

**NEW SOUTH WALES
REPORT ON STATE FINANCES
2002 - 03**

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PREFACE

The 2002-03 New South Wales Report on State Finances includes a Statement of the Budget Result, the Outcomes Report on Government Finances prepared in accordance with the Uniform Presentation Framework adopted by all Australian governments and the Consolidated Financial Report of the Total State Sector.

The Statement of the Budget Result allows a comparison of the end of year aggregates with those estimated in the 2002-03 Budget. The Outcomes Report will allow readers to compare the results within New South Wales with other States. These reports are prepared on the basis of the reporting standards of the Australian Bureau of Statistics Government Finance Statistics framework.

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

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

Michael Egan
Treasurer

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HIGHLIGHTS

- A Budget surplus for the year ended 30 June 2003 of \$619 million. This is \$420 million higher than the estimate published in the 2003-04 Budget Papers and \$451 million above the original Budget estimate of \$168 million.
- An operating surplus of \$1,708 million (GFS basis).
- A cash surplus of \$730 million.
- The State's balance sheet has been strengthened:
 - Assets have risen by \$29,761 million, while liabilities have risen \$7,151 million.
 - As a result, the net worth of the Total State Sector rose to \$121,040 million.
- Total State Sector net debt fell by \$2,635 million to \$13,469 million, or 5.1 percent of Gross State Product.
- Despite a \$3,733 million increase in superannuation liabilities, Total State Sector net financial liabilities remain low at 16.1 percent of Gross State Product. In 1995 they stood at 26.7 percent of GSP.
- It is intended that \$420 million from the 2002-03 Budget Surplus will be allocated to a New South Wales Health Super-Growth Fund in 2003-04. This amount represents the additional funds earned between June 2003 Budget time projections and the actual result for 2002-03. The investment income on these additional funds will be used to fund health services of a capital nature.
- The State's credit rating remains AAA, reflecting the strength of the New South Wales Government balance sheet.

Figure 1

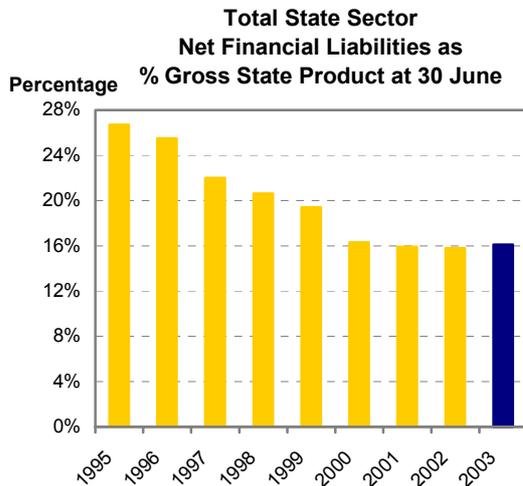
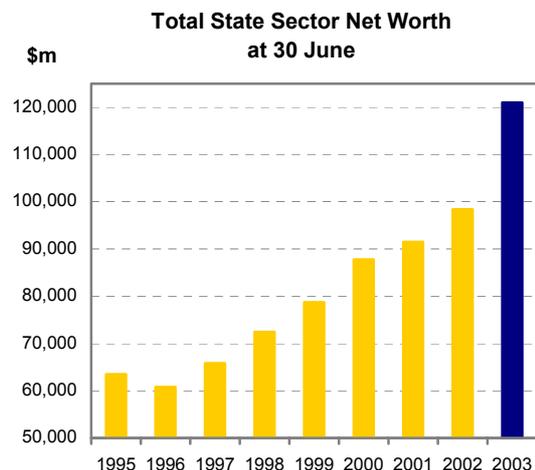


Figure 2



KEY GOVERNMENT FINANCIAL RESULTS 2002-03

	Net Operating Balance ^(a) \$m	Net Lending/ (Borrowing) ^(a) \$m	Underlying Cash Surplus/(Deficit) ^(a) \$m	Operating Surplus Excluding Significant Items ^(b) \$m
NSW	1,708	619	730	1,434
Vic	1,277	314	(190)	not available
Qld	(350)	(769)	51	not available
SA	329	312	509	not available
WA	250	192	270	not available
Tas	85	121	173	not available
NT	(38)	(125)	(31)	not available
ACT	155	121	152	not available
Commonwealth	6,293	6,512	7,486	not available

^(a) Government Finance Statistics General Government Sector Results
 Source: 2002-03 Outcomes Report (NSW, WA and the Commonwealth actual result)
 2003-04 Budget Papers (other jurisdictions estimated result)

^(b) AAS31 Accounting Based Audited Total State Sector Result
 Source: 2002-03 Total State Sector Accounts

Figure 3

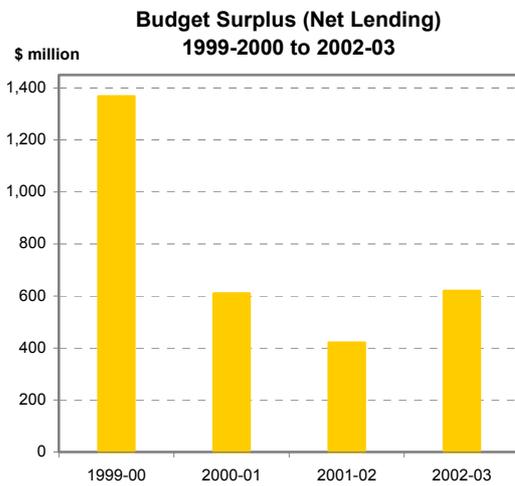
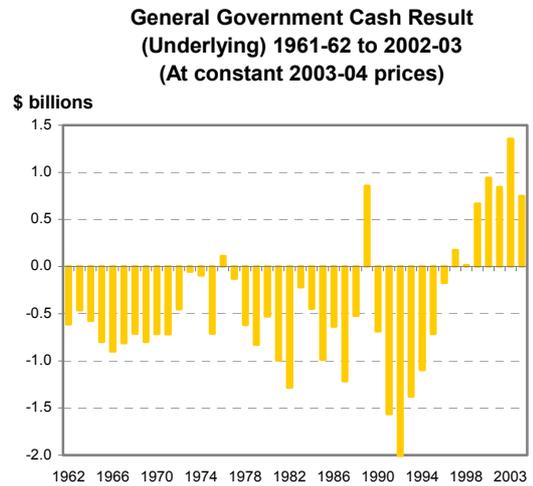


Figure 4



KEY FINANCIAL INDICATORS

		2001-02	2002-03
GENERAL GOVERNMENT SECTOR			
Budget Surplus – Net Lending	\$m	421	619
GFS Net Operating Surplus	\$m	1,486	1,708
Underlying Cash Surplus	\$m	1,265	730
TOTAL STATE SECTOR			
AAS31 Operating Result excluding Significant Items	\$m	2,440	1,434
AAS31 Operating Result including Significant Items - Surplus/(Deficit)	\$m	4,028	(424)
Net Debt	\$m	16,104	13,469
Net Debt as a % of Gross State Product	%	6.5	5.1
Net Unfunded Superannuation Liability	\$m	11,723	15,456
Net Financial Liabilities (NFL)	\$m	39,304	42,121
NFL as a % of Gross State Product	%	15.8	16.1
GFS Total Assets	\$m	156,214	185,975
GFS Total Liabilities	\$m	57,784	64,935
GFS Net Worth	\$m	98,430	121,040

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

1. ANALYSIS OF THE GFS STATEMENT OF THE BUDGET RESULT

The Budget Operating Statement has been prepared on a GFS basis and relates to the General Government Sector. The commentary on this statement analyses the variances between the June 2002-03 Budget and the actual result at 30 June 2003.

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

2. ANALYSIS OF THE GFS TOTAL STATE SECTOR BALANCE SHEET

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

3. ANALYSIS OF TOTAL STATE REVENUES AND EXPENDITURE

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

4. INTERGOVERNMENTAL TOTAL STATE COMPARISONS

Reviews and compares key aggregates for Commonwealth and State jurisdictions.

5. FINANCIAL FRAMEWORK AND TARGETS

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

6. SCOPE OF THE REVIEW

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

ANALYSIS OF THE GFS STATEMENT OF THE BUDGET RESULT

The 2003 budget result is a surplus of \$619 million which is \$451 million higher than the 2002-03 Budget. An explanation of this increase is detailed below. However the end of year result is also \$420 million higher than the June 2003 budget time estimate of \$199 million.

The improvement in the actual 2002-03 budget result, against the projected result published in the 2003-04 Budget Papers, is mainly due to increased stamp duties on property transfers, increased financial distributions from the Public Trading Enterprises, improved investment returns and a downward revision to liabilities associated with the collapse of HIH. These revenue increases were partially offset by additional expenditures in the areas of Health and Education.

Although tabled in June 2003, the budget is predicated on forecasts and estimates established some time before that. As a result the budget projections were framed in an environment when investment returns were lower and the property market appeared to be cooling. Transfer duties were also driven higher by the accrual of assessments recorded through electronic duties returns.

The government intends to allocate the additional \$420 million to a Health Super-Growth fund in 2003-04. The interest from this fund will be used to fund essential projects of a capital nature within that area.

STATE REVENUE

Taxation

Transfer Duty

Stamp duty on property transfers is the largest single component of stamp duty revenues. It is the most volatile revenue source available to the State.

The 2002-03 budget assumed a weakening in stamp duty revenue. This was due to modest increases in interest rates and an anticipated reduction in investor demand as residual vacancy rates climbed.

However, although revenue growth slowed in 2003-04 it did not decline as expected.

Continuing low interest rates, resilient domestic economic performance – notwithstanding the drought – and investor nervousness about the share market helped sustain residential property demand with continued strong turnover and price rises.

Payroll Tax

Wages and employment grew during 2002-03 largely in line with budget estimates. However as employment growth was relatively high in some industries where employment in establishments below the payroll tax threshold is significant, payroll tax revenue growth was weaker than expected.

Other Taxes

Other taxes were \$70 million higher than the Budget estimate. This is largely represented by an \$89 million increase in land tax, and Club and Hotel Gaming machine revenues rising \$27 million less than expected.

Commonwealth Grants

In 2002-03 Commonwealth grants in aggregate were above the Budget estimate by \$175 million or 1.2 percent.

There was a \$54 million increase in the Guarantee Minimum Amount under the Intergovernmental Agreement with the Commonwealth.

In addition, there was a \$121 million increase in Specific Purpose Payments with over 80 percent related to Education and is largely due to revisions to the Enrollment Benchmark Agreement.

Fines, Regulatory Fees and Other

Higher revenues were received for royalties and fines. Royalties are predominantly associated with volumes of coal production. When fine debts become overdue government agencies pass them for collection to the State Debt Recovery Office. The State Debt Recovery Office recorded an increase in debtors this year relating to previous delays in the receipt of matters from referring agencies.

A further \$30 million was identified from procurement agreement through the Office of Government Procurement.

The New South Wales Insurance Ministerial Corporation had higher recoveries of \$14 million largely due to the inclusion of Goods and Services Tax. There is a corresponding increase in outstanding claims.

OPERATING REVENUES

	Budget \$m	Actual \$m	Variance \$m
Operating Revenues			
Sale of Goods and Services	2,479	2,726	247
Investment Income	589	443	(146)
Grants and Contributions	382	698	316
Other Revenue	256	688	432
Total Operating Revenues	3,706	4,555	849

Investment Income

Revenue from investment income includes interest on advances to Public Trading Enterprises, interest on Treasury Corporation deposits and interest on private sector deposits. In 2002-03, revenues were \$146 million below the Budget estimate, mainly reflecting weaker than expected equity market returns for the New South Wales Insurance Ministerial Corporation, WorkCover Authority and other bodies with market linked investments.

Operating revenues represent revenues earned by public sector agencies in the normal course of their operations. The primary source is user charges levied to recover the costs of providing goods or services.

Grants and Contributions

Grants and Contributions were \$316 million higher than the Budget estimate, largely due to the Department of Education and Training's first time recognition of school generated revenue from community sources. In addition to these revenue items, the first time recognition of school balances has brought to account a number of expenditure items as well. This has resulted in an overall negligible impact on the budget result.

Sale of Goods and Services

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

Health also received a higher level of public donations.

In 2002-03, revenues exceeded the Budget estimate by \$247 million.

Other Operating Revenue

Health revenues were \$80 million higher than Budget estimate due to a \$68 million increase in fees paid by private patients in public hospitals, and an additional \$10 million from the Department of Veterans' Affairs for the treatment of veterans and war widows in public hospitals.

Other operating revenue in 2002-03 was \$432 million higher than the Budget estimate, mainly due to \$290 million received by the Roads and Traffic Authority following the letting of contracts for the construction of toll roads. The payments reimbursed the Roads and Traffic Authority for costs associated with letting the contracts and will fund related essential connecting works.

Fees for Education and Training were \$62 million higher than Budget due to increased overseas student fees and revenues from school canteens brought to account for the first time.

EXPENSES

Education expenses were \$740 million higher than the Budget Estimate. The main increase is the inclusion of school bank balances as previously mentioned. Remaining variances include additional salary costs for teachers, costs associated with greater than expected enrolments, cleaning contract costs, and conveyance of disabled school children.

Health expenses were \$443 million higher than the Budget Estimate. Major increases included additional salary costs including the recent award decision impacting nurses wages, increased spending on emergency wards, additional funding for the Ambulance service, and additional expenditure in relation to other health system revenues.

Roads and Traffic Authority expenses were \$413 million higher than the Budget Estimate. This is mainly due to a change in accounting treatment on the rate of depreciation. There was also increased expenditure on Road Safety, Traffic and Transport programs and additional maintenance works.

Transport expenses were \$193 million higher than the Budget Estimate. Additional resources were allocated in 2002-03 for metropolitan rail maintenance, additional funding was provided to the State Rail Authority and costs associated with the Parramatta Rail Link were revised.

Community Services expenses were \$124 million higher than the Budget Estimate mainly due to increases in the number of children in out of home care, the cost of children in foster care, extra child protection caseworkers and changes in the Social and Community Services Award (SACS).

Rural Fire Service expenses were \$107 million higher than the Budget Estimate due to the summer bushfire season.

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

The government's motor vehicle leases were accounted for as operating leases in the 2002-03 Budget. During the year these leases were

reclassified as finances leases. The capitalised value of the motor vehicle assets, amounting to \$344 million has been brought to account as an asset acquisition under GFS principles. Motor vehicles sold under the new treatment amounting to \$193 million have now been brought to account as asset sales.

Net of these transactions, asset acquisitions are \$19 million lower than budget and 'Asset sales and other movements in non-financial assets' are \$40 million lower than budget. The later is due to valuation changes in superannuation and long service leave balances.

PUBLIC TRADING ENTERPRISE NET BORROWING RESULT

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

The PTE sector recorded an operating loss of \$49 million. Excluding the impact of a significant rail depreciation expense, the sector had an operating surplus of \$382 million. While government utilities produced strong operating results, these were partly offset by the operating losses of the rail agencies. In 2002-03 \$1,653 million was provided to rail agencies to subsidise rail maintenance, capital and other operating expenses. PTEs built or purchased \$3,342 million of new infrastructure. Some of these capital works were funded by borrowings. As a result the PTE sector recorded a Net Borrowing Result (deficit) in 2002-03 of \$1,171 million compared to the budgeted deficit of \$1,296 million, an improvement in the result of \$125 million.

A number of areas contributed to this \$125 million improvement on the budgeted data. The Department of Housing received increased grants and assets sale proceeds, and incurred lower management fees. The port corporations had increased operating revenues and lower gross fixed capital formation. Sydney Opera House had lower capital expenditure.

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

ANALYSIS OF THE GFS TOTAL STATE SECTOR BALANCE SHEET

The Total State Sector Balance Sheet

The Total State Sector's Net Worth was \$121,040 million at 30 June 2003, an increase of \$22,610 million or 23.0 percent on the previous year's balance.

The \$22,610 million increase in Net Worth comprises an increase in non-financial assets of \$25,427 million offset by an increase in Net Financial Liabilities of \$2,817 million.

Over the period June 1994 through to June 2003 the Net Worth of the NSW Total State Sector has increased by 89.3 percent.

Non-financial Assets

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

The State's non-financial assets were \$163,161 million at 30 June 2003, an increase of \$25,427 million on the previous year. This increase included an investment in property and infrastructure of \$6,586 million, the restatement of rail infrastructure assets of \$7,856 million and asset revaluations of \$14,927 million, which were offset by an increased provision for depreciation of \$3,843 million, asset sales of \$702 million and other movements of \$603 million.

Rail infrastructure assets to the value of \$7,856 million have been reinstated on the Balance Sheet in accordance with AASB1041.

The effect of this Accounting Standard is that if profit generation is not the primary objective of an entity, and where an asset's economic benefits are not primarily dependent on the asset's ability to generate net cash inflows, then assets should not be written back to their recoverable amount, as has been the treatment in previous years.

Therefore, the Corporation has restated the value of its assets to fair value. The resulting impact on the 2002-03 Total State Sector Accounts has been an increase in property plant and equipment of \$7,828 million and a corresponding increase in opening accumulated funds.

Investment in the State's property and infrastructure in 2002-03 included investments in:

• educational facilities	\$406 million
• hospitals and equipment	\$499 million
• roads	\$1,189 million
• public housing	\$297 million
• transport	\$1,103 million
• energy infrastructure	\$1,247 million
• water infrastructure	\$561 million

In addition several agencies performed cyclical revaluations of their property, plant and equipment during the financial year. As a result the value of public housing increased by \$7,972 million, roads by \$3,269 million and rail infrastructure by \$2,179 million. The Australian Museum recognised its collection assets for the first time in 2002-03 at a value of \$530 million following the completion of an extensive valuation exercise.

