m
Employee entitlements comprise:		
Salaries and Wages	9,138	8,249
Workers Compensation Insurance	274	*
Fringe Benefits Tax	16	*
Superannuation entitlements ^(a)	(1,004)	1,929
Long Service Leave	234	-
Leave Entitlements (including Long Service Leave and Recreation Leave) ^(b)	-	736
Other	<u>181</u>	<u>186</u>
	<u>8,839</u>	<u>11,100</u>
^(a) Refer Note 3A(c)		
^(b) Recreation Leave has been reclassified as part of Salaries and Wages in the current year.		
Expenditure capitalised as property, plant and equipment is excluded from the above	1,111	*
Finance charges comprise:		
Commonwealth Government	313	362
NSW Treasury Corporation	1,149	1,336
Other NSW Public Sector Entities	78	-
Private Organisations	<u>13</u>	<u>66</u>
	<u>1,553</u>	<u>1,764</u>
Grants and Subsidies comprises:		
Grants to NSW Public Sector	2,351	2,199
Grants and Subsidies to private sector	<u>2,224</u>	<u>2,079</u>
	<u>4,575</u>	<u>4,278</u>
Major grants include payments by the following agencies:		
Department of School Education	410	383
Department of Health	453	425
Department of Community Services	282	225
Department of Transport	1,781	1,580
Other Expenses include:		
Bad and doubtful debts	1	99
Auditors Remuneration	9	10
Consultancy fees	70	44

3A. ABNORMAL ITEMS – Revenues/(Expenses)

Profit on sale of Axiom Funds Management Corporation	189	-
Assets dedicated to National Parks & Wildlife Service	63	
^(a) Downward adjustment of asset values		
This includes -		
▪ RTA – road area assessment	-	(260)
▪ RTA - land under roads	(50)	(1,440)
▪ Department of Land & Water Conservation	-	(773)
▪ Health Department	(62)	(269)
▪ Other	(14)	49
^(b) Corporatisation adjustments		
▪ Grant to State Rail Authority to fund workers compensation liability	(215)	-
▪ Grants to and assumption of, unfunded superannuation liabilities of Non-Budget Sector entities (shown below at ^(c))		
▪ Proceeds from equity restructure	-	1,698
▪ Assumption of liabilities	-	(207)
^(c) Increase in defined benefit unfunded superannuation liability:		
This comprises:		
▪ increase in liability due to assumption of State Rail unfunded pension	(208)	-
▪ grants to newly created rail entities and Pacific Power to fund unfunded superannuation liabilities	(910)	-
Items not previously recognised:		
▪ RTA - land acquired for future roadworks	-	137
▪ Coal Compensation Board claims	(91)	-
	<u>(1,298)</u>	<u>(1,065)</u>

- No valuation has been included in the Public Accounts for land under roads and within road reserves. During 1996-97, the Roads and Traffic Authority identified land under roads of \$50 million (1995-96, \$1440m) which was reported in previous years as part of Land and Buildings. As it is Treasury's policy to report land under roads in the Public Accounts at no valuation, an abnormal adjustment of \$50 million has been made to derecognise the value of these assets which has been included in the accounts of the Roads and Traffic Authority.
- On 1 July, the NSW rail industry was restructured and many of the functions, assets and liabilities of the State Rail Authority were transferred to new entities, Rail Access Corporation, Freight Rail Corporation and the Railway Services Authority of NSW.

At the date of restructure, the Crown Transaction Entity provided grants to permit funding of unfunded defined benefit superannuation liabilities of new entities and funding of the workers' compensation liability of State Rail. It also assumed the liability for unfunded pension liabilities of State Rail at that date.

- The corporatisation adjustments for the prior year primarily arose from various entities which were corporatised under the State Owned Corporations Act during the year. On commencement, the newly corporatised entities recognised their assets and liabilities at "fair value" and adopted an approved equity structure. The excess equity was returned to the Consolidated Fund. Conversely certain unfunded superannuation liabilities and other borrowing costs of the corporatised entities were assumed by the Crown Transactions Entity.

The Crown Transaction Entity made grants to, and assumed the unfunded superannuation liabilities of, certain recently corporatised Non Budget Sector entities amounting to \$1,118 million.

Separate from this, the superannuation expense in the Operating Statement is a credit of \$1,004 million. For the whole of the New South Wales Public Sector, there has been a reduction in unfunded superannuation liabilities as at 30 June 1997 of \$2,730 million compared to the prior year.

This reduction in unfunded superannuation liabilities was due to a number of major positive adjustments to employer reserves that were brought to account by the Superannuation Administration Authority in 1996-97 and actuarial adjustments made by the Government Actuary.

