

NEW SOUTH WALES
REPORT ON STATE FINANCES
2006 - 07

Inquiries concerning this document can be directed to: Financial Management and Reporting, NSW Treasury
Tel: (02) 9228 4659 Fax: (02) 9228 3031 Email: rosenbi@mail.treasury.nsw.gov.au.
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PREFACE

The 2006-07 New South Wales Report on State Finances includes:

- An audited Statement of the Budget Result;
- the Outcomes Report on Government Finances for the general government, public trading enterprises, public financial enterprises, and the non-financial public sectors, prepared in accordance with Government Finance Statistics principles and the Uniform Presentation Framework adopted by all Australian governments; and
- the Consolidated Financial Report of the Total State Sector, prepared in accordance with Australian Accounting Standards.

The Statement of the Budget Result allows a comparison of the end of year aggregates with those estimated in the 2006-07 Budget.

The Outcomes Report allows readers to compare the results for New South Wales with other States.

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

These reports and associated commentary provide a comprehensive review of the State's financial position and achievements against the fiscal principles outlined in the *Fiscal Responsibility Act 2005*.

Michael Costa
Treasurer

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C O N T E N T S

AUDITED CONSOLIDATED FINANCIAL REPORT (TOTAL STATE SECTOR ACCOUNTS) – cont

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HIGHLIGHTS

- A Budget surplus on a Government Finance Statistics (GFS) basis for the year ended 30 June 2007 of \$584 million. This is \$1,280 million higher than the original Budget estimate of a deficit of \$696 million. It is also \$140 million higher than the revised estimate of \$444 million published in the 2007-08 Budget Papers. See Figure 1.
- Total expenses were \$43,946 million, which is \$1,054 million higher than the original Budget estimate of \$42,892 million and \$95 million lower than the revised estimate of \$44,041 million published in the 2007-08 Budget Papers.
- Expenses for 2006-07 included an unbudgeted \$960 million rail debt reduction payment, relating in particular to debt associated with the construction of the Epping to Chatswood rail link. Excluding this grant expenses were only \$94 million higher than the original budget estimate. This is a variance of only 0.2%.
- Total revenue was \$44,530 million, which is \$2,334 million higher than the original budget estimate of \$42,196 million and \$45 million higher than the revised estimate of \$44,485 million.
- Revenues benefited from exceptional investment market conditions. Investment income was \$399 million above budget due to strong financial market conditions in the year. In addition, other operating revenues were \$204 million above budget, which includes higher than expected HIH recoveries.
- Taxation revenue was \$994 million above budget, driven by higher stamp duty revenue from high value commercial property sales (sales where duty exceeds \$1 million), and a one-off revenue resulting from a single transaction.
- The State's balance sheet (GFS basis) continues to strengthen. Assets rose by \$6,310 million, while liabilities fell by \$1,957 million. As a result, the net worth of the Total State Sector rose to \$134,790 million at 30 June 2007. See Figure 2.
- After contributing more than \$7 billion towards superannuation in 2006-07, General Government Sector net debt is still low at \$3,234 million or 1.0 per cent of Gross State Product., although an increase from 0.4 per cent in June 2006.
- Total State Sector net debt rose to \$20,100 million, or 6.0 per cent of Gross State Product (GSP). The rise was primarily the result of a planned \$7 billion superannuation contribution, and the temporary \$2 billion growth in electricity derivative net liabilities at year-end against a hedging reserve, due to a spike in electricity spot prices. The derivative liabilities were extinguished against the reserve, in 2007-08 following a return to normal electricity prices.
- Total State Sector net financial liabilities fell to \$51,926 million or 15.4 per cent of GSP compared to 16.0 per cent in June 2006, driven by a reduction in superannuation liabilities from above average investment earnings. In 1995, net financial liabilities stood at 25.9 per cent of GSP. See Figure 3.
- The underlying Budget cash deficit for 2006-07 was \$1,967 million (GFS basis), reflecting the general government sector's record capital expenditure program of \$4,286 million. The cash deficit is well below the original budget estimate of a \$4,581 million deficit. The improvement is mainly due to a better than expected Budget result and lower superannuation contributions.
- The State's credit rating assessed by both Moody's and Standard & Poor's remains Triple A, reflecting the strength of the New South Wales Government balance sheet.

HIGHLIGHTS

Figure 1

**Budget Surplus
(General Government Net Operating Result)
1999-2000 to 2006-07**

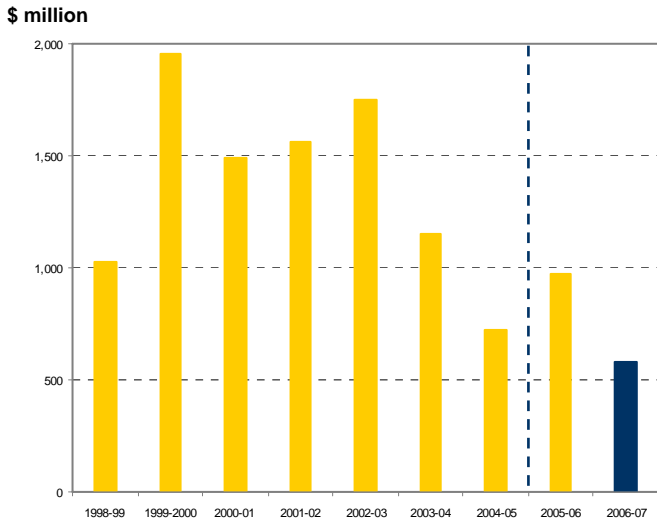
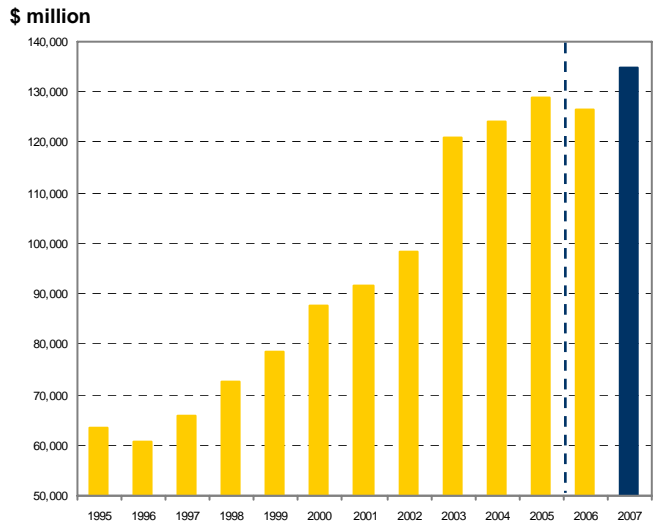


Figure 2

**Total State Sector Net Worth
at 30 June**



--- Break in time series from the adoption of AEIFRS

Figure 3

**Total State Sector Net Financial Liabilities as
% Gross State Product at 30 June**

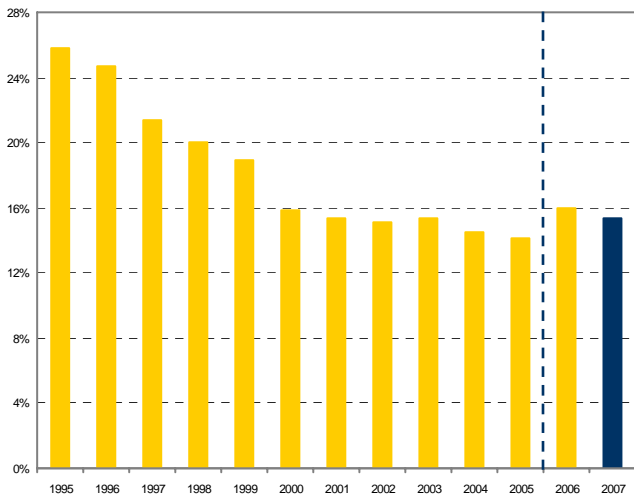
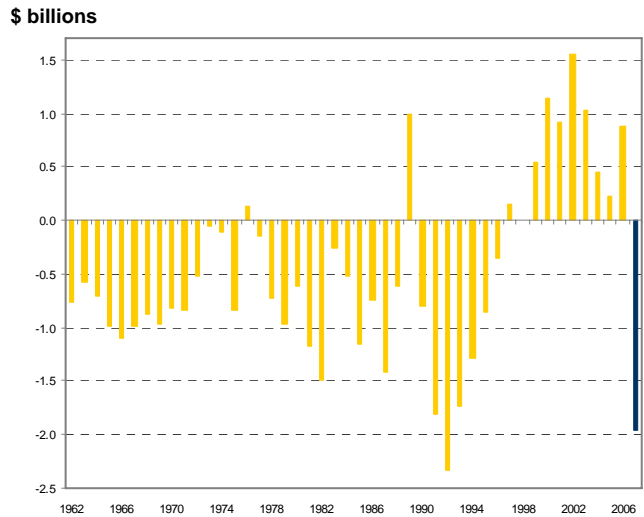


Figure 4

**Budget Cash Result
(General Government Underlying)
1961-62 to 2006-07 (at constant 2006-07 prices)**



--- Break in time series from the adoption of AEIFRS

HIGHLIGHTS

KEY FINANCIAL INDICATORS			
		2005-06	2006-07
GENERAL GOVERNMENT SECTOR			
Budget Surplus – GFS Net Operating Surplus	\$m	976	584
Underlying Cash Surplus/(Deficit)	\$m	842	(1,967)
GFS Net Lending / (Borrowing)	\$m	(522)	(1,040)
		June 2006	June 2007
Underlying Net Debt	\$m	1,141	3,234
Underlying Net Debt as a % of Gross State Product	%	0.4%	1.0%
Underlying Net Unfunded Superannuation Liability	\$m	17,822	14,413
Net Financial Liabilities (NFL)	\$m	28,036	26,157
NFL as a % of Gross State Product	%	8.8%	7.8%
TOTAL STATE SECTOR			
		2005-06	2006-07
TOTAL STATE SECTOR			
AAS31 Operating Result excluding Significant Items and Other Net Income – Surplus	\$m	1,909	2,175
AAS31 Operating Result including Significant Items - Surplus/(Deficit)	\$m	7,105	5,929
		June 2006	June 2007
Underlying Net Debt	\$m	15,169	20,100
Underlying Net Debt as a % of Gross State Product	%	4.7%	6.0%
Underlying Net Unfunded Superannuation Liability	\$m	18,250	14,122
Net Financial Liabilities (NFL)	\$m	51,272	51,926
NFL as a % of Gross State Product	%	16.0%	15.4%
GFS Total Assets	\$m	206,708	213,018
GFS Total Liabilities	\$m	80,185	78,228
GFS Net Worth	\$m	126,523	134,790

Throughout this Report NSW Treasury has estimated 2006-07 Gross State Product (GSP). The Australian Bureau of Statistics has yet to publish its 2006-07 estimate of GSP.

REVIEW OF FINANCIAL PERFORMANCE FOR 2006–2007

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

1. ANALYSIS OF THE GFS STATEMENT OF THE BUDGET RESULT

The Budget Operating Statement has been prepared on a GFS basis and relates to the General Government Sector. The commentary on this statement analyses the variances between the Budget for 2006-07 and the actual result. An audited Statement of the Budget Result is disclosed on Page 1-5.

2. ANALYSIS OF THE GFS TOTAL STATE SECTOR BALANCE SHEET

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

3. ANALYSIS OF AAS 31 TOTAL STATE REVENUES AND EXPENDITURE

An analysis of current year expenditures and revenues for the Total State Sector compared with prior year balances is included here. This is done on an accrual accounting basis (per AAS 31 *Financial Reporting by Governments*) and refers to the aggregates disclosed in the Consolidated Financial Report at Page 3-6.

4. FINANCIAL FRAMEWORK AND TARGETS

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

5. SCOPE OF THE REVIEW

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

1. ANALYSIS OF THE GFS STATEMENT OF THE BUDGET RESULT

	Budget \$m	Actual \$m	Var \$m
Total State Revenues	37,175	38,631	1,456
Total Operating Revenues	5,021	5,899	878
Total Expenses	(42,892)	(43,946)	(1,054)
Budget Result	(696)	584	1,280

The Budget result for the financial year ended 30 June 2007 was a surplus of \$584 million. This represented a \$1,280 million increase on the original 2006-07 estimate of a deficit of \$696 million (see NSW General Government Sector Statement of the Budget Result page 1-5). An analysis of the result compared to the Budget (as presented in the 2006-07 Budget Papers) is outlined below.

STATE REVENUES

State revenues increased by \$1,456 million against budget as outlined below.

	Budget \$m	Actual \$m	Var \$m
State Revenues			
Taxation	16,719	17,713	994
Commonwealth Grants			
- General Purpose	10,946	10,938	(8)
- Specific Purpose	6,679	6,851	172
Dividends and Tax			
Equivalent	1,664	1,937	273
Fines, Regulatory Fees			
and Other	1,167	1,192	25
Total State Revenues	37,175	38,631	1,456

Taxation

Transfer Duty

Transfer duty on property transfers is the largest single component of stamp duty revenues. It is the most volatile revenue source collected by the State. Revenue was \$913 million higher than the Budget. Most of the increase was from high value commercial property sales (sales where duty exceeds \$1 million), with nearly half of the additional revenue related to one single transaction.

