

**CONSOLIDATED FINANCIAL STATEMENTS**

**OF THE NSW TOTAL STATE SECTOR**

**(INCORPORATING**  
**THE NSW PUBLIC ACCOUNTS)**

**1998 – 1999**

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# PREFACE

The Consolidated Financial Statements of the Total State Sector are prepared on an accrual basis and report on the financial position and the results of operations of the State and the General Government Sector. The comprehensive financial reports play an important role in assisting the Government in discharging its accountability to the community and in enhancing the transparency of the State's finances.

The Consolidated Financial Statements have been prepared five weeks earlier this year following a recent amendment to the Public Finance and Audit Act, 1983 requiring an earlier completion.

Australian Accounting Standard AAS31 *Financial Reporting by Governments* requires each jurisdiction to prepare accrual based consolidated financial statements. Other states have followed the New South Wales initiative and also provide accrual based whole of government reports. This has enabled us to present for the first time a section on interstate comparisons which are based upon audited reports.

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

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

Michael Egan  
Treasurer



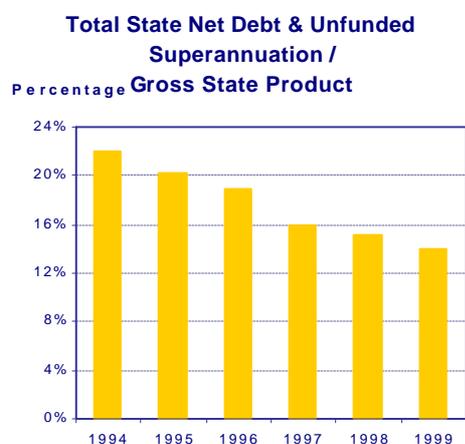
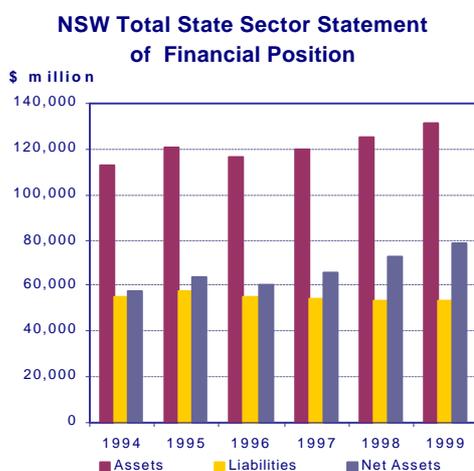
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# 1998-99 HIGHLIGHTS

- ◆ An accrual based operating surplus after abnormals for the Total State Sector of \$1,620 million. An increase in the State Sector surplus between 1997-98 and 1998-99 of \$128 million before abnormals.
- ◆ An accrual based operating surplus for the General Government Sector of \$2,007 million, a surplus for the third year in a row.
- ◆ An accrual based operating surplus for the Non General Government Sector of \$1,003 million (prior to financial distributions) reflecting continuing performance despite increased competition.
- ◆ GFS cash surplus for the Budget Sector of \$588 million.
- ◆ The State's net assets (or equity) were \$78,470 million at 30 June 1999, an increase of 9% (\$6,266 million) on the level at 30 June 1998.
- ◆ Total assets for the State increased by 5% (\$6,447 million) to \$131,629 million. This was primarily a result of asset revaluations of \$1,823 million, recognition of museum and library collections of \$2,108 million, previously recorded at nominal value, and net investments in assets of \$2,516 million. Net investments included \$496 million of investment in Olympic sporting facilities and infrastructure.
- ◆ A prepayment of \$3,261 million was made in June 1999, representing three years of Crown superannuation contributions into the Pooled Fund Schemes. This will be available to provide liquidity for the pension to lump sum conversion offer (Superannuation Conversion Offer (SCO)) to be made in 1999-2000 to State Superannuation Scheme and Police Superannuation Scheme contributors.
- ◆ Net unfunded superannuation liabilities for the State decreased by 31% (\$3,730 million) to \$8,189 million. This was primarily the result of the prepayment of \$3,261 million of Crown Superannuation Contributions for the SCO. The unfunded liabilities to Gross State Product (GSP) ratio decreased from 5.9% to 3.9%.
- ◆ Net debt for the State excluding the SCO borrowings fell 2.8% (\$528 million). Net debt calculated in accordance with Australian Bureau of Statistics methodology increased to \$21,312 million. The ratio of net debt to Gross State Product increased from 9.2% to 10.1% as a result of borrowing to fund the Superannuation Conversion Offer.
- ◆ The State's excess of total liabilities over financial assets (calculated in accordance with Australian Bureau of Statistics methodology) decreased by 0.9% (\$329 million) to \$34,481 million. This is consistent with the reduction that has been achieved in each year since 1994.



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# REVIEW OF FINANCIAL PERFORMANCE FOR 1998-99

## GENERAL

### Scope of the Review

This review of the financial performance of the NSW Total State Sector for 1998-99 comments on:

- the Public Accounts of the NSW General Government Sector;
- the Total State Sector Accounts; and
- the Statement of the Budget result prepared on the Government Finance Statistics Cash Basis.

**The Public Accounts** report on the operating result, financial position and cash flows of the General Government Sector. The General Government Sector covers all agencies that are generally engaged in the production of goods and services outside the normal market mechanisms.

In practice, this means that commercial entities which operate outside normal market mechanisms (eg the Insurance Ministerial Corporation and the Home Purchase Assistance Authority) and self funded regulatory agencies (eg the WorkCover Authority and the Motor Accidents Authority) are included, as well as Budget dependent agencies which receive an appropriation in the Annual Appropriation Act.

**The Total State Sector Accounts** report on the operating result, financial position and cash flows of the New South Wales Total State Sector.

The New South Wales Total State Sector includes both the General Government Sector (as reported in the Public Accounts) and the Non General Government Sector.

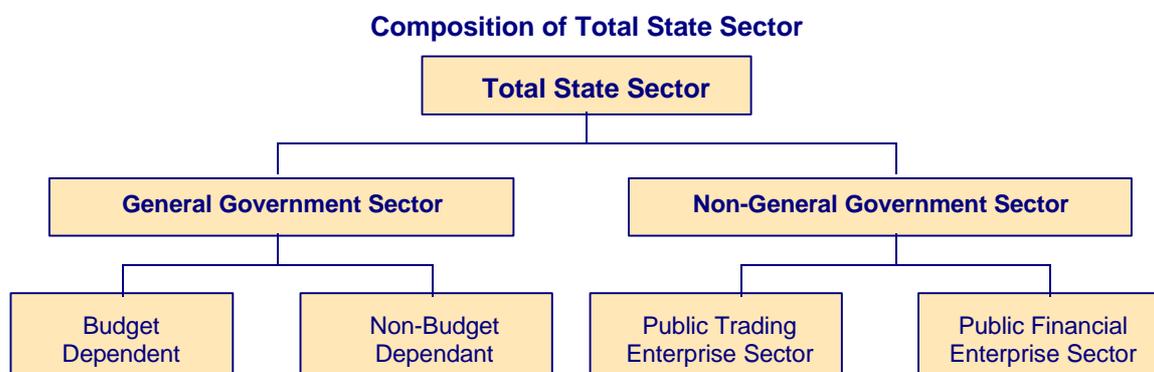
The Non General Government Sector includes the State's Public Trading Enterprises (PTEs) and Public Financial Enterprises (PFEs). PTEs are responsible for supplying public infrastructure services, including electricity, ports, water and public transport. PTEs are largely self-funded from user charges and have been given a specific charter to run their businesses on commercial lines, including the achievement of a commercial rate of return on the resources employed.

PFEs may accept demand, time or savings deposits and/or have the authority to incur liabilities and acquire financial assets in the market on their own account. An example of a PFE is NSW Treasury Corporation.

Note 25 of the NSW Total State Sector Accounts details the agencies that comprise each sector.

The composition of the Total State Sector is summarised in figure 1, below.

**Figure 1**



**The Statement of the Budget Result** (page 56) reports on the cash based result for the General Government Sector. It is prepared in accordance with the Government Finance Statistics (GFS) Framework and follows the principles utilised by the Australian Bureau of Statistics in compiling its Government Finance Statistics data. It differs in its treatment from the General Government accrual result. Under the GFS Framework certain expenditure, such as depreciation and actuarial adjustments for insurance, are excluded. It includes asset sale proceeds and gross fixed capital expenditure.

### **Financial Framework and Targets**

Both the General Government and Non General Government Sectors are subject to a financial management framework, including financial policies and fiscal targets against which their performance can be assessed.

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

1. To adhere to the following short, medium and long term fiscal targets:
  - To achieve a sustainable Budget surplus within three years from 1 July 1996;
  - To reduce the level of net debt to a sustainable level by 30 June 2005; and
  - To eliminate net debt by 30 June 2020.
2. To maintain or increase net worth (ie net assets) in real terms;
3. To fund employer superannuation liabilities by fully funding accruing current service superannuation costs and phasing in funding to eventually eliminate past unfunded liabilities;
4. To properly maintain long-lived physical assets with each agency developing an asset maintenance plan and establishing a funding program;
5. To constrain the growth in net cost of services and outlays below the growth in inflation and population;

6. To manage net debt on the basis of sound risk management principles and by placing a prudent limit on the level of financial risk for overall financial assets and liabilities and with each agency implementing a risk management plan; and
7. To restrain the level of taxes to the maximum extent possible and to pursue policies that give a reasonable degree of predicability about the level and stability of tax rates for future years.

The Non General Government Sector (comprising Public Trading Enterprises and Public Financial Enterprises) framework has the following key elements:

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

The financial management framework for commercial agencies aims to achieve lower prices (which provide significant benefits to the business sector and general community), reduce operating costs and to contribute financial distributions to the Government based upon agreed rates of return.

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

- The fiscal principles and targets identified in the General Government Debt Elimination Act; and
- The financial management objectives established for the commercially focused agencies in the Non General Government Sector.

[Note: Amounts included in the review of the General Government Sector which relate to the 1996-97, 1997-98 and 1998-99 years were prepared on a General Government basis. Amounts relating to years prior to 1996-97 were prepared on a more narrowly defined Budget Sector basis.]

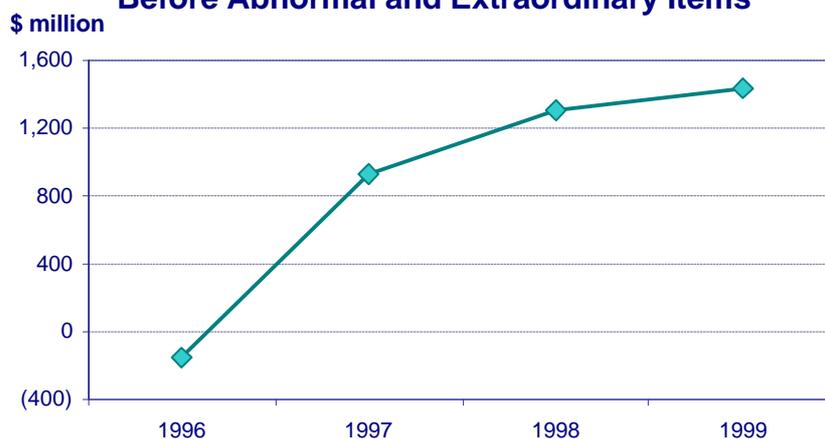
**STATE SECTOR OPERATING RESULT**

The State Sector operating result after abnormal items is a surplus of \$1,620 million compared to \$1,937 million for the prior year. The operating result before abnormal items improved from a surplus of \$1,307 million in 1997-98 to a surplus of \$1,435 million in 1998-99.

The continuing surpluses at the State and General Government Sector levels reflect both the application of sound fiscal principles in the General Government Sector and the continuing structural reform in the Non General Government Sector (leading to increased productivity, lower prices and commercial returns to the General Government in both dividend and tax distributions).

**Figure 2**

**Total State Sector Operating Result  
Before Abnormal and Extraordinary Items**



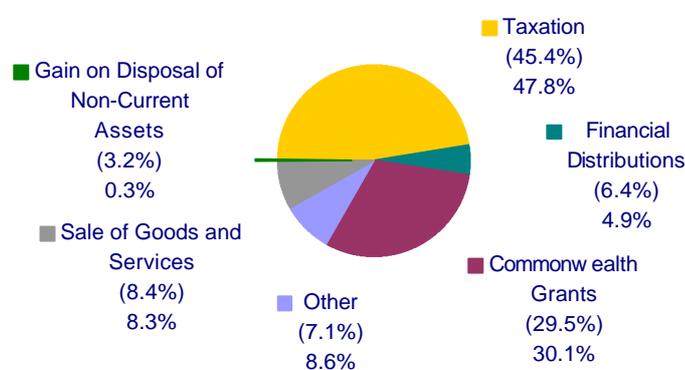
The surplus for the State of \$1,620 million (1997-98 \$1,937 million) results from a General Government Surplus of \$2,007 million and a Non General Government Surplus of \$1,003 million.

An amount of \$1,390 million was eliminated on consolidation for financial distributions from the Non General Government Sector to the General Government Sector. Figure 3, below, shows total revenues by type.

**GENERAL GOVERNMENT OPERATING RESULT**

The General Government operating result after abnormal items for 1998-99 is a surplus of \$2,007 million.

**Figure 3**  
**General Government Sector Revenues 1998-99**  
**(1997-98 in brackets)**



The General Government operating result comprises the Net Cost of Services and State Revenues.

**State Revenues**

State Revenues, which principally comprise State Taxes and Commonwealth Grants, increased by \$1,573 million (6.6%) to \$25,299 million.

**State taxation** increased to \$14,137 million in 1998-99. The increase was principally due to a \$453 million increase in petroleum, tobacco and liquor licences, a \$244 million increase in stamp duties and a \$221 million increase in payroll tax.

Significant increases in the value of share transactions and continuing high levels of activity in the property market were the major factors for the increase in stamp duty collections. The increase in payroll tax was attributable to growth in wages and employment.

On 5 August 1997 the High Court ruled state franchise fees on tobacco to be unconstitutional, resulting in the suspension of franchise fees on petroleum, tobacco and liquor products. These fees were replaced by Commonwealth safety net taxes on the same products. This change had a significant one-off negative impact on 1997-98 revenues mainly attributable to:

- timing differences between the collection of franchise fees and safety net taxes;
- additional tobacco clearances around the time of the decision before the safety net scheme was in place; and
- refunding unexpired licences to the liquor industry.

Revenues in 1998-99 reflect full year collections under the new Commonwealth safety net tax scheme. This has increased state taxation receipts by \$591 million.

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

The Government reduced tax rates in the following areas:

- Commencement of the phase-out of the levy on motor vehicle registrations. The concession was widened to cover primary producers, holders of seniors' cards and recipients of family allowances;
- Widening of the eligibility criteria for first home buyers stamp duty concessions; and
- The raising of the property value thresholds for Land Tax.

All other tax rates remained constant.

**Commonwealth Grants** increased by \$545 million (6.5%) between 1997-98 and 1998-99.

However \$87 million of 1998-99 revenue relates to late payments by the Commonwealth for 1997-98 funding for schools (\$66 million) and Public Health (\$21 million).

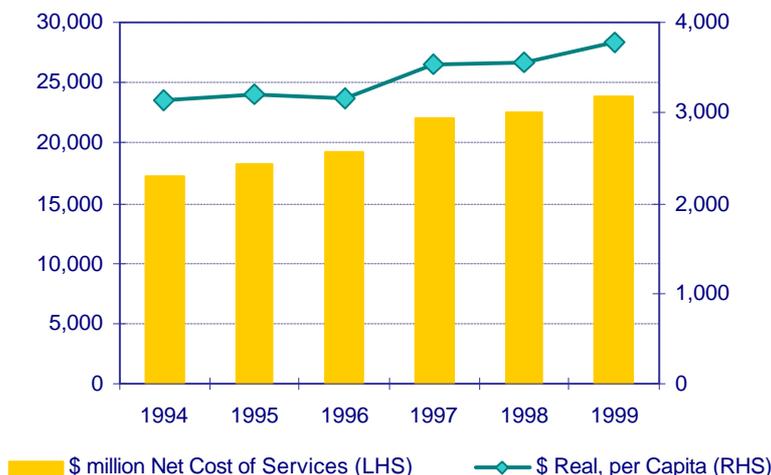
Furthermore, the increases have only returned Commonwealth grants per capita to levels similar to 1994-95. Commonwealth grants represent 30% of Total Revenues, constant with 1997-98 levels.

**Net Cost of Services**

Net Cost of Services provided by General Government Sector agencies represents the total cost to the Government of providing services to the community, less both revenue retained by agencies in providing the services, and the profit on sale of non-current assets. The Net Cost of Services of \$23,292 million in 1998-99, is an increase of 7.7% compared with \$21,633 million last year. Excluding abnormal revenue and expense items the increase in 1998-99 was 6.3%.

The objective of Fiscal Principle No.5 – Net Cost of Services is to keep the growth in net cost of services and outlays below the growth in inflation and population. However, the greater-than-expected revenue during the financial year allowed the Government to fund pay increases for teachers, police and health workers.

**Figure 4**  
**Net Cost of Services**



Net Cost of Services was impacted by the following factors:

**The sale of the TAB** generated a net revenue of \$895 million in 1997-98 and this one-off transaction is a significant component in the \$1,659 million increase in the Net Cost of Services from \$21,633 million in 1997-98 to \$23,292 million in 1998-99.

**Superannuation expense**, before abnormals, increased by 3.5% (\$52 million) to \$1,553 million in 1998-99. After adjusting for the abnormal revenue of \$704 million resulting from the distribution of unallocated employer reserves, the net expense fell by \$652 million during 1998-99.

**Employee related expenses** (excluding superannuation) increased by \$824 million (7.7%). This primarily reflects increases in the pay levels of police, teachers and health employees.

**Other Operating Expenses** increased \$838 million to \$6,116 million. The increase includes a one-off amount of \$164 million due by the Crown to NSW Treasury Corporation for its annuity investors. This resulted from a successful challenge by the Australian Taxation Office concerning the deductibility of certain expenses by the annuity investors. The Crown recognised an equivalent amount of dividend revenue from Treasury Corporation such that the transaction had nil effect on the General Government Operating Result although it has impacted upon both the Net Cost of Services and the level of State Revenues. In addition, during 1998-99 the Roads and Traffic Authority identified land under roads of \$191 million, which was reported in previous years as part of Land and Buildings. As it is Treasury's policy to report land under roads in the Consolidated Financial Statement at no valuation, an abnormal expense has been recorded to reverse out the value of these assets.

**Maintenance Expenses** increased \$198 million to \$1,249 million in 1998-99. This includes an increase in the Roads and Traffic Authority's expense to \$117 million which was primarily due to an increase in natural disaster expenditure. The natural disasters resulted from flooding during August and September 1998, which damaged roads throughout the State.

**Depreciation and Asset Decrements expense** increased \$527 million to \$1,294 million. The increase is primarily due to adjustments to road infrastructure. It includes road network deterioration due to flooding in 1998-99 which increased the expense \$263 million from its 1997-98 level. Further, the Roads and Traffic Authority wrote back its traffic signal assets by \$228 million to written down replacement cost.

**Finance expenses** fell \$395 million (22%) to \$1,397 million in 1998-99 due to a number of factors. These included using the TAB sale proceeds late in the previous year to retire debt, lower interest rates on borrowings from Treasury Corporation, and lower expenses associated with Treasury Corporation restructuring the Crown debt portfolio.

## **NON GENERAL GOVERNMENT SECTOR OPERATING RESULT**

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

In the past decade the State's businesses have undergone considerable reform which has produced significant benefits to the State by way of increased productivity, decreased financial risk and reduced prices to consumers.

The NSW Government Charges Index (GCI), which is akin to the Consumer Price Index (CPI) but specifically measures changes in the price of NSW Government goods and services, has fallen in cumulative terms by 11.3% from 1994-95 to 1998-99. To a certain degree, the GCI understates the fall in government charges since it does not take account of individual electricity contracts for businesses, which have recently fallen substantially.