The positive adjustments to employer reserves related to the allocation to employer reserve accounts of Pooled Fund tax credits, State Superannuation Scheme Contributors' Reserves, amounts arising from corrections to employers' annual statements and additional interest earnings. The balance of the decrease in unfunded superannuation liabilities was due to an adjustment made by the Government Actuary to the value of total accrued superannuation benefits to recognise changes in fund membership and valuation assumptions to reflect current actuarial factors and fund membership numbers.

The dissection of the reduction in superannuation liability into its components will be disclosed on the NSW Consolidated Financial Statements. However information on the dissection is not available for the Budget Sector.

3B. EXTRAORDINARY ITEM	96-97	95-96
	\$m	\$m
Transfer of regional roads to Local Government	-	(6,179)

The capitalised value of Roads and Traffic Authority's infrastructure has been based on the control aspect of the State's classified road network of national and state highways, regional roads and certain other infrastructure assets. The RTA's role in the management of regional roads has been diminishing in recent years to the point where control of these assets has effectively moved to Local Government.

The responsibility for the reporting of regional road assets was transferred to Local Government authorities during the 1995-96 financial year. In addition to the \$6,179 million of regional roads transferred, the land under these roads, for which no value has been previously reported in the Public Accounts, has also been transferred to Local Government authorities.

4. RECEIVABLES	96-97 \$m	95-96 \$m
Current Receivables		
Debtors		
▪ Sale of Goods and Services	248	*
▪ Asset Sales	194	77
▪ Taxation	172	275
▪ Crown Land leases	16	16
Amounts owing by Non-Budget Sector Agencies		
▪ Dividends	948	660
▪ Tax equivalents	113	323
▪ Corporatisation adjustments	-	33
Advances Receivable	57	57
Other	<u>113</u>	<u>443</u>
	1,861	1,884
Less Provision for Doubtful Debts	<u>(65)</u>	<u>(220)</u>
	<u>1,796</u>	<u>1,664</u>
Non-Current Receivables		
Advances Receivable	1,918	*
Other	<u>837</u>	<u>*</u>
	<u>2,755</u>	<u>2,120</u>
Advances Receivable comprise:		
Advances repayable to the State		
▪ Home Purchase Assistance	37	37
▪ Sydney Cove Development Authority	6	7
▪ Sydney Water	55	56
▪ HPAF re Commonwealth Housing advances	343	349
▪ Housing re Commonwealth Housing advances	1,398	1,421
▪ Other	<u>136</u>	<u>31</u>
	<u>1,975</u>	<u>1,901</u>
	96-97 \$m	95-96 \$m
5. INVESTMENTS		
Current	1,245	1,061
Non Current	<u>173</u>	<u>110</u>
	<u>1,418</u>	<u>1,171</u>
Investments comprise:		
NSW Treasury Corporation	843	*
Other	<u>575</u>	<u>*</u>
	<u>1,418</u>	<u>1,171</u>

Balances of \$214 million were held by government schools with the Commonwealth Bank at 30 June 1997 (1996 \$195m). These funds, which comprise Government grants and other revenue, are not recorded within the Department of School Education's financial statements and therefore are not included in the cash and deposits amount included in the Public Accounts.

6. INVENTORIES

Current

▪ Raw Materials	9	12
▪ Work in Progress	21	20
▪ Finished Goods	13	15
▪ Consumable Stores	<u>68</u>	<u>63</u>
	<u>111</u>	<u>110</u>

7. PROPERTY, PLANT AND EQUIPMENT

Land and Buildings

At cost	3,756	5,436
At valuation	26,947	23,614
Accumulated depreciation at cost	(616)	(648)
Accumulated depreciation at valuation	<u>(5,950)</u>	<u>(5,279)</u>
	<u>24,137</u>	<u>23,123</u>

Plant and Equipment

At cost	2,343	2,728
At valuation	1,059	436
Accumulated depreciation at cost	(1,205)	(1,012)
Accumulated depreciation at valuation	<u>(213)</u>	<u>(169)</u>
	<u>1,984</u>	<u>1,983</u>

Infrastructure Assets including Land

At cost	1,150	572
At valuation	28,786	27,533
Accumulated depreciation at cost	(16)	(47)
Accumulated depreciation at valuation	<u>(4,317)</u>	<u>(4,221)</u>
	<u>25,603</u>	<u>23,837</u>
Total Property, Plant and Equipment at Net Book Value	<u>51,724</u>	<u>48,943</u>