Other Taxes

In total, other taxes were \$81 million over the Budget estimate.

Land tax was \$243 million higher than the Budget time estimate. This was due to the clearing of a backlog of assessments related to previous years and faster processing of assessments for the 2007 land tax year, partly offset by lower than expected growth in land values.

Payroll tax was \$226 million higher than the Budget. This was due chiefly to a stronger than anticipated labour market, particularly in the latter half of 2006.

This was offset by a \$292 million reduction in revenue from the Electricity Tariff Equalisation Ministerial Corporation due to higher electricity prices between April and June and reduction of \$60 million in contributions from insurance schemes managed by WorkCover Authority due to an actuarial review of the cost of claims.

Commonwealth Grants

Commonwealth general purpose payments in 2006-07 were comprised of GST revenue grants. GST revenue grants were \$8 million less than the Budget.

Specific purpose payments were \$172 million above budget. During the year, there has been increased funding for the Exceptional Circumstances Scheme, Indigenous and School Education programs, Australian Immunisation Agreement for Cervical Cancer as well as various other grants paid directly to the Area Health Services. These additional funds are offset by higher expenditures in these areas.

REVIEW OF FINANCIAL PERFORMANCE FOR 2006–2007

Accelerated funding to the Roads and Traffic Authority for the Hume and Pacific Highway Projects provided by the Commonwealth in 2005-06 is being recognised in the years in which the road works occur. Lower spending on the projects has resulted in lower income recognition for 2006-07.

Financial Distributions (Dividends and Income Tax Equivalents)

Dividends and income tax equivalent payments are paid by commercial Government businesses to ensure competitive neutrality with the private sector and encourage the businesses to make commercial investment decisions.

Dividends and taxes improved by \$273 million in 2006-07 primarily due lower than budgeted contributions by electricity Public Trading Enterprises to the Electricity Tariff Equalisation Fund, increasing their level of dividends and tax equivalent payments.

However, the higher revenue from dividends and income tax was matched by an equivalent fall in taxation revenue from the Electricity Tariff Equalisation Ministerial Corporation due to higher electricity prices between April and June 2007.

Fines, Regulatory Fees and Other

Revenue from fines, regulatory fees and other revenues was \$25 million higher than the 2006-07 Budget estimate. These comprise minor variations across agencies.

OPERATING REVENUES

Operating revenues increased by \$878 million against budget as outlined below.

	Budget \$m	Actual \$m	Var \$m
Operating Revenues			
Sale of Goods and Services	2,999	3,274	275
Investment Income	914	1,313	399
Grants and Contributions	789	789	0
Other Revenue	319	523	204
Total Operating Revenues	5,021	5,899	878

Sale of Goods and Services

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

In 2006-07, sales of goods and services exceeded the Budget estimate by \$275 million.

A significant proportion of this was due to the State's response to the Commonwealth's WorkChoices legislation. This resulted in a \$131 million increase in revenues received for personnel services from agencies outside the general government sector, and a commensurate increase in expenses as the employee related costs are also recognised.

In addition, a number of large agencies had small favourable movements which have corresponding expense offsets.

Investment Income

Revenue from investments includes returns on advances to Public Trading Enterprises, returns on Treasury Corporation deposits, and on deposits with financial institutions.

In 2006-07, investment revenue improved by \$399 million over the Budget estimate. This mainly reflected stronger than expected market returns across a number of agencies, including the NSW Self Insurance Corporation (\$142 million), the Liability Management and Ministerial Corporation (\$99 million), WorkCover Authority (\$36 million) and Building & Construction Industry Long Service Leave Payment Corporation (\$35 million).

Grants and Contributions

Grants and Contributions revenue met the Budget estimate.

Other Operating Revenue

Other operating revenue was above Budget by \$204 million. This included higher than expected HIH Insurance Recoveries received by the Crown Finance Entity.

REVIEW OF FINANCIAL PERFORMANCE FOR 2006–2007

EXPENSES

The response to the Commonwealth's WorkChoice legislation involved transferring employment responsibility for certain employees outside of the general government sector (such as Public Trading Enterprises) to general government agencies. This resulted in an increase in employee related costs of some \$131 million, offset by a commensurate increase in revenues received for personnel services (refer Sales of Goods and Services).

Variances in expenses were also recorded in the following areas.

Crown Finance Entity expenses were \$898 million higher than the Budget estimate. This mainly reflects additional capital grants to rail agencies for debt repayment and restructuring costs, an equity injection to WSN Environment Solutions (for a pre-corporatisation liability relating to a closed land fill site rehabilitation), funding the completion of Lucas Heights sports complex facilities, and an adjusted superannuation expense.

Health expenses were \$268 million higher than the Budget estimate. This mainly reflects additional expenditure based on revised revenue projections (\$207 million) and revisions to employee entitlements based on recent award decisions (\$92 million), offset by savings through delays in the Industrial Relations Commission on further award decisions (\$45 million).

Rural Assistance Authority expenses were \$244 million higher than the Budget estimate, mainly due to increased drought assistance (payments funded by State and Commonwealth contributions) and compensation to southern irrigators for reduced water allocation.

Education expenses were \$120 million higher than the Budget estimate. This increase mainly reflects additional employee related expenses due to a higher number of school students than anticipated, additional Commonwealth funded School Programs and expenditure increases corresponding to an increase in income from the sale of goods and services.

Police expenses were \$94 million higher than the Budget estimate. This was mainly due to a revision of Death and Disability Scheme liabilities (\$83 million) based on an actuarial valuation, costs associated with training additional police recruits and revised depreciation expenses.

Department of Primary Industries expenses were \$67 million higher than the Budget estimate, mainly due to an extension of drought assistance and earlier than expected fishing licence buyouts.

Department of Corrective Services expenses were \$56 million higher than the Budget estimate. This mainly reflects increased inmate numbers, an enhanced Community Offender Services Program and continuation of funding for the Drug Court.

Roads and Traffic Authority expenses were \$51 million higher than the Budget estimate mainly due to increased depreciation and costs of works carried out for external clients, partially offset by lower than anticipated superannuation and long service leave expenses.

NSW Self Insurance Corporation expenses were \$552 million lower than the Budget estimate, mainly the result of downward revisions in the outstanding liability and claims paid. The key contributors to the reduction are favourable weekly benefit experience, attributable to fewer workers compensation claimants in receipt of weekly benefits, continued favourable claims experience following government legislative reforms and effective claims management from the multi-provider model.

Department of Water and Energy expenses were \$199 million lower than the Budget estimate largely due to delays in payment of Groundwater Structural adjustments resulting from Commonwealth taxation issues, and under-expenditure of the Country Towns Program.

Catchment Management Authorities (CMA) expenses were \$71 million lower than the Budget estimate mainly due to lower program expenditure, resulting from affects of the drought.

2. ANALYSIS OF THE GFS TOTAL STATE SECTOR BALANCE SHEET

The Total State Sector Balance Sheet

Over the period June 1994 through to June 2007, the Net Worth of the NSW Total State Sector has doubled.

The Total State Sector's Net Worth was \$134,790 million at 30 June 2007, an increase of \$8,267 million or 6.5 per cent on the previous year.

The \$8,267 million increase in Net Worth comprises an increase in non-financial assets of \$8,921 million and an increase in Net Financial Liabilities of \$654 million.

Non-Financial Assets

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

The State's non-financial assets were valued at \$186,716 million at 30 June 2007, an increase of \$8,921 million on the previous year. This included an increase in investments in property and infrastructure of \$9,856 million, and asset revaluations of \$4,233 million. These were offset by depreciation of \$4,465 million, asset disposals of \$729 million and other movements of \$26 million.

Capital expenditure on property and infrastructure in 2006-07 included investments in:

- educational facilities \$564 million
- hospitals and equipment \$550 million
- roads \$1,589 million
- public housing \$550 million
- public transport \$1,484 million
- energy infrastructure \$2,254 million
- water infrastructure \$943 million

Several agencies performed cyclical revaluations of their property, plant and equipment during the financial year. As a result, the value of roads increased by \$990 million and, within the energy sector, Eraring power station increased in value by \$584 million.

Net Financial Liabilities

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

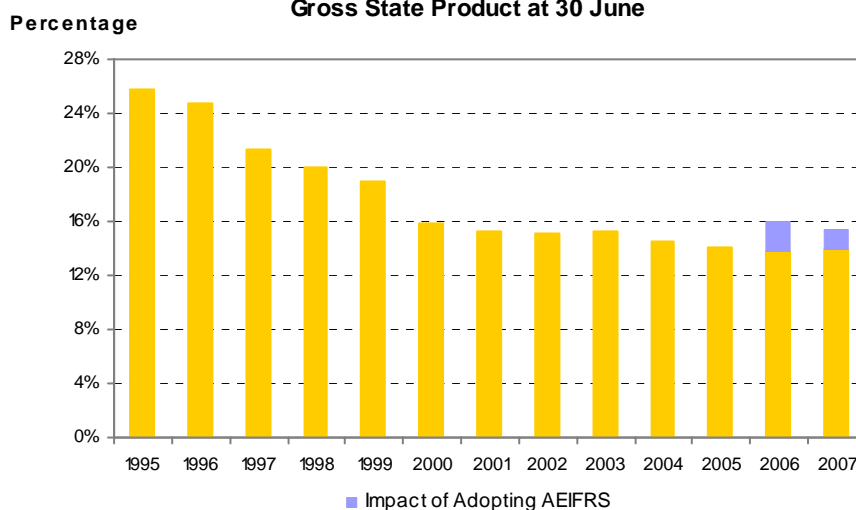
Total State Sector NFL as a per cent of gross state product fell from 25.9 per cent in June 1995 to 15.4 per cent in June 2007. (Refer Figure 5).

This is despite the impact of adopting Australian Equivalents to International Financial Reporting Standards (AEIFRS), which increased NFL by 1.5 per cent in June 2007 (2006 2.2 per cent), driven by changes to the superannuation liability discount rate applied by the actuaries.

The reduction in NFL as a percentage of GSP, since 1995, represents an improvement in the State's financial position. Reducing liabilities to a sustainable level allows the Government to maintain government services throughout the economic cycle.

Figure 5

**Total State Sector
Net Financial Liabilities as a Percentage of
Gross State Product at 30 June**



Net Financial Liabilities (NFL) comprise:

	June 2007 \$m	June 2006 \$m
GFS Net Debt	20,100	9,862
Unfunded Superannuation Liabilities	14,122	23,556
Other Employee Entitlements	10,678	10,536
Insurance Obligations	4,527	4,630
Other Net Liabilities	2,499	2,688
Net Financial Liabilities	51,926	51,272

The \$654 million net increase in Total State NFL was due to:

- an increase in net debt (\$10,238 million);
- a fall in superannuation liabilities (\$9,434 million);
- growth in other employee benefit liabilities (\$142 million);
- a reduction in public liability and other insurance obligations (\$103 million); and
- a reduction in other net liabilities (\$189 million).
- The increase in net debt and reduction in superannuation were principally impacted by a \$7,175 million contribution to defined benefits superannuation schemes.

Net Debt

Total State Sector Net Debt grew by \$10,238 million to \$20,100 million for the year ended 30 June 2007.

During 2006-07, gross debt increased by \$6,301 million and cash and investments decreased by \$3,937 million.

Net Debt comprises borrowings less cash, investments and advances receivable.

The increase in Net Debt is primarily the result of two balance sheet transactions:

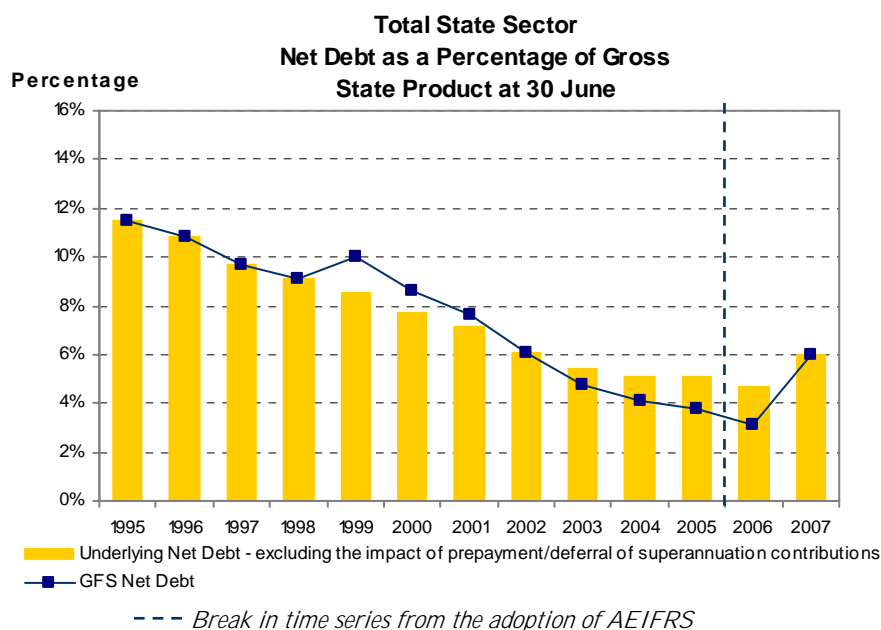
- the \$7,175 million superannuation contribution made utilising all the funds in the General Government Liability Management Fund (GGLMF). The GGLMF was established in 2002. Crown contributions to superannuation as well as funds from other sources were paid into the GGLMF during 2002 through to 2006 and invested in fixed interest securities. The balance of the GGLMF was paid into the State Super Fund during 2006-07, and
- an increase in electricity net derivative liabilities against a hedging reserve (nearly \$2 billion) following a spike in electricity prices in late June 2007. These liabilities were extinguished against the reserve, in 2007-08 following a return to normal electricity prices.

