

CONSOLIDATED FINANCIAL STATEMENTS

OF THE NSW TOTAL STATE SECTOR

(INCORPORATING THE NSW PUBLIC ACCOUNTS)

1997 - 1998

Inquiries concerning this document can be directed to: Financial Management Division, NSW Treasury
[Tel: (02) 9228 4001 Fax: (02) 9228 3031 Email: williamr@mail.treasury.gov.au.
This document can be accessed from NSW Treasury's Internet site [<http://www.treasury.nsw.gov.au>].
For printed copies contact the NSW Treasury's Publications Officer [Tel: (02) 9228 4426].

ISSN 1441-7979

Preface

The Public Finance and Audit Amendment (State Accounts) Bill 1998 received the assent of the Governor of NSW on 30 November 1998. The Bill amended the Public Finance and Audit Act 1983 to enable the combined presentation of the Public Accounts and the NSW State Sector Consolidated Financial Statements for 1997-98.

In prior years, the Public Accounts and the Total State Sector Consolidated Financial Statements were prepared as two separate financial statements. The new presentation in one comprehensive set of financial statements will enable readers to better assess the performance and financial position of the State.

In addition, the scope of the Public Accounts has been expanded this year to include all General Government agencies. In prior years, the Public Accounts only included Budget dependent agencies. The expanded scope is in accordance with the requirements of the General Government Debt Elimination Act to expand the coverage of both the Budget and the Public Accounts to all General Government agencies as defined by the Australian Bureau of Statistics. This presentation ensures integrity of the scope of coverage and permits useful interstate comparisons.

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.

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.

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

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

Michael Egan
Treasurer

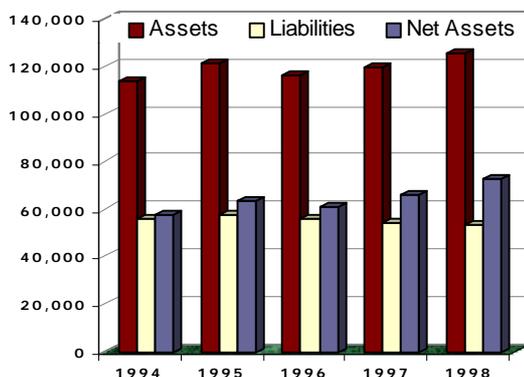
Contents

	Page
Highlights	1
Review of Financial Performance	2
 AUDITED CONSOLIDATED FINANCIAL STATEMENTS	
Statement of Compliance	14
Independent Audit Report on the Financial Statements.....	15
Operating Statement.....	18
Statement of Financial Position.....	19
Statement of Cash Flows.....	20
Notes to the Financial Statements	21
 AUDITED STATEMENT OF BUDGET RESULT	
Statement of Compliance	52
Independent Audit Report on the Statement of Budget Result	53
Statement of Budget Result.....	54
 UNAUDITED INFORMATION	
Reconciliation of the Statement of Budget Result with the Public Accounts Accrual Based Operating Result.....	58
Uniform Presentation of Financial Assets and Liabilities.....	59

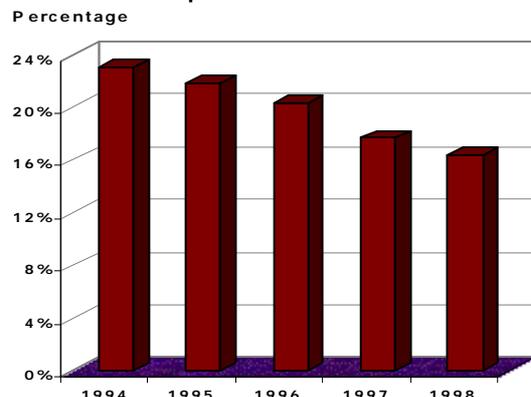
1997-98 HIGHLIGHTS

- ◆ An accrual based operating surplus for the Total State Sector of \$1,937 million, reflecting an increase of \$20 million compared to \$1,917 million in 1996-97.
- ◆ An accrual based operating surplus for the General Government Sector of \$2,093 million, a surplus for the second year in a row after two years of deficits.
- ◆ Privatisation of the Totalizator Agency Board (TAB) generated proceeds of \$937 million to the General Government Sector. In addition, a net \$80 million was received from the sale of gaming licenses. The Government was able to retire \$1 billion in debt to the Commonwealth as a result of these transactions.
- ◆ An accrual based operating surplus for the Non General Government Sector of \$1,584 million (prior to financial distributions) reflecting continuing performance despite increased competition.
- ◆ GFS cash surplus for the Total State Sector of \$297 million, being the third consecutive year of surpluses.
- ◆ The State's net assets (or equity) were \$72,204 million at 30 June 1998, an increase of 10% (\$6,679 million) on the level at 30 June 1997. This reflects an increase in total assets of \$5,986 million and a decrease in total liabilities of \$693 million.
- ◆ Total assets for the State increased by 5% (\$5,986 million) to \$125,586 million. This was primarily as a result of asset revaluations of \$4,755 million and net investments in new assets of \$1,231 million.
- ◆ Net debt for the State (calculated in accordance with Australian Bureau of Statistics methodology) decreased by 2% (\$355 million) to \$18,403 million. The ratio of net debt to Gross State Product decreased from 10.5% to 9.8%.
- ◆ Net unfunded superannuation liabilities for the State decreased by 3% (\$359 million) to \$12,430 million. The unfunded liabilities to Gross State Product (GSP) ratio decreased from 7.2% to 6.6%.
- ◆ The State's excess of total liabilities over financial assets (calculated in accordance with Australian Bureau of Statistics methodology) decreased by 2% (\$858 million) to \$35,357 million. This is consistent with the reduction that has been achieved in each year since 1994.

NSW Total State Sector Statement of Financial Position



Total State Net Debt & Unfunded Superannuation / GSP



REVIEW OF FINANCIAL PERFORMANCE FOR 1997-98

GENERAL

Scope of the Review

This review of the financial performance of the NSW Total State Sector for 1997-98 comments on both the Public Accounts of the NSW General Government Sector and the Total State Sector Accounts.

These accounts are presented for the first time as one combined document following passing of the Public Finance and Audit Amendment (State Accounts) Bill 1998.

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.

Prior to 1997-98, the Public Accounts comprised only Budget dependent agencies in the General Government Sector. The benefits of broadening the coverage of the Public Accounts to make them generally consistent with the Australian Bureau of Statistics definition of the General Government Sector include:

- The adoption of an external standard ensures the integrity of the Public Accounts in terms of coverage of agencies and transactions;

- The General Government categorisation provides an increased focus on regulatory agencies which are not subject to either market mechanisms or a commercial framework; and
- Uniform classification of General Government agencies by various State Governments makes cross-State comparisons more useful.

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.

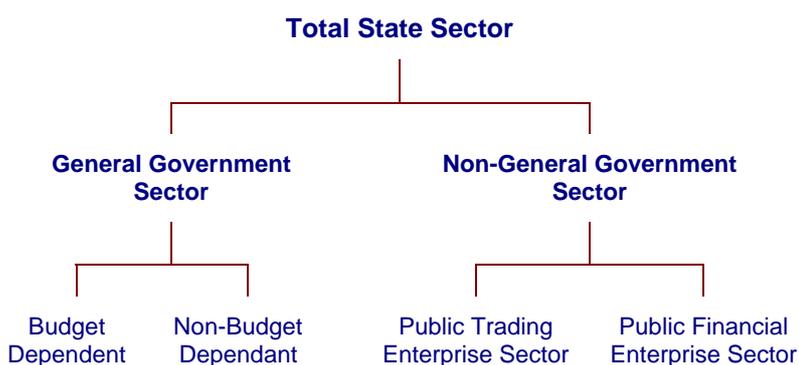
The Non General Government Sector includes the State's Public Trading Enterprises (PTEs) and Public Financial Enterprises (PFEs). PTEs are responsible for supplying public infrastructure services, including electricity, ports, water and public transport. PTEs are largely self-funded from user charges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

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

Figure 1

Composition of Total State Sector



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.
 - 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.
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 and 1997-98 years were prepared on a General Government basis. Amounts relating to years prior to 1996-97 were prepared on a Budget Sector basis.]

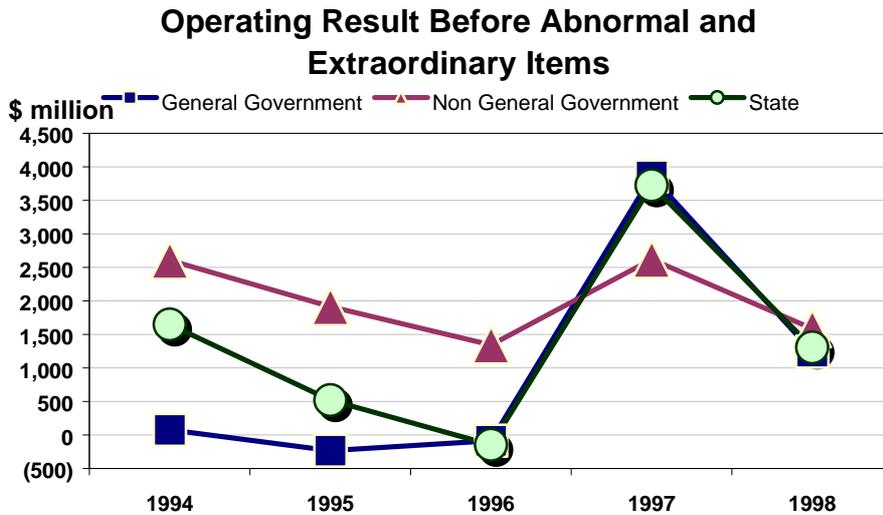
STATE SECTOR OPERATING RESULT

The State Sector operating result after abnormal items is a surplus of \$1,937 million compared to \$1,917 million for the prior year.

The return to surpluses at the State and General Government Sector levels in the past two years reverses the trend in prior years of both declining financial performance and deficits in the Public Accounts (see Figure 2).

This reflects 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



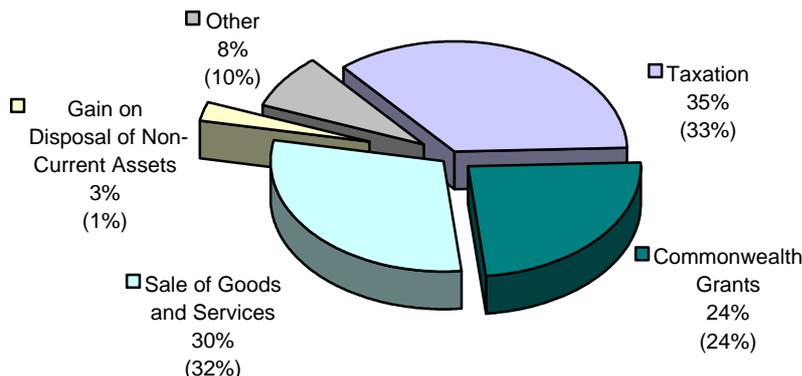
The surplus of the State reflects:

- Total revenues for the State Sector increased by \$1,152 million (3%) to \$36,097 million.
- Total operating expenses for the State Sector increased by \$1,132 million (3%) to \$34,160 million.

The surplus for the State of \$1,937 million (\$1,917 million in 1996-97) results from a General Government Surplus of \$2,093 million and a Non General Government Surplus of \$1,584 million. An amount of \$1,805 million was eliminated on consolidation for financial distributions from the Non General Government Sector to the General Government Sector. Performance per sector is detailed in Figure 2, above. Figure 3, below, shows total revenues by type.

Figure 3

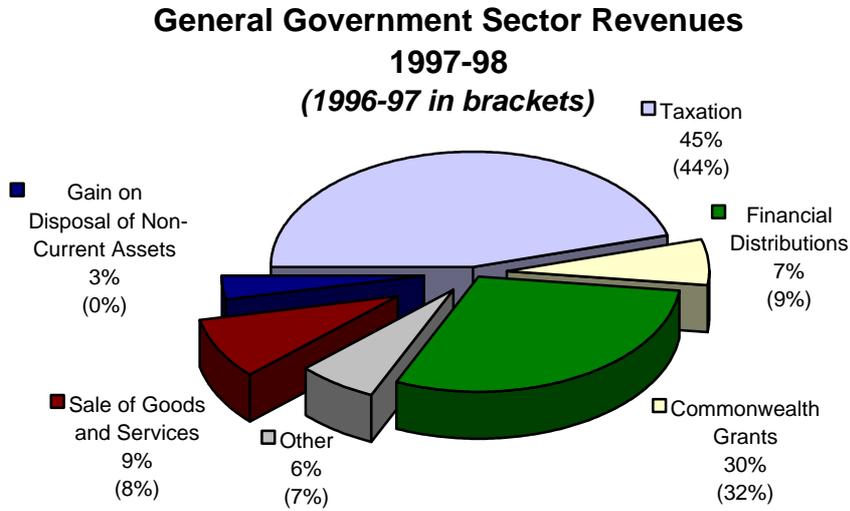
**Total Revenues 1997-98
(1996-97 in brackets)**



GENERAL GOVERNMENT OPERATING RESULT

The General Government operating result after abnormal items for 1997-98 is a surplus of \$2,093 million.

Figure 4



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 \$1,020 million (4%) to \$24,124 million.

State taxation increased to \$13,157 million in 1997-98. The increase was principally due to a \$511 million increase in stamp duty, a \$241 million increase in payroll tax and a \$241 million increase in land tax.

The strong growth in both the residential and commercial property markets was the major contributing factor in the increase in stamp duty collections. The increase in payroll tax was attributable to growth in wages and employment.