Net Financial Liabilities

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

Total State Sector NFL fell from \$43,969 million (26.7 percent of Gross State Product (GSP)) in June 1995 to \$42,121 million (16.1 percent of GSP) in June 2003. Included in this was a marginal increase in 2002-03, primarily the result of a growth in unfunded superannuation liabilities. (Refer Figure 5).



AUDITED STATEMENT OF THE BUDGET RESULT

STATEMENT OF COMPLIANCE

In our opinion, the Statement of the Budget Result for the NSW General Government Sector for the year ended 30 June 2003:

- has been prepared as outlined in Note 1; and
- presents a bottom line Budget Result that agrees with the Net Lending Result prepared under Australian Bureau of Statistics Government Finance Statistics principles.

Michael Egan
Treasurer

John Pierce
Secretary
NSW Treasury

Alastair Hunter
Acting Executive Director
Financial Management
NSW Treasury

30 September 2003



GPO BOX 12
SYDNEY NSW 2001

INDEPENDENT AUDIT REPORT

STATEMENT OF THE BUDGET RESULT

To Members of the New South Wales Parliament

Qualified Audit Opinion

In my opinion, the attached Statement of the Budget Result (the Statement) presents fairly in accordance with the accounting policies identified in the Notes to the Statement, the budget result for the year ended 30 June 2003.

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

Qualification

Included within Other Operating Expenses is a provision for land remediation and other works amounting to \$109 million. In my opinion, this expense should not be recognised because the amount cannot be measured reliably. The financial effect of recognising the expense is to understate the Budget Surplus by \$109 million.

The Treasurer's Role

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

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

The Auditor's Role and the Audit Scope

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

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

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

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

My opinion does *not* provide assurance:

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

Audit Independence

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

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

R J Sendt
Auditor-General

SYDNEY
2 October 2003

NSW GENERAL GOVERNMENT SECTOR STATEMENT OF THE BUDGET RESULT

	2002-03 \$m (Actual)	2002-03 \$m (Budget)	2001-02 \$m Actual
State Revenues			
Taxation	14,161	12,862	13,216
Commonwealth Grants	15,228	15,053	15,033
Financial Distributions	1,238	1,215	1,228
Fines, Regulatory Fees and Other	864	799	792
Total State Revenues	31,491	29,929	30,269
Operating Revenues			
Sale of Goods and Services	2,726	2,479	2,502
Investment Income	443	589	282
Grants and Contributions	698	382	316
Other Revenue	688	256	380
Total Operating Revenues	4,555	3,706	3,480
Expenses			
Employee Related - Superannuation	2,150	1,959	1,792
Employee Related - Other	14,264	13,473	12,979
Other Operating	7,292	7,229	7,087
Maintenance	1,319	1,147	1,242
Depreciation and Amortisation	1,773	1,404	1,638
Recurrent Grants & Subsidies	5,419	5,029	4,825
Capital Grants & Subsidies	1,315	1,334	1,832
Finance Other	806	760	868
Total Expenses	34,338	32,335	32,263
GFS Net Operating Surplus	1,708	1,300	1,486
less Asset Acquisitions	3,348	3,022	3,096
plus Depreciation	1,773	1,404	1,638
plus Asset Sales & Other Movements in Non-Financial Assets	486	486	393
BUDGET SURPLUS ^(a)	619	168	421

^(a) It is intended to allocate \$420 million in 2003-04 to a New South Wales Health Super-Growth Fund.

1. Statement Basis

This Statement is prepared in accordance with Government Finance Statistics principles. The Statement of Budget Result was presented for the first time on an accrual Government Finance Statistics (GFS) basis in 2000-01.

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

This report reflects the presentation and GFS principles adopted for the 2002-03 Budget Papers (Table 1.2).

GFS principles allow revision to historical data. This includes the back-casting of new treatments to place significant economic transactions within the relevant fiscal year, and the reclassification of transactions, where further information subsequently becomes available. Accordingly, the 2001-02 comparatives have been restated.

The main back-cast adjustments to 2001-02 comparatives relate to the restatement of government motor vehicle leases from an operating to finance lease (worsening the comparative Budget Result by \$42 million) and the taking up of the transactions for the Health Department's private practice trust funds (which improves the comparative Budget Result by \$12 million).

Departures from GFS Principles

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

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

- current GFS principles as followed by the ABS statistical standards require a premium on a loan to be classified as a negative interest payment in the year the loan is raised. New South Wales disagrees with this approach since it results in an asymmetric treatment with discounts on loans that are treated as a balloon interest payment on the maturity of the loan.

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

Budget Coverage

Section 4 of the General Government Debt Elimination Act 1995 was proclaimed prior to the 1998-99 Budget. This section required the Budget to be presented on a General Government Sector basis as determined by the Australian Bureau of Statistics.

The General Government sector consists of those public sector entities that provide, in the main, goods and services outside the market mechanism, as well as providing for the transfer of income for public policy purposes. The major form of financing of these goods and services is by taxation, imposed by the State or by the Commonwealth and subsequently on passed to the State.

Budget Surplus

It is intended to allocate \$420 million to a New South Wales Health Super-Growth Fund in 2003-04. This amount represents the additional funds earned between the June 2003 Budget time projections and the actual result for 2002-03. The investment income on these additional funds will be used to fund health services of a capital nature.

END OF AUDITED STATEMENT OF THE BUDGET RESULT



OUTCOMES REPORT



NSW 2002-03 FINANCIAL OUTCOMES REPORT

This Financial Outcomes Report compares for 2002-03 the published NSW Budget with the actual outcome on an accruals basis. Only the actual outcome is presented for the NSW Public Financial Corporations Sector as budget data is not available. In addition to the reporting requirements, a consolidated NSW Total State Public Sector balance sheet by sector (Table 1) has been included. This assists in analysis of key State Sector balance sheet indicators.

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

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

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

LOAN COUNCIL REPORTING REQUIREMENTS

Table 16 compares the NSW Loan Council Allocation (LCA) estimate at the time of the Budget with the actual result for 2002-03.

As confirmed at the 1997 Loan Council meeting, States are to report their full contingent exposure to infrastructure projects with private sector involvement. Exposure is to be measured by the Government's termination liabilities and disclosed as a footnote to, rather than a component of LCAs

Table 16 shows a negative \$429 million (i.e. a surplus) outcome for the 2002-03 Loan Council Allocation compared with the Budget-time estimate of \$301 million. Though the comparison with the budget time does not exceed the tolerance limit there were significant offsetting movements within the data. The memorandum items were impacted by the superannuation earnings having a negative 2.1 percent return and this was almost offset by an improved result for the General Government sector. The Loan Council improvement was also the result of a more favourable Public Trading Enterprise cash result. Further, the budget estimate did not include proceeds from the sale of Powercoal Pty Ltd, which have been reported within the line "net cash flows from investments in financial assets for policy purposes".

TABLE 1: NSW PUBLIC SECTOR BALANCE SHEETS (ABS BASIS) AT 30 JUNE 2003

	General Government	Public Non-financial Corporation	Total Non-financial Sector ^(a)	Public Financial Corporations	Total State Sector
	\$m	\$m	\$m	\$m	\$m
Assets					
Financial assets					
Cash and deposits	1,091	1,157	2,248	1,008	3,057
Advances paid	1,403	...	288	2	289
Investments, loans and placements	7,941	568	8,507	35,289	14,239
Other non-equity assets	5,381	2,182	4,581	345	4,587
Equity	66,779	78	240	...	642
Total financial assets	82,595	3,985	15,864	36,644	22,814
Non-financial assets					
Land and fixed assets	78,944	82,894	161,838	3	161,841
Other non-financial assets	1,046	275	1,320	...	1,320
Total non-financial assets	79,990	83,169	163,158	3	163,161
Total assets	162,585	87,154	179,022	36,647	185,975
Liabilities					
Deposits held	52	93	145	11,281	3,202
Advances received	1,804	1,115	1,804	...	1,804
Borrowing	10,166	12,247	22,411	25,170	26,048
Superannuation liability ^(b)	14,721	735	15,456	...	15,456
Other employee entitlements and provisions	11,168	4,276	13,194	71	13,238
Other non-equity liabilities	3,634	2,070	4,972	527	5,187
Total liabilities	41,545	20,536	57,982	37,049	64,935
Shares and other contributed capital	...	66,618	...	(402)	...
NET WORTH (ABS Basis)	121,040	...	121,040	...	121,040
Net Debt^(c)	1,587	11,730	13,317	152	13,469
Net Financial Worth^(d)	41,050	(83,169)	(42,118)	(3)	(42,121)
Net Financial Liabilities^(e)	25,166	16,551	41,717	404	42,121

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

^(b) Comprises unfunded obligations.

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

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

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

There were two errors in this table that have now been corrected.

An advance by the public sector was omitted from the table, incorrectly reducing the value of the total assets of Public Financial Corporations by \$2 million. The value of assets is \$36,647 million.

The net financial liabilities of the Total State Sector were correctly shown as \$42,121 million. However the elements that were added to produce that total contained errors.

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

	2002-03 \$m (Budget)	2002-03 \$m (Actual)
GFS Revenue		
Taxation revenue	12,862	14,161
Current grants and subsidies	16,056	16,580
Capital grants	941	918
Sales of goods and services	2,671	2,929
Interest income	589	443
Other	2,323	2,856
Total revenue	35,442	37,887
less GFS Expenses		
Employee expenses	14,618	15,343
Depreciation	1,404	1,773
Other operating expenses	9,676	10,108
Nominal superannuation interest expense	591	745
Other interest expenses	760	806
Other property expenses	...	...
Current transfers	5,718	6,054
Capital transfers	1,375	1,350
Total expenses	34,142	36,179
equals GFS net operating balance	1,300	1,708
less Net acquisition of non-financial assets		
Purchases of non-financial assets	3,022	3,003
less Sales of non-financial assets	(434)	(477)
less Depreciation	(1,404)	(1,773)
plus Change in inventories	2	4
plus Other movements in non-financial assets	(54)	332
equals Total net acquisition of non-financial assets	1,132	1,089
equals GFS Net Lending / (Borrowing) ^(a)	168	619

Notes:

^(a) Also known as Fiscal Balance.

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

	2002-03 \$m (Budget)	2002-03 \$m (Actual)
GFS Revenue		
Sales of goods and services	9,268	9,370
Current grants and subsidies	1,224	1,404
Capital grants	691	690
Interest income	58	85
Other	672	833
Total revenue	11,913	12,382
less GFS Expenses		
Employee expenses	2,970	2,983
Depreciation	1,643	2,068
Other operating expenses	4,854	5,226
Interest expenses	889	823
Other property expenses	1,171	1,215
Current transfers	110	85
Capital transfers	11	31
Total expenses	11,648	12,431
equals GFS net operating balance	265	(49)
less Net acquisition of non-financial assets		
Purchases of non-financial assets	3,331	3,342
less Sales of non-financial assets	(263)	(313)
less Depreciation	(1,643)	(2,068)
plus Change in inventories	42	45
plus Other movements in non-financial assets	94	116
equals Total net acquisition of non-financial assets	1,561	1,122
equals GFS Net Lending / (Borrowing) ^(a)	(1,296)	(1,171)

Notes:

^(a) Also known as Fiscal Balance.

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

	2002-03 \$m (Budget)	2002-03 \$m (Actual)
GFS Revenue		
Taxation revenue	12,228	13,444
Current grants and subsidies	16,035	16,547
Sales of goods and services	11,823	12,194
Capital grants	941	912
Interest income	593	475
Other	1,809	2,451
Total revenue	43,429	46,023
less GFS Expenses		
Employee expenses	17,588	18,331
Depreciation	3,047	3,842
Other operating expenses	13,780	14,501
Nominal superannuation interest expense	591	745
Other interest expenses	1,595	1,577
Other property expenses	...	...
Current transfers	4,595	4,722
Capital transfers	663	647
Total expenses	41,859	44,365
equals GFS net operating balance	1,570	1,658
less Net acquisition of non-financial assets		
Purchases of non-financial assets	6,350	6,341
less Sales of non-financial assets	(697)	(790)
less Depreciation	(3,047)	(3,842)
plus Change in inventories	44	50
plus Other movements in non-financial assets	40	448
equals Total net acquisition of non-financial assets	2,690	2,207
equals GFS Net Lending / (Borrowing) ^(a)	(1,120)	(549)

Notes:

^(a) Also known as Fiscal Balance.

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

		2002-03 \$m (Actual) ^(a)
GFS Revenue		
	Sales of goods and services	13
	Current grants and subsidies	20
	Capital grants	...
	Interest income	1,850
	Other	2
	Total revenue	1,885
less	GFS Expenses	
	Employee expenses	9
	Depreciation	2
	Other operating expenses	(3)
	Interest expenses	1,760
	Other property expenses	33
	Current transfers	...
	Capital transfers	...
	Total expenses	1,801
equals	GFS net operating balance	84
less	Net acquisition of non-financial assets	
	Purchase of non-financial assets	1
	Sales of non-financial assets	...
	less Depreciation	(2)
	plus Change in inventories	...
	plus Other movements in non-financial assets	...
equals	Total net acquisition of non-financial assets	(1)
equals	GFS Net Lending / (Borrowing) ^(b)	85

Notes:

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

^(b) *Also known as Fiscal Balance.*

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

	2003 \$m (Budget)	2003 \$m (Actual)
Assets		
Financial assets		
Cash and deposits	1,277	1,091
Advances paid	1,417	1,403
Investments, loans and placements	5,535	7,941
Other non-equity assets	4,092	5,381
Equity	50,372	66,779
Total financial assets	62,693	82,595
Non-financial assets		
Land and fixed assets	68,369	78,944
Other non-financial assets	1,071	1,046
Total non-financial assets	69,440	79,990
Total assets	132,133	162,585
Liabilities		
Deposits held	51	52
Advances received	1,789	1,804
Borrowing	9,748	10,166
Superannuation liability ^(a)	11,259	14,721
Other employee entitlements and provisions	9,052	11,168
Other non-equity liabilities	2,570	3,634
Total liabilities	34,469	41,545
NET WORTH	97,664	121,040
Net Financial Worth ^(b)	28,224	41,050
Net debt ^(c)	3,359	1,587
<i>Notes:</i>		
^(a) <i>Comprises unfunded obligations.</i>		
^(b) <i>Net financial worth equals total financial assets minus total liabilities.</i>		
^(c) <i>Net debt equals the sum of deposits held, advances received and borrowing, minus the sum of cash and deposits, advances paid, and investments, loans and placements.</i>		
^(d) <i>Adjusted for Crown deposits to the Liability Management Fund and fund earnings, that have been set aside to meet future superannuation obligations.</i>		
GFS net debt ^(c)	3,359	1,587
Impact of deposits to the Liability Management Fund ^(d)	951	1,651
Underlying net debt ^{(c) (d)}	4,310	3,238

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

	2003 \$m (Budget)	2003 \$m (Actual)
Assets		
Financial assets		
Cash and deposits	833	1,157
Investments, loans and placements	486	568
Other non-equity assets	2,230	2,182
Equity	69	78
Total financial assets	3,618	3,985
Non-financial assets		
Land and fixed assets	66,934	82,894
Other non-financial assets	268	275
Total non-financial assets	67,202	83,169
Total assets	70,820	87,154
Liabilities		
Deposits held	61	93
Advances received	1,140	1,115
Borrowing	13,122	12,247
Superannuation liability ^(a)	332	735
Other employee entitlements and provisions	4,054	4,276
Other non-equity liabilities	1,824	2,070
Total liabilities	20,533	20,536
Shares and other contributed capital ^{(b) (c)}	50,287	66,618
NET WORTH ^{(b) (c)}	...	...
Net financial worth ^{(c)(d)}	(67,202)	(83,169)
Net debt ^(e)	13,004	11,730

Notes:

^(a) Comprises unfunded obligations.

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

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

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

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

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

	2003 \$m (Budget)	2003 \$m (Actual)
Assets		
Financial assets		
Cash and deposits	2,110	2,248
Advances paid	278	288
Investments, loans and placements	6,022	8,507
Other non-equity assets	3,399	4,581
Equity	154	240
Total financial assets	11,963	15,864
Non-financial assets		
Land and fixed assets	135,302	161,838
Other non-financial assets	1,339	1,320
Total non-financial assets	136,641	163,158
Total assets	148,604	179,022
Liabilities		
Deposits held	114	145
Advances received	1,789	1,804
Borrowing	22,870	22,411
Superannuation liability ^(a)	11,591	15,456
Other employee entitlements and provisions	10,867	13,194
Other non-equity liabilities	3,709	4,972
Total liabilities	50,940	57,982
Shares and other contributed capital	...	...
NET WORTH	97,664	121,040
Net financial worth ^(b)	(38,977)	(42,118)
Net debt ^(c)	16,363	13,317
<i>Notes:</i>		
<i>(a) Comprises unfunded obligations.</i>		
<i>(b) Net financial worth equals total financial assets minus total liabilities and minus shares and other contributed capital.</i>		
<i>(c) Net debt equals the sum of deposits held, advances received and borrowing, minus the sum of cash and deposits, advances paid, and investments, loans and placements.</i>		
<i>(d) Adjusted for Crown deposits to the Liability Management Fund and fund earnings, that have been set aside to meet future superannuation obligations.</i>		
GFS net debt ^(c)	16,363	13,317
Impact of deposits to the Liability Management Fund ^(d)	951	1,651
Underlying net debt ^{(c) (d)}	17,314	14,968

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

	2003 \$m (Actual) ^(a)
Assets	
Financial assets	
Cash and deposits	1,008
Advances paid	2
Investments, loans and placements	35,289
Other non-equity assets	345
Equity	...
Total financial assets	36,644
Non-financial assets	
Land and fixed assets	3
Other non-financial assets	...
Total non-financial assets	3
Total assets	36,647
Liabilities	
Deposits held	11,281
Advances received	...
Borrowing	25,170
Superannuation liability ^(b)	...
Other employee entitlements and provisions	71
Other non-equity liabilities	527
Total liabilities	37,049
Shares and other contributed capital ^{(c) (d)}	(402)
NET WORTH ^{(c) (d)}	...
Net financial worth ^{(d) (e)}	(3)
Net debt ^(f)	152

Notes:

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

^(b) Comprises unfunded obligations.