REVIEW OF FINANCIAL PERFORMANCE FOR 2006–2007

The Net Debt of the State as a percentage of GSP rose from 3.1 per cent in June 2006 to 6.0 per cent in June 2007, primarily as a result of the above two transactions. Excluding the investments associated with the deferral of

GGLMF superannuation contributions, Net Debt as a percentage of GSP was 4.7 per cent in June 2006 and 6.0 per cent in June 2007. This compares to 11.5 per cent in June 1995. (Refer Figure 6).

Figure 6



Superannuation Liabilities

Superannuation liabilities represent the actuarially assessed obligations for past and present employees less the net market value of scheme assets set aside to meet these obligations. During 2006-07, net unfunded superannuation liabilities fell by \$9,434 million. This is a result of:

- the Crown made a \$7.175 billion in superannuation contributions utilising all of the funds in the General Government Liability Management Fund;
- an increase in the State Super Fund liability discount rate from 5.9 per cent to 6.4 per cent; and
- higher investment returns than expected. The actual investment performance of the State Super Fund was positive 15.2 per cent in 2006-07, which is higher than the long

term actuarially applied rate of positive 7.6 per cent per annum.

This was partly offset by:

- an increase in the accrued benefits due to an additional year of service being provided by current State Super Fund scheme contributors;
- one year less discounting for the present value of total future benefit payments; and
- salary increases.

Employer and employee assets in the defined benefits schemes were \$37,507 million at 30 June 2007.

REVIEW OF FINANCIAL PERFORMANCE FOR 2006–2007

The full funding target for superannuation liabilities is 2030. This is 15 years earlier than the original funding plan developed in 1993, as a result of higher contributions, various liability management initiatives and favourable investment returns over the period since 1993.

In this context, “fully funded” means that by 2030 no further employer contributions will need to be made. The amount of reserves at that time, plus expected investment returns for the remainder of the life of the Pooled Fund schemes will be sufficient to fund future expected benefit payments.

Other Employee Benefits Liabilities

Other employee benefits include payables, annual and long service leave, and self funded obligations for workers compensation.

The June 2007 levels at \$10,678 million were similar to the previous year. It comprises a 3.1 per cent growth in leave liabilities offset by a similar dollar fall in worker’s compensation claim liabilities, which have been assessed by actuaries.

Insurance Obligations

These liabilities primarily comprise obligations of the Treasury Managed Fund (excluding worker’s compensation) a government self-insurance scheme, liabilities for dust disease claims, and closed insurance schemes such as the Transport Accident Compensation Fund (old third party scheme). In 2006-07, insurance obligations fell by \$103 million to \$4,527 million.

The reversal in the growth in insurance liabilities is primarily the result of a reduction in claim costs following legislative reforms, particularly for workers compensation insurance.

Other Net Liabilities

Other net liabilities decreased during 2006-07 by \$189 million to \$2,499 million.

Other net liabilities primarily comprise non-employee provisions, payables, unearned income and other obligations, less receivables and equity assets.

The State has a provision of \$1,009 million in June 2007 (2006 \$1,025 million) for the liability in respect of claims that have been granted to local Aboriginal Land Councils under the *Aboriginal Land Rights Act 1983*. These liabilities are backed by land assets of an equivalent value, which will be transferred when control and management of the granted lands transfers to the relevant Aboriginal Land Council. This will occur after the parcels of land are surveyed and title is issued.

A grant of \$960 million was received from the Commonwealth government in late June 2006, from which \$952 million was dedicated for road works to be carried out over several future years beyond June 2006. The revenue was recognised in the Total State Sector Accounts in the 2005-06 financial year, when the cash was received.

However the Australian Bureau of Statistics has determined, for the purposes of Government Finance Statistics (GFS) reporting, that the roads grant should be accrued to match the timing of the related expenditure by NSW. This accrual treatment is adopted only for the Outcomes Report and in the Statement of the Budget Result, which are both prepared in accordance with GFS principles. The amount recognised at June 2007 in the GFS balance sheet under other net liabilities is \$898 million.

Net Worth

The movement in various financial and non-financial assets and liabilities, outlined above, resulted in growth in Net Worth during 2006-07 by \$8,267 million to \$134,790 million.

The 2006-07 Report on State Finances contains two asset and liability reports.

The balance sheet reported in the Outcomes Report is prepared on a Government Finance Statistics (GFS) basis. The balance sheet reported in the Total State Sector Accounts is prepared on an accounting basis and is similar and reconcilable to the GFS balance sheet.

REVIEW OF FINANCIAL PERFORMANCE FOR 2006–2007

The primary differences between the two reports are:

- Provisions for doubtful debts are excluded from balance sheets presented on a GFS basis.
- The GFS balance sheet includes specific deferred Commonwealth grants revenue liabilities (dedicated for the Australian Road Transport Program) which have been recognised as revenue, and not as liabilities, in the accounting based Total State Sector Accounts.
- The General Government balance sheet in the Outcomes Report shows an equity investment in the Public Financial Corporation and Non-Financial Corporation Sectors (referred to more generally as the PTE Sector and PFE Sector) while the accounting based statement of financial position does not record this item.
- Further, GFS based Balance Sheets are classified into financial and non-financial assets and liabilities, whereas accounting based statements of financial position are grouped by current or non-current assets and liabilities.

3. ANALYSIS OF THE AAS 31 TOTAL STATE SECTOR OPERATING RESULT

The Total State Sector Operating Result is prepared in accordance with Australian Accounting Standards whereas the Budget Result is prepared in accordance with Government Finance Statistics (GFS) principles. The primary differences in the two results arise from:

- different scope. The Budget Result covers only the general government sector whereas the Total State Sector Operating Result also includes public trading and financial enterprises;
- differences in treatment of actuarially assessed superannuation gains/losses. GFS has an economic focus and for this reason the GFS based Budget Result excludes gains and losses related to the revaluation of assets and liabilities (such as for superannuation). However, all superannuation gain/losses are included in the accounting based Total State Operating Result; and
- the different treatment of Commonwealth grants for a component of the Australian Road Transport Program. The grant is recognised on a cash basis in the Total State Sector Operating Result, whereas it is recorded on an accrual basis in the Budget Result, due to a directive from the ABS to accrue such monies for GFS purposes.

The following analysis compares current year Total State Sector revenues and expenses, on an accounting basis, with prior year amounts. The relevant report is located at Page 3-6.

Excluding other net income (ie valuation gains/losses) and significant items, the accrual operating result for the Total State Sector was a surplus of \$2,175 million in 2006-07 compared to a surplus of \$1,909 million in 2005-06. However, a number of significant revenue and expense items (see Note 5) and other net income (mainly superannuation gains) result in an overall surplus of \$5,929 million being reported in 2006-07.

These include:

- superannuation actuarial gains of \$3,518 million in 2006-07 and \$4,748 million in 2005-06. These gains were mainly the result of increases in the 10 year Commonwealth bond rates, used to discount the defined benefit scheme liabilities, and higher than average superannuation investment returns, occurring in both years.
- Accounting standards require the use of a long-term government bond rate as at 30 June, which can be volatile from year to year. Superannuation gains have also been affected by the above average investment returns. The actual investment performance of the State Super Fund was 15.2 per cent (2005-06 15.8 per cent), which is higher than the long-term actuarially applied rate of positive 7.6 per cent per annum;
- a \$37 million reduction in the 2006-07 worker's compensation insurance claims expense driven mainly by the outcome of recent tort law reform and better liability management;
- a one-off \$424 million stamp duty revenue (including interest) accrued in 2006-07 resulting from an assessment from a single large transaction; and
- a one-off \$960 million grant revenue in 2005-06 from the Commonwealth government towards future year capital expenditure on the Australian Road Transport Program.

Figure 7 demonstrates the volatile impact that significant items can have when conducting comparisons over time of operating results. By excluding the impact of these one-off large transactions it is possible to perform a more meaningful analysis of the results.

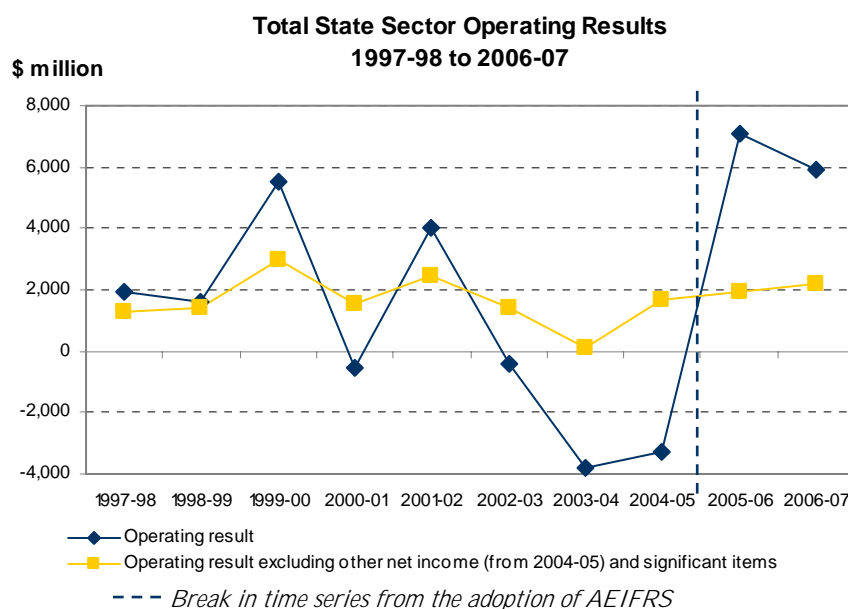
REVIEW OF FINANCIAL PERFORMANCE FOR 2006–2007

The Total State Sector Operating Result excluding significant items on an accounting basis is shown below.

	2006-07 \$m	2005-06 \$m
Total State Revenues	35,781	33,585
Operating Revenues	16,435	15,653
Less Total Expenses	(50,041)	(47,329)
<hr/>		
Operating Surplus excluding Net Income and Significant Items	2,175	1,909

The following discussion excludes the impact of significant expense and revenue transactions which have been summarised above. Refer to Notes 4 and 5 of the Consolidated Financial Report for further details on other net income (gains/losses) and significant transactions.

Figure 7



Total State Revenues

Total State Revenues, including Commonwealth grants, State taxes, fines and fees, rose \$2,196 million or 6.5 per cent between 2005-06 and 2006-07.

Taxation revenue increased in 2006-07 by \$1,635 million.

Stamp duties grew by \$699 million or 14.5 per cent. Purchaser duty revenue was \$598 million higher than 2005-06 levels reflecting a combination of higher prices and increased activity in both the commercial and residential property markets. Marketable securities duty increased by \$62 million due to a large number of high value transactions

(transactions on which more than \$1 million in transfer duty is payable). These were partly offset by reductions of \$89 million in vender duty following its abolition for contracts exchanged on or after 2 August 2005.

Payroll tax was up \$425 million, mainly driven by growth in employment and wages. Land tax was higher by \$292 million reflecting higher land values, the clearing of a backlog of assessments relating to previous years, and faster processing of assessments for the 2007 land tax year.

REVIEW OF FINANCIAL PERFORMANCE FOR 2006–2007

Gambling and betting revenues were up \$135 million, reflecting new tax rates for club and hotel gaming machines as well as the growth in spending. Other taxes rose by \$84 million or 3.4 per cent.

Commonwealth grants revenue rose by 3.8 per cent compared to 2005-06. This was significantly below the growth in costs in health, education and community services, which grew at 5.7 per cent. GST revenue provided to NSW was up \$510 million, however this did not significantly alter the proportion of GST that New South Wales received.

NSW Treasury estimates that in 2006-07 around \$13.5 billion of GST revenue was generated in New South Wales, compared with the GST grants that New South Wales received of \$10.9 billion. This resulted in a cross subsidy to other States (excluding Victoria) of \$2.6 billion in 2006-07.

Since 2001-02 the Commonwealth's contribution has fallen from 36.4 per cent of New South Wales total state revenues to 34.0 per cent in 2006-07.

Specific purpose grants increased 6.9 per cent over 2005-06. These included increases in grants dedicated for immunisation and health care programs, drought assistance, reducing salinity and improving water quality, and for schools and TAFE colleges.

Fines, fees and other state revenues fell by \$95 million or 7.4 per cent in 2006-07. Drivers and riders licence fees fell by \$45 million due to the renewal pattern of three and five year licenses.

Motor traffic fines decreased by \$15 million as collections returned to a lower, more normal level after the clearing of a backlog of fines in previous years. Mining royalties fell by \$15 million because of the impact of a higher Australian dollar.