These lower prices provide significant benefit in terms of lower costs to the NSW business sector and the general community. However, this increased competition has reduced profit levels in these sectors, as outlined below.

The Non General Government Sector operating profit after abnormal items but before income tax and financial distributions decreased by \$474 million from \$1,477 million in 1997-98 to \$1,003 million in 1998-99. The Non-General Government Sector profit was significantly affected by the competitive electricity market, increased competition in rail freights and costs associated with the Sydney water contamination incident (see below).

This resulted in a decrease in dividends and tax equivalent payments made by the Non General Government Sector to the General Government Sector. Dividends and tax equivalent distributions fell by \$361 million from \$1,805 million in 1997-98 to \$1,444 million in 1998-99.

In the PTE Sector, entities that supply electricity, transport and water account for over 80% of total revenue collected by PTEs. The following information therefore focuses on the financial performance of these industries.

### **Electricity**

New South Wales has been one of the leaders in reforming the electricity industry, operating a competitive market for trade in wholesale electricity since May 1996. The NSW retail market is now open to participation by any licensed electricity retailer, and the ability of customers to purchase electricity is gradually being extended. It is expected that the benefits of retail competition will be offered to smaller business and retail customers after January 2001.

Since 4 May 1997, New South Wales, Victoria and the Australian Capital Territory have been operating an interim national market in advance of the fully competitive market which took effect on 13 December 1998. In addition, New South Wales has continued to pursue electricity interconnection with Queensland and it is proposed to complete the interconnector by 2001.

The establishment of the New South Wales State Electricity Market has facilitated the introduction of real contestability, which has delivered lower prices to consumers. Since May 1995, NSW electricity customers have benefited through savings of more than \$1.4 billion in real terms on power bills.

In total, the State's electricity entities provided tax equivalents and dividends of \$664 million in 1998-99 compared to \$891 million in 1997-98.

The level of returns for the electricity sector in 1997-98 and its fall in 1998-99 is explained by several factors:

- The introduction of competition has resulted in some volatility in wholesale electricity prices and in the earnings of both generators and distributors. In particular wholesale spot prices have fallen dramatically, although over the past year prices have significantly recovered.
- In 1997-98 distributors were able to take advantage of falling wholesale prices relative to both franchise and contestable retail prices. This gain was partly offset in 1998-99 as wholesale prices rose and more contestable customers locked in fixed prices.
- During 1997-98 a significant proportion of contestable customers continued to pay the far higher franchise retail tariffs rather than the lower competitive tariffs. This turned around during 1998-99 as they began to take full advantage of competition.

## **Water**

The combined operating result for Sydney Water and Hunter Water (including abnormal items and before income tax and distributions) fell from \$414 million in 1997-98 to \$260 million in 1998-99.

A significant factor in the result was the impact of the Sydney water contamination incident, which resulted in an abnormal expense of \$55 million, and a reduction in revenue of \$20 million in 1998-99. Further, the 1997-98 result was affected by one-off revenue of \$42 million in respect of the reinstatement of asset values. After adjusting for the above abnormals the operating result for the water industry has fallen only \$37 million. A substantial component of this related to actuarial adjustments and investment earnings for superannuation.

Their combined operating revenues decreased slightly by \$9 million (1%) from \$1,502 million in 1997-98 to \$1,493 million in 1998-99.

The result by the water corporations led to a reduction in dividends and tax equivalents provided by Sydney Water and Hunter Water from \$382 million in 1997-98 to \$237 million in 1998-99.

## **Transport**

The State's transport industry includes its rail, bus and ferry businesses.

During 1996-97, the State Rail Authority was restructured and three additional rail entities were created - Rail Access Corporation, Rail Services Authority and FreightCorp. The corporatised entities are required to earn commercial returns.

The aggregate operating result (including abnormal items and before income tax and distributions) of the five transport entities improved by \$70 million from \$80 million in 1997-98 to \$150 million in 1998-99. This excludes an abnormal expense in 1998-99 of \$118 million which relates to the write down of RailCom assets to written down replacement cost upon its transfer from State Rail to the Rail Access Corporation.

The combined operating revenues of the transport entities increased by \$110 million (2.6%) from \$4,256 million in 1997-98 to \$4,366 million in 1998-99. This increase occurred despite restrictions on revenue such as third party access provisions which permit new rail operators to enter the market and compete with public operators in areas such as coal and grain haulage. During 1997-98, four privately owned operators were granted access to the NSW rail network. As a direct result, interstate freight rates fell around 10%.

Competition in New South Wales has continued to intensify with potential pressures and actual competitive entry combining to see an average 6% reduction in freight rates delivered to customers in 1998-99. This represents an average decrease of 19% since the introduction of open access in 1996.

In total, the five transport entities provided dividends and tax equivalents of \$139 million compared to \$114 million in 1997-98.

**STATEMENT OF FINANCIAL POSITION**

The Statement of Financial Position for the Total State Sector, including the General Government Sector, reports on its assets, liabilities and equity.

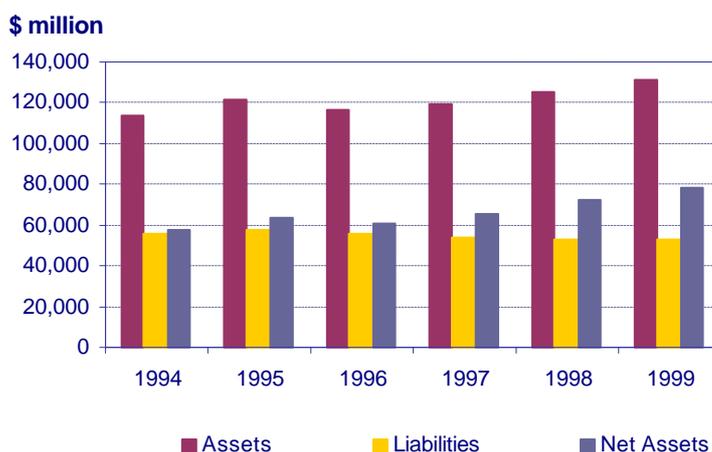
**Net Assets**

The State's net assets (or equity) were \$78,470 million at 30 June 1999, an increase of 9% or \$6,266 million on the level at 30 June 1998.

Similarly the net assets of the General Government Sector were \$37,164 million at 30 June 1999, an increase of \$5,876 million on the level at 30 June 1998. The increase in General Government Sector net assets meets the objective of Fiscal Principle No.2, to maintain or increase net worth (ie net assets) of the General Government Sector in real terms.

**Figure 5**

**NSW Total State Sector Statement of Financial Position**



**Total Assets**

The State's total assets at 30 June 1999 were \$131,629 million (1997-98 \$125,182 million). The \$6,447 million (5%) increase was mainly due to an increase in the value of the non-current physical assets of \$5,681 million. This increase included net investment in property and infrastructure of \$3,863 million, the initial recognition of library and collection assets of \$2,108 million and \$1,823 million in asset revaluations. In particular, the Roads and Traffic Authority revalued its property, roads, bridge and tunnel infrastructure by \$1,462 million.

The revaluations indicate that Fiscal Principle No. 4 - Asset Maintenance of Long-Lived Physical Assets is being implemented effectively. Under the Government's total asset management policy, agencies are required to implement asset maintenance plans which set out a maintenance program for each asset or grouping of assets and identify the funding requirements. This policy is aimed at ensuring that the economic benefits derived from these assets is maximised.

Investment in the State's infrastructure will provide benefits for current and future generations. It includes investments in roads \$817 million, sporting facilities \$496 million, hospitals and equipment \$380 million and educational facilities \$231 million.

During 1996 regional roads of \$6,179 million were transferred to Local Government. To ensure consistency within Figure 6, the 1994 and 1995 assets columns have also been adjusted to reflect this transfer.

Total assets increased each year between 1994 and 1998, except for 1996 (excluding the effect of the regional roads transfer noted above). The reduction between 1995 and 1997 was principally due to the refinement of valuation methodologies employed by Roads and Traffic Authority, Department of Land and Water Conservation and Department of Health. The adjustments did not relate to a change in the intrinsic value of the assets but were as a result of the use of more robust bases for measurement than those employed by these agencies when they first moved to accrual accounting in the early 1990s.

### **Total Liabilities**

Total State liabilities increased during 1998-99 by \$181 million (0.4%) to \$53,159 million, which is less than the CPI increase of 1.6%.

The effect of funding for the Superannuation Conversion Offer (SCO) will have a significant impact on aggregate liability classes over the four years commencing from 1998-99.

The unfunded superannuation liability will be affected by an offer from the Government to members to convert their accrued superannuation pension benefits to lump sums and join the First State Superannuation accumulation scheme. The offer is being made to members of closed defined benefits schemes (the State Superannuation Scheme and the Police Superannuation Scheme) in the first half of the 1999-2000 year. Acceptance of the offer is entirely voluntary. It may attract members because their superannuation will be portable and they will not have to make matching superannuation contributions.

The Crown borrowed \$3,261 million to enable the accelerated payment in 1998-99 of three forward years' of Crown superannuation contributions to the SAS Trustee Corporation (STC) fund.

As a result of borrowing for the conversion offer, General Government and Total State borrowings have increased by \$3,261 million and net unfunded superannuation liabilities have reduced by \$3,261 million, resulting in no change to the State's liabilities.

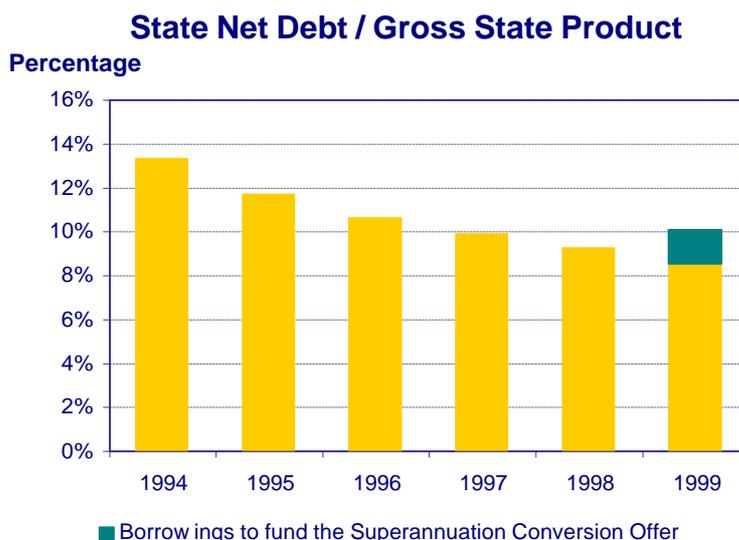
However, the State's unfunded superannuation liability is expected to reduce by at least \$1 billion over the four-year period ended 30 June 2002 due to two factors:

- Reduction of past service gross superannuation liabilities resulting from member acceptances of the conversion offer, because the present value of the lump sum offers is less than the present value of future pension benefits; and
- Faster utilisation of the STC fund's Commonwealth superannuation tax funding credits.

The State's net debt (calculated in accordance with Australian Bureau of Statistics methodology) increased by \$2,733 million to \$21,312 million. If the SCO borrowings are excluded, net debt has decreased by \$528 million to \$18,051 million.

More significantly, net debt of the State, excluding SCO, as a percentage of Gross State Product decreased from 9.2% in 1997-98 to 8.6% in 1998-99, in line with a consistent trend since 1994.

Figure 6



In the General Government Sector there was a decrease in net debt, excluding SCO, as a percentage of Gross State Product from 5.0% to 4.5%. This is consistent with Fiscal Principle No. 1 - Net Debt Reduction which seeks, inter alia, to reduce the level of net debt of the General Government Sector to a sustainable level by 30 June 2005 and to eliminate net debt by 30 June 2020. It is also consistent with Fiscal Principle No. 6 - Prudent Risk Management which requires the management of net debt on the basis of sound risk management principles.

The other significant component of State liabilities is the net unfunded superannuation liability.

The State's net unfunded superannuation liability decreased by \$3,730 million to \$8,189 million. The principle factors leading to this reduction were the prepaid contributions for the SCO of \$3,261 million and the taking up of \$704 million of unallocated funds in the State Superannuation Scheme's employer reserves. The State's unfunded superannuation liability to Gross State Product (GSP) ratio, excluding the impact of SCO, decreased from 5.9% to 5.4%.

The unfunded superannuation liabilities of the General Government Sector to Gross State Product (GSP) ratio decreased from 5.9% to 3.7%. If the impact of the SCO is excluded the ratio fell to 5.3%.

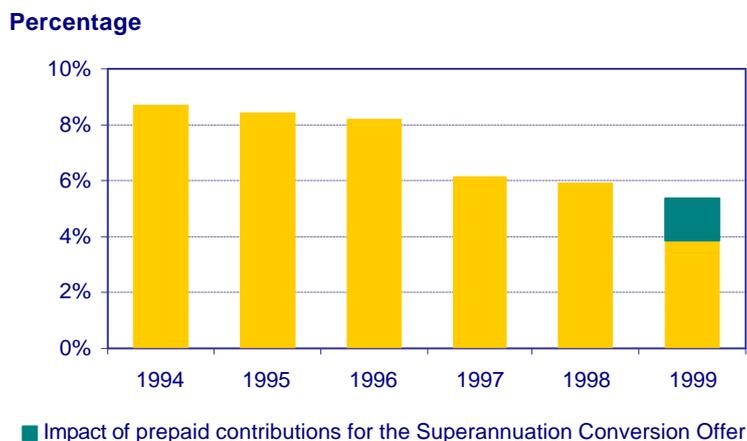
This reflects the Government's commitment to the achievement of Fiscal Principle No.3 which requires that:

- accruing superannuation liabilities (for both the General Government and public trading enterprise Sectors) should be fully funded; and
- there should be phased in funding to eliminate the existing level of unfunded liabilities.

In accordance with the principle, during 1998-99 the practice was continued of fully funding each year's superannuation expenses in the First State Superannuation Scheme, phasing in full funding of other accruing superannuation liabilities and moving to address past unfunded liabilities.

**Figure 7**

**Total State Unfunded Superannuation Liability/  
Gross State Product**

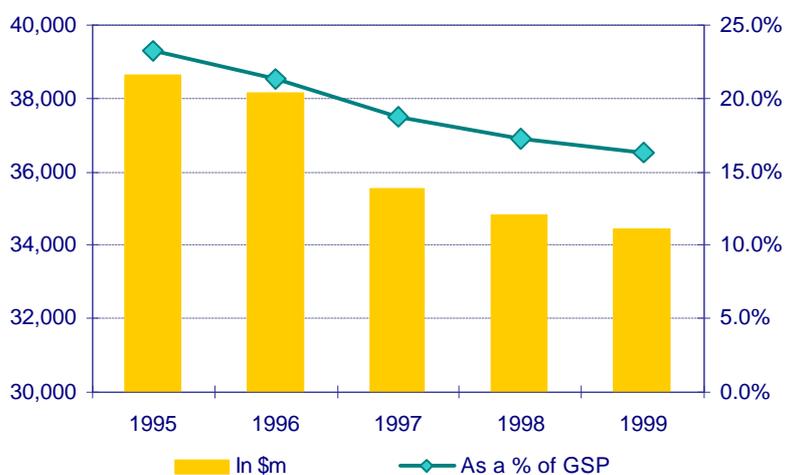


The State's excess of total liabilities over financial assets (calculated in accordance with the Australian Bureau of Statistics methodology) decreased by 0.9% (\$329 million) to \$34,481 million.

The principal reason for this trend is the reductions in overall Net Debt and Unfunded Superannuation Liabilities noted above, together with the writeback of \$520 million of the State's share of higher education superannuation costs as explained in Note 4<sup>(d)</sup> to the financial statements.

**Figure 8**

**Total State Excess of Liabilities over Financial Assets**



**INTER-GOVERNMENTAL TOTAL STATE SECTOR COMPARISONS**

Australian Accounting Standard AAS31 “Financial Reporting by Governments” requires each jurisdiction to prepare consolidated accrual based financial reports commencing year ended 30 June 1999.

Information from these reports will enable comparisons between jurisdictions as well as the analysis of trends as time series are built up.

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

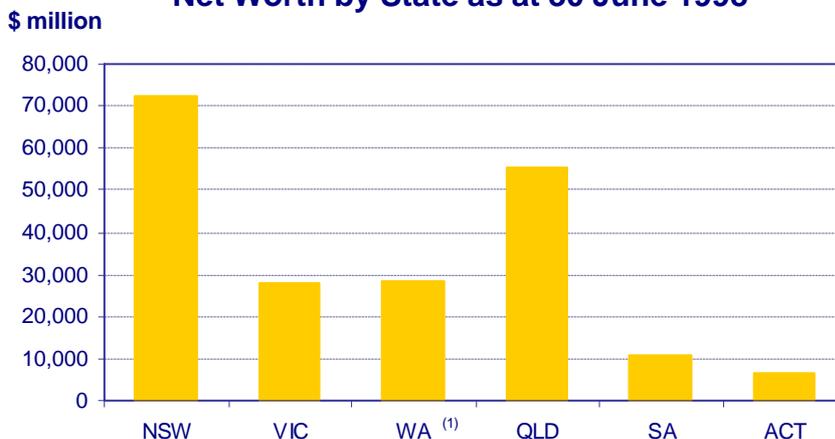
Published consolidated financial statements are not yet available for 1998-99 for the various jurisdictions. The following comparisons are therefore based on 1997-98 published information. Tasmania and the Northern Territory did not publish consolidated accrual based financial reports in 1997-98.

Net Worth is a measure used to report upon whether State Governments are maintaining the value of their physical and financial resources. Net Worth, also known as Net Assets, is the difference between total assets and total liabilities. Figure 9 outlines the published Net Worth by State at 30 June 1998.

Figure 9 shows the Net Worth of the NSW Public Sector at 30 June 1998 was \$72,204 million, the strongest of all states.

**Figure 9**

**Net Worth by State as at 30 June 1998**



(1) for comparability land under roads has been excluded.

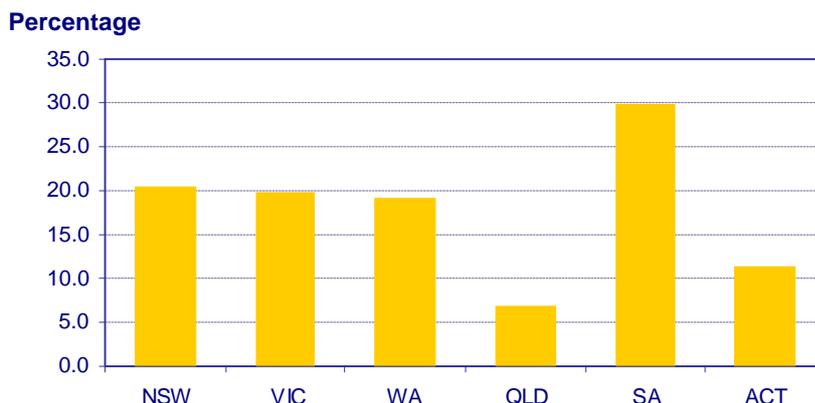
The exclusion from Net Worth of non-financial assets, such as property, plant, infrastructure and inventories, results in a measure known as Net Financial Liabilities. Net Financial Liabilities reflects the financial obligations of a government. Net Financial Liabilities as a percentage of Gross State Product (GSP) is a useful measure as it allows for comparisons between States of a different size.

It is wider than the Australian Bureau of Statistics' measure "Excess of Total Liabilities over Financial Assets" in that Net Financial Liabilities also includes insurance and other liabilities.

Figure 10 compares Net Financial Liabilities as a percentage of GSP for each state.

