

**CONSOLIDATED FINANCIAL
STATEMENTS**

OF THE NSW PUBLIC SECTOR

1996-97

Inquiries concerning this document can be directed to: Financial Management Division, NSW
Treasury

[Tel: (02)9228 4001 Fax: (02)9228 3031 Email: williamr@mail.treasury.nsw.gov.au]

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PREFACE

This publication includes the Consolidated Financial Statements of the NSW Public Sector and the Public Accounts of the NSW Budget Sector. The Public Accounts were published in a separate document in previous years. The merger of the Public Accounts and Consolidated Financial Statements rationalises and simplifies the reporting on Government finances. Since the Public Accounts form part of the Consolidated Financial Statements of the NSW Public Sector, it is considered that this new presentation in one comprehensive document will be less confusing to readers of the Government's financial reports.

The Consolidated Financial Statements of the NSW Public Sector are prepared on an accrual basis and report on the financial position and the results of operations of the State and the NSW Budget Sector.

The comprehensive financial reports play an important role in assisting the Government in discharging its accountability to the community and in enhancing the transparency of the State's finances.

This document includes a review of the Government's achievement against the financial policy objectives established for the commercially orientated agencies in the Non Budget Sector and the fiscal principles and targets identified in the General Government Debt Elimination Act for the Budget Sector.

These financial objectives are directed at achieving a strong sustainable budget position, a stable tax regime and a gradual reduction of debt and service delivery costs in the General Government Sector, lower prices and costs in the Non Budget Sector and an increase in the net worth of the State.

The extensive information contained in the reports is also designed to provide a basis for the assessment of the Government's financial position and performance over time and for comparison with other jurisdictions.

Michael Egan
Treasurer

1996-97 HIGHLIGHTS

- An accrual based operating surplus for the NSW Public Sector before abnormal and extraordinary items of \$3,725 million, reflecting a \$3,873 million improvement from the prior year deficit of \$148 million.
- An accrual based operating surplus for the Budget Sector before abnormal and extraordinary items of \$3,953 million, reflecting a \$4,037 million improvement on the prior year deficit of \$84 million.
- An underlying Budget cash surplus of \$209 million, representing a \$204 million improvement on the projected surplus of \$5 million and a \$329 million improvement on the \$120 million deficit for the prior year.
- A headline Budget cash surplus (calculated in accordance with Australian Bureau of Statistics methodology) of \$246 million (1995-96 \$1,641 million) after including capital repayments from the Non Budget Sector of \$92 million and the effect of transactions arising from the sale of the State Bank of NSW which resulted in a net payment from the Budget of \$55 million.
- For the Non Budget Sector, an operating surplus before abnormal items and distributions to the Budget Sector of \$2,034 million, reflecting a \$689 million improvement on the prior year. Financial Distributions (ie dividends and tax equivalent payments) from Public Trading Enterprises and other Non Budget Sector entities increased by \$446 million to \$1,900 million compared to last year (1995-96 \$1,454 million).
- The State's net assets (or equity) were \$65,972 million at 30 June 1997, an increase of 8.8% (\$5,363 million) on the level at 30 June 1996. This was due to an increase in total assets of \$3,826 million and a decrease in total liabilities of \$1,537 million.
- Net debt for the State (calculated in accordance with Australian Bureau of Statistics methodology) decreased by 1.2% (\$224 million) to \$18,598 million. The ratio of net debt to Gross State Product decreased from 11.1% to 10.4% consistent with the downward trend established in previous years.
- Net unfunded superannuation liabilities for the State decreased by 17.1% (\$2,646 million) to \$12,789 million. The unfunded liabilities to Gross State Product (GSP) ratio decreased from 9.1% to 7.2%.

REVIEW OF FINANCIAL PERFORMANCE FOR 1996-97

GENERAL

Scope of the Review

This review of the financial performance of the NSW Public Sector for 1996-97 comments on both the State Public Sector Consolidated Financial Statements and the Public Accounts of the NSW Budget Sector.

The State Public Sector Consolidated Financial Statements report on the operating result, financial position and cash flows of the entire New South Wales Public Sector. The New South Wales Public Sector comprises all Budget Sector and Non Budget Sector agencies and the entities that are controlled by those agencies.

The Public Accounts report on the operating result, financial position and cash flows of the Budget Sector. The Budget Sector encompasses all Budget dependent agencies, the Crown Transactions Entity -Non Commercial Activities and Consolidated Fund Transactions.

Budget dependent agencies are those which receive an appropriation in the Annual Appropriation Act. The majority of these agencies rely predominantly on the State Budget for direct funding (ie 50% or more of the total funding of each agency is provided by Parliamentary appropriations). With some exceptions, they are known as departments as defined by section 45A(1) of the Public Finance and Audit Act 1983 and are listed in Schedule 3 of that Act and in Appendix 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 that are the responsibility of the Government as a whole rather than of individual agencies. These include the Crown debt portfolio and the state's unfunded superannuation liability.

Consolidated Fund Transactions are the monies collected on behalf of the Consolidated Fund by the Crown Transactions Entity, which include state taxation and Commonwealth grants.

The Non Budget Sector comprises all agencies in the NSW Public Sector other than Budget Sector agencies. It includes the State's Public Trading Enterprises (PTEs) which 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.

The Non Budget Sector also covers other commercial entities which, unlike PTEs, operate outside normal market mechanisms (eg the Insurance Ministerial Corporation and the Home Purchase Assistance Authority) and self funded regulatory agencies (eg the WorkCover Authority and the Motor Accidents Authority).

From the 1997-98 year, the NSW Public Sector will be classified into the General Government Sector, the Public Trading Enterprise Sector and the Public Financial Enterprise Sector, which is in accordance with the Australian Bureau of Statistics classification scheme. The General Government Sector covers all agencies that are generally engaged in the production of goods and services outside the normal market mechanisms.

The scope of the Budget will be expanded to incorporate all agencies in the General Government Sector. In practice, this means that the commercial entities which operate outside normal market mechanisms (eg the Insurance Ministerial Corporation and the Home

Purchase Assistance Authority) and self funded regulatory agencies (eg the WorkCover Authority and the Motor Accidents Authority) will become part of the Budget Sector.

The benefits of broadening the coverage of the Budget, to make it generally consistent with the Australian Bureau of Statistics definition of the general government sector, include:

- The adoption of an external standard protects the integrity of the Budget in terms of coverage of agencies and transactions; and
- The increased focus on regulatory agencies which are not subject to either market mechanisms or a commercial framework.

Financial Framework and Targets

The General Government Sector and the Public Trading Enterprise and Public Financial Enterprise Sectors are subject to a financial management framework, including financial policies and fiscal targets against which their performance can be assessed.

The General Government Debt Elimination Act 1995 sets out the following fiscal principles and targets for the General Government Sector:

1. To adhere to the following short, medium and long term fiscal targets:
 - To achieve a sustainable Budget surplus within three years from 1 July 1996.
 - To reduce the level of net debt to a sustainable level by 30 June 2005.
 - To eliminate net debt by 30 June 2020.
2. To maintain or increase net worth (ie net assets) in real terms.
3. To fund employer superannuation liabilities by fully funding accruing current service superannuation costs and phasing in funding to eventually eliminate past unfunded liabilities.
4. To properly maintain long-lived physical assets with each agency developing an asset maintenance plan which identifies all assets, sets out a maintenance program for each asset or grouping of assets, reports on any deferred maintenance requirements and establishes a funding program.
5. To constrain the growth in net cost of services and outlays below the growth in inflation and population.
6. To manage net debt on the basis of sound risk management principles and by placing a prudent limit on the level of financial risk for overall financial assets and liabilities and with each agency implementing a risk management plan.
7. To restrain the level of taxes to the maximum extent possible and to pursue policies that give a reasonable degree of predictability about the level and stability of tax rates for future years.

The **Public Trading Enterprise and Public Financial Enterprise** framework has the following key elements:

- A Financial Distribution Policy for the setting of performance benchmarks (eg rates of return) and the determination of dividend and tax equivalent payments to the Government.
- A Capital Structure Policy which deals with the appropriate debt/equity structure for each PTE.
- A Social Program Policy to ensure that commercial agencies have arms-length contractual arrangements with the Government to provide non-commercial services.
- A Monitoring Policy which covers ongoing performance monitoring against negotiated benchmarks and targets.

The financial management framework for PTEs aims to achieve lower prices (which provide significant benefits that flow through to the business sector and general community), reduce operating costs and increase financial distributions to the Government.

The following commentary reviews the Government's achievement during the 1996-97 year against:

- The fiscal principles and targets identified in the General Government Debt Elimination Act. The review is based on the performance of the Budget Sector which constitutes the substantial part of the General Government Sector; and
- The financial management objectives established for the commercially focused agencies in the Non Budget Sector (which are primarily Public Trading Enterprises).

OPERATING RESULT

- State Public Sector Operating Result

The State Public Sector operating result before abnormal and extraordinary items is a surplus of \$3,725 million and the result after abnormal and extraordinary items is a surplus of \$1,965 million.

The State surplus before abnormal and extraordinary items of \$3,725 million reflects a \$3,873 million improvement on the \$148 million deficit for 1995-96. The operating result of the Budget Sector is a surplus of \$3,953 million (\$84 million deficit for 1995-96) and the result for the Non Budget Sector is a surplus of \$2,034 million (\$1,345 million for 1995-96).

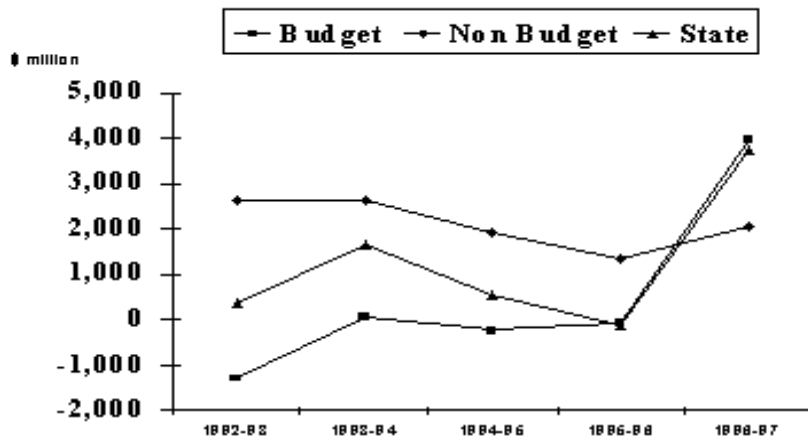
An amount of \$2,262 million, primarily financial distributions by Non Budget Sector agencies, has been eliminated in consolidating the operating results for the Budget and Non Budget Sectors to arrive at the State surplus of \$3,725 million.

The Budget Sector surplus before abnormal and extraordinary items of \$3,953 million reflects a \$4,037 million improvement on the deficit of \$84 million for 1995-96. The improvement is principally due to a 10.5% increase in State Revenues and a 9.0% decrease in the Net Cost of Services. The decrease in net cost of services was principally due to a decrease in unfunded superannuation liabilities.

The increase in the Non Budget Sector surplus before abnormal and extraordinary items from \$1,345 million to \$2,034 million was due to an improvement in the financial performance of a range of Public Trading Enterprises.

The results of the Non Budget Sector reflect the Government's microeconomic reforms which are directed at achieving lower prices, reduced operating costs and increased financial distributions to the Government.

**Figure 1
Operating Result Before Abnormal
and Extraordinary Items**



The State Public Sector surplus after abnormal and extraordinary items is \$1,965 million as compared to a deficit of \$8,629 million for 1995-96.

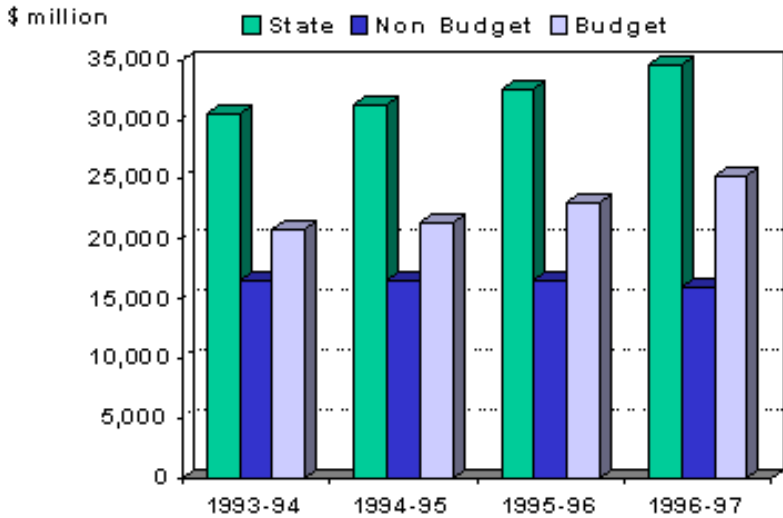
The abnormal expense of \$1,760 million in 1996-97 principally arose through an expense of \$1,881 million relating to the write down of the book value of rail assets. At the time of the restructure of the rail industry, on 1 July 1996, rail infrastructure assets were transferred from the State Rail Authority (SRA) to new commercial rail entities. In the financial statements of the SRA, these assets were valued on the basis of written down replacement cost. The new commercial entities are required by accounting standards to apply the recoverable amount test to the valuation of these assets. The recoverable amount is the present value of future cash flows expected to be generated from these assets and is considerably lower than written down replacement cost. Accordingly, the rail infrastructure assets transferred were written down by approximately \$6,400 million to a more commercial value.

Approximately \$4,500 million of the above adjustment was written off against the asset revaluation reserve (ie reversing previous revaluations brought to account directly in the Statement of Financial Position) and the balance was expensed as an abnormal item.

The 1995-96 deficit included an extraordinary expense of \$6,179 million resulting from the transfer of the control and management of regional roads from the Roads and Traffic Authority to the Local Government Sector without any consideration. There were no extraordinary items in 1996-97.

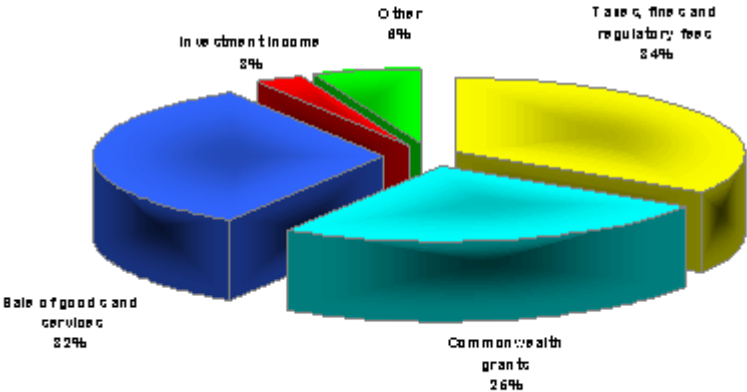
Total revenues for the State Public Sector increased by \$1,855 million (5.7%) to \$34,361 million. This was primarily due to an increase in State taxation, fines and regulatory fees of \$1,176 million (11.1%) in the Budget Sector and sale of goods and services of \$451 million (4.2%).