Operating Revenues

Operating revenues comprise the revenues earned directly by government authorities for the sale of goods and services, grants and other contributions and revenue from investments.

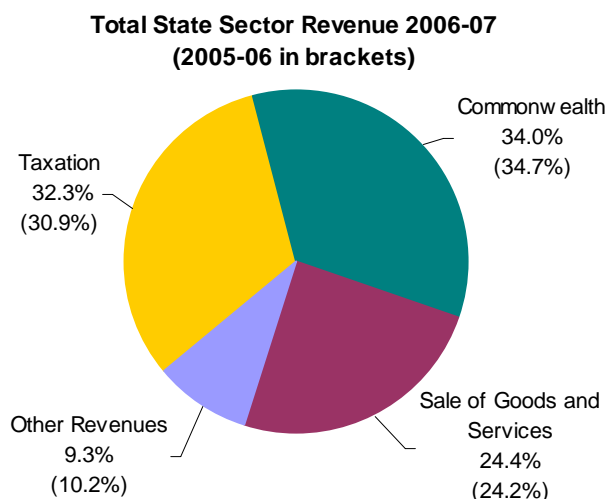
Operating revenues grew by \$782 million or 5.0 per cent to \$16,435 million in 2006-07. The growth in operating revenues was driven by a broad increase in revenue from all revenue types, aside from investment income.

The largest component, revenues from sale of **goods and services**, grew by 7.0 per cent or \$838 million.

The fall in **investment revenue** primarily resulted from a reduction in cash and investment balances in 2006-07 followings the General Government Liability Management Fund's one-off \$7.175 billion contribution to the State's defined benefits superannuation schemes. Investment earning rates were slightly higher than for 2005-06.

Revenues from **grants and contributions** rose by 3.2 per cent and **other revenues** were up by \$61 million on 2005-06 levels.

Figure 8



Expenses

Total State Sector accrued expenses excluding significant transactions grew by \$2,712 million or 5.7 per cent in 2006-07. The growth in expenses has been across various categories explained below.

Employee benefit expenses (excluding superannuation) grew by 4.1 per cent during 2006-07 to \$22,084 million, reflecting higher pay levels particularly for teachers, health and police employees, as well as the impact of government initiatives such as the class size reduction program and the decision to increase the police force strength by 750 officers.

Superannuation expenses fell by \$181 million from the previous year. The decrease in superannuation was the result of lower State Super Fund expenses partly offset by higher contributions for compulsory accumulation schemes. The lower defined benefit State Super Fund expenses resulted from an increase in the liability discount rate under Australian Accounting Standards, and the increased returns from the growing base of employer superannuation funds.

During 2005-06, **other operating expenses** rose by \$912 million or 2.7 per cent, including an increase in external maintenance costs (ie excluding salaries) of \$332 million for New South Wales roads, schools, hospitals and public transport.

Depreciation expense rose by \$260 million or 6.2 per cent over 2005-06.

Grants and subsidies rose overall by \$721 million or 14.4 per cent in 2006-07, reflecting the Government's increased allocation of resources towards community, ageing, disability and homecare services, health, education, and public transport.

Accrued finance costs grew \$129 million or 5.8 per cent in 2006-07. Total State Sector gross debt levels rose by around 10 per cent in 2006-07 as a result of funding the State's capital program (the bulk of the capital program is funded from surplus cash from operating activities). Finance costs also include the unwinding of discounts on non-employee provision liabilities which reflects the increase in the value of the liabilities as a result of the movement of time (from June 2006 to June 2007).

4. FINANCIAL FRAMEWORK AND TARGETS

Both the General Government and Non General Government sectors are subject to financial policies and fiscal targets against which their performance can be assessed.

The *Fiscal Responsibility Act 2005* sets out a number of fiscal principles and targets for the General Government sector.

The following commentary reviews the Government's achievement during the year against the fiscal principles and targets identified in that Act:

1. The Government's medium-term fiscal targets are:
 - To reduce the level of General Government sector net financial liabilities as a proportion of gross state product to 7.5 per cent or less by 30 June 2010; and
 - To maintain underlying General Government sector net debt as a proportion of gross state product at or below its level as at 30 June 2005.
2. The Government's long-term fiscal targets are:
 - To reduce the level of General Government sector net financial liabilities as a proportion of gross state product to 6.0 per cent or less by 30 June 2015;
 - To maintain underlying General Government sector net debt as a proportion of gross state product at or below its level as at 30 June 2005; and
 - To eliminate Total State sector unfunded superannuation liabilities by 30 June 2030.

General Government net financial liabilities were \$26.2 billion as at June 2007, equivalent to 7.8 per cent of GSP. This compares with 8.8 per cent of GSP as at June 2006 and is consistent with achieving both the medium term and long term targets.

In the year ending 30 June 2007, General Government sector underlying net debt was 1.0 per cent of GSP compared to 0.4 per cent of GSP as at June 2006, and 0.8 per cent of GSP as at June 2005. The increase in net debt partly funded the record general government capital spending in 2006-07.

Although the new international accounting standards have increase the recorded level of unfunded superannuation liabilities from 2005-06, they do not affect the funding plan.

Total State underlying net unfunded superannuation liabilities were \$14.1 billion (4.2 per cent of GSP) at June 2007 and will be reduced to 3.6 per cent of GSP by June 2010. As a share of the economy, superannuation liabilities have fallen from 8.2 per cent in 1995, including the impact of accounting standards changes. The target of eliminating unfunded superannuation liabilities by June 2030 is achievable on current projections.

3. The Budget should be framed so as to achieve a net operating result for the General Government sector that is a surplus consistent with the fiscal targets.

The General Government net operating result remained in surplus at \$584 million in 2006-07.

4. The growth in net cost of services (NCOS) and expenses of the General Government sector is to be managed in accordance with the objective of prudently managing State finances. The annual growth in net cost of services and expenses is not to exceed long-term average revenue growth for the 4-year periods ending with the financial year prior to the Budget year and for the Budget year and forward estimates.

REVIEW OF FINANCIAL PERFORMANCE FOR 2006–2007

Average annual growth of total expenses for the 4-year periods ending June 2007 and June 2011 is 6.4 per cent and 3.5 per cent respectively. Average annual growth of NCOS for the 4-year periods ending June 2007 and June 2011 is 6.3 per cent and 4.1 per cent respectively. Long-term average revenue growth is 5 per cent per annum. Over the 4-year period ending June 2011, average annual growth in total expenses and NCOS is projected to be lower than long-term revenue growth.

5. In managing public sector employee costs the Government policy in negotiating rates of pay and conditions is to be consistent with the fiscal targets.

In 2006-07 wage increases under current agreements were 4 per cent.

6. Capital expenditure proposals are to be evaluated in accordance with government procurement policy requirements.

Recently the emphasis on early stage project planning and consideration of service delivery options was increased with the introduction of mandatory Strategic Gateway reviews for large projects.

7. The budget should be framed taking into account the anticipated future fiscal gap likely to develop as a result of demographic changes and other long-term pressures.

An assessment of the fiscal gap is to be presented in the 2006-07 budget papers and updated in 5 years. An assessment of the impact of budget measures in respect of expenses and revenue is to be presented in the annual budget papers.

The NSW Long-Term Fiscal Pressures Report was published in Budget Paper No.6 in the 2006-07 Budget Papers. The estimated fiscal gap in 2043-44 is 3.4 per cent of GSP.

New policy changes, ie tax cuts in the 2006-07 Budget and forward estimates increased the fiscal gap by 0.1 percentage points to 3.5 per cent of GSP.

8. The Government shall maintain or increase net worth (i.e. net assets) in real terms.

General Government net worth increased by an average of 5 per cent annually in real terms from June 1997 to June 2007.

9. Employer superannuation liabilities are to be managed and funded so as to eliminate Total State sector unfunded superannuation liabilities by 30 June 2030.

See 2 above.

10. Government agencies must align their physical asset management practices (on a whole-of-life basis) with their services delivery priorities and strategies.

Treasury receives Total Asset Management (TAM) plans from agencies responsible for 96 per cent of General Government asset holdings. Recent changes to TAM plans will make the TAM plans the agencies' capital funding bid for the current budget year as well as being the instrument for agencies to indicate to the Government their longer term asset requirements. These changes will not only help the Government to forecast infrastructure requirements and prioritise investments, it will also improve TAM planning and the linkage between physical assets and service delivery.

REVIEW OF FINANCIAL PERFORMANCE FOR 2006–2007

11. Financial risk is to be managed prudently on the basis of sound risk management principles.

Aggregate risk is managed by Treasury, TCorp and the NSW Self Insurance Corporation. This includes ongoing review of asset allocation and risk management policies and procedures of authorities subject to the Public Authorities (Financial Arrangements) Act 1987.

Agency and project level risk identification procedures and strategies are in place or being developed through the Financial Management Framework; the Commercial Policy Framework; and Total Asset Management guidelines.

The latter incorporates “Working with Government: Policy and Guidelines for Privately Financed Projects” (as updated in 2006) dealing with private sector participation in the provision of public infrastructure.

12. Any adjustments to legislated tax rates, thresholds and bases are to be made with the maximum possible restraint, having regard to the effect of these adjustments on the overall level of tax revenue. Policies should enable predictability and stability of tax regime.

The net effect of all tax policy changes since 1999-00 is to reduce the NSW tax burden in 2006-07 by around \$1.4 billion p.a.

SCOPE OF THE REVIEW

5. SCOPE OF THE REVIEW

The review combines the following three reports to provide a broader analysis of Government finances:

- The Statement of the Budget Result
- The Outcomes Report
- The Consolidated Financial Report of the NSW Total State Sector (the Total State Sector Accounts)

Each report gives a different focus on Government finances. The Consolidated Financial Report captures the cost of operating Government services including depreciation on assets and valuation adjustments on assets and liabilities.

The Outcomes Report and the Statement of the Budget Result remove valuation adjustments to reflect costs more appropriately related to the underlying operations of Government. They also compare the original budget to the actual result.

A commentary has been provided on the key results of each report.

The Statement of the Budget Result

This statement discloses the Budget Result, which is the key indicator of the financial performance of the General Government sector. It reflects the underlying financial result of the Government's operations during the year. The Statement of the Budget Result is based on accrual Government Finance Statistics (GFS) guidelines, in accordance with the principles utilised by the Australian Bureau of Statistics (ABS) in compiling its GFS data.

The report compares the 2006-07 year-end results with the 2006-07 Budget estimates for key aggregates.

The Auditor-General has audited the Statement of Budget Result and has issued an unqualified Independent Audit Report, however the audit Report includes an emphasis of matter as follows:

Significant Uncertainty Regarding an Objection to a Taxation Assessment

Without qualification to the opinion expressed above, I draw attention to the 'Statement Basis' paragraph included in the Notes to the Statement of the Budget Result. A taxpayer has objected to an assessment issued under the Duties Act 1997. Until such time as the objection process is finalised the ultimate outcome and its impact on the report cannot be determined. The report does not include an impairment loss relating to this assessment.'

The Auditor General wrote to NSW Treasury in June 2007 indicating that the accounting treatment of this assessment was correct.

The Outcomes Report

The May 1991 Premiers' Conference agreed to the introduction of the Uniform Presentation Framework (UPF).

The primary objective of the UPF is to ensure that Commonwealth, State and Territory governments provide a common 'core' of financial information. The UPF requires the release of a budget presentation and an end of year Outcomes Report.

Like the Budget Operating Statement, the Outcomes Report is based on the reporting standards of the ABS GFS framework which has been prepared on an accrual basis since 2000-01. However, it provides a full suite of financial statements for the various sectors of Government, not just the operating statement for the General Government sector.

SCOPE OF THE REVIEW

The Outcomes Report provides a consistent reporting base for all States.

It is expected that the format of the Outcomes Report will be revised in 2008-09 following the adoption of new Australian Accounting Standards that aim to harmonise GFS with accounting standards.

The Consolidated Financial Report

The Consolidated Financial Report is also known as the Total State Sector Accounts. It is prepared in accordance with Australian Accounting Standards and is fully audited.

It focuses more closely on the Total State Sector, reflecting the government's approach to whole of government reporting. Financial Statements for the General Government and PTE sectors are disclosed in the segment disaggregated financial statement note.

The Total State Sector Accounts reports 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 and the Non-General Government sector.

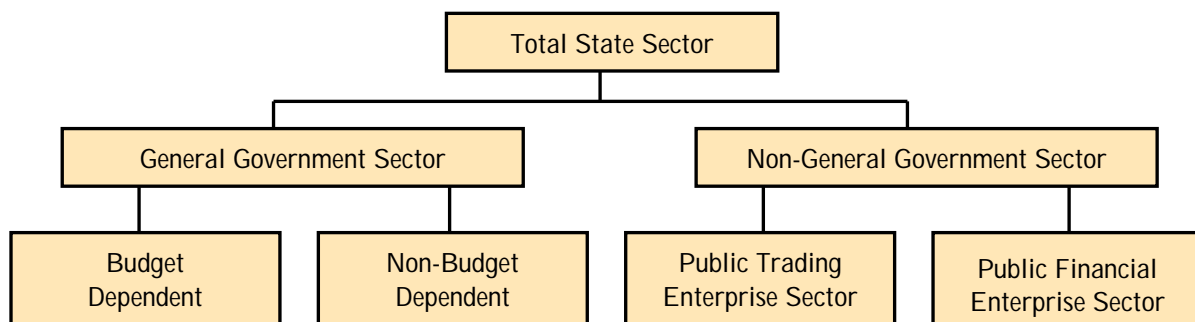
The Non-General Government sector includes the State's Public Trading Enterprises (PTEs) and Public Financial Enterprises (PFEs). PTEs are responsible for supplying public infrastructure services, including electricity, ports, water and public transport. PTEs are largely self-funded from user charges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

Refer to Note 32 for a full list of consolidated entities.