**Figure 10**

**Net Financial Liabilities as a percentage of Gross State Product as at 30 June 1998**

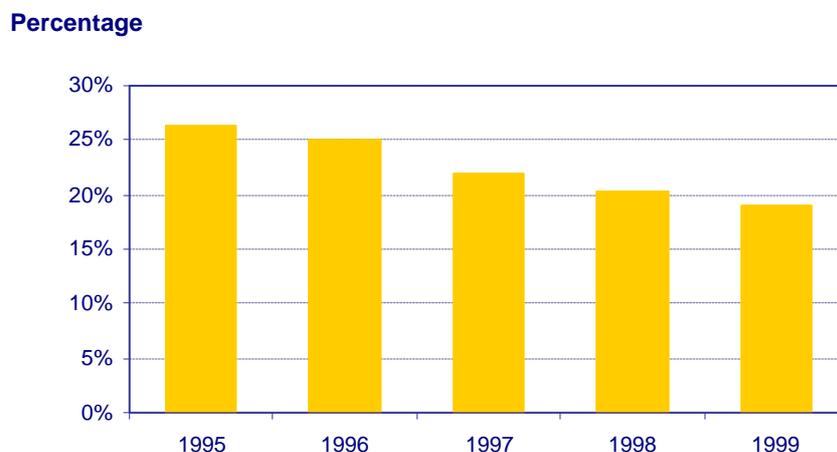


Trends in Net Financial Liabilities as a percentage of GSP over time provides a useful indication of the movement in a State's financial position, whereby reductions represent an improvement.

Since June 1995 the NSW Total State Net Financial Liabilities as a percentage of GSP has fallen from 26.4% to 19.0%.

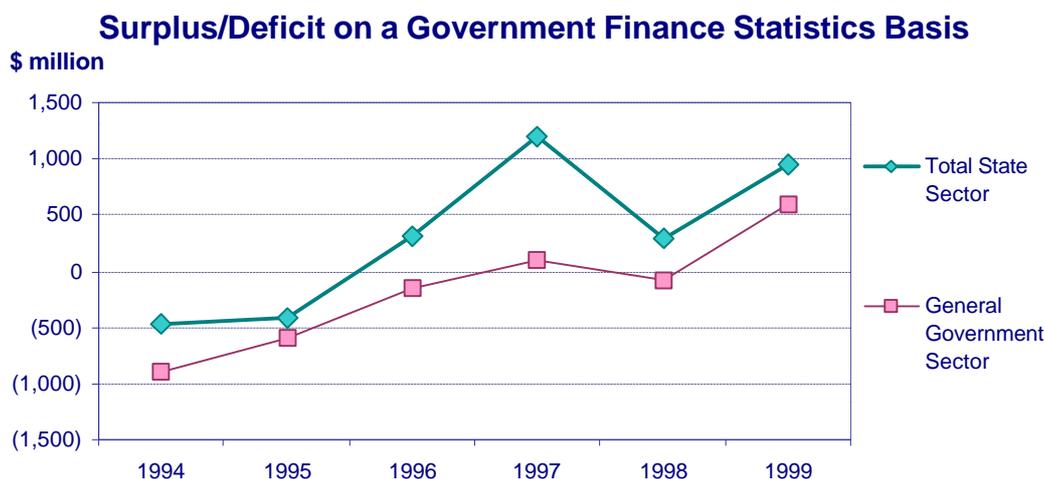
**Figure 11**

**NSW Net Financial Liabilities as a percentage of Gross State Product at 30 June**



## RESULTS ON GOVERNMENT FINANCE STATISTICS BASIS

Figure 12



The Total State Sector Result has been in surplus for the last four years. This is the first time there has been four consecutive years of surplus since the Australian Bureau of Statistics' collection of such data in the early 1960's.

Figure 12 excludes the impact of the Superannuation Conversion Offer funding.

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

The Budget result for 1998-99 before adjusting for Superannuation Conversion Offer funding is a surplus of \$588 million. This represents a \$543 million improvement on the Budget time estimates.

This reflects:

- Current Receipts were \$1,146 million higher than budget due to higher State Taxes, primarily reflecting the strong growth in the share and property market, and additional Medicare funding from the Commonwealth;
- Current Outlays were higher than budget by \$732 million, especially due to expenditures in health, community, service payments and road maintenance;
- Capital Outlays were \$377 million greater than budget. Further, Capital Receipts were \$506 million higher than budget. Both of these were primarily the result of the GFS treatment of the transfer of assets from Department of Housing (which is outside of the General Government Sector) to the Aboriginal Housing Office.

# AUDITED INFORMATION

## **STATEMENT OF COMPLIANCE**

In our opinion, the Public Accounts and the Total State Sector Accounts:

- (a) give a true and fair view of the consolidated operating result and cash flows of the NSW General Government Sector and the NSW Total State Sector for the year ended 30 June 1999 and of the financial position of the NSW General Government Sector and 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; and
- (c) are in accordance with all applicable Australian Accounting Standards.

Michael Egan  
Treasurer

John Pierce  
Secretary  
NSW Treasury

Ian Neale  
Executive Director  
Financial Management  
NSW Treasury

15 November 1999



BOX 12 GPO  
SYDNEY NSW 2001

## **INDEPENDENT AUDIT REPORT**

### **THE PUBLIC ACCOUNTS AND THE TOTAL STATE SECTOR ACCOUNTS**

#### **Members of the New South Wales Parliament**

#### **Scope**

I have audited the Public Accounts and the Total State Sector Accounts for the year ended 30 June 1999. The Treasurer is responsible for the financial reports of the Public Accounts and the Total State Sector Accounts consisting of the accompanying consolidated statements of financial position, consolidated operating statements and consolidated statements of cash flows together with the notes thereto and information contained therein. My responsibility is to express an opinion on the financial reports of the Public Accounts and the Total State Sector Accounts to Members of the New South Wales Parliament based on my audit as required by sections 34 and 49(1) of the *Public Finance and Audit Act 1983*.

My audit has been conducted in accordance with the provisions of the Act and Australian Auditing Standards to provide reasonable assurance whether the Public Accounts and the Total State Sector Accounts are free of material misstatement. My procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the Public Accounts and the Total State Sector Accounts and the evaluation of accounting policies and significant accounting estimates.

In addition, other legislative and policy requirements, that could have an impact on the Public Accounts and the Total State Sector Accounts have been substantially reviewed on a cyclical basis throughout the total state sector. For this year, the requirements examined comprised compliance with:

- Core business activities being in accordance with legislation;
- Legislative and other requirements in respect of trust account operations; and
- Policies and procedures in respect of grants made to entities external to the NSW public sector.

These procedures have been undertaken to form an opinion whether, in all material respects, the Public Accounts and the Total State Sector Accounts are presented fairly in accordance with the requirements of sections 6(1), 6(1A) and 6(113) of the Act, Australian Accounting Standards and other mandatory professional reporting requirements so as to present a view which is consistent with my understanding of the general government sector's and the total state sector's financial positions, the results of their operations and their cash flows.

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

## Qualifications

The qualifications have been grouped according to their effect on the financial reports.

### *Affecting both the Public Accounts and Total State Sector Accounts*

- (a) On 5 August 1997 the High Court held that the fee based licensing provisions in the *Business Franchise Licences (Tobacco) Act 1987* were unconstitutional. The New South Wales Solicitor-General advised that if challenged the High Court would also strike down the equivalent provisions of the *Business Franchise Licences (Petroleum Products) Act 1987*. As a consequence of the High Court decision the Government collected invalidly \$123.6m in Business Franchise Licence fees in the previous financial year. There were no invalid collections during the current financial year. The Solicitor-General has advised that as the law presently stands, the Government is not required to refund those fees collected prior to the decision. There is no financial effect on the financial report.
- (b) Note 1, Statement of Significant Accounting Policies, discloses that undeveloped Crown land has not yet been recognised pending completion of an identification and valuation program. In my opinion, recognising this land using a valuation methodology similar to that used for other land in these financial reports would have a material effect, the amount of which is uncertain, on the items Property and Net Liabilities included in the statements of financial position.
- (c) Some assets and liabilities of the FANMAC Trusts relating to the HomeFund program have been recognised in the statements of financial position. At 30 June 1999, assets and liabilities of \$129m (1997-98, \$173m) were recognised but at 30 June 1999 \$401m (1997-98, \$476m) was not recognised. In my opinion, the Home Purchase Assistance Authority has the capacity to dominate the FANMAC Trusts decision making process in relation to financial and operating policies. Accordingly all the Trusts' assets and liabilities should be recognised in the Public Accounts and the Total State Sector Accounts statements of financial position. The inclusion of amounts for the Trusts would not alter the net assets or the operating results as reported.
- (d) As disclosed in Note 4, Abnormal Items, and Note 12, Employee Entitlements, to the financial statements, income of \$704m has been recognised. This income is the Government Actuary's estimate of unallocated reserve balances in the State Superannuation Scheme to be transferred to Crown employer reserve accounts of the Scheme when an allocation process is completed. In my opinion this income should not be recognised until the allocation process has been completed and approved by the SAS Trustee Corporation and the Minister as required by the *Superannuation Act 1916*.
- (e) Australian Accounting Standard AAS 31 "Financial Reporting by Governments" requires that all assets must be recognised when future economic benefits in the asset will eventuate and the asset can be measured reliably. The Australian Museum Trust, The Museum of Applied Arts and Sciences, the Royal Botanic Gardens and Domain Trust and the State Records Authority of New South Wales have conducted an initial valuation exercise for their collection assets resulting in values totalling \$4,755m. This amount has not been recognised in the statements of financial position. In addition, as indicated in Note 1 to the financial statements the Library Council of New South Wales obtained initial valuations of \$2,084m for its collection assets. Although recognised in the financial reports there is uncertainty as to reliability of the Library's valuations. In my opinion, because of the non recognition of assets valued at \$4,755m and the uncertainty over the reliability of the value of assets recognised at \$2,084m there is a departure from Australian Accounting Standard AAS 31 "Financial Reporting by Governments".
- (f) Note 6, Investments, discloses that funds held in Government schools' bank accounts comprising cash and investments are not recognised in the statements of financial position. In my opinion, these amounts are assets of the Public Accounts and the Total State Sector Accounts and should be recognised. Although details are not readily available they could be obtained from school financial statements and records.

### ***Affecting the Total State Sector Accounts Only***

- (g) Note 1, Statement of Significant Accounting Policies, describes methods used to determine depreciation. In my opinion, uncertainty exists as to the reasonableness of depreciation charges and the carrying value of Sydney Water Corporation's infrastructure assets because values have not been determined on a disaggregated, condition based approach.
- (h) Assets and obligations arising from private sector financing of the Sydney Water Corporation's water treatment plants have not been recognised in the financial report. In my opinion, the Corporation carries substantially the risks and benefits incident to ownership of the underlying assets. As at 30 June 1999 the value of obligations and underlying assets relating to the water treatment plants not recognised in the statement of financial position is approximately \$489m (1997-98 \$494m). There is no material effect on net assets or the operating statement.

The Independent Audit Report on the Public Accounts and the Total State Sector Accounts for the year ended 30 June 1998 was qualified for the matters (a) to (c) and (f) to (h).

### **Qualified Audit Opinion**

In my opinion, except for:

- the effects on the comparative information of the matter referred to in qualification paragraph (a);
- the effects of the matters referred to in the qualification paragraphs (c) to (f) and (h); and
- the effects of such adjustments if any as might have been required had the limitations in the qualification paragraphs (b) and (g) not existed.

the Public Accounts and the Total State Sector Accounts are properly drawn up in accordance with the Act, accord with the accounts and records of the Treasurer, and present fairly in accordance with applicable Australian Accounting Standards and other mandatory professional reporting requirements the financial position of the general government sector and the total state sector as at 30 June 1999 and the results of their operations and their cash flows for the year then ended.

### **Inherent Uncertainties**

Without further qualification to the opinion expressed above attention is drawn to the following matters.

#### ***Litigation***

- (a) As indicated in Note 19, Contingent Liabilities, within the financial report litigation by various HomeFund borrowers is being defended on behalf of the Government. The circumstances of the case are such that the ultimate outcome of the litigation cannot presently be determined, and accordingly no provision for any liability that may result has been made in the financial report.
- (b) Powercor Australia initiated proceedings against Pacific Power in the Supreme Court of Victoria relating to alleged electricity trading agreements. The action was instigated on 21 August 1998. The ultimate outcome of the litigation cannot be presently determined. This uncertainty only applies to the Total State Sector Account.

#### ***Valuation of Systems Assets in the Electricity Generation Industry***

The emerging competitive energy market has created uncertainty in the valuation of systems assets in the electricity generation sector. Until more discernible market conditions apply, the quantum of the financial effect of adjustments, if any, to the values is unclear. This uncertainty only applies to the Total State Sector Accounts.

### *Year 2000 compliance*

The financial reports of certain agencies that provide critical services disclose uncertainty of the impact of date changes involving the year 2000 on their activities. Those agencies are the following economic entities: Department of Community Services; New South Wales Police Service; Department of Corrective Services; Department of Health (including Area Health Services); New South Wales Fire Brigades; New South Wales Rural Fire Service; Delta Electricity; Macquarie Generation; Pacific Power; Electricity Transmission Authority; Advance Energy; Australian Inland Energy; EnergyAustralia; Great Southern Energy; Integral Energy Australia; NorthPower; Broken Hill Water Board, Hunter Water Corporation; Sydney Water Corporation; Roads and Traffic Authority of New South Wales; Rail Access Corporation; Rail Services Australia; State Rail Authority and the Lord Howe Island Board.

These agencies have investigated if and to what extent the date changes involving the year 2000 will have on their activities. They have established programs to minimise the impact of the transition to the year 2000 by seeking to ensure that their significant/core computer hardware, software and or systems are year 2000 compliant. Activities of all the agencies may also be affected by the ability of third parties dealing with these agencies to manage the effect of the year 2000 date change. Therefore the outcome of the date change on all these agencies' operations, which provide critical services to the State, cannot be determined with complete confidence. This uncertainty applies to both the Public Accounts and the Total State Sector Accounts.

Similar uncertainties existed at 30 June 1998 and the Independent Audit Report was modified accordingly.

R J Sendt  
Auditor-General

SYDNEY  
15 November 1999

**THE NSW TOTAL STATE SECTOR ACCOUNTS  
(INCORPORATING THE PUBLIC ACCOUNTS)  
OPERATING STATEMENT  
FOR THE YEAR ENDED 30 JUNE 1999**

	Note	State Sector		General Government Sector	
		98-99 \$m	97-98 \$m	98-99 \$m	97-98 \$m
<b>State Revenues</b>	2				
Taxation	2	13,829	12,607	14,137	12,857
Commonwealth Grants	2	8,911	8,366	8,911	8,366
Financial Distributions	2	-	-	1,444	1,805
Fines, Regulatory Fees and Other		785	703	807	698
<b>Total State Revenues</b>		<b>23,525</b>	<b>21,676</b>	<b>25,299</b>	<b>23,726</b>
<b>Operating Revenues</b>					
Sale of Goods and Services	2	10,600	10,682	2,448	2,388
Investment Income		542	570	420	408
Grants and Contributions		736	698	485	386
Other		1,463	1,038	822	510
<b>Total Operating Revenues</b>		<b>13,341</b>	<b>12,988</b>	<b>4,175</b>	<b>3,692</b>
<b>Expenses</b>	3				
Employee Related	3	15,557	15,118	12,391	12,219
Other Operating	3	9,872	8,768	6,357	5,519
Maintenance		1,823	1,613	1,249	1,051
Depreciation and Amortisation	3	3,000	2,296	1,294	767
Grants and Subsidies	3	2,866	2,981	4,863	4,880
Finance	3	2,249	2,871	1,397	1,792
<b>Total Expenses</b>		<b>35,367</b>	<b>33,647</b>	<b>27,551</b>	<b>26,228</b>
Gain on Disposal of Non-Current Assets	2, 4	121	920	84	903
<b>NET COST OF SERVICES</b>		<b>(21,905)</b>	<b>(19,739)</b>	<b>(23,292)</b>	<b>(21,633)</b>
<b>SURPLUS FOR THE YEAR</b>		<b>1,620</b>	<b>1,937</b>	<b>2,007</b>	<b>2,093</b>

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

**THE NSW TOTAL STATE SECTOR ACCOUNTS  
(INCORPORATING THE PUBLIC ACCOUNTS)  
STATEMENT OF FINANCIAL POSITION  
AS AT 30 JUNE 1999**

	Note	State Sector		General Government Sector	
		98-99 \$m	97-98 \$m	98-99 \$m	97-98 \$m
<b>Current Assets</b>					
Cash	16	2,442	2,077	960	1,186
Investments	6	3,485	3,591	1,345	926
Receivables	5	2,638	2,508	2,052	2,065
Inventories	7	815	838	219	122
Other	9	287	229	77	35
<b>Total Current Assets</b>		<b>9,667</b>	<b>9,243</b>	<b>4,653</b>	<b>4,334</b>
<b>Non-Current Assets</b>					
Land and Buildings	8	50,251	49,191	30,729	30,079
Plant and Equipment	8	8,325	5,531	4,151	2,151
Infrastructure Systems	8	56,651	54,824	28,902	27,074
Investments	6	3,741	3,231	2,458	2,353
Receivables	5	379	482	2,842	2,734
Inventories	7	1,785	1,987	68	109
Other	9	830	693	664	545
<b>Total Non-Current Assets</b>		<b>121,962</b>	<b>115,939</b>	<b>69,814</b>	<b>65,045</b>
<b>TOTAL ASSETS</b>		<b>131,629</b>	<b>125,182</b>	<b>74,467</b>	<b>69,379</b>
<b>Current Liabilities</b>					
Payables	10	3,550	3,099	1,932	1,701
Borrowings	11	8,732	2,956	4,708	2,730
Employee Entitlements	12	1,186	2,150	885	1,828
Other	13	1,455	1,356	1,039	998
<b>Total Current Liabilities</b>		<b>14,923</b>	<b>9,561</b>	<b>8,564</b>	<b>7,257</b>
<b>Non-Current Liabilities</b>					
Borrowings	11	22,236	24,601	14,323	13,595
Employee Entitlements	12	11,715	14,223	10,466	13,010
Other	13	4,285	4,593	3,950	4,229
<b>Total Non-Current Liabilities</b>		<b>38,236</b>	<b>43,417</b>	<b>28,739</b>	<b>30,834</b>
<b>TOTAL LIABILITIES</b>		<b>53,159</b>	<b>52,978</b>	<b>37,303</b>	<b>38,091</b>
<b>NET ASSETS</b>		<b>78,470</b>	<b>72,204</b>	<b>37,164</b>	<b>31,288</b>
<b>Equity</b>					
Asset Revaluation Reserves	14	32,641	30,790	10,987	9,560
Accumulated Funds	15	45,829	41,414	26,177	21,728
<b>TOTAL EQUITY</b>		<b>78,470</b>	<b>72,204</b>	<b>37,164</b>	<b>31,288</b>

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

**THE NSW TOTAL STATE SECTOR ACCOUNTS  
(INCORPORATING THE PUBLIC ACCOUNTS)  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 30 JUNE 1999**

	Note	State Sector		General Government Sector	
		98-99	97-98	98-99	97-98
		\$m	\$m	\$m	\$m
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
<b>Receipts</b>					
Taxation		13,890	12,501	14,194	12,792
Commonwealth Grants		8,911	8,582	8,911	8,582
Financial Distributions		-	-	1,292	1,693
Sale of Goods and Services		10,169	10,367	2,383	2,499
Investment Income		522	259	288	270
Fines, Fees, Grants and Other		2,029	1,238	1,344	910
<b>Total Receipts</b>		<b>35,521</b>	<b>32,947</b>	<b>28,412</b>	<b>26,746</b>
<b>Payments</b>					
Employee Related		(15,844)	(14,915)	(12,707)	(11,983)
- Superannuation Conversion Contributions	12	(3,261)	-	(3,261)	-
Grants and Subsidies		(2,704)	(2,798)	(4,808)	(4,706)
Finance		(195)	(479)	(1,423)	(1,662)
Other		(10,601)	(9,952)	(7,061)	(6,497)
<b>Total Payments</b>		<b>(32,605)</b>	<b>(28,144)</b>	<b>(29,260)</b>	<b>(24,848)</b>
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	16	<b>2,916</b>	<b>4,803</b>	<b>(848)</b>	<b>1,898</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Proceeds from Sale of Property, Plant and Equipment		707	605	393	308
Proceeds from Sale of Investments		921	2,114	456	1,431
Advance Repayments Received		34	101	53	128
Purchase of Property, Plant and Equipment		(4,515)	(4,097)	(2,472)	(2,458)
Purchase of Investments		(835)	(1,145)	(524)	(406)
Advances Made		(38)	(11)	(37)	(11)
Other		113	64	108	9
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>		<b>(3,613)</b>	<b>(2,369)</b>	<b>(2,023)</b>	<b>(999)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Proceeds from Borrowings and Advances		14	248	3,443	1,022
Repayments of Borrowings and Advances		(167)	(1,696)	(762)	(1,670)
Other		4	(14)	-	(105)
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>		<b>(149)</b>	<b>(1,462)</b>	<b>2,681</b>	<b>(753)</b>
<b>NET CASH FLOW OF FINANCIAL INSTITUTIONS</b>	16	<b>1,020</b>	<b>(1,568)</b>	<b>-</b>	<b>-</b>
<b>NET INCREASE/(DECREASE) IN CASH HELD</b>		<b>174</b>	<b>(596)</b>	<b>(190)</b>	<b>146</b>
Opening Cash and Cash Equivalents		1,945	2,541	1,142	996
Reclassification of Cash Equivalents		(33)	-	(37)	-
<b>CLOSING CASH BALANCE</b>	16	<b>2,086</b>	<b>1,945</b>	<b>915</b>	<b>1,142</b>

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

# THE NSW TOTAL STATE SECTOR ACCOUNTS INCORPORATING THE PUBLIC ACCOUNTS NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

### REPORTING ENTITY

This general purpose financial report covers both the New South Wales General Government Sector (The Public Accounts) and 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 Financial Enterprise Sector and the Public Trading 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. It excludes commercial entities consistent with the Budget presentation.