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

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

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

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

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

CASH FLOW	2002-03 \$m (Budget)	2002-03 \$m (Actual)
Cash receipts from operating activities		
Tax received	12,842	13,956
Receipts from sales of goods and services	2,687	3,053
Grants/subsidies received	16,998	17,696
Other receipts	3,559	4,093
Total receipts	36,086	38,798
Cash payments for operating activities		
Payment for goods and services	(23,314)	(23,978)
Grants and subsidies paid	(6,784)	(6,987)
Interest paid	(760)	(822)
Other payments	(1,554)	(1,759)
Total payments	(32,412)	(33,546)
Net cash flows from operating activities	3,674	5,252
Net cash flows from investments in non-financial assets		
Sales of non-financial assets	434	477
Purchases of non-financial assets	(3,022)	(3,003)
Net cash flows from investments in non-financial assets	(2,588)	(2,526)
Net cash flows from investments in financial assets for policy purposes	538	966
Net cash flows from investments in financial assets for liquidity purposes	(538)	(1,114)
Net cash flows from financing activities		
Advances received (net)	(40)	(31)
Borrowing (net)	(561)	(1,018)
Deposits received (net)	(1)	(10)
Other financing (net)	(1)	...
Net cash flows from financing activities	(603)	(1,059)
Net increase (decrease) in cash held	483	1,519
SURPLUS / (DEFICIT)		
Net cash from operating activities and investments in non-financial assets	1,086	2,726
Finance leases and similar arrangements	...	(345)
SURPLUS / (DEFICIT)	1,086	2,381
<i>Notes:</i>		
<i>^(a) A positive number denotes a cash inflow, a negative (i.e. bracketed) sign denotes a cash outflow.</i>		
<i>^(b) Deposits by the Crown to the Liability Management Fund and the fund's earnings have been set aside to meet future superannuation contributions.</i>		
GFS SURPLUS / (DEFICIT)	1,086	2,381
<i>Adjusted for deposits to the Liability Management Fund ^(b)</i>	<i>(951)</i>	<i>(1,651)</i>
UNDERLYING SURPLUS / (DEFICIT) after adjusting for the timing of superannuation contributions	135	730

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

CASH FLOW	2002-03 \$m (Budget)	2002-03 \$m (Actual)
Cash receipts from operating activities		
Receipts from sales of goods and services	9,527	9,612
Grants/subsidies received	1,916	2,124
Other receipts	1,707	2,155
Total receipts	13,150	13,891
Cash payments for operating activities		
Payment for goods and services	(7,900)	(7,989)
Grants and subsidies paid	(116)	(99)
Interest paid	(883)	(809)
Other payments	(1,426)	(1,753)
Total payments	(10,325)	(10,650)
Net cash flows from operating activities	2,825	3,241
Net cash flows from investments in non-financial assets		
Sales of non-financial assets	263	313
Purchases of non-financial assets	(3,331)	(3,343)
Purchases of second-hand non-financial assets	...	1
Net cash flows from investments in non-financial assets	(3,068)	(3,029)
Net cash flows from investments in financial assets for policy purposes	(135)	2
Net cash flows from investments in financial assets for liquidity purposes	210	243
Net cash flows from financing activities		
Advances received (net)	(446)	(578)
Borrowing (net)	1,079	581
Deposits received (net)	7	4
Distributions Paid	(585)	(606)
Other financing (net)	2	3
Net cash flows from financing activities	57	(596)
Net increase (decrease) in cash held	(111)	(139)
SURPLUS / (DEFICIT)		
Net cash from operating activities and investments in non-financial assets	(243)	212
Distribution Paid	(585)	(606)
Finance leases and similar arrangements	...	...
SURPLUS / (DEFICIT)	(828)	(394)

Notes:

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

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

CASH FLOW	2002-03 \$m (Budget)	2002-03 \$m (Actual)
Cash receipts from operating activities		
Taxes received	12,234	13,401
Receipts from sales of goods and services	12,074	12,510
Grants/subsidies received	16,977	17,666
Other receipts	4,434	5,182
Total receipts	45,719	48,759
Cash payments for operating activities		
Payment for goods and services	(30,520)	(31,261)
Grants and subsidies paid	(4,964)	(4,972)
Interest paid	(1,588)	(1,578)
Other payments	(2,736)	(3,068)
Total payments	(39,808)	(40,879)
Net cash flows from operating activities	5,911	7,880
Net cash flows from investments in non-financial assets		
Sales of non-financial assets	697	790
Purchases of non-financial assets	(6,350)	(6,342)
Purchases of second-hand non-financial assets	...	1
Net cash flows from investments in non-financial assets	(5,653)	(5,551)
Net cash flows from investments in financial assets for policy purposes	(43)	390
Net cash flows from investments in financial assets for liquidity purposes	(329)	(871)
Net cash flows from financing activities		
Advances received (net)	(40)	(70)
Borrowing (net)	518	(396)
Deposits received (net)	6	(6)
Distributions Paid	...	...
Other financing (net)	2	3
Net cash flows from financing activities	486	(469)
Net increase (decrease) in cash held	372	1,379
SURPLUS / (DEFICIT)		
Net cash from operating activities and investments in non-financial assets	258	2,329
Distributions Paid	...	...
Finance leases and similar arrangements	...	(345)
SURPLUS / (DEFICIT)	258	1,984
<i>Notes:</i>		
<i>^(a) A positive number denotes a cash inflow, a negative (i.e. bracketed) sign denotes a cash outflow.</i>		
<i>^(b) Deposits by the Crown to the Liability Management Fund and the fund's earnings have been set aside to meet future superannuation contributions.</i>		
GFS SURPLUS / (DEFICIT)	258	1,984
<i>Adjusted for deposits to the Liability Management Fund ^(b)</i>	<i>(951)</i>	<i>(1,651)</i>
UNDERLYING SURPLUS / (DEFICIT) after adjusting for the timing of superannuation contributions	(693)	333

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

CASH FLOW	2002-03 \$m (Actual) ^(b)
Cash receipts from operating activities	
Receipts from sales of goods and services	10
Grants/subsidies received	21
Other receipts	1,910
Total receipts	1,941
Cash payments for operating activities	
Payment for goods and services	(9)
Grants and subsidies paid	...
Interest paid	(1,636)
Other payments	(34)
Total payments	(1,679)
Net cash flows from operating activities	262
Net cash flows from investments in non-financial assets	
Sales of non-financial assets	...
Purchases of non-financial assets	(1)
Net cash flows from investments in non-financial assets	(1)
Net cash flows from investments in financial assets for policy purposes	...
Net cash flows from investments in financial assets for liquidity purposes	(3,367)
Net cash flows from financing activities	
Advances received (net)	...
Borrowing (net)	738
Deposits received (net)	3,166
Distributions Paid	(18)
Other financing (net)	...
Net cash flows from financing activities	3,886
Net increase (decrease) in cash held	780
SURPLUS / (DEFICIT)	
Net cash from operating activities and investments in in non-financial assets	261
Distribution Paid	(18)
Finance leases and similar arrangements	...
SURPLUS / (DEFICIT)	243

Notes:

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

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

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

	2002-03 \$m (Budget) ^(a)	2002-03 \$m (Actual)
General Public Services		
Government superannuation benefits	49	53
Other general public services	1,106	1,014
Total Other General Public Services	1,155	1,067
Public Order and Safety		
Police and fire protection services		
- Police services	1,662	1,704
- Fire protection services	462	485
Law courts and legal services	668	712
Prisons and corrective services	706	730
Other public order and safety	27	39
Total Public Order and Safety	3,525	3,670
Education		
Primary and secondary education		
- Primary education	2,868	3,183
- Secondary education	2,824	3,070
- Primary and secondary education n.e.c.	1,781	1,718
Tertiary education		
- University education	10	...
- Technical and further education	1,239	1,339
- Tertiary education n.e.c.	...	...
Pre-school education and education not definable by level		
- Pre-school education	17	18
- Other education not definable by level	14	...
Transportation of students		
- Transportation of non-urban school children	212	251
- Transportation of other students	315	297
- Education n.e.c.	...	1
Total Education	9,280	9,877
Health		
Acute care institutions		
- Admitted patient services in acute care institutions	4,854	5,011
- Non-admitted patient services in acute care institutions	1,245	1,432
Mental health institutions	232	250
Nursing homes for the aged	117	105
Community health services		
- Community health services (excluding community mental health)	1,021	991
- Community mental health	257	268
- Patient transport	360	422
Public health services	223	293
Health research	51	64
Health administration n.e.c.	42	11
Total Health	8,402	8,847

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

	2002-03 \$m (Budget) ^(a)	2002-03 \$m (Actual)
Social Security		
Social Security	324	287
Welfare services		
- Family and children services	687	758
- Welfare services for the aged	655	550
- Welfare services for people with a disability	603	747
- Welfare services n.e.c.	61	47
Social security and welfare n.e.c.	175	238
Total Social Security	2,505	2,627
Housing and Community Amenities		
Housing and community development		
- Housing	838	871
- Community Development	104	124
Water supply	81	69
Sanitation and protection of the environment	495	451
Other community amenities	...	...
Total Housing and Community Amenities	1,518	1,515
Recreation and Culture		
Recreation facilities and services		
- National parks and wildlife	273	321
- Recreation facilities and services n.e.c.	222	268
Cultural facilities and services	324	341
Broadcasting and film production	8	10
Recreation and culture n.e.c.	...	...
Total Recreation and Culture	827	940
Fuel and Energy		
Fuel affairs and services		
- Coal/Petroleum/Nuclear affairs, Fuel affairs and services n.e.c.	34	33
- Gas	2	1
Electricity and other energy		
- Electricity	26	29
- Other energy	2	...
Fuel and Energy n.e.c.	14	14
Total Fuel and Energy	78	77

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

	2002-03 \$m (Budget) ^(a)	2002-03 \$m (Actual)
Agriculture, Forestry, Fishing and Hunting		
Agriculture	511	508
Forestry, fishing and hunting	115	85
Total Agriculture, Forestry, Fishing and Hunting	626	593
Mining and Mineral Resources other than Fossil Fuels; Manufacturing and Construction		
Mining and mineral resources other than fuels	11	25
Manufacturing	...	...
Construction	87	45
Total Mining and Mineral Resources other than Fossil Fuels; Manufacturing and Construction	98	70
Transport and Communications		
Road transport		
- Road rehabilitation, and Aboriginal community road transport services	...	...
- Road maintenance	654	631
- Road transport n.e.c.	993	1,435
Water transport		
- Other water transport services	...	...
- Urban water transport services	56	62
Rail transport		
- Urban rail transport services	666	828
- Non-urban rail transport freight services	303	303
- Non-urban rail transport passenger services	45	48
Air transport		
Pipelines	...	...
Other transport		
- Multi-mode urban transport	162	170
- Other transport n.e.c.	310	280
Communications	50	54
Total Transport and Communications	3,239	3,811
Other Economic Affairs		
Storeage, saleyards and markets	...	...
Tourism and area promotion	61	64
Labour and employment affairs		
- Vocational training	214	217
- Other labour and employment affairs	333	387
Other economic affairs	227	253
Total Other Economic Affairs	835	921

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

	2002-03 \$m (Budget) ^(a)	2002-03 \$m (Actual)
Other Purposes		
Public debt transactions	1,377	1,557
General purpose inter-government transactions	355	347
Natural disaster relief	23	164
Other purposes n.e.c.	299	96
Total Other Purposes	2,054	2,164
Total GFS Expenses	34,142	36,179

Notes:

n.e.c. not elsewhere classified

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

**TABLE 15: NSW GENERAL GOVERNMENT SECTOR PURCHASES OF NON FINANCIAL ASSETS
(ABS BASIS) ^(a)**

	2002-03 \$m (Budget)	2002-03 \$m (Actual)
General public services	49	70
Public order and safety	340	332
Education	421	416
Health	510	503
Social security and welfare	31	54
Housing and community amenities	56	96
Recreation and culture	155	164
Fuel and energy	2	1
Agriculture, forestry, fishing and hunting	53	40
Mining, manufacturing and construction	3	2
Transport and communications	1,288	1,265
Other economic affairs	40	48
Other purposes	74	12
Total GFS Purchases of Non Financial Assets	3,022	3,003

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

TABLE 16: 2002-03 LOAN COUNCIL ALLOCATION ESTIMATES FOR NSW

	Budget-time Estimate 2002-03 \$m	Actual 2002-03 \$m
General government sector cash deficit / (surplus)	(1,086)	(2,381)
PNFC sector cash deficit / (surplus) ^(a)	828	394
Non-financial public sector cash deficit / (surplus) ^(b)	(258)	(1,984)
Minus Net cash flows from investments in financial asset for policy purposes ^{(c) (d)}	(5)	(390)
Plus Memorandum items ^(e)	564	1,945
Loan Council Allocation	301	(429)

Notes:

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

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

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

^(d) Actual 2002-03 includes \$324 million proceeds from sale of Powercoal Pty Ltd. The budget time estimate for this sale was nil.

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

The Memorandum items have been impacted by the investment performance of the Pooled Fund Superannuation investments earning negative 2.1% return which is lower than the budget-time earnings estimate.

PRIVATE SECTOR INFRASTRUCTURE

Contracts entered into in 2002-03

Cross City Tunnel

The Cross City Tunnel will comprise twin two-lane tunnels between the Kings Cross Tunnel and the Western Distributor, with connections to the Eastern Distributor.

Removing most east-west through traffic from the City Centre will improve the local environment, will allow more bus priority (both east-west and north-south), will improve conditions for pedestrians, and will allow lanes to be marked for cyclists.

An Environmental Impact Statement (EIS) was exhibited from 2 August to 6 October 2000. The Minister for Planning approved the project in October 2001.

A Supplementary EIS has been exhibited, incorporating changes suggested by the preferred proponent to improve the tunnel's configuration and enhance traffic flow.

The final cost to design, construct, operate and maintain the tollway project is estimated to be \$680 million. The contracts were signed on 18 December 2002 with the Cross City Motorway Consortium (Baulderstone-Hornibrook Pty Limited / Bilfinger+Berger Bauaktiengesellschaft, Deutsche Bank AG).

Construction work commenced in January 2003 and is expected to be completed in late 2005. The project will be funded by toll revenues.

Government Contingent Liability	Nil
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Western Sydney Orbital Road

The Western Sydney Orbital will be a 39km long road linking the Hume Highway / M5 at Prestons with the M2 at West Baulkham Hills. On completion in 2006, the route will form part of the National Highway system. The expected route will consist of two travel lanes in each direction and a wide central median which will allow for the possible construction of extra traffic lanes or public transport facilities in the future.

The EIS was placed on display in February and March 2001. The Minister for Planning approved the project with conditions on 28 February 2002.

Westlink Motorway Limited (Leighton Contractors Pty Ltd and Abigroup Contractors Pty Ltd) was appointed the Preferred Proponent and a contract was signed on 14 January 2003.

The estimated construction cost of the project is \$1,850 million. The Federal Government is providing around \$360 million, which will be used for the acquisition of land and project development costs. The balance of the project cost will be funded by toll revenue.

The contractor has established a site and substantial construction work has commenced.

Government Contingent Liability	Nil
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END OF UNAUDITED OUTCOMES REPORT



**AUDITED CONSOLIDATED FINANCIAL REPORT
OF THE NSW TOTAL STATE SECTOR
(TOTAL STATE SECTOR ACCOUNTS)
2002 - 2003**

STATEMENT OF COMPLIANCE

In our opinion the Total State Sector Accounts:

- (a) give a true and fair view of the consolidated operating result and cash flows of the NSW Total State Sector for the year ended 30 June 2003 and of the financial position of the NSW Total State Sector at that date;
- (b) have been prepared on the basis of the financial reporting requirements as prescribed in the Public Finance and Audit Act 1983; and
- (c) are in accordance with all applicable Australian Accounting Standards and Urgent Issues Group Consensus Views.

Michael Egan
Treasurer

John Pierce
Secretary
NSW Treasury

Alastair Hunter
Acting Executive Director
Financial Management
NSW Treasury

30 September 2003



GPO BOX 12
SYDNEY NSW 2001

INDEPENDENT AUDIT REPORT

TOTAL STATE SECTOR ACCOUNTS

To Members of the New South Wales Parliament

Qualified Audit Opinion

In my opinion, except for the effect of the matter referred to in the qualification paragraph below, the financial report of the Total State Sector Accounts:

- (a) is properly drawn up in accordance with the *Public Finance and Audit Act 1983* (the Act),
- (b) accords with the accounts and records of the Treasurer, and
- (c) presents fairly the *Total State Sector's* financial position as at 30 June 2003 and its financial performance and cash flows for the year ended on that date, in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia.

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

Qualification

As disclosed in Note 1 Statement of Significant Accounting Policies, the WorkCover Scheme Statutory Funds (the Scheme) have not been consolidated in the Total State Sector Accounts. In my opinion, the transactions and balances of the Scheme are required to be consolidated under Australian Accounting Standard AAS 24 "Consolidated Financial Reports" because the State has the capacity to dominate decision-making in relation to the Scheme's financial and operating policies. The management of WorkCover estimates that the scheme has a net liability of \$2,982 million (unaudited) at 30 June 2003 (\$2,801 million (audited) at 30 June 2002).

My audit report for the year ending 30 June 2002 was similarly qualified.