The composition of the Total State Sector is summarised in Figure 9.

Figure 9



SCOPE OF THE REVIEW

Consolidation of entities in this financial report has been done in accordance with Australian Accounting Standards AASB 127 and AAS 31, as disclosed in note 1 to the financial report.

Note 1 also discloses that certain reserve trusts created under the Crown Lands Act, 1989 have been excluded.

There are approximately 33,000 Crown reserves in New South Wales. The NSW Government manages some of these reserves and local governments and trusts manage others. A project is in progress to identify and value Crown reserves that are 'controlled' by the NSW Government, and therefore should be recognised as assets of the NSW Government in the Total State Sector Accounts.

To determine which entity controls the Crown reserves requires an evaluation of complex requirements under the Crown Lands Act 1989 and the Local Government Act 1993 and the interaction of these legislative requirements with the concept of control under accounting standards, including AASB 127 *Consolidated and Separate Financial Statements*, AAS 31 *Financial Reporting by Governments*, AAS 27 *Financial Reporting by Local Governments* and AASB 117 *Leases*.

Evaluation to date has not been conclusive and further investigation is necessary to determine the extent to which Crown reserves should be recognised in the Total State Sector Accounts. In finalising this evaluation, proposed amendments to the current standards will also be taken into account.

Based on the preliminary assessment, it is currently estimated that the total value of reserves controlled by the NSW Government, but not currently recognised in the Total State Sector Accounts, is between \$1 billion and \$7 billion. However, the total value may be outside of this range, depending on the current valuation of the controlled assets.

The NSW Government will recognise the value of Crown reserves it controls in future Total State Sector Accounts once this project is complete and the value can be reliably estimated.

The Auditor-General has qualified his opinion on this financial report.

'As disclosed in Note 1 Statement of Significant Accounting Policies, under the heading Principles of Consolidation, the State is undertaking a project to identify and value the Crown reserves it controls under the Crown Lands Act 1989. Until the project is completed, I am unable to obtain all the information I require to form an opinion on the value of those Crown reserves that should be recognised as land in the financial report.'

'My audit report for the year ended 30 June 2006 referred to the same matter.'



AUDITED STATEMENT OF THE BUDGET RESULT

STATEMENT OF COMPLIANCE

In our opinion, the Statement of the Budget Result for the NSW General Government Sector for the year ended 30 June 2007:

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

Michael Costa
Treasurer

Philip Mussared
Acting Deputy Secretary
NSW Treasury

11 October 2007



GPO BOX 12
Sydney NSW 2001

INDEPENDENT AUDITOR'S REPORT NEW SOUTH WALES GENERAL GOVERNMENT SECTOR

STATEMENT OF THE BUDGET RESULT

To Members of the New South Wales Parliament and the Treasurer

I have audited the accompanying report, which comprises the Statement of the Budget Result, the Notes to the Statement and the Statement of Compliance of the New South Wales General Government Sector for the year ended 30 June 2007.

The Treasurer's Responsibility for the Report

The Treasurer is responsible for the preparation and presentation of the report in accordance with the basis of accounting described in the Notes to the Statement of the Budget Result for the purpose of providing information to members of the New South Wales Parliament to fulfill his responsibilities under the *Public Finance and Audit Act 1983* (PF&A Act).

This responsibility includes establishing and maintaining internal controls relevant to the preparation and presentation of the report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

The Treasurer has determined that the accounting policies used meet the needs of Members of the New South Wales Parliament. These policies do not require the application of all Accounting Standards and other mandatory financial reporting requirements in Australia, nor do they require the application of all Government Finance Statistics principles.

Auditor's Responsibility

My responsibility is to express an opinion on the report based on my audit. No opinion is expressed as to whether the accounting policies used, as described in the Notes to the Statement of the Budget Result are appropriate to meet the needs of the Members of the New South Wales Parliament. I conducted my audit in accordance with Australian Auditing Standards. These Auditing Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the preparation and fair presentation of the report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Treasurer, as well as evaluating the overall presentation of the report.

The report has been prepared in accordance with the basis of accounting described in the Notes to the Statement of the Budget Result for the purpose of providing information to members of the New South Wales Parliament to fulfill the Treasurer's responsibilities under the PF&A Act. The report may not be suitable for any other purpose. My report is intended solely for the Treasurer and Members of the New South Wales Parliament and should not be distributed to or used by parties other than the Treasurer or Members of the New South Wales Parliament.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

My opinion does *not* provide assurance:

- about the future viability of the General Government Sector,
- about the effectiveness of the internal controls, or
- on the assumptions used in formulating the budget figures disclosed in the report.

Auditor's Opinion

In my opinion, the report fairly presents the budget result, in all material respects, in accordance with the basis of accounting described in the Notes to the Statement of the Budget Result for the year ended 30 June 2007.

Significant Uncertainty regarding Objection to a Taxation Assessment

Without qualification to the opinion expressed above, I draw attention to the 'Statement Basis' paragraph included in the Notes to the Statement of the Budget Result. A taxpayer has objected to an assessment issued under the *Duties Act 1997*. Until such time as the objection process is finalised the ultimate outcome and its impact on the report cannot be determined. The report does not include an impairment loss relating to this assessment.

Audit Independence

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

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

A T Whitfield
Deputy Auditor-General

15 October 2007
SYDNEY

NSW GENERAL GOVERNMENT SECTOR STATEMENT OF THE BUDGET RESULT

	2006-07 \$m Actual	2006-07 \$m Budget	2005-06 \$m Actual
State Revenues			
Taxation	17,713	16,719	15,910
Commonwealth Grants			
- General Purpose	10,938	10,946	10,720
- Specific Purpose	6,851	6,679	6,368
Financial Distributions	1,937	1,664	1,836
Fines, Regulatory Fees and Other	1,192	1,167	1,283
Total State Revenues	38,631	37,175	36,117
Operating Revenues			
Sale of Goods and Services	3,274	2,999	3,037
Investment Income	1,313	914	1,298
Grants and Contributions	789	789	809
Other Revenue	523	319	426
Total Operating Revenues	5,899	5,021	5,570
Total Revenues	44,530	42,196	41,687
Expenses			
Employee Related - Superannuation	2,621	2,600	2,743
Employee Related - Other	18,769	18,202	18,018
Other Operating	8,936	10,005	8,331
Depreciation and Amortisation	2,306	2,245	2,127
Recurrent Grants & Subsidies	7,244	7,179	6,681
Capital Grants & Subsidies	2,852	1,670	1,629
Finance Other	1,218	991	1,182
Total Expenses	43,946	42,892	40,711
BUDGET RESULT - SURPLUS	584	(696)	976

NSW GENERAL GOVERNMENT SECTOR STATEMENT OF THE BUDGET RESULT

NOTES TO THE STATEMENT

Statement Basis

This Statement is prepared consistent with Government Finance Statistics principles developed by the Australian Bureau of Statistics (ABS), except for the departures noted below.

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

GFS principles allow revisions to historical data. This includes the back casting of new treatments to place significant economic transactions within the relevant fiscal year, and the reclassification of transactions, where further information subsequently becomes available. Accordingly the 2005-06 comparatives have been restated.

Taxation revenue includes an assessment of \$424 million (\$259 million duty and \$165 million interest). This assessment is currently subject to an objection by the taxpayer. The Chief Commissioner of State Revenue does not believe that consideration should be given to impairing the receivable until the outcome of the objection process is known.

Departures from GFS Principles

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

- the Australian Bureau of Statistics (ABS) requires that selected payments that pass through the State's accounts e.g. transfer payments for non-government schools from the Commonwealth, be included in the GFS Operating Statement.

The Statement of the Budget Result excludes these revenues and expenses as the NSW Government has no control over them. The above transactions have, however, been treated in accordance with GFS principles in the Outcomes Report which is required to be prepared on a strict GFS basis.

- GFS operating statements disclose a reconciliation from the Net Operating Result to Net Lending. As the Budget is prepared on a Net Operating Result basis, this additional reconciling information (on the Net Acquisition of Non-Financial Assets) has not been reported in the Statement of the Budget Result. However, the relevant information is available for users in the 2006-07 Outcomes Report; and
- current GFS principles as followed by the ABS statistical standards require a premium on a loan to be classified as a negative interest payment in the year the loan is raised. New South Wales disagrees with this approach since it results in an asymmetric treatment with discounts on loans that are treated as a balloon interest payment on the maturity of the loan.

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

Budget Coverage

Section 27A of the Public Finance and Audit Act 1983 requires the Budget to be presented on a General Government Sector basis as determined by the Australian Bureau of Statistics.

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

END OF AUDITED STATEMENT OF THE BUDGET RESULT



OUTCOMES REPORT

NSW 2006-07 FINANCIAL OUTCOMES REPORT

This Financial Outcomes Report compares for 2006-07 the published NSW Budget with the actual outcome on an accruals basis. Only the actual outcome is presented for the NSW Public Financial Corporations Sector as budget data is not available. In addition to the reporting requirements, a consolidated NSW Total State Public Sector balance sheet by sector (Table 1) has been included. This assists in analysis of key State Sector balance sheet indicators.

The report has been prepared in accordance with the Australian Bureau of Statistics (ABS) Government Finance Statistics (GFS) standards and the accrual uniform presentation framework as agreed at the 1997 Premiers' Conference. The Outcomes Report, which allows readers to compare the results for NSW with other states, is unaudited.

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

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

LOAN COUNCIL REPORTING REQUIREMENTS

Table 16 compares the NSW Loan Council Allocation (LCA) estimate at the time of the Budget with the actual result for 2006-07.

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

Table 16 shows a negative \$545 million (i.e. a surplus) outcome for the 2006-07 Loan Council Allocation compared with the Budget-time estimate of a \$4,838 million deficit. The result favourably exceeds the tolerance limit in three major areas; improvements in both general government and public trading enterprise sector cash results and an improved memorandum items result. The general government and public trading enterprise sector cash results improved against budget by \$2,541 million and \$1,852 million respectively. Both were primarily due to improved cash flows from operations.

Additionally the improved memorandum items were significantly influenced by the superannuation earnings having a positive 15.2 per cent return, which is significantly higher than the budgeted long term applied actuarial rate of positive 7.6 per cent.

TABLE 1: NSW PUBLIC SECTOR BALANCE SHEETS (ABS BASIS) AT 30 JUNE 2007

	General Government	Public Non-financial Corporation	Total Non-financial Sector ^(a)	Public Financial Corporations	Total State Sector
	\$m	\$m	\$m	\$m	\$m
Assets					
Financial assets					
Cash and deposits	2,486	1,673	4,159	387	4,292
Advances paid	823	...	251	...	251
Investments, loans and placements	7,168	1,319	8,410	32,604	13,086
Other non-equity assets	11,622	4,892	6,671	873	7,124
PTE/PFE equity	67,128	...	(208)	...	...
Other equity	1,523	26	1,549	...	1,549
Total financial assets	90,750	7,910	20,832	33,864	26,302
Non-financial assets					
Land and fixed assets	92,511	92,049	184,560	9	184,569
Other non-financial assets	1,308	846	2,148	...	2,147
Total non-financial assets	93,819	92,895	186,708	9	186,716
Total assets	184,569	100,805	207,540	33,873	213,018
Liabilities					
Deposits held	162	188	350	1,051	1,307
Advances received	892	573	892	...	892
Borrowing	12,657	19,126	31,706	31,911	35,530
Superannuation liability ^(b)	14,413	(291)	14,122	...	14,122
Other employee entitlements and provisions	13,501	9,610	15,690	103	15,757
Other non-equity liabilities	8,154	4,263	9,990	1,016	10,620
Total liabilities	49,779	33,469	72,750	34,081	78,228
Shares and other contributed capital	...	67,336	...	(208)	...
NET WORTH (ABS Basis)	134,790	...	134,790	...	134,790
Net Debt ^(c)	3,234	16,895	20,128	(29)	20,100
Net Financial Worth ^(d)	40,971	(92,895)	(51,918)	(9)	(51,926)
Net Financial Liabilities ^(e)	26,157	92,895	51,710	9	51,926

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

(b) Comprises unfunded obligations.