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 1999-2000.

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 taxes, fees and fines 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 Budget for social programs (non-commercial activities).

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

The Public Financial Enterprise Sector comprises entities which 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 "invited audit" provisions of the Public Finance and Audit Act under section 44(1) have also been consolidated. These bodies include the Home Purchase Assistance Fund and the NSW Insurance Ministerial Corporation.

### Change in Scope of the General Government Sector

The Workers Compensation (Dust Diseases) Board has been reclassified from a Public Trading Enterprise (1997-98) to the General Government Sector (1998-99) as it collects levies, which is an activity of General Government agencies. This is in accordance with the Australian Bureau of Statistics definition of General Government Sector agencies.

### 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, the Public Accounts are prepared in accordance with the Public Finance and Audit Act 1983 and Regulation. In the event of any inconsistency between accounting standards and legislative requirements, the latter are given precedence.

## **BASIS OF MEASUREMENT**

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

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

## **CHANGES IN ACCOUNTING POLICIES**

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

### **Inventories**

An amendment during 1998-99 to AAS2 "Inventories" has resulted in the standard being applied to works in progress under real estate development projects. AAS2 requires inventories to be measured at the lower of cost and net realisable value. LandCom has accordingly adjusted developed land from market value to cost by reducing its inventories (\$120 million) against the asset revaluation reserve (\$181 million) and increasing the operating surplus by \$61 million.

### **Major Periodic Maintenance**

Urgent Issues group Abstract 26 (UIG26) "Accounting for Major Cyclical Maintenance" was issued in June 1999 and applies for periods ending on or after 30 June 1999.

UIG 26 no longer permits the recognition of a provision for major periodic maintenance in the financial statements, whether described as a liability, or as accumulated depreciation or as a reduction in the carrying amount of an asset.

Agencies who had previously established provisions for major periodic maintenance are required to reverse the provision against accumulated depreciation or against the opening balance of accumulated funds on application of UIG26. This has resulted in a credit adjustment of \$91 million to the Total State Sector accumulated funds during 1998-99 (\$2 million to General Government Sector).

### **Collection Assets**

Certain collection assets such as library, museum and archival collections have been valued and recognised for the first time during 1998-99. This followed the development of an appropriate sampling methodology, which created a deprival value for categories of collections.

The Library Council recognised in its financial statements a value of \$2,084 million for its collection assets based on an independent valuation performed by Edward Rushton Australia Pty Ltd in conjunction with the Australian Valuation Office and the Australian Bureau of Statistics (ABS).

Given the size of the collections a stratified sampling methodology was needed to determine this value. The statistical process indicated a possible Relative Standard Error (RSE) of 16% which is higher than the 10% identified in the Draft Guidelines on Accounting Policy for Valuation of Cultural Assets issued by NSW Treasury in June 1998. The ABS considers this achieved RSE allows valid statistical inference. The Library Council has relied on the ABS' opinion that the valuation of the collection assets is statistically valid and that the sample selection methods for the collection are unbiased.

Further, during 1998-99 the Art Gallery and the Legislature have recognised \$24 million of collection assets for the first time.

In accordance with AAS29 "Financial Reporting by Governments" the initial recognition of collection assets of \$2,108 million (both General Government and Total State Sectors) has been adjusted directly to accumulated funds.

## **COMPARATIVES**

Comparative amounts have been adjusted to conform with changes in the present year. Major reclassifications of 1997-98 comparatives (both General Government and Total Public Sectors) as outlined below has resulted in an equivalent adjustment to Other Operating Expenses.

Taxation Revenue was reduced by \$268 million for refunds of section 90 alcohol and petrol subsidy payments now offset against the revenue.

Commonwealth Grants Revenue reduced \$216 million for special revenue assistance to the Commonwealth now offset against the revenue.

Gain on Disposal of Non-current Assets was reduced by \$68 million for the take up of post privatisation costs of the State Bank, which offset proceeds on disposal.

The reclassification of these and other minor expenses has had zero impact on the operating result.

## PRINCIPLES OF CONSOLIDATION

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

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

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

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

## REVENUE

### State Taxation, Fines and Fees

State taxation is recognised as follows:

- Government-assessed revenues (primarily land tax) are recognised at the time the assessments are issued.
- Taxpayer-assessed revenues including payroll tax and stamp duty, 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 collected by the Attorney-General's Department, including the State Debt Recovery Office, have been accrued when the fine has been issued, or when it becomes overdue. All other fines and fees are recognised when the cash is received.

## Sale of Goods and Services

Revenue is recognised when the goods or services are provided.

## Commonwealth Grants

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

## Financial Distributions (Income Tax Equivalents)

Pursuant to National Competition Policy the Government has implemented a 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 State's Tax Equivalents Regime. The Crown adopts the same policy to enable elimination of deferred tax figures on consolidation for both the Public Accounts and Total State Sector Accounts.

## Investment Revenue

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

## EXPENSES

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

### Employee Related Expenses

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

### Other Operating Expenses

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

## Depreciation

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

The Department of Education and Training depreciates school buildings over periods between 30 and 80 years, according to the nature of the building and construction type. However, over the estimated useful lives, school buildings would normally be subject to a number of major refurbishments in order to achieve their estimated service potential. This element has not been taken into account in assessing the depreciation charges and the carrying value of school buildings.

Sydney Water Corporation's asset lives and depreciation of infrastructure assets is currently based on the assumption of normal wear and tear rather than condition-based. However, the Corporation is undertaking a revaluation project, which will involve the determination of asset values on a segmented basis and condition-based assessments of asset lives. When implemented, this may impact on asset values and depreciation charges for some classes of assets. Sydney Water's infrastructure assets are depreciated/amortised on a straight-line basis over the estimated useful lives of the relevant asset categories, which range from 35 years to 200 years.

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

NSW Land and Housing Corporation depreciates residential properties on a 2% flat rate per annum using the straight line method with the economic useful life being estimated as 50 years, with nil salvage value.

## Year 2000 Software Modification Costs

Costs relating to the modification of computer software for year 2000 compatibility are charged as expenses when incurred.

## ASSETS

### Non-Current Physical Assets

#### *Capitalisation and Initial Recognition*

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

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

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

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

#### *Valuation of Land*

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

Land held for continued use but not to be replaced given the existing government policy is valued at the greater of the present value of future net cash flows and current market selling price based on feasible alternative use.

Surplus land is valued at market selling price.

Undeveloped Crown land is currently not recognised pending the completion of an extensive valuation program.

Land under roads and within road reserves, which has been recognised in the financial report of the Roads and Traffic Authority at \$18.9 billion (1998 \$16.9 billion), has not been recognised in the

State's Consolidated Financial Statements as there is currently no generally accepted methodology available to reliably determine the value.

### ***Valuation of Plant and Equipment, Infrastructure Systems and Buildings***

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

Non-specialised buildings are valued at market selling price.

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

Surplus assets are valued at market selling value.

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

### ***Revaluation Policies***

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

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

Non-current assets used by profit-seeking agencies are revalued downward when their carrying amount is greater than their recoverable amount. The recoverable amount test is not applied to non-current assets of not-for-profit agencies whose service potential is not related to the generation of net cash inflows.

### ***Receivables***

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

### ***Investments***

Investments are valued at cost or market valuation.

### ***Inventories***

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

Refer to Note 1 Change in Accounting Policies, Inventories regarding works in progress under real estate development projects.

### ***Private Sector Financed Infrastructure Assets***

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

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

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

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

### ***Sydney Harbour Tunnel***

The Road and Traffic Authority's interest in the Sydney Harbour Tunnel has been valued based on the Authority's right to the time share of the ownership and total service potential as well as to the remaining useful life at the date of transfer to the

Authority in 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 \$514 million (1998 \$434 million). The construction of the Tunnel was financed by 30 year inflation linked bonds issued by the Sydney Harbour Tunnel Company to the private sector of \$487 million, Sydney Harbour Tunnel Company shareholders' loans (repaid in 1992) of \$40 million, and an interest free, subordinated loan (the Net Bridge Revenue Loan) provided by the RTA of \$223 million, based on the projected net toll revenue from the Sydney Harbour Bridge during the construction period.

Under the Ensured Revenue Stream Agreement (ERS), the Government has agreed to make ERS payments (net of tolls collected from the Tunnel) to enable the Sydney Harbour Tunnel Company to meet financial obligations arising from the operation and maintenance of the Tunnel and the repayment of principal and interest on funds borrowed by it for the design, construction and operation of the Tunnel. The capital (principal repayment) portion of the obligation arising under the Ensured Revenue Stream Agreement is recognised as a liability. This is measured by reference to the principal outstanding on the bonds issued to private sector bondholders to finance the Harbour Tunnel of \$426 million (1998 \$435 million).

#### **M4, M5 and M2 Motorways**

The Roads and Traffic Authority has recognised as an asset its emerging right to receive the M4, M5 and M2 Motorways. This interest is valued by reference to the Authority's emerging share of 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.

#### **Forestry Stock**

State Forests revalues the Softwood Plantations growing stock annually, using a 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. Where schedule prices were not adequately supported by actual sales, current sale prices at the time of valuation were used. Volume increments are determined both by periodic re-measurement of samples and by modelling growth from the date of most recent measurement to the valuation date.

The net change in market value is recognised in the Operating Statement and as an adjustment to Inventory Assets in the Statement of Financial Position. Costs are capitalised where incurred for major improvements to plantation quality. However, non-commercial plantations (those less than 15 years of age) are valued at historical cost.

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

#### **Collection Assets**

In respect of the following agencies:

- Australian Museum;
- Museum of Applied Arts and Sciences;
- Royal Botanic Gardens and Domain Trust; and
- State Records Authority;

no valuation of collection assets has been provided in the Consolidated Financial Statements as required by Australian Accounting Standard AAS29 "Financial Reporting by Government Departments". Efforts have been made during the year ended 30 June 1999 to identify and value these assets, including the development of a valuation methodology and the conduct of an initial valuation exercise.

Other collection assets including library, works of art and archival collections have been recorded at acquisition cost and revalued in accordance with the deprived value methodology

#### **LIABILITIES**

##### **Borrowings**

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

- Loans raised by the Commonwealth on behalf of the State under the previous Financial Agreement;
- Advances by the Commonwealth for housing and other specific purposes;

- Domestic and overseas borrowings raised by the NSW Treasury Corporation; and
- Private and public domestic borrowings by Non Budget dependent agencies.

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

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

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

### **Leases**

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

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

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

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

### **Employee Entitlements**

#### ***Wages and Salaries, Annual Leave and Sick Leave***

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

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

#### ***Long Service Leave***

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

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

#### ***Superannuation***

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

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

#### ***Other Liabilities***

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

## 2. REVENUE

	State Sector		General Government Sector	
	98-99 \$m	97-98 \$m	98-99 \$m	97-98 \$m
<b>STATE REVENUES</b>				
<b>State Taxation</b>				
Payroll Tax	3,440	3,205	3,605	3,384
Stamp Duties	3,939	3,694	3,942	3,698
Petroleum, Tobacco and Liquor Licences <sup>(a)</sup>	1,977	1,524	1,977	1,524
Gambling and Betting	1,419	1,338	1,419	1,338
Land Tax	912	881	948	908
Other	2,142	1,965	2,246	2,005
	<b>13,829</b>	<b>12,607</b>	<b>14,137</b>	<b>12,857</b>
<i><sup>(a)</sup> includes Commonwealth Safety Net revenue offset by subsidy payments</i>	2,147	1,662	2,147	1,662
	(172)	(268)	(172)	(268)
<b>Commonwealth Grants</b>				
General Purpose - Recurrent	4,704	4,592	4,704	4,592
Specific Purpose - Recurrent	3,376	3,055	3,376	3,055
- Capital	831	719	831	719
	<b>8,911</b>	<b>8,366</b>	<b>8,911</b>	<b>8,366</b>
<b>Financial Distributions from Non-General Government Sectors</b>				
Dividends	-	-	942	1,023
Income Tax Equivalents	-	-	428	555
Sales Tax Equivalents	-	-	69	44
Proceeds from asset sales and equity restructure	-	-	5	183
	-	-	<b>1,444</b>	<b>1,805</b>
The General Government Sector's income tax equivalent revenue represents the tax expense of agencies in the Tax Equivalent Regime (TER)				
Prima facie tax of agencies in the TER (calculated @ 36%)				
	-	-	385	583
Tax effect of permanent differences	-	-	43	(28)
<b>Tax expense of agencies in the TER</b>	<b>-</b>	<b>-</b>	<b>428</b>	<b>555</b>
<b>Fines, Regulatory Fees and Other State Revenues include:</b>				
Royalties	202	202	202	202

	State Sector		General Government Sector	
	98-99 \$m	97-98 \$m	98-99 \$m	97-98 \$m
<b>OPERATING REVENUES</b>				
<b>Sale of Goods and Services comprise revenue from:</b>				
Sale of goods	5,403	5,374	389	436
Rentals	1,222	1,216	158	150
Rendering of services <sup>(b)</sup>	3,975	4,092	1,901	1,802
	<u>10,600</u>	<u>10,682</u>	<u>2,448</u>	<u>2,388</u>
<sup>(b)</sup> includes net revenues of lotteries and TAB (1997-98 only) activities				
<b>The net revenue comprises:</b>				
Gross Revenue	1,021	4,875	-	-
Prizes and other statutory payments	(931)	(4,424)	-	-
<b>Net Revenue</b>	<u>90</u>	<u>451</u>	<u>-</u>	<u>-</u>
<b>Other Revenues include:</b>				
Borrowings assumed from the Crown Transactions Entity by LandCom	-	-	50	-
<b>Gain on Disposal of Non-Current Assets</b>				
Proceeds from disposal of physical assets	815	540	498	259
Less written down value of disposed assets	(652)	(502)	(367)	(271)
	<u>163</u>	<u>38</u>	<u>131</u>	<u>(12)</u>
Proceeds from disposal of investments <sup>(c)</sup>	1,021	2,372	482	1,578
Less written down value and costs of investments disposed <sup>(c)</sup>	(1,063)	(1,490)	(529)	(663)
	<u>(42)</u>	<u>882</u>	<u>(47)</u>	<u>915</u>
<b>Gain/(loss) on disposal of non-current assets</b>	<u>121</u>	<u>920</u>	<u>84</u>	<u>903</u>

<sup>(c)</sup> These amounts include:

- Treasury Corporation deposits which have not been eliminated on consolidation due to lack of auditable data. This does not impact on the net gain/(loss).
- Profit on sale of the TAB in 1997-98 (refer note 4 Abnormals).

### 3. EXPENSES

	State Sector		General Government Sector	
	98-99 \$m	97-98 \$m	98-99 \$m	97-98 \$m
<b>Employee Related Expenses comprise:</b>				
Salaries and Wages (including Recreation Leave)	12,965	12,364	10,763	10,078
Fringe Benefits Tax	36	36	19	17
Superannuation Entitlements <sup>(a)</sup>	1,127	1,463	849	1,501
Long Service Leave	562	470	469	369
Other	867	785	291	254
	<u>15,557</u>	<u>15,118</u>	<u>12,391</u>	<u>12,219</u>

<sup>(a)</sup> includes abnormal revenue of \$704 million in 1998-99. Refer Notes 4 and 12.