**Figure 2
State Revenues**



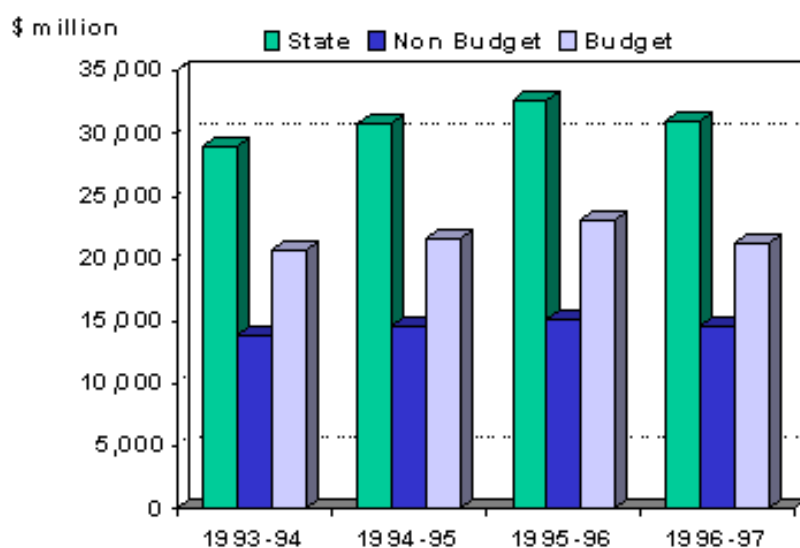
State revenues by component are shown in Figure 3, below.

**Figure 3
State Revenues 1996-97**



Total expenses for the State Public Sector decreased by \$1,926 million (5.9%) to \$30,793 million. This decrease is mainly due to a decrease in employee related costs of \$2,496 million (17.5%) offset by an increase in grants and subsidies of \$443 million (18.7%). Other expenses, in total, increased broadly in line with inflation and population growth.

**Figure 4
Total Expenses**



- **Budget Sector Operating Result**

The accrual-based operating result before abnormal and extraordinary items for 1996-97 is a surplus of \$3,953 million and the result after abnormal and extraordinary items is a surplus of \$2,655 million.

The Budget Sector surplus before abnormal and extraordinary items of \$3,953 million reflects a \$4,037 million improvement on the deficit of \$84 million for 1995-96. The improvement is principally due to a 10.5% increase in State Revenues and a 9.0% decrease in the Net Cost of Services. The net cost of services amount covers the total cost of services provided net of operating revenue. The decrease in net cost of services included a \$2,261 million decrease in expenses principally due to a reduction in unfunded superannuation liabilities, as discussed below.

The surplus after abnormal and extraordinary items is \$2,655 million as compared to a deficit of \$7,328 million for 1995-96.

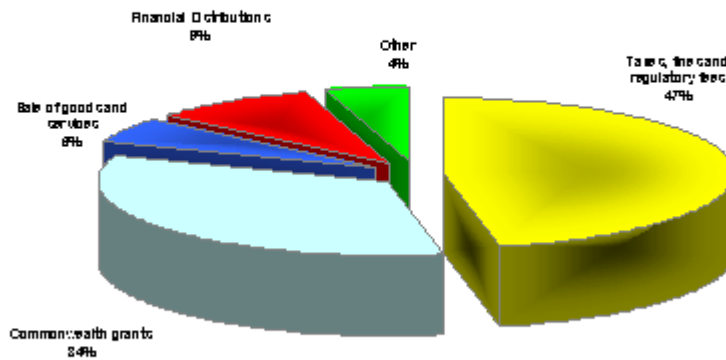
During 1996-97 the Budget Sector incurred abnormal expenses of \$1,298 million. These expenses primarily arose from the restructure of the NSW rail industry on 1 July 1996. At that date, the Crown Transactions Entity provided grants to permit funding of the unfunded defined benefit superannuation liabilities of the new rail entities and of the workers' compensation liability of State Rail. The Crown Transactions Entity also assumed the liability for unfunded pension liabilities of the State Rail Authority at that date. The effect of the above is eliminated in the State Public Sector Consolidated Financial Statements.

The 1995-96 deficit included an extraordinary expense of \$6,179 million resulting from the transfer of the control and management of regional roads from the Roads and Traffic Authority to the Local Government Sector without any consideration. There were no extraordinary items in 1996-97.

Revenues

Total Budget Sector revenues increased by 9.5% to \$25,191 million in 1996-97. Budget Sector revenues principally comprise State taxes, fines and regulatory fees, Commonwealth grants and financial distributions from public trading enterprises.

**Figure 5
Budget Sector Revenues 1996-97**

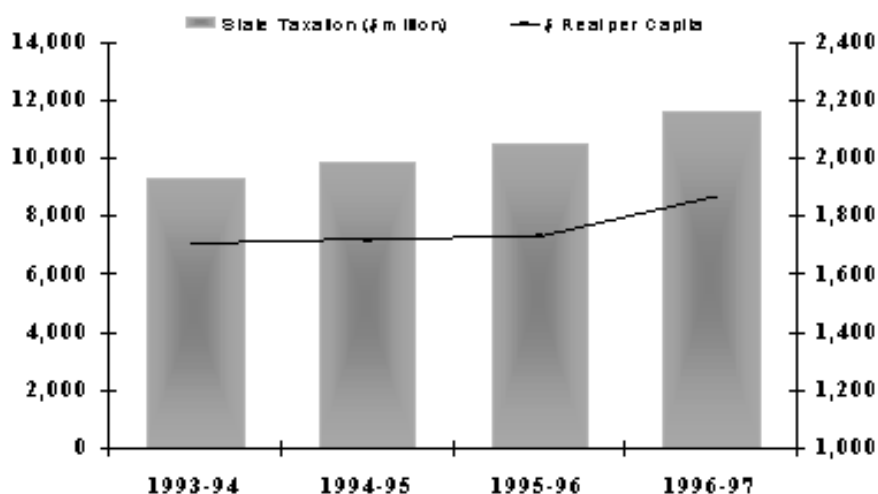


State Taxation, Fines and Regulatory Fees

There was an increase in State taxation, fines and regulatory fees of 9.8% (\$1,060 million) from \$10,792 in 1995-96 to \$11,852 million in 1996-97.

State taxation increased from \$10,527 million in 1995-96 to \$11,620 million in 1996-97. This represents a 7.5 % increase on a real per capita basis, ie after adjusting for the 1.4 % CPI increase for the year and the growth in the State's population.

**Figure 6
State Taxation**



The increase in State taxation was principally due to a 21.1% (\$556 million) increase in stamp duty, a 9.4% (\$272 million) increase in payroll tax and a 18.5% (\$105 million) increase in land tax.

The strong growth in both the residential and commercial property markets was the major contributing factor in the increase in stamp duty collections. There was also some growth in stamp duty collections on share transfers as a result of the continued strength of the share market.

The increase in payroll tax was attributable to some growth in wages and employment and to the new tax measures described below. The increase in land tax revenue was also partly attributable to new tax measures.

The tax increases were designed to meet the fiscal targets of the Government including the need to fund fiscal contributions to the Commonwealth. At the 1996-97 Premiers' Conference, it was agreed that the States would make Fiscal Contribution Payments over a three year period to assist the Commonwealth in meeting its deficit reduction targets. For New South Wales, the payment in 1996-97 was set at \$209.5 million.

In order to fund this requirement, the NSW Government was obliged to introduce a range of temporary tax increases in the areas of payroll tax, motor vehicle registration duty and land tax which increased State taxation revenue by approximately \$210 million. These new tax measures and the financial effects are:

- The inclusion of employer superannuation contributions in the payroll tax base, combined with a decrease in the tax rate from 7.0% to 6.85% from 1 July 1996 (with a further reduction to 6.7% from 1 July 1999) generated a revenue gain in 1996-97 of approximately \$100 million;
- Increase in the stamp duty on motor vehicle registrations from 2.5% to 3.0% from 1 July 1996 until 30 June 1999 generated a revenue gain in 1996-97 of approximately \$60 million; and
- Increase in the rate of land tax from 1.5% to 1.65% for the 1997, 1998 and 1999 land tax years generated a revenue gain in 1996-97 of approximately \$50 million.

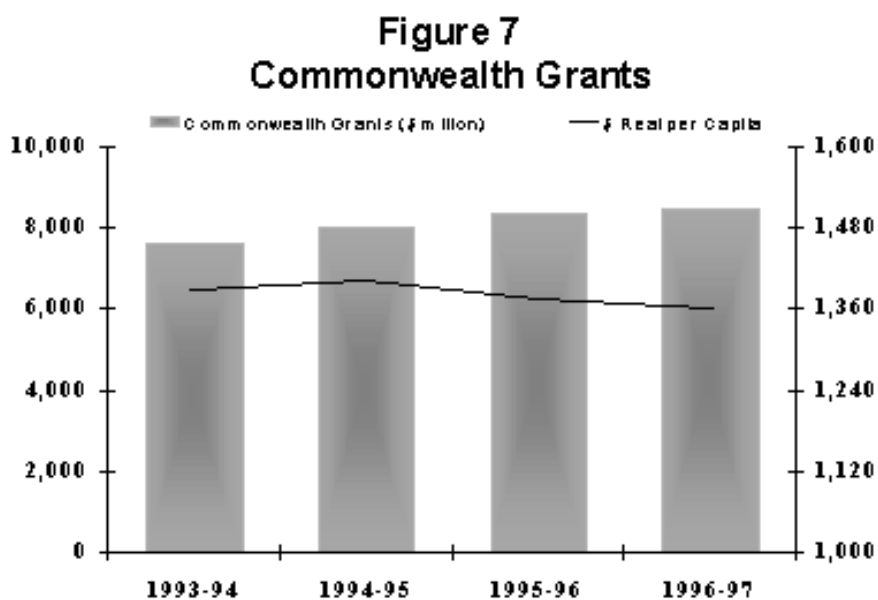
Fiscal Principle No. 7 - Tax Restraint, as set out in the **General Government Debt Elimination Act**, requires that the level of taxes should be constrained to the maximum extent possible and that policies should be pursued that give a reasonable degree of predictability about the level and stability of tax rates for future years.

The Government recognises that the existing tax system is narrowly-based, generally regressive and relatively inefficient. New South Wales will continue to seek to achieve meaningful reform of Commonwealth/State financial relations in order to provide a more appropriate revenue structure for the State.

The intention is for future Budgets to maintain the position of tax restraint and, if possible and consistent with the overall fiscal targets, to achieve targeted tax relief.

Commonwealth Grants

Commonwealth Grants increased from \$8,348 million in 1995-96 to \$8,480 million in 1996-97, ie 1.6 %. However, after adjusting for an increase in CPI of 1.4% and population growth, Commonwealth Grants on a real per capita basis decreased by 1.1%.

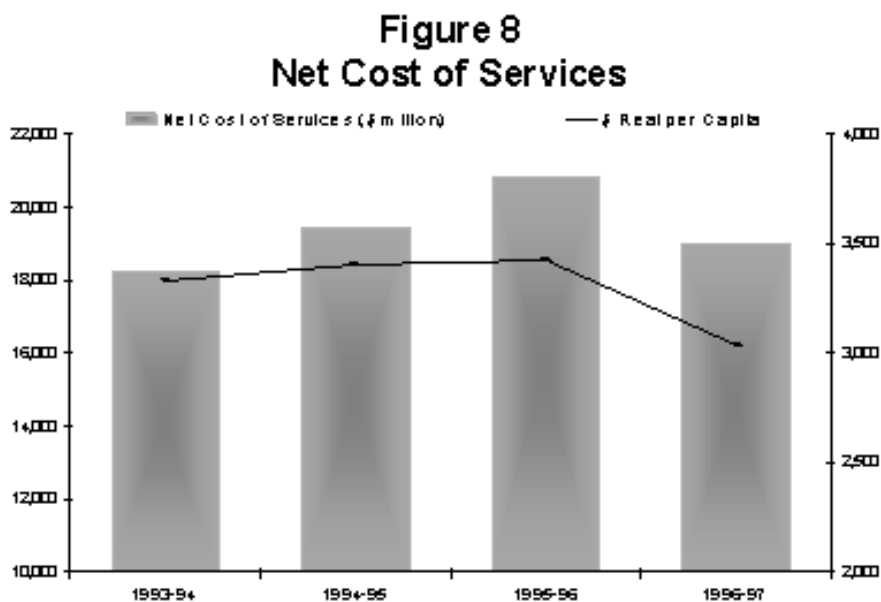


Net Cost of Services

The net cost of services provided by Budget Sector agencies was \$18,970 million in 1996-97, a decrease of 9.0% compared with \$20,837 million last year. Net cost of services means total cost of services less any revenue retained by agencies involved in the provision of services.

The reduction in net cost of services was due to an 8.1% decrease in total operating expenses of \$1,884 million and a 0.4% increase in operating revenue of \$8 million. After adjusting for the increase in CPI and population growth, this represents a 11.4% decrease in the real net cost of services per capita.

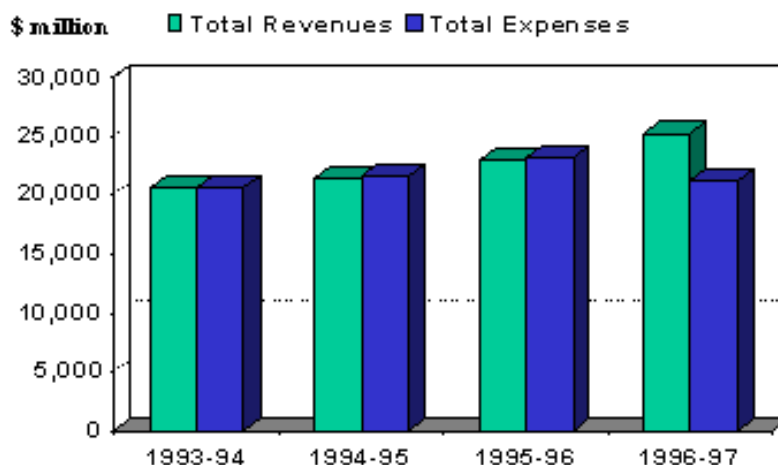
This is in line with Fiscal Principle No.5 - Net Cost of Services which is to keep the growth in net cost of services and outlays below the growth in inflation and population (ie zero growth in per capita terms).



Total Operating Expenses

Total operating expenses decreased by 8.1% to \$21,247 million. The decrease included a 20.4% decrease in employee related expenses (\$2,261 million), a 6.9% increase in grants and subsidies (\$297 million) and a 12.0% decrease in finance costs (\$211 million).

Figure 9
Budget Sector Operating Statement



The 20.4% decrease in **employee related expenses** (\$2,261 million) principally arose because of a reduction in unfunded superannuation liabilities during the year.

In 1996-97 the Superannuation Administration Authority (SAA) completed its Tax Allocation Project (TAP). The major objective of the TAP was to allocate tax credits available to individual agencies.

These tax credits arose as a result of the introduction by the Commonwealth Government of a 15 % tax rate on employer superannuation contributions made from 1 July 1988 onwards. As the tax was not retrospective, and because the NSW public sector super schemes were substantially unfunded as at 1 July 1988, the Commonwealth provided a tax exemption for employer contributions made post 1 July 1988 to cover unfunded accrued benefits to 30 June 1988. This exemption is termed the Pre 1 July 1988 Funding Credits (PJFCs). The effect of the allocation of these tax credits was to reduce the Budget Sector unfunded liability by \$499 million.

As part of the TAP a number of other adjustments were effected:

- A reduction of \$529 million in the unfunded superannuation liability resulting from the correction of an error which occurred in 1989 when the pool of funds of the State Superannuation Scheme were allocated from Contributors' Reserves to individual employer's reserves;
- A reduction of \$472 million in the unfunded superannuation liability resulting from an adjustment to the calculation of the actual benefits and interest accruing to employer reserves of the State Authorities Superannuation Scheme and the State Authorities Non-contributory Superannuation Scheme; and
- A reduction of \$420 million in the unfunded superannuation liability resulting from an adjustment to interest earnings accruing to employer reserve accounts as a consequence of the various TAP adjustments.