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

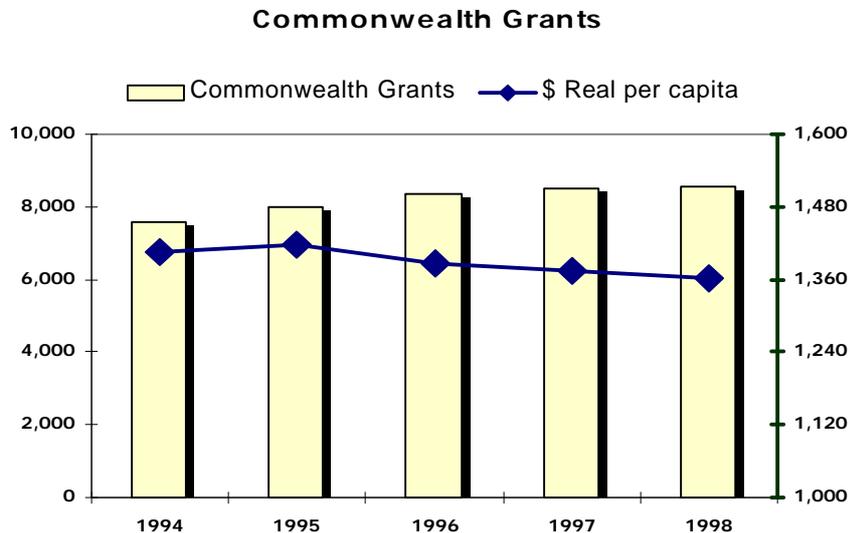
and that policies should be pursued that give a reasonable degree of predictability about the level and stability of tax rates for future years.

The State has had to increase its own revenues to compensate for a real per capita reduction in Commonwealth grants and an increase in Health outlays due to the fall in private insurance.

Commonwealth Grants increased by \$102 million (1%) between 1996-97 and 1997-98. This represents a 1.1% decrease on a real per capita basis, ie after adjusting for the CPI increase for the year and the growth in the State's population.

Further, as shown in Figure 5, the trend of real Commonwealth Grants per capita continues to decline. Commonwealth Grants represent 36% of State Revenue, compared to 37% in 1996-97.

Figure 5

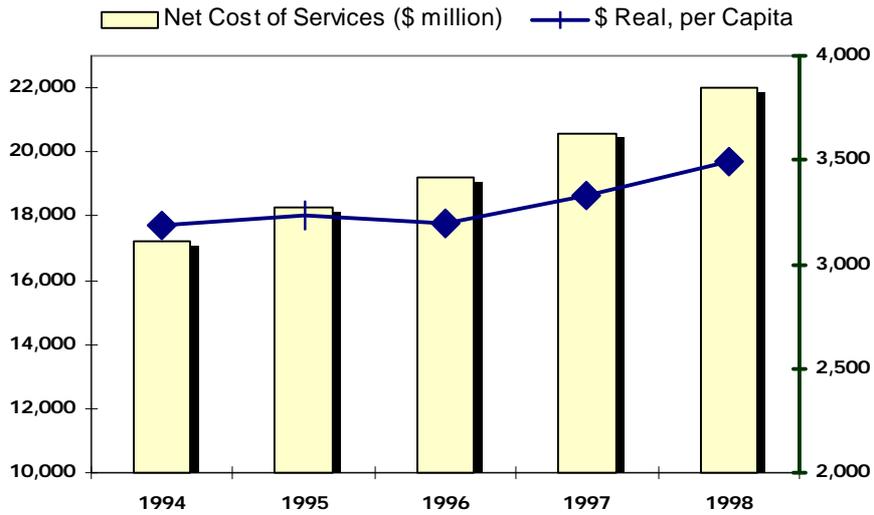


Net Cost of Services

Net Cost of Services provided by General Government Sector agencies means 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 \$22,031 million in 1997-98, is an increase of 7% compared with \$20,544 million last year.

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, improved pay for teachers, police and health workers resulted in an increase in salaries and wages expense which prevented this goal being achieved this year.

Figure 6
Net Cost of Services



Net Cost of Services was impacted by the following factors:

The sale of the TAB generated proceeds of \$937 million at the General Government level. The TAB was privatised on 22 June 1998 by way of a public float on the Sydney Stock Exchange. In addition, a net \$80 million was received from the sale of gaming licenses. This allowed the Government to retire \$1 billion in debt.

Grants and Subsidies expense after abnormal items decreased by \$844 million (15%). However after adjusting for abnormal items recorded in 1996-97, grants and subsidies before abnormal items increased by \$456 million. The increase is primarily due to grants made by the Department of Health, Department of Education and Training, and the Department of Transport.

Superannuation expense increased by \$2,233 million. In 1996-97 the General Government reported a superannuation expense of negative \$845 million, due to one-off positive adjustments of approximately \$2,360 million made to employer reserves by the Superannuation

Administration Authority. In the 1997-98 year an expense of \$1,388 million was reported which is comparable to the prior year expense of \$1,515 million after excluding the adjustment.

Employee related expenses (excluding superannuation) increased by \$837 million (8%). This primarily reflects increases in the pay levels of police, teachers and health employees.

Finance expenses increased by \$206 million (13%). This increase is primarily due to a \$130 million loss on debt management, following an early retirement of Commonwealth Bonds. However this will provide savings of \$130 million in interest payments in 1998-99 with further savings in following years. In addition the NSW Government will receive a further borrowing cost compensation payment of \$64 million during 1998-99 from the Commonwealth Government in recognition of the overall reduction in total debt.

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. For example,

- Increased competition in the electricity distribution sector has resulted in price reductions of up to 40%; and
- Increased competition in the freight rail industry has resulted in price reductions of up to 10%; and
- Effective control of water prices by the Independent Pricing and Regulatory Tribunal (IPART) has limited price rises to inflation.

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 9.4% from 1994-95 to 1997-98. The GCI is projected to fall by 3.6% in 1998-99 in real terms. 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. At the same time increased productivity has led to increased profitability and increased financial contributions by way of taxes and dividends to the General Government Sector in recent years.

However, the Non General Government Sector operating profit after abnormal items but before income tax and financial distributions decreased by \$820 million from \$2,404 million in 1996-97 to \$1,584 million in 1997-98. The Non-General Government Sector profit was significantly affected by the competitive electricity market (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 \$510 million from \$2,315 million in 1996-97 to \$1,805 million in 1997-98.

In the PTE Sector, entities that supply electricity, transport and water account for 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.

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.

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 \$850 million in real terms on power bills. As a result of this increased competition in the market place, the combined operating revenues of the State's electricity entities fell by \$1,179 million, from \$7,298 million in 1996-97 to \$6,119 million in 1997-98. However, in order to respond effectively to these difficult market conditions, both generators and distributors have undertaken significant cost cutting initiatives. As a result of these initiatives, operating expenses across the State's electricity sector fell by \$533 million or 9%, from \$5,747 million in 1996-97 to \$5,214 million.

The total combined operating result for the State's three electricity generators and six distributors (including abnormal items and before tax equivalents and distributions) for 1997-98 was \$905 million, compared to \$1,551 million in 1996-97.

An objective of the NSW reforms was to increase the returns of the electricity distribution sector so as to allow distributors to earn an appropriate commercial return whilst reducing the returns earned by the generation sector. This objective is being achieved. Although total tax equivalent expense and dividends provided by the generators decreased from \$770 million in 1996-97 to \$136 million in 1997-98, the corresponding improvement in the financial performance of the State's electricity distributors enabled them to increase dividends and tax equivalent payments from \$595 million in 1996-97 to \$672 million in 1997-98.

In total, the State's electricity entities provided tax equivalents and dividends of \$808 million in 1997-98 compared to \$1,365 million in 1996-97.

Water

The combined operating result for Sydney Water and Hunter Water (including abnormal items and before income tax and distributions) increased by 27% from \$325 million in 1996-97 to \$414 million in 1997-98. This represents a continuation in the solid improvements in performance achieved in the last few years.

Their combined operating revenues decreased slightly by \$21 million (1%) from \$1,529 million in 1996-97 to \$1,508 million in 1997-98. In June 1996, IPART released its four year price path for the water corporations, effectively limiting price rises to inflation.

Sydney Water continues to progress towards its target of reducing underlying operating costs by 45% between 1992-93 and 2000-01. It has reduced operating costs by 9% from \$1,112 million in 1996-97 to \$1,007 million in 1997-98.

The improved result by the water corporations led to an increase in dividends and tax equivalents provided by Sydney Water and Hunter Water from \$225 million in 1996-97 to \$382 million in 1997-98.

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. These four entities are required to earn commercial returns.

The operating result (including abnormal items and before income tax and distributions) of the five transport entities decreased by \$7 million from \$90 million in 1996-97 to \$83 million in 1997-98.

The combined operating revenues of the transport entities increased by \$42 million (1%) from \$2,855 million in 1996-97 to \$2,897 million in 1997-98. 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%.

Also, an agreement between the NSW Government and the NSW Minerals Council to phase out the monopoly rent component in Hunter Valley rail freight charges for coal and on transparent charging arrangements in the future have seen freight charges fall by as much as 17%.

In total, the five transport entities provided dividends and tax equivalents of \$112 million compared to \$96 million in 1996-97.

STATEMENT OF FINANCIAL POSITION

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

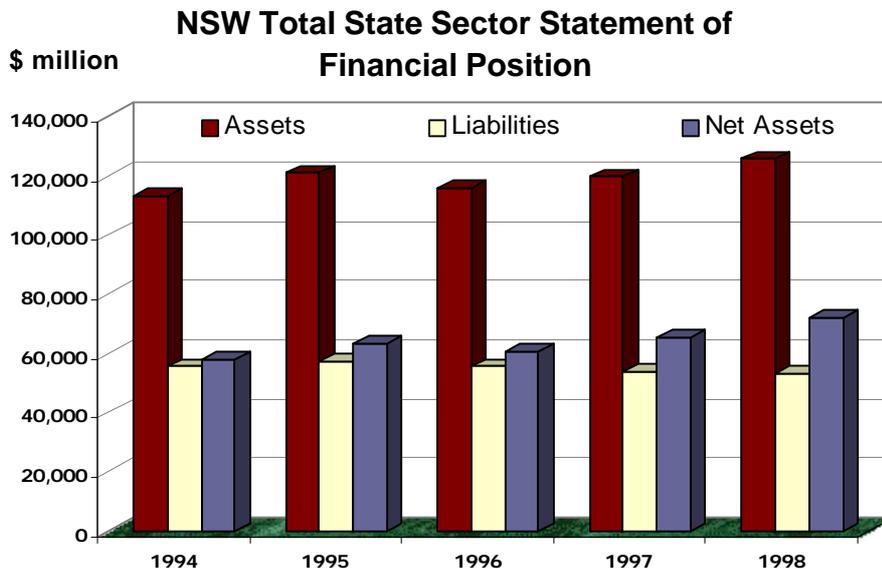
Net Assets

The State’s net assets (or equity) were \$72,204 million at 30 June 1998, an increase of 10% or \$6,679 million on the level at 30 June 1997.

The increase in the State’s net assets reflects both an increase in total assets of \$5,986 million and a reduction in total liabilities of \$693 million.

Similarly the net assets of the General Government Sector were \$31,288 million at 30 June 1998, an increase of \$6,466 million on the level at 30 June 1997. 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 7



Total Assets

The State’s total assets at 30 June 1998 were \$125,586 million (1997 - \$119,600 million). The \$5,986 million (5%) increase was mainly due to an increase in the value of the non-current physical assets of \$6,029 million in the General Government Sector. This increase was primarily due to \$4,356 million in asset revaluations. In particular, the Department of Education and Training revalued its land and buildings by \$3,243 million.

These 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.

In addition, during 1997-98, \$1,673 million was invested in new assets, primarily by the Roads and Traffic Authority, which invested \$907 million and the Olympic Co-ordination Authority which invested \$677 million.

Conversely, there was no significant change in the total assets of major Public Trading Enterprises such as in the Water,

Electricity Generation and Electricity Distribution industries. This reflects the fact that these entities were recently established with a commercial capital structure, and the assets were brought to account at fair value and comprise only those that are expected to earn an appropriate risk adjusted return. It is therefore unlikely that, in the short term, there will be a significant change in either physical assets held or the valuations of those assets.

During 1996 regional roads of \$6,179 million were transferred to Local Government. To ensure consistency within Figure 7, 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 1996 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

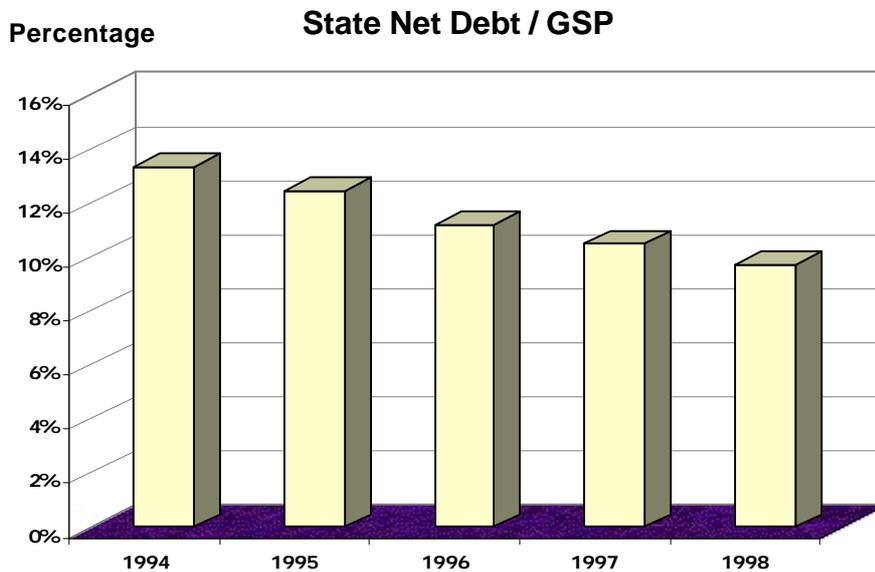
Total State liabilities decreased by \$693 million to \$53,382 million, mainly as a result of the decrease in gross borrowings of \$309 million and a decrease in unfunded superannuation liability of \$359 million.