#### Other Operating Expenses include:

Bad and doubtful debts	85	86	51	37
Operating Lease Rentals	417	338	300	245
Consultancy fees	108	94	76	81
Inventory Write-Downs	42	28	7	10
Audit fees <sup>(b)</sup>	-	-	-	-
- for audit	-	-	-	-
- for other services	-	-	-	-

<sup>(b)</sup> Auditor's remuneration of \$19 million for audit and \$2 million for other services (1998 - \$20 million for audit and \$1 million for other services) has not been recognised as expenses because they have been eliminated in consolidation of the NSW Public Sector

#### Depreciation and Amortisation expense comprise:

Depreciation on				
- Buildings	767	621	554	407
- Plant and Equipment	690	771	329	341
- Infrastructure <sup>(c)</sup>	888	553	145	(119)
Asset valuation decrements and write-offs	591	263	257	119
Amortisation	64	88	9	19
	<u>3,000</u>	<u>2,296</u>	<u>1,294</u>	<u>767</u>

<sup>(c)</sup> Includes road condition based depreciation/  
(improvement)

105	(158)	105	(158)
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#### Grants and Subsidies include the following significant payments by the:

Department of Transport	393	363	1,825	1,879
Department of Education and Training	602	586	608	589
Department of Health	542	546	542	546
Department of Community Services	273	267	324	321
Department of Ageing and Disability Services	281	243	285	253

#### Finance expense includes:

Charges relating to finance leases	23	24	19	22
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#### Capitalised Borrowing Costs are excluded from expenses

8	n/a	-	n/a
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#### 4. ABNORMAL ITEMS Revenues/(Expenses)

	State Sector		General Government Sector	
	98-99 \$m	97-98 \$m	98-99 \$m	97-98 \$m
<b>Proceeds on Sale of Totalizator Agency Board (TAB) <sup>(a)</sup></b>		937		937
Less book value of TAB	-	(107)	-	-
Less sale expenses	-	(47)	-	(47)
Payment to the Racing Industry	-	(75)	-	(75)
<b>Profit on sale of TAB</b>	<b>-</b>	<b>708</b>	<b>-</b>	<b>815</b>
<b>Proceeds on Sale of gaming and wagering licences</b>	-	-	-	80
Less book value of gaming and wagering licences	-	-	-	-
<b>Profit on sale of gaming and wagering licences</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>80</b>
<b>Other Abnormal Items</b>				
Adjustment of asset values. This includes -				
- RTA - land under roads <sup>(b)</sup>	(191)	(91)	(191)	(91)
- Traffic signals revalued to written down replacement cost	(227)	-	(227)	-
- Other	(50)	(32)	(50)	-
Amounts due to annuity investors <sup>(c)</sup>	(164)	-	(164)	-
Writeback in State's share of higher education superannuation costs <sup>(d)</sup>	520	-	520	-
Corporatisation Adjustments - Rail industry <sup>(e)</sup>	(219)	-	-	-
Transfer of net assets of Murrumbidgee Irrigation Corporation to irrigators <sup>(f)</sup>	(133)	-	-	-
Items not previously recognised:				
- Assets dedicated to National Parks and Wildlife Service	-	45	-	45
Water contamination incident expense	(55)	-	-	-
Decrease in defined benefit unfunded superannuation liability comprises the transfer of unallocated State Superannuation Scheme contributions reserve to employers (refer to Note 12)	704	-	704	-
<b>TOTAL ABNORMAL ITEMS</b>	<b>185</b>	<b>630</b>	<b>592</b>	<b>849</b>

## General Government

- (a) *The Totalisator Agency Board of New South Wales corporatised to TAB Limited on 25 February 1998. Subsequent to corporatisation TAB Limited was listed on the Australian Stock Exchange on 22 June 1998 generating sale proceeds of \$937m. An additional net \$80m was generated from the sale of on-course and off-course wagering licences and gaming licenses to TAB Limited valued at \$100 million less \$20 million for backdated wagering tax cuts.*
- (b) *No valuation has been included in the Consolidated Financial Statements for land under roads and within road reserves. During 1998-99, the Roads and Traffic Authority identified land under roads of \$191 million (1998 \$91 million) which was reported in previous years as part of Land and Buildings. As it is Treasury's policy to report land under roads in the Consolidated Financial Statements at no valuation, an abnormal adjustment of \$191 million has been made to derecognise the value of these assets which has been included in the accounts of the Roads and Traffic Authority.*
- (c) *Additional amounts due to annuity investors with NSW Treasury Corporation as a result of a successful challenge by the Australian Taxation Office concerning the deductibility of certain expenses by the annuity investors. This amount relates to the period since the inception of the annuity transaction in 1986.*
- (d) *The State has no direct financial obligation for the superannuation liabilities of universities. The liability is to the Commonwealth Government. The NSW Government is only obligated to reimburse the Commonwealth for a proportion of the universities' emerging superannuation costs. The annual reimbursement is determined by the Education Minister on or before 31 March each year. Since the State's payment is made before 30 June each year, there is no liability to be recognised at year end.*

## Public Trading Enterprises & Public Financial Enterprises

- (e) *The restructuring of the NSW rail industry, which commenced on 1 July 1996, continued in 1998-99 with the transfer of the State Rail Authority's (SRA) telecommunications business unit, Railcom, to the Rail Access Corporation (RAC). In the financial statements of the SRA the Railcom's assets were valued on the basis of written down replacement cost. The RAC was required by accounting standards to apply the recoverable amount test to the valuation of these assets. The recoverable amount is the present value of future cash flows expected to be generated from these assets and is considerably lower than written down replacement cost. Accordingly, in 1998-99 the rail infrastructure net assets were written down by an abnormal expense of \$118 million.*
- Furthermore, the Rail Services Authority adjusted down its net assets by \$101 million upon corporatisation on 1 July 1998.*
- (f) *On 5 February 1999, Murrumbidgee Irrigation Corporation was converted from a statutory state owned corporation to a company state owned corporation and its assets and liabilities were vested in the new company Murrumbidgee Irrigation Limited. The company was subsequently transferred to private sector irrigators for nil consideration on 12 February 1999.*

## 5. RECEIVABLES

	State Sector		General Government Sector	
	98-99 \$m	97-98 \$m	98-99 \$m	97-98 \$m
<b>Current Receivables</b>				
Debtors and Accruals				
- Sale of Goods and Services	1,626	1,389	354	362
- Asset Sales	31	29	73	79
- Taxation	231	310	231	309
- Tax Equivalent	-	-	148	168
- Dividends	-	-	857	832
- Interest	173	236	25	23
Advances Receivable	39	43	67	69
Other	944	834	610	464
	<b>3,044</b>	<b>2,841</b>	<b>2,365</b>	<b>2,306</b>
Less Provision for Doubtful Debts	(406)	(333)	(313)	(241)
<b>Total Current</b>	<b>2,638</b>	<b>2,508</b>	<b>2,052</b>	<b>2,065</b>
<b>Non-Current Receivables</b>				
Advances Receivable	162	151	1,542	1,554
Provision for deferred income tax	-	-	1,147	957
Other	326	428	262	320
Less Provision for Doubtful Debts	(109)	(97)	(109)	(97)
<b>Total Non-Current</b>	<b>379</b>	<b>482</b>	<b>2,842</b>	<b>2,734</b>

## 6. INVESTMENTS

Current	3,485	3,591	1,345	926
Non-current	3,741	3,231	2,458	2,353
	<b>7,226</b>	<b>6,822</b>	<b>3,803</b>	<b>3,279</b>
<b>Investments comprise:</b>				
Fiduciary investments administered by NSW Treasury Corporation (refer note 22)	2,295	2,056	2,180	1,860
Securities and placements held by NSW Treasury Corporation	2,352	2,189	-	-
Other	2,579	2,577	1,623	1,419
	<b>7,226</b>	<b>6,822</b>	<b>3,803</b>	<b>3,279</b>

Balances of \$223 million were held by government schools with the Commonwealth Bank at 30 June 1999 (1998 \$235 million). These funds, which comprise Government grants and other revenue, are not recorded within the Department of

Education and Training's financial statements and therefore are not included in the cash and deposits amount reported in the Total State Sector and Public Accounts.

## 7. INVENTORIES

	State Sector		General Government Sector	
	98-99 \$m	97-98 \$m	98-99 \$m	97-98 \$m
<b>Current</b>				
Raw Materials	169	228	12	11
Work in Progress	222	148	112	22
Finished Goods	56	71	23	23
Consumable Stores	299	296	66	63
Land Held for Resale	69	95	6	3
	<u>815</u>	<u>838</u>	<u>219</u>	<u>122</u>
<b>Non-Current</b>				
Forestry	1,442	1,454	-	-
Land Held for Resale	298	455	28	31
Other	45	78	40	78
	<u>1,785</u>	<u>1,987</u>	<u>68</u>	<u>109</u>

## 8. PROPERTY, PLANT AND EQUIPMENT

<b>Land and Buildings</b>				
At cost	6,163	4,926	5,273	4,171
At valuation	53,786	53,305	34,087	34,059
Accumulated depreciation at cost	(709)	(532)	(648)	(488)
Accumulated depreciation at valuation	(8,989)	(8,494)	(7,983)	(7,661)
Provision for major periodic maintenance	-	(14)	-	(2)
	<u>50,251</u>	<u>49,191</u>	<u>30,729</u>	<u>30,079</u>
<b>Plant and Equipment (includes Collections)</b>				
At cost	5,287	4,600	2,941	2,672
At valuation	8,597	5,502	3,048	1,147
Accumulated depreciation at cost	(2,642)	(1,890)	(1,549)	(1,306)
Accumulated depreciation at valuation	(2,917)	(2,638)	(289)	(362)
Provision for major periodic maintenance	-	(43)	-	-
	<u>8,325</u>	<u>5,531</u>	<u>4,151</u>	<u>2,151</u>
<b>Infrastructure Systems</b>				
At cost	6,608	6,791	1,507	1,255
At valuation	57,035	54,657	32,010	30,176
Accumulated depreciation at cost	(656)	(714)	(16)	(20)
Accumulated depreciation at valuation	(6,336)	(5,869)	(4,599)	(4,337)
Provision for major periodic maintenance	-	(41)	-	-
	<u>56,651</u>	<u>54,824</u>	<u>28,902</u>	<u>27,074</u>
<b>Total Property, Plant and Equipment at Net Book Value</b>				
	<u>115,227</u>	<u>109,546</u>	<u>63,782</u>	<u>59,304</u>

## 9. OTHER ASSETS

	State Sector		General Government Sector	
	98-99 \$m	97-98 \$m	98-99 \$m	97-98 \$m
Current	287	229	77	35
Non current	830	693	664	545
	<u>1,117</u>	<u>922</u>	<u>741</u>	<u>580</u>
<b>Other Assets include:</b>				
Emerging interest in the Sydney Harbour Tunnel	514	434	514	434
Right to Receive M2/M4/M5 Motorways	112	87	112	87
Prepayments	191	151	70	51
Prepaid Superannuation contributions <sup>(a)</sup>	145	193	-	-
Other	155	57	45	8
	<u>1,117</u>	<u>922</u>	<u>741</u>	<u>580</u>

<sup>(a)</sup> refer note 12 Energy Industries Superannuation Scheme

## 10. PAYABLES

Interest on borrowings and advances	553	539	276	319
Other	2,997	2,560	1,656	1,382
	<u>3,550</u>	<u>3,099</u>	<u>1,932</u>	<u>1,701</u>

## 11. BORROWINGS

Current	8,732	2,956	4,708	2,730
Non current	22,236	24,601	14,323	13,595
	<u>30,968</u>	<u>27,557</u>	<u>19,031</u>	<u>16,325</u>

### Borrowings comprise:

Liability to Commonwealth Government <sup>(b)</sup>	2,051	2,098	2,051	2,098
Domestic and foreign borrowings	28,004	25,012	16,601	13,909
Bank overdraft	356	133	45	45
Finance leases <sup>(a)</sup>	557	314	334	273
	<u>30,968</u>	<u>27,557</u>	<u>19,031</u>	<u>16,325</u>

<sup>(a)</sup> Finance leases liabilities are payable as follows:

Not later than one year	59	47	61	51
Between one and five years	212	210	182	156
Later than five years	629	475	430	475
Minimum lease payments	900	732	673	682
Less: Future finance charges	(343)	(418)	(339)	(409)
Finance lease liability	<u>557</u>	<u>314</u>	<u>334</u>	<u>273</u>

(b)	<b>Loan 98-99 \$m</b>	<b>Annual Interest 98-99 \$m</b>	<b>Loan 97-98 \$m</b>	<b>Annual Interest 97-98 \$m</b>
<b>Loan Liability under the Financial Agreement</b>				
<i>Liability at 1 July 1998</i>	289	23	1,771	208
<i>Debt Retirement Revenue Trust Account repurchases and redemptions of loans outstanding in respect of</i>	<u>8</u>	<u>1</u>	<u>1,482</u>	<u>185</u>
<b>Liability at 30 June 1999</b>	<b>281</b>	<b>22</b>	<b>289</b>	<b>23</b>
<b>Commonwealth Specific Purpose Advances</b>				
<i>Liability at 30 June 1999</i>	1,770	82	1,809	83
<b>Total Liability to the Commonwealth at 30 June 1999</b>	<b>2,051</b>	<b>104</b>	<b>2,098</b>	<b>106</b>

#### INDEBTEDNESS OF THE STATE OUTSIDE THE FINANCIAL AGREEMENT

Particulars	<b>Balance at 30-Jun-98 Capital Value \$m</b>	<b>Advances/ (Repayments) 1998-99 Capital Value \$m</b>	<b>Amort- isation 1998-99 \$m</b>	<b>Balance at 30-Jun-99 Capital Value \$m</b>
<b>Commonwealth Specific Purpose Advances</b>				
Housing	1,710	(31)	-	1,679
Backlog Sewerage Scheme	70	(2)	-	68
Rural Assistance Schemes	13	(3)	-	10
Other	<u>16</u>	<u>(3)</u>	<u>-</u>	<u>13</u>
	<b>1,809</b>	<b>(39)</b>	<b>-</b>	<b>1,770</b>
Total Crown Entity Loan with TCorp	12,383	2,920	-	15,302
Roads and Traffic Authority	1,109	(180)	23	952
Others	<u>141</u>	<u>(2)</u>	<u>-</u>	<u>139</u>
<b>Total Debt Outside the Financial Agreement</b>	<b>15,442</b>	<b>2,699</b>	<b>23</b>	<b>18,163</b>

## 12. EMPLOYEE ENTITLEMENTS

	State Sector		General Government Sector	
	98-99 \$m	97-98 \$m	98-99 \$m	97-98 \$m
Current	1,186	2,150	885	1,828
Non current	11,715	14,223	10,466	13,010
	<b>12,901</b>	<b>16,373</b>	<b>11,351</b>	<b>14,838</b>
<b>Employee Entitlements comprise:</b>				
Unfunded superannuation	8,334	12,112	7,959	11,783
Long service leave and other leave entitlements	4,226	3,906	3,287	2,958
Other	341	355	105	97
	<b>12,901</b>	<b>16,373</b>	<b>11,351</b>	<b>14,838</b>

### 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 Industry Superannuation Scheme (EISS), the assets and liabilities of which were separated from the Pooled Fund in 1997. The unfunded superannuation liabilities of the Pooled Fund schemes are calculated each year by the NSW Government Actuary's Office and the actuarial firm W M Mercer Pty Ltd has calculated the funding position of the EISS.

Actuarial calculations were generally based on membership data captured as at 31 March 1999 extrapolated to 30 June 1999 for the Pooled Fund schemes, and membership data captured as at 30 June 1999 for the EISS.

The economic assumptions underlying these calculations are a combination of actual and forecast rates for 1998-99. Forecast demographic and economic assumptions are substantially as per the 1997 Triennial Valuation of the Pooled Fund schemes with the exception of the Police Superannuation Scheme (PSS). The salary growth rate for the PSS is higher than the rate assumed for the other schemes, to reflect a 24% per annum compound salary increase granted to police officers in late 1997, with increments extended over three years:

	1999-2000	Thereafter
<b>Pooled Fund Schemes</b>		
Investment return rate	7.0% pa	7.0% pa
Salary growth rate		
- Police	6.0% pa	5.0% pa
- Other	4.0% pa	5.0% pa
CPI growth rate (Sydney)	2.5% pa	3.25% pa

### 1999-2000 Thereafter

#### EISS

Investment return rate	7.0% pa	7.0% pa
Salary growth rate	4.0% pa	5.0% pa
CPI growth rate (Sydney)	2.5% pa	3.25% pa

The unfunded superannuation liabilities shown below are for employers and are the difference between gross liabilities and the market value of assets to meet accrued liabilities. The substantial reduction in unfunded liabilities over the 12 months to 30 June 1999 is largely explained by two factors:

- A prepayment of \$3,261 million representing three years of Crown superannuation contributions into the Pooled Fund schemes was made in June 1999. This will be available to provide liquidity for the pension to lump sum conversion offer to be made in 1999-2000 to State Superannuation Scheme (SSS) and PSS contributors.
- A distribution of about \$704 million from the unallocated funds in the SSS Contributors' Reserves was made to the SSS employer accounts of employers that are eligible to receive a distribution. The unallocated amount largely arose from inappropriately designed benefit funding arrangements between contributors' reserves and employer reserves in the 3 years to 30 June 1992. This has now been rectified.

	State Sector		General Government Sector	
	98-99	97-98	98-99	97-98
	\$m	\$m	\$m	\$m
The unfunded superannuation liability is composed of:				
Pooled Fund				
- State Authorities Superannuation Scheme	2,078	2,218	1,570	1,774
- State Authorities Non Contributory Superannuation Scheme	953	915	871	901
- State Superannuation Scheme	3,337	5,938	3,553	6,066
- Police Superannuation Scheme	1,709	2,817	1,709	2,817
Judges' Pension Scheme	221	195	221	195
Parliamentary Contributory Superannuation Scheme	35	20	35	20
Other	1	9	-	10
<b>Unfunded Superannuation Liability</b>	<b>8,334</b>	<b>12,112</b>	<b>7,959</b>	<b>11,783</b>
Less: Prepaid superannuation contributions of the Energy Industries Superannuation Scheme <sup>(a)</sup>	(145)	(193)	-	-
<b>Net Superannuation Liabilities</b>	<b>8,189</b>	<b>11,919</b>	<b>7,959</b>	<b>11,783</b>

<sup>(a)</sup> Refer Note 9 Other Assets.

### 13. OTHER LIABILITIES

	State Sector		General Government Sector	
	98-99	97-98	98-99	97-98
	\$m	\$m	\$m	\$m
Current	1,455	1,356	1,039	998
Non-current	4,285	4,593	3,950	4,229
	<b>5,740</b>	<b>5,949</b>	<b>4,989</b>	<b>5,227</b>
<b>Other Liabilities comprise:</b>				
Obligations of Insurance Ministerial Corporation for closed insurance schemes	2,689	2,596	2,604	2,509
Outstanding claims:				
- WorkCover Authority	229	303	229	303
- Workers' Compensation (Dust Diseases) Board <sup>(a)</sup>	295	270	295	-
The Sydney Harbour Tunnel Agreement obligations	426	435	426	435
State's share of higher education costs.	-	520	-	520
Building and Construction Industry Long Service Payment Scheme	284	259	284	259
Coal Compensation Board claims	25	25	25	25
Provision for future HomeFund restructure costs	12	15	12	15
Future income tax benefit	-	-	408	393
Crown's assumption of SRA Workers' Compensation	-	-	174	207
Other <sup>(b)</sup>	1,780	1,526	532	561
	<b>5,740</b>	<b>5,949</b>	<b>4,989</b>	<b>5,227</b>

<sup>(a)</sup> Refer Note 1 Change in Scope of the General Government Sector.

<sup>(b)</sup> Includes net deferred income and expenditure incurred by the Sydney Organising Committee for the Olympic Games and the Sydney Paralympic Organising Committee which has been deferred until the year ending 30 June 2001 being the financial year in which the event will take place.

## 14. ASSET REVALUATION RESERVE

Opening Balance	30,790	26,368	9,560	5,198
Net transfer from/(to) accumulated funds	(563)	(333)	(393)	6
Net valuation increment <sup>(a)</sup>	2,414	4,755	1,820	4,356
<b>Closing Balance</b>	<b>32,641</b>	<b>30,790</b>	<b>10,987</b>	<b>9,560</b>

<sup>(c)</sup> In 1999 the net valuation increment includes \$1,462 million of valuation increments to property, roads, bridge and tunnel infrastructure of the Roads and Traffic Authority, \$972 million of valuation increments to State Rail Authority infrastructure, and \$973 million of valuation decrements for water infrastructure to be transferred to the Sydney Catchment Authority. In 1998, the net valuation increment included the revaluation of the Department of Education and Training's school buildings of \$3,243 million.

## 15. ACCUMULATED FUNDS

	State Sector		General Government Sector	
	98-99 \$m	97-98 \$m	98-99 \$m	97-98 \$m
Opening balance	41,414	39,157	21,728	19,624
Adjustments due to change in accounting policy <sup>(a)</sup>	2,259	2	2,183	1
Net assets transferred in due to administrative restructures	-	-	(141)	17
Net transfer from (to) Asset Revaluation Reserve	563	333	393	(6)
Other net adjustments	(27)	(15)	7	(1)
Add: Surplus for year	1,620	1,937	2,007	2,093
<b>Closing Balance</b>	<b>45,829</b>	<b>41,414</b>	<b>26,177</b>	<b>21,728</b>

<sup>(a)</sup> Adjustments by agencies due to amendments to accounting standards which require adjustments to accumulated funds:

- Adjustment arising from the initial recognition of library and archival collections	2,108	-	2,108	-
- Adjustment arising from the initial recognition of other assets	96	-	96	-
- Corrections to the valuation of property, plant and infrastructure of the Roads and Traffic Authority	(36)	-	(36)	-
- Adjustment to derecognise provisions for major cyclical maintenance (Refer Note 1)	91	-	2	-
- Other	-	2	13	1
	<b>2,259</b>	<b>2</b>	<b>2,183</b>	<b>1</b>

## 16. CASH FLOW INFORMATION

	State Sector		General Government Sector	
	98-99 \$m	97-98 \$m	98-99 \$m	97-98 \$m
<b>RECONCILIATION OF OPERATING RESULT TO NET CASH FLOWS FROM OPERATING ACTIVITIES EXCLUDING FINANCIAL INSTITUTIONS</b>				
Surplus for the year	1,620	1,937	2,007	2,093
Add back:				
- Deficit of financial institutions	58	228	-	-
- Operating cash flow of financial institutions eliminated on consolidation	1,888	1,790	-	-
Non-cash items added back:				
- Depreciation and amortisation	3,000	2,296	1,294	767
- Gain on asset disposals	(121)	(920)	(84)	(903)
- Other	13	56	(2)	14
Change in operating assets and liabilities	(3,542)	(584)	(4,063)	(73)
<b>Net cash flows from operating activities</b>	<b>2,916</b>	<b>4,803</b>	<b>(848)</b>	<b>1,898</b>

### 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	2,442	2,077	960	1,186
Bank overdraft	(356)	(132)	(45)	(44)
	<b>2,086</b>	<b>1,945</b>	<b>915</b>	<b>1,142</b>

### DISPOSAL OF MURRUMBIDGEE IRRIGATION CORPORATION AND OF THE TOTALIZATOR AGENCY BOARD

During 1998 the Government disposed of the Totalizator Agency Board for a consideration of \$937 million.