In addition to the TAP, adjustments were made to the membership and valuation assumptions underlying the Government Actuary's estimates of the value of total accrued benefits, which resulted in a decrease in the estimate of the unfunded superannuation liability of \$550 million. The level of actual interest earnings in 1996-97 was also substantially higher than that originally forecast, with the effect that the estimated unfunded superannuation liability has decreased by a further \$350 million.

The combined effect of these adjustments is approximately \$2,800 million. This reduction has been brought to account in employee related expenses in the Operating Statement for 1996-97 and is largely responsible for the 20.4% reduction in that expense item between 1995-96 and 1996-97.

The 6.9% increase in **grants and subsidies** (\$297 million) was due partly to a one off \$190 million payment to the Superannuation Administration Authority, being the proceeds from the sale of Axiom Funds Management Corporation. In addition, grants and subsidies to state owned rail entities increased by approximately \$200 million to compensate in part for the cessation of cross subsidisation between freight operations and passenger services.

The 12.0 % decrease in **finance costs** was due to the continuing fall in interest rates and lower net debt levels.

- **Non Budget Sector Operating Result**

The State's Public Trading Enterprises (PTEs), which form the substantial part of the Non Budget Sector, principally supply public infrastructure services including electricity, ports, water and public transport. In the past decade, the State's businesses have undergone considerable reform which has produced significant benefits to the State by way of increased productivity (and therefore increased financial returns), decreased financial risk (by way of reduced debt) and reduced real prices to consumers. For example,

- Average business costs for electricity in New South Wales have fallen by 23 % in real terms since 1992-93, according to the Independent Pricing and Regulatory Tribunal (IPART); and
- The NSW Government Charges Index (GCI), which is akin to the Consumer Price Index (CPI) but specifically measures changes in the price of NSW Government goods and services, fell by 1.2 % in 1996-97. In cumulative terms since 1989-90, the GCI has fallen by 20.1 %. It is projected that the GCI will fall by a further 2.8 % in 1997-98 in real terms.

In line with the improvements achieved in prior years, the Non Budget Sector operating surplus before abnormal and extraordinary items increased by \$689 million from \$1,345 million for 1995-96 to \$2,034 million for 1996-97.

This improved result enabled Government businesses to provide for dividends and tax equivalent payments of \$1,900 million to the Budget Sector in 1996-97, an increase of \$446 million from the \$1,454 million provided for in 1995-96.

During 1996-97, a further \$367 million was provided to the Budget Sector, representing the proceeds from asset sales and equity restructures. The equivalent amount in 1995-96 was \$1,698 million, which principally arose because of the repayment of equity by electricity distribution companies after the establishment of commercial capital structures.

Several major structural reforms of Government businesses occurred in 1996-97. These included:

- The deregulation of the wholesale electricity market commencing with the introduction of the State market in March 1996, followed by the staged introduction of a national electricity market from May 1997.
- The break up of the State Rail Authority into four separate entities on 1 July 1996.
- The corporatisation of NSW Lotteries in January 1997; and
- The institution by the Government of a three year program, from 1 July 1996, for the identification and sale of its surplus assets.

In NSW, PTEs which supply electricity, transport and water account for almost 70 % of total revenue collected by PTEs. Therefore, a review of the achievement of the Government against the financial management objectives established for its commercially operated agencies in the Non Budget Sector should focus on these industries.

Electricity

New South Wales has been one of the leaders in reforming the electricity industry. A competitive market for trade in wholesale electricity has been in operation since May 1996. In addition, on 1 October 1996 the 50 largest customers in New South Wales were given the choice of electricity supplier and by 30 June 1997 approximately 4,000 business customers, representing 40 % of the available State market, had become contestable. All retail customers are expected to become contestable by July 2000.

For retail customers that are not yet contestable, the Government successfully argued before IPART for a new price path, which is aimed at effectively lifting returns from very low levels to commercial levels. Although the price paths involved, inter alia, an average fall in retail electricity prices of 5% in nominal terms from 31 March 1996 it is anticipated that these falls will be exceeded by productivity improvements.

During 1996-97 the strong competition in the electricity market, brought about by the establishment of a competitive wholesale market, led to significant price falls particularly in the second half of the year. The input costs of the distribution companies decreased significantly and there was a corresponding decrease in the revenues of the generation companies.

The operating results of the distribution companies therefore improved substantially, despite a decrease in operating revenues arising from the increasing contestability of the retail market and the IPART determinations affecting the non contestable retail market. Combined operating revenues for the six distribution companies decreased by 0.6% from \$4,111 million in 1995-96 to \$4,085 million in 1996-97. However, the combined operating results improved from a loss before income tax of \$50 million to a profit before income tax of \$516 million during the same period.

The improvement in the performance of the distribution companies was also influenced by the fact that 1996-97 was the first full year that they operated as corporatised entities. During 1995-96, the distribution companies incurred abnormal costs, such as provisions for restructure and asset valuation decrements, of \$398 million associated with their establishment as fully commercial operations. Abnormal losses in 1996-97 were \$51 million arising principally as a result of asset revaluation decrements.

The improvement in financial performance enabled the distribution companies to increase dividends and tax equivalent payments provided from \$80 million in 1995-96 to \$561 million in 1996-97.

The decrease in wholesale electricity prices had a significant effect on the operating results of the electricity generators. The combined decrease in operating revenues was in excess of \$250 million from 1995-96 to 1996-97.

However, this loss in operating revenues did not translate into an equivalent decrease in profits. In response to the difficult market conditions, the generators have taken steps to significantly reduce operating costs, particularly coal costs. The total operating profits for the generators, before tax and abnormal items, were \$643 million in 1996-97 compared to \$620 million in 1995-96. This profit included:

- Delta Electricity entered into a cross border lease transaction for its Mount Piper Power Station which generated a profit of \$174 million;
- A profit of \$55 million on the sale of the Pacific Power Building.

In addition, Pacific Power recorded an abnormal profit of \$399 million arising from the assumption of its unfunded superannuation liability by the Crown Transactions - Non Commercial Activities. This transaction was undertaken to place Pacific Power in the same competitive position as the two power

generators, Delta Electricity and Macquarie Generation. Unlike the above two transactions, it does not represent a profit to the State as a whole and was eliminated on consolidation.

Total tax equivalent expense and dividends provided by the generators increased from \$510 million in 1995-96 to \$628 million in 1996-97. These distributions include \$174 million earned from the cross border lease of the Mount Piper Power Station entered into by Delta Electricity.

In addition to the dividends noted above, Pacific Power remitted to the Budget, as a capital repayment, the \$139 million proceeds on the sale of the Pacific Power Building.

Water

The combined operating profit before income tax of the two metropolitan water corporations, Sydney Water and Hunter Water, increased from \$269 million in 1995-96 to \$326 million in 1996-97. This represents a continuation in the solid improvements in performance achieved in the last few years.

The combined operating revenues increased by \$48 million (4.1%) from \$1,172 million in 1995-96 to \$1,220 million in 1996-97. In June 1996, IPART released its four year price path for the water corporations. The IPART determination basically restricts price rises to inflation, which was 1.4% in 1996-97. Therefore, the increase in operating revenues in 1996-97 is principally volume driven.

During 1996-97 Sydney Water which represents approximately 90% of metropolitan water business reduced underlying operating costs by 3%, in real terms, and has achieved a total reduction in costs of 25% since 1992-93.

The increase in profit lead to an increase in dividends and tax equivalent expenses provided in total by Sydney Water and Hunter Water from \$175 million in 1995-96 to \$225 million in 1996-97.

Transport

The major event in the State's transport industry in 1996-97 was the restructure of the State Rail Authority (SRA) on 1 July 1996. Major operations of the State Rail Authority were transferred to three new entities, ie Rail Access Corporation (regulated supplier of infrastructure), FreightRail Corporation (contestable freight operations), and Railway Services Authority (contestable infrastructure maintenance and supply). The State Rail Authority is now principally responsible for the operation of passenger rail services.

The new structure was intended, inter alia, to achieve the following:

- Remove many cross subsidies that existed under the previous funding regime;
- Require that the new corporate entities earn commercial returns and pay commercial dividends and tax equivalent payments to the Budget Sector; and
- Make transparent the funding of any Government requested social programs.

In terms of financial performance, there were a number of effects in 1996-97.

The removal of many of the cross subsidies necessitated increased funding of over \$200 million in 1996-97 to cover items where cross subsidies were no longer available.

The Rail Access Corporation made an operating profit before tax of \$33 million and provided for dividends and tax equivalent payments of \$32 million.

Similarly, FreightCorp made an operating profit before tax of \$106 million, and provided for dividend and tax equivalent payments of \$66 million. This success was largely attributable to increased volumes arising from NSW's record grain harvest. Freight revenues increased from \$549 million in 1995-96 (when freight operations were part of SRA) to \$647 million in 1996-97.

SRA increased revenue from passenger fares from \$368 million in 1995-96 to \$402 million in 1996-97. There was an average increase, in nominal terms, of 5.2% in CityRail's fares on 21 July 1996 which accounts for the substantial element of the increase in revenue.

The operating profit before tax of the four rail entities combined for 1996-97 was \$93 million. This compares with the \$131 million loss recorded by SRA for 1995-96.

STATEMENT OF FINANCIAL POSITION

- State Public Sector

The Statement of Financial Position for the State Public Sector reports on its assets, liabilities and equity.

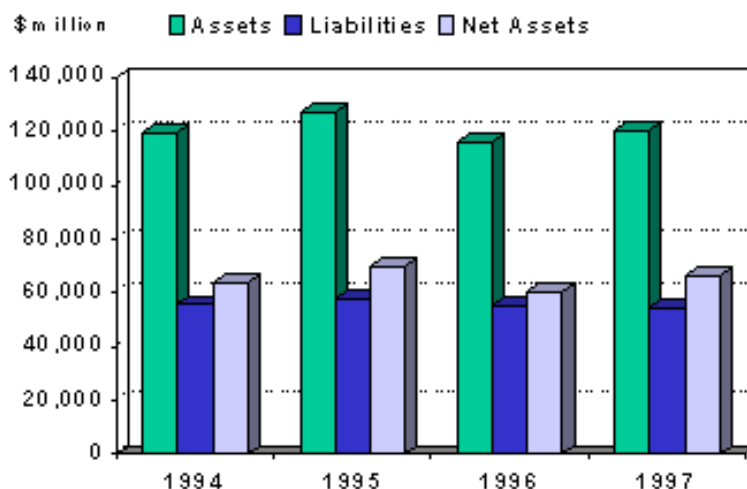
Net Assets

The State's net assets (or equity) were \$65,972 million at 30 June 1997, an increase of 8.8% or \$5,363 million on the level at 30 June 1996. This was due to an increase in total assets of \$3,826 million and a decrease in total liabilities of \$1,537 million. Net Assets of the Budget Sector increased by \$3,858 million and of the Non Budget Sector by \$1,495 million.

Net assets of the Budget Sector were \$22,953 million at 30 June 1997, an increase of 20.2% (\$3,858 million) on the level at 30 June 1996. This was due to an increase in total assets of \$3,775 million and a \$83 million reduction in total liabilities. The increase in Budget Sector net assets is in accordance with Fiscal Principle No. 2, which is to maintain or increase net worth (ie net assets) of the General Government Sector in real terms.

Net assets of the Non Budget Sector were \$43,019 million at 30 June 1997, an increase of 3.6% (\$1,495 million) on the level at 30 June 1996. This was due to an increase in total assets of \$1,480 million and a decrease in liabilities of \$15 million.

Figure 10
NSW Public Sector
Statement of Financial Position



Total Assets

The State's total assets at 30 June 1997 were \$119,921 million (1996 - \$116,095 million). The \$3,826 million (3.3%) increase was mainly due to an increase in the value of non-current physical assets (including land and buildings and infrastructure assets) of \$2,951 million and an increase in cash of \$1,180 million.

Total assets of the Budget Sector at 30 June 1997 were \$58,725 million (30 June 1996 \$54,950 million). The \$3,775 million increase was mainly due to an increase in Land and Buildings (\$1,014 million), Infrastructure Systems (\$1,766 million) and Non-current Receivables (\$635 million).

This increase of \$2,780 million in Land and Buildings and Infrastructure Systems in the Budget Sector is as a result of both investment in new assets and the revaluation of existing assets. The Roads and Traffic Authority, the Olympic Co-ordination Authority and the Department of Health were responsible for significant investment in new assets.

The Roads and Traffic Authority has invested \$570 million in the improvement of the State's road network, with a number of major projects opened to traffic during the year. These include the Chinderah Bypass in the north of the State, the Myrtle Gully Deviation and part of the Lake George project in the south, road widening at Narrabri in the west and Abbot Road-Seven Hills Link Road in Sydney.

The Olympic Co-ordination Authority has invested \$220 million in Olympic facilities and sporting venues and \$190 million on infrastructure works and services. The investment in Olympic facilities is principally \$170 million on the new Sydney Showground and a \$40 million contribution to the costs of the Olympic Stadium. The investment in infrastructure works and services is principally the improvement of road and rail links to the Olympic venues.

The Department of Health has invested \$420 million to enhance the State's medical infrastructure. An example of this enhancement process is Australia's largest new hospital development, Liverpool Hospital's redevelopment, which became operational in May 1997.

In addition, Budget Sector agencies are required to revalue all physical non-current assets at least every five years. The implementation of this policy has resulted in a revaluation increment of \$929 million in the current year. This increase indicates that Fiscal Principle No. 4 - Asset Maintenance of Long-Lived Physical Assets is being implemented effectively. Under the Government's total asset management policy, agencies are required to implement asset maintenance plans which set out a maintenance program for each asset or grouping of assets and identify the funding requirements. This policy is aimed at ensuring that the economic benefits derived from these assets is maximised.

There were also further refinements in, and corrections to, the valuations of the non-current physical assets of a number of major agencies (including the Roads and Traffic Authority and the Department of Health) resulting in a net downward accounting adjustment of \$126 million. This contrasts favourably with an adjustment for the same reason of \$2,693 million in the prior year and reflects the consistent approach that is now being adopted by Budget Sector agencies.

In the Non Budget Sector the major contributing factor to the increase in total assets is the revaluation of the NSW Land and Housing Corporation's investment in residential property from historical cost to market value. This resulted in an increase in value of these assets of approximately \$7,500 million. This increase was offset by the \$6,400 million reduction in the value of rail infrastructure assets, arising from the application of the recoverable amount test on the restructure of the rail industry at 1 July 1996.

There was no significant change in the total assets of other major Public Trading Enterprises such as in the Water, Electricity Generation and Electricity Distribution industries. This is a reflection of the fact that many of these entities were recently established with a commercial capital structure. Assets were brought to account at fair value and comprise only those that are expected to earn an appropriate risk adjusted return. It is therefore unlikely that, in the short term, there will be a significant change in either physical assets held or the valuations of those assets.