The decrease in borrowings was due to a retirement of Commonwealth Debt by the General Government Sector of \$1 billion.

This was offset by increases in debt to fund the budget deficit and through debt restructures. Although the latter results in an increase in the book value of debt it is offset by future interest cost savings which will be reflected in future financial statements.

The State’s net debt (calculated in accordance with Australian Bureau of Statistics methodology) decreased by \$355 million to \$18,403 million. More significantly, net debt of the State as a percentage of Gross State Product decreased from 10.5% in 1996-97 to 9.8% in 1997-98, in line with a consistent trend since 1994.

Figure 8



In the General Government Sector there was a decrease in net debt as a percentage of Gross State Product from 6.1% to 5.4%. 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 \$359 million to \$12,430 million. The State’s unfunded superannuation liability to Gross State Product (GSP) ratio decreased from 7.2% to 6.6%.

The reduction reflects a reduction in the superannuation liability of the Non General Government Sector; whilst net unfunded superannuation liabilities for the General Government Sector remained relatively stable.

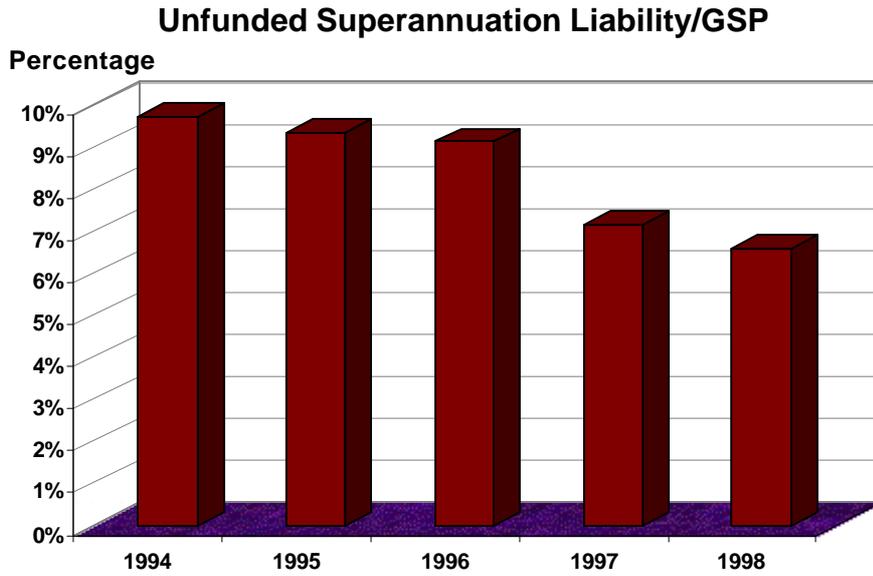
The unfunded superannuation liabilities of the General Government Sector to Gross State Product (GSP) ratio decreased from 6.9% to 6.5%.

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 existin

In accordance with the principle, during 1997-98 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 9

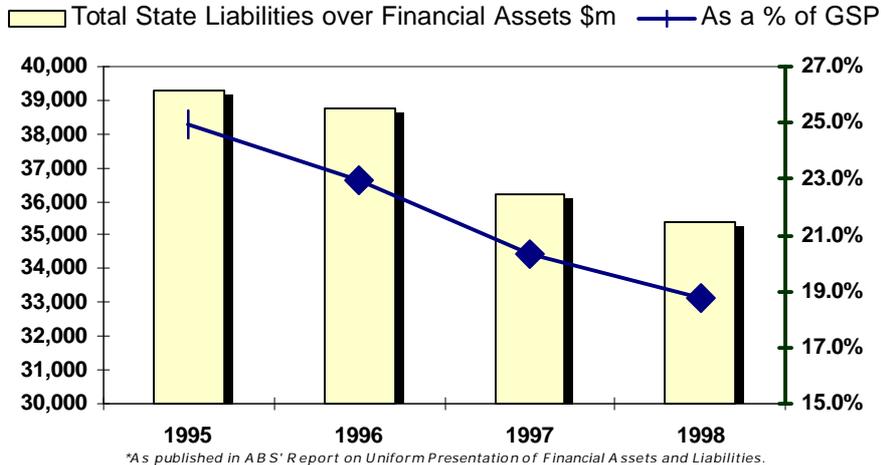


The State's excess of total liabilities over financial assets (calculated in accordance with Australian Bureau of Statistics methodology) decreased by 2% (\$858 million) to \$35,357 million. This is consistent with the reduction that has been achieved in each year since 1994.

The principal reason for this trend is the reductions in Net Debt and Unfunded Superannuation Liabilities, as noted above.

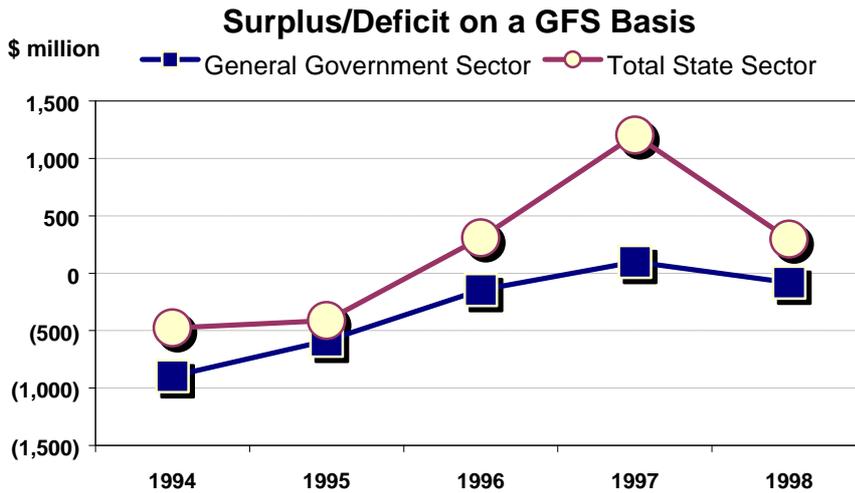
Figure 10

Total State Excess of Total Liabilities over Financial Assets



RESULTS ON GOVERNMENT FINANCE STATISTICS BASIS

Figure 11



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

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 1997-98 Budget was presented on the former Budget Sector coverage. This coverage was based on those agencies that relied on a direct Consolidated Fund appropriation for the greater part of their income.

Prior to the 1998-99 Budget, section 4 of the General Government Debt Elimination Act was proclaimed, requiring the Budget to be presented on a basis as determined by the Australian Bureau of Statistics' General Government Sector.

For accountability reasons, any analysis for the 1997-98 year should focus on the Budget outcome based on the former coverage.

The Budget result for 1997-98 is a deficit of \$344 million. This represents a \$40 million improvement on the Budget time estimates.

This reflects:

- Current Outlays were higher than budgeted by \$271 million, especially due to expenditures in Health;
- Current Receipts were \$126 million higher than budgeted due to the higher State Taxes, especially due to the strong growth in the property market, offset by a \$320 million loss in franchise fees due to the High Court decision;
- Capital Outlays were \$300 million less than budgeted. This included delays in capital expenditures, including Olympic expenditures;
- Capital Receipts were \$115 million lower than budgeted, principally due to a delay in payment of a \$66 million Commonwealth Grant for capital purposes in Education.

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 1998 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

21 December 1998



BOX 12 GPO
SYDNEY NSW 2001

INDEPENDENT AUDIT REPORT

THE PUBLIC ACCOUNTS AND THE TOTAL STATE SECTOR ACCOUNTS

To Members of the New South Wales Parliament and the Treasurer

Scope

I have audited the Public Accounts and the Total State Sector Accounts for the year ended 30 June 1998. The Treasurer is responsible for the Public Accounts and the Total State Sector Accounts. Sections 6(1) and 6(1A) of the *Public Finance and Audit Act 1983* (the Act) specifies that the Public Accounts consist of a consolidated statement of financial position, a consolidated operating statement and a consolidated statement of cash flows for the general government sector. Section 6(1 B) of the Act specifies that the Total State Sector Accounts consist of a consolidated statement of financial position, a consolidated operating statement and a consolidated statement of cash flows for the total state sector.

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

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 requirements which could have an impact on the Public Accounts and the Total State Sector Accounts have been reviewed on a cyclical basis. For this year, the requirements examined comprise compliance with Treasurer's Directions in respect of usage of fuel cards, credit cards and cash advances.

My procedures have been undertaken to form an opinion on 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(1B) of the Act, the accounts and records of the Treasurer, 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 state public sector's financial position, 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 report.

Effect both the Public Accounts and the Total State Sector Accounts

- (a) Note 1, Depreciation, describes methods used to determine depreciation. Uncertainty exists as to the reasonableness of depreciation charges of the Department of Education and Training's owned school buildings. As in previous years the depreciation charges have not taken into consideration condition assessment, maintenance and refurbishment regimes, or estimated useful lives. The uncertainty of previous years over the carrying value of these assets was removed following their revaluation on 30 June 1998.

- (b) Some assets and liabilities of the FANMAC Trusts relating to the HomeFund program have been recognised in the statement of financial position. In 1997-98 assets and liabilities of \$173m (1996-97, \$213m) were recognised but at 30 June 1998 \$476m (1996-97, \$747m) was not recognised. The Home Purchase Assistance Authority has the capacity to dominate the FANMAC Trusts decision making in relation to financial and operating policies. Accordingly all the Trusts' assets and liabilities should be recognised in the 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.
- (c) Note 1, Non-Current Physical Assets, discloses that undeveloped Crown land has not been recognised pending completion of an identification and valuation exercise. Recognising this land using a similar valuation methodology to that used for other land in these financial reports would have material effects, the amounts of which are uncertain, on land and buildings and net assets included in the statements of financial position for the Public Accounts and the Total State Sector Accounts.
- (d) Note 2, Revenue, State Taxation, includes \$123.6m (1996-97, \$1,513m) collected for tobacco and petroleum products Business Franchise Licences. On 5 August 1998 the High Court held that the fee-based licensing provisions in the *Business Franchise Licences (Tobacco) Act 1987* as unconstitutional. The New South Wales Solicitor-General has also 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 has collected invalidly \$123.6m (1996-97, \$1,513m) in Business Franchise License fees. The New South Wales Solicitor-General has advised that as the law presently stands, the Government is not required to refund these fees collected prior to the decision. There is no financial effect on the financial report.

Effect the Public Accounts only

- (e) Note 6, Investments, discloses that, funds held in Government schools' bank accounts comprising cash and investments are not recognised in the statement 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. The effect of omission of these balances on cash and current investments is considered material for the Public Accounts only.

Effect the Total State Sector Accounts only

- (f) Note 1, Depreciation, describes methods used to determine depreciation. Uncertainty exists as to the reasonableness of depreciation charges and the carrying value of Sydney Water Corporation Limited's infrastructure assets because values have not been determined on a disaggregated, condition based approach.
- (g) Assets and obligations arising from private sector financing of the Sydney Water Corporation Limited's water treatment plants have not been recognised in financial report. The Corporation carries substantially the risks and benefits incident to ownership of the underlying assets. As at 30 June 1998 the value of obligations and underlying assets relating to the water treatment plants not recognised in the statement of financial position is approximately \$542m (1996-97, \$542m). There is no material effect on net assets or the operating result.

The Independent Audit Report on the New South Wales Public Sector Consolidated Financial Statements for the year ended 30 June 1997 was qualified for the matters at (a) to (d) and (f) to (g). The Independent Audit Report on the Public Accounts for the year ended 30 June 1997 was qualified for the matters at (a) and (c) to (e).

Qualified Audit Opinion

In my opinion, except for:

- the effects of the matters referred to in the qualification paragraphs (a), (b), (e), (f) and (g)
- the effects of such adjustments if any as might have been required had the limitation in the qualification paragraphs (c) and (d) 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 1998 and the results of their operations and their cash flows for the year then ended.

Inherent Uncertainty regarding litigation

Without further qualification to the opinion expressed above attention is drawn to the following matters as indicated in Notes 19 and 20 to the financial report.

- (a) Litigation including class actions by various HomeFund borrowers is being defended on behalf of the Government. The class actions are presently the subject of an appeal to the High Court. 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. This uncertainty applies to both the Public Accounts and the Total State Sector Accounts.
- (b) EnergyAustralia has been involved in litigation concerning a contract known as the Redbank Power Project. On 24 July 1998 a judgement was made against EnergyAustralia in the New South Wales Supreme Court. At this time it is not possible to estimate any potential liability which may result from this litigation. This uncertainty only applies to the Total State Sector Accounts.
- (c) 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 Accounts.

Inherent Uncertainty regarding the Year 2000 compliance

Without further qualification to the opinion expressed above attention is drawn to the following matter because of the implications of any adverse affects on critical services provided by certain public sector agencies. 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; 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; Hunter Water Corporation Limited; Sydney Water Corporation Limited; Roads and Traffic Authority of New South Wales; Rail Access Authority; Rail Services Authority; State Rail Authority and the Lord Howe Island Board.

These agencies are investigating 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 confidence. This uncertainty applies to both the Public Accounts and the Total State Sector Accounts.