As at 30 June 1998 \$929 million had been received in cash.

The amount of cash held by the TAB at the date of disposal was \$29 million. The TAB also held other assets of \$728 million and liabilities of \$650 million at the date of disposal.

On 12 February 1999 the Government placed into local ownership Murrumbidgee Irrigation Limited (MIL) for nil consideration.

The amount of cash held by the date of placement was \$36 million. The MIL also held other assets of \$112 million and liabilities of \$15 million at the date of placement.

### NON CASH FINANCING AND INVESTING ACTIVITIES

#### General Government

Two property leases relating to McKell Building, Rawson Place, Sydney and Noel Park House, Tamworth, previously classified as operating leases by the Crown Transactions Entity, were reclassified as finance leases as at 1 July 1998. The McKell Building is being written off over the life of the building (40 years) and the Tamworth property is being written off over the life of the lease.

#### Public Trading Enterprises & Public Financial Enterprises

In respect of Sydney Water Corporation Limited and its entities, assets which are acquired by the economic entity and the Corporation under finance leases, Build Own Operate scheme financing arrangements or assets handed over at no cost by subdividers/developers are not included in the Statements of Cash Flows as these are regarded as non-cash.

During the financial year, assets acquired under finance leases totalled \$2 million (1998 \$NIL). The amount capitalised during the financial year in respect of assets handed over at no cost by subdividers/developers to both the economic entity and the Corporation was \$44 million (1998 \$68 million).

This includes assets from the Rouse Hill Development for which a provision of \$9 million (1998 \$2 million) has been recognised in the balance sheets.

## NET CASH OF FINANCIAL INSTITUTIONS

	State Sector			
	98-99 \$m Gross	98-99 \$m (a) Net of Eliminations	97-98 \$m Gross	97-98 \$m (a) Net of Eliminations
<b>CASH INFLOWS (OUTFLOWS) FROM OPERATING ACTIVITIES</b>				
<b>Receipts</b>				
Finance	2,124	-	1,937	68
Other	20	169	43	35
<b>Total Receipts</b>	<b>2,144</b>	<b>169</b>	<b>1,980</b>	<b>103</b>
<b>Payments</b>				
Employee Related	(7)	(7)	(11)	(9)
Finance	(1,808)	(1,751)	(1,970)	(1,910)
Other	(52)	(22)	(57)	(32)
<b>Total Payments</b>	<b>(1,867)</b>	<b>(1,780)</b>	<b>(2,038)</b>	<b>(1,951)</b>
<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>277</b>	<b>(1,611)</b>	<b>(58)</b>	<b>(1,848)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Proceeds from Sale of Investments	75	75	112	112
Purchase of Property, Plant & Equipment	(1)	(1)	(1)	(1)
Purchase of Investments & Loans to Authorities Made	(6,025)	(131)	(7,063)	(638)
Loans to Authorities Repaid & Other Investing	3,235	-	5,957	-
<b>Net Cash Flows From Investing Activities</b>	<b>(2,716)</b>	<b>(57)</b>	<b>(995)</b>	<b>(527)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Proceeds from Borrowings	25,087	25,087	19,262	19,262
Repayments of Borrowings	(22,443)	(22,399)	(18,492)	(18,455)
Other	(26)	-	(21)	-
<b>NET CASH FROM FINANCING ACTIVITIES</b>	<b>2,618</b>	<b>2,688</b>	<b>749</b>	<b>807</b>
<b>NET CASH FLOWS FROM FINANCIAL INSTITUTIONS</b>	<b>179</b>	<b>1,020</b>	<b>(304)</b>	<b>(1,568)</b>

(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. TRUST FUNDS

	State Sector		General Government Sector	
	98-99 \$m	97-98 \$m	98-99 \$m	97-98 \$m
General Government Sector <sup>(a)</sup>	1,594	1,370	1,594	1,333
Public Trading Enterprises & Public Financial Enterprises	<u>230</u>	<u>299</u>	<u>-</u>	<u>-</u>
	<b><u>1,824</u></b>	<b><u>1,669</u></b>	<b><u>1,594</u></b>	<b><u>1,333</u></b>

Trust monies are held by the trustee on behalf of beneficiaries. Therefore, these monies are not included in the consolidated financial statements assets.

General Government trust monies mainly comprise various forms of estates under management, unclaimed monies and Supreme Court trust funds held in statutory accounts by the:

- Health Department	105	82	105	82
- Attorney General's Department	12	17	12	17
- Protective Commissioner	975	818	975	818
- Workers' Compensation (Dust Diseases) Board	41	37	41	-
- Rental Bond Board	411	383	411	383
- Others	<u>50</u>	<u>33</u>	<u>50</u>	<u>33</u>
	<b><u>1,594</u></b>	<b><u>1,370</u></b>	<b><u>1,594</u></b>	<b><u>1,333</u></b>

Trust monies held by Non General Government agencies include: -

NSW Treasury Corporation	211	200	-	-
Others	<u>19</u>	<u>99</u>	<u>-</u>	<u>-</u>
	<b><u>230</u></b>	<b><u>299</u></b>	<b><u>-</u></b>	<b><u>-</u></b>

<sup>(a)</sup> Trust funds and reserves of \$824 million held by the Public Trust Office at 30 June 1998 are not included. The amount held at 30 June 1999 is unavailable.

## 18. EXPENDITURE COMMITMENTS

	State Sector		General Government Sector	
	98-99 \$m	97-98 \$m	98-99 \$m	97-98 \$m
<b>Capital Expenditure</b>				
General Government	3,212	2,778	3,324	2,778
Public Trading Enterprises & Public Financial Enterprises	2,357	2,071	-	-
	<u>5,569</u>	<u>4,849</u>	<u>3,324</u>	<u>2,778</u>
The above represents capital expenditure contracted for at balance date including private sector financed infrastructure assets but not recognised in the financial statements.				
<b>General Government</b>				
Health Department	1,753	1,696	1,753	1,696
Roads and Traffic Authority	883	352	883	352
Olympic Coordination Authority	255	466	255	466
Other agencies	321	264	433	264
	<u>3,212</u>	<u>2,778</u>	<u>3,324</u>	<u>2,778</u>
<b>Public Trading Enterprises &amp; Public Financial Enterprises</b>				
State Rail Authority	431	254	-	-
State Transit Authority	78	88	-	-
Sydney Water Corporation	1,373	1,454	-	-
Transgrid	96	26	-	-
NSW Land and Housing Corporation	64	82	-	-
Landcom	87	15	-	-
Other agencies	228	152	-	-
	<u>2,357</u>	<u>2,071</u>	<u>-</u>	<u>-</u>
<b>Capital expenditure commitments payable:</b>				
not later than one year	2,313	1,794	1,437	1,148
later than one year and not later than five years	2,709	2,145	1,862	1,478
later than five years	547	910	25	152
	<u>5,569</u>	<u>4,849</u>	<u>3,324</u>	<u>2,778</u>
<b>Operating Lease Expenditure</b>				
Amounts payable:				
not later than one year	497	348	364	241
later than one year and not later than five years	1,129	948	918	811
later than five years	1,214	861	1,165	765
	<u>2,840</u>	<u>2,157</u>	<u>2,447</u>	<u>1,817</u>

## 19. CONTINGENT LIABILITIES

	State Sector		General Government Sector	
	98-99 \$m	97-98 \$m	98-99 \$m	97-98 \$m
<b>(A) QUANTIFIABLE CONTINGENT LIABILITIES</b> comprise:				
<b>General Government</b>				
State Guarantees under Statute	155	143	155	143
Attorney General's Department (Victims Compensation and other claims)	151	112	151	112
Olympic Co-ordination Authority (possible future claims from contractual arrangements)	58	32	58	32
Department of Transport (Pymont Light Rail Project)	-	67	-	67
Home Purchase Assistance Fund (potential income and cash shortfalls in FANMAC Trust system and excess rate caps)	16	15	16	15
Home Care Service	-	26	-	26
Coal Compensation Board (representing claims for compensation under the Coal Acquisition (Compensation) Arrangements Act 1985)	39	75	39	75
NSW Police Service (claims including legal proceedings)	28	31	28	31
Roads & Traffic Authority (claims involving legal proceedings)	51	15	51	15
Department of Land & Water Conservation	23	22	23	22
Department of Public Works & Services	14	50	14	50
Other agencies	35	56	35	56
<b>Total – General Government</b>	<b>570</b>	<b>644</b>	<b>570</b>	<b>644</b>
<b>Public Trading Enterprises and Public Financial Enterprises</b>				
Sydney Water (claims in respect of compensation and litigation)	185	94	-	-
State Rail Authority (comprising commercial disputes, employee disputes, environmental, personal injury and property claims)	45	42	-	-
NSW Treasury Corporation (comprising bonds on loan to fixed interest market under a stocklending facility). Less securities held	338 (94)	827 (381)	-	-
Rail Services Authority	39	9	-	-
Other agencies	27	24	-	-
<b>Total - Public Trading Enterprises &amp; Public Financial Enterprises</b>	<b>540</b>	<b>615</b>	<b>-</b>	<b>-</b>
<b>GRAND TOTAL</b>	<b>1,110</b>	<b>1,259</b>	<b>570</b>	<b>644</b>

**(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:

#### **General Government**

- Issued securities, borrowings and derivative liabilities of the NSW Treasury Corporation with a market value of \$29.5 billion (1998 \$27.5 billion) have been guaranteed by the NSW Government under the Public Authorities (Financial Arrangements) Act 1987.
- The International Olympic Committee awarded Sydney the right to host the Olympic Games in the year 2000. The cost of staging the games is expected to be funded through Olympic revenue. The Government has underwritten the Olympic budget. However the Sydney Organising Committee for the Olympic Games (SOCOG) expects a surplus arising from the event.
- SOCOG has entered into television rights agreements with broadcasters around the world to televise the Sydney 2000 Olympic Games. The agreements specify various contingencies under which the rights fee receivable by SOCOG may be reduced or refunded in full.

Income received to 30 June 1999 totalling \$390 million could be refundable to the broadcasters in the event of a number of contingencies occurring. If a substantial breach of a material provision arose due to non-performance by a supplier to SOCOG, then the full amount of any refundable amounts may not be recoverable from that supplier.

Should the Olympic Games be cancelled SOCOG would suffer significant financial loss, as a significant proportion of television rights, ticketing, catering and merchandising revenue would be lost, notwithstanding that a significant proportion of SOCOG's expenditure would have been incurred or committed. The extent of such loss would be dependent on the timing of the cancellation decision and the reasons for the cancellation.

#### **Athletes Village**

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

To appropriately disclose the overall arrangement, the OCA has valued and brought to account in its financial statements, the present value of its share \$47.9 million (year 1999\$). The balance of the total government contribution is regarded as a contingent liability only, having regard to the SOCOG agreement to meet its share of the total contribution.

#### **Olympic Stadium**

Following the completion of stage one of the Olympic Stadium, OCA has a liability for the stadium only in the event of a natural disaster or a breach of the contract by OCA. In the event of a natural disaster OCA would be up for the full cost of replacing the stadium. The possibility of either of these events occurring is considered remote.

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

- Land claims lodged since the introduction of the Aboriginal Land Rights Act 1983. Of the claims lodged, a total of 1,805 have been granted either wholly or partly, over lands totalling 65,730 hectares and valued at approximately \$390 million. As at 30 June 1999, there were 942 claims under investigation (1998 1,188 claims). The liability under these claims is yet to be determined.
- Since the decision in Mabo and the commencement of the Commonwealth Native Titles Act 1993 on 1 January 1994, there have been some 162 applications including 15 claims for compensation in New South Wales under its provisions. As a result of claims being either settled, discontinued, or of amalgamations with other claims, 142 claims are ongoing. 77 non claimant applications have been lodged by the NSW Government.

Any future liability associated with these claims is subject to determination by the Federal Court and cannot be estimated.

- Based on the definition of control in Australian Accounting Standard AAS24, Affiliated Health Organisations listed in the Third Schedule of the Health Services Act 1999 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 which may exist or be formulated between the administering bodies of the organisation and the Department.

- In respect of the Roads and Traffic Authority, an additional liability could arise under Clause 4.1(c) of the Ensured Revenue Stream Agreement (ERS) if a taxation deduction for a claim for depreciation for the immersed tube section of the tunnel is disallowed to the Sydney Harbour Tunnel Company. Under such circumstance the ERS provides for a renegotiation of the method by which ERS payments are calculated which could result in an increased liability to the RTA of between \$31 million and \$75 million over the period of the agreement to 2022.
- Litigation by various HomeFund borrowers has been launched and is being defended on behalf of the Government. These legal actions include Class Actions by members of the United Borrowers Association and by the Public Interest Advocacy Centre joining all HomeFund borrowers.

Although the High Court has ruled in 1999 that the State is immune from prosecution under the Trade Practices Act, other respondent parties to the action are not necessarily immune and the State remains potentially exposed to cross-claims from these parties.

All actions are being defended. It is not possible to predict the Government's (or any other defendant party's) potential liability arising from these or any other similar actions.

## Public Trading Enterprises & Public Financial Enterprises

- Pursuant to the State Bank (Privatisation) 1994 Act, 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 1999 the total guaranteed liabilities of the Bank amounted to \$6 billion (1998 \$8.4 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 \$139 million (1998 \$149 million).

- Under the Government insurance act 1927 the State guarantees the liabilities of the GIO in respect of General, Life and reinsurance policies issued by it up until 15 July 1992. Actuarial assessment of these liabilities are:

	30 June	
	1999	1998
	\$m	\$m
General insurance	185	213
Life insurance	358	408
Inward reinsurance	237	376
	<u>780</u>	<u>997</u>

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 is estimated at \$1,244 million at 30 June 1999 (1998 \$1,282 million).

- 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 contingencies arises by virtue of the NSW Government indemnity provided pursuant to each transaction. The exposure relates in

the main to the change of law risk and administration risk in relation to the covenants given under the lease transactions; and

- (ii) The second type of contingency arises where the NSW Government has a third party risk in terms of monies being placed on deposit with a counterparty. The total of this contingent liability is estimated at \$685 million. This figure represents a \$23 million increase on the 1997-98 amount, reflecting the term nature of the deposits. NSW Treasury Corporation on behalf of the NSW Government regularly monitors this risk.

As at 30 June 1999 there had been no change in the credit standing of the deposit counterparties.

- The State supports the borrowing of the FANMAC Trust via the Home Purchase Assistance Fund to facilitate the provision of housing loans to low income earners. The total capital value of borrowings of the FANMAC Trusts not consolidated into these financial statements was \$401 million at 30 June 1999 (1998 \$506 million).
- During the year, the NSW Treasury Corporation made available a short term liquidity facility to approved client authorities. This facility is offered on a revolving basis with a commitment period of up to three years. At year end the undrawn commitments under the facilities were \$1,616 million (1998 \$826 million).
- The NSW Treasury Corporation has issued unconditional payment undertakings on behalf of some New South Wales government authorities participating in the wholesale electricity markets of New South Wales and Victoria to pay to the system administrators on demand in writing any amount up to an aggregate maximum agreed with individual participants.

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

At year-end the agreed aggregate amounts totalled \$203 million (1998 \$281 million).

- In March 1994, the Commonwealth and States agreed that from that date all Public Trading Enterprises (PTEs) would be exempted from both Commonwealth sales and income taxes. In consideration the States would apply tax equivalent regimes to their PTEs and compensate the Commonwealth for any revenue they may lose in consequence of the enactment of the exemption.

A recent decision of the Federal Court created some uncertainty as to the agencies which were previously exempt from Commonwealth taxes, and therefore the extent of the compensation payments. The matter is still the subject of discussions with the Commonwealth.

- A clearly defined Year 2000 strategy has been implemented across Government to minimise any possible disruption to critical Government services that may be caused by the Year 2000 problem.

The 1999-2000 budget papers estimated the total cost across the New South Wales public sector to fix the problem was \$409 million. As at 24 September 1999 the 105 reporting entities had reported a total figure of \$427 million.

In accordance with a National agreement, reached at meetings of Commonwealth, State and Territory Y2K Ministers in Sydney on 17 December 1998 and Adelaide on 9 April 1999 Cabinet agreed to the format of a public report at its meeting of 12 May 1999. The NSW public report was subsequently posted on the website, [www.y2k.gov.au](http://www.y2k.gov.au).

The report for September indicated that, the overall readiness of reporting entities was 95% complete, and the overall contingency planning completion as 98%. The report also indicated that reporting entities were on target to meet the Government's deadline of the 15 October 1999 to ensure critical Government systems affected by the Year 2000 problem are repaired, rectified or replaced.

- The State Rail Authority has entered into an agreement with the private sector for the construction and operation of stations on the Airport Line. State Rail has an obligation to purchase the private sector's assets (ie the stations) in certain circumstances and, in the event of default by State Rail, it is also obliged to pay out the private sector's financier.

- The NSW Government has agreed to indemnify TAB Ltd for shareholder related costs incurred by TAB Ltd in Financial Years 1999, 2000 and 2001 to the extent that such costs exceed \$3 million, \$4 million and \$5 million respectively in each such year.

The NSW Government has also 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.

The NSW Government will also indemnify TAB Ltd against loss it may suffer during the term of TAB Ltd's CMS license 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 license 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.

- EnergyAustralia has fully indemnified the issuing financial institutions in the unlikely event these guarantees are called on.

	1999	1998
	\$m	\$m

Guarantees Issued by Financial Institutions are:

Bank guarantees provided in the normal course of business, in lieu of retention and security deposits	3.6	11.4
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Guarantees provided to regulatory and statutory authorities on behalf of the EnergyAustralia group	109.3	149.2
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- On 21 August 1998 Powercor Australia initiated proceedings against Pacific Power in the Supreme Court of Victoria. This action related to alleged electricity trading agreements. Pacific Power is vigorously defending the claims and the potential liability, if any, associated with this matter cannot be quantified at this stage.

## **20. EVENTS OCCURRING AFTER REPORTING DATE**

### **Public Trading Enterprises and Public Financial Enterprises**

In respect of the first round of the Australian Public Ticket Offer by the Sydney Organising Committee for the Olympic Games, \$338 million has been received from the Australian Public. The ticket allocation was run in September 1999 and

\$146 million will be recognised as deferred income. Due to over-subscription to popular events the remaining \$192 million will either be refunded to the Australian Public or reallocated to the second round Public Ticket Offer.