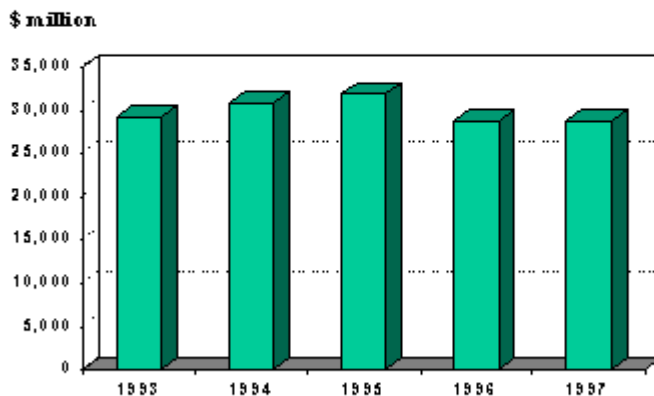
Total Liabilities

Total State liabilities decreased by \$1,537 million to \$53,949 million, mainly as a result of the 13.1% (\$2,523 million) decrease in employee entitlements to \$16,807 million. The major reason for this reduction is the effect of the Superannuation Administration Authority's Tax Allocation Project and an actuarial review that resulted in a decrease in the unfunded superannuation liability of approximately \$2,800 million.

Total State gross borrowings decreased by \$38 million (as shown in Figure 11 below). This overall decrease in borrowings was despite a one off debt restructure by New South Wales Treasury Corporation (TCorp) during the year which increased debt by approximately \$600 million. This increase arose because TCorp issued bonds with higher capital value than the bonds repurchased.

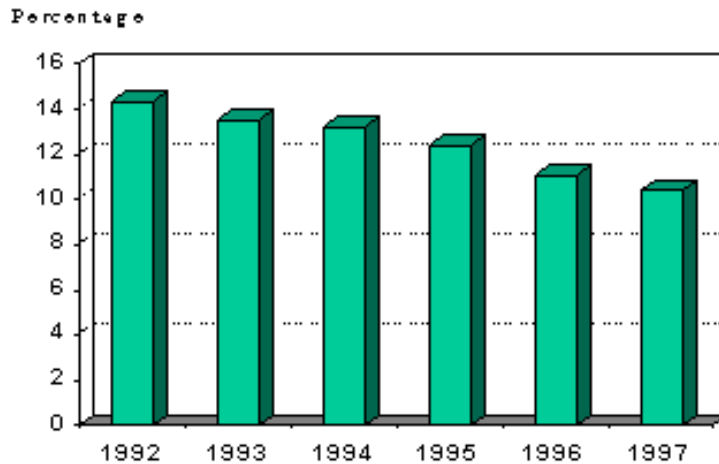
A certain amount of such activity takes place each year in the course of TCorp's market support operations, ie issuing debt, interacting with the market to foster liquidity and the consolidation of benchmark stock lines. During 1996-97 the financial impact of such activity was unusually large. TCorp bought back former "benchmark" 2001 12% bonds and replaced them with higher capital value but lower interest rate issues. Therefore, although the transaction has resulted in an increase in debt, there will be lower annual financing expenses in the future.

**Figure 11
State Gross Debt**



The State's net debt (calculated in accordance with Australian Bureau of Statistics methodology) decreased by \$224 million to \$18,598 million. More significantly, net debt of the State as a percentage of Gross State Product decreased from 11.1% in 1995-96 to 10.4% in 1996-97, in line with a consistent trend since 1992 (see Figure 12 below).

Figure 12
State Net Debt / GSP %



In the **Budget Sector** there was a decrease in the net debt as a percentage of Gross State Product from 9.5% to 8.0%. This is consistent with **Fiscal Principle No. 1 - Net Debt Reduction** which seeks, inter alia, to reduce the level of net debt of the General Government Sector to a sustainable level by 30 June 2005 and to eliminate net debt by 30 June 2020. It is also consistent with **Fiscal Principle No. 6 - Prudent Risk Management** which requires the management of net debt on the basis of sound risk management principles.

The State's employee entitlement liabilities include unfunded superannuation, long service leave and annual leave. The State's net unfunded superannuation liability decreased by 17.1% (\$2,646 million) to \$12,789 million. The State's unfunded superannuation liability to Gross State Product (GSP) ratio decreased from 9.2% to 7.2%.

Net unfunded superannuation liabilities for the Budget Sector decreased by 9.0% (\$1,223 million) to \$12,431 million. The unfunded liabilities of the Budget Sector to Gross State Product (GSP) ratio decreased from 8.1% to 7.0%. The reduction was not as large as for the State Sector as a whole because the Budget Sector assumed responsibility for the unfunded liabilities of Pacific Power and State Rail Authority, amounting to \$1,118 million.

Fiscal Principle No. 3 Funding employer superannuation contributions requires that:

- Accruing superannuation liabilities (for both the general government and public trading enterprise sectors) should be fully funded; and
- There should be phased in funding to eliminate the existing level of unfunded liabilities.

In accordance with the principle, during 1996-97 the practice was continued of fully funding each year's superannuation expenses in the First State Superannuation Scheme, phasing in full funding of other accruing superannuation liabilities and moving to address past unfunded liabilities.

The Tax Allocation Project and the actuarial review, described above, resulted in a decrease in the State's unfunded superannuation liability of approximately \$2,800 million.

BUDGET RESULT ON GOVERNMENT FINANCE STATISTICS BASIS

New South Wales has been publishing its Budget result on a Government Finance Statistics (GFS) basis for some years. A requirement to do so is now included in the General Government Debt Elimination Act.

The underlying Budget result for 1996-97, which excludes abnormal items, is a surplus of \$209 million. This was a \$204 million improvement on the \$5 million surplus projected at the time of the 1996-97 Budget. It also represents a \$329 million improvement on the 1995-96 underlying deficit of \$120 million.

The headline Budget result for 1996-97, which includes abnormal items, is \$246 million, representing a \$101 million improvement on the projected surplus of \$145 million. The headline Budget result for 1995-96 was a \$1,641 million surplus. However, this included \$1,761 million in major equity restructure repayments from Non Budget Sector agencies.

The abnormal items in 1996-97 include equity repayments from Non Budget Sector agencies to the Budget of \$92 million and the effect of transactions involving the sale of the State Bank of NSW which resulted in a net payment from the Budget of \$55 million.

The improvement in the underlying result relative to 1995-96 reflects the Government's policies on fiscal management as set out in the General Government Debt Elimination Act (**Fiscal Principle No. 1**).

AUDITED INFORMATION

STATEMENT OF COMPLIANCE

In our opinion, the NSW Public Sector Consolidated Financial Statements:

- a. give a true and fair view of the operating result and cash flows of the NSW Public Sector for the year ended 30 June 1997 and of its financial position at that date; and
- b. comply with all applicable Australian Accounting Standards.

Michael Egan
Treasurer

John Pierce
Secretary

Ian Neale
Executive Director
Accounting and Financial Policy
Financial Management
NSW Treasury

NSW Treasury
7 December May 1998

The Consolidated Financial Statements are produced by the New South Wales Treasury (Office of Financial Management). Technical inquiries can be directed to the Financial Accountant - Consolidations, Accounting and Reporting Branch Tel: (02) 9228 4398
Fax: (02) 9228 3210



INDEPENDENT AUDIT REPORT

**NEW SOUTH WALES PUBLIC SECTOR
CONSOLIDATED FINANCIAL STATEMENTS**

To the Treasurer and the Secretary of The Treasury

Scope

I have audited the consolidated financial statements of the New South Wales public sector for the year ended 30 June 1997. The Treasurer is responsible for the preparation and presentation of the consolidated financial statements consisting of the accompanying statement of financial position, operating statement and statement of cash flows, together with the notes thereto and the information contained therein. I have conducted an independent audit of the consolidated financial statements in order to express an opinion on them to the Treasurer and the Secretary of The Treasury. There is no statutory requirement as to the form and content of the consolidated financial statements nor for their audit.

My audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the consolidated financial statements are free of material misstatement. My procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the consolidated financial statements, 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 consolidated financial statements are presented fairly in accordance with 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 New South Wales public 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 2, Revenue - State Taxation, includes \$1,513m collected for tobacco and petroleum products Business Franchise Licences. As disclosed in Note 21, 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.

2. Note 1, Valuation of Land, 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 consolidated statement of financial position. The value of these assets ascribed by the Authority was \$14,703m (1995-96, \$14,826m).

3. As in the previous year, assets and obligations arising from private sector financing of the Sydney Water Corporation Limited's water treatment plants have not been recognised in these consolidated financial statements. The Corporation carries substantially the risks and benefits incident to ownership of the underlying respective assets. As at 30 June 1997 the value of obligations and underlying assets relating to the water treatment plants not recognised in the consolidated statement of financial position is approximately \$622m (1995-96, \$477m). There is no material effect on net assets or the operating result.

4. As in previous years, not all assets and liabilities of the FANMAC Trusts relating to the HomeFund program have been recognised in the consolidated statement of financial position. In 1996-97 assets and liabilities of \$213m (1995-96, \$285m) were recognised but at 30 June \$747m (1995-96' \$938m) was not recognised. The Home Purchase Assistance Authority has the capacity to dominate the FANMAC Trusts decision making in relation to financial and operating policies. Accordingly all the Trusts' assets and liabilities should be recognised in the consolidated statement of financial position. The inclusion of amounts for the Trusts would not alter the net assets or the operating result as reported in the consolidated financial statements.

5. As in the previous year, the net movement on the revaluation of certain non-current investments has been recognised as a component of revenue which contravenes the requirements of Australian Accounting Standard AASIO "Accounting for the Revaluation of Non-Current Assets". This Standard requires the net increment on revaluation, amounting to \$79m (1995-96, \$62m) to be credited directly to an asset revaluation reserve. Had this been done, the financial effect would be that the surplus before abnormal and extraordinary items for the year would have been reduced by this amount. There is no effect on net assets.

6. Note 1, Depreciation, describes methods used to determine depreciation. Uncertainty exists as to the reasonableness of depreciation charges and the carrying value of the following assets for the reasons indicated:

- Department of School Education - owned school buildings - as in previous years, the carrying value and depreciation charges have not taken into consideration condition assessment, maintenance and refurbishment regimes, or estimated useful lives.
- New South Wales Land and Housing Corporation - properties - as in previous years, records supporting the amounts disclosed for properties on which depreciation was based did not attribute carrying values to individual assets. The uncertainty of previous years over the carrying value of these assets was removed following their revaluation on 30 June 1997.
- Sydney Water Corporation Limited - infrastructure assets - values have not been determined on a disaggregated, condition based approach.

The carrying value of these assets is material at \$33,002m (1995-96, \$25,521 m).

As in the previous year, Note 1, Valuation of Land, discloses that 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 consolidated statement of financial position.

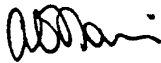
The Independent Audit Report on the New South Wales Public Sector Consolidated Financial Statements for the year ended 30 June 1996 was qualified for the matters at 2 to 7.

Qualified Audit Opinion

In my opinion, except for:

- the effects of the matters referred to in the qualification paragraphs 1 to 5; and
- the effects of such adjustments, if any, as might have been required had the limitations in the qualification paragraphs 6 and 7 not existed,

the New South Wales Public Sector Consolidated Financial Statements accord with the accounts and records of the Secretary of The Treasury and present fairly in accordance with applicable Accounting Standards and other mandatory professional reporting requirements the financial position of the New South Wales public sector as at 30 June 1997 and the results of its operations and its cash flows for the year then ended.



A. C. HARRISSYDNEY
8 May 1998

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

	Note	96-97 \$m	95-96 \$m
STATE REVENUES	2		
State Taxation, Fines and Regulatory Fees		11,780	10,604
Commonwealth Grants		8,480	8,350
Sale of Goods and Services		11,151	10,700
Investment Income		1,089	1,023
Grants and Contributions		426	218
Other		<u>1,435</u>	<u>1,614</u>
TOTAL REVENUES		<u>34,361</u>	<u>32,506</u>
EXPENSES	3		
Employee Related		11,740	14,236
Other Operating		7,211	6,066
Maintenance		1,649	1,745
Depreciation and Amortisation		2,404	2,694
Grants and Subsidies		2,808	2,365
Finance		3,069	3,285
Other		<u>1,912</u>	<u>2,328</u>
TOTAL EXPENSES		<u>30,793</u>	<u>32,719</u>
Gain on Sale of Non-Current Assets	2	157	65
SURPLUS/(DEFICIT) FOR THE YEAR BEFORE ABNORMAL AND EXTRAORDINARY ITEMS		3,725	(148)
Abnormal Items - Revenue/(Expense)	45	(148)	(2,302)
Extraordinary Item - Revenue/(Expense)		=	<u>6,179</u>
Surplus/(DEFICIT) for the year after abnormal AND EXTRAORDINARY ITEMS	6	<u>1,965</u>	<u>(8,629)</u>

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

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

	Note	1997 \$m	1996 \$m
CURRENT ASSETS			
Cash	17	1,692	512
Investments	7	5,342	5,705
Receivables	6	2,221	1,715
Inventories	8	843	995
Other	10	<u>179</u>	<u>241</u>
TOTAL CURRENT ASSETS		<u>10,277</u>	<u>9,168</u>
NON-CURRENT ASSETS			
Land and Buildings	9	44,944	37,276
Plant and Equipment	9	5,517	6,240
Infrastructure Systems	9	52,871	56,865
Investments	76	3,165	2,913
Receivables	6	478	637
Inventories	8	1,979	1,892
Other	10	<u>690</u>	<u>1,104</u>
TOTAL NON-CURRENT ASSETS		<u>109,644</u>	<u>106,927</u>
TOTAL ASSETS		<u>119,921</u>	<u>116,095</u>
CURRENT LIABILITIES			
Payables	11	3,079	2,582
Borrowings	12	6,085	4,449
Employee Entitlements	13	2,295	2,545
Other	14	<u>1,319</u>	<u>1,260</u>
TOTAL CURRENT LIABILITIES		<u>12,778</u>	<u>10,836</u>
NON-CURRENT LIABILITIES			
Borrowings	121	22,605	24,279
Employee Entitlements	132	14,512	16,785
Other	143	<u>4,054</u>	<u>3,586</u>
TOTAL NON-CURRENT LIABILITIES		<u>41,171</u>	<u>44,650</u>
TOTAL LIABILITIES		<u>53,949</u>	<u>55,486</u>
NET ASSETS		<u>65,972</u>	<u>60,609</u>
EQUITY			
Asset Revaluation Reserves	15	26,368	24,636
Accumulated Funds	16	<u>39,604</u>	<u>35,973</u>
TOTAL EQUITY	4	<u>65,972</u>	<u>60,609</u>

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

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

Cash flows from operating activities	Note	96-97 \$m	95-96 \$m
Receipts			
Taxation, Fines and Regulatory Fees		11,839	10,598
Sale of Goods and Services		10,846	10,230
Investment Income		607	877
Other		<u>9,173</u>	<u>10,703</u>
Total Receipts		<u>32,465</u>	<u>32,408</u>
Payments			
Employee Related		(14,302)	(13,070)
Grants and Subsidies		(2,405)	(2,231)
Finance		(127)	(2,523)
Other		<u>(8,838)</u>	<u>(10,701)</u>
Total Payments		<u>(25,672)</u>	<u>(28,525)</u>
Net cash flows from operating activities	17	<u>6,793</u>	<u>3,883</u>
Cash flows from investing activities			
Proceeds from Sale of Property, Plant and Equipment		776	690
Proceeds from Sale of Investments		2,869	17,443
Advance Repayments Received		87	*
Purchase of Property, Plant and Equipment		(3,850)	(4,139)
Purchase of InvestmentsAdvances Made		(3,088)	(16,553)
Other		(83)	*
		<u>110</u>	-
Net cash flows from investing activities		<u>(3,179)</u>	<u>(2,559)</u>
Cash flows from financing activities			
Proceeds from Borrowings and Advances		57	13,561
Repayments of Borrowings and Advances		<u>(547)</u>	<u>(15,640)</u>
Net cash flows from financing activities		<u>(490)</u>	<u>(2,079)</u>
NET CASH FLOW OF FINANCIAL INSTITUTIONS	17	<u>(2,656)</u>	-
Net increase/(decrease) in cash held		468	(755)
Opening Cash and Cash Equivalents		3,024	3,799
Reclassification of Cash Equivalents		<u>(2,576)</u>	=
Closing cash balance	17	<u>916</u>	<u>3,024</u>

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

THE NSW PUBLIC SECTOR

Notes to and forming part of the financial statements

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

This general purpose financial report covers the New South Wales Public Sector which is made up of all Budget Sector and Non Budget Sector agencies as well as the entities that are controlled by those agencies. The Budget Sector 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 are those which rely predominantly on the State Budget for direct funding (ie 50% or more of the total funding of each agency is provided by Parliamentary appropriations). With some exceptions, they are known as departments as defined by section 45A(1) of the Public Finance and Audit Act 1983 and are listed in Schedule 3 of that Act and in Appendix D of Budget Paper No. 2 of 1996-97..