A. C. HARRIS

SYDNEY
24 December 1998

**THE NSW TOTAL STATE SECTOR ACCOUNTS
(INCORPORATING THE PUBLIC ACCOUNTS)
OPERATING STATEMENT
FOR THE YEAR ENDED 30 JUNE 1998**

	Note	State Sector		General Government Sector	
		97-98 \$m	96-97 \$m	97-98 \$m	96-97 \$m
STATE REVENUES	2				
Taxation	2	12,856	11,501	13,157	11,716
Commonwealth Grants	2	8,582	8,480	8,582	8,480
Financial Distributions	2	-	-	1,805	2,315
Fines, Regulatory Fees and Other		584	573	580	593
TOTAL STATE REVENUES		22,022	20,554	24,124	23,104
OPERATING REVENUES					
Sale of Goods and Services		10,759	11,181	2,477	2,439
Investment Income		571	1,055	408	587
Grants and Contributions	4	760	502	365	376
Other		997	1,496	480	355
TOTAL OPERATING REVENUES		13,087	14,234	3,730	3,757
OPERATING EXPENSES	3				
Employee Related	3	15,005	11,734	12,106	9,036
Other Operating		6,945	7,391	4,334	4,566
Maintenance		1,613	1,649	1,051	1,111
Depreciation and Amortisation		2,200	2,404	705	774
Grants and Subsidies	3	2,981	2,738	4,850	5,694
Finance	3	2,871	3,054	1,792	1,586
Other	4	2,545	4,058	1,895	1,541
TOTAL OPERATING EXPENSES		34,160	33,028	26,733	24,308
Gain on Disposal of Non-Current Assets	2, 4	988	157	972	7
NET COST OF SERVICES		(20,085)	(18,637)	(22,031)	(20,544)
SURPLUS FOR THE YEAR		1,937	1,917	2,093	2,560

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 1998**

	Note	State Sector		General Government Sector	
		97-98 \$m	96-97 \$m	97-98 \$m	96-97 \$m
CURRENT ASSETS					
Cash	16	2,694	3,517	1,803	1,703
Investments	6	3,584	3,348	926	1,102
Receivables	5	2,477	2,223	2,029	1,875
Inventories	7	845	833	129	161
Other	9	108	140	4	66
TOTAL CURRENT ASSETS		9,708	10,061	4,891	4,907
NON-CURRENT ASSETS					
Land and Buildings	8	49,184	44,942	30,071	25,413
Plant and Equipment	8	5,531	5,515	2,151	2,082
Infrastructure Systems	8	54,824	52,871	27,075	25,773
Investments	6	3,231	3,020	2,353	2,161
Receivables	5	499	538	2,739	2,563
Inventories	7	1,987	1,979	109	111
Other	9	622	674	546	574
TOTAL NON-CURRENT ASSETS		115,878	109,539	65,044	58,677
TOTAL ASSETS		125,586	119,600	69,935	63,584
CURRENT LIABILITIES					
Payables	10	3,080	3,247	1,658	1,388
Borrowings	11	3,572	5,882	3,353	3,676
Employee Entitlements	12	2,029	2,353	1,828	2,020
Other	13	1,350	1,340	968	944
TOTAL CURRENT LIABILITIES		10,031	12,822	7,807	8,028
NON-CURRENT LIABILITIES					
Borrowings	11	24,607	22,606	13,601	13,701
Employee Entitlements	12	14,671	14,512	13,530	13,238
Other	13	4,073	4,135	3,709	3,795
TOTAL NON-CURRENT LIABILITIES		43,351	41,253	30,840	30,734
TOTAL LIABILITIES		53,382	54,075	38,647	38,762
NET ASSETS		72,204	65,525	31,288	24,822
EQUITY					
Asset Revaluation Reserves	14	30,790	26,368	9,560	5,198
Accumulated Funds	15	41,414	39,157	21,728	19,624
TOTAL EQUITY		72,204	65,525	31,288	24,822

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 1998**

	Note	State Sector		General Government Sector	
		97-98 \$m	96-97 \$m	97-98 \$m	96-97 \$m
CASH FLOWS FROM OPERATING ACTIVITIES					
Taxation		12,501	11,552	12,792	11,748
Commonwealth Grants		8,582	8,481	8,582	8,481
Financial Distributions		-	-	1,693	1,961
Sale of Goods and Services		10,367	10,460	2,499	2,456
Investment Income		259	606	270	373
Other Fines and Regulatory Fees		1,238	1,254	910	1,136
TOTAL RECEIPTS		32,947	32,353	26,746	26,155
PAYMENTS					
Employee Related		(14,915)	(14,301)	(11,983)	(10,685)
Grants and Subsidies		(2,798)	(2,443)	(4,706)	(4,936)
Finance		(479)	(454)	(1,662)	(1,425)
Other		(9,952)	(8,856)	(6,497)	(6,745)
TOTAL PAYMENTS		(28,144)	(26,054)	(24,848)	(23,791)
NET CASH FLOWS FROM OPERATING ACTIVITIES	16	4,803	6,299	1,898	2,364
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from Sale of Property, Plant and Equipment		605	793	308	264
Proceeds from Sale of Investments		2,114	2,740	1,431	999
Advance Repayments Received		101	87	128	140
Purchase of Property, Plant and Equipment		(4,097)	(3,853)	(2,458)	(2,375)
Purchase of Investments		(1,145)	(3,295)	(406)	(1,127)
Advances Made		(11)	(75)	(11)	(74)
Other		64	(37)	9	15
NET CASH FLOWS FROM INVESTING ACTIVITIES		(2,369)	(3,640)	(999)	(2,158)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from Borrowings and Advances		248	58	1,022	465
Repayments of Borrowings and Advances		(1,696)	(546)	(1,670)	(1,046)
Other		(14)	1	(105)	-
NET CASH FLOWS FROM FINANCING ACTIVITIES		(1,462)	(487)	(753)	(581)
NET CASH FLOW OF FINANCIAL INSTITUTIONS	16	(1,568)	(1,788)	0	0
NET INCREASE/(DECREASE) IN CASH HELD		(596)	384	146	(375)
Opening Cash and Cash Equivalents		2,541	332	996	340
Reclassification of Cash Equivalents		-	1,825	-	1,031
CLOSING CASH BALANCE	16	1,945	2,541	1,142	996

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

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

1. 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 dependant 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 Appendix D of Budget Paper No. 2 of 1997-98.

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 Public Accounts

This year, the Public Accounts have been prepared on a General Government Sector basis rather than the former Budget Sector basis. This is in accordance with an amendment to the Public Finance and Audit Act and the requirements of the General Government Debt Elimination Act, which expanded the coverage of the Budget Sector to make it consistent with the Australian Bureau of Statistics definition of the General Government Sector.

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.

Due to the change in the scope of the Public Accounts, the comparative information reported pertains to the expanded General Government scope and not to the Budget Sector information reported in the 1997 Public Accounts.

The notes on the movement in Accumulated Funds and Asset Revaluation Reserve provide a reconciliation from the 1997 Public Accounts information to the expanded 1998 Public Accounts comparisons.

CHANGES IN ACCOUNTING POLICIES

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

Accounting for Developer and Customer Contributions

A number of Public Trading Enterprises have adopted Urgent Issues Group Abstract 17, "Accounting for Developer and Customer Contributions".

UIG Abstract 17 requires contributions to be recognised as revenue when the recipient gains control of the contribution. The amount of the revenue and asset recognised must be the fair value of the contributed assets at the date that control is gained. However, because a developer or customer contribution is a reciprocal transaction, cash contributions are initially recognised as an asset and liability. The liability is reduced and revenue recognised when the work is done. The change in accounting policy has resulted in a reduction in the operating surplus of \$52 million.

Cash

Cash on the Balance Sheet and "Cash Equivalents" in the Cash Flow Statement have been redefined to include \$1,825 million of highly liquid investments with short periods to maturity that are readily convertible to cash on hand at the investor's option, and which have an insignificant risk of changes in value. The changes to the Cash Flow Statement have been made to comply with amendments to Australian Accounting Standards AAS28, "Statement of Cash Flows".

Depreciation of School Buildings

The Department of Education and Training depreciates School buildings over periods between 30 and 80 years, depending on the construction type, following finalisation of an asset management system. The Department previously depreciated school buildings over 100 years.

Major Periodic Maintenance

Agencies are required to account for Major Periodic Maintenance in determining the carrying value of physical non-current assets in accordance with Treasury policy. Major periodic maintenance is material, non-regular maintenance incurred under a periodic maintenance plan.

To account for the progressive consumption of economic benefits which gives rise to the need for major periodic maintenance, an annual maintenance expense is recognised, and a Provision of Major Periodic Maintenance is recognised and deducted from the carrying value of the respective class of assets, until the planned work is performed.

The actual cost of the major periodic maintenance is then charged against the provision and any difference between the amount provided and the actual cost is adjusted against maintenance expense. Any difference relating to the deferral of maintenance work is retained in the provision.

This policy applies from 1 July 1998 for Non-Budget dependent agencies and is to be applied by Budget dependent agencies for the year ending 30 June 1999. However, certain agencies have applied the policy in earlier years.

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, and most professional registration and marketing authorities.

The NSW Aboriginal Land Council has been excluded this year following an assessment of the nature of the control exercised.

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.
- Revenue from traffic penalties is accounted for on a cash basis according to the amount collected in a financial year. This may include penalties imposed in an earlier financial year. Recipients of penalty notices have a variety of options available to them to dispose of the penalty. The payment option is generally taken in about 70% of cases. All other fines and fees are also recognised when cash is received.

Sale of Goods and Services

Revenue is recognised when the goods or services are provided.

Commonwealth Grants

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

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

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

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. The depreciation method relies on representative sample historical costs by building type and year of completion and average costs of construction extrapolated to the total number of properties in stock.

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 \$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.

Private Sector Financed Infrastructure Assets

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

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

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

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

Sydney Harbour Tunnel

The Road and Traffic Authority's interest in the Sydney Harbour Tunnel has been valued based on the Authority's right to the time share of the ownership and total service

potential as well as to the remaining useful life at the date of transfer to the Authority in year 2022. At the date of transfer, the value will equate to the then current written down replacement cost of the Tunnel.

The cost of constructing the Tunnel was \$683 million. The current written down replacement cost of the Tunnel is \$434 million (1997 \$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 \$435 million (1997 \$443 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 recent Valuer General's Office valuation of the 'total forest asset' which includes land, roads and bridges

and the available timber resources. The valuation is based on current market buying price representing value in use. The valuation is based on area and other data provided by State Forests. The financial impact of the revaluation increment is included in the Asset Revaluation Reserve, with no impact on the operating result. State Forests manages the available native forest resource on a sustained yield basis. Sustained yield means the volume harvested will approximate, over time, annual forest growth of the harvestable native forest areas. As a result, costs are expensed as incurred.

Collection Assets

Certain collection assets such as library, museum and archival collections have not been valued pending the development of appropriate methodologies that can be applied to derive reliable values.

LIABILITIES

Borrowings

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

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

Commonwealth Grants

General Purpose - Recurrent	4,808	4,664	4,808	4,664
Specific Purpose - Recurrent	3,055	2,991	3,055	2,991
- Capital	719	825	719	825
	<u>8,582</u>	<u>8,480</u>	<u>8,582</u>	<u>8,480</u>

Financial Distributions from Non-General Government Sectors

Dividends	-	-	1,023	1,082
Income Tax Equivalents	-	-	555	741
Sales Tax Equivalents	-	-	44	32
Proceeds from asset sales and equity restructure	-	-	183	460
	<u>0</u>	<u>0</u>	<u>1,805</u>	<u>2,315</u>

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%)	-	-	583	872
Tax effect of permanent differences	-	-	(28)	(131)
Tax expense of agencies in the TER	<u>0</u>	<u>0</u>	<u>555</u>	<u>741</u>

OPERATING REVENUES

Sale of Goods and Services includes net revenue of Lotteries and TAB activities.

The net revenue comprises:

Gross revenue	4,875	4,609	-	-
Prizes and other statutory payments	(4,424)	(4,245)	-	-
Net revenue	<u>451</u>	<u>364</u>	<u>0</u>	<u>0</u>

Gain on Disposal of Non-Current Assets

Proceeds from disposal of physical assets	540	683	259	328
Less written down value of disposed assets	(502)	(568)	(377)	(338)
	<u>38</u>	<u>115</u>	<u>(118)</u>	<u>(10)</u>

Proceeds from disposal of investments ^(a)	2,325	3,273	1,531	999
Less written down value of disposed investments ^(a)	(1,375)	(3,231)	(441)	(982)
	<u>950</u>	<u>42</u>	<u>1,090</u>	<u>17</u>
Gain/(loss) on disposal of non-current assets	<u>988</u>	<u>157</u>	<u>972</u>	<u>7</u>

^(a) These amounts include:

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

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

The major items in the General Government Sector are:

- Fines collected by the Attorney-General's Department: the Department has identified \$193 million of debtors as at 30 June 1998 (1997 \$191m) in respect of fines revenue of which it has provided for doubtful debts of \$167 million (1997 \$170m). The revenue and net receivable of \$26 million (1997 \$21m) has not been brought to account as the subjective nature of the methodology used did not allow for reliable measurement.
- Unexecuted Police Warrants: about 514,000 warrants were on hand at 30 June 1998 (1997 617,000) with an estimated value of \$95 million (1996 \$133m). However past experience indicates that there are difficulties associated with locating offenders due to the passage of time prior to issue of warrants and therefore only very few warrants will actually be able to be finalised.

3. EXPENSES

	State Sector		General Government Sector	
	97-98 \$m	96-97 \$m	97-98 \$m	96-97 \$m
Employee Related Expenses comprise:				
Salaries and Wages (including Recreation Leave)	12,364	11,473	10,078	9,360
Fringe Benefits Tax	36	33	17	18
Superannuation Entitlements ^(a)	1,350	(858)	1,388	(845)
Long Service Leave	470	431	369	344
Other	785	655	254	159
	15,005	11,734	12,106	9,036

^(a) The major reason for the amount of superannuation expense in 1997 is that there was a reduction in unfunded superannuation liabilities as at 30 June 1997 of \$2,646 million for the NSW Public Sector and \$2,360 million for the General Government Sector.

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

Positive adjustments to employer reserves of \$1,807m related to the allocation to employer reserve accounts of Pooled Fund tax credits, State Superannuation Scheme Contributors' Reserves, amounts arising from corrections to employers' annual statements and interest earnings above forecast. The balance of the decrease in unfunded superannuation liabilities was due to the adjustments made by the Government Actuary to the value of total accrued superannuation benefits for the NSW Public Sector and General Government Sector respectively to recognise changes in fund membership and valuation assumptions to reflect current actuarial factors and fund membership numbers.

Expenditure Capitalised

Expenditure capitalised as property, plant and equipment is excluded from expenses.