8. OTHER ASSETS – NON CURRENT	96-97 \$m	95-96 \$m
Interest in the Sydney Harbour Tunnel	434	434
Right to Receive M2/M4/M5 Motorways	64	49
Other	<u>19</u>	<u>197</u>
	<u>517</u>	<u>680</u>
9. PAYABLES		
Interest on Public Sector borrowings and advances	419	*
Payables on expenditure of an operating nature	492	*
Other	281	*
	<u>1,192</u>	<u>1,236</u>
10. BORROWINGS		
Current	3,513	2,189
Non-Current	<u>13,505</u>	<u>14,657</u>
	<u>17,018</u>	<u>16,846</u>
Borrowings comprise:		
Liability to the Commonwealth – see details below ^(a)	3,639	4,097
Borrowings from Treasury Corporation and others	12,294	12,266
Bank overdraft	850	342
Finance leases ^(b)	<u>235</u>	<u>141</u>
	<u>17,018</u>	<u>16,846</u>
Borrowings at face value	17,978	17,154
Unamortised Discount	<u>(960)</u>	<u>(308)</u>
Current Capital Value	<u>17,018</u>	<u>16,846</u>
The maturity profile of borrowings at current capital value (1995-96 at face value):		
Not later than one year	3,513	2,141
Between one and two years	211	2,335
Between two and five years	6,683	4,001
Later than five years	<u>6,611</u>	<u>8,677</u>
	<u>17,018</u>	<u>17,154</u>

	Loan \$m	Annual Interest \$m
(a) Loan Liability To The Commonwealth And Annual Interest Liability		
Loan Liability Under the Financial Agreement:		
Liability at 1 July 1996	2,189	257
National Debt Sinking Fund repurchases and redemptions of loans outstanding in respect of the State	<u>418</u>	<u>49</u>
Liability at 30 June 1997	1,771	208
Commonwealth Specific Purpose Advances:		
Liability at 30 June 1997	<u>1,868</u>	<u>88</u>
Total Liability to the Commonwealth at 30 June 1997	<u>3,639</u>	<u>296</u>

Indebtedness of the State outside the Financial Agreement comprises:

Particulars	Balance at 30 June 1996	Advances/ (Repayments) 1996-97	Amortisation of Discount/ (Premium) 1996-97	Balance at 30 June 1997
	Capital Value \$m	Capital Value \$m	\$m	Capital Value \$m
Commonwealth Specific Purpose Advances				
Housing	1,770	(29)	-	1,741
Backlog Sewerage Scheme	72	(1)	-	71
Rural Assistance Schemes	20	(4)	-	16
Other	<u>46</u>	<u>(6)</u>	-	<u>40</u>
	1,908	(40)	-	1,868
Total Crown Transactions Entity Loans	11,191	47	(26)	11,212
Roads and Traffic Authority	1,124	(14)	12	1,122
Others	<u>110</u>	<u>38</u>	<u>1</u>	<u>149</u>
Total Debt Outside Financial Agreement	<u>14,333</u>	<u>31</u>	<u>(13)</u>	<u>14,351</u>

(b) Finance lease liabilities are payable as follows:

	96-97 \$m	95-96 \$m
Not later than one year	42	19
Between one and two years	38	19
Between two and five years	85	68
Later than five years	<u>279</u>	<u>112</u>
Minimum lease payments	444	218

Less Future finance charges	(209)	(77)
Finance lease liability	<u>235</u>	<u>141</u>

11. EMPLOYEE ENTITLEMENTS

Current	2,080	2,049
Non-Current	<u>13,094</u>	<u>14,273</u>
	<u>15,174</u>	<u>16,322</u>
Employee entitlements comprise:		
Unfunded superannuation	12,431	13,654
Long service and other leave entitlements	2,619	2,442
Other salary related liabilities	<u>124</u>	<u>226</u>
	<u>15,174</u>	<u>16,322</u>

Unfunded Superannuation Liability

The Budget Sector's unfunded superannuation liability is predominantly made up of the four defined benefit schemes that comprise the Pooled Fund Superannuation Schemes. The Government Actuary calculates unfunded liability of the State public sector superannuation schemes each year based on the data maintained by the Superannuation Administration Authority.

These calculations are generally based on actual data up to 30 June 1997. The underlying demographic assumptions are the same as the 1994 triennial valuation of the Pooled Fund Superannuation Schemes. However, the economic assumptions contained in the 1994 valuation have been revised to reflect prevailing economic conditions and to be consistent with the requirements of Australian Accounting Standard 25 "Financial Reporting by Superannuation Plans".

The key economic assumptions as at 30 June 1997 underlying the unfunded liabilities are:

	1997-98	1998-99	1999-2000	Thereafter
Earning rate	7.0% pa	7.0% pa	7.0% pa	7.0%pa
Salary growth rate	3.7% pa	4.0% pa	4.5% pa	5.0%pa
CPI rate	2.1% pa	2.5% pa	3.0% pa	3.5%pa

Payments are made by the Crown Transactions Entity and self-funding Budget agencies to the Pooled Superannuation Fund to reduce the superannuation liability.