The Crown Transactions Entity - Non Commercial Activities Consolidated Fund Entity - Core Activities is part of the Budget 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.

Non Budget Sector agencies are generally referred to as statutory bodies as defined under section 39(1) of the Public Finance and Audit Act and they are listed in Schedule 2 of that Act. Agencies in the Non Budget Sector include:

- Agencies that are largely self funded from user charges and have a commercial charter (including the Crown Transactions Entity - Commercial Activities);
- Those regulatory agencies that are self funded (eg workcover Authority and Motor Accidents Authority)

A substantial number of those agencies that are engaged in commercial activities are in the Public Trading Enterprise Sector which also includes the State Owned Corporations. Examples of State Owned Corporations are the Sydney Water Corporation Limited and the newly corporatised electricity distributors and port authorities.

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

BASIS OF ACCOUNTING

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

The financial statements are based on the historical cost convention except for certain assets which are at current valuation (eg written down replacement cost for non current physical assets).

BASIS OF MEASUREMENT

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

All amounts in this financial report 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 POLICIES

The accounting principles adopted are consistent with those of the previous year except as follows.

This report has been prepared in accordance with Australian Accounting Standard AAS31 Financial Reporting by Governments. In the prior year, the guidance in the exposure draft to that standard was used. As a result, additional disclosures are included in this report, including the separate disclosure of the cash flows of financial institutions.

Certain agencies have made changes in accounting policies to comply with amendments to Australian Accounting Standards which specifically require an initial adjustment to opening accumulated funds. The financial effect of these changes is disclosed in note 16.

The financial report of Treasury Corporation applied in the preceding year except for the following changes. has been recast on consolidation to ensure consistency of accounting policies in preparing this consolidated financial report. The financial effect of this is disclosed in note 16.

For purposes of the cash flow statement, the definition of cash has been amended to exclude Treasury Corporation deposits. The effect of this is disclosed in the cash flow statement and explained in note 17.

Some 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. Both the tax-related asset and liability accounts have been eliminated in this consolidated financial report.

Prior to 1996-97, the NSW Land and Housing Corporation recognised its residential properties at historical cost. This policy was changed in 1996/97 in accordance with Treasury guidelines to recognise physical non current assets at their current value. The revaluation of residential properties to market value has resulted in a revaluation increment of \$7,473 million which has been credited to the asset revaluation reserve.

Due to a change in Corporations Law, Sydney Water Corporation Limited and its entities have reclassified bills of exchange and promissory notes from receivables to investments as they form part of the daily investment of surplus funds rather than receivables. The financial effect was to include \$243 million under Current Investments rather than Current Receivables.

Rental bond moneys of \$363 million held by the Rental Bond Board and the related investments have been excluded from the statement of financial position based on the advice of the Crown Solicitor that these moneys are held in trust. This amount is now included in note 18 as trust monies.

PRINCIPLES OF CONSOLIDATION

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

Entities are considered to be controlled by the State where it has the capacity to dominate their financial and operating policies so as to enable them to operate with it in pursuing its own objectives.

Entities are not consolidated where the nature of the "control" exercised is of a regulatory or trust nature, as such control falls outside the concept of "control" as embodied in AAS31.

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

Significant assets, liabilities, revenues and expenses which have not been recognised in any entities' financial statement have been included in these consolidated financial statements. State taxes, Commonwealth grants, budget sector borrowings, budget sector superannuation and long service leave and investments administered by the Crown Transaction Entity on behalf of the State have been recognised.

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

REVENUE

State Taxation, Fines and Fees

State taxation is recognised as follows:

- Government-assessed revenues (primarily land tax) are recognised at the time the assessments are issued.
- Taxpayer-assessed revenues (including payroll tax, and stamp duty), liquor licence fees and petrol levy), 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 goods or services are 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.

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 premiums, redundancy payments 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 community groups which are included under "Other" expenses are shown separately.

Depreciation.

Depreciation across the State Public Sector 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. This issue will be addressed in the planned development of an Asset Management Information System for the management of all school buildings.

Depreciation of residential properties controlled by the NSW Land and Housing Corporation has been calculated using the straight line method with the economic useful life being estimated as 50 years, with nil salvage value. The depreciation method relies on representative sample historical costs by building type and year of completion and average costs of construction extrapolated to the total number of properties in stock.

Sydney Water Corporation's depreciation of infrastructure assets is currently based on the assumption of normal wear and tear rather than condition-based. However, the Corporation is undertaking a revaluation project which will involve revaluation of assets on a segmented basis and condition-based assessments of asset lives. When implemented, this may impact on asset values and depreciation charges for some classes of assets.

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.

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 as assets and revenues at their fair value at the date of acquisition. Fair value means 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

Land held for continued use that would be replaced because of government policy is valued at the greater of 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 but not to be replaced given the existing government policy is valued at the greater of the present value of future net cash flows and 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 valuation program. Land under roads and within road reserves which has been recognised in the financial report of the Roads and Traffic Authority (at \$14.7 billion), has not also has not been recognised in the State's Consolidated Financial Statements as there is currently no methodology available to reliably determine the value. Australian Accounting Standard AAS29 "Financial Reporting by Government Departments" has a transitional provision that allows land under roads not to be recognised until 1 July 1999. The transitional provision takes effect from 1 July 1996. The Public Sector Accounting Standards Board is currently investigating the feasibility of developing a suitable valuation methodology in conjunction with the valuation profession.

Valuation of Plant and Equipment, Infrastructure Systems and Buildings

Plant and equipment, infrastructure systems and specialised buildings that are held for continued use and that would be replaced because of government policy are valued at depreciated current cost. Infrastructure systems include assets such as roads, bridges, sewerage systems, water supply and reservoirs, power generation plants and transmission lines. Current cost is the minimum cost of replacing the remaining service potential of an asset with a modern equivalent asset (eg current market buying price, current reproduction cost or current replacement cost).

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 value.

Infrastructure systems include assets such as roads, bridges, sewerage systems, water supply and reservoirs, power generation plants and transmission lines.

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.

Non-current assets used by profit-seeking agencies are revalued downward when their carrying amount is greater than their recoverable amount. The recoverable amount test is not applied to non-current assets of not-for-profit agencies whose service potential 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 therefore net of any provision for bad and 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 the "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 or liabilities because there is significant uncertainty as to whether the definitions and recognition criteria in SAC4 Statement of Accounting Concepts "Definition and Recognition of Elements of Financial Statements" would be satisfied. Instead, the payments under these agreements are expensed systematically over the term of the agreements. Further, the commitments for future payments under these agreements are disclosed as "Commitments" in the notes to the financial statements.

However, certain private sector financed infrastructure arrangements provide for a private sector entity to design, construct, operate and maintain certain infrastructure for a specified concession period, after which the infrastructure is transferred back to the 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 transfer to the Authority in year 2022. At the date of 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 (19965 - \$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, 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 \$44351 million (1996 5 - \$4518 million).

M4, M5 and M2 Motorways

The Roads and Traffic Authority has also recognised as an asset its emerging right to receive in the M4, M54 and M25 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.

Forestry Stock

State Forests revalues the Softwood Plantations growing stock annually, using a market valuation model 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. Where schedule prices were not adequately supported by actual sales, current sale prices at the time of valuation were used. 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 and as an adjustment to Other (Forest) Assets in the Statement of Financial Position. Costs are capitalised where incurred for major improvements to plantation quality.

Native Forests and Hardwood Plantations have been valued using the recent Valuer General's Office valuation of the 'total forest asset' which includes land, roads and bridges and the available timber resources. The valuation is based on current market buying price representing value in use. The valuation is based on area and other data provided by State Forests. The financial impact of the revaluation increment is included in the Asset Revaluation Reserve, with no impact on the operating result. State Forests manages the available native forest resource on a sustained yield basis. Sustained yield means the volume harvested will approximate, over time, annual forest growth of the harvestable native forest areas. As a result, costs are expensed as incurred.

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.

LIABILITIES

Borrowings

The State's borrowings represent funds raised from the following sources:

- Loans raised by the Commonwealth on behalf of the State under the previous Financial Agreement;
- Advances by the Commonwealth for housing and other specific purposes;
- Domestic and overseas borrowings raised by the NSW Treasury Corporation; and
- Private and public domestic borrowings by Non Budget Sector agencies.

Borrowings are carried recognised at Current Capital Value. Current Capital Value is the which represents 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.

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 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 pay rates to the entitlements at year end for all employees with five or more years of service.

Major Non Budget Sector agencies and Area Health Services have applied the present value basis. In doing so, consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Estimated future payments are discounted to present values. All other agencies have continued to apply the 'nominal method'.

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 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 triennial actuarial 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 the estimates of obligation to pay. These 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 assessment.

2. REVENUE	96-97	95-96
	\$m	\$m
State Taxation		
Payroll Tax	2,987	2,707
Stamp Duties	3,182	2,631
Petroleum, Tobacco and Liquor Licences	1,740	1,813
Gambling and Betting	1,209	1,115
Land Tax	648	567
Other Taxes and Levies	<u>2,014</u>	<u>1,771</u>
	<u>11,780</u>	<u>10,604</u>
Gambling and Betting include net receipts for Lotteries and TAB activities as follows:		
Gross receipts	4,609	4,531
Prizes and other statutory payments	<u>(4,245)</u>	<u>(4,174)</u>
Net receipts	<u>364</u>	<u>357</u>
Commonwealth Grants		
General Purpose - Recurrent	4,664	*
Specific Purpose - Recurrent	2,991	*
- Capital	<u>825</u>	*
	<u>8,480</u>	<u>8,350</u>
Gain on Disposal of Non-Current Assets		
Proceeds from disposal of physical assets	677	686
Less written down value of disposed assets	<u>(562)</u>	<u>(621)</u>
Net gain on disposal of physical assets	<u>115</u>	<u>65</u>
Proceeds from disposal of investments ^(a)	2,869	*
Less written down value of disposed investments ^(a)	<u>(2,827)</u>	*
Net gain on disposal of investments	<u>42</u>	-

^(a)These amounts include Treasury Corporation deposits which have not been eliminated on consolidation due to lack of auditable data. This does not impact on the net gain.

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 Related Expenses comprise:		
Salaries and Wages (including Recreation Leave) ^(b)	11,786	10,547
Workers Compensation Insurance	45	*
Fringe Benefits Tax	33	*
Superannuation Entitlements ^(a)	(1,065)	2,278
Long Service Leave	331	-
Leave Entitlements (including Long Service Leave) ^(b)	-	1,100
Other	<u>610</u>	<u>311</u>
	<u>11,740</u>	<u>14,236</u>

(a) The superannuation expense in the Operating Statement is a credit of \$1,065 million. The major reason for this is that there has been a reduction in unfunded superannuation liabilities as at 30 June 1997 of \$2,646 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 as well as employer contributions made to the Pooled Fund.

The positive adjustments to employer reserves of \$1,807m 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 interest earnings above forecast. 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.

(b) Recreation Leave has been reclassified as part of Salaries and Wages in the current year. It is included in Leave Entitlements in the comparative.

Expenditure capitalised as property, plant and equipment is excluded from the above.	1,161	*
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Finance charges comprise:

Commonwealth Government	313	*
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Private Organisations	<u>2,756</u>	*
	<u>3,069</u>	<u>3,285</u>

Grants and subsidies include the following significant payments by the following agencies:

Department of Transport	380	361
Department of School Education	404	375
Department of Health	453	429
Department of Community Services	241	225
Department of Aging and Disability Services	245	211

Other Operating Expenses include -

Bad and Doubtful Debts	19	153
Operating Lease Rentals	284	357
Consultancy Fees	112	67

Auditors' remuneration of \$17 million for audit and \$1 million for other services (1996 - \$15 million for audit and \$2 million for other services) have not been recognised as expenses because they have been eliminated on consolidation.

4. ABNORMAL ITEMS - Revenues/(Expenses)	96-97 \$m	95-96 \$m
Profit on sale of Axiom Funds Management Corporation <small>(a)Downward adjustment of asset values. This includes -</small>	189	-
<ul style="list-style-type: none"> • RTA - road area assessment • RTA - land under roads • Department of Land and Water Conservation • Health Department • Integral Energy • Other 	<ul style="list-style-type: none"> - (50) - (62) (69) (33) 	<ul style="list-style-type: none"> (260) (1,440) (773) (269) - -
<small>(b)Corporatisation Adjustments (b)</small>		
<ul style="list-style-type: none"> • Rail industry • Electricity Industry • Maritime Industry 	<ul style="list-style-type: none"> (1,881) - - 	<ul style="list-style-type: none"> - (572)(572) 79
<small>(c)Prior Year Adjustments</small>		
<ul style="list-style-type: none"> • to market value increments on investments • to eliminate net tax effect 	<ul style="list-style-type: none"> - - 	<ul style="list-style-type: none"> 494 (57)
Items not previously recognised:		
<ul style="list-style-type: none"> • Assets dedicated to National Parks and Wildlife Service • Building and Construction Industry Long Service Payments Corporation - net assets • Australian Inland Energy - net assets • RTA - land acquired for future roadworks • Coal Compensation Board claims 	<ul style="list-style-type: none"> 63 - - - (91) 	<ul style="list-style-type: none"> 49 494253 57(57) 137137 -
<small>(d)Profit on cross border lease on Mt Piper Power Station</small>	<u>174</u>	-
	<u>(1,760)</u>	<u>(2,302)</u>

(a) No valuation has been included in the Consolidated Financial Statements 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 Consolidated Financial Statements 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.

(b) At the time of the restructure of the rail industry on 1 July 1996, rail infrastructure assets and liabilities were transferred from the State Rail Authority (SRA) to the new commercial rail entities. In the financial statements of the SRA the assets were valued on the basis of written down replacement cost. The new commercial entities are required by accounting standards to apply the recoverable amount test to the valuation of these assets. The recoverable amount is the present value of future cash flows expected to be generated from these assets and is considerably lower than written down replacement cost. Accordingly, the rail infrastructure assets were written down by \$6,430 million, comprising asset revaluation reserve decrements of \$4,549 million and an abnormal expense of \$1,881 million.

During 1995-96 various electricity generators, distributors and maritime authorities were corporatised. Net adjustments made to the value of their assets and liabilities have been recorded as Abnormal Items. The larger of these adjustments relate to asset valuation decrements, provision for redundancies and the write back of self insurance liabilities.

(c) In 1993-94 NSW Treasury Corporation adopted market value reporting. In that year all market value increments were eliminated, whereas accounting policy for the consolidated financial statements did not require elimination of increments for investments. In 1995-96 an abnormal revenue was recognised to reverse this previous elimination.