1,418	1,166	1,346	1,111
-------	-------	-------	-------

Finance charges comprise:

Commonwealth Government	263	313	263	313
NSW Treasury Corporation	-	-	1,169	1,194
Private Organisations	2,608	2,741	360	79
	2,871	3,054	1,792	1,586

Grants and Subsidies include the following significant payments by:

Department of Transport	363	380	1,879	1,781
Department of Education and Training	586	404	589	410
Department of Health	546	453	546	453
Department of Community Services	267	241	321	282
Department of Ageing and Disability Services	243	245	253	256

Other Operating Expenses include:

Bad and doubtful debts	86	36	37	5
Operating Lease Rentals	338	284	245	209
Consultancy fees	94	112	81	81
Audit fees - for audit	-	-	-	-
- for other services	-	-	-	-

Auditor's remuneration of \$20 million for audit and \$1 million for other services (1997 - \$18 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.

4. ABNORMAL ITEMS – Revenues/(Expenses)

	State Sector		General Government Sector	
	97-98 \$m	96-97 \$m	97-98 \$m	96-97 \$m
Proceeds on Sale of Totalizator Agency Board (TAB) ^(a)	937	-	937	-
Less book value of TAB	(107)	-	-	-
Less sale expenses	(47)	-	(47)	-
Payment to the Racing Industry	(75)	-	(75)	-
Profit on sale of TAB	708	0	815	0
Proceeds on Sale of gaming and wagering licences	-	-	80	-
Less book value of gaming and wagering licences	-	-	-	-
Profit on sale of gaming and wagering licences	0	0	80	0
Profit on sale of Axiom Funds Management Corporation	-	189	-	189
Adjustment of asset values. This includes -				
- RTA - land under roads ^(b)	(91)	(50)	(91)	(50)
- Health Department	-	(62)	-	(62)
- Integral Energy	-	(69)	-	-
- Other	(32)	(33)	-	(14)
Corporatisation Adjustments - Rail industry ^(c)	-	(1,881)	-	(215)
Items not previously recognised:				
- Assets dedicated to National Parks and Wildlife Service	45	63	45	63
- Coal Compensation Board claims	-	(91)	-	(91)
Profit on cross border lease on Mt Piper Power Station ^(d)	-	174	-	-
Increase in defined benefit unfunded superannuation liability:	-	-	-	-
This comprises:				
- Assumption of SRA unfunded pension	-	-	-	(208)
- Grants to newly created rail entities and Pacific Power to fund unfunded superannuation	-	-	-	(910)
Total Abnormal Items	630	(1,760)	849	(1,298)

General Government

^(a) The Totalizator 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 1997-98, the Roads and Traffic Authority identified land under roads of \$91 million (1996-97, \$50m) 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 \$91 million has been made to derecognise the value of these assets which has been included in the accounts of the Roads and Traffic Authority.

Public Trading Enterprises & Public Financial Enterprises

^(c) At the time of the restructure of the rail industry on 1 July 1996, rail infrastructure assets and liabilities were transferred from the State Rail Authority (SRA) to the new commercial rail entities. In the financial statements of the SRA the assets were valued on the basis of written down replacement cost. The new

commercial entities were 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 1996/97 the rail infrastructure assets were written down by \$6,430 million, comprising asset revaluation reserve decrements of \$4,549 million and an abnormal expense of \$1,881 million.

^(d) In 1996/97 Delta Electricity entered into three cross border lease transactions relating to the Mt Piper Power Station whereby the facility has been leased to the State of New South Wales and sub-leased (via various overseas parties) back to Delta Electricity. The effect of these arrangements is that Delta Electricity retains legal title to, beneficial ownership of, and continues to operate, the power station. Delta Electricity has agreed to support certain of NSW Treasury Corporation's representations and warranties under the transactions and in return New South Wales has indemnified Delta Electricity for its participation in the transaction other than in respect of operational matters.

All significant amounts receivable and payable by Delta Electricity have been prepaid and accordingly, no lease assets or liabilities are reflected in the balance sheet.

5. RECEIVABLES

	State Sector		General Government Sector	
	97-98 \$m	96-97 \$m	97-98 \$m	96-97 \$m
Current Receivables				
Debtors				
- Sale of Goods and Services	1,389	1,374	362	340
- Asset Sales	29	102	79	164
- Taxation	253	161	268	176
- Tax Equivalent	-	-	168	101
- Dividends	-	-	832	908
- Interest	241	151	23	32
Advances Receivable	47	72	74	97
Other	684	500	297	129
	2,643	2,360	2,103	1,947
Less Provision for Doubtful Debts	(166)	(137)	(74)	(72)
	2,477	2,223	2,029	1,875
Non-Current Receivables				
Advances Receivable	154	126	1,559	1,564
Provision for deferred income tax	-	-	957	725
Other	442	538	320	399
Less Provision for Doubtful Debts	(97)	(126)	(97)	(125)
	499	538	2,739	2,563

6. INVESTMENTS

Current	3,584	3,348	926	1,102
Non-current	3,231	3,020	2,353	2,161
	6,815	6,368	3,279	3,263
Investments comprise:				
NSW Treasury Corporation	4,191	3,475	1,986	1,946
Other	2,624	2,893	1,293	1,317
	6,815	6,368	3,279	3,263

Balances of \$235 million were held by government schools with the Commonwealth Bank at 30 June 1998 (1997 \$214 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

Current				
Raw Materials	228	231	11	10
Work in Progress	148	103	22	52
Finished Goods	71	58	23	21
Forestry	-	62	-	-
Consumable Stores	296	249	63	69
Land Held for Resale	102	130	10	9
	845	833	129	161
Non-Current				
Forestry	1,454	1,403	-	-
Land Held for Resale	455	495	31	30
Work in Progress	-	54	-	54
Other	78	27	78	27
	1,987	1,979	109	111

8. PROPERTY, PLANT AND EQUIPMENT

	State Sector		General Government Sector	
	97-98	96-97	97-98	96-97
	\$m	\$m	\$m	\$m
Land and Buildings				
At cost	4,923	4,720	4,168	3,721
At valuation	53,301	47,660	34,054	28,277
Accumulated depreciation at cost	(532)	(702)	(488)	(624)
Accumulated depreciation at valuation	(8,494)	(6,719)	(7,661)	(5,961)
Provision for major periodic maintenance	(14)	(17)	(2)	-
	<u>49,184</u>	<u>44,942</u>	<u>30,071</u>	<u>25,413</u>
Plant and Equipment				
At cost	4,600	3,846	2,672	2,528
At valuation	5,502	5,745	1,147	1,065
Accumulated depreciation at cost	(1,890)	(1,779)	(1,306)	(1,297)
Accumulated depreciation at valuation	(2,638)	(2,260)	(362)	(214)
Provision for major periodic maintenance	(43)	(37)	-	-
	<u>5,531</u>	<u>5,515</u>	<u>2,151</u>	<u>2,082</u>
Infrastructure Assets				
At cost	6,791	6,766	1,255	1,174
At valuation	54,657	52,533	30,176	28,945
Accumulated depreciation at cost	(714)	(691)	(20)	(23)
Accumulated depreciation at valuation	(5,869)	(5,710)	(4,336)	(4,323)
Provision for major periodic maintenance	(41)	(27)	-	-
	<u>54,824</u>	<u>52,871</u>	<u>27,075</u>	<u>25,773</u>
Total Property, Plant and Equipment at Net Book Value	<u>109,539</u>	<u>103,328</u>	<u>59,297</u>	<u>53,268</u>

9. OTHER ASSETS

Current	108	140	4	66
Non current	622	674	546	574
	<u>730</u>	<u>814</u>	<u>550</u>	<u>640</u>
Other Assets include:				
Emerging interest in the Sydney Harbour Tunnel	434	434	434	434
Right to Receive M2/M4/M5 Motorways	87	63	87	64
Prepayments	151	130	51	62
Other	58	187	(22)	80
	<u>730</u>	<u>814</u>	<u>550</u>	<u>640</u>

10. PAYABLES

Interest on borrowings and advances	539	796	319	402
Other	2,541	2,451	1,339	986
	<u>3,080</u>	<u>3,247</u>	<u>1,658</u>	<u>1,388</u>

11. BORROWINGS

	State Sector		General Government Sector	
	97-98	96-97	97-98	96-97
	\$m	\$m	\$m	\$m
Current	3,572	5,882	3,353	3,676
Non current	24,607	22,606	13,601	13,701
	28,179	28,488	16,954	17,377
Borrowings comprise:				
Liability to Commonwealth Government ^(b)	2,098	3,639	2,098	3,639
Domestic and foreign borrowings	25,018	23,322	13,922	12,732
Bank overdraft	749	976	661	707
Finance leases ^(a)	314	551	273	299
	28,179	28,488	16,954	17,377
The maturity profile of borrowings at current capital value:				
Not later than one year	3,572	5,882	3,353	3,676
Between one and five years	12,349	13,607	5,633	6,994
Later than five years	12,258	8,999	7,968	6,707
	28,179	28,488	16,954	17,377
^(a) Finance leases liabilities are payable as follows:				
Not later than one year	47	95	51	53
Between one and two years	48	93	48	48
Between two and five years	162	228	108	108
Later than five years	475	925	475	356
Minimum lease payments	732	1,341	682	565
Less: Future finance charges	(418)	(790)	(409)	(266)
Finance lease liability	314	551	273	299
	Loan	Annual	Loan	Annual
	97-98	Interest	96-97	Interest
	\$m	\$m	\$m	\$m
^(b) Loan Liability under the Financial Agreement:				
Liability at 1 July 1997	1,771	208	2,189	257
Debt Retirement Revenue Trust Account repurchases and redemptions of loans outstanding in respect of the State	1,482	185	418	49
Liability at 30 June 1998	289	23	1,771	208
Commonwealth Specific Purpose Advances:				
Liability at 30 June 1998	1,809	83	1,868	88
Total Liability to the Commonwealth at 30 June 1998	2,098	106	3,639	296

INDEBTEDNESS OF THE STATE OUTSIDE THE FINANCIAL AGREEMENT

Particulars	Balance at 30-Jun-97 Capital Value \$m	Advances/ (Repayments) 1997-98 Capital Value \$m	Amort- isation 1997-98 \$m	Balance at 30-Jun-98 Capital Value \$m
Commonwealth Specific Purpose Advances				
Housing	1,741	(30)	-	1,711
Backlog Sewerage Scheme	71	(1)	-	70
Rural Assistance Schemes	17	(4)	-	13
Other	39	(24)	-	15
	1,868	(59)	0	1,809
Total Crown Entity Loan with TCorp	11,225	1,157	20	12,402
Roads and Traffic Authority	1,121	-	(46)	1,075
Others	149	(8)	1	142
TOTAL DEBT OUTSIDE THE FINANCIAL AGREEMENT	14,363	1,090	(25)	15,428

12. EMPLOYEE ENTITLEMENTS

	State Sector		General Government Sector	
	97-98 \$m	96-97 \$m	97-98 \$m	96-97 \$m
Current	2,029	2,353	1,828	2,020
Non current	14,671	14,512	13,530	13,238
	16,700	16,865	15,358	15,258
Employee Entitlements comprise:				
Unfunded superannuation	12,430	12,789	12,293	12,337
Long service leave and other leave entitlements	3,906	3,700	2,958	2,792
Other	364	376	107	129
	16,700	16,865	15,358	15,258

Unfunded Superannuation Liability

The unfunded superannuation liability for the various defined benefits schemes is assessed each year by the Government Actuary based on data maintained by the Superannuation Administration Authority. It is based on the latest triennial actuarial assessment adjusted for any subsequent movements in value.

These calculations are generally based on actual membership data up to 30 April 1998, extrapolated to 30 June 1998. The underlying economic and demographic assumptions are generally consistent with those underlying

the 1997 triennial valuation of the Pooled Fund Superannuation Schemes which was completed on 30 June 1998.

The main exception is the assumption for salary growth rate for the Police Superannuation Scheme which was based on a 24% compound salary increase granted to Police Officers in late 1997, with increments extended over three years.

The key economic assumptions underlying the unfunded liabilities at 30 June 1998 are:

	1997-98	1998-99	1999-2000	Thereafter
Earning rate	7.0% pa	7.0% pa	7.0% pa	7.0% pa
Salary growth rate - all other	3.7% pa	4.0% pa	4.0% pa	5.0% pa
- Police	6.0% pa	7.0% pa	6.0% pa	5.0% pa
CPI growth rate (Sydney)	1.1% pa	2.0% pa	2.5% pa	3.25% pa

	State Sector		General Government Sector	
	97-98 \$m	96-97 \$m	97-98 \$m	96-97 \$m
The unfunded superannuation liability is composed of:				
Pooled Fund				
- State Authorities Superannuation Scheme	2,078	2,214	1,774	1,691
- State Authorities Non Contributory Superannuation Scheme	908	876	901	858
- State Superannuation Scheme	5,892	6,287	6,066	6,376
- Police Superannuation Scheme	2,817	2,495	2,817	2,495
Judges' Pension Scheme	195	194	195	194
Parliamentary Contributory Superannuation Scheme	20	70	20	70
State's share of University superannuation liabilities	520	652	520	652
Other	-	1	-	1
	12,430	12,789	12,293	12,337

13. OTHER LIABILITIES

Current	1,350	1,340	968	944
Non-current	4,073	4,135	3,709	3,795
	5,423	5,475	4,677	4,739

Other Liabilities comprise:

Obligations of Insurance Ministerial Corporation for closed insurance schemes	2,596	2,456	2,509	2,374
Outstanding claims:				
- WorkCover Authority	303	297	303	297
- Workers' Compensation (Dust Diseases) Board	230	200	-	-
The Sydney Harbour Tunnel Agreement Obligations	435	443	435	443
Building and Construction Industry Long Service Payment Scheme	259	195	258	195
Obligations to the Olympic Stadium Consortium	-	120	-	120
Coal Compensation Board claims	25	66	25	66
Provision for future HomeFund restructure costs	15	38	15	38
Future Income Tax Benefit	-	-	393	383
Crown's Assumption of SRA Workers' Compensation	-	-	207	215
Other	1,560	1,660	532	608
	5,423	5,475	4,677	4,739

14. ASSET REVALUATION RESERVE

Opening Balance	26,368	24,636	5,198	4,232
Net transfer from/(to) accumulated funds ^(a)	(333)	(2,323)	6	(32)
Net valuation increment ^(b)	4,755	4,055	4,356	998
Closing Balance	30,790	26,368	9,560	5,198

^(a) In 1997 EnergyAustralia and Integral Energy established a share premium reserve, amounting to \$2,323 million transferred from asset revaluation reserves, which forms part of the consolidated accumulated funds.