## **21. COMPLIANCE WITH APPROPRIATIONS**

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

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

## 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	Floating interest rate 1999 \$m	Fixed interest rate maturing in:			Non-interest bearing 1999 \$m	TOTAL 1999 \$m	TOTAL 1998 \$m	Weighted average effective interest rate 1999 %
			1 year or less 1999 \$m	1 to 5 years 1999 \$m	Over 5 years 1999 \$m				
<b>STATE SECTOR</b>									
<b>Financial Assets</b>									
Cash <sup>(a)</sup>	16	2,442	-	-	-	-	2,442	2,077	
Investments									
- Administered by									
TCorp <sup>(b)</sup>	6	1,335	521	320	119	-	2,295	2,056	7.2
- TCorp Placements	6	-	2,026	185	78	63	2,352	2,189	6.0
- Other	6	971	427	643	122	416	2,579	2,577	6.4
Receivables	5	-	-	-	-	3,017	3,017	2,990	
<b>Total Financial Assets</b>		<b>4,748</b>	<b>2,974</b>	<b>1,148</b>	<b>319</b>	<b>3,496</b>	<b>12,685</b>	<b>11,889</b>	
<b>Financial Liabilities</b>									
Bank Overdraft	11	356	-	-	-	-	356	133	
Payables	10	-	-	-	-	3,550	3,550	3,099	
Domestic and Foreign									
Borrowings	11	-	8,053	12,947	7,004	-	28,004	25,012	6.5
Liability to Commonwealth									
Government	11	-	116	271	1,664	-	2,051	2,098	5.1
Finance Leases	11	-	33	134	390	-	557	314	
<b>Total Financial Liabilities</b>		<b>356</b>	<b>8,202</b>	<b>13,352</b>	<b>9,058</b>	<b>3,550</b>	<b>34,518</b>	<b>30,656</b>	
<b>GENERAL GOVERNMENT SECTOR</b>									
<b>Financial Assets</b>									
Cash <sup>(a)</sup>	16	960	-	-	-	-	960	1,186	
Investments									
- Administered by									
TCorp <sup>(b)</sup>	6	1,220	521	320	119	-	2,180	1,860	7.2
- Other	6	569	373	497	56	128	1,623	1,419	7.5
Advances Receivable	6	-	31	137	1,298	143	1,609	1,623	4.8
Other Receivables	5	-	-	-	-	1,990	1,990	2,051	
<b>Total Financial Assets</b>		<b>2,749</b>	<b>925</b>	<b>954</b>	<b>1,473</b>	<b>2,261</b>	<b>8,362</b>	<b>8,139</b>	
<b>Financial Liabilities</b>									
Bank Overdraft	11	45	-	-	-	-	45	45	
Payables	10	-	-	-	-	1,932	1,932	1,701	
Domestic and Foreign									
Borrowings	11	1,096	3,215	8,411	3,879	-	16,601	13,909	7.9
Liability to Commonwealth									
Government	11	-	116	271	1,664	-	2,051	2,098	5.1
Finance Leases	11	-	30	90	214	-	334	273	
<b>Total Financial Liabilities</b>		<b>1,141</b>	<b>3,361</b>	<b>8,772</b>	<b>5,757</b>	<b>1,932</b>	<b>20,963</b>	<b>18,026</b>	

## ASSETS ADMINISTERED BY NEW SOUTH WALES TREASURY CORPORATION (TCORP)

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

A typical Hour Glass investment is represented by a number of units of a managed investment pool, with each particular pool having different investment horizons and being comprised of a mix of asset classes appropriate to that horizon. Special Client Mandates occur when TCorp undertakes management of cash and asset portfolios on behalf of clients who do not wish to participate in the pooled arrangements of the Hour Glass facilities.

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

### (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. TCorp also manages the Special Client Mandate cash portfolio of the Crown Entity (1999 \$656 million, 1998 \$793 million) and New South Wales Lotteries (1999 \$87 million, 1998 \$79 million).

	State Sector		General Government Sector	
	1999 \$m	1998 \$m	1999 \$m	1998 \$m
Hour Glass Cash	507	580	197	314
Hour Glass Cash Plus	468	429	181	151
Special Client Mandate	743	872	656	793
<b>Cash administered by Tcorp</b>	<b>1,718</b>	<b>1,881</b>	<b>1,034</b>	<b>1,258</b>
Other <sup>(#)</sup>	724	196	(74)	(72)
<b>Total Cash</b>	<b>2,442</b>	<b>2,077</b>	<b>960</b>	<b>1,186</b>

<sup>(#)</sup> 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.

Fixed Interest	130	1,123	71	1,118
Medium to Long Term	1,166	933	1,110	742
Special Client Mandate	999	-	999	-
<b>Total Investments Administered by TCorp</b>	<b>2,295</b>	<b>2,056</b>	<b>2,180</b>	<b>1,860</b>

## 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 as per the balance sheet	Aggregate net fair value	Total carrying amount as per the balance sheet	Aggregate net fair value
	1999	1999	1998	1998
	\$m	\$m	\$m	\$m
<b>STATE SECTOR</b>				
<b>Financial Assets</b>				
Cash	2,442	2,442	2,077	2,077
Investments - Administered by Tcorp	2,295	2,295	2,056	2,056
Investments - TCorp Placements	2,352	2,373	2,189	2,210
Investments - Other	2,579	2,663	2,577	2,703
Receivables	3,017	3,017	2,990	2,990
<b>Total</b>	<b>12,685</b>	<b>12,790</b>	<b>11,889</b>	<b>12,036</b>
<b>Financial Liabilities</b>				
Bank Overdraft	356	356	133	133
Payables	3,550	3,550	3,099	3,099
Domestic and foreign borrowings	28,004	28,536	25,012	26,689
Liability to Commonwealth Government	2,051	1,694	2,098	1,859
Finance Leases	557	557	314	314
<b>Total Financial Liabilities</b>	<b>34,518</b>	<b>34,693</b>	<b>30,656</b>	<b>32,094</b>
<b>GENERAL GOVERNMENT SECTOR</b>				
<b>Financial Assets</b>				
Cash	960	960	1,186	1,186
Investments - Administered by Tcorp	2,180	2,180	1,860	1,860
Investments - Other	1,623	1,623	1,419	1,419
Advances Receivable	1,609	1,295	1,623	1,361
Other Receivables	1,990	1,990	2,051	2,051
<b>Total</b>	<b>8,362</b>	<b>8,048</b>	<b>8,139</b>	<b>7,877</b>
<b>Financial Liabilities</b>				
Bank Overdraft	45	45	45	45
Payables	1,932	1,932	1,701	1,701
Domestic and foreign borrowings	16,601	17,705	13,909	15,553
Liability to Commonwealth Government	2,051	1,694	2,098	1,859
Finance Leases	334	334	273	273
<b>Total Financial Liabilities</b>	<b>20,963</b>	<b>21,710</b>	<b>18,026</b>	<b>19,431</b>

## CREDIT RISK

Credit risk is the risk of financial loss arising from another party to a contract/financial position failing to discharge a financial obligation. The State's

maximum exposure to credit risk is best represented by the carrying amounts of the financial assets included in the consolidated balance sheet.

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

## 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.

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 <sup>(c)</sup>

	Floating interest rate 1999 \$m	Fixed interest rate maturing in:			Non-interest bearing 1999 \$m	TOTAL 1999 \$m	TOTAL 1998 \$m	Aggregate net fair value 1999 \$m
		1 year or less 1999 \$m	1 to 5 years 1999 \$m	Over 5 years 1999 \$m				
<b>STATE SECTOR</b>								
<b>Receivable</b>								
Swaps	-	2,163	835	613	-	3,611	-	13
Forward Rate Agreements	-	1,093	850	-	-	1,943	-	29
Futures	-	1,581	43	10	-	1,634	3,123	-
<b>Payable</b>								
Swaps	(2,956)	(280)	(475)	-	-	(3,711)	(100)	(348)
Forward Rate Agreements	(1,943)	-	-	-	-	(1,943)	-	-
Futures	-	(1,258)	(432)	(349)	-	(2,039)	-	-
<b>GENERAL GOVERNMENT SECTOR</b>								
<b>Receivable</b>								
Futures	-	1,290	-	-	-	1,290	1,568	-
<b>Payable</b>								
Futures	-	(1,217)	(400)	(157)	-	(1,774)	-	-

<sup>(c)</sup> Notional Principal Amounts. Brackets indicate a net liability. 1998 amounts and 1999 net fair value amounts are only available on a net receivable/payable basis.

**23. CONSOLIDATED FUND TRANSACTIONS**

	1999 \$m	1998 \$m
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Receipts</b>		
State Taxation, Fines and Regulatory Fees	12,708	12,005
Commonwealth Grants	11,177	10,220
Financial Distributions	1,382	1,523
Interest Received	-	3
Other Operating Revenue	635	365
<b>Total Receipts</b>	<b><u>25,902</u></b>	<b><u>24,116</u></b>
<b>Payments</b>		
Recurrent Appropriations paid to other agencies	(19,905)	(18,835)
Recurrent Appropriations paid to CTE	(6,734)	(3,782)
Capital Appropriations paid to other agencies	(2,304)	(1,947)
Capital Appropriations paid to CTE	(612)	(1,820)
<b>Total Payments</b>	<b><u>(29,555)</u></b>	<b><u>(26,384)</u></b>
<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>(3,653)</b>	<b>(2,268)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of TAB	-	929
<b>NET CASH FLOW FROM INVESTING ACTIVITIES</b>	<b><u>-</u></b>	<b><u>929</u></b>
<b>CASH FLOW FROM CROWN TRANSACTION ENTITY</b>		
Proceeds from Borrowing transferred from CTE	3,429	997
Crown Property Surplus transferred from CTE	15	9
Interest Receipts transferred from CTE	140	111
Asset proceeds transferred from CTE	15	115
Advance Repayments transferred from CTE	126	121
Other Receipts transferred from CTE	24	102
<b>NET CASH FLOW FROM CROWN TRANSACTION ENTITY</b>	<b><u>3,749</u></b>	<b><u>1,455</u></b>
<b>NET INCREASE/(DECREASE) IN CASH</b>	<b>96</b>	<b>116</b>
<b>OPENING CASH AND CASH EQUIVALENTS</b>	<b>(919)</b>	<b>(1,035)</b>
<b>CLOSING CASH BALANCES</b>	<b><u>(823)</u></b>	<b><u>(919)</u></b>
<b>CASH AND CASH EQUIVALENTS</b>		
Deposit at Call	656	803
Bank Overdraft	(1,479)	(1,722)
	<b><u>(823)</u></b>	<b><u>(919)</u></b>

## 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 standards set out in the Government Financial 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.

### THE NSW TOTAL STATE SECTOR ACCOUNTS DISAGGREGATED OPERATING STATEMENT FOR THE YEAR ENDED 30 JUNE 1999

	General Government		Public Trading	
	98-99 \$m	97-98 \$m	98-99 \$m	97-98 \$m
<b>State Revenues</b>				
Taxation	14,137	12,857	-	-
Commonwealth Grants	8,911	8,366	-	-
Financial Distribution	1,444	1,805	-	-
Fines, Regulatory Fees and Other	807	698	-	-
<b>Total State Revenues</b>	<b>25,299</b>	<b>23,726</b>	<b>-</b>	<b>-</b>
<b>Operating Revenues</b>				
Sale of Goods and Services	2,448	2,388	8,250	8,384
Investment Income	420	408	110	149
Grants and Contributions	485	386	2,514	2,220
Other	822	510	694	717
<b>Total Operating Revenues</b>	<b>4,175</b>	<b>3,692</b>	<b>11,568</b>	<b>11,470</b>
<b>Expenses</b>				
Employee Related	12,391	12,219	3,326	3,069
Other Operating	6,357	5,519	3,817	3,429
Maintenance	1,249	1,051	574	562
Depreciation and Amortisation	1,294	767	1,705	1,528
Grants and Subsidies	4,863	4,880	236	193
Finance	1,397	1,792	904	966
<b>Total Expenses</b>	<b>27,551</b>	<b>26,228</b>	<b>10,562</b>	<b>9,747</b>
Gain/(Loss) on Disposal of Non-Current Assets	84	903	44	(35)
<b>NET COST OF SERVICES</b>	<b>(23,292)</b>	<b>(21,633)</b>	<b>1,050</b>	<b>1,688</b>
<b>SURPLUS/(DEFICIT) FOR THE YEAR BEFORE FINANCIAL DISTRIBUTIONS</b>				
	<b>2,007</b>	<b>2,093</b>	<b>1,050</b>	<b>1,688</b>
Income Tax Equivalent Expense	-	-	416	539
Dividend and Equity Restructure Provisions	-	-	785	1,067
<b>SURPLUS/(DEFICIT) FOR THE YEAR AFTER FINANCIAL DISTRIBUTIONS</b>	<b>2,007</b>	<b>2,093</b>	<b>(151)</b>	<b>82</b>

**THE NSW TOTAL STATE SECTOR ACCOUNTS  
DISAGGREGATED OPERATING STATEMENT  
FOR THE YEAR ENDED 30 JUNE 1999**

Public Financial		Eliminations		TOTAL	
98-99	97-98	98-99	97-98	98-99	97-98
\$m	\$m	\$m	\$m	\$m	\$m
-	1	(308)	(251)	13,829	12,607
-	-	-	-	8,911	8,366
-	-	(1,444)	(1,805)	-	-
-	-	(22)	5	785	703
<u>-</u>	<u>1</u>	<u>(1,774)</u>	<u>(2,051)</u>	<u>23,525</u>	<u>21,676</u>
12	11	(110)	(101)	10,600	10,682
2,132	2,308	(2,120)	(2,295)	542	570
-	-	(2,263)	(1,908)	736	698
164	50	(217)	(239)	1,463	1,038
<u>2,308</u>	<u>2,369</u>	<u>(4,710)</u>	<u>(4,543)</u>	<u>13,341</u>	<u>12,988</u>
8	8	(168)	(178)	15,557	15,118
194	116	(496)	(296)	9,872	8,768
-	-	-	-	1,823	1,613
1	1	-	-	3,000	2,296
-	2	(2,233)	(2,094)	2,866	2,981
2,152	2,508	(2,204)	(2,395)	2,249	2,871
<u>2,355</u>	<u>2,635</u>	<u>(5,101)</u>	<u>(4,963)</u>	<u>35,367</u>	<u>33,647</u>
-	54	(7)	(2)	121	920
<u>(47)</u>	<u>(212)</u>	<u>384</u>	<u>418</u>	<u>(21,905)</u>	<u>(19,739)</u>
(47)	(211)	(1,390)	(1,633)	1,620	1,937
12	17	(428)	(556)	-	-
184	26	(969)	(1,093)	-	-
<u>(243)</u>	<u>(254)</u>	<u>7</u>	<u>16</u>	<u>1,620</u>	<u>1,937</u>

**THE NSW TOTAL STATE SECTOR ACCOUNTS  
DISAGGREGATED STATEMENT OF FINANCIAL POSITION  
FOR THE YEAR ENDED 30 JUNE**

	<u>General Government</u>		<u>Public Trading</u>	
	<u>1999</u>	<u>1998</u>	<u>1999</u>	<u>1998</u>
	\$m	\$m	\$m	\$m
<b>Current Assets</b>				
Cash	960	1,186	1,026	920
Investments	1,345	926	1,151	1,208
Receivables	2,052	2,065	1,638	1,387
Inventories	219	122	596	716
Other	77	35	250	224
<b>Total Current Assets</b>	<b><u>4,653</u></b>	<b><u>4,334</u></b>	<b><u>4,661</u></b>	<b><u>4,455</u></b>
<b>Non-Current Assets</b>				
Land and Buildings	30,729	30,079	19,522	19,110
Plant and Equipment	4,151	2,151	4,171	3,377
Infrastructure Systems	28,902	27,074	27,749	27,750
Investments	2,458	2,353	414	465
Receivables	2,842	2,734	212	245
Inventories	68	109	1,717	1,878
Other	664	545	552	583
<b>Total Non-Current Assets</b>	<b><u>69,814</u></b>	<b><u>65,045</u></b>	<b><u>54,337</u></b>	<b><u>53,408</u></b>
<b>TOTAL ASSETS</b>	<b><u>74,467</u></b>	<b><u>69,379</u></b>	<b><u>58,998</u></b>	<b><u>57,863</u></b>
<b>Current Liabilities</b>				
Payables	1,932	1,701	1,708	1,366
Borrowings	4,708	2,730	2,347	1,291
Employee Entitlements	885	1,828	299	320
Other	1,039	998	1,314	1,335
<b>Total Current Liabilities</b>	<b><u>8,564</u></b>	<b><u>7,257</u></b>	<b><u>5,668</u></b>	<b><u>4,312</u></b>
<b>Non-Current Liabilities</b>				
Borrowings	14,323	13,595	7,620	8,874
Employee Entitlements	10,466	13,010	1,249	1,213
Other	3,950	4,229	1,981	1,616
<b>Total Non-Current Liabilities</b>	<b><u>28,739</u></b>	<b><u>30,834</u></b>	<b><u>10,850</u></b>	<b><u>11,703</u></b>
<b>TOTAL LIABILITIES</b>	<b><u>37,303</u></b>	<b><u>38,091</u></b>	<b><u>16,518</u></b>	<b><u>16,015</u></b>
<b>NET ASSETS</b>	<b><u>37,164</u></b>	<b><u>31,288</u></b>	<b><u>42,480</u></b>	<b><u>41,848</u></b>
<b>Equity</b>				
Asset Revaluation Reserves	10,987	9,560	21,654	21,230
Accumulated Funds	26,177	21,728	20,826	20,618
<b>TOTAL EQUITY</b>	<b><u>37,164</u></b>	<b><u>31,288</u></b>	<b><u>42,480</u></b>	<b><u>41,848</u></b>

**THE NSW TOTAL STATE SECTOR ACCOUNTS  
DISAGGREGATED STATEMENT OF FINANCIAL POSITION  
FOR THE YEAR ENDED 30 JUNE**

Public Financial		Eliminations		TOTAL	
1999	1998	1999	1998	1999	1998
\$m	\$m	\$m	\$m	\$m	\$m
683	263	(227)	(292)	2,442	2,077
8,064	5,481	(7,075)	(4,024)	3,485	3,591
725	694	(1,777)	(1,638)	2,638	2,508
-	-	-	-	815	838
-	-	(40)	(30)	287	229
<b>9,472</b>	<b>6,438</b>	<b>(9,119)</b>	<b>(5,984)</b>	<b>9,667</b>	<b>9,243</b>
-	2	-	-	50,251	49,191
3	3	-	-	8,325	5,531
-	-	-	-	56,651	54,824
19,043	19,062	(18,174)	(18,649)	3,741	3,231
-	(11)	(2,675)	(2,486)	379	482
-	-	-	-	1,785	1,987
-	-	(386)	(435)	830	693
<b>19,046</b>	<b>19,056</b>	<b>(21,235)</b>	<b>(21,570)</b>	<b>121,962</b>	<b>115,939</b>
<b>28,518</b>	<b>25,494</b>	<b>(30,354)</b>	<b>(27,554)</b>	<b>131,629</b>	<b>125,182</b>
543	580	(633)	(548)	3,550	3,099
9,008	3,254	(7,331)	(4,319)	8,732	2,956
2	2	-	-	1,186	2,150
211	61	(1,109)	(1,038)	1,455	1,356
<b>9,764</b>	<b>3,897</b>	<b>(9,073)</b>	<b>(5,905)</b>	<b>14,923</b>	<b>9,561</b>
19,843	22,212	(19,550)	(20,080)	22,236	24,601
-	-	-	-	11,715	14,223
85	317	(1,731)	(1,569)	4,285	4,593
<b>19,928</b>	<b>22,529</b>	<b>(21,281)</b>	<b>(21,649)</b>	<b>38,236</b>	<b>43,417</b>
<b>29,692</b>	<b>26,426</b>	<b>(30,354)</b>	<b>(27,554)</b>	<b>53,159</b>	<b>52,978</b>
<b>(1,174)</b>	<b>(932)</b>	<b>-</b>	<b>-</b>	<b>78,470</b>	<b>72,204</b>
-	-	-	-	32,641	30,790
(1,174)	(932)	-	-	45,829	41,414
<b>(1,174)</b>	<b>(932)</b>	<b>-</b>	<b>-</b>	<b>78,470</b>	<b>72,204</b>

## 25. DETAILS OF CONSOLIDATED ENTITIES

The consolidated financial statements comprises the following entities:

### **General Government Sector Agencies**

Aboriginal Housing Office  
Ageing and Disability Department  
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

Bicentennial Park Trust  
Building and Construction Industry Long Service Leave Payments Corporation

Casino Control Authority  
CB Alexander Foundation  
Chipping Norton Authority  
Centennial Park and Moore Park Trust  
Coal Compensation Board  
Commission for Children and Young People  
Community Services Commission  
Consolidated Fund  
Crown Solicitor's Office  
Crown Transactions Entity  
Crown Leaseholds  
Crown Entity - Commercial Activities