The Treasurer's Role

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

The Auditor's Role and the Audit Scope

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

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

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

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

My opinion does *not* provide assurance:

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

Audit Independence

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

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

R J Sendt
Auditor-General

SYDNEY
2 October 2003

THE NSW TOTAL STATE SECTOR ACCOUNTS STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2003

	Note	2002-03 \$m	2001-02 \$m
REVENUES FROM ORDINARY ACTIVITIES			
State Revenues			
Taxation	2	13,437	12,588
Commonwealth Grants	2	15,228	15,033
Fines, Regulatory Fees and Other	2	869	792
Total State Revenues		29,534	28,413
Operating Revenues			
Sale of Goods and Services	2	11,436	11,019
Investment Income		737	371
Grants and Contributions		1,128	697
Recognition of Assets for the First Time	4	1,045	4,469
Net Gain/(Loss) on Disposal of Physical Assets	2	(80)	74
Other	2	1,377	1,400
Total Operating Revenues		15,643	18,030
Total Revenues		45,177	46,443
EXPENSES FROM ORDINARY ACTIVITIES			
Employee Benefits			
- Superannuation	3	4,749	4,510
- Other	3	17,743	16,038
Other Operating	3	10,284	10,190
Maintenance		2,271	2,079
Depreciation and Amortisation	3	3,843	3,103
Grants and Subsidies	3	4,823	4,862
Borrowing Costs	3	1,888	1,633
Total Expenses		45,601	42,415
SURPLUS/(DEFICIT) FOR THE YEAR		(424)	4,028

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

THE NSW TOTAL STATE SECTOR ACCOUNTS STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2003

	Note	2002-03 \$m	2001-02 \$m
OTHER MOVEMENTS IN EQUITY			
(Revenues, Expenses and Valuation Adjustments Recognised Directly in Equity)			
Increase in Accumulated Funds on the Adoption of an Australian Accounting Standard			
- AASB1041 "Revaluation of Non-current Assets"			
- rail infrastructure assets reinstated	15	7,828	...
- other AASB1041 adjustments	15	7	...
- Adjustment to provision liabilities on adopting AASB1044 "Provisions, Contingent Liabilities and Contingent Assets"	15	(15)	...
- Adjustment to employee benefits liabilities on adopting AASB1028 "Employee Benefits"	15	(3)	...
Increase in Accumulated Funds Arising From an Urgent Issues Group Abstract (UIG) Transitional Provision			
- Adjustment to insurance claims liabilities on adopting a claims incurred basis following the release of UIG47	15	(826)	(369)
- Adjustment to insurance levies receivable on adopting a claims incurred basis following the release of Urgent Issues Group Abstract UIG47	15	826	...
- Derecognition of deferred gains and losses on rolling stock leases following the release of Urgent Issues Group Abstract UIG50	15	39	...
Net Asset Valuation Increments	14	15,258	3,309
Other	15	1	(46)
Total Other Movements in Equity		23,115	2,894
Opening Balance Equity		98,078	91,156
Operating Surplus/(Deficit)		(424)	4,028
Other Movements in Equity		23,115	2,894
CLOSING BALANCE EQUITY		120,769	98,078

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

**THE NSW TOTAL STATE SECTOR ACCOUNTS STATEMENT OF FINANCIAL POSITION AS AT
30 JUNE 2003**

	Note	2003 \$m	2002 \$m
Current Assets			
Cash Assets		3,057	3,037
Receivables	5	2,954	3,308
Other Financial Assets	6	6,557	3,392
Inventories	7	695	726
Other	9	217	237
Total Current Assets		13,480	10,700
Non-Current Assets			
Receivables	5	1,433	493
Other Financial Assets	6	5,837	5,144
Property, Plant and Equipment			
Land and Buildings	8	74,513	62,951
Plant and Equipment	8	9,211	7,788
Infrastructure Systems	8	75,292	62,596
Forestry Stock		1,573	1,493
Inventories	7	357	355
Other	9	1,341	1,348
Total Non-Current Assets		169,557	142,168
TOTAL ASSETS		183,037	152,868
Current Liabilities			
Payables	10	4,139	3,878
Interest Bearing	11	7,359	5,885
Provisions	12	2,957	2,793
Other	13	542	435
Total Current Liabilities		14,997	12,991
Non-Current Liabilities			
Interest Bearing	11	20,826	20,855
Provisions	12	25,794	20,287
Other	13	651	657
Total Non-Current Liabilities		47,271	41,799
TOTAL LIABILITIES		62,268	54,790
NET ASSETS		120,769	98,078
Equity			
Asset Revaluation Reserves	14	57,361	42,681
Accumulated Funds	15	63,408	55,397
TOTAL EQUITY		120,769	98,078

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

**THE NSW TOTAL STATE SECTOR ACCOUNTS STATEMENT OF CASH FLOWS FOR
THE YEAR ENDED 30 JUNE 2003**

	Note	2002-03 \$m	2001-02 \$m
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts			
Taxation		13,390	12,504
Commonwealth Grants		15,440	15,033
Sale of Goods and Services		11,879	11,267
Investment Income		310	197
Fines, Fees, Grants and Other		5,384	4,446
Total Receipts		46,403	43,447
Payments			
Employee Related		(17,940)	(16,410)
Grants and Subsidies		(4,047)	(4,051)
Finance		(169)	(78)
Other		(14,977)	(13,991)
Total Payments		(37,133)	(34,530)
NET CASH FLOWS FROM OPERATING ACTIVITIES	16	9,270	8,917
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from Sale of Property, Plant and Equipment		799	550
Proceeds from Sale of Investments		885	955
Proceeds from Sale of Powercoal (2002-03), Freight Rail Corporation and National Rail Corporation Shares (2001-02)		324	669
Advance Repayments Received		98	61
Purchase of Property, Plant and Equipment		(6,293)	(5,651)
Purchase of Investments		(1,905)	(2,341)
Advances Made		(36)	(118)
Other		128	(58)
NET CASH FLOWS FROM INVESTING ACTIVITIES		(6,000)	(5,933)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from Borrowings and Advances		31	2
Repayments of Borrowings and Advances		(290)	(262)
NET CASH FLOWS FROM FINANCING ACTIVITIES		(259)	(260)
NET CASH FLOW OF FINANCIAL INSTITUTIONS	16	(402)	(1,211)
NET INCREASE/(DECREASE) IN CASH HELD		2,609	1,513
Opening Cash and Cash Equivalents		2,653	1,124
Reclassification of Cash Equivalents	16	(2,364)	16
CLOSING CASH BALANCE	16	2,898	2,653

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

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

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

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

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

Budget dependent agencies are those which receive an appropriation in the annual Appropriation Act. The majority of agencies rely predominantly on the State Budget for direct funding (ie 50% or more of the total funding of each agency is provided by Parliamentary appropriations). With some exceptions, they are known as departments as defined by section 45A(1) of the Public Finance and Audit Act 1983 and are listed in Schedule 3 of that Act and in the Appendix of Budget Paper No. 2 of 2003-04.

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

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

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

Public Trading Enterprises are largely self-funded from user charges and have a commercial charter. However, they may receive funding from the State Budget for social programs (non-commercial activities).

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

Public Financial Enterprises are government controlled and perform central bank functions, or accept demand, time or savings deposits, or have the authority to incur liabilities and acquire financial assets in the market on their own account.

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

BASIS OF ACCOUNTING

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

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

BASIS OF MEASUREMENT

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

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

All amounts in this financial report are in Australian dollars and have been rounded to the nearest million dollars.

RECLASSIFICATION OF FINANCIAL INFORMATION

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

PRINCIPLES OF CONSOLIDATION

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

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

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

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

However, these statutory funds, commonly known as the WorkCover Scheme Statutory Funds, are not consolidated because they are regulated, but not controlled. This treatment has been confirmed in three separate legal opinions provided by the

Crown Solicitor's Office since 1996, including advice given on the matter by the NSW Solicitor-General.

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

The unaudited amount of the WorkCover Scheme Statutory Funds' accumulated deficit at 30 June 2003 is estimated at \$2,982 million. The audited accumulated deficit was \$2,801 million at 30 June 2002. The legislation provides for the funding of any overall deficit that may arise in the WorkCover Scheme by the payment of a contribution by employers as part of future premiums.

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

REVENUE

State Taxation, Fines and Fees

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

- Government-assessed revenues (primarily land tax) are recognised at the time the assessments are issued.
- Taxpayer-assessed revenues including payroll tax and stamp duty, are recognised when the funds are received by the revenue-collecting agency. Additional revenues are recognised for assessments subsequently issued following review of returns lodged by taxpayers.

- Fines (such as those issued by the Traffic Infringement Bureau) and fees (such as those earned by the Roads and Traffic Authority) are recognised when the cash is received. In addition, fines revenue is recognised when the State Debt Recovery Office takes over responsibility for collecting overdue fines of government agencies, after considering the likelihood of recovery.

Commonwealth Grants

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

Sale of Goods and Services

Revenue is recognised when the goods or services are provided.

Investment Revenue

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

EXPENSES

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

Employee Benefit Expenses

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

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

Other Operating Expenses

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

Depreciation

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

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

Useful lives for assets are as follows:

<i>Buildings</i>	
Public housing	10-50 years
Schools and colleges	50-80 years
Hospitals	40 years
Other	various
<i>Plant and Equipment</i>	
Rail rolling stock (leased and non leased)	14-35 years
Other	various
<i>Infrastructure</i>	
Power stations	20-50 years
Electricity system assets	3-60 years
Water system assets	15-200 years
Roads (pavements)	15-50 years
Roads (earthworks)	100 years
Other	various

ASSETS

Receivables

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

Other Financial Assets

Other financial assets are valued at cost or market valuation.

Forestry Stock (Self Generating and Regenerating Assets)

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

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

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

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

The hardwood plantations estate has been valued on the basis of historical cost of establishment due to their age causing them to be non-commercial (less than fifteen years of age), whereas native forest timber has been valued using a net market value model. The valuation is based on standing volumes adjusted to reflect harvestable volume under current licence conditions and applying current prices less direct costs of disposing of the timber.

The net change in market value is recognised in the statement of financial performance and as an adjustment to forestry stock assets in the statement of financial position. State Forests manages the available native forest resource on a sustained yield basis. Sustained yield means the volume harvested will approximate, over time, annual forest growth of the harvestable native forest areas. As a result, costs incurred in managing, maintaining and developing the resource are expensed as incurred.

Inventories

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

Non-Current Physical Assets

Capitalisation and Initial Recognition

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

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

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

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

Valuation of Property, Plant and Equipment

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

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

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

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

Valuation of Land

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

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

Land under roads and within road reserves is not recognised in this financial report, as the Total State Sector is utilising the transitional provisions available in AAS31 "Financial Reporting by Governments". However, this land has been recognised in the financial report of the Roads and Traffic Authority at \$27,471 million (2002 \$23,328 million).

Valuation of Specialised Plant and Infrastructure

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

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

Valuation of Buildings

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

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

Heritage buildings are valued at fair value. However, heritage buildings are generally valued at market value for existing use, because there are few or no feasible alternative uses for such properties.

Heritage and Collection Assets

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

Revaluation of Property, Plant & Equipment

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

Where an entity revalues depreciable assets by reference to current prices for assets newer than those being revalued, the gross amount and accumulated depreciation are separately stated. Otherwise, any accumulated depreciation is generally offset against the gross carrying amount of the assets to which they relate, and the net asset carrying amount is increased or decreased by the revaluation increment or decrement.

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

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

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

Private Sector Financed Infrastructure Assets

There is currently no Australian Accounting Standard 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.

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

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 written down replacement cost of the asset at the date of transfer. The emerging interest is progressively recognised from the date of completion of construction over the period of the concession agreement.

Sydney Harbour Tunnel

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

The cost of constructing the Tunnel was \$683 million. The current written down replacement cost of the Tunnel is \$568 million (2002 \$542 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 \$384 million (2002 \$396 million).

M4, M5 and M2 Motorways and Eastern Distributor

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

Airport Line railway stations

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

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

LIABILITIES

Payables

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

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

Interest Bearing

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

- loans raised by the Commonwealth on behalf of the State under the previous Financial Agreement;
- advances by the Commonwealth for housing and other specific purposes;
- domestic and overseas borrowings raised by the NSW Treasury Corporation; and
- private and public domestic borrowings by Non-Budget dependent agencies.

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

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

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

Leases

A distinction is made between finance leases 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 leased asset is amortised on a straight line basis over the term of the lease or, where it is likely that the entity will obtain ownership of the asset, the useful life of the asset to the entity. Lease payments are allocated between the principal component of the lease liability and the interest expense.

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

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

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

Refer Note 1 'Changes in Accounting Policies' for information on the revised treatment in 2002-03 of government motor vehicle leases, which are now recorded as a finance lease of the Crown instead of as an operating lease.

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

Employee Benefits and Other Provisions

Wages and Salaries, Annual Leave and Sick Leave

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

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

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

Long Service Leave

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

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

Superannuation

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

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 Provisions

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

- the previous workers' compensation and third party insurance schemes, and the Treasury Managed Fund, a self insurance scheme administered by the Insurance Ministerial Corporation;
- Workers Compensation (Dust Diseases) Board outstanding claims ; and
- Workcover Authority outstanding claims.

The liabilities cover claims incurred but not yet paid, incurred but not yet reported and the anticipated fund management fees in respect of the management of those claims. These amounts are determined by independent actuarial assessment. Refer Note 1 *Changes in Accounting Policies* for further information on the treatment of Workers Compensation (Dust Diseases) Board insurance claims incurred, but not yet reported.

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

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

The Building and Construction Industry Long Service Payments Corporation liabilities have been assessed by actuaries based upon claims data provided by the Corporation for the 12 months ended 30 June 2003, and information provided on new entrants through the period.

Other Liabilities

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

Accounting for the Goods and Services Tax (GST)

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

CHANGES IN ACCOUNTING POLICIES

Property, Plant and Equipment

NSW Treasury applied AASB1041 "Revaluation of Non-Current Assets" for the year commencing 1 July 2002 and issued a policy paper "Accounting Policy on Valuation of Physical Non-Current Assets at Fair Value" to provide additional policy guidance on applying AASB1041 in the NSW public sector.

This policy paper requires property, plant and equipment to be valued at fair value. Whilst this is theoretically a change from previous practice, it is NSW Treasury's view that there is no material impact of the change, with one exception. The paper changed the definition of a cash-generating operation to one with a principal objective of earning net cash inflows, instead of the previous definition that merely require profit to be an objective. This change had one major impact, the reclassification of Rail Infrastructure from being profit generating to being not-for-profit.

Australian Accounting Standard AASB1041 "Revaluation of Non-Current Assets" requires profit generating entities to annually apply a Recoverable Amount Test to determine whether assets should be written down to their recoverable amount. Since its establishment, the Rail Infrastructure Corporation has applied the Recoverable Amount Test on the basis that profit generation was one of its objectives although not a prime objective. This resulted in significant write backs in the value of its asset base.

In 2002-03 NSW Treasury issued a policy paper, "Accounting Policy on Valuation of Physical Non-Current Assets at Fair Value". The paper clarified some definitional points about profit objectives, so the Rail Infrastructure Corporation reviewed its objectives and determined that generating profit is not its primary objective.

The effect of AASB1041 is that if profit generation is not the primary objective of an entity, and where an asset's economic benefits are not primarily dependent on the asset's ability to generate net cash inflows, then the Recoverable Amount Test is not applied. Accordingly the Corporation has restated the value of its assets. The resulting impact on the 2002-03 Total State Sector Accounts has been an increase in property plant and equipment of \$7,828 million and a corresponding increase in opening accumulated funds.

The higher asset value has also resulted in the 2002-03 depreciation expense increasing by \$431 million. It is not possible to estimate the impact of the revised treatment on the 2001-02 comparatives. Further, the Rail Infrastructure Corporation revalued its assets in 2002-03 resulting in a valuation increment of \$2,179 million to its asset revaluation reserve. The valuation increments would have been significantly lower had the revised accounting treatment not been adopted.

Australian Accounting Standard AASB1041 "Revaluation of Non-Current Assets" permits asset revaluations to be undertaken using either a gross approach (where both total asset value and accumulated depreciation are restated) or net approach (where accumulated depreciation is reset to nil dollars at the time of valuation). The gross approach may only be adopted where an entity revalues depreciable assets by reference to current prices for assets newer than those being revalued, and adjusts those amounts to reflect the present condition of assets.

Sydney Water Corporation changed its revaluations treatment to adopt the gross approach in 2002-03 following the guidance of Treasury's policy paper "Accounting Policy on Valuation of Physical Non-Current Assets at Fair Value". Sydney Water Corporation had previously applied the net approach, setting off accumulated depreciation against the carrying amount of assets prior to revaluing the carrying amount. There is nil impact on the written down value of property, plant and equipment as a result of the change.

However, as at 1 July 2002 both the gross amount and related accumulated depreciation of Sydney Water's property plant and equipment increased by \$5,702 million. The comparative June 2002 gross amount and accumulated depreciation reported in the Total State Sector Account's note 8 on property plant and equipment, has also been grossed up by \$5,702 million for consistency.

In 2002-03 State Forests revised its methodology of identifying primary access and secondary access road assets. The methodology is based on a set of criteria where roads functional use and construction type are considered to ensure a more consistent treatment of the identification of State Forest's roads. Criteria include areas of timber accessed, volumes of timber harvested, construction type and formation width. The effect of this change in methodology has caused a reduction in profit in the 2002-03 year of \$56 million.

Initial Recognition of Assets

During 2002-03 the following significant assets were recognised for the first time

- Australian Museum collections, \$530 million. The collections were reported following the completion of a valuation exercise which ascribed values based on a combination of both market value and recollection cost. The valuation was calculated with the use of internal and external resources, including professional statisticians and valuers.
- School bank balances and investments of the Department of Education and Training, \$226 million. These assets are primarily held to meet school expenditure commitments, asset replacement and acquisitions, and general contingencies. Information is not available for 2001-02, of the financial impact of excluding school bank transactions from the comparative operating result.