^(b) In 1998, the net valuation increment included the revaluation of the Department of Education and Training's school buildings of \$3,243 million. In 1997 the net valuation increments included the revaluation of public housing of \$7,473 million offset by State Rail Authority's reduction in its valuation of its property and infrastructure of \$4,549 million (refer Note 4^(c)). "Corporatisation Adjustments" for further explanation)

Opening balance, as prepared and audited, of the NSW Public Sector and the Public Accounts (the latter comprised Budget dependent agencies only)	26,368	24,636	4,921	3,937
Opening balance of Non-Budget agencies included in the Public Accounts for the first time (refer change in scope of Public Accounts in Note 1)	-	-	277	295
Opening balance reflecting the change in scope of the Public Accounts	26,368	24,636	5,198	4,232

15. ACCUMULATED FUNDS

	State Sector		General Government Sector	
	97-98 \$m	96-97 \$m	97-98 \$m	96-97 \$m
Opening balance	39,157	35,368	19,624	17,182
Adjustments due to change in accounting policy ^(a)	2	(330)	1	(426)
Recasting of Treasury Corporation to ensure consistent accounting policies on consolidation	-	(104)	-	-
Net assets transferred in due to administrative restructuring	-	-	17	284
Net transfer from (to) Asset Revaluation Reserve	333	2,323	(6)	32
Other Adjustments	(15)	(17)	(1)	(8)
Add: Surplus for year	1,937	1,917	2,093	2,560
Closing Balance	41,414	39,157	21,728	19,624

(a) Adjustments by agencies due to amendments to accounting standards or legislation which require adjustments to accumulated funds:

- Adjustment arising from the initial application of the revised definition of useful asset life by Department of Corrective Services.	-	(290)	-	(290)
- Reclassification of deferred revenue	-	122	-	-
- Corrections to the valuation of property, plant and equipment by the Department of Health.	-	(82)	-	(82)
- Adjustment arising from the initial application of tax effect accounting on the corporatisation of Public Trading	-	-	-	(54)
- Other	2	(80)	1	-
	2	(330)	1	(426)

Opening balance, as prepared and audited, of the NSW Public Sector and the Public Accounts (the latter comprised Budget dependent agencies only).	39,604	35,973	18,032	15,158
Exclusion of the NSW Aboriginal Land Council from the consolidation following reassessment of the nature of control and inclusion of Fair Trading Administration Corporation.	(447)	(399)	-	-
Exclusion of a number of immaterial agencies from the consolidation	-	(206)	-	-
Agencies reclassified to Budget Sector	-	-	-	335
Opening balance of Non-Budget dependent agencies included in the Public Accounts for the first time (see Change in Scope of Public Accounts in Note 1)	-	-	1,592	1,652
Other Adjustments	-	-	-	37
Opening balance reflecting the change in scope of the Public Accounts and other adjustments	39,157	35,368	19,624	17,182

16. CASH FLOW INFORMATION

	97-98	96-97	97-98	96-97
	\$m	\$m	\$m	\$m
Surplus for the year	1,937	1,917	2,093	2,560
Add back: - Deficit of financial institutions	228	318	-	-
- Operating cash flow of financial institutions eliminated on consolidation	1,790	1,848	-	-
Non-cash items added back -				
- Depreciation and amortisation	2,200	2,404	705	774
- Gain on asset disposals	(988)	(157)	(972)	(7)
- Other	152	(441)	76	(211)
Change in operating assets and liabilities				

Net Cash of Financial Institutions	State Sector		General Government Sector	
	97-98 \$m Gross	97-98 \$m # Net of Eliminations	96-97 \$m Gross	96-97 \$m # Net of Eliminations
Cash Inflows (Outflows) from Operating Activities				
Interest receipts	1,937	68	2,195	179
Fees and commissions received	8	8	15	15
Finance payments	(1,970)	(1,910)	(2,472)	(2,313)
Employee related payments	(11)	(9)	(8)	(8)
Net Cash for other operating activities	<u>(22)</u>	<u>(5)</u>	<u>(35)</u>	<u>(26)</u>
Net cash used in operating activities	<u>(58)</u>	<u>(1,848)</u>	<u>(305)</u>	<u>(2,153)</u>
Cash Inflows (Outflows) from Investing Activities				
Loans to authorities repaid	5,957	-	5,714	-
Proceeds from disposal of investments	112	112	536	533
Loans to authorities made	(6,490)	-	(5,074)	-
Purchase of Investments	(573)	(638)	(42)	(42)
Purchase of property, plant and equipment	(1)	(1)	(1)	(1)
Other	-	-	7	6
Net cash from investing activities	<u>(995)</u>	<u>(527)</u>	<u>1,140</u>	<u>496</u>
Cash Inflows (Outflows) from Financing Activities				
Proceeds from borrowings	19,262	19,262	20,553	20,553
Repayment of borrowings	(18,492)	(18,455)	(20,757)	(20,684)
Dividends paid	(21)	-	(26)	-
Net cash from financing activities	<u>749</u>	<u>807</u>	<u>(230)</u>	<u>(131)</u>
Net Cash Flows from Financial Institutions	<u>(304)</u>	<u>(1,568)</u>	<u>605</u>	<u>(1,788)</u>

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

General Government Sector	1,333	1,282	1,333	1,182
Public Trading Enterprises & Public Financial Enterprises	571	261	-	-
	<u>1,904</u>	<u>1,543</u>	<u>1,333</u>	<u>1,182</u>

Trust monies are held by the trustee on behalf of beneficiaries.

General Government trust monies mainly comprise various forms of unclaimed monies and Supreme Court trust funds held in statutory accounts as follows:

Health Department	82	82	82	82
Attorney General's Department	17	10	17	10
Protective Commissioner	818	726	818	726
Rental Bond Board	383	363	383	363
Others	33	101	33	1
	<u>1,333</u>	<u>1,282</u>	<u>1,333</u>	<u>1,182</u>
Trust monies held by Non General Government agencies include: -				
NSW Treasury Corporation	472	174	-	-
Others	99	87	-	-
	<u>571</u>	<u>261</u>	<u>0</u>	<u>0</u>

18. EXPENDITURE COMMITMENTS

	State Sector		General Government Sector	
	97-98 \$m	96-97 \$m	97-98 \$m	96-97 \$m
Capital Expenditure				
General Government	2,778	2,670	2,778	2,846
Public Trading Enterprises & Public Financial Enterprises	2,071	2,074	-	-
	4,849	4,744	2,778	2,846
The above represents capital expenditure contracted for at balance date including private sector financed infrastructure assets but not recognised in the financial statements.				
General Government				
Health Department	1,696	1,603	1,696	1,603
Roads and Traffic Authority	352	451	352	451
Olympic Coordination Authority	466	389	466	389
Other agencies	264	227	264	403
	2,778	2,670	2,778	2,846
Public Trading Enterprises & Public Financial Enterprises				
State Rail Authority	254	425	-	-
Sydney Water Corporation	1,454	1,022	-	-
NSW Land and Housing Corporation	82	126	-	-
Other agencies	281	501	-	-
	2,071	2,074	0	0
Capital expenditure commitments payable:				
not later than one year	1,794	1,792	1,148	1,275
later than one year and not later than two years	1,011	1,175	651	601
later than two years and not later than five years	1,134	1,213	827	918
later than five years	910	564	152	52
	4,849	4,744	2,778	2,846
Operating Lease Expenditure				
Amounts payable:				
not later than one year	333	421	241	334
later than one year and not later than two years	279	362	226	301
later than two years and not later than five years	644	717	585	674
later than five years	859	921	765	898
	2,115	2,421	1,817	2,207

19. CONTINGENT LIABILITIES

(a) Quantifiable contingent liabilities comprise:

General Government

	State Sector		General Government Sector	
	97-98 \$m	96-97 \$m	97-98 \$m	96-97 \$m
State Guarantees under Statute	143	168	143	168
Attorney General's Department (Victims Compensation claims)	112	163	112	163
Olympic Co-ordination Authority (possible future claims from contractual arrangements)	32	44	32	44
Department of Transport (Pymont Light Rail Project)	67	67	67	67
Home Purchase Assistance Fund (potential income and cash shortfalls in FANMAC Trust system and excess rate caps)	15	21	15	21
Home Care Service	26	-	26	-
National Parks and Wildlife Service (legal claims)	-	30	-	30
Coal Compensation Board (representing claims for compensation under the Coal Acquisition (Compensation) Arrangements Act 1985)	75	31	75	31
NSW Police Service (claims including legal proceedings)	31	30	31	30
Roads & Traffic Authority (claims involving legal proceedings)	15	-	15	-
Department of Land & Water Conservation	22	16	22	16
Department of Public Works & Services	50	-	50	-
Other agencies	56	32	56	32
Total – General Government	644	602	644	602

Public Trading Enterprises and Public Financial Enterprises

LandCom (conditional acquisition of property)	-	54	-	-
Sydney Water (claims in respect of compensation and litigation)	94	92	-	-
State Rail Authority (comprising commercial disputes, employee disputes, environmental, personal injury and property claims)	42	39	-	-
NSW Treasury Corporation (comprising bonds on loan to fixed interest market under a stocklending facility).	827	150	-	-
Less securities held	(381)	(38)	-	-
Land and Housing Corporation (possible shortage of land availability to Joint Development at South Penrith)	-	30	-	-
Other agencies	33	57	-	-
Total - Public Trading Enterprises & Public Financial Enterprises	615	384	0	0

(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 \$27.5 billion (1997 \$26 b) 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.

Athletes Village

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

To appropriately disclose the overall arrangement, the OCA has valued and brought to account in its financial statements, the present value of its share \$47.9m (year 1998\$). The balance of the total government contribution is regarded as a contingent liability only, having regard to the SOCOG agreement to meet its share of the total contribution.

Olympic Stadium

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

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

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

- (b) Pay the balance of the outstanding debt (i.e. 30%) from any Stadium operating surplus or from any proceeds received by OCA from selling the Stadium.

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

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

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

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

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

- Land claims lodged since the introduction of the Aboriginal Land Rights Act 1983. Of the claims lodged, a total of 1,646 have been granted either wholly or partly, over lands totalling 60,969 hectares and valued at approximately \$316 million. As at 30 June 1998, there were 1,188 claims under investigation (1997 1,294 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 120 applications and 10 claims for compensation in New South Wales under its provisions. 74 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.
- Based on the definition of control in Australian Accounting Standard AAS24, Health organisations listed in the Third and Fourth Schedules of the Public Hospitals Act, 1929 are only recognised in the NSW Health 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 Third/Fourth Schedule 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. The Class Actions are presently subject to an Appeal to the High Court.
- All actions are being defended and HomeFund is actively involved in managing the defence of the claims. 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 has guaranteed all existing and future liabilities of the Bank until 31 December 1997. Thereafter while existing liabilities will continue to be guaranteed until maturity, any new liabilities incurred after that date will no longer be guaranteed by the State. As at 30 June 1998 the total guaranteed liabilities of the Bank amounted to \$8.4 billion (1997 \$18.2 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 \$149 million (1997 \$185m).

- 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 :

	97-98	96-97
	\$m	\$m
General insurance	197	250
Life insurance	408	459
Inward reinsurance	<u>519</u>	<u>408</u>
	<u>1,124</u>	<u>1,117</u>

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

In addition, the Government may incur liability in relation to certain unit-linked insurance policies where investment units are convertible to capital guaranteed status at some time in the future. The maximum potential liability is estimated at \$1,282 million at 30 June 1998 (1997 \$1,318 million).

- Through Structured Finance Activities, the State has entered into several cross border leases in respect of electricity assets, motor vehicles and rolling stock assets. There are two categories of contingent liabilities with respect to these transactions.

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

The second type of contingency arises where the NSW Government has a third party risk in terms of monies being placed on deposit with a counterparty. The total of this contingent liability is estimated at \$662 million. This figure represents a \$22 million increase on the 1996/97 amount, reflecting the term nature of the deposits. NSW Treasury Corporation on behalf of the NSW Government regularly monitors this risk.

- 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 \$506 million at 30 June 1998 (1997 \$747m).
- Indemnities have been provided by NSW Treasury Corporation to several parties who acquired annuities from the Corporation in 1986. The indemnities relate to amounts which could be payable by the Corporation to those parties, if the correct tax treatment of the annuity transactions is otherwise than as the Corporation has been advised.

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

Appeals by one of the parties against two assessments, were considered by a single judge of the Federal Court of Australia in September 1995, with the judgement in favour of the Commissioner pronounced in December 1995. An appeal against the judgement to the full bench of the Federal Court was upheld in June 1997. The High Court granted the Commissioner special leave to appeal against this judgment in December 1997. The High Court heard the appeal on 18 June 1998.

On 2 September 1998 the High Court of Australia handed down its decision on the appeal by the Commissioner of Taxation (ATO) with respect to the ANZ Savings Bank Limited case. The ATO's appeal was upheld.

As a result Tcorp will be required to compensate several annuity investors in accordance with the transaction documents.

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

- During the year, the NSW Treasury Corporation made available a short term liquidity facility to approved client authorities. This facility is offered on a revolving basis with a commitment period of up to three years. At year end the undrawn commitments under the facilities were \$825.7 million (1997 \$630m).
- 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 \$280.7 million (1997 \$298.5m).