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

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

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

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

	2006-07 \$m (Budget)	2006-07 \$m (Actual)
GFS Revenue		
Taxation revenue	16,719	17,713
Current grants and subsidies	19,144	19,399
Capital grants	1,333	1,295
Sales of goods and services	3,259	3,577
Interest income	914	1,313
Other	3,229	3,667
Total revenue	44,598	46,964
less		
GFS Expenses		
Employee expenses	19,927	20,244
Depreciation	2,245	2,306
Other operating expenses	11,244	10,384
Nominal superannuation interest expense	652	776
Other interest expenses	991	1,218
Other property expenses	...	2
Current transfers	8,488	8,541
Capital transfers	1,747	2,909
Total expenses	45,294	46,380
equals		
GFS net operating balance	(696)	584
less		
Net acquisition of non-financial assets		
Purchases of non-financial assets	4,371	4,155
less Sales of non-financial assets	(459)	(500)
less Depreciation	(2,245)	(2,306)
plus Change in inventories	(3)	10
plus Other movements in non-financial assets	106	265
equals Total net acquisition of non-financial assets	1,770	1,624
equals		
GFS Net Lending / (Borrowing) ^(a)	(2,466)	(1,040)

Notes:

(a) Also known as Fiscal Balance.

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

	2006-07 \$m (Budget)	2006-07 \$m (Actual)
GFS Revenue		
Sales of goods and services	10,773	11,001
Current grants and subsidies	2,111	2,147
Capital grants	983	2,116
Interest income	61	127
Other	694	819
Total revenue	14,622	16,210
less GFS Expenses		
Employee expenses	3,401	3,181
Depreciation	2,238	2,155
Other operating expenses	6,132	5,872
Interest expenses	1,040	839
Other property expenses	1,553	1,863
Current transfers	219	217
Capital transfers	...	2
Total expenses	14,583	14,129
equals GFS net operating balance	39	2,081
less Net acquisition of non-financial assets		
Purchases of non-financial assets	5,559	5,507
less Sales of non-financial assets	(295)	(424)
less Depreciation	(2,238)	(2,155)
plus Change in inventories	15	62
plus Other movements in non-financial assets	143	241
equals Total net acquisition of non-financial assets	3,184	3,231
equals GFS Net Lending / (Borrowing) ^(a)	(3,145)	(1,150)

Notes:

(a) Also known as Fiscal Balance.

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

	2006-07 \$m (Budget)	2006-07 \$m (Actual)
GFS Revenue		
Taxation revenue	16,014	17,285
Current grants and subsidies	19,013	19,254
Sales of goods and services	13,889	14,357
Capital grants	1,333	1,291
Interest income	926	1,412
Other	2,343	2,656
Total revenue	53,518	56,255
less		
GFS Expenses		
Employee expenses	23,320	23,418
Depreciation	4,482	4,461
Other operating expenses	16,511	15,621
Nominal superannuation interest expense	652	668
Other interest expenses	1,983	2,135
Other property expenses	...	2
Current transfers	6,490	6,499
Capital transfers	737	786
Total expenses	54,175	53,590
equals		
GFS net operating balance	(657)	2,665
less		
Net acquisition of non-financial assets		
Purchases of non-financial assets	9,925	9,656
less Sales of non-financial assets	(754)	(924)
less Depreciation	(4,482)	(4,461)
plus Change in inventories	12	72
plus Other movements in non-financial assets	248	506
equals		
Total net acquisition of non-financial assets	4,949	4,849
equals		
GFS Net Lending / (Borrowing) ^(a)	(5,606)	(2,184)

Notes:

(a) Also known as Fiscal Balance.

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

		2006-07 \$m (Actual) ^(a)
	GFS Revenue	
	Sales of goods and services	156
	Current grants and subsidies	9
	Capital grants	...
	Interest income	1,905
	Other	1
	Total revenue	2,071
less	GFS Expenses	
	Employee expenses	12
	Depreciation	1
	Other operating expenses	49
	Interest expenses	1,520
	Other property expenses	46
	Current transfers	...
	Capital transfers	...
	Total expenses	1,628
equals	GFS net operating balance	443
less	Net acquisition of non-financial assets	
	Purchase of non-financial assets	8
	Sales of non-financial assets	...
	less Depreciation	(1)
	plus Change in inventories	...
	plus Other movements in non-financial assets	...
equals	Total net acquisition of non-financial assets	7
equals	GFS Net Lending / (Borrowing) ^(b)	436

Notes:

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

(b) Also known as Fiscal Balance.

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

	2007 \$m (Budget)	2007 \$m (Actual)
Assets		
Financial assets		
Cash and deposits	1,036	2,486
Advances paid	1,255	823
Investments, loans and placements	8,373	7,168
Other non-equity assets	9,470	11,622
Equity	65,831	68,651
Total financial assets	85,965	90,750
Non-financial assets		
Land and fixed assets	88,619	92,511
Other non-financial assets	1,600	1,308
Total non-financial assets	90,219	93,819
Total assets	176,184	184,569
Liabilities		
Deposits held	86	162
Advances received	1,467	892
Borrowing	15,301	12,657
Superannuation liability ^(a)	14,883	14,413
Other employee entitlements and provisions	13,296	13,501
Other non-equity liabilities	4,841	8,154
Total liabilities	49,874	49,779
NET WORTH	126,310	134,790
Net Financial Worth ^(b)	36,091	40,971
Net debt ^(c)	6,190	3,234

Notes:

(a) Comprises unfunded obligations.

(b) Net financial worth equals total financial assets minus total liabilities.

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

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

	2007 \$m (Budget)	2007 \$m (Actual)
Assets		
Financial assets		
Cash and deposits	1,071	1,673
Investments, loans and placements	417	1,319
Other non-equity assets	3,101	4,892
Equity	68	26
Total financial assets	4,657	7,910
Non-financial assets		
Land and fixed assets	90,929	92,049
Other non-financial assets	733	846
Total non-financial assets	91,662	92,895
Total assets	96,319	100,805
Liabilities		
Deposits held	177	188
Advances received	949	573
Borrowing	18,436	19,126
Superannuation liability / (Prepaid contribution) ^(a)	90	(291)
Other employee entitlements and provisions	8,588	9,610
Other non-equity liabilities	2,648	4,263
Total liabilities	30,888	33,469
Shares and other contributed capital ^{(b) (c)}	65,431	67,336
NET WORTH^{(b) (c)}	...	...
Net financial worth^{(c) (d)}	(91,662)	(92,895)
Net debt^(e)	18,074	16,895

Notes:

(a) Comprises unfunded obligations or prepaid contributions.

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

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

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

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

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

	2007 \$m (Budget)	2007 \$m (Actual)
Assets		
Financial assets		
Cash and deposits	2,107	4,159
Advances paid	305	251
Investments, loans and placements	8,790	8,410
Other non-equity assets	5,140	6,671
Equity	469	1,341
Total financial assets	16,811	20,832
Non-financial assets		
Land and fixed assets	179,548	184,560
Other non-financial assets	2,330	2,148
Total non-financial assets	181,878	186,708
Total assets	198,689	207,540
Liabilities		
Deposits held	263	350
Advances received	1,467	892
Borrowing	33,737	31,706
Superannuation liability ^(a)	14,974	14,122
Other employee entitlements and provisions	15,525	15,690
Other non-equity liabilities	6,413	9,990
Total liabilities	72,379	72,750
Shares and other contributed capital	...	...
NET WORTH	126,310	134,790
Net financial worth ^(b)	(55,568)	(51,918)
Net debt ^(c)	24,265	20,128

Notes:

(a) Comprises unfunded obligations.

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

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

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

	2007 \$m (Actual) ^(a)
Assets	
Financial assets	
Cash and deposits	387
Advances paid	...
Investments, loans and placements	32,604
Other non-equity assets	873
Equity	...
Total financial assets	33,864
Non-financial assets	
Land and fixed assets	9
Other non-financial assets	...
Total non-financial assets	9
Total assets	33,873
Liabilities	
Deposits held	1,051
Advances received	...
Borrowing	31,911
Superannuation liability ^(b)	...
Other employee entitlements and provisions	103
Other non-equity liabilities	1,016
Total liabilities	34,081
Shares and other contributed capital ^{(c) (d)}	(208)
NET WORTH ^{(c) (d)}	...
Net financial worth ^{(d) (e)}	(9)
Net debt ^(f)	(29)

Notes:

- (a) *The Uniform Presentation Framework does not require the publishing of results of the Public Financial Corporation sector at budget time and mid-year, therefore a Budget column is not available.*
- (b) *Comprises unfunded obligations.*
- (c) *For entities whose equity is not traded on the market, the GFS net worth is zero as the equity (shares and other contributed capital) is recorded as an asset in the general government balance sheet.*
- (d) *The Australian Bureau of Statistics treats 'shares and other contributed capital' as a liability to the general government sector and deducts it to calculate a zero GFS net worth and negative net financial worth. However, these shares and other contributed capital reflect the value of the government's equity and cumulative earnings over time for the PFE sector.*
- (e) *Net financial worth equals total financial assets minus total liabilities and minus shares and other contributed capital.*
- (f) *Net debt equals the sum of deposits held, advances received and borrowing, minus the sum of cash and deposits, advances paid, and investments, loans and placements.*

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

CASH FLOW	2006-07 \$m (Budget)	2006-07 \$m (Actual)
Cash receipts from operating activities		
Tax received	16,574	17,477
Receipts from sales of goods and services	3,259	3,555
Grants/subsidies received	20,378	20,570
Other receipts	6,068	6,942
Total receipts	46,279	48,544
Cash payments for operating activities		
Payment for goods and services	(39,003)	(37,509)
Grants and subsidies paid	(9,687)	(10,927)
Interest paid	(977)	(855)
Other payments	(2,518)	(2,785)
Total payments	(52,185)	(52,076)
Net cash flows from operating activities	(5,906)	(3,532)
Net cash flows from investments in non-financial assets		
Sales of non-financial assets	476	524
Purchases of non-financial assets	(4,371)	(4,137)
Net cash flows from investments in non-financial assets	(3,895)	(3,613)
Net cash flows from investments in financial assets for policy purposes	203	234
Net cash flows from investments in financial assets for liquidity purposes	6,258	6,668
Net cash flows from financing activities		
Advances received (net)	(47)	(47)
Borrowing (net)	3,341	389
Deposits received (net)	...	16
Other financing (net)	...	1
Net cash flows from financing activities	3,294	359
Net increase (decrease) in cash held	(46)	116
SURPLUS / (DEFICIT)		
Net cash from operating activities and investments in non-financial assets	(9,801)	(7,145)
Finance leases and similar arrangements	(15)	(130)
SURPLUS / (DEFICIT)	(9,816)	(7,275)
<i>Notes:</i>		
<i>(a) A positive number denotes a cash inflow, a negative (i.e. bracketed) sign denotes a cash outflow.</i>		
<i>(b) Deposits by the Crown to the Liability Management Fund and the fund's earnings have been set aside to meet future superannuation contributions.</i>		
GFS SURPLUS / (DEFICIT)	(9,816)	(7,275)
<i>Adjusted for deposits to the Liability Management Fund ^(b)</i>	<i>5,235</i>	<i>5,308</i>
UNDERLYING SURPLUS / (DEFICIT) after adjusting for the timing of superannuation contributions	(4,581)	(1,967)

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

CASH FLOW	2006-07 \$m (Budget)	2006-07 \$m (Actual)
Cash receipts from operating activities		
Receipts from sales of goods and services	11,117	10,287
Grants/subsidies received	3,099	4,409
Other receipts	2,070	2,312
Total receipts	16,286	17,008
Cash payments for operating activities		
Payment for goods and services	(9,824)	(9,022)
Grants and subsidies paid	(219)	(193)
Interest paid	(1,044)	(966)
Other payments	(2,045)	(1,408)
Total payments	(13,132)	(11,589)
Net cash flows from operating activities	3,154	5,419
Net cash flows from investments in non-financial assets		
Sales of non-financial assets	298	444
Purchases of non-financial assets	(5,508)	(5,397)
Purchases of second-hand non-financial assets	...	...
Net cash flows from investments in non-financial assets	(5,210)	(4,953)
Net cash flows from investments in financial assets for policy purposes	(18)	(12)
Net cash flows from investments in financial assets for liquidity purposes	43	383
Net cash flows from financing activities		
Advances received (net)	(237)	(230)
Borrowing (net)	3,117	1,167
Deposits received (net)	33	36
Distributions Paid	(1,144)	(1,814)
Other financing (net)	...	(1)
Net cash flows from financing activities	1,769	(842)
Net increase (decrease) in cash held	(262)	(5)
SURPLUS / (DEFICIT)		
Net cash from operating activities and investments in non-financial assets	(2,056)	466
Distribution Paid	(1,144)	(1,814)
Finance leases and similar arrangements	...	...
SURPLUS / (DEFICIT)	(3,200)	(1,348)

Notes:

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

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

CASH FLOW	2006-07 \$m (Budget)	2006-07 \$m (Actual)
Cash receipts from operating activities		
Taxes received	15,871	16,720
Receipts from sales of goods and services	14,223	13,995
Grants/subsidies received	20,246	20,417
Other receipts	6,477	7,521
Total receipts	56,817	58,653
Cash payments for operating activities		
Payment for goods and services	(47,972)	(46,028)
Grants and subsidies paid	(6,688)	(6,778)
Interest paid	(1,971)	(1,792)
Other payments	(4,075)	(4,140)
Total payments	(60,706)	(58,738)
Net cash flows from operating activities	(3,889)	(85)
Net cash flows from investments in non-financial assets		
Sales of non-financial assets	773	969
Purchases of non-financial assets	(9,877)	(9,528)
Purchases of second-hand non-financial assets	...	...
Net cash flows from investments in non-financial assets	(9,104)	(8,559)
Net cash flows from investments in financial assets for policy purposes	(42)	8
Net cash flows from investments in financial assets for liquidity purposes	6,301	7,051
Net cash flows from financing activities		
Advances received (net)	(47)	(46)
Borrowing (net)	6,449	1,539
Deposits received (net)	32	51
Distributions Paid	...	...
Other financing (net)	...	4
Net cash flows from financing activities	6,434	1,548
Net increase (decrease) in cash held	(300)	(37)
SURPLUS / (DEFICIT)		
Net cash from operating activities and investments in non-financial assets	(12,993)	(8,644)
Distributions Paid	...	...
Finance leases and similar arrangements	(15)	(131)
SURPLUS / (DEFICIT)	(13,008)	(8,775)
<i>Notes:</i>		
<i>(a) A positive number denotes a cash inflow, a negative (i.e. bracketed) sign denotes a cash outflow.</i>		
<i>(b) Deposits by the Crown to the Liability Management Fund and the fund's earnings have been set aside to meet future superannuation contributions.</i>		
GFS SURPLUS / (DEFICIT)	(13,008)	(8,775)
<i>Adjusted for deposits to the Liability Management Fund ^(b)</i>	<i>5,235</i>	<i>5,308</i>
UNDERLYING SURPLUS / (DEFICIT) after adjusting for the timing of superannuation contributions	(7,773)	(3,467)

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

CASH FLOW	2006-07 \$m (Actual) ^(b)
Cash receipts from operating activities	
Receipts from sales of goods and services	108
Grants/subsidies received	9
Interest received	1,946
Other receipts	...
Total receipts	2,063
Cash payments for operating activities	
Payment for goods and services	(28)
Grants and subsidies paid	...
Interest paid	(1,559)
Other payments	(17)
Total payments	(1,604)
Net cash flows from operating activities	459
Net cash flows from investments in non-financial assets	
Sales of non-financial assets	...
Purchases of non-financial assets	(7)
Net cash flows from investments in non-financial assets	(7)
Net cash flows from investments in financial assets for policy purposes	
Net cash flows from investments in financial assets for liquidity purposes	(3,274)
Net cash flows from financing activities	
Advances received (net)	...
Borrowing (net)	3,002
Deposits received (net)	46
Distributions Paid	(11)
Other financing (net)	...
Net cash flows from financing activities	3,037
Net increase (decrease) in cash held	215
SURPLUS / (DEFICIT)	
Net cash from operating activities and investments in in non-financial assets	452
Distribution Paid	(11)
Finance leases and similar arrangements	...
SURPLUS / (DEFICIT)	441

Notes:

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

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

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

	2006-07 \$m (Budget)	2006-07 \$m (Actual)
General Public Services		
Government superannuation benefits	48	84
Other general public services	1,266	1,226
Total Other General Public Services	1,314	1,310
Public Order and Safety		
Police and fire protection services		
- Police services	2,121	2,118
- Fire protection services	604	606
Law courts and legal services	929	922
Prisons and corrective services	899	925
Other public order and safety	48	50
Total Public Order and Safety	4,601	4,621
Education		
Primary and secondary education		
- Primary education	3,569	3,438
- Secondary education	3,689	3,615
- Primary and secondary education n.e.c.	1,940	2,009
Tertiary education		
- University education	10	...
- Technical and further education	1,501	1,524
- Tertiary education n.e.c.	...	...
Pre-school education and education not definable by level		
- Pre-school education	24	24
- Special education	602	710
- Other education not definable by level	27	...
Transportation of students		
- Transportation of non-urban school children	345	283
- Transportation of other students	179	204
- Education n.e.c.	...	...
Total Education	11,886	11,807
Health		
Acute care institutions		
- Admitted patient services in acute care institutions	6,805	6,878
- Non-admitted patient services in acute care institutions	1,646	1,539
Mental health institutions	355	362
Nursing homes for the aged	131	90
Community health services		
- Community health services (excluding community mental health)	1,221	1,235
- Community mental health	383	353
- Patient transport	558	473
Public health services	357	436
Pharmaceuticals, medical aids and appliances	180	201
Health research	112	98
Health administration n.e.c.	34	50
Total Health	11,782	11,715

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

	2006-07 \$m (Budget)	2006-07 \$m (Actual)
Social Security		
Social Security	241	151
Welfare services		
- Family and children services	825	817
- Welfare services for the aged	319	301
- Welfare services for people with a disability	1,532	1,519
- Welfare services n.e.c.	316	305
Social security and welfare n.e.c.	155	158
Total Social Security	3,388	3,251
Housing and Community Amenities		
Housing and community development		
- Housing	844	910
- Community Development	127	119
Water supply		
Sanitation and protection of the environment	714	624
Other community amenities	...	...
Total Housing and Community Amenities	1,833	1,795
Recreation and Culture		
Recreation facilities and services		
- National parks and wildlife	292	333
- Recreation facilities and services n.e.c.	280	408
Cultural facilities and services		
Broadcasting and film production	10	9
Recreation and culture n.e.c.	...	...
Total Recreation and Culture	917	1,204
Fuel and Energy		
Fuel affairs and services		
- Coal/Petroleum/Nuclear affairs, Fuel affairs and services n.e.c.	7	20
- Gas	1	...
Electricity and other energy		
- Electricity	29	22
- Other energy	2	...
Fuel and Energy n.e.c.	...	...
Total Fuel and Energy	39	42

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

	2006-07 \$m (Budget)	2006-07 \$m (Actual)
Agriculture, Forestry, Fishing and Hunting		
Agriculture	673	766
Forestry, fishing and hunting	52	100
Total Agriculture, Forestry, Fishing and Hunting	725	866
Mining and Mineral Resources other than Fossil Fuels; Manufacturing and Construction		
Mining and mineral resources other than fuels	50	55
Manufacturing	...	...
Construction	99	123
Total Mining and Mineral Resources other than Fossil Fuels; Manufacturing and Construction	149	178
Transport and Communications		
Road transport		
- Road rehabilitation, and Aboriginal community road transport services	...	...
- Road maintenance	1,063	1,163
- Road transport n.e.c.	1,811	1,713
Water transport		
- Other water transport services	...	...
- Urban water transport services	109	136
Rail transport		
- Urban rail transport services	1,516	2,470
- Non-urban rail transport freight services	191	191
- Non-urban rail transport passenger services	...	...
Air transport		
Pipelines	...	...
Other transport		
- Multi-mode urban transport	94	99
- Other transport n.e.c.	499	523
Communications	34	23
Total Transport and Communications	5,317	6,318
Other Economic Affairs		
Storage, saleyards and markets		
Tourism and area promotion	...	...
Labour and employment affairs		
- Vocational training	178	162
- Other labour and employment affairs	378	270
Other economic affairs	322	343
Total Other Economic Affairs	878	775

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

	2006-07 \$m (Budget)	2006-07 \$m (Actual)
Other Purposes		
Public debt transactions	1,650	2,000
General purpose inter-government transactions	455	240
Natural disaster relief	33	119
Other purposes n.e.c. ^(a)	327	139
Total Other Purposes	2,465	2,498
Total GFS Expenses	45,294	46,380

Notes: *n.e.c. not elsewhere classified*

Budget expenditure may be reclassified to be consistent with actual expenditure.

(a) The original budget included \$245 million Advance to the Treasurer which was allocated across functions as the funds were spent in the actual year.

TABLE 15: NSW GENERAL GOVERNMENT SECTOR
CAPITAL EXPENDITURE BY FUNCTION (ABS BASIS) ^(a)

	2006-07 \$m (Budget)	2006-07 \$m (Actual)
General public services	385	385
Public order and safety	462	476
Education	558	565
Health ^(c)	576	553
Social security and welfare	106	110
Housing and community amenities	116	96
Recreation and culture	165	166
Fuel and energy	...	...
Agriculture, forestry, fishing and hunting	35	28
Mining, manufacturing and construction	2	4
Transport and communications	1,753	1,655
Other economic affairs	20	21
Other purposes ^(b)	193	96
Total GFS Purchases of Non Financial Assets	4,371	4,155

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

(b) The original budget included \$110 million Advance to the Treasurer which was allocated across functions as the funds were spent in the actual year.

TABLE 16: 2005-06 LOAN COUNCIL ALLOCATION ESTIMATES FOR NSW

	Budget-time Estimate 2006-07 \$m	Actual 2006-07 \$m
General government sector cash deficit / (surplus)	9,816	7,275
PNFC sector cash deficit / (surplus) ^(a)	3,200	1,348
Non-financial public sector cash deficit / (surplus) ^(b)	13,008	8,775
Minus Net cash flows from investments in financial asset for policy purposes ^(c)	42	(8)
Plus Memorandum items ^(d)	(8,212)	(9,312)
Loan Council Allocation	4,838	(545)

Notes:

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

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

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

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

The Memorandum items have been significantly influenced by the investment performance of the State Super Fund earning a positive 15.2% return which is higher than the budget-time earnings estimate.

PRIVATE SECTOR INFRASTRUCTURE

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

Contracts entered into in 2006-07

None to be reported.

END OF UNAUDITED OUTCOMES REPORT



AUDITED CONSOLIDATED FINANCIAL REPORT
OF THE NSW TOTAL STATE SECTOR
(TOTAL STATE SECTOR ACCOUNTS)
2006 - 2007

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STATEMENT OF COMPLIANCE

In our opinion the Total State Sector Accounts:

- (a) give a true and fair view of the operating result, changes in equity and cash flows of the NSW Total State Sector for the year ended 30 June 2007 and of the financial position of the NSW Total State Sector at that date;
- (b) have been prepared on the basis of the financial reporting requirements as prescribed in the Public Finance and Audit Act 1983; and
- (c) are in accordance with all applicable Australian Accounting Standards.

Michael Costa
Treasurer

Philip Mussared
Acting Deputy Secretary
NSW Treasury

11 October 2007



GPO BOX 12
Sydney NSW 2001

INDEPENDENT AUDITOR'S REPORT

TOTAL STATE SECTOR ACCOUNTS

To Members of the New South Wales Parliament

I have audited the accompanying financial report of the NSW Total State Sector (Total State Sector Accounts), which comprises the balance sheet as at 30 June 2007, and the operating statement, statement of recognised income and expense and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes.

Qualified Auditor's Opinion

In my opinion, the financial report:

- presents fairly, in all material respects, the financial position of the Total State Sector as at 30 June 2007, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations)
- is in accordance with the *Public Finance and Audit Act 1983* (the PF&A Act) and the Public Finance and Audit Regulation 2005
- accords with the books and records of the Treasurer.

Basis for Qualified Auditor's Opinion.

As disclosed Note 1 Statement of Significant Accounting Policies, under the heading Principle of Consolidation, the State is undertaking a project to identify and value the Crown reserves it controls under the *Crown Lands Act 1989*. Until the project is completed, I am unable to obtain all the information I require to form an opinion on the value of those Crown reserves that should be recognised as land in the financial report.

My audit report for the year ended 30 June 2006 referred to the same matter.

The Treasurer's Responsibility for the Financial Report

The Treasurer is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the PF&A Act. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

My responsibility is to express an opinion on the financial report based on my audit. I conducted my audit in accordance with Australian Auditing Standards. These Auditing Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance that the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Treasurer, as well as evaluating the overall presentation of the financial report.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

My opinion does *not* provide assurance:

- about the future viability of the Total State Sector, or
- about the effectiveness of the internal controls.