- In 2002-03 Treasury identified agency payroll tax liabilities that had not been fully eliminated on consolidation from previous years. These relate to payroll tax on-costs on long service leave liabilities of \$106 million and ordinary payroll tax accruals of \$65 million. As a result, an additional receivable and revenue of \$171 million was recognised and the receivable was eliminated on consolidation. In addition, a further \$122 million of tax revenue was recognised and eliminated against agency payroll tax expense for the 2002-03 financial year transactions, primarily for accrued on-costs on long service leave.
- Health Department's private practice trust funds \$76 million. A further \$39 million of revenues and \$29 million of expenses were also recognised for 2002-03 trust fund transactions. The revised treatment recognises the capacity of each Area Health Service to control the use of the residual private practice funds, after adjusting for drawings associated with salaried medical practitioners. Had the change been effected in 2001-02, the comparable revenues and expenses would have increased by \$81 million and \$23 million respectively.
- During 2002-03 the Ministry for the Arts reviewed its treatment of several properties for which it had previously only recognised as assets, the leasehold improvements to the properties. The Ministry deemed that it effectively controlled the properties, and therefore recognised them in full at fair value. The initial recognition of land and building values resulted in a revenue in 2002-03 of \$43 million.

Accounting Standards require that the recognition of assets for the first time, such as museum collections, can only be treated as a revenue in the statement of financial performance and not as a direct adjustment to retained earnings.

The 2002-03 Statement of Financial Performance also includes revenue and expenses associated with the abovementioned school bank accounts, such as school financial transactions funded from sources other than NSW government sources.

Long Service Leave

A significant component of the state's long service leave liability is reported by the Crown Entity on behalf of most budget dependent agencies and other agencies that are members of its Non-Budget Long Service Leave Pool. The Crown Entity had previously measured the liability by applying the 'short-hand method'. The 'short-hand method' is an estimation technique whereby the current pay rates were applied to the entitlements at year-end for employees with five or more years of service. The Crown reviewed its methodology in 2002-03 and adopted the present-value method, as outlined in Australian Accounting Standard AASB1028 "Employee Benefits". This has resulted in an increase in the opening balance of long service leave liabilities by \$278 million and a significant growth in the annual expense. The initial adjustment to liabilities of \$278 million has been reported as an expense in the 2002-03 financial year.

Dust Diseases Insurance Claims

The Workers Compensation (Dust Diseases) Board has drawn guidance from Urgent Issues Group abstract UIG47 "Professional Indemnity Claims Liabilities in Medical Defence Organisation" and Australian Accounting Standard AASB1044 "Provisions, Contingent Liabilities and Contingent Assets", and recognised incurred but not reported liabilities for its insurance claims. This is a change in accounting policy from prior periods where the Board recorded its claims liability on the basis of known claims only in accordance with the Workers Compensation (Dust Diseases) Act, 1942.

This change has resulted in the recognition of \$826 million outstanding claims liabilities and a corresponding reduction in the opening balance of accumulated funds. The Board also recognised an equal asset of \$ 826 million for levies receivable and a corresponding increase in the opening balance of accumulated funds. The receivable recognises the legislative power given to the Board to impose levies to meet the cost of its claims obligations.

Provisions

The Total State Sector Accounts has applied the new Australian Accounting Standard AASB1044 "Provisions, Contingent Liabilities and Contingent Assets" for the first time from 1 July 2002. As a result of this standard the entity was required to reclassify accrued employee benefit liabilities from provisions to payables. Accordingly, an amount of \$408 million has been reclassified to the June 2002 comparative balance sheet.

Government motor vehicle leases

The Department of Commerce's Office of Government Procurement manages the government's motor vehicle fleet on behalf of budget dependent agencies and the Crown Entity. The vehicles have been funded through a series of leasing arrangements that have historically been recorded as an operating lease.

Treasury recently sought additional advice as to the lease's appropriate accounting treatment, in particular, whether they are an operating or a finance lease. The advice, which we agree with, concluded that the motor vehicles be recorded on the Crown's statement of financial position as finance leases. This treatment reflects the overall substance of the arrangement whereby the

Crown ultimately bears the risk of ownership of the motor vehicles. The change in accounting treatment has resulted in an initial 1 July 2002 increase in leased assets and finance lease liabilities of \$550 million, an increase in other assets of \$44 million, and a revenue of \$44 million in 2002-03.

Transactions involving the legal form of a lease

As a result of the State Rail Authority applying Urgent Issues Group Abstract UIG50 "Evaluating the Substance of Transactions Involving a Legal Form of a Lease", effective 1 July 2002, rolling stock leasing arrangements are no longer recognised as finance leases. Leased rollingstock is no longer distinguished from non-leased rollingstock and the deferred gains and losses arising from leasing arrangements have been derecognised as a net adjustment of \$39 million to increase accumulated funds at 1 July 2002. The impact of the revised treatment, had it been applied to the 2001-02 financial year, would have resulted in a reduction in the operating result by \$5 million.

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

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

2. REVENUE

	2002-03	2001-02
	\$m	\$m
STATE REVENUES		
Taxation		
Payroll Tax	3,952	3,851
Stamp Duties	5,219	4,630
Gambling and Betting	986	952
Land Tax	1,097	966
Other	2,183	2,189
	13,437	12,588

Commonwealth Grants		
General Purpose - Recurrent	252	243
- GST Revenue	9,080	8,132
- Budget Balancing Assistance	599	1,577
Specific Purpose - Recurrent	4,420	4,227
- Capital	877	854
	15,228	15,033
Fines, Regulatory Fees and Other State Revenues include:		
Royalties	235	216

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

	2002-03 \$m	2001-02 \$m
OPERATING REVENUES		
Sale of Goods and Services comprise revenue from:		
Sale of goods ^(a)	6,636	6,314
Rentals	1,456	1,490
Rendering of services	4,399	4,273
less: Cost of sales	(1,055)	(1,058)
	11,436	11,019
<i>(a) Includes net revenues of lotteries activities.</i>		
<i>The lotteries net revenue comprises:</i>		
Gross revenue	1,119	1,041
Prizes and other statutory payments	(743)	(690)
Net Revenue	376	351
Net Gain/(Loss) on Disposal of Physical Assets		
Proceeds from disposal	690	692
Less written down value of disposed assets	(770)	(618)
	(80)	74
Other Operating Revenues include the following Significant Items (refer Note 4 for further detail):		
Proceeds from the sale of FreightCorp operations and National Rail Corporation shares	...	669
Proceeds from the sale of Powercoal Pty Ltd	324	...
Revenues received by the Roads and Traffic Authority following the letting of contracts for the Cross City Tunnel and Westlink M7 Motorway	291	...

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

3. EXPENSES

	2002-03	2001-02
	\$m	\$m
Superannuation Entitlements ^(a)	4,749	4,510

^(a) Includes significant expense of \$2,391 million in 2002-03 (2002 significant expense \$2,528 million). Refer Notes 4 and 12.

Other Employee Benefits Expenses comprise:

Salaries and Wages (including Recreation Leave)	15,689	14,544
Long Service Leave	995	526
Other	1,059	968
	17,743	16,038

Other Operating Expenses comprise:

Bad and Doubtful Debts	189	135
Operating Lease Rentals	487	521
Consultancy fees	99	123
Net Asset Valuation Decrements, (Reversals) and Write-downs		
- Land and Buildings	21	57
- Plant and Equipment	...	11
- Infrastructure	309	264
Inventory Write-Downs	8	15
Audit fees ^(b)		
- for audit	...	...
- for other services	...	...
Insurance claims	1,223	1,296
Supplies and other services	7,630	6,839
Costs of sale of FreightCorp, and of interest in National Rail Corporation shares (excluding asset value adjustments)	...	778
Book Value and costs of sale of Powercoal Pty Ltd	145	...
Other ^(c)	173	151
	10,284	10,190

^(b) Fees of \$20 million for audit and \$3 million for other services to the Audit Office of NSW (2002 - \$21 million for audit and \$3 million for other services) have not been recognised as expenses because they have been eliminated in consolidation of the NSW Public Sector.

^(c) Includes Significant Item adjustment of asset values (2003 \$151 million, 2002 \$48 million). Refer Note 4(c).

	2002-03	2001-02
	\$m	\$m
Depreciation and Amortisation expense comprise:		
Depreciation on		
- Buildings	937	877
- Plant and Equipment	863	796
- Infrastructure ^(d)	1,934	1,344
Amortisation	109	86
	3,843	3,103

^(d) 2002-03 includes \$431 million of additional annual depreciation on rail infrastructure assets following a revaluation by the Rail Infrastructure Corporation. For further detail refer Note 1, Changes in Accounting Policies.

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

	2002-03 \$m	2001-02 \$m
Grants and Subsidies include expenses by the:		
Department of Education and Training	744	781
Department of Housing	692	704
Department of Health	597	576
Department of Ageing, Disability and Home Care	574	458
Ministry of Transport (Department of Transport in 2001-02)	446	422
Department of Community Services	390	337
NSW Treasury (First Home Owner Grant Scheme)	307	506
Borrowing Costs include:		
Charges relating to finance leases	79	40
Capitalised Borrowing Costs are excluded from expenses	24	20

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

4. SIGNIFICANT ITEMS

	2002-03 \$m	2001-02 \$m
The Operating Result includes the following Significant Revenue/(Expense) Items:		
Sale of Powercoal Pty Ltd ^(a)		
- Proceeds from the sale of Powercoal	324	...
- Book value of Powercoal net assets sold	(140)	...
- Other costs	(5)	...
Book gain on sale	179	...
Sale of Freight Rail Corporation and National Rail Corporation Shares ^(b)		
- Proceeds from the sale of FreightCorp operations	...	608
- Proceeds from the sale of National Rail Corporation shares	...	61
- Book value of FreightCorp net assets sold	...	(654)
- Book value of National Rail Corporation shares sold	...	(60)
- Adjustment to asset values as a result of the sale	...	(46)
- Other costs including transfer payments to former FreightCorp employees	...	(64)
Book loss on sale	...	(155)
Adjustment of asset values. This includes:		
- Roads and Traffic Authority - land under roads ^(c)	(151)	(48)
- Roads and Traffic Authority - writedown of roads and bridges infrastructure	(122)	...
- Depreciation on revalued rail infrastructure assets ^(d)	(431)	...
Recognition of assets for the first time ^(d)		
- Australian Museum collections	530	...
- School bank balances	226	...
- Taxation receivables	171	...
- Vacant Crown land ^(e)	...	4,000
- Crown's share of investment in Snowy Hydro Ltd ^(f)	...	469
- Other	118	...
Revenues received by the Roads and Traffic Authority following the letting of contracts for the Cross City Tunnel and Westlink M7 Motorway	291	...
Land remediation to the former BHP steel works site at Newcastle and to the Kooragang Island waste emplacement site		
- Contribution revenue from BHP Billiton towards remediation and other works	109	...
- Provision expense for land remediation and other works	(109)	...
Additional long service leave liability measured resulting from a change from the short-hand method to the present value method ^(d)	(278)	...
Provision for claims against visiting medical officers for work performed on public patients in public hospitals in NSW ^(g)	...	(150)
Increase in defined benefit unfunded superannuation liability as a result of: ^(h)		
- lower fund earnings than actuarially applied long-term earning rates	(1,561)	(2,528)
- changes to actuarial demographic assumptions	(830)	...
TOTAL SIGNIFICANT ITEMS	(1,858)	1,588

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

- (a) On 24 August 2001 the Treasurer of New South Wales announced the Government's intention to sell Powercoal Pty Ltd to private parties and thereby discontinue Pacific Power's operations in the coal mining business segment. Powercoal owns seven underground mines in New South Wales. The sale occurred on 6 August 2002, with Centennial Coal Limited purchasing the subsidiary for a consideration of \$324 million in exchange for net assets with a book value of \$140 million and after the Crown incurred costs of \$5 million associated with the sale. This resulted in a book gain in 2002-03 of \$179 million for the Government.
- (b) Prior to its sale, Freight Rail Corporation, trading as FreightCorp, operated rail freight activities principally in New South Wales. The Freight Rail Corporation (Sale) Act 2001 enabled the sale of the operations of FreightCorp in conjunction with the sale of National Rail Corporation, in which NSW had an 18.9 percent share.

On 7 September 2000 the Government announced its intention to sell FreightCorp operations by way of a public tender. The sale was completed on 21 February 2002 and resulted in a book loss of \$155 million to the Total State Sector. The sale transaction comprised the:

- sale of the majority of FreightCorp's net assets to the National Rail Consortium (SSL) Pty Ltd (NRCPL);
- sale by the Crown of its shares in National Rail Corporation to NRCPL ;
- sale of certain assets to Sydney Ports Corporation;
- vesting of certain assets to the State Rail Authority for no consideration;
- transfer to the Crown of \$326 million of net liabilities; and
- payment by the Crown of certain employee benefits for former FreightCorp employees.

The book loss on the sale of FreightCorp's assets reflects recorded asset values at the time of the sale, and does not take into account certain pre-sale transactions. In particular, Community Service Obligations (CSO) funding to FreightCorp for the haulage of specific goods was replaced by expanded track CSO payments to the Rail Infrastructure Corporation for the benefit of all rail users. The net effect of these new arrangements should have been to significantly reduce the book value of FreightCorp's assets at a future balance date.

In place of ongoing government funding for the haulage of grain, the sale arrangements require the purchaser to undertake substantial capital outlays for the construction of grain consolidation facilities and for the upgrading and purchase of new rolling stock. This requirement impacted directly on the net sale proceeds received by the government, however this will be offset by the savings in future government recurrent expenditure.

- (c) No valuation has been included in the Total State Sector Accounts for land under roads and within road reserves. During 2002-03 the Roads and Traffic Authority identified land under roads of \$151 million (2002 \$48 million) which was reported in previous years as part of Land and Buildings. As it is Treasury's policy to apply the transitional provisions in AAS31, and to report land under roads in the Total State Sector Accounts at nil value, an adjustment of \$151 million has been made to derecognise the value of these assets which has been included in the accounts of the Roads and Traffic Authority.
- (d) Refer Note 1 Changes in Accounting Policies for further details.
- (e) Vacant Crown land is all Crown Entity land not included in the leasehold estate. This land includes New South Wales land on the continental shelf within the 3 nautical mile zone. In previous years Vacant Crown land had been assigned a nominal value of \$1,000. During 2001-02 an inter-agency Crown Land Valuation

Committee was formed, comprising the Valuer-General, Department of Land and Water Conservation and Treasury officers to oversee the identification and valuation of vacant Crown land. A valuation process has been undertaken by the State Valuation Office. Based on this work, vacant Crown land was recorded in 2001-02 at a value of \$4,000 million as a significant revenue item. Accounting Standards require that the recognition of assets for the first time, such as vacant Crown land, can only be treated as revenue in the statement of financial performance and not as a direct adjustment to retained earnings.

- (f) On 28 June 2002 the Commonwealth's Snowy Mountain Hydro-electric Authority and the electricity trading company Snowy Hydro Trading Pty Ltd were formed into a new public company, Snowy Hydro Limited (SHL), owned by NSW, Victoria, and the Commonwealth. NSW received a 58% share in SHL. The share of net assets valued at \$469 million was recorded in 2001-02 as a significant revenue and as an equity investment. NSW has accounted for the investment using the equity method because NSW does not control the entity.
- (g) From 1 January 2002 the government indemnified visiting medical officers for work performed on public patients in public hospitals in NSW. The indemnity will also cover liability for all claims that may arise from public work in past years as yet unreported. As a result the

Insurance Ministerial Corporation accrued in 2001-02 a \$150 million liability in respect to incurred but not reported claims, which will fall within this indemnity. The initial \$150 million expense in 2001-02 was a significant item. It is not possible to separately quantify the 2002-03 expense, however it has been reported within normal operating expenses (insurance claims expense) in 2002-03.

- (h) Over the years the government has set aside investments towards meeting accruing superannuation liabilities for its closed defined benefits schemes. In 2002-03 the actual investment performance of the Pooled Fund investments was negative 2.1% (Energy Industries Superannuation Scheme was negative 0.8%) which is lower than the long term actuarially applied rate of positive 7.0% per annum. Due to the size of the underlying investments, this resulted in accrued superannuation expense being higher than the long term expected average annual expense by an amount of \$1,561 million.

In preparation for the 2003 triennial review the actuary has revised the underlying assumptions, which have been adopted in the calculation of the June 2003 unfunded superannuation liability. This has resulted in an increase in the estimated liability of about \$830 million due to revised assumptions about increased longevity in average scheme pensioners, and a decrease in the percentage of scheme members converting their pensions to lump sums.

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

5. RECEIVABLES

	2003 \$m	2002 \$m
Current Receivables		
Debtors and Accruals		
- Sale of Goods and Services	1,720	1,842
- Asset Sales	47	187
- Taxation	359	305
- Interest	17	74
Advances Receivable	19	40
Other	1,041	1,102
	3,203	3,550
Less Allowance for Doubtful Debts	(249)	(242)
Total Current	2,954	3,308
Non-Current Receivables		
Advances Receivable	181	262
Workers Compensation (Dust Diseases) Board Insurance Levies Accrued ^(a)	826	...
Other	428	237
Less Allowance for Doubtful Debts	(2)	(6)
Total Non-Current	1,433	493

^(a) Refer Note 1 Changes in Accounting Policies for further information.