(d) Delta Electricity has entered into three cross border lease transactions relating to the Mt Piper Power Station whereby the facility has been leased to the State of New South Wales and sub-leased (via various overseas parties) back to Delta Electricity. The effect of these arrangements is that Delta Electricity retains legal title to, beneficial ownership of, and continues to operate, the power station. Delta Electricity is prevented, however, from mortgaging or allowing any other lien to exist over the facility so as to create an interest which is not subject to that of the United States Lessors during the term of the leases. Delta Electricity has agreed to support certain of NSW Treasury Corporation's representations and warranties under the transactions and in return New South Wales has indemnified Delta Electricity for its participation in the transaction other than in respect of operational matters.

All significant amounts receivable and payable by Delta Electricity have been prepaid and accordingly, lease assets or liabilities are reflected in the balance sheet.

5. EXTRAORDINARY ITEMS

	96-97 \$m	95-96 \$m
Transfer of regional roads to Local Government ^(a)	-	(6,179)

(a) The Roads and Traffic Authority'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 authorities. During 1995-96, regional road assets were transferred to Local Government without any consideration. This gave rise to an extraordinary loss of \$6,179 million.

6. RECEIVABLES

Current Receivables

Debtors	1,008	*
• Sale of Goods and Services	152	*
• Asset Sales	156	*
• Taxation	180	*
• Interest	76	*
Advances Receivable	<u>751</u>	-
Other	2,323	2033
Less Provision for Doubtful Debts	<u>(102)</u>	<u>(318)</u>
	<u>2,221</u>	<u>1,715</u>

Non-Current Receivables

Advances Receivable	132	*
Other	478	*
Less Provision for Doubtful Debts	<u>(132)</u>	-
a. Reclassified in current year. Included in Other Non Current Assets in 1995-96.	<u>478</u>	<u>637 (a)</u>

7. INVESTMENTS

Current	5,342	5,705
Non-current	<u>3,165</u>	<u>2,913</u>
Investments comprise:	<u>8,507</u>	<u>8,618</u>
NSW Treasury Corporation	5,251	*
Other	<u>3,256</u>	-
	<u>8,507</u>	<u>8,618</u>

8. INVENTORIES

Current

Raw Materials	231	172
Work in Progress	84	145
Finished Goods	57	49
Forestry	62	59
Consumable Stores	269	395
Land Held for Resale	<u>140</u>	<u>175</u>
	<u>843</u>	<u>995</u>

Non-Current

Forestry	1,403	1,274
Land Held for Resale	495	464
Work in Progress	54	97
Other	<u>27</u>	<u>57</u>
	<u>1,979</u>	<u>1,892</u>

9. PROPERTY, PLANT AND EQUIPMENT	96-97	95-96
	\$m	\$m
Land and Buildings		
At cost	5,316	13,928
At valuation	47,067	31,370
Accumulated depreciation at cost	(703)	(1,859)
Accumulated depreciation at valuation	(6,719)	(6,163)
Provision for major periodic maintenance	<u>(17)</u>	=
	<u>44,944</u>	<u>37,276</u>
Plant and Equipment		
At cost	3,849	4,267
At valuation	5,745	6,615
Accumulated depreciation at cost	(1,780)	(1,594)
Accumulated depreciation at valuation	(2,260)	(3,048)
Provision for major periodic maintenance	<u>(37)</u>	=
	<u>5,517</u>	<u>6,240</u>
Infrastructure Assets		
Accumulated depreciation at cost and valuation	6,766	6,853
At cost	52,533	63,564
At valuation	(691)	(377)
Accumulated depreciation at cost	(5,710)	(13,175)
Accumulated depreciation at valuation	<u>(27)</u>	=
Provision for major periodic maintenance	<u>52,871</u>	<u>56,865</u>
Total Property, Plant and Equipment at Net Book Value	<u>103,332</u>	<u>100,381</u>
10. OTHER ASSETS		
Current	179	241
Non current	<u>690</u>	<u>1,104</u>
	<u>869</u>	<u>1,345</u>
Other Assets include:		
Emerging interest in the Sydney Harbour Tunnel	434	434
Right to Receive M2/M4/M5 Motorways	64	49
Prepayments	142	*
Other	<u>229</u>	*
	<u>869</u>	<u>1,345</u>

	96-97 \$m	95-96 \$m
11. PAYABLES		
Interest on borrowings and advances	626	*
Other	<u>2,453</u>	<u>-</u>
	<u>3,079</u>	<u>2,582</u>

12. BORROWINGS

Current	6,085	4,449
Non current	<u>22,605</u>	<u>24,279</u>
	<u>28,690</u>	<u>28,728</u>

Borrowings comprise:

Liability to Commonwealth Government	3,641	4,097
Domestic and foreign borrowings	23,959	23,984
Bank overdraft	776	420
Finance leases ^(a)	<u>314</u>	<u>227</u>
	<u>28,690</u>	<u>28,728</u>

The maturity profile of borrowings at current capital value (1995-96 at face value):

Not later than one year	6,085	4,700
Between one and two years	2,137	5,398
Between two and five years	11,469	6,816
Later than five years	<u>8,999</u>	<u>13,207</u>
	<u>28,690</u>	<u>30,121</u>

(a) Finance leases liabilities are payable as follows:

Not later than one year	54	35
Between one and two years	53	62
Between two and five years	130	90
Later than five years	<u>527</u>	<u>294</u>
Minimum lease payments	764	481
Less: Future finance charges	<u>(450)</u>	<u>(254)</u>
Finance lease liability	<u>314</u>	<u>227</u>

13. EMPLOYEE ENTITLEMENTS

Current	2,295	2,545
Non current	<u>14,512</u>	<u>16,785</u>
	<u>16,807</u>	<u>19,330</u>
Employee Entitlements comprise:		
Unfunded superannuation	12,789	15,435
Long service leave and other leave entitlements	3,642	3,628
Other salary related liabilities	<u>376</u>	<u>267</u>
	<u>16,807</u>	<u>19,330</u>

Unfunded Superannuation Liability

The Public Sector's unfunded superannuation liability for the various defined benefits schemes is assessed each year by the Government Actuary based on data maintained by the Superannuation Administration Authority. It is based on the latest triennial actuarial assessment adjusted for any subsequent movements in value. The most recent detailed triennial actuarial valuation was prepared by the Government Actuary and William M Mercer, consulting actuaries, as at 30 June 1994.

These calculations are generally based on actual data up to 30 June 1997. The underlying demographic assumptions are consistent with 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 AAS25 "Financial Reporting by Superannuation Plans".

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

The estimated unfunded superannuation liability is primarily based on data relating to most schemes as at 30 April 1996 and extrapolated to 30 June 1996. The economic and demographic assumptions underlying the June 1996 estimated unfunded liability were as per the Actuarial Valuation of the Superannuation Schemes in the Pooled Fund as at 30 June 1994. These are shown below.

	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	3.0%pa4.0%pa	4.5%pa	5.0%pa
CPI growth rate	2.1%pa	4.0%pa2.5%pa	3.0%pa	3.5%pa

Unfunded superannuation liabilities as at 30 June 1997 have decreased by about \$2.6 billion compared to the previous year.

The bulk of the reduction resulted from a number of major positive adjustments to employee reserves that were brought to account by the Superannuation Administration Authority in 1996-97. These adjustments related to the allocation to employer reserve accounts of Pooled Fund tax credits, State Superannuation Scheme Contributors' Reserves, amount arising from corrections to employers' annual statements and additional interest earnings.

The balance of the decrease in unfunded liabilities was due to an adjustment made by the Government Actuary to the value of accrued benefits to recognise changes in fund membership and valuation assumptions to reflect current actuarial factors.

	96-97	95-96
	\$m	\$m
The unfunded superannuation liability is composed of:	-	-
Pooled Fund	-	-
• State Authorities Superannuation Scheme	<u>2,214</u>	<u>2,075</u>
• State Authorities Non Contributory Superannuation Scheme	<u>876</u>	<u>654</u>
• State Superannuation Scheme	<u>6,287</u>	<u>9,013</u>
• Police Superannuation Scheme	<u>2,495</u>	<u>2,800</u>
Judges' Pension Scheme	<u>194</u>	<u>147</u>
Parliamentary Contributory Superannuation Scheme	<u>70</u>	<u>65</u>
State's share of University superannuation liabilities	<u>652</u>	<u>678</u>
Other	<u>1</u>	<u>3</u>
	<u>12,789</u>	<u>15,435</u>

14. OTHER LIABILITIES

Current	1,319	1,260
Non-current	<u>4,054</u>	<u>3,586</u>
	<u>5,373</u>	<u>4,846</u>

Other Liabilities comprise:

Obligations of Insurance Ministerial Corporation for closed insurance schemes	2,374	2,110
WorkCover Authority	297	291
Workers' Compensation (Dust Diseases) Board	200	216
The Sydney Harbour Tunnel Agreement Obligations	443	451
Building and Construction Industry Long Service Payment Scheme	195	177
Obligations to the Olympic Stadium Consortium	120	-
Coal Compensation Board claims	91	-
Coal Compensation Board claims	38	38
Provision for future HomeFund restructure costs	<u>1,615</u>	<u>1,563</u>
Other	<u>5,373</u>	<u>4,846</u>

	96-97	95-96
	\$m	\$m
15. ASSET REVALUATION RESERVE		
Opening Balance	24,636	24,413
Adjustment due to change in consolidation scope (refer Note 16(a))	(87)	-
Net transfer to accumulated funds ^(a)	(2,323)	(1,064)
Net valuation increment ^(b)	4,142	(419)
Establishment of Asset Revaluation Reserve - Roads and Traffic Authority	-	<u>1,706</u>
Closing Balance at 30 June	<u>26,368</u>	<u>24,636</u>

(a) In 1997 EnergyAustralia and Integral Energy established a share premium reserve, amounting to \$2,323 million transferred from asset revaluation reserves, which forms part of the consolidated accumulated funds. In 1996, this included \$650 million transferred to accumulated funds as the result of asset transfers by Pacific Power to Macquarie Generation and Delta Electricity.

(b) In 1997 the net valuation increments included the revaluation of public housing of \$7,473 million offset by State Rail Authority's reduction in its valuation of its property and infrastructure of \$4,549 million (refer Note 4(b). "Corporatisation Adjustments" for further explanation)

16. ACCUMULATED FUNDS

Opening balance	35,973	45,244
Adjustment due to change in consolidation scope ^(a)	(206)	-
Adjustments due to change in accounting policy ^(b)	(330)	-
Recasting of Treasury Corporation to ensure consistent accounting policies on consolidation	(104)	-
Establishment of Asset Revaluation Reserve	-	(1,706)
- Roads and Traffic Authority	2,323	1,064
Net Transfer from Asset Revaluation Asset Revaluation Reserve	(17)	-
Other Adjustments	<u>1,965</u>	<u>(8,629)</u>
Add: Surplus/(Deficit) for year after abnormal and extraordinary items	<u>39,604</u>	<u>35,973</u>

(a) A number of entities included in the previous year have been excluded in the current year because they are considered immaterial.

(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)	-
	122	-
• Reclassification of deferred revenue	(82)	-
• Corrections to the valuation of property, plant and equipment by the Department of Health	<u>(80)</u>	-
	<u>(330)</u>	-
• Other		

	96-97	95-96
	\$m	\$m
17. CASH FLOW INFORMATION		
Reconciliation of operating result to net cash flows from operating activities excluding financial institutions		
Surplus (Deficit) after abnormal and extraordinary items	1,965	(8,629)
Add back:		
Deficit of financial institutions	315	-
Operating cash flow of financial institutions eliminated on consolidation	2,397	-
Non-cash items added back -		
Depreciation and amortisation	2,404	2,694
Loss/(gain) on asset disposals	(157)	(65)
Other	514	-
Change in operating assets and liabilities	(645)	9,883
Net cash flows from operating activities	<u>6,793</u>	<u>3,883</u>

Closing cash and cash equivalent balances:

For purposes of the cash flow statement, in the current year cash and cash equivalents is defined as cash on hand, at bank and deposits at call (excluding TCorp Hour Glass facility and other TCorp deposits) less bank overdraft. TCorp Hour Glass facility and other TCorp deposits are classified as investments. In the prior year, they were included as cash and cash equivalents.

Cash on hand and at bank	1,692	512
Deposits at call (TCorp Hour Glass and Other)	-	2,932
Bank overdraft	<u>(776)</u>	<u>(420)</u>
	<u>916</u>	<u>3,024</u>

Sale of Government Entities

During the year the Government sold Axiom Funds Management Corporation. The profit on sale of \$189 million has been disclosed as an abnormal revenue for the year.

The cash flow effect of the disposal is as follows:

- a. the disposal price was \$193m;
- b. \$193m was received in cash;
- c. the corporation held \$395,000 in cash at disposal date; and
- d. the corporation held total assets of \$27m and total liabilities of \$20m at date of disposal.

Non Cash Financing and Investing Activities

In respect of Sydney Water Corporation Limited and its entities, assets which are acquired by the economic entity and the Corporation under finance leases, Build Own Operate scheme financing arrangements or assets handed over at no cost by subdividers/developers are not included in the Statements of Cash Flows as these are regarded as non-cash. During the financial year, assets acquired under finance leases totalled \$0.032 million for the economic entity (1996 \$1.192 million). The amount capitalised during the financial year in respect of assets handed over at no cost by subdividers/developers to both the economic entity and the Corporation was \$86.624 million (1996 \$45.962 million).

	96-97 \$m	96-97 \$m
Net Cash Flows from Financial Institutions	Gross	Net of Eliminations#
Cash Inflows (Outflows) from Operating Activities		
Interest receipts	2,392	158
Fees and commissions received	15	15
Finance payments	(2,758)	(2,900)
Employee related payments	(7)	(7)
Net Cash for other operating activities	<u>(28)</u>	<u>(49)</u>
Net cash used in operating activities	<u>(386)</u>	<u>(2,783)</u>
Cash Inflows (Outflows) from Investing Activities		
Loans to authorities repaid	5,714	-
Proceeds from disposal of investments	17	17
Advance repayments received	73	73
Loans to authorities made	(5,074)	-
Net cash used for short term or liquid financial instruments	(139)	(139)
Purchase of property, plant and equipment	(1)	(1)
Other	<u>243</u>	-
Net cash from investing activities	<u>833</u>	<u>(50)</u>
Cash Inflows (Outflows) from Financing Activities		
Proceeds from borrowings	20,611	20,611
Repayment of borrowings	(20,434)	(20,434)
Dividends paid	<u>(26)</u>	-
Net cash from financing activities	<u>151</u>	<u>177</u>
Net Cash Flows from Financial Institutions	<u>598</u>	<u>(2,656)</u>

The cash flows from financial institutions of \$2,656m have been reported separately within the Consolidated Cash Flow Statement net of eliminations with other consolidated entities.