The unfunded superannuation liability is comprised of:	96-97 \$m	95-96 \$m
Pooled Funds:		
State Authorities Superannuation Scheme	1,705	950
State Authorities Non Contributory Superannuation Scheme	865	579
State Superannuation Scheme	6,449	8,432
Police Superannuation Scheme	2,495	2,800
Judges' Pension Scheme	194	147
Parliamentary Contributory Superannuation Scheme	70	65
State's share of University superannuation liabilities	652	678
Other	<u>1</u>	<u>3</u>
	<u>12,431</u>	<u>13,654</u>

12. OTHER LIABILITIES

Current	469	282
Non-Current	<u>1,919</u>	<u>1,169</u>
	<u>2,388</u>	<u>1,451</u>

Other liabilities comprise:

Obligations of Insurance Ministerial Corporation for closed insurance schemes	715	852
Future Income Tax Benefit of Non-Budget Sector Agencies	383	-
Workers Compensation obligations of State Rail Authority	215	-
Coal Compensation Board claims	91	-
Obligations to the Olympic Stadium Consortium	120	-
Sydney Harbour Tunnel Agreement Obligations	443	451
Other	<u>421</u>	<u>148</u>
	<u>2,388</u>	<u>1,451</u>

13. RESERVES

Opening balance	3,937	1,559
Adjustment due to change in consolidation scope (see 14 ^(a))	81	-
Net transfer to accumulated funds	(26)	1,705
Net asset revaluation increments	<u>929</u>	<u>673</u>
Closing balance	<u>4,921</u>	<u>3,937</u>

14. ACCUMULATED FUNDS

Opening balance	15,158	24,198
Adjustment due to change in consolidation scope ^(a)	335	(7)
Adjustments due to change in accounting policy ^(b)	(426)	-
Net assets transferred in due to administrative restructuring ^(c)	284	-
Net transfer from reserves	26	(1,705)
Surplus (Deficit) for year after abnormal and extraordinary items	<u>2,655</u>	<u>(7,328)</u>
Closing balance	<u>18,032</u>	<u>15,158</u>
	96-97	95-96
	\$m	\$m

^(a) The Budget Sector reporting entity encompasses all Budget Sector entities as listed in Note 22. Therefore the scope of the consolidation has been amended to reflect the reclassification of agencies between the Budget and Non-Budget Sectors compared to the prior year.

The net effect of the change in scope of agencies has been reflected as adjustments to the Asset Revaluation Reserve and Accumulated Funds at the beginning of the financial year.

The major amounts reclassified to the Budget Sector are:

Crown Property Portfolio	329	-
Others	<u>6</u>	<u>(7)</u>
	<u>335</u>	<u>(7)</u>

^(b) Adjustments by agencies due to amendments to accounting standards which require adjustments to accumulated funds.

▪ Adjustment arising from the initial application of the revised definition of useful asset life by Department of Corrective Services	(290)	-
▪ Corrections to the valuation of property, plant and equipment by the Department of Health	(82)	-
▪ Adjustment arising from the initial application of tax effect accounting on the corporatisation of Public Trading Enterprises	<u>(54)</u>	-
	<u>(426)</u>	

^(c) Net amounts transferred in due to administrative restructuring. Administrative restructures are considered to be a withdrawal of equity from one entity and injection into another entity. The net effect is therefore adjusted to accumulated funds. Administrative restructures during the year (identified in Note 22) were:

Department of Urban Affairs and Planning	229	-
Department of School Education	22	-
Corporation Sole "Minister Administering the Heritage Act 1977"	18	-
Other	<u>15</u>	<u>-</u>
	<u>284</u>	<u>-</u>

15. CASH FLOW INFORMATION

96-97	95-96
\$m	\$m

Reconciliation of surplus/deficit for year to net cash flows from operating activities

Surplus/(Deficit) for year after abnormal and extraordinary items	2,655	(7,328)
Non cash items added back		
Depreciation and amortisation	731	702
Loss/(Gain) on asset disposals	(9)	(34)
Other	206	-
Change in operating assets and liabilities	<u>(1,621)</u>	<u>8,810</u>
Cash flow from operating activities	<u>1,962</u>	<u>1,520</u>

Closing cash and cash equivalent balances:

For purposes of the cash flow statement, cash and cash equivalents is defined as cash on hand, at bank and deposits at call (excluding T-Corp Hour Glass facility and other T-Corp deposits) less bank overdraft.

Cash on hand and at bank	321	206
Deposits (T-Corp Hour Glass & Other) ^(a)	-	850
Bank overdraft	<u>(850)</u>	<u>(342)</u>
	<u>(529)</u>	<u>714</u>

^(a) Reclassified as investments in current year in accordance with changed definition of cash and cash equivalents.