6. OTHER FINANCIAL ASSETS

	2003 \$m	2002 \$m
Current	6,557	3,392
Non-current	5,837	5,144
	12,394	8,536
Other financial assets comprise:		
Fiduciary investments administered by NSW Treasury Corporation ^(a)	6,717	3,355
Securities and placements held by NSW Treasury Corporation	3,521	3,043
Investments accounted for using the equity method	590	504
Other	1,566	1,634
	12,394	8,536

^(a) Refer Note 22 Financial Instruments.

7. INVENTORIES

	2003 \$m	2002 \$m
Current		
Raw Materials	205	176
Work in Progress	18	13
Finished Goods	53	73
Consumable Stores	220	252
Land Held for Resale ^(a)	199	212
	695	726
Non-Current		
Land Held for Resale ^(a)	310	322
Other	47	33
	357	355
<i>^(a) Land held for resale has been recorded at:</i>		
<i>Acquisition Cost</i>	<i>311</i>	<i>337</i>
<i>Development Cost</i>	<i>165</i>	<i>167</i>
<i>Other Costs</i>	<i>33</i>	<i>30</i>
	<i>509</i>	<i>534</i>

8. PROPERTY, PLANT AND EQUIPMENT

Land and Buildings		
At fair value	89,916	75,514
Accumulated depreciation	(15,403)	(12,563)
	74,513	62,951
Plant and Equipment (includes Collections)		
At fair value	15,888	14,047
Accumulated depreciation	(6,677)	(6,259)
	9,211	7,788
Infrastructure Systems		
At fair value ^(a)	105,971	83,588
Accumulated depreciation ^(a)	(30,679)	(20,992)
	75,292	62,596
Total Property, Plant and Equipment at Net Book Value	159,016	133,335

MOVEMENT IN PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings \$m	Plant and Equipment \$m	Infrastructure Systems \$m
TOTAL STATE SECTOR			
Carrying amount at 1 July 2002	62,951	7,788	62,596
Additions	1,765	1,745	3,076
Reinstatement of rail infrastructure asset values ^(b)	...	...	7,828
Disposals	(344)	(313)	(45)
Net revaluation increments/(decrements)	10,638	75	4,214
Depreciation expense	(956)	(724)	(2,053)
Other movements	459	640	(324)
Carrying amount at 30 June 2003	74,513	9,211	75,292

^(a) Refer Note 1, Changes in Accounting Policies for further information regarding the grossing up by \$5,702 million of the comparative carrying amounts for Sydney Water's infrastructure at fair value and the accumulated depreciation.

^(b) Refer Note 1, Changes in Accounting Policies for further information regarding the reinstatement by the Rail Infrastructure Corporation of its rail infrastructure asset values.

9. OTHER ASSETS

	2003 \$m	2002 \$m
Current	217	237
Non current	1,341	1,348
	1,558	1,585
Other Assets include:		
Emerging interest in the Sydney Harbour Tunnel	568	542
Right to receive M2/M4/M5 Motorways and the Eastern Distributor	258	211
Prepayments	149	168
Prepaid superannuation contributions ^(a)	57	111
Other	526	553
	1,558	1,585

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

10. PAYABLES

Interest on borrowings and advances	512	341
Accrued employee benefits - refer Note 12 ^(b)	477	408
Other	3,150	3,129
	4,139	3,878

11. INTEREST BEARING LIABILITIES

	2003 \$m	2002 \$m
Current	7,359	5,885
Non current	20,826	20,855
	28,185	26,740
Interest bearing liabilities comprise:		
Liability to Commonwealth Government	1,776	1,810
Domestic and foreign borrowings	25,225	24,082
Bank overdraft	159	384
Finance leases ^(a)	1,025	464
	28,185	26,740

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

Not later than one year	498	69
Between one and five years	669	308
Later than five years	426	466
Minimum lease payments	1,593	843
Less: Future finance charges	(568)	(379)
Finance lease liability	1,025	464

In 2002-03 the accounting treatment of the government's motor vehicle fleet leasing arrangement was amended to reclassify them from an operating to a finance lease. This resulted in the initial recognition of \$550 million of finance lease liabilities at 1 July 2002. Refer Note 1 Changes in Accounting Policies for further information.

Prior to 30 June 2003 NSW Police entered into a new finance lease for its Corporate Headquarters at Parramatta. NSW Police will not obtain control over the asset and recognise it until the 2003-04 financial year. NSW Police received independent advice that the lease was an operating lease. Subsequent advice, which NSW Police has accepted determined that the lease was a finance lease. The 2003-04 Budget Papers were based on the lease being a finance lease. NSW Police is seeking retrospective approval from the Treasurer to enter into a finance lease. This approval is required to comply the Public Authorities (Financial Arrangements) Act 1987. The finance lease liability (\$187 million) and aggregate minimum lease payments (\$359 million) have not been reported in the above note.

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

12. PROVISIONS

	2003 \$m	2002 \$m
Current	2,957	2,793
Non current	25,794	20,287
	28,751	23,080
These comprise:		
Employee Benefits Provisions		
Unfunded superannuation ^(a)	15,513	11,834
Long service leave and other leave entitlements	5,684	4,822
Other	275	342
Total Provision for Employee Benefits ^(b)	21,472	16,998
Other Provisions		
Outstanding claims:		
- Insurance Ministerial Corporation	3,998	3,633
- Workers' Compensation (Dust Diseases) Board ^(c)	1,298	395
- WorkCover Authority	250	227
- Self funded worker's compensation	349	404
HIH loss compensation	333	468
Building and Construction Industry Long Service Payments Scheme	363	358
Other	688	597
Total Other Provisions	7,279	6,082
Total Employee Benefits and Other Provisions	28,751	23,080

MOVEMENT IN OTHER PROVISIONS

	Carrying Amount 1 July 2002 \$m	Additional Provision 2002-03 \$m	Payments During 2002-03 \$m	Remeasure- ment Reductions 2002-03 \$m	Carrying Amount 30 June 2003 \$m
Outstanding claims:					
- Insurance Ministerial Corporation	3,633	1,093	(728)	...	3,998
- Workers' Compensation (Dust Diseases) Board ^(b)	395	946	(43)	...	1,298
- WorkCover Authority	227	44	(21)	...	250
- Self funded worker's compensation	404	71	(126)	...	349
HIH loss compensation	468	53	(151)	(37)	333
Building and Construction Industry					
Long Service Payments Scheme	358	36	(31)	...	363
Other	597	297	(115)	(91)	688
Total Other Provisions	6,082	2,540	(1,215)	(128)	7,279

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

	Accrued Benefits ^(e) 2003 \$m	Net Market Value of Scheme Assets ^(e) 2003 \$m	Net Liability 2003 \$m	Net Liability 2002 \$m
^(a) The unfunded superannuation liability is composed of:				
<i>Pooled Fund</i>				
- State Authorities Superannuation Scheme	5,447	1,909	3,538	3,076
- State Authorities Non Contributory Superannuation Scheme	1,762	386	1,376	1,221
- State Superannuation Scheme	20,758	13,761	6,997	4,567
- Police Superannuation Scheme	4,318	1,067	3,251	2,653
Judges' Pension Scheme	266	...	266	250
Parliamentary Contributory Superannuation Scheme	280	195	85	67
Unfunded Superannuation Liability	32,831	17,318	15,513	11,834
<i>Less: Prepaid superannuation contributions of the Energy Industries Superannuation Scheme ^(d)</i>				
	1,027	1,084	(57)	(111)
Net Superannuation Liabilities	33,858	18,402	15,456	11,723

	2003 \$m	2002 \$m
^(b) Employee Benefit Liabilities comprise:		
Accrued employee benefits reported as payables	477	408
Employee benefit provisions	21,472	16,998
Aggregate Employee Benefit Liabilities	21,949	17,406

^(c) During 2002-03 the Workers Compensation (Dust Diseases) Board adopted an "incurred claims basis" to recognise its claims liability, following the release of Urgent Issues Group abstract UIG47 and Australian Accounting Standard AASB1044. This resulted in a further \$826 million increase in its claims liabilities.

^(d) Refer Note 9 Other Assets.

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

UNFUNDED SUPERANNUATION LIABILITY

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

The estimate of accrued benefit liabilities of the Total State Sector is based on calculations carried out by Mercer Human Resource Consulting, the SAS Trustee Corporation's actuary. Actuarial calculations were generally based on membership data as at 31 March 2003 projected to 30 June 2003.

Forecast demographic assumptions have been revised to be consistent with the upcoming 2003 Triennial Valuation of the Pooled Fund schemes. The forecast economic assumptions are as per the following tables.

	2003-04	Thereafter
Pooled Fund Schemes		
Investment return rate	7.0%pa	7.0%pa
Salary growth rate	4.0% pa	4.0% pa
CPI growth rate	2.5%pa	2.5%pa
EISS		
Investment return rate	7.0%pa	7.5%pa
Salary growth rate	4.0%pa	4.0%pa
CPI growth rate	2.5%pa	2.5%pa

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

The substantial increase in unfunded liabilities over the 12 months to 30 June 2003 is largely explained by several factors:

- The increase in the accrued net liabilities due to an additional year of service being provided by current Pooled Fund scheme contributors;
- The Crown made no superannuation contributions during 2002-03. However \$1,629 million of contributions were made during 2002-03 into a newly created General Government Liability Management Ministerial Corporation (GGLMMC) rather than into the Pooled Fund. Lump sum payments will be made in future year(s) from the GGLMMC to the Pooled Fund;
- The actual investment performance of the Pooled Fund was negative 2.1% (negative 0.8% for EISS) in 2002-03, which is lower than the long term actuarially applied rate of positive 7% (positive 7.5% for EISS) per annum; and
- Revisions to actuarial assumptions including increased longevity in average Pooled Fund pensioners and a decrease in the percentage of Pooled Fund members converting their pensions to lump sums.

13. OTHER LIABILITIES

	2003 \$m	2002 \$m
Current	542	435
Non-current	651	657
	1,193	1,092
Other Liabilities comprise:		
The Sydney Harbour Tunnel Agreement obligations	407	396
Deferred income	498	362
Other	288	334
	1,193	1,092

14. ASSET REVALUATION RESERVE

	2003 \$m	2002 \$m
Opening Balance	42,681	40,911
Net transfer to accumulated funds	(578)	(1,539)
Net valuation increment ^(a)	15,258	3,309
Closing Balance	57,361	42,681

^(a) In 2003, the net valuation increments include \$7,972 million for public housing, \$3,269 million for Roads and Traffic Authority infrastructure and property assets, and \$2,179 million for rail infrastructure assets. The 2002 net valuation increments include \$1,724 million valuation increments for Roads and Traffic Authority's infrastructure and property assets.

15. ACCUMULATED FUNDS

	2003 \$m	2002 \$m
Opening balance	55,397	50,245
Adjustments due to changes in accounting policy ^(a)	7,856	(369)
Net transfer from Asset Revaluation Reserve	578	1,539
Other net adjustments ^(b)	1	(46)
Add: Surplus/(Deficit) for the year	(424)	4,028
Closing Balance	63,408	55,397

^(a) Adjustments by agencies to accumulated funds:

On the adoption of Australian Accounting Standards

- AASB1041 "Revaluation of Non-current Assets"		
- rail infrastructure assets reinstated - refer Note 1 Changes in Accounting Policies	7,828	...
- other AASB1041 adjustments	7	...
- Adjustment to provision liabilities on adopting AASB1044 "Provisions, Contingent Liabilities and Contingent Assets"	(15)	...
- Adjustment to employee benefits liabilities on adopting AASB1028 "Employee Benefits"	(3)	...
- Adjustment to insurance claims liabilities on adopting a claims incurred basis following the release of Urgent Issues Group Abstract UIG47	(826)	(369)

On the adoption of abstracts issued by the Urgent Issues Group

- Recognition of insurance levies receivable on adopting a claims incurred basis following the release of Urgent Issues Group Abstract UIG47	826	...
- Derecognition of deferred gains and losses on rolling stock leases following the release of Urgent Issues Group Abstract UIG50	39	...
	7,856	(369)

^(b) In 2001-02 other net adjustments includes \$46 million of State Rail Authority deferred revenues reclassified to liabilities

16. CASH FLOW INFORMATION

	2002-03 \$m	2001-02 \$m
RECONCILIATION OF OPERATING RESULT TO NET CASH FLOWS FROM OPERATING ACTIVITIES EXCLUDING FINANCIAL INSTITUTIONS		
Surplus/(Deficit) for the year	(424)	4,028
Add back:		
- Surplus of financial institutions	104	(119)
- Operating cash flow of financial institutions eliminated on consolidation	1,375	1,444
Non-cash items added back:		
- Depreciation and amortisation	3,843	3,103
- Initial recognition of vacant Crown land asset	...	(4,000)
- Loss/(Gain) on asset disposals	80	(74)
- Other	(690)	234
Change in operating assets and liabilities	4,982	4,301
Net cash flows from operating activities	9,270	8,917

	2003 \$m	2002 \$m
--	-------------	-------------

CLOSING CASH AND CASH EQUIVALENT BALANCES:

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

Cash and deposits at call	3,057	3,037
Bank overdraft	(159)	(384)
	2,898	2,653

At 30 June 2002, balances of \$300 million were held by government schools with the Commonwealth Bank of which \$29 million were Trust Funds. These balances, which comprise Government grants and other revenue, were not recorded within the Department of Education and Training's financial statements and therefore were not included in the cash and deposits amount reported in the Total State Sector Accounts. From 2002-03 the Department has recorded the school bank balances in its statement of financial position. For further details, refer Note 1 Changes in Accounting Policies.

During 2002-03 short term investments valued at \$2,364 million were reclassified from cash assets to other financial assets.

RESTRICTED CASH ASSETS

Public sector agency cash balances at 30 June 2003 include \$2,577 million of cash, which is dedicated for a specific purpose. It includes \$1,651 million of funds set aside for future superannuation contributions by the General Government Liability Management Ministerial Corporation, restricted cash of \$348 million under the control of the public health system, and \$282 million of school bank monies. In the Total State Sector Accounts, agency restricted cash balances within the Treasury Banking System are offset against the Crown's cash overdraft for cash management purposes.

DISPOSAL OF ENTITIES

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

During 2001-02 the Government disposed of the operations and certain assets and liabilities of Freight Rail Corporation. The Government received from the purchaser \$608 million. The purchaser obtained \$7.5 million in residual cash at the date of disposal. In addition, the purchaser received the following assets and liabilities (book value) effective 14 January 2002.

	\$m
Receivables	71
Inventories	9
Future Income Tax Benefit	19
Property Plant and Equipment (non leased)	408
Property Plant and Equipment (leased)	269
Creditors	40
Provisions	69

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

Refer Note 23 *Discontinuing Operations*, for information on the disposal of Integral Energy Gas Pty Ltd.

ACQUISITION OF ENTITIES

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

NON-CASH FINANCING AND INVESTING ACTIVITIES

During 2002-03:

- The Roads and Traffic Authority recognised an emerging interest in private sector provided infrastructure of \$47 million (2002 \$19 million);
- In respect of Sydney Water Corporation and its entities, assets which are acquired under finance leases, Build Own Operate scheme financing arrangements or assets handed over

at no cost by developers are not included in the Statements of Cash Flows as these are regarded as non-cash.

The amount capitalised during the financial year in respect of Sydney Water assets handed over at no cost by developers to the Corporation was \$108 million (2002 \$127 million).

- Assets were recognised for the first time on 1 July 2002 for Government motor vehicle finance leases \$550 million, Australian Museum collections \$530 million and Ministry for the Arts properties \$41 million. Refer Note 1 Changes in Accounting Policies for further information. During 2002-03 a further \$44 million in assets and borrowings was recognised by the Crown for finance lease motor vehicles.

During 2001-02:

- The Crown Entity assumed \$311 million of debt from FreightCorp prior to the sale of its operations
- The Crown Entity recognised a \$469 million equity investment in Snowy Hydro Ltd for nil consideration following the reformation of the Snowy Mountain Hydro-electric Authority and the electricity trading company, Snowy Hydro Trading Pty Ltd.
- The Crown Leaseholds Entity recognised vacant Crown land assets for the first time, with a value of \$4,000 million. This followed the completion of an extensive valuation exercise by the State Valuation Office (refer Note 4(e) for further information).
- The National Parks and Wildlife Service transferred property with a value of \$13 million to the Parramatta Park Trust upon its establishment on 1 July 2001.