Dams Safety Committee  
Department of Aboriginal Affairs  
Department of Agriculture  
Department of Community Services  
Department of Corrective Services  
Department of Education and Training  
Department of Fair Trading  
Department of Gaming and Racing  
Department of Health  
Department of Industrial Relations  
Department of Information Technology and Management  
Department of Juvenile Justice  
Department of Land and Water Conservation  
Department of Local Government  
Department of Mineral Resources  
Department of Public Works and Services  
Department of Rural Fire Service  
Department of Sport and Recreation  
Department of State and Regional Development  
Department of Transport  
Department of Urban Affairs and Planning  
Department for Women  
Drug Offensive Foundation

**General Government  
Sector Agencies  
(continued)**

Eastern Creek Raceway  
Environmental Trust  
Environment Planning and Assessment Act (incorporating Sydney Region  
Development Fund and Land Development Contribution Fund)  
Environment Protection Authority  
Ethnic Affairs Commission

Festival Development Corporation  
Farrer Memorial Research Scholarship Fund

Greyhound Racing Control Board

Harness Racing Authority  
Hawkesbury Nepean Catchment Management Trust  
Health Care Complaints Commission  
Health Foundation of NSW  
Heritage Office  
Historic Houses Trust  
Home Care Service  
Home Purchase Assistance Authority  
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

Lake Illawarra Authority  
Land Titles Office  
Legal Aid Commission  
Lord Howe Island Board  
Luna Park Trust

Marine Ministerial Holding Corporation  
Mines Rescue Board  
Mines Subsidence Board  
Ministerial Development Corporation  
Ministry of Energy and Utilities  
Ministry for Police  
Ministry for the Arts  
Motor Accident Authority  
Motor Vehicle Industry Repair Council  
Museum of Applied Arts and Sciences

**General Government  
Sector Agencies  
(continued)**

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 Financial Institutions Commission  
New South Wales Fire Brigades  
New South Wales Fisheries  
New South Wales Insurance Ministerial Corporation  
New South Wales Meat Industry Authority  
New South Wales Medical Board  
New South Wales Police Service

Office of the Board of Studies  
Office of the Director of Public Prosecutions  
Office of the Minister for Public Works and Services  
Olympic Coordination Authority  
Olympic Roads and Transport Authority  
Ombudsman's Office

Parliamentary Counsel's Office  
Police Integrity Commission  
Premier's Department  
Protective Commissioner  
Psychiatry Institute of NSW  
Public Trust Office

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

Safe Food Production New South Wales  
Somersby Park Limited  
South Sydney Development Corporation  
Sporting Injuries Committee  
State Electoral Office  
State Emergency Service  
State Library  
State Records Authority  
State Sports Centre Trust  
State Valuation Office  
Stormwater Trust  
Superannuation Administration Corporation  
Sustainable Energy Development Authority  
Sydney Harbour Foreshore Authority

**General Government  
Sector Agencies  
(continued)**

Technical Education Trust Fund  
Telco  
The Cabinet Office  
The Legislature  
Tourism New South Wales  
Tow Truck Industry Council  
Treasury  
Upper Parramatta River Catchment Trust

Vocational Education and Training Accreditation Board

Waste Planning and Management Fund  
Waterways Authority  
WorkCover Authority  
Workers Compensation (Broken Hill) Act  
Workers Compensation (Dust Diseases) Board

**Public Trading  
Enterprises**

Advance Energy  
Australian Inland Energy

Broken Hill Water Board

City West Housing Pty Ltd  
Cobar Water Board  
Colleambally Irrigation Area  
Crown Entity - Trading Activities

Darling Harbour Authority  
Delta Electricity  
Department of Housing – Land and Housing Corporation

EnergyAustralia

Fish River Water Supply Authority  
Freight Rail Corporation

Great Southern Energy

Integral Energy

Hunter Water Corporation

Jenolan Caves Reserves Trust

Landcom

**Public Trading  
Enterprises  
(continued)**

Macquarie Generation  
Murrumbidgee Irrigation Corporation <sup>(a)</sup>

Newcastle International Sports Centre  
Newcastle Port Corporation  
Newcastle Showground  
New South Wales State Lotteries  
NorthPower

Pacific Power  
Parramatta Stadium Trust  
Port Kembla Port Corporation

Rail Access Corporation  
Rail Services Authority

State Forests of New South Wales  
State Rail Authority  
State Transit Authority  
Sydney Cricket Ground and Sports Ground Trust  
Sydney Opera House  
Sydney Organising Committee for the Olympic Games  
Sydney Paralympic Organising Committee Ltd  
Sydney Ports Corporation  
Sydney Water Corporation

Teacher Housing Authority  
Totalizator Agency Board of New South Wales <sup>(b)</sup>  
TransGrid

Waste Services of NSW  
Wollongong Sports Ground Trust

Zoological Parks Board

<sup>(a)</sup> *Placed into local ownership on 12 February 1999*

<sup>(b)</sup> *Sold by public float in June 1998.*

**Public Financial  
Enterprises**

Fair Trading Administration Corporation  
FANMAC Trusts  
New South Wales Treasury Corporation

**END OF AUDITED FINANCIAL STATEMENTS**

## **AUDITED BUDGET INFORMATION**

## **STATEMENT OF COMPLIANCE**

In our opinion, the Statement of the Budget Result for the NSW Budget Sector for the year ended 30 June 1999 complies with the Australian Bureau of Statistics Government Finance Statistics principles except where otherwise stated.

Michael Egan  
Treasurer

John Pierce  
Secretary  
NSW Treasury

Ian Neale  
Executive Director  
Financial Management  
NSW Treasury

15 November 1999



BOX 12 GPO  
SYDNEY NSW 2001

## **INDEPENDENT AUDIT REPORT**

### **STATEMENT OF THE BUDGET RESULT**

**To Members of the New South Wales Parliament**

#### **Scope**

I have audited the Statement of the Budget Result for the year ended 30 June 1999. The Treasurer is responsible for the Statement and he has determined that the policies used are appropriate for reporting the Government's budget result in accordance with the Australian Bureau of Statistics' Government Finance Statistics principles. There are no statutory requirements as to the form, content or audit of the Statement.

The Statement has been prepared to disclose the Government's actual budget result. I disclaim any assumption of responsibility for any reliance on this report or on the Statement for any purpose other than that for which it was prepared.

I have conducted an independent audit of the Statement of the Budget Result in order to express an opinion on it to Members of the New South Wales Parliament.

My audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the Statement of the Budget Result is free of material misstatement. My procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the Statement of the Budget Result, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects the Statement of the Budget Result presents fairly in accordance with Australian Bureau of Statistics' Government Finance Statistics principles the budget result.

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

#### **Qualification**

Note 2, Compliance with Australian Bureau of Statistics Classifications, discloses that the classification of premiums on loans issued does not comply with Government Finance Statistics principles. These principles require premiums to be treated as a negative interest payment in the year of issue but they have been treated as a negative interest payment in the year of maturity or prepayment. I have not been able to conduct audit procedures to quantify reliably the effects on the Statement of this matter. The Independent Audit Report on the Statement for the year ended 30 June 1998 was also qualified accordingly.

#### **Qualified Audit Opinion**

In my opinion, except for the effect of the matter referred to in the qualification paragraph, the Statement of the Budget Result presents fairly the budget result in accordance with the Australian Bureau of Statistics' Government Finance Statistics principles.

R J Sendt  
Auditor-General

SYDNEY  
22 November 1999

**NSW GENERAL GOVERNMENT SECTOR  
STATEMENT OF THE BUDGET RESULT  
FOR THE YEAR ENDED 30 JUNE 1999**

**(Government Finance Statistics Cash Basis)**

	<b>98-99 \$m (Budget)</b>	<b>98-99 \$m (Actual)</b>
Current Outlays	21,490	22,222
Less: Current Receipts	<u>23,849</u>	<u>24,995</u>
<b>Current Result</b>	<b><u>2,359</u></b>	<b><u>2,773</u></b>
Capital Outlays	3,112	3,489
Less: Capital Receipts	<u>798</u>	<u>1,304</u>
<b>Capital Result - (Deficit)</b>	<b><u>(2,314)</u></b>	<b><u>(2,185)</u></b>
<b>TOTAL RESULT - SURPLUS</b>	<b><u>45</u></b>	<b><u>588</u></b>
Superannuation Conversion Funding <sup>(a)</sup>	-	3,266
<b>ADJUSTED RESULT - SURPLUS/(DEFICIT)</b>	<b><u>45</u></b>	<b><u>(2,678)</u></b>
<b>Financed by/(used for):</b>		
Net decrease/(increase) in advances made	(75)	(66)
Net borrowings/(repayments)	(67)	2,756
Net decrease/(increase) in cash balances and investments	<u>97</u>	<u>(12)</u>
	<b><u>(45)</u></b>	<b><u>2,678</u></b>

<sup>(a)</sup> An amount of \$3,266 million representing a prepayment of \$3,261 million for three years of Crown superannuation contributions into the Pooled Fund schemes was made in June 1999, adjusted by \$5 million for interest differential on borrowings made in order to facilitate the payment. This will be available to provide liquidity for the pension to lump sum conversion offer to be made in 1999-2000 to State Superannuation Scheme and Police Superannuation Scheme contributors.

## 1. The Government Finance Statistics Framework

Government Finance Statistics (GFS) is a system of classifying the financial transactions of the public sector. It is based on standards developed by the International Monetary Fund and is similar in most (but not all) respects to the system used by the United Nations. In Australia, the system is used by the Australian Bureau of Statistics in its classification of public sector finances.

Of the two principal types of GFS coding, it is the Economic Transactions Framework which is adopted in the New South Wales GFS presentation.

This particular method of coding describes financial transactions in the following ways:

- whether the transaction is an outlay, a receipt or a financing transaction: and
- if an outlay or receipt, whether current or capital.

As from 1991-92, Budget Paper No. 2 has presented data on a GFS basis for the Budget Sector as a whole. The monthly and quarterly financial statements on the Budget result for the year to date have also been prepared and published on the GFS basis.

The source data used in the compilation of the GFS Budget result for the Budget Sector is all payments and all receipts. This is generally known as the “total funds” approach.

Current outlays are principally recurrent payments net of user charge receipts. Capital outlays are mainly made up of payments of a capital nature (eg asset acquisitions, capital grants), less asset sale proceeds. Financing transactions show the source of funds to support the Budget result (which is either a deficit or a surplus). These transactions principally comprise borrowings and advances (net of repayments) and the use of cash balances.

The Budget result each year is not solely dependent on the Consolidated Fund result. It also includes all activities under the control of a Budget Sector agency, excluding commercial activities and private trust transactions. While source data is generally required on a gross basis, any transfers (intra-Budget Sector transactions) between agencies of the Budget Sector are eliminated on consolidation.

## **2. Compliance with Australian Bureau of Statistics Classifications.**

The Statement of the Budget Result for the Budget Sector has been prepared based on the principles utilised by the Australian Bureau of Statistics in compiling its Government Finance Statistics data. The only exception is in relation to the treatment of premiums on loans issued.

Government Finance Statistics (GFS) principles require premiums to be treated as a negative interest payment in the year of issue whereas they have been treated as a negative interest payment in the year of maturity or prepayment. The treatment of premiums in the Statement of the Budget Result is consistent with the Budget presentation.

Details of this departure from the GFS principles have been tabled in Parliament in accordance with the provisions of the Public Finance and Audit Act, 1983.

## **3. 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 basis as determined by the Australian Bureau of Statistics’ General Government Sector.

The General Government sector consists of those public sector entities, which 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.

The scope of the 1997-98 Statement of the Budget Result was based on Budget dependent agencies, whereas the 1998-99 Statement was based on the General Government Sector. Accordingly comparatives for 1997-98 have not been reported.

# **END OF AUDITED BUDGET INFORMATION**

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## **UNAUDITED INFORMATION**

**RECONCILIATION OF THE STATEMENT OF BUDGET RESULT  
WITH THE PUBLIC ACCOUNTS  
ACCRUAL BASED OPERATING RESULT**

	<b>98-99 \$m</b>
<b>Budget Result - General Government Surplus</b>	<b>588</b>
<b>Items included in the General Government budget result but not in the accrual based operating result</b>	
Asset sale proceeds	(596)
Gross fixed capital expenditure	2,994
<b>Items included in the accrual based operating surplus but not in the General Government budget result</b>	
Depreciation and amortisation	(1,294)
Downward adjustment of asset values - land under roads	(191)
Gain on asset disposals	84
Liability written back	520
Other deductions	(98)
<b>Accrual based operating surplus after abnormal items.</b>	<b><u>2,007</u></b>

## **UNIFORM PRESENTATION OF INFORMATION ON FINANCIAL ASSETS AND LIABILITIES**

In May 1991, the Premier's Conference endorsed the recommendations contained in the Report on Uniform Presentation of Government Financial Information. New South Wales has strongly supported the concept of uniformity and consistency in the reporting of Public Sector financial asset and debt positions.

The Australian Bureau of Statistics (ABS) and jurisdictions agreed, in June 1993, that public sector financial asset and liability data would be presented according to the methodology set out in the paper "Uniform Presentation of Information of Financial Assets and Liabilities".

In the State's Budget Paper No. 2 released in June 1999, data on estimated June 1999 financial assets and liabilities was included. The data was limited in scope by categories of net debt.

The attached uniform presentation of financial assets and liabilities covers all agencies for 1999 and includes items such as trade debtors and creditors, accruals (such as accrued interest) and equity of the General Government sector in Public Trading Enterprises (conversely, this equity will be treated as a liability of the Government Trading Enterprise sector to the General Government sector).

Methodological differences primarily on elimination and definitions, produces slightly divergent aggregates between the State's Consolidated Financial Statements and the Uniform presentation of information on Financial Assets and Liabilities.

**THE NSW STATE SECTOR ACCOUNTS**  
**UNIFORM PRESENTATION OF INFORMATION**  
**ON FINANCIAL ASSETS AND LIABILITIES AS AT 30 JUNE 1999**

	General Government	Public Trading Enterprises	NON FINANCIAL PUBLIC SECTOR <sup>(a)</sup>	Public Financial Enterprises	TOTAL STATE SECTOR
	\$m	\$m	\$m	\$m	\$m
<b>Gross Debt</b>					
Deposits Held	58	29	29	756	786
Advances Received	2,267	1,408	2,268	-	2,268
Other Borrowings	16,755	8,558	24,628	3,433	28,002
<b>Total Gross Debt</b>	<b>19,080</b>	<b>9,995</b>	<b>26,925</b>	<b>4,189</b>	<b>31,056</b>
<b>Financial Assets</b>					
Cash and Deposits	1,665	1,065	2,672	712	3,385
Advances Paid	1,654	-	249	-	249
Other Lending <sup>(b)</sup>	2,939	1,503	3,755	2,414	6,110
<b>Total Cash, Deposits and Lending</b>	<b>6,258</b>	<b>2,568</b>	<b>6,676</b>	<b>3,126</b>	<b>9,744</b>
<b>NET DEBT <sup>(c)</sup></b>	<b>12,822</b>	<b>7,427</b>	<b>20,249</b>	<b>1,063</b>	<b>21,312</b>
<b>Other Liabilities</b>					
Accounts Payable <sup>(d)</sup>	1,932	1,708	3,007	543	3,550
Unfunded Employee Entitlements	11,351	1,403	12,754	2	12,756
<b>Sub Total Other Liabilities</b>	<b>13,283</b>	<b>3,111</b>	<b>15,761</b>	<b>545</b>	<b>16,306</b>
<b>Other Financial Assets</b>					
Accounts Receivable <sup>(b)</sup>	3,777	2,009	2,739	783	3,522
less Provision for Doubtful Debts	(422)	(36)	(458)	(57)	(515)
Equity					
Equity of Listed Entities					
- Public Trading Enterprises	-	-	-	-	-
- Other	-	-	-	-	-
Residual Equity					
- Public Trading Enterprises	42,480	(42,480)	-	-	-
- Other	107	23	130	-	130
<b>Sub Total Other Financial Assets</b>	<b>45,942</b>	<b>(40,484)</b>	<b>2,411</b>	<b>726</b>	<b>3,137</b>
<b>EXCESS OF TOTAL LIABILITIES OVER FINANCIAL ASSETS <sup>(e)</sup></b>	<b>(19,837)</b>	<b>51,022</b>	<b>33,599</b>	<b>882</b>	<b>34,481</b>

<sup>(b)</sup> Memorandum Items:

*Contingent Liabilities - refer to Note 19 of the State's Consolidated Financial Statements for information*

*Operating Leases - refer to Note 18 of the State's Consolidated Financial Statements for information*

<sup>(c)</sup> Includes prepayments made and accrued interest due but not received

<sup>(d)</sup> Total Gross Debt less Total Cash, Deposits and Lending

<sup>(e)</sup> Includes prepayments received and accrued interest due but not paid

<sup>(f)</sup> Net Debt plus Other Liabilities less Other Financial Assets

**THE NSW STATE SECTOR ACCOUNT  
UNIFORM PRESENTATION OF INFORMATION  
ON FINANCIAL ASSETS AND LIABILITIES AS AT 30 JUNE 1998**

	General Government	Public Trading Enterprises	NON FINANCIAL PUBLIC SECTOR <sup>(a)</sup>	Public Financial Enterprises	TOTAL STATE SECTOR
	\$m	\$m	\$m	\$m	\$m
<b>Gross Debt</b>					
Deposits Held	57	29	64	953	1,017
Advances Received	2,361	1,434	2,348	-	2,348
Other Borrowings	13,971	8,672	21,747	2,619	24,281
<b>Total Gross Debt</b>	<b>16,389</b>	<b>10,135</b>	<b>24,159</b>	<b>3,572</b>	<b>27,646</b>
<b>Financial Assets</b>					
Cash and Deposits	1,449	948	2,375	287	2,662
Advances Paid	1,692	1	247	-	247
Other Lending <sup>(b)</sup>	3,145	1,644	3,893	2,350	6,158
<b>Total Cash, Deposits and Lending</b>	<b>6,286</b>	<b>2,593</b>	<b>6,515</b>	<b>2,637</b>	<b>9,067</b>
<b>NET DEBT <sup>(c)</sup></b>	<b>10,103</b>	<b>7,542</b>	<b>17,644</b>	<b>935</b>	<b>18,579</b>
<b>Other Liabilities</b>					
Accounts Payable <sup>(d)</sup>	1,701	1,366	2,519	580	3,099
Unfunded Employee Entitlements	14,838	1,340	16,178	2	16,180
<b>Sub Total Other Liabilities</b>	<b>16,539</b>	<b>2,706</b>	<b>18,697</b>	<b>582</b>	<b>19,279</b>
<b>Other Financial Assets</b>					
Accounts Receivable <sup>(b)</sup>	3,565	1,772	2,644	733	3,377
less Provision for Doubtful Debts	(338)	(42)	(380)	(50)	(430)
Equity					
Equity of Listed Entities					
- Public Trading Enterprises	-	-	-	-	-
- Other	-	-	-	-	-
Residual Equity					
- Public Trading Enterprises	41,848	(41,848)	-	-	-
- Other	101	2	101	-	101
<b>Sub Total Other Financial Assets</b>	<b>45,176</b>	<b>(40,116)</b>	<b>2,365</b>	<b>683</b>	<b>3,048</b>
<b>EXCESS OF TOTAL LIABILITIES OVER FINANCIAL ASSETS <sup>(e)</sup></b>	<b>(18,534)</b>	<b>50,364</b>	<b>33,976</b>	<b>834</b>	<b>34,810</b>

(a) Memorandum Items:

Contingent Liabilities - refer to Note 19 of the State's Consolidated Financial Statements for information

Operating Leases - refer to Note 18 of the State's Consolidated Financial Statements for information

(b) Includes prepayments made and accrued interest due but not received

(c) Total Gross Debt less Total Cash, Deposits and Lending

(d) Includes prepayments received and accrued interest due but not paid

(e) Net Debt plus Other Liabilities less Other Financial Assets

**END OF UNAUDITED INFORMATION**

# NOTES