- 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.

- The Year 2000 issue has achieved a high level of awareness amongst the NSW Government and its agencies. It has significant potential to impact on the ability of Government to deliver services and raise revenue both as a result of internal complications and external influences. It could also give rise to significant liability concerns.

The Government has adopted a detailed and comprehensive Year 2000 strategy that looks to maximising the continuity of Government services, raising the level of awareness and encouraging corrective action across the community.

The strategy for Government agencies focuses on three key actions:

- the identification of potential Year 2000 problems;
- the rectification of those problems; and
- the preparation of contingency and disaster recovery plans to deal with any problems remaining in 2000.

Agencies were required, by 30 June 1998 to have:

- completed an analysis of their Year 2000 exposure;
- undertaken a high level costing; and
- prepared a rectification plan.

Agencies were required to submit a certificate, independently provided from outside the agency, that attests that each agency has addressed the Year 2000 issue as a risk management project to a reasonable extent in terms of:

- their risk analysis;
- costings;
- rectification plan;
- contingency plan; and
- disaster plan.

The cost of remedial work within the NSW Government has been estimated at around \$400 million

but this figure is subject to refinement as the rectification and testing phases proceed.

Support is provided to agencies in the form of three period panel contracts:

- ITS2060 – Business Risk Analysts
- ITS2061 – Remediation Specialists
- ITS2062 – Systems and Tools

In terms of the wider community, the Government has embarked on a program of seminars across rural and regional NSW and has developed a range of assistance packages including:

- a Year 2000 Website (www.y2k.gov.au)
- a hot line for small and medium business enterprises, and
- advisory service for consumers
- The State Rail Authority has entered into an agreement with the private sector for the construction and operation of stations on the New Southern Railway. State Rail has an obligation to purchase the private sector's assets (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. State Rail has also indemnified one of the parties to the arrangement against any income tax payable in relation to certain benefits arising thereunder. The indemnity is limited to \$1.6 million.
- 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 which were employed by 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 been involved in litigation concerning a contract known as the Redbank Power Project. On 24 July 1998, a judgment was made against EnergyAustralia in the NSW Supreme Court. At this

stage it is not possible to estimate any potential liability which may be incurred as a result of this litigation.

- Guarantees Issued by Financial Institutions are:

	1998	1997
	\$m	\$m
Bank guarantees provided in the normal course of business, in lieu of retention and security deposits	11.4	0.3
Letters of credit established for the purchase of Capital equipment	-	0.3
Guarantees provided to Transgrid, WorkCover NSW and Victorian Power Exchange on behalf of the EnergyAustralia group	149.2	171.5

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

20. POST BALANCE DATE EVENTS

General Government

In November 1998 the NSW Government introduced before Parliament the Superannuation Legislation Further Amendment Bill 1998 which provides for an offer to be made to the 54,000 members of the closed defined benefits schemes, State Superannuation Scheme and Police Superannuation Scheme, to convert their accrued superannuation pension benefits to lump sums and join the First State Superannuation accumulation scheme.

The proposal involves the Crown Entity borrowing \$3.264 billion during the year ending 30 June 1999 to enable the prepayment of approximately three years contributions to the SAS Trustee Corporation Fund in order to meet member transfer entitlements.

Public Trading Enterprises and Public Financial Enterprises

- The contamination of Sydney's water supply with giardia and cryptosporidium parasites in July, August and September 1998 caused widespread public concern and led to the release of a number of boil water notices by Sydney Water and NSW Health to help ensure the health of residents in the areas affected was safeguarded. The NSW Government has commissioned an independent Inquiry, chaired by Mr Peter McClellan QC, to review procedures and actions taken by both Sydney Water and NSW Health. Sydney Water is responding to the Inquiry and is committed to strengthening its performance based on the Inquiry's findings. To date, Mr McClellan QC has provided two reports to the Government:
 - First Interim Report - Possible Causes of Contamination, August 1998. and
 - Second Interim Report - Management of the Events, September 1998.
 - Further reports are to be provided to the Government at the end of the year.

Sydney Water is working with international experts to determine further possible measures to reduce the risk of occurrence.

Sydney Water, at the request of the NSW Government and by agreement with the Voting Shareholders, provided customers in the areas affected by the contamination incident with a \$15 rebate on bills. In addition, the price of water is to be frozen subject to review at the end of the September 1998 quarter. The cost of the rebate is estimated at around \$20 million and the freeze on the price of water is estimated at around \$6 million per quarter. In addition, pre-schools, schools and child care centres are being reimbursed for the purchase of bottled water in affected areas.

A number of claims have also been lodged against Sydney Water, including the receipt of a Class Action. Sydney Water is working with its insurers to adopt a proactive approach in dealing with claims and is proposing to introduce a procedure to deal with them in a reasonable and sympathetic manner which entails the appointment of a completely independent assessor to evaluate claims.

The full financial impact of the water contamination events cannot be determined at this time.

New legislation was passed in State Parliament and assented to on 8 December 1998, which will impact on Sydney Water and its corporate structure. The legislation, the Water Legislation Amendment (Drinking Water and Corporate Structure) Act 1998, will disestablish Sydney Water Corporation Limited as a company State owned corporation and will replace it with a new statutory State owned corporation, Sydney Water Corporation.

- On 21st 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 will vigorously defend the claims of Powercor and legal opinion supports such an approach.

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

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 interest rate swaps, forward rate agreements and futures and options.

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. For example, foreign exchange contracts have been utilised to hedge the future US dollar revenues of the Sydney Organising Committee for the Olympic Games (SOCOG) US dollar revenue against currency fluctuations.

These contracts have maturity dates to December 2000 and hedge the revenue flows at between US dollars 0.68 and 0.66 per Australian Dollar. In addition foreign exchange options have been entered into to hedge the revenue to September 2000. The reduction in the value of the Australian Dollar, relative to the US dollar, has resulted in an unrealised market value loss on these contracts of approximately \$70 million at 30 June 1998.

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 below:

STATE SECTOR	Financial Instruments	Notes	Fixed interest rate maturing in:					TOTAL	Weighted average effective interest rate
			Floating interest rate	1 year or less	Over 1 to 5 years	More than 5 years	Non-interest bearing		
			1998	1998	1998	1998	1998	1998	1998
			\$m	\$m	\$m	\$m	\$m	\$m	%
On Balance Sheet financial instruments									
<i>(i) Financial Assets</i>									
	Cash ¹	16	2,694	-	-	-	-	2,694	
	Investments - Hour Glass Facility ¹	6	2,056	-	-	-	-	2,056	7.4
	Investments - Other	6	682	3,382	473	145	77	4,759	8.5
	Receivables	5	-	-	-	-	2,976	2,976	
	Total Financial Assets		5,432	3,382	473	145	3,053	12,485	
<i>(ii) Financial Liabilities</i>									
	Bank Overdraft	11	749	-	-	-	-	749	
	Trade and Other Creditors	10	-	-	-	-	3,080	3,080	
	Domestic and Foreign Borrowings	11	-	2,648	12,085	10,284	-	25,017	6.8
	Borrowings from the Commonwealth	11	-	47	282	1,769	-	2,098	5.1
	Lease Liabilities	11	-	47	210	475	-	732	
	Total Financial Liabilities		749	2,742	12,577	12,528	3,080	31,676	
Off Balance Sheet financial instruments									
	Derivative financial instruments - Receivable		5,788	2,453	5,649	857	-	14,747	
	Derivative financial instruments - Payable		6,836	374	5,199	1,352	-	13,761	
	Net derivative financial instruments		(1,048)	2,079	450	(495)	-	986	
GENERAL GOVERNMENT SECTOR									
<i>(i) Financial Assets</i>									
	Cash ¹	16	1,803	-	-	-	-	1,803	
	Investments - Hour Glass Facility ¹	6	1,860	-	-	-	-	1,860	7.4
	Investments - Other	6	553	206	369	143	148	1,419	6.9
	Advances receivable	5	-	47	138	1,389	59	1,633	4.9
	Other receivables	5	-	-	-	-	3,135	3,135	
	Total Financial Assets		4,216	253	507	1,532	3,342	9,850	
<i>(ii) Financial Liabilities</i>									
	Bank Overdraft	11	661	-	-	-	-	661	
	Trade and Other Creditors	10	-	-	-	-	1,658	1,658	
	Domestic and Foreign Borrowings	11	9	2,385	5,520	6,008	-	13,922	8.6
	Borrowings from the Commonwealth	11	-	47	282	1,769	-	2,098	5.1
	Lease Liabilities	11	-	51	156	475	-	682	
	Total Financial Liabilities		670	2,483	5,958	8,252	1,658	19,021	

¹ HourGlass Facilities

The State has investments in TCorp's HourGlass facilities. The 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 investment horizon. TCorp appoints and monitors external fund managers and establishes and monitors the application of appropriate investment guidelines.

The TCorp HourGlass facilities are generally able to be redeemed with seven days notice (dependent upon the facility). The value of the investments held can decrease as well as increase depending upon market conditions. The value that best represents the maximum credit risk exposure is the net fair value.

	State Sector	General Government Sector
	1998	1998
	\$m	\$m
Cash Facility	580	314
Cash Plus Facility	429	151
Fixed Interest Facility	1,123	1,118
Long Term Growth Facilities	933	742
	<u>3,065</u>	<u>2,325</u>

The State's interest in the cash facility and Cash Plus facility are brought to account as "cash" because they are not subject to significant risk of a change in value. The State's interests in the other facilities are brought to account as an "investment".

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. The aggregate net fair values of financial assets and financial liabilities (both recognised and unrecognised) are as follows:

	State Sector		General Government Sector	
	Total carrying amount as per the balance sheet	Aggregate net fair value	Total carrying amount as per the balance sheet	Aggregate net fair value
	1998	1998	1998	1998
	\$m	\$m	\$m	\$m
Financial Assets				
Cash	2,694	2,694	1,803	1,803
Investments - Hour Glass Facility	2,056	2,056	1,860	1,860
Investments - Other	4,759	4,913	1,419	1,419
Advances receivable	-	-	1,633	1,375
Accounts receivable	2,976	2,976	3,135	3,135
Total	<u>12,485</u>	<u>12,639</u>	<u>9,850</u>	<u>9,592</u>
Financial Liabilities				
Bank Overdraft	749	749	661	661
Trade and Other Creditors	3,080	3,080	1,658	1,658
Domestic and foreign borrowings	25,017	26,689	13,922	15,553
Borrowings from the Commonwealth	2,098	1,859	2,098	1,859
Lease liabilities	314	314	273	273
Derivative Financial Instruments	(92)	179	-	70
Total Financial Liabilities	<u>31,166</u>	<u>32,870</u>	<u>18,612</u>	<u>20,074</u>

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 prudent controls over the investment of financial assets.

23. CONSOLIDATED FUND TRANSACTIONS	1998	1997
	\$m	\$m
Cash Flows from Operating Activities		
Receipts		
Taxation, Fines and Regulatory Fees	12,005	12,301
Commonwealth Grants	10,220	8,387
Financial Distribution for Non Budget agencies	1,523	1,650
Transfer Payment	-	1,044
Other Operating Revenue	1,297	800
Total Receipts	25,045	24,182
Payments		
Recurrent Appropriations	(22,617)	(21,280)
Capital Appropriations	(3,767)	(3,069)
Transfer Payment	-	(1,044)
Total Payments	(26,384)	(25,393)
Net Cash Flow from Operating Activities	(1,339)	(1,211)
Cash Flow from Crown Transaction Entity		
Proceeds from Borrowing transferred from CTE	997	385
Interest Receipts transferred from CTE	111	133
Assets proceed transferred from CTE	115	78
Advance Repayments transferred from CTE	121	78
Other receipts transferred from CTE	111	118
	1,455	792
Net Increase/(Decrease) in Cash	116	(419)
Opening Cash and Cash Equivalents	(1,035)	(616)
Closing Cash Balances	(919)	(1,035)
Cash and Cash Equivalents		
Deposit at Call	803	567
Bank Overdraft	(1,722)	(1,602)
	(919)	(1,035)

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 1998

	General Government	Public Trading Enterprises	Public Financial Enterprises	Eliminations	TOTAL
	\$m	\$m	\$m	\$m	\$m
STATE REVENUES					
Taxation	13,157	-	1	(302)	12,856
Commonwealth Grants	8,582	-	-	-	8,582
Financial Distribution	1,805	-	-	(1,805)	0
Fines, Regulatory Fees and Other	580	-	-	4	584
TOTAL STATE REVENUES	24,124	0	1	(2,103)	22,022
OPERATING REVENUES					
Sale of Goods and Services	2,477	8,372	11	(101)	10,759
Investment Income	408	149	2,309	(2,295)	571
Grants and Contributions	365	2,224	-	(1,829)	760
Other	480	703	50	(236)	997
TOTAL OPERATING REVENUES	3,730	11,448	2,370	(4,461)	13,087
OPERATING EXPENSES					
Employee Related	12,106	3,069	8	(178)	15,005
Other Operating	4,334	2,750	103	(242)	6,945
Maintenance	1,051	562	-	-	1,613
Depreciation and Amortisation	705	1,494	1	-	2,200
Grants and Subsidies	4,850	193	1	(2,063)	2,981
Finance	1,792	966	2,508	(2,395)	2,871
Other	1,895	691	15	(56)	2,545
TOTAL OPERATING EXPENSES	26,733	9,725	2,636	(4,934)	34,160
Gain on Sale of Non-Current Assets	972	72	54	(110)	988
NET COST OF SERVICES	(22,031)	1,795	(212)	363	(20,085)
SURPLUS/(DEFICIT) FOR THE YEAR BEFORE FINANCIAL DISTRIBUTIONS					
	2,093	1,795	(211)	(1,740)	1,937
Income Tax Equivalent Expense	-	539	16	(555)	0
Dividend and Equity Restructure Provisions	-	1,180	26	(1,206)	0
SURPLUS/(DEFICIT) FOR THE YEAR AFTER FINANCIAL DISTRIBUTIONS	2,093	76	(253)	21	1,937