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

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

NET CASH OF FINANCIAL INSTITUTIONS	2002-03	2002-03	2001-02	2001-02
	\$m	\$m	\$m	\$m
		^(a) Net of		^(a) Net of
	Gross	Elimination	Gross	Elimination
CASH INFLOWS (OUTFLOWS) FROM OPERATING ACTIVITIES				
Receipts				
Finance	1,664	262	1,718	248
Other	38	21	(8)	(26)
Total Receipts	1,702	283	1,710	222
Payments				
Employee Related	(9)	(9)	(9)	(9)
Finance	(1,402)	(1,374)	(1,638)	(1,602)
Other	(29)	(13)	8	16
Total Payments	(1,440)	(1,396)	(1,639)	(1,595)
NET CASH FLOW FROM OPERATING ACTIVITIES	262	(1,113)	71	(1,373)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of Property, Plant & Equipment	(1)	(1)	(2)	(2)
Purchase of Investments & Loans Made to Authorities	(4,827)	(25)	(4,929)	(8)
Loans to Authorities Repaid & Other Investing	4,626	...	5,353	...
Net Cash Flows From Investing Activities	(202)	(26)	422	(10)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from Borrowings	14,108	14,108	18,536	18,536
Repayments of Borrowings	(13,371)	(13,371)	(18,364)	(18,364)
Other	(18)	...	(27)	...
NET CASH FROM FINANCING ACTIVITIES	719	737	145	172
NET CASH FLOWS FROM FINANCIAL INSTITUTIONS	779	(402)	638	(1,211)

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

17. TRUSTS UNDER MANAGEMENT

	2003 \$m	2002 \$m
Trusts under management are held by the trustee on behalf of beneficiaries. Therefore, these trusts are not included in the Total State Sector assets.		
Trust under management mainly comprise various forms of estates under management, unclaimed monies and Supreme Court trust funds held in statutory accounts by the:		
Protective Commissioner	1,154	1,124
Office of the Public Trustee ^(a)	1,006	923
WorkCover Authority	960	810
NSW Treasury Corporation (fiduciary investments)	654	281
Rental Bond Board	531	501
Workers' Compensation (Dust Diseases) Board	58	54
Department of Health	39	133
Others	143	152
	4,545	3,978

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

18. EXPENDITURE COMMITMENTS

	2003 \$m	2002 \$m
Capital Expenditure		
The following represents capital expenditure contracted for at balance date, including private sector financed infrastructure assets, but not recognised in the financial statements.		
Rail Infrastructure Corporation ^(a)	1,080	52
Sydney Water Corporation	526	361
State Rail Authority	466	396
Health Department ^(b)	451	2,625
Roads and Traffic Authority	440	284
TransGrid	163	269
Department of Education and Training	163	166
Ministry of Transport	130	25
NSW Land and Housing Corporation	112	91
Landcom	84	103
Department of Corrective Services	67	125
Macquarie Generation	54	83
Eraring Energy	51	23
NSW Police	40	106
Other agencies	247	253
	4,074	4,962

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

	2003 \$m	2002 \$m
Capital Expenditure Commitments Payable:		
not later than one year	2,611	2,390
later than one year and not later than five years	1,445	1,958
later than five years	18	614
	4,074	4,962

^(a) At June 2003 the Rail Infrastructure Corporation had committed to spend an estimated \$1,046 million on the Epping to Chatswood Rail Link.

^(b) In prior years the Health Department reported the total anticipated value of its capital program. The note has been modified for 2002-03 to only report the value of contracted works (which is significantly less than the capital program), such adjustment being in accordance with Australian Accounting Standard requirements.

Operating Lease Expenditure payable:		
not later than one year	605	625
later than one year and not later than five years	1,382	1,300
later than five years	630	638
	2,617	2,563

Other Expenditure Commitments payable:		
not later than one year	1,224	918
later than one year and not later than five years	1,510	844
later than five years	2,313	2,116
	5,047	3,878

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

Major Service Agreements for Filtered Water by Sydney Water Corporation

not later than one year	97	94
later than one year and not later than five years	407	403
later than five years - Net Present Value ^(a)	454	474

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

19. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

CONTINGENT LIABILITIES	2003 \$m	2002 \$m
------------------------	-------------	-------------

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

(A) QUANTIFIABLE CONTINGENT LIABILITIES comprise:

NSW Treasury Corporation (stock lending facility - bonds on loan) (less securities held)	261 (137)	509 (125)
NSW Police (claims including legal proceedings)	110	95
Attorney General's Department (Victims Compensation and other claims)	77	71
State Rail Authority (commercial disputes, employee disputes, environmental, personal injury and property claims)	58	72
Sydney Water Corporation (claims in respect of compensation and litigation)	29	40
Sydney Catchment Authority (claims including legal proceedings and contractual disputes)	22	20
Home Purchase Assistance Fund (potential income and cash shortfalls in FANMAC Trust system and excess rate caps)	12	14
Land and Property Information NSW (claims involving legal proceedings)	8	3
Roads and Traffic Authority (claims involving legal proceedings)	6	50
Department of Sport and Recreation (including claims for costs to rectify works at Eastern Creek Raceway)	...	25
Department of Land and Water Conservation (claims involving legal proceedings)	...	12
Other agencies	44	51
TOTAL	490	837

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

The major guarantees are:

- State guarantees are given to various organisations under statute. They mainly relate to certain co-operative housing societies \$91 million (2002 \$100 million).
- The NSW Government agreed to indemnify TAB Ltd against any decrease in revenue which it suffers as a result of a reduction of the monitoring fee determined by the Minister for Gaming and Racing and which is payable to TAB Ltd by hoteliers and registered clubs in respect of gaming devices connected to the Centralised Monitoring System (CMS) during the first five years of its operation. No claims have been received as at 30 June 2003.

The NSW Government will also indemnify TAB Ltd against losses it may suffer during the term of TAB Ltd's CMS licence as a direct consequence of any redetermination of the monitoring fee which is made other than in accordance with the methodology and assumptions as to the rate of return employed by the Independent Pricing and Regulatory Tribunal in recommending the monitoring fee to the Minister.

The NSW Government will also indemnify TAB Ltd against any additional cost and expense it may incur as a result of any amendment to TAB Ltd's CMS licence which imposes additional requirements on TAB Ltd but only to the extent that TAB Ltd is not adequately compensated for the additional cost and expense by an increase in the monitoring fee.

- Issued securities, borrowings and derivative liabilities of the NSW Treasury Corporation with a market value of \$27.2 billion (2002 \$25.6 billion) have been guaranteed by the NSW Government under the Public Authorities (Financial Arrangements) Act 1987.
 - The Sydney Olympic Park Authority (SOPA) has a liability for the Olympic Stadium and Sydney Superdome only in the event of a natural disaster or a breach of contract by SOPA. In the event of a natural disaster SOPA would be responsible for the full cost of replacing the stadium and superdome less any insurance recoveries by these venues. The possibility of either of these events occurring is considered remote.
 - Pursuant to the State Bank (Privatisation) Act 1994, the State guaranteed all existing and future liabilities of the Bank until 31 December 1997. Thereafter while existing liabilities continue to be guaranteed until maturity, any new liabilities incurred after that date will no longer be guaranteed by the State. As at 30 June 2003 the total guaranteed liabilities of the Bank amounted to \$1.2 billion (2002 \$2.5 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 \$14 million (2002 \$56 million).
- Under the Government Insurance Act 1927 the State guarantees the liabilities of the GIO in respect of general, life and reinsurance policies issued by it up until 15 July 1992.

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

Actuarial assessment of these liabilities are:

	31 December 2002 \$m	31 December 2001 \$m
General insurance	216	168
Life insurance	209	240
Inward reinsurance	135	218
	<u>560</u>	<u>626</u>

The increase in the contingent liability for general insurance was due to an increase of \$64 million in NSW compensation liabilities because of increasing common law claims for asbestos related diseases. The guarantee on these policies continues under the terms of the State Government Deed issued for the privatisation of the GIO.

In addition, the Government may incur a liability to provide capital guarantees to any unit-linked life insurance policies covered by the guarantee where investment units are converted to capital guaranteed status at some time in the future. The maximum potential liability was estimated at \$912 million at 31 December 2002 (31 December 2001 \$1,063 million).

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

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

If under the Environmental Planning and Assessment Act or Water Management Act, SHL is required to modify its structures or lower dam levels to reduce the impact of cold-water releases from the scheme then, for up to 7 years from the corporatisation date, NSW will provide 58 percent of the amount necessary to maintain financial covenants and credit rating.

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

An indemnity has been provided to each of the 5 directors of SHL against the cost of claims arising as the result of liabilities transferred from the operation of the former Snowy Mountains Hydro-electric Authority and, for implementing the corporatisation agreements. The duration of the risk relates to any claim lodged within 5 years of the corporatisation date. There are no known claims at the corporatisation date. Directors are required to seek insurance cover against the risk and there is a back-to-back indemnity from SHL to indemnify the governments for the cost of claims incurred, up to the amount that can lawfully be paid.

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

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

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

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

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

At year-end the agreed aggregate amounts totalled \$627 million (2002 \$646 million).

- Energy Australia has fully indemnified issuing financial institutions to the amount of \$329 million (2002 \$368 million). This relates to guarantees issued in respect of retention and security deposits, and guarantees provided to regulatory and statutory authorities.
- Rail Infrastructure Corporation has provided secured guarantees and letters of credit to customers and insurers amounting to \$61 million (2002 \$49 million).
- Pacific Power, through its subsidiary Pacific Power (Subsidiary No.1) Pty Ltd was part of a consortium to construct the Tarong North and Callide C power stations. The engineering procurement and construction contracts required the parent company of each consortium member to provide a guarantee. When Pacific Power was dissolved, the Treasurer issued a guarantee to replace the previous guarantee issued by Pacific Power, and some other Pacific Power guarantees were transferred to the Treasurer. Such guarantees are enforceable under a range of conditions, principally the failure of the consortium to meet its obligations under the engineering procurement of construction contracts including damages.

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

- To enable major projects to be undertaken the state has guaranteed the performance of the obligations of various statutory authorities under contracts with private sector parties. The current guarantees outstanding are for the following projects:
 - Sydney Harbour Tunnel
 - Macarthur Water Filtration Plant
 - M2 Motorway
 - Olympic Multi-Use Arena
 - Olympic Stadium
 - Eastern Distributor
 - Illawarra and Woronora Water Treatment Plants
 - Prospect Water Filtration Plant
 - Cross City Tunnel
 - Western Sydney Orbital
 - Eastern Creek Waste Treatment Plant
 - VISY Mill: Tumut Timber Supply Agreement.

These guarantees are considered unlikely to ever be exercised.

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

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

The liability arises as follows:

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

- Based on the definition of control in Australian Accounting Standard AAS24, Affiliated Health Organisations listed in the Third Schedule of the Health Services Act 1997 are only recognised in the Department's Consolidated Financial Statements to the extent of cash payments made.

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

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

- Through the New South Wales Structured Finance Activities, the State entered into several cross border leases in respect of electricity and rolling stock assets. There are two categories of contingent liabilities with respect to these transactions:
 - (i) The first type of contingency arises by virtue of the NSW Government indemnity provided for each transaction. The exposure relates to the change of law risk and administration risk in relation to the covenants given under the lease transactions; and
 - (ii) the second type of contingency is where the Crown Entity has a third party risk in terms of monies being placed on deposit with a counterparty. The counterparty contingent liability is estimated to be \$648 million (2002 \$887 million). The amount of the counterparty contingent liability reflects the term nature of the deposits and the valuation of the Australian dollar against the US dollar. NSW Treasury Corporation regularly monitors this risk.

During the 2002-03 financial year there have been no changes in the credit standing of the deposit counterparties which range from BBB+ to AAA.

- The State supports the borrowing of the FANMAC Trusts via the Home Purchase Assistance Fund to facilitate the provision of housing loans to low income earners. The total capital value of borrowings of the FANMAC Trusts not consolidated into these financial statements was \$51 million at 30 June 2003 (2002 \$86 million).
- National Parks and Wildlife Service (the Service) received a claim for compensation for land acquired under the Land Acquisition (Just Terms Compensation) Act 1991. The estimated cost to the Service, if any, will be determined by the Land and Environment Court in due course.
- The Service has also received claims for compensation or is involved in litigation in relation to fires across a large portion of the State and other incidents resulted in death, injury or damage to persons and or property generally within or adjacent to National Parks. The Service has no basis for quantifying the future liability.
- The State Rail Authority has entered into an agreement with a private sector company requiring the company to operate four stations on the Airport Line until 2030. If the agreement is terminated early due to default by either party, State Rail has an obligation, depending on the cause of the termination, to pay the company either (i) the value of the future income expected to be earned by the station business or (ii) compensation for its shareholders and to meet its debt obligations. The liability would be assessed by an independent appraiser.

The station operating company went into receivership in November 2000. The receiver and manager continue to operate the stations in accordance with the original agreement.

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

- In March 1997 the Department of Education and Training was advised that long service leave entitlements for casual teaching staff were extended to cover relief employment retrospective to May 1985. Entitlement requires demonstration of continuous service. It is not possible to determine how many casual teachers may have entitlement for long service leave. Consequently it is not possible to quantify the liability for long service leave for casual teachers.
- The Ministry of Transport has been involved in a court case relating to the introduction of smart cards. On 26 July 2002 Justice Adams of the NSW Supreme Court dismissed Cubic Transportation System's (Cubic) case. In November 2002, Cubic lodged an appeal, seeking costs and damages. The appeal is scheduled in the Court of appeal in September 2003. At balancing date the damages, if any, cannot be quantified.
- Landcom has entered into several development projects that include possible contingent liabilities. In the event of realisation, Landcom would be entitled to receive property to the estimated value of the liability. Landcom purchased a block of land at Edmondson Park and is required to make a further payment of \$2 million if the land is rezoned by 21 August 2005.

Road repairs are guaranteed in the Narellan release area for Landcom constructed roads that have major structural failures occurring in the twenty year period commencing October 1988.
- The NSW Insurance Ministerial Corporation has liabilities for closed insurance schemes including the Transport Accident Compensation (TAC) Fund. Current provisions held against claims incurred within the TAC Fund portfolio are based upon expectations of future award payments. These payments are largely in the nature of lump sum awards and settlements, which are currently tax free in the hands of those compensated.

If the tax-free status of these compensation payments were to be removed, the size of future settlements could increase and current levels of provisioning may not be adequate.

- The Coal Compensation Review Tribunal handed down its decision in the test case by Nardell Colliery Pty Ltd on the meaning of just and equitable in the Reacquisition Scheme on 17 April 2002.

The result was an increase in the compensation rate per tonne from \$0.90 to a maximum of \$1.04 based on changes to the corporate income tax rate. As the increase is only operative from 1994, the compensation liability for the Reacquisition Scheme only increased by \$10 million. Nardell Colliery Pty took three issues only to the Supreme Court and on 29 May 2003, the Court found against the Coal Compensation Board. The three issues were the lack of compensation for super royalty, front end payments and the possible impact of dividend imputation. The Board has challenged the decision in the Court of Appeal. An adverse decision would increase liability by between \$40 million to \$50 million.
- The Land and Environment Court has before it a claim that all land valuations are flawed and need to be reduced. In the first instance, the Court found in favour of the Commissioner and on appeal to the High Court the matter was referred back to the Land and Environment Court for rehearing. At this point it is not possible to determine what impact this may have on the State's financial position. The impact will be reviewed once the Land and Environment Court has made its determination as a result of the High Court's determination.

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

- As a condition of the sale of Pacific Power International Pty Ltd the State has an obligation to compensate the trustee of the electricity industry superannuation fund if certain conditions exist at a certain time. The time will be the earlier of:
 - Connell Wagner (the purchaser) ceasing to be an employer in the fund; or
 - the last benefit is paid; or
 - the relevant assets are exhausted.

The conditions that must exist are that:

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

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

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

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

- The State of NSW has been involved in a court case (Amaca Pty Ltd v State of New South Wales) claiming a contribution by the State to damages payable as a result of exposure to asbestos dust. Following an appeal to the High Court, on 7 August 2003, the High Court remitted the matter to the New South Wales Court of Appeal for rehearing. The matter has not been set down for hearing. The damages, if any, cannot be quantified.

CONTINGENT ASSETS

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

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

- NSW Treasury Corporation (TCorp) has undertaken a sold options strategy on behalf of the Crown Entity, details of which are as follows -

Maturity	-	TCorp 6% 1/5/2012
Volume	-	\$70 million
Strike price	-	4.5%
Option Expiry	-	13/10/03
Premium received	-	7.3 basis points (\$378,000)

Upon expiry in October, if the market for TCorp 2012 bonds is trading above 4.5%, the option will expire and the gain will be the premium received. If the market is below 4.5% on expiry, the debt will be issued, the effective rate being 4.5% less the premium received, given a net issuance yield of 4.427%.

- Under the Project Delivery Agreement for the construction of the Olympic Village site, the Sydney Olympic Park Authority is entitled to receive a share in any profit accruing after all project development costs have been met. As development of the site is not expected to be completed until the 2004-05 financial year, it is not possible to measure reliably the amount of the Authority's entitlement.
- StateRail has made claims in relation to contractual breaches or prosecutions. The existence or quantum of each claim is usually in dispute.
- A provision of \$15 million has been recognised for rectifying the noise attenuation mounds at the Eastern Creek Raceway.

Recovery of costs may be able to be claimed from the company responsible for constructing the mounds.

20. EVENTS OCCURRING AFTER REPORTING DATE

- The Government motor vehicle leasing facility with Macquarie Bank Limited, the Commonwealth Bank of Australia and Banque Nationale de Paris expired for new vehicle acquisitions in June 2003. A new facility "StateFleet Lease Arrangement" commenced in July 2003 to finance all new motor vehicles delivered after 1 July 2003. It is estimated that the total cost of motor vehicle purchases under the new facility, over the next five years, will be in the order of \$500 million.
- The NSW Teachers Federation has lodged a wages claim with the Industrial Relations Commission and it is currently being considered by the Commissioner.