18. TRUST FUNDS	96-97	96-97
	\$m	\$m
Budget Sector	119	37
Non Budget Sector	<u>1,424</u>	<u>1,114</u>
	<u>1,543</u>	<u>1,151</u>
Trust monies are held by the trustee on behalf of beneficiaries. Therefore, these monies are not included in the consolidated financial statements assets.		
Budget Sector trust monies mainly comprise various forms of unclaimed monies and Supreme Court trust funds held in statutory accounts as follows:		
	82	-
	10	19
Health Department	<u>27</u>	<u>18</u>
Attorney General's Department	<u>119</u>	<u>37</u>
Others		
Trust monies held by Non Budget Sector agencies include: -	726	612
Protective Commissioner	174	340
NSW Treasury Corporation	363	-
Rental Bond Board (see Note 1 Change in Accounting Policy)	<u>161</u>	<u>162</u>
Others	<u>1,424</u>	<u>1,114</u>

19. EXPENDITURE COMMITMENTS	96-97	96-97
	\$m	\$m
Capital Expenditure		
Budget Sector	2,670	2,428
Non Budget Sector	<u>2,074</u>	<u>2,509</u>
	<u>4,744</u>	<u>4,937</u>
The above represents capital expenditure contracted for at balance date including private sector financed infrastructure assets but not recognised in the financial statements.		
<u>Budget Sector</u>		
Health Department	1,603	1,733
Roads and Traffic Authority	451	428
Olympic Coordination Authority	389	-
Other agencies	<u>227</u>	<u>267</u>
	<u>2,670</u>	<u>2,428</u>
<u>Non Budget Sector</u>		
State Rail Authority	425	726
Sydney Water Corporation	1,022	1,174
NSW Land and Housing Corporation	126	209
Other agencies	<u>501</u>	<u>400</u>
	<u>2,074</u>	<u>2,509</u>
Capital expenditure commitments payable:		
not later than one year	1,792	2,209
later than one year and not later than two years	1,175	832
later than two years and not later than five years	1,213	1,066
later than five years	<u>564</u>	<u>830</u>
Total capital expenditure commitments	<u>4,744</u>	<u>4,937</u>
Operating Lease Expenditure		
Amounts payable:	421	716
not later than one year	362	661
later than one year and not later than two years	717	1,963
later than two years and not later than five years	<u>921</u>	<u>793</u>
later than five years	<u>2,421</u>	<u>4,133</u>

20. CONTINGENT LIABILITIES	96-97 \$m	96-97 \$m
(a) Quantifiable contingent liabilities comprise:		
Budget Sector		
State guarantees under statute (Relating mainly to certain Co-operative Housing Societies)	168	189
Attorney General's Department (representing claims on Victims Compensation Fund)	163	65
Olympic Co-ordination Authority (representing contractual arrangements involving possible future claims)	44	-
Department of Transport - Pyrmont Light Rail Project	67	-
National Parks and Wildlife Service - claims including legal proceedings	30	-
Coal Compensation Board (representing claims for compensation under the Coal Acquisition (Compensation) Arrangements Act 1985)	31	64
NSW Police Service - claims including legal proceedings	30	-
Other agencies	<u>39</u>	<u>73</u>
Total - Budget Sector	<u>572</u>	<u>391</u>
Non Budget Sector		
Home Purchase Assistance Fund (potential income and cash shortfalls in FANMAC Trust system and excess rate caps).	21	
LandCom (conditional acquisition of property)	54	
Sydney Water (claims in respect of compensation and litigation)	92	-
State Rail Authority (comprising commercial disputes, employee disputes, environmental, personal injury and property claims)	39	49
Pacific Power (comprising capital works, mine subsidence, Avondale purchase and coal industry leave levy)	32	27
Marine Ministerial Holding Corporation (unsettled claims subject to litigation).	9	-
City West Housing Pty Ltd	9	10
NSW Treasury Corporation (comprising bonds on loan to fixed interest market under a stocklending facility).	150	27
Land and Housing Corporation (possible shortage of land availability to Joint Development at South Penrith)	30	-

Other agencies	<u>16</u>	<u>18</u>
Total - Non Budget Sector	<u>452</u>	<u>131</u>

(b) In addition, 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:

- Issued securities, borrowings and derivative liabilities of the NSW Treasury corporation with a market value of \$26,451 million (1996 \$25,149 m) have been guaranteed by the NSW Government under the Public Authorities (Financial Arrangements) Act 1987.
- Pursuant to the State Bank (Privatisation) 1994 Act, the State has guaranteed all existing and future liabilities of the Bank until 31 December 1997. Thereafter while existing liabilities will continue to be guaranteed until maturity, any new liabilities incurred after that date will no longer be guaranteed by the State. As at 30 June 1997 the total guaranteed liabilities of the Bank amounted to \$18.216 billion (1996 - \$185.09 billion).
In addition to the above, the State has certain other contingent liabilities arising from the sale of the Bank through indemnities given 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. While it is not possible to accurately quantify these contingent liabilities, they are currently estimated at \$18530 million (1996 \$130m).n.
- 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 are :

	96-97	95-96
	\$m	\$m
General insurance	250	180
Life insurance	459	530
Inward reinsurance	<u>408</u>	<u>517</u>
	<u>1,117</u>	<u>1,227</u>

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

In addition, the Government may incur liability in relation to certain unit-linked insurance policies where investment units are convertible to capital guaranteed status at some time in the future. The maximum potential liability is estimated at \$1,318 million at 30 June 1997 (1996 - \$1,256m).

- Through Structured Finance Activities, the State entered into several finance leases in respect of rolling stock assets and electricity assets with private interests in North America, Europe and Japan. There are two categories of contingent liabilities with respect to these transactions:

The first type of contingency arises by virtue of the NSW Government indemnity provided pursuant to each transaction. The exposure relates in the main to the change of law risk and administration risk in relation to the covenants given under the leases.

The second type of contingency arises where the NSW Government has a third party risk in terms of monies being placed on deposit with a counterparty. The total of this contingent liability is estimated at \$640 million. This figure represents a \$160 million increase on the 1995-96 account, \$150 million of which arises from the Mt Piper Cross Border transaction. The NSW Treasury Corporation on behalf of the NSW Government is monitoring this risk.

This contingent liability increases with the duration of the individual transactions. As at 30 June 1997, there was no change in the credit standing (as reported by Standard & Poors) of the deposit counterparty entities.

- The State supports the borrowing of the FANMAC Trust via the Home Purchase Assistance Fund to facilitate the provision of housing loans to low income earners. The total capital value of borrowings of the FANMAC Trusts not consolidated into these financial statements was \$942 747 million at 30 June 1997 (1996 \$938m)⁶. Various analyses have been undertaken to assess the present value of the future costs to the State in providing this support. These costs include capital losses, unplanned subsidies and savings from bond rate resets. A provision of \$38 million has been made by the Home Purchase Assistance Authority for future support (1996 \$38m).
- Indemnities have been provided by NSW Treasury Corporation to several parties who acquired annuities from the Corporation in 1986. The indemnities relate to amounts which could be payable by the Corporation to those parties, if the correct tax treatment of the annuity transactions is otherwise than as the Corporation has been advised.

Assessments have been issued by the Commonwealth Commissioner of Taxation on a contrary basis.

These assessments have been the subject of continuing litigation since 1992 and appeals by one of the parties on the remaining issue were considered by a single judge of the Federal Court of Australia in September 1995, with the judgement in favour of the Commissioner pronounced in December 1995. An appeal against the judgement to the full bench of the Federal Court was upheld in June 1997. The Commissioner has been granted leave to appeal against this judgment to the High Court of Australia and the matter is expected to be heard in mid to late 1998.

The New South Wales Government has indemnified the Corporation against any amount the Corporation is required to pay to the several parties who acquired annuities, as a result of the tax treatment of the annuity transactions being otherwise than as advised to the Corporation.

- During the year, the NSW Treasury Corporation made available a short term liquidity facility to approved client authorities. This facility is offered on a revolving basis with a commitment period of up to three years. At year end the undrawn commitments under the facilities were \$630 million (1996 \$ Nil).
- The NSW Treasury Corporation has issued unconditional payment undertakings on behalf of some New South Wales government authorities participating in the wholesale electricity markets of New South Wales and Victoria to pay to the system administrators on demand in writing any amount up to an aggregate maximum agreed with individual participants.

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

- Under the Ensured Revenue Stream Agreement (ERS), the Roads and Traffic Authority may be required to indemnify the Sydney Harbour Tunnel Company for certain unforeseen tax expenses it may incur. Under such circumstances the ERS provides for a renegotiation of the method by which ERS payments are calculated which could result in an increased liability to the Roads and Traffic Authority of between \$31 million and \$75 million over the period of the agreement to 2022.
- The International Olympic Committee awarded Sydney the right to host the Olympic Games in the year 2000. The cost of staging the games is expected to be funded through the Olympic revenue. The Government has underwritten the Olympic estimates. However, the Sydney Organising Committee for the Olympic Games (SOCOG) expects a surplus arising from the Event.

Athletes Village

The contractual arrangements for the development of the Athletes Village, provide for a total government contribution of \$117.9m (year 2000\$). Although these arrangements provide for the Olympic Co-ordination Authority (OCA) to make this total contribution, SOCOG have, in a 'back to back' arrangement, agreed to pay its share of the total government contribution amounting to \$58.7m (year 2000\$) to the OCA to provide for the total payment in the year 2000.

To appropriately disclose the overall arrangement, the OCA has valued and brought to account in its financial statements, the present value of its share \$42.9m (year 1997\$). The balance of the total government contribution is regarded as a contingent liability only, having regard to the SOCOG agreement to meet its share of the total contribution.

Olympic Stadium

The Stadium Australia Project Agreement provides for the OCA at its option, to terminate the Agreement in the event of default by the Trustee. OCA must give 60 days notice of any pending termination and the Trustee has the right to remedy the event.

Should OCA exercise its right to terminate the Project Agreement, and if it has had available for construction the proceeds of the public float, the following obligations will arise for OCA:-

- Completion of the design and construction of Stage 1 generally in accordance with the design brief;
- Procure the issue by SOCOG of Olympic tickets to the Olympic Rights holders;
- Recognise the rights of Members; and
- If, at the time of termination, funds have been drawn down from debt providers, OCA must:-
 - a) Refund 70% of the total of the outstanding debt (which may include interest) within 30 days of the termination; and
 - b) Pay the balance of the outstanding debt (i.e. 30%) from any Stadium operating surplus or from any proceeds received by OCA from selling the Stadium.

These obligations do not arise unless OCA exercises its rights to terminate the Project Agreement and OCA has access to the float proceeds. In the event of default by the Trustee of its obligations under the Project Agreement, OCA is not obliged to exercise its rights to terminate.

Should a situation arise where OCA does wish to terminate the Project Agreement, then offsetting the extent of any obligations on OCA would be the following rights accruing to it:

- The balance of the float proceeds held at the time by OCA;
- \$45 million security bonds held by OCA; and
- The value of work in progress to the date of termination.

The OCA considers that there is only a low risk that these various obligations existing under the Project Agreement will arise.

(c) Other claims exist, for example from pending litigation, which cannot be quantified. Included in these are:

- Land claims lodged since the introduction of the Aboriginal Land Rights Act 1983. Of the claims lodged, a total of 1,249,907 have been granted either wholly or partly, over lands totalling 59,016,862 hectares and valued at approximately \$227,197 million. As at 30 June 1997, there were 1,294,504 claims under investigation (1996 1,504,200 claims). The liability under these claims is yet to be determined.

- Since the commencement of the Commonwealth Native Titles Act 1993 (Mabo) on 1 January 1994, there have been some 103 4 applications in New South Wales under its provisions and 64 non claimant applications have been lodged by the NSW Government. Any future liability associated with these claims is subject to determination by the Native Title Tribunal and/or the Federal Court.
- In March 1994 the Commonwealth and States agreed that from that date all Government Public Trading Enterprises (PTEs) would be exempted from both Commonwealth sales and income taxes. In consideration the States would apply tax equivalent regimes to their PTEs and compensate the Commonwealth for any revenue they may lose in consequence of the enactment of the exemption.

A recent decisions of the Federal Court have created some uncertainty as to the agencies which were previously exempt from Commonwealth taxes, and therefore the extent of the compensation payments. The matter is still the subject of being resolved in discussions with the Commonwealth. In addition, the Federal Court decision is the subject of an application for leave to appeal to the High Court..

- Litigation has been launched against the Government and other parties involved in the HomeFund Scheme in the Federal Court of Australia. The proceedings include Class Actions, originally commenced by the United Borrowers' Association (UBA), now being prosecuted on behalf of all HomeFund borrowers by the Public Interest Advocacy Centre (PIAC).

The Actions are being strongly defended by the Government. The Home Purchase Assistance Authority (HPAA) is actively involved with the management of the defence and is instructing the Crown Solicitor's Office.

The Full Bench of the Federal Court determined that, in respect of a number of key questions, no claim can be brought against the Government nor against other Respondents, acting as agents of the Government in the HomeFund Scheme, under the relevant legislation. The Applicants have sought and been granted leave to appeal by the High Court. It is unlikely that the Appeal will be allocated a hearing date before the latter half of 1998.

A small number of Supreme Court actions have eventuated as a result of Cooperative Housing Societies' (Coops) efforts to obtain possession of properties from defaulting borrowers. Of six (6) matters current as at 30 June 1996, five have been settled or withdrawn. No fresh proceedings have arisen.

It is not possible to estimate or predict the Government's (or any other Respondents') potential liability in these actions because of the complexities involved both as regards liability and issues of damages/compensation.

- In November 1996 the High Court delivered its judgement in *Allders International v State Commissioner of Revenue (Vic)*. In that case, the High Court held that the Victorian stamp duty on leases did not apply to a lease for a duty free shop at Melbourne airport. The High Court viewed the tax as having a direct effect on Commonwealth territory and therefore as a breach of section 52(i) of the Constitution. This section provides that the Commonwealth shall have exclusive power over "all places acquired by the Commonwealth for public purposes".

This decision resulted in some uncertainty as to the ability of the State to collect taxes such as stamp duty and pay-roll tax on activities at 'Commonwealth places' like Sydney Airport. It also raised doubt about the validity of State taxes previously collected in relation to activities on Commonwealth places.

The Commonwealth announced on 6 October 1997 that it would pass legislation to implement a set of Commonwealth taxes at Commonwealth places which mirrored the State taxes imposed in the State where the Commonwealth place was located. This will ensure activity at Commonwealth places is subject to the same tax rates as activity in the rest of the State.

The Commonwealth also announced it would legislate a 'windfall gains tax' to impose a 100% tax on any refunds of allegedly unlawful tax collections at Commonwealth places sought by taxpayers. The Commonwealth will return to the State concerned any revenue raised by this measure. This initiative should ensure that no State will face a bill for tax refunds as a result of the Alders decision.

- The Year 2000 computer issue gives rise to operational implications and potential liabilities for the NSW Public Sector and the need to ensure that external organisations that operate systems which are connected to government systems also address the problem.

If not corrected, the use and manipulation of affected products will lead to incorrect calculations and malfunctioning of time based control systems, ie it may affect all automated information processing equipment and instructions including computer hardware and devices, computer software and computer applications.

To address these issues the NSW Government is implementing the following measures:

- raising awareness across government and industry;
- issuing guidelines to all agencies which provide a framework for addressing the problem;
- undertaking an indepth study of the extent of Year 2000 problems within two selected agencies to determine the likely cost of correction;
- establishing a Whole of Government Year 2000 Project Team; and
- contacting all vendors listed on government contracts to obtain information on their Year 2000 status.

The cost of remedial work within NSW Government has not been fully identified but an initial estimate is \$300 million. Contingent liabilities are estimated as three times the cost of outstanding remedial work past 31 December 1999.

A panel contract for the establishment of Year 2000 remedial service for a variety of activities is currently under tender. Year 2000 compliance definitions have been developed in conjunction with the Crown Solicitor's Office and are now being included in all tender documents.

- State Rail has entered into an agreement with the private sector for the construction and operation of stations on the New Southern Railway. State Rail has an obligation to purchase the private sector's assets (i.e. the stations) in certain circumstances and, in the event of a default by State Rail, is also obliged to pay out the private sector's financier.