THE NSW TOTAL STATE SECTOR ACCOUNTS
DISAGGREGATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 1998

	General Government	Public Trading Enterprises	Public Financial Enterprises	Eliminations	TOTAL
	\$m	\$m	\$m	\$m	\$m
CURRENT ASSETS					
Cash	1,803	920	264	(293)	2,694
Investments	926	1,208	5,481	(4,031)	3,584
Receivables	2,029	1,387	693	(1,632)	2,477
Inventories	129	716	-	-	845
Other	4	104	-	-	108
TOTAL CURRENT ASSETS	4,891	4,335	6,438	(5,956)	9,708
NON-CURRENT ASSETS					
Land and Buildings	30,071	19,110	3	-	49,184
Plant and Equipment	2,151	3,377	3	-	5,531
Infrastructure Systems	27,075	27,749	-	-	54,824
Investments	2,353	465	19,062	(18,649)	3,231
Receivables	2,739	245	1	(2,486)	499
Inventories	109	1,878	-	-	1,987
Other	546	510	-	(434)	622
TOTAL NON-CURRENT ASSETS	65,044	53,334	19,069	(21,569)	115,878
TOTAL ASSETS	69,935	57,669	25,507	(27,525)	125,586
CURRENT LIABILITIES					
Payables	1,658	1,366	580	(524)	3,080
Borrowings	3,353	1,290	3,254	(4,325)	3,572
Employee Entitlements	1,828	199	2	-	2,029
Other	968	1,335	74	(1,027)	1,350
TOTAL CURRENT LIABILITIES	7,807	4,190	3,910	(5,876)	10,031
NON-CURRENT LIABILITIES					
Borrowings	13,601	8,874	22,212	(20,080)	24,607
Employee Entitlements	13,530	1,141	-	-	14,671
Other	3,709	1,616	317	(1,569)	4,073
TOTAL NON-CURRENT LIABILITIES	30,840	11,631	22,529	(21,649)	43,351
TOTAL LIABILITIES	38,647	15,821	26,439	(27,525)	53,382
NET ASSETS	31,288	41,848	(932)	0	72,204
EQUITY					
Asset Revaluation Reserves	9,560	21,230	-	-	30,790
Accumulated Funds	21,728	20,618	(932)	-	41,414
TOTAL EQUITY	31,288	41,848	(932)	0	72,204

25. DETAILS OF CONSOLIDATED ENTITIES

The consolidated financial statements comprises the following entities:

General Government Agencies

Ageing and Disability Department
* Air Transport Council
* ANZAC Memorial Building Trustees
Archives Authority of New South Wales
* Art Gallery of NSW Foundation
Art Gallery of New South Wales
Attorney General's Department
Audit Office of New South Wales
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
City West Development Corporation
Coal Compensation Board
Community Services Commission
Crown Solicitor's Office
Crown 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 Energy
Department of Fair Trading
Department of Gaming and Racing
Department of Health
Department of Industrial Relations
Department of Juvenile Justice
Department of Land and Water Conservation
Department of Local Government
Department of Mineral Resources
Department of Public Works and Services
Department of Education and Training
Department of Sport and Recreation
Department of State and Regional Development
Department of Transport
Department of Urban Affairs and Planning
Department for Women
Drug Offense Foundation
Eastern Creek Raceway
Environment Education Trust
Environment Planning and Assessment Act (incorporating Sydney Region Development Fund and Land Development Contribution Fund)
Environment Protection Authority
Environmental Research Trust
Environmental Restoration and Rehabilitation Trust
Ethnic Affairs Commission
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 for Police
Ministry for the Arts
Ministry for Forests and Marine Administration
Ministry of Urban Infrastructure Management
Motor Accident Authority
Motor Vehicle Industry Repair Council
Museum of Applied Arts and Sciences
National Parks and Wildlife Service
New South Wales Adult Migrant English Service
New South Wales Cancer Council
New South Wales Crime Commission
New South Wales Dairy Corporation
New South Wales Film and Television Office
New South Wales Financial Institutions Commission
New South Wales Fire Brigades
New South Wales Fisheries
New South Wales Insurance Ministerial Corporation
New South Wales Meat Industry Authority
New South Wales Medical Board
New South Wales Police Service
New South Wales Rural Fire 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
 Somersby Park Limited
 Sporting Injuries Committee
 State Electoral Office
 State Emergency Service
 State Library
 State Sports Centre Trust
 State Valuation Office
 Stormwater Trust
 Superannuation Administration Authority
 Surveyor-General's Department
 Sustainable Energy Development Authority
 Sydney Cove Authority
 Technical Education Trust Fund
 Telco
 The Cabinet Office
 The Legislature
 Tourism New South Wales
 Tow Truck Industry Council
 Treasury
 Upper Parramatta River Catchment Trust
 Valuer General's Department
 Vocational Education and Training Accreditation Board
 Waste Planning and Management Fund
 Waterways Authority
 WorkCover Authority
 Workers Compensation (Broken Hill) Act

Public Trading Enterprises and Public Financial 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

Fair Trading Administration Corporation
 FANMAC Trusts
 Fish River Water Supply Authority
 Freight Rail Corporation
 Great Southern Energy
 Hunter Water Corporation
 Integral Energy
 Jenolan Caves Reserves Trust
 Landcom
 Macquarie Generation
 Murrumbidgee Region and Districts Irrigation Area
 Newcastle International Sports Centre
 Newcastle Port Corporation
 Newcastle Showground
 New South Wales State Lotteries
 New South Wales Treasury Corporation
 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 Market Authority
 Sydney Opera House
 Sydney Organising Committee for the
 Olympic Games
 Sydney Paralympic Organising Committee Ltd
 Sydney Ports Corporation
 Sydney Water Corporation
 Teacher Housing Authority
 # Totalizer Agency Board of New South Wales
 TransGrid
 Waste Services of NSW
 Workers Compensation (Dust Diseases) Board
 Wollongong Sports Ground Trust
 Zoological Parks Board

these agencies are entities which have been included in the revised scope of the Public Accounts (see note 1 "Change in Scope of the Public Accounts) the General Government Non-Budget Sector

Sold by public float in June 1998.

☆ Dissolved in October 1997

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 1998 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

21 December 1998



BOX 12 GPO
SYDNEY NSW 2001

INDEPENDENT AUDIT REPORT

STATEMENT OF THE BUDGET RESULT

To Members of the New South Wales Parliament and the Treasurer

Scope

I have audited the Statement of the Budget Result for the year ended 30 June 1998. 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 and the Treasurer on its preparation and presentation.

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 financial report of this matter.

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.

A. C. HARRIS

SYDNEY
24 December 1998

**NSW BUDGET SECTOR
STATEMENT OF THE BUDGET RESULT
FOR THE YEAR ENDED 30 JUNE 1998
(Government Finance Statistics Cash Basis)**

	97-98 \$m (Budget)	97-98 \$m (Actual)
Current Outlays	20,464	20,735
Less: Current Receipts	<u>22,573</u>	<u>22,699</u>
Current Result	<u>2,109</u>	<u>1,964</u>
Capital Outlays	3,571	3,271
Less: Capital Receipts	<u>1,078</u>	<u>963</u>
Capital Result - (Deficit)	<u>(2,493)</u>	<u>(2,308)</u>
TOTAL RESULT - SURPLUS/(DEFICIT)	<u>(384)</u>	<u>(344)</u>
Financed by/(used for):		
Net decrease/(increase) in advances made	328	1,141
Net borrowings/(repayments)	(188)	(746)
Net decrease/(increase) in cash balances and investments	<u>244</u>	<u>(51)</u>
	<u>384</u>	<u>344</u>

Note 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.

Note 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.

The 1997-98 Budget figures as reported in 1997-98 Budget Paper No. 2 have been adjusted to reflect reclassifications required by the Australian Bureau of Statistics.

These reclassifications included:

- net advances paid being treated as a financing transaction rather than a component of capital outlays; and
- fees being treated as user charges (and therefore part of current outlays) rather than a component of current receipts.

The Statement of the Budget Result does not include actual figures for 1996-97. This is because the effect of the reclassifications in 1997-98 is that the 1996-97 figures do not provide meaningful comparative data.

Note 3 Budget Coverage

The 1997-98 Budget was presented on the former Budget Sector coverage. Hence, it is appropriate from an accountability objective to report on the budget outcome against those figures. The former Budget Sector coverage was based on those agencies that relied on a direct Consolidated Fund appropriation for the greater part of their income.

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.

From 1998-99, the Statement of Budget Result will be prepared on a General Government basis.

END OF AUDITED BUDGET INFORMATION

UNAUDITED INFORMATION

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

	97-98 \$m
Audited Budget Result - Budget Sector basis - Surplus/(Deficit)	(344)
Adjustments due to a change in the scope of the Public Accounts ⁽¹⁾	273
Budget Result - General Government basis - Surplus/(Deficit)	(71)
 <i>Items included in the General Government budget result but not in the accrual based operating result</i>	
Asset sale proceeds	(419)
Gross fixed capital expenditure	2,532
Movement in other operating assets and liabilities	87
 <i>Items included in the accrual based operating surplus but not in the General Government budget result</i>	
Depreciation and amortisation	(705)
Downward adjustment of asset values	(91)
Gain on asset disposals	972
Other deductions	(212)
Accrual based operating surplus/(deficit) after abnormal and before extraordinary items.	2,093

1997-98 is the first year in which the Public Accounts have been prepared on a General Government basis. In contrast, the 1997-98 Budget Result has been prepared on a Budget Sector basis.

In order to reconcile the Budget Result to the Public Accounts operating result, it has been necessary to restate the audited Budget Result to a General Government basis. This

adjustment represents the effect of including General Government Non Budget Dependent agencies in the Budget Result.

From 1998-99, both the Public Accounts and the Statement of the Budget Result will be prepared on a General Government basis.

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. 6 released in June 1998, data on estimated June 1998 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 1998 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 1998

	General Government	Public Trading Enterprises	NON FINANCIAL PUBLIC SECTOR (e)	Public Financial Enterprises	TOTAL STATE SECTOR
	\$m	\$m	\$m	\$m	\$m
Gross Debt					
Deposits Held	52	78	130	953	1,080
Advances Received	2,340	1,434	2,328	0	2,328
Other Borrowings	15,654	8,648	23,373	24,397	25,786
Total Gross Debt	18,046	10,160	25,831	25,350	29,194
Financial Assets					
Cash and Deposits	2,898	893	3,791	264	4,050
Advances Paid	1,641	0	195	0	196
Other Lending (c)	3,243	1,693	4,008	24,520	6,545
Total Cash, Deposits and Lending	7,782	2,586	7,994	24,784	10,791
Net Debt (a)	10,264	7,574	17,837	566	18,403
Other Liabilities					
Accounts Payable (b)	1,722	1,413	2,612	580	3,192
Unfunded Employee Entitlements	15,358	1,340	16,698	2	16,700
Sub Total Other Liabilities	17,081	2,753	19,310	582	19,892
Other Financial Assets					
Accounts Receivable (c)	3,369	1,773	2,456	745	3,201
<i>less</i> Provision for Doubtful Debts	(171)	(42)	(213)	(50)	(263)
Equity					
Equity of Listed Entities					
- Public Trading Enterprises	-	-	-	-	-
- Other	-	-	-	-	-
Residual Equity					
- Public Trading Enterprises	41,848	(41,848)	-	-	-
- Other	-	-	-	-	-
Sub Total Other Financial Assets	45,046	(40,117)	2,243	695	2,938
Excess of Total Liabilities over Financial Assets (d)	(17,701)	50,444	34,904	453	35,357

(a) Total Gross Debt *less* Total Cash, Deposits and Lending

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

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

(d) Net Debt *plus* Other Liabilities *less* Other Financial Assets

(e) 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

THE NSW STATE SECTOR ACCOUNT
UNIFORM PRESENTATION OF INFORMATION
ON FINANCIAL ASSETS AND LIABILITIES AS AT 30 JUNE 1997

	General Government	Public Trading Enterprises	NON FINANCIAL PUBLIC SECTOR (e)	Public Financial Enterprises	TOTAL STATE SECTOR
	\$m	\$m	\$m	\$m	\$m
Gross Debt					
Deposits Held	44	185	223	988	1,207
Advances Received	3,907	1,467	3,918	0	3,918
Other Borrowings	14,363	8,985	22,639	23,225	24,627
Total Gross Debt	18,314	10,637	26,780	24,213	29,752
Financial Assets					
Cash and Deposits	2,169	429	2,590	739	3,325
Advances Paid	1,679	1	225	0	224
Other Lending (c)	3,632	2,680	5,605	23,077	7,445
Total Cash, Deposits and Lending	7,480	3,110	8,420	23,816	10,994
Net Debt (a)	10,834	7,527	18,360	397	18,758
Other Liabilities					
Accounts Payable (b)	1,447	1,802	2,653	703	3,356
Unfunded Employee Entitlements	15,259	1,604	16,805	2	16,807
Sub Total Other Liabilities	16,706	3,406	19,458	705	20,163
Other Financial Assets					
Accounts Receivable (c)	3,076	1,824	2,383	585	2,969
<i>less</i> Provision for Doubtful Debts	(197)	(30)	(228)	(36)	(263)
Equity					
Equity of Listed Entities					
- Public Trading Enterprises	-	-	-	-	-
- Other	-	-	-	-	-
Residual Equity					
- Public Trading Enterprises	41,368	(41,368)	-	-	-
- Other	-	-	-	-	-
Sub Total Other Financial Assets	44,247	(39,574)	2,155	549	2,706
Excess of Total Liabilities over Financial Assets (d)	(16,707)	50,507	35,663	553	36,215

(a) Total Gross Debt *less* Total Cash, Deposits and Lending

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

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

(d) Net Debt *plus* Other Liabilities *less* Other Financial Assets

(e) 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

END OF UNAUDITED INFORMATION