21. COMPLIANCE WITH APPROPRIATIONS

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

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

22. FINANCIAL INSTRUMENTS

INTEREST RATE RISK EXPOSURES

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

	Notes	Floating interest rate 2003 \$m	Fixed interest rate maturing in:			Non- interest bearing 2003 \$m	TOTAL 2003 \$m	Weighted average effective interest 2003 %
			1 year or less 2003 \$m	1 to 5 years 2003 \$m	Over 5 years 2003 \$m			
Financial Assets								
Cash ^(a)	16	3,057	...	...	...	...	3,057	
Receivables	5	...	...	...	...	4,387	4,387	
Investments								
- Administered by TCorp ^(b)	6	4,892	94	833	898	...	6,717	-0.2
- TCorp Placements	6	...	3,314	160	47	...	3,521	5.4
- In Associates		4	...	...	545	41	590	13.2
- Other	6	655	128	137	29	617	1,566	4.8
Total Financial Assets		8,608	3,536	1,130	1,519	5,045	19,838	
Financial Liabilities								
Bank Overdraft	11	159	...	...	...	...	159	
Payables	10	...	...	...	...	4,139	4,139	
Domestic and Foreign Borrowings	11	...	6,699	10,907	7,619	...	25,225	7.7
Liability to Commonwealth Government	11	...	104	269	1,403	...	1,776	4.7
Finance Leases	11	...	320	430	275	...	1,025	
Total Financial Liabilities		159	7,123	11,606	9,297	4,139	32,324	

	Notes	Floating interest rate 2002 \$m	Fixed interest rate maturing in:			Non- interest bearing 2002 \$m	TOTAL 2002 \$m	Weighted average effective interest 2002 %
			1 year or less 2002 \$m	1 to 5 years 2002 \$m	Over 5 years 2002 \$m			
Financial Assets								
Cash ^(a)	16	3,037	...	...	...	...	3,037	
Receivables	5	...	...	...	...	3,801	3,801	
Investments								
- Administered by TCorp ^(b)	6	1,965	...	196	1,194	...	3,355	2.9
- TCorp Placements	6	...	2,385	365	293	...	3,043	4.6
- In Associates		...	...	...	...	504	504	0.3
- Other	6	625	319	153	50	487	1,634	4.9
Total Financial Assets		5,627	2,704	714	1,537	4,792	15,374	
Financial Liabilities								
Bank Overdraft	11	384	...	...	...	...	384	
Payables	10	...	...	...	...	3,878	3,878	
Domestic and Foreign Borrowings	11	...	5,541	9,508	9,033	...	24,082	5.6
Liability to Commonwealth Government	11	...	41	324	1,445	...	1,810	4.7
Finance Leases	11	...	38	170	256	...	464	
Total Financial Liabilities		384	5,620	10,002	10,734	3,878	30,618	

ASSETS ADMINISTERED BY NEW SOUTH WALES TREASURY CORPORATION (TCORP)

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

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

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

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

^(a) *Cash*

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

	2003 \$m	2002 \$m
<i>Hour Glass Cash</i>	758	820
<i>Hour Glass Cash Plus</i>	356	404
<i>Special Client Mandate</i>	113	994
<i>Cash administered by Tcorp</i>	1,227	2,218
<i>Other ^(#)</i>	1,830	819
<i>Total Cash</i>	3,057	3,037

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

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

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

<i>Fixed Interest</i>	96	90
<i>Medium to Long Term</i>	501	661
<i>Treasury Managed Fund (Hour Glass facility)</i>	1,792	888
<i>Special Client Mandate</i>	4,328	1,716
<i>Total Investments Administered by TCorp</i>	6,717	3,355

NET FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Financial instruments are carried at cost or market value.

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

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

	Total carrying amount 2003 \$m	Aggregate net fair value 2003 \$m	Total carrying amount 2002 \$m	Aggregate net fair value 2002 \$m
Financial Assets				
Cash	3,057	3,057	3,037	3,037
Receivables	4,387	4,387	3,801	3,801
Investments	6,717	6,717	3,355	3,355
- Administered by TCorp				
- TCorp Placements	3,521	3,546	3,043	2,974
- In Associates	590	590	504	504
- Other	1,566	1,566	1,634	1,639
Total Financial Assets	19,838	19,863	15,374	15,310
Financial Liabilities				
Bank Overdraft	159	159	384	384
Payables	4,139	4,139	3,878	3,878
Domestic and Foreign Borrowings	25,225	26,315	24,082	24,216
Liability to Commonwealth Government	1,776	1,656	1,810	1,530
Finance Leases	1,025	1,025	464	464
Total Financial Liabilities	32,324	33,294	30,618	30,472

Credit Risk

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

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

OFF-BALANCE SHEET DERIVATIVE FINANCIAL INSTRUMENTS

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

Interest Rate Derivatives

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

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

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

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

Foreign Exchange Derivatives

In order to achieve the most cost effective funding of the State's debt, NSW Treasury Corporation conducts a number of debt issues in foreign currencies in foreign capital markets. All such exposures are fully hedged through the use of cross currency swaps and forward foreign exchange contracts.

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

DERIVATIVE FINANCIAL INSTRUMENTS ^(c)

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

	Floating interest rate 2002 \$m	Fixed interest rate maturing in:			Non-interest bearing 2002 \$m	TOTAL 2002 \$m	Aggregate net fair value 2002 \$m
		1 year or less 2002 \$m	1 to 5 years 2002 \$m	Over 5 years 2002 \$m			
Receivable							
Swaps	...	1,004	959	650	...	2,613	1
Futures	...	176	20	12	...	208	1
Payable							
Swaps	(2,488)	(50)	(100)	...	...	(2,638)	(92)
Futures	...	(108)	(82)	(29)	...	(219)	...

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

23. DISCONTINUING OPERATIONS

POWERCOAL PTY LTD AND PACIFIC POWER (INTERNATIONAL) PTY LTD

On 24th August 2001, the Treasurer of New South Wales announced the Government's intention to sell Powercoal Pty Ltd to private parties and thereby discontinue Pacific Power's operations in the coal mining business segment. The sale occurred on 6th August 2002, with Centennial Coal Limited purchasing the subsidiary for a consideration of \$323.6 million.

On 7th February 2003, all of Pacific Power International's operations in the consulting and testing services were disposed of by way of asset sale to Connell Wagner Pty Ltd. Pacific Power (International) Pty Ltd was then renamed with the limited responsibility to fulfil residual contractual obligations to complete the commissioning of two power stations.

	Powercoal Pty Ltd		Pacific Power (International) Pty Ltd	
	2002-03 \$m	2001-02 \$m	2002-03 \$m	2001-02 \$m
Financial performance information for the years ended 30 June 2003 and 2002				
Revenue from ordinary activities	33	354	32	138
Expenses from ordinary activities	(61)	(403)	(61)	(136)
Profit (Loss) from ordinary activities before income tax	(28)	(49)	(29)	2
Income tax benefit (expense)		...		(1)
Net profit/(loss)	(28)	(49)	(29)	1
Carrying amount of assets and liabilities as at 30 June 2003 and 2002				
Total assets	...	246	31	55
Total liabilities	...	(247)	(57)	(52)
Net Assets	...	(1)	(26)	3
Cash flow information for the years ended 30 June 2003 and 2002				
Net cash inflow (outflow) from operating activities	(21)	16	(25)	2
Net cash inflow (outflow) from investing activities	(5)	(43)	7	(1)
Net cash inflow (outflow) from financing activities	28	26	21	26
Net increase (decrease) in cash generated by the division	2	(1)	3	27

INTEGRAL ENERGY GAS PTY LTD

On 30 June 2002, the natural gas customer base and network assets of Integral Energy Gas Pty Limited were sold to ActewAGL. Remaining assets and liabilities as at 30 June 2002 were transferred to the parent company, Integral Energy Australia, during the 2002-03 financial year.

24. DISAGGREGATED FINANCIAL STATEMENTS

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

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

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

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

THE NSW TOTAL STATE SECTOR ACCOUNTS
DISAGGREGATED STATEMENT OF REVENUE AND
EXPENSES FOR THE YEAR ENDED 30 JUNE 2003

	General Government		Public Trading Enterprises	
	2002-03	2001-02	2002-03	2001-02
	\$m	\$m	\$m	\$m
REVENUES FROM ORDINARY ACTIVITIES				
State Revenues				
Taxation	14,154	13,207	...	...
Commonwealth Grants	15,228	15,033	...	...
Financial Distribution	1,471	1,331	...	...
Fines, Regulatory Fees and Other	866	792	...	...
Total State Revenues	31,719	30,363	...	...
Operating Revenues				
Sale of Goods and Services	2,719	2,264	9,063	9,144
Investment Income	512	283	100	86
Grants and Contributions	818	475	2,457	2,395
Recognition of Assets for the First Time	1,045	4,469	...	...
Net Gain/(Loss) on Disposal of Physical Assets	(110)	60	30	14
Other	607	388	776	1,017
Total Operating Revenues	5,591	7,939	12,426	12,656
EXPENSES FROM ORDINARY ACTIVITIES				
Employee Benefits				
- Superannuation	4,140	3,859	608	650
- Other	14,653	12,937	3,251	3,250
Other Operating	7,635	6,994	2,890	3,428
Maintenance	1,353	1,308	918	771
Depreciation and Amortisation	1,773	1,538	2,068	1,563
Grants and Subsidies	6,795	6,823	724	771
Borrowing Costs	831	942	937	891
Total Expenses	37,180	34,401	11,396	11,324
NET COST OF SERVICES	(31,589)	(26,462)	1,030	1,332
SURPLUS/(DEFICIT) FOR THE YEAR BEFORE FINANCIAL DISTRIBUTIONS				
Income Tax Equivalent Expense	...	...	510	613
Dividend Provisions	...	...	939	692
SURPLUS/(DEFICIT) FOR THE YEAR AFTER FINANCIAL DISTRIBUTIONS	130	3,901	(419)	27

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

THE NSW TOTAL STATE SECTOR ACCOUNTS
DISAGGREGATED STATEMENT OF REVENUE AND
EXPENSES FOR THE YEAR ENDED 30 JUNE 2003

Public Financial Enterprises		Eliminations		Total State Sector	
2002-03	2001-02	2002-03	2001-02	2002-03	2001-02
\$m	\$m	\$m	\$m	\$m	\$m
...	...	(717)	(619)	13,437	12,588
...	...	...	...	15,228	15,033
...	...	(1,471)	(1,331)	...	...
...	...	3	...	869	792
...	...	(2,185)	(1,950)	29,534	28,413
13	12	(359)	(401)	11,436	11,019
1,647	1,723	(1,522)	(1,721)	737	371
21	12	(2,168)	(2,185)	1,128	697
...	...	...	...	1,045	4,469
...	...	...	...	(80)	74
2	1	(8)	(6)	1,377	1,400
1,683	1,748	(4,057)	(4,313)	15,643	18,030
1	1	...	...	4,749	4,510
9	8	(170)	(157)	17,743	16,038
12	12	(253)	(244)	10,284	10,190
...	...	...	...	2,271	2,079
2	2	...	...	3,843	3,103
...	...	(2,696)	(2,732)	4,823	4,862
1,754	1,601	(1,634)	(1,801)	1,888	1,633
1,778	1,624	(4,753)	(4,934)	45,601	42,415
(95)	124	696	621	(29,958)	(24,385)
(95)	124	(1,489)	(1,329)	(424)	4,028
8	6	(518)	(619)	...	...
25	18	(964)	(710)	...	...
(128)	100	(7)	...	(424)	4,028

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

	General Government		Public Trading Enterprises	
	2003	2002	2003	2002
	\$m	\$m	\$m	\$m
Current Assets				
Cash Assets	1,091	1,646	1,157	1,256
Receivables	2,561	2,741	1,501	1,711
Other Financial Assets	3,231	625	454	872
Inventories	116	154	579	572
Other	70	73	147	164
Total Current Assets	7,069	5,239	3,838	4,575
Non-Current Assets				
Receivables	3,900	2,845	184	136
Other Financial Assets	5,518	4,314	183	212
Property, Plant and Equipment				
Land and Buildings	38,518	37,654	35,994	25,297
Plant and Equipment	5,622	4,256	3,587	3,528
Infrastructure Systems	34,465	31,281	40,827	31,315
Forestry Stock	...	...	1,573	1,493
Inventories	38	12	319	343
Other	1,072	963	636	757
Total Non-Current Assets	89,133	81,325	83,303	63,081
TOTAL ASSETS	96,202	86,564	87,141	67,656
Current Liabilities				
Payables	2,179	2,170	1,926	1,886
Interest Bearing	2,820	1,730	2,326	2,335
Provisions	2,173	2,048	1,540	1,554
Other	508	423	97	109
Total Current Liabilities	7,680	6,371	5,889	5,884
Non-Current Liabilities				
Interest Bearing	9,151	10,360	11,036	10,541
Provisions	23,707	18,504	3,529	3,014
Other	1,007	992	139	168
Total Non-Current Liabilities	33,865	29,856	14,704	13,723
TOTAL LIABILITIES	41,545	36,227	20,593	19,607
NET ASSETS	54,657	50,337	66,548	48,049
Equity				
Asset Revaluation Reserves	21,766	18,418	35,595	24,263
Accumulated Funds	32,891	31,919	30,953	23,786
TOTAL EQUITY	54,657	50,337	66,548	48,049

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

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

Public Financial Enterprises		Eliminations		Total State Sector	
2003	2002	2003	2002	2003	2002
\$m	\$m	\$m	\$m	\$m	\$m
1,008	408	(199)	(273)	3,057	3,037
312	382	(1,420)	(1,526)	2,954	3,308
8,768	7,299	(5,896)	(5,404)	6,557	3,392
...	...	...	...	695	726
...	...	...	...	217	237
10,088	8,089	(7,515)	(7,203)	13,480	10,700
...	...	(2,651)	(2,488)	1,433	493
15,854	17,066	(15,718)	(16,448)	5,837	5,144
1	...	...	...	74,513	62,951
2	4	...	...	9,211	7,788
...	...	...	...	75,292	62,596
...	...	...	...	1,573	1,493
...	...	...	...	357	355
...	...	(367)	(372)	1,341	1,348
15,857	17,070	(18,736)	(19,308)	169,557	142,168
25,945	25,159	(26,251)	(26,511)	183,037	152,868
528	342	(494)	(520)	4,139	3,878
7,222	6,382	(5,009)	(4,562)	7,359	5,885
40	37	(796)	(846)	2,957	2,793
...	...	(63)	(97)	542	435
7,790	6,761	(6,362)	(6,025)	14,997	12,991
18,562	18,668	(17,923)	(18,714)	20,826	20,855
29	38	(1,471)	(1,269)	25,794	20,287
...	...	(495)	(503)	651	657
18,591	18,706	(19,889)	(20,486)	47,271	41,799
26,381	25,467	(26,251)	(26,511)	62,268	54,790
(436)	(308)	...	...	120,769	98,078
...	...	...	...	57,361	42,681
(436)	(308)	...	...	63,408	55,397
(436)	(308)	...	...	120,769	98,078

25. DETAILS OF CONSOLIDATED ENTITIES

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

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

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General Government Sector Agencies (continued)

Department of Infrastructure, Planning and Natural Resources ^(d)
 Department of Information Technology and Management ^(a)
 Department of Juvenile Justice
 Department of Land and Water Conservation ^(a)
 Department of Lands
 Department of Local Government
 Department of Mineral Resources
 Department of Planning
 Department of Public Works and Services ^(a)
 Department of Rural Fire Service
 Department of Sport and Recreation
 Department of State and Regional Development
 Department of Sustainable Natural Resources ^(d)
 Department of Transport ^(a)
 Department of Urban and Transport Planning ^(d)
 Department for Women

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

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

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

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

 Independent Commission Against Corruption
 Independent Pricing and Regulatory Tribunal
 Institute of Sport (NSW) ^(*)
 Internal Audit Bureau ^(*)

 Judicial Commission of New South Wales

 Lake Illawarra Authority ^(*)
 Land and Property Information New South Wales
 Legal Aid Commission of New South Wales
 Lord Howe Island Board ^(*)
 Liability Management Ministerial Corporation
 Luna Park Reserve Trust

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

General Government Sector Agencies (continued)

Mines Subsidence Board ^(*)
Minister Administering Environmental Planning and Assessment Act
(incorporating Sydney Region Development Fund and Land Development
Contribution Fund)
Ministry of Energy and Utilities
Ministry for Police
Ministry for the Arts
Ministry of Transport
Motor Accidents Authority
Motor Vehicle Repair Industry Council ^(*)
Museum of Applied Arts and Sciences

National Parks and Wildlife Service
New South Wales Adult Migrant English Service
New South Wales Cancer Council ^(*)
New South Wales Crime Commission
New South Wales Film and Television Office
New South Wales Fire Brigades
New South Wales Fisheries
New South Wales Insurance Ministerial Corporation
New South Wales Medical Board ^(*)
New South Wales Police

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

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

General Government Sector Agencies (continued)

Safe Food Production NSW
 Somersby Park Limited ^(*)
 South Sydney Development Corporation ^(*)
 Sporting Injuries Committee ^(*)
 State Electoral Office
 State Emergency Service
 State Library of New South Wales
 State Records Authority
 State Sports Centre Trust
 Stormwater Trust
 Superannuation Administration Corporation
 Sustainable Energy Development Authority
 Sydney Olympic Park Authority^(b)

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

 Upper Parramatta River Catchment Trust ^(*)

 Vocational Education and Training Accreditation Board ^(*)

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

Public Trading Enterprises

Australian Inland Energy Water Infrastructure

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

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

Public Trading Enterprises (continued)

Delta Electricity
Department of Housing – Land and Housing Corporation

EnergyAustralia
Eraring Energy

Fish River Water Supply Authority

Integral Energy

Hunter Water Corporation

Jenolan Caves Reserves Trust ^(*)

Landcom

Macquarie Generation

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

Pacific Power ^(e)
Parramatta Rail Link
Parramatta Stadium Trust
Port Kembla Port Corporation

Rail Infrastructure Corporation

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

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

Public Trading Enterprises (continued)

Teacher Housing Authority
TransGrid

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

Zoological Parks Board

Public Financial Enterprises

Fair Trading Administration Corporation
FANMAC Trusts

New South Wales Treasury Corporation

^(a) Abolished 2 April 2003, following the State election.

^(b) The Office of the Minister for Public Works and Services closed on 30 June 2003.

^(c) On 1 December 2002 the Community Services Commission was abolished and its functions transferred to the Ombudsman's Office.

^(d) On 1 July 2003 the Department of Sustainable Natural Resources and the Department of Urban and Transport Planning were abolished and replaced by the Department of Infrastructure, Planning and Natural Resources.

^(e) Pacific Power was dissolved on 1 July 2003.

^(*) Data was not consolidated for a number of small entities controlled by the state government as they are not considered material for whole-of-government purposes. For completeness, they have been listed above as part of the government reporting entity.

END OF AUDITED FINANCIAL REPORT