The greatest liability would arise if the private sector participants terminated the agreement as a consequence of a default by State Rail. In these circumstances, State Rail would be obliged to acquire the station assets. The amount payable would be the aggregate of the development, design, construction and financing costs incurred up to the date of termination, plus financing and contract break costs and an amount of \$15 million for lost profit opportunities. State Rail has also indemnified one of the parties to the arrangement against any income tax payable in relation to certain benefits arising thereunder. The indemnity is limited to \$1.6 million.

21. POST BALANCE DATE EVENTS

- On 5 August 1997, the High Court handed down its decision in respect of the legality of state franchise fees on tobacco. The decision ruled the franchise fees as invalid. The NSW Solicitor General considered that as the NSW petrol franchise legislation was similar to the tobacco legislation, it too would probably be held invalid if challenged.

On the basis of the Solicitor General's advice and the Commonwealth Government's offer to implement "safety net" legislation to replace the State franchise fees with national taxes, the NSW Government decided to suspend the operation of petrol and liquor franchise fees. The Business Franchise Licences (Petroleum Products) Act 1987 and Business Franchise

Licences (Tobacco) Act 1987 were repealed in December 1997 and necessary amendments made to the Liquor Act 1982.

The Commonwealth Government agreed to protect the States and Territories from possible losses from challenges to the validity of other franchise fee legislation and subsequent claims for refund of fees. The Commonwealth passed the Franchise Fees Windfall Tax (Collection) Act 1997, the Franchise Fees Windfall Tax (Imposition) Act 1997 and the Franchise Fees Windfall Tax (Consequential Amendments) Act 1997. These Acts impose a tax of 100% on any amount awarded in a judgement made against a State or Territory requiring it to refund any franchise fees.

The protection of the Commonwealth legislation is conditional upon the NSW Government refunding the liquor industry to give them part of their 1997 liquor franchise fees. Accordingly, the NSW Government agreed to make the \$130 million in payments demanded by the liquor industry.

The Solicitor General has advised that as the law presently stands, the NSW Government is not likely to be required to refund any franchise fees. In the light of this advice, NSW does not have a contingent liability.

- Contracts were executed with the Millennium Consortium on 31 July 1997 to design, finance, construct and operate the Multi Use Arena facility at Olympic Park, Homebush Bay. The \$280m works package includes:
 - \$197m for the centre which includes a Government contribution of \$142m;
 - \$63m for a 3,500 space multi storey car park; and
 - \$20m for works as part of the Olympic Plaza project.
- The Sydney Market Authority was sold on 31 October 1997 to Sydney Markets Limited. As a consequence of the transaction, the Sales Agreement requires the State to assume the following estimated liabilities:
 - \$4m for outstanding capital expenditure
 - \$5m for Promotional Grant
 - \$19m for assumption of outstanding debt
 - \$1m for staff related costs associated with sale
- In April 1997 the Premier announced that the NSW Totalizator Agency Board (TAB) would be privatised by way of a public float. Legislation was passed through Parliament in May 1997 with amending legislation in November 1997. In preparation for the float the TAB was corporatised on 25 February 1998. The float is scheduled for completion at the end of the 1997-98 financial year.

The Minister for Gaming and Racing made a determination on 4 March 1988 requiring TAB Limited to pay \$308 million for the grant of off-course and on-course totalizator licences by delivery of a promissory note payable on demand in favour of the Crown in right of the State of New South Wales. TAB Limited delivered the promissory note on 5 March 1998. The Treasurer has advised TAB Limited that demand for payment will be made before privatisation and that timing of the demand will be determined by the NSW Government having regard to, amongst other things, discussions between TAB Limited and the NSW Government regarding capital structure issues.

TAB Limited has made a conditional offer to purchase Sky Channel Pty Ltd for \$260 million subject to due diligence. This due diligence process is expected to be completed in April 1998.

- On 27 March 1998 National Power Australia commenced Supreme Court proceedings to seek an injunction to stop EnergyAustralia from exercising its rights to terminate its contract to build the Redbank Power Station in the Hunter Valley.

On 17 April 1998 National Power Australia filed an amended claim which no longer sought an injunction against EnergyAustralia but a declaration by the Court that EnergyAustralia is not entitled to terminate the Power Purchase Hedge Agreement and an order by the court that EnergyAustralia should pay damages to National Power Australia.

The claim filed in the Supreme Court does not mention an amount of damages and there is no substantiation of the damage suffered or how it is to be calculated. EnergyAustralia intends to defend proceedings.

22. COMPLIANCE WITH APPROPRIATIONS

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

23. DETAILS OF CONSOLIDATED ENTITIES

The consolidated financial statements comprises the following entities:

Aboriginal Land Council

Advance Energy

Ageing and Disability Department

Air Transport Council

ANZAC Memorial Building Trustees

Archives Authority of New South Wales

Art Gallery of NSW Foundation

Art Gallery of New South Wales

Attorney General's Department

Audit Office of New South Wales

Australia Day Council

Australian Inland Energy

Australian Museum

Bicentennial Park Trust

Broken Hill Water Board

Building and Construction Industry Long Service Leave Payments Corporation

Casino Control Authority

CB Alexander Foundation

Chipping Norton Authority

Centennial Park and Moore Park Trust

City West Development Corporation
City West Housing Pty Ltd
Coal Compensation Board
Cobar Water Board
Colleambally Irrigation Area
Community Services Commission
Crown Solicitor's Office
Crown Transactions Entity
Crown Transaction Entity - Commercial Activities
Crown Transactions Entity - Trading Activities
Dams Safety Committee
Darling Harbour Authority
Delta Electricity
Department of Aboriginal Affairs
Department of Agriculture
Department of Community Services
Department of Corrective Services
Department of Energy
Department of Fair Trading
Department of Gaming and Racing
Department of Health
Department of Housing - Land and Housing Corporation
Department of Industrial Relations
Department of Juvenile Justice
Department of Land and Water Conservation
Department of Local Government
Department of Mineral Resources
Department of Public Works and Services
Department of School Education

Department of Sport and Recreation

Department of State and Regional Development

Department of Training and Education Co-ordination

Department of Transport

Department of Urban Affairs and Planning

Department for Women

Drug Offensive Foundation

Eastern Creek Raceway

EnergyAustralia

Environment Education Trust

Environment Planning and Assessment Act incorporating Sydney Region Development

Fund and Land Development Contribution Fund

Environment Protection Authority

Environmental Research Trust

Environmental Restoration and Rehabilitation Trust

Ethnic Affairs Commission

FANMAC Trusts

Farrer Memorial Research Scholarship Fund

Fish River Water Supply Authority

Freight Rail Corporation

Great Southern Energy

Greyhound Racing Control Board

Harness Racing Authority

Hawkesbury Nepean Catchment Management Trust

Health Care Complaints Commission

Health Foundation of NSW

Heritage Office

Historic Houses Trust

Home Care Service

HomeFund Commissioner's Office

Home Purchase Assistance Authority

Home Purchase Assistance Fund

Honeysuckle Development Corporation

Hunter Catchment Management Trust

Hunter Water Corporation

Independent Commission Against Corruption

Independent Pricing and Regulatory Tribunal

Institute of Sport

Integral Energy

Internal Audit Bureau

Jenolan Caves Reserves Trust

Judicial Commission

Lake Illawarra Authority

Landcom

Land Titles Office

Legal Aid Commission

Lord Howe Island Board

Luna Park Trust

Macquarie Generation

Marine Ministerial Holding Corporation

Mines Rescue Board

Mines Subsidence Board

Ministerial Development Corporation

Ministry for Police

Ministry for the Arts

Ministry of Urban Infrastructure Management

Motor Accident Authority

Motor Vehicle Industry Repair Council^(a)

Murrumbidgee Region and Districts Irrigation Area

Museum of Applied Arts and Sciences

National Parks and Wildlife Service

Newcastle International Sports Centre

Newcastle Port Corporation

Newcastle Showground

New South Wales Adult Migrant English Service

New South Wales Cancer Council

New South Wales Crime Commission

New South Wales Dairy Corporation

New South Wales Film and Television Office

New South Wales Financial Institutions Commission

New South Wales Fire Brigades

New South Wales Fisheries

New South Wales Insurance Ministerial Corporation

New South Wales Meat Industry Authority

New South Wales Medical Board ^(a)

New South Wales Police Service

New South Wales State Lotteries

New South Wales Technical and Further Education Commission

New South Wales Treasury Corporation

New South Wales Rural Fire Service

NorthPower

Office of Marine Administration

Office of the Board of Studies

Office of the Director of Public Prosecutions

Office of the Minister for Public Works and Services

Olympic Co-ordination Authority

Ombudsman's Office

Pacific Power

Parliamentary Counsel's Office

Parramatta Stadium Trust

Police Integrity Commission

Port Kembla Port Corporation

Premier's Department

Protective Commissioner

Psychiatry Institute of NSW

Public Trust Office

Rail Access Corporation

Rail Services Authority

Registry of Births, Deaths and Marriages

Rental Bond Board

Roads and Traffic Authority

Royal Botanic Gardens and Domain Trust

Rural Assistance Authority

Somersby Park Limited

South West Tablelands Water Supply Authority

Sporting Injuries Committee

State Electoral Office

State Emergency Service

State Forests of New South Wales

State Library

State Rail Authority

State Sports Centre Trust

State Transit Authority

Superannuation Administration Authority

Sustainable Energy Development Authority

Sydney Cove Authority

Sydney Cricket Ground and Sports Ground Trust

Sydney Market Authority

Sydney Opera House

Sydney Organising Committee for the Olympic Games

Sydney Paralympic Organising Committee Ltd

Sydney Ports Corporation

Sydney Water Corporation

Teacher Housing Authority

Technical Education Trust Fund

Telco

The Cabinet Office

The Legislature

Totalizator Agency Board of New South Wales

Tourism New South Wales

Tow Truck Industry Council ^(a)

TransGrid

Treasury

Upper Parramatta River Catchment Trust

Valuer General's Department

Vocational Education and Training Accreditation Board

Waste Service of New South Wales

Waterways Authority

WorkCover Authority

Workers Compensation (Broken Hill) Act

Workers Compensation (Dust Diseases) Board

Wollongong Sports Ground Trust

Zoological Parks Board

^(a)Agencies not previously consolidated

In addition, significant assets, liabilities, revenues and expenses which have not been recognised in any entity's financial statements have been included in the consolidated financial statements. State taxes, Commonwealth grants, budget sector borrowings, budget sector superannuation and long service leave and investments administered by the Crown Transactions Entity on behalf of the State have been recognised.

24. DISAGGREGATED INFORMATION

The agencies included in the financial statements of the NSW Public Sector operate predominantly in New South Wales. They have been sub-consolidated into the Budget and Non Budget Sector as defined in Note 1 - Reporting Entity.

Financial data on the Non-Budget and Budget Sectors follow. For the purposes of this disclosure, effects of transactions and balances between sectors have not been eliminated, but those between entities within each sector have been eliminated

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

REVENUES	BUDGET SECTOR \$m	NON- BUDGET SECTOR \$m	ELIMINA- TIONS \$m	TOTAL \$m
Taxation, Fines and Regulatory Fees	11,852	177	(249)	11,780
Commonwealth Grants	8,480	-	-	8,480
Financial Distributions	2,267	-	(2,267)	-
Sale of Goods and Services	1,393	9,941	(183)	11,151
Investment Income	205	2,172	(1,288)	1,089
Grants and Contributions	399	2,408	(2,381)	426
Other	<u>595</u>	<u>782</u>	<u>58</u>	<u>1,435</u>
TOTAL REVENUES	<u>25,191</u>	<u>15,480</u>	<u>(6,310)</u>	<u>34,361</u>
EXPENSES				
Employee Related	8,839	2,962	(61)	11,740
Other Operating	3,159	4,676	(624)	7,211
Maintenance	1,071	579	(1)	1,649
Depreciation and Amortisation	731	1,673	-	2,404
Grants and Subsidies	4,575	231	(1,998)	2,808
Finance	1,553	2,831	(1,315)	3,069
Other	<u>1,319</u>	<u>651</u>	<u>(58)</u>	<u>1,912</u>
TOTAL EXPENSES	<u>21,247</u>	<u>13,603</u>	<u>(4,057)</u>	<u>30,793</u>
Gain on Sale of Non-Current Assets	9	157	(9)	157
SURPLUS FOR THE YEAR BEFORE INCOME TAX AND ABNORMAL ITEMS	<u>3,953</u>	<u>2,034</u>	<u>(2,262)</u>	<u>3,725</u>
Abnormal Items - Revenue/(Expense)	(1,298)	485	(947)	(1,760)
Surplus for the year after abnormal ITEMS and before income tax expense	<u>2,655</u>	<u>2,519</u>	<u>(3,209)</u>	<u>1,965</u>
Income Tax Equivalents Expense	-	758	(758)	-
SURPLUS FOR THE YEAR AFTER ABNORMAL ITEMS AND AFTER INCOME TAX EXPENSE	<u>2,655</u>	<u>1,761</u>	<u>(2,451)</u>	<u>1,965</u>

**THE NSW PUBLIC SECTOR
DISAGGREGATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 1997**

	BUDGET SECTOR \$m	NON- BUDGET SECTOR \$m	ELIMINAT- IONS \$m	TOTAL \$m
CURRENT ASSETS				
Cash	321	1,544	(173)	1,692
Investments	1,245	6,463	(2,366)	5,342
Receivables	1,796	2,341	(1,916)	2,221
Inventories	111	732	-	843
Other	<u>83</u>	<u>101</u>	<u>(5)</u>	<u>179</u>
TOTAL CURRENT ASSETS	<u>3,556</u>	<u>11,181</u>	<u>(4,460)</u>	<u>10,277</u>
NON-CURRENT ASSETS				
Land and Buildings	24,137	20,807	-	44,944
Plant and Equipment	1,984	3,533	-	5,517
Infrastructure Systems	25,603	27,268	-	52,871
Investments	173	13,052	(10,060)	3,165
Receivables	2,755	1,076	(3,353)	478
Inventories	-	1,979	-	1,979
Other	<u>517</u>	<u>552</u>	<u>(379)</u>	<u>690</u>
TOTAL NON-CURRENT ASSETS	<u>55,169</u>	<u>68,267</u>	<u>(13,792)</u>	<u>109,644</u>
TOTAL ASSETS	<u>58,725</u>	<u>79,448</u>	<u>(18,252)</u>	<u>119,921</u>
CURRENT LIABILITIES				
Payables	1,192	2,450	(563)	3,079
Borrowings	3,513	5,113	(2,541)	6,085
Employee Entitlements	2,080	222	(7)	2,295
Other	<u>469</u>	<u>2,109</u>	<u>(1,259)</u>	<u>1,319</u>
TOTAL CURRENT LIABILITIES	<u>7,254</u>	<u>9,894</u>	<u>(4,370)</u>	<u>12,778</u>
NON-CURRENT LIABILITIES				
Borrowings	13,505	21,017	(11,917)	22,605
Employee Entitlements	13,094	1,421	(3)	14,512
Other	<u>1,919</u>	<u>4,097</u>	<u>(1,962)</u>	<u>4,054</u>
TOTAL NON-CURRENT LIABILITIES	<u>28,518</u>	<u>26,535</u>	<u>(13,882)</u>	<u>41,171</u>
TOTAL LIABILITIES	<u>35,772</u>	<u>36,429</u>	<u>(18,252)</u>	<u>53,949</u>
NET ASSETS	<u>22,953</u>	<u>43,019</u>	<u>-</u>	<u>65,972</u>

END OF AUDITED FINANCIAL STATEMENTS