Independence

In conducting this audit, the Audit Office has complied with the independence requirements of the Australian Auditing Standards and other relevant ethical requirements. The PF&A Act further promotes independence by:

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

A T Whitfield
Deputy Auditor-General

15 October 2007
SYDNEY

THE NSW TOTAL STATE SECTOR ACCOUNTS OPERATING STATEMENT
FOR THE YEAR ENDED 30 JUNE 2007

	Note	2006-07 \$m	2005-06 \$m
REVENUES			
State Revenues			
Taxation	2	17,277	15,218
Commonwealth Grants	2,5	17,736	18,040
Fines, Regulatory Fees and Other	2	1,192	1,287
Total State Revenues		36,205	34,545
Operating Revenues			
Sale of Goods and Services	2	12,758	11,920
Investments	2	1,694	1,846
Grants and Contributions		1,132	1,097
Other		851	790
Total Operating Revenues		16,435	15,653
Total Revenues		52,640	50,198
EXPENSES EXCLUDING LOSSES			
Employee Benefits			
- Superannuation	3	2,745	2,926
- Other	3	22,047	21,425
Other Operating	3	12,687	11,775
Depreciation and Amortisation	3	4,465	4,205
Grants and Subsidies	3	5,716	4,995
Finance Costs	3	2,344	2,215
Total Expenses Excluding Losses		50,004	47,541
SURPLUS BEFORE OTHER NET INCOME		2,636	2,657
OTHER NET INCOME			
Net Gain/(Loss) from Disposals	4	(6)	(27)
Other Net Gains/(Losses)	4	3,207	4,295
Share of Earnings from Equity Investments		92	180
Total Other Net Income		3,293	4,448
SURPLUS/(DEFICIT) FOR THE YEAR		5,929	7,105

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

THE NSW TOTAL STATE SECTOR ACCOUNTS
STATEMENT OF RECOGNISED INCOME AND EXPENSE
FOR THE YEAR ENDED 30 JUNE 2007

	Note	2006-07 \$m	2005-06 \$m
Income and Expenses Recognised Directly in Equity			
Net Revaluation Increment in Property, Plant and Equipment Asset Revaluation Reserve	22	4,233	3,408
Net unrealised gain/(loss) in the Hedging Reserve	22	(1,971)	(119)
Fair Value Adjustments to the Available for Sale Reserve	22	45	...
Movements in NSW's share of equity investments taken directly to equity	22	25	102
Other Net Increases/(Decreases) in Equity		(2)	(8)
Total Income and Expenses Recognised Directly in Equity		2,330	3,383
Surplus/(Deficit) for the Year		5,929	7,105
Total Income, and Expenses for the Year (Recognised in the Operating Statement and in Equity)		8,259	10,488
Adjustments for Changes in Accounting Policy and Correction of Errors			
Adjustments to Accumulated Funds	22	...	596
Adjustments to Reserves	22	...	40
Total Adjustments for Changes in Accounting Policy and Correction of Errors		...	636

The Statement of Recognised Income and Expense should be read in conjunction with the accompanying notes.

**THE NSW TOTAL STATE SECTOR ACCOUNTS BALANCE SHEET
AS AT 30 JUNE 2007**

	Note	2007 \$m	2006 \$m
Current Assets			
Cash and Cash Equivalent Assets	6	4,292	4,319
Receivables	7	5,611	4,191
Financial Assets at Fair Value	8	4,509	4,255
Investments Accounted for Using the Equity Method	9	...	...
Inventories	10	652	615
Other	16	269	140
Non-current Assets Classified as Held for Sale	11	308	326
Total Current Assets		15,641	13,846
Non-Current Assets			
Receivables	7	1,459	1,529
Financial Assets at Fair Value	8	7,948	12,152
Investments Accounted for Using the Equity Method	9	1,520	1,501
Inventories	10	433	460
Property, Plant and Equipment			
Land and Buildings	12	86,820	84,488
Plant and Equipment	12	10,518	10,196
Infrastructure Systems	12	81,915	76,052
Investment Properties	13	1,474	1,513
Forestry Stock and Other Biological Assets	14	1,515	1,559
Intangibles	15	1,573	1,420
Other	16	1,378	1,096
Total Non-Current Assets		196,553	191,966
TOTAL ASSETS		212,194	205,812
Current Liabilities			
Payables	17	6,148	5,212
Borrowings at Amortised Cost	18	6,914	1,161
Derivatives at Fair Value	19	2,765	396
Provisions	20	9,526	8,814
Other	21	967	762
Liabilities Directly Associated with Assets Held for Sale	11	...	5
Total Current Liabilities		26,320	16,350
Non-Current Liabilities			
Borrowings at Amortised Cost	18	25,845	28,585
Derivatives at Fair Value	19	1,160	330
Provisions	20	20,479	30,523
Other	21	2,944	2,837
Total Non-Current Liabilities		50,428	62,275
TOTAL LIABILITIES		76,748	78,625
NET ASSETS		135,446	127,187
Equity			
Accumulated Funds	22	71,862	65,184
Reserves	22	63,540	61,924
Amounts Recognised Directly in Equity Relating to Assets Held for Sale	11,22	44	79
TOTAL EQUITY		135,446	127,187

The Balance Sheet should be read in conjunction with the accompanying notes.

THE NSW TOTAL STATE SECTOR ACCOUNTS CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2007

	Note	2006-07 \$m	2005-06 \$m
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts			
Taxation		16,710	15,276
Commonwealth Grants		17,661	18,115
Sale of Goods and Services		13,387	12,880
Interest		485	423
Fines, Fees, Grants and Other		6,575	6,766
Total Receipts		54,818	53,460
Payments			
Employee Related		(23,510)	(21,907)
Special Superannuation Contribution	20	(7,175)	...
Grants and Subsidies		(5,544)	(4,779)
Finance Costs		(101)	(116)
Other		(17,843)	(17,232)
Total Payments		(54,173)	(44,034)
NET CASH FLOWS FROM OPERATING ACTIVITIES	23	645	9,426
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from Sale of Property, Plant and Equipment		979	763
Proceeds from Sale of Investments		8,518	2,029
Advance Repayments Received		47	54
Purchase of Property, Plant and Equipment		(9,117)	(7,885)
Purchase of Investments		(755)	(3,062)
Advances Made		(39)	(78)
Other		(257)	(265)
NET CASH FLOWS FROM INVESTING ACTIVITIES		(624)	(8,444)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from Borrowings and Advances		26	70
Repayments of Borrowings and Advances		(298)	(103)
NET CASH FLOWS FROM FINANCING ACTIVITIES		(272)	(33)
NET CASH FLOW OF FINANCIAL INSTITUTIONS	23	186	(265)
NET INCREASE/(DECREASE) IN CASH HELD		(65)	684
Opening Cash and Cash Equivalents		4,180	3,153
Reclassification of Cash Equivalents		54	343
CLOSING CASH BALANCE	23	4,169	4,180

The Cash Flow Statement should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

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

The Total State Sector comprises the General Government Sector, the Public Trading Enterprise Sector and the Public Financial Enterprise Sector.

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

Budget dependent agencies are those that receive an appropriation in the annual Appropriation Act. The majority of agencies rely predominantly on the State Budget for direct funding (ie 50 per cent 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 C of Budget Paper No. 2 of 2007-08.

The Crown Entity's Non-Commercial Activities are part of the General Government Sector and relate to service-wide assets, liabilities, revenues and expenses of a non-commercial nature which are the responsibility of the Government as a whole. The entity is administered by the NSW Treasury on behalf of the Treasurer who is the portfolio Minister.

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

Public Trading Enterprises (PTEs) are largely self-funded from user charges and have a commercial charter. However, they may receive funding from the State Budget for social programs (non-commercial activities). The PTE sector is also referred to by the Australian Bureau of Statistics as the Public Non-financial Corporation Sector. This sector also includes State Owned Corporations. Examples are the water authorities, the electricity distributors and port authorities.

Public Financial Enterprises (PFEs) 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. This sector includes NSW Treasury Corporation. The PFE sector is also referred to by the Australian Bureau of Statistics as the Public Financial Corporation Sector.

A number of controlled entities prescribed for the purposes of the "particular audit" provisions of the Public Finance and Audit Act 1983 under section 44(1) have also been consolidated. This includes the Home Purchase Assistance Fund.

The New South Wales Total State Sector is a not-for-profit reporting entity for accounting purposes.

The financial report of the New South Wales State Sector (The Total State Sector Accounts) for the year ended 30 June 2007 was authorised for issue by the Treasurer on 11 October 2007. This report was issued from:

NSW Treasury
Level 27
Governor Macquarie Tower
1 Farrer Place,
Sydney NSW 2000
AUSTRALIA

NOTES TO THE FINANCIAL STATEMENTS

BASIS OF PREPARATION

This financial report is a general purpose financial report prepared in accordance with:

- applicable Australian Accounting Standards, and in particular Australian Accounting Standard AAS31 *Financial Reporting by Governments*, and
- section 6 of the Public Finance and Audit Act 1983.

Property, plant and equipment, investment property, forestry stock, assets held for sale, derivatives, and financial assets at fair value through profit or loss and available for sale are measured at fair value. Other financial statement items are measured in accordance with the historical cost convention.

Judgements, key assumptions and estimations that management has made in the preparation of this financial report are disclosed in the relevant notes to the report.

All amounts are rounded to the nearest million dollars and are expressed in Australian dollars.

STATEMENT OF COMPLIANCE

The Total State Sector Accounts, including notes comply with Australian Accounting Standards.

NEW ACCOUNTING STANDARDS ISSUED BUT NOT EFFECTIVE

The following accounting standards, amendments and Interpretations have been issued, but are not yet effective, and have not been adopted:

- AASB 1049, AASB 7 & AASB 2005-10 regarding financial instrument disclosures;
- AASB 8 & AASB 2007-3 regarding operating segments;
- AASB 101 (Oct 2006) regarding presentation of financial statements;

- AASB 123 (June 2007) and AASB 2007-6 regarding borrowing costs;
- AASB 1049 regarding the general government sector and GFS/GAAP convergence;
- AASB 2007-4 regarding Australian additions to and deletions from IFRSs;
- AASB 2007-5 regarding inventories held for distribution by not-for-profit entities;
- Interpretation 4 (Feb 2007) regarding determining whether an arrangement contains a lease;
- Interpretation 10 regarding interim financial reporting;
- Interpretation 11 & AASB 2007-1 regarding group and treasury share transactions;
- Interpretation 12 & AASB 2007-2 regarding service concession arrangements;
- Interpretation 129 (Feb 2007) regarding service concession disclosures.

It is considered impracticable to presently determine the impact of adopting these requirements.

PRINCIPLES OF CONSOLIDATION

This financial report has been consolidated in accordance with Australian Accounting Standard AASB 127 *Consolidated and Separate Financial Statements* and includes the assets, liabilities, equities, revenues and expenses of the New South Wales Government including those of entities controlled by the Government.

Entities are considered to be controlled when the Government has the capacity to dominate their financial and operating policies in pursuing the Government's objectives. Entities are not consolidated where the nature of the "control" exercised is of a regulatory or trust nature, as such control falls outside the concept of "control" as embodied in AAS 31.

NOTES TO THE FINANCIAL STATEMENTS

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

The NSW government holds a 58 per cent financial interest in Snowy Hydro Ltd. However as the NSW government's voting power is restricted to one-third of the total shareholders, Snowy Hydro Ltd is not considered to be "controlled". The government therefore recognises its share in Snowy Hydro Ltd as an equity investment in an associate.

The NSW government holds a 52.5 per cent financial interest in Law Courts Ltd. However as the NSW government's voting power is restricted to equal joint control, Law Courts Ltd is not considered to be "controlled". The government therefore recognises its share in Law Courts Ltd as an equity investment in an associate.

There are approximately 33,000 Crown reserves in New South Wales. The NSW Government manages some of these reserves and local governments and trusts manage others. A project is in progress to identify and value Crown reserves that are 'controlled' by the NSW Government, and therefore should be recognised as assets of the NSW Government in the Total State Sector Accounts.

To determine which entity controls the Crown reserves requires an evaluation of complex requirements under the Crown Lands Act 1989 and the Local Government Act 1993 and the interaction of these legislative requirements with the concept of control under accounting standards, including AASB127 *Consolidated and Separate Financial Statements*, AAS31 *Financial Reporting by Governments* and AAS27 *Financial Reporting by Local Governments* and AASB117 *Leases*.

Evaluation to date has not been conclusive and further investigation is necessary to determine the extent to which Crown reserves should be recognised in the Total State Sector Accounts. In finalising this evaluation, current proposed amendments to the current standards will also be taken into account.

Based on the preliminary assessment, it is currently estimated that the total value of reserves controlled by the NSW Government, but not currently recognised in the Total State Sector Accounts, is between \$1 billion and \$7 billion. However, the total value may even be outside of this range, depending on the current valuation of the controlled assets.

The NSW Government will recognise the value of Crown reserves it controls in future Total State Sector Accounts once this project is complete and the value can be reliably estimated.

All transactions and balances between NSW government agencies have been eliminated. Dissimilar accounting policies adopted by agencies have been amended to ensure consistent policies are adopted in these consolidated financial statements, unless dissimilar treatments are required by specific accounting standards for individual entities or classes of entities within the Total State Sector Accounts.

Asset revaluation increments and decrements have been offset on a class basis.

INCOME RECOGNITION

Income is measured at the fair value of the consideration or contribution received or receivable. Additional comments regarding the accounting policies for the recognition of income are discussed below.

State Taxation

State taxation is recognised as follows:

- Government-assessed revenues (mainly land tax) are recognised at the time the assessments are issued.

NOTES TO THE FINANCIAL STATEMENTS

- Taxpayer-assessed revenues including payroll tax and stamp duty, are recognised when the funds are received by the tax collecting agency. Additional revenues are recognised for assessments following review of returns lodged by taxpayers.

Commonwealth Grants

These are recognised when the State gains control over the grants. Control is normally obtained when the cash is received.

A grant of \$960 million was received from the Commonwealth government in late June 2006 dedicated for works to be carried out over several future years. The revenue was recognised in the Total State Sector Accounts in the 2005-06 financial year, when the cash was received.

However, the Australian Bureau of Statistics has determined, for the purposes of Government Finance Statistics (GFS) reporting only, that the specific grant revenue be accrued and deferred to match the timing of the related expenditure by NSW. This accrual treatment is only adopted for the separately published Outcomes Report and the Statement of the Budget Result, which are prepared in accordance with GFS principles.

Fines, Regulatory Fees and Other State Revenue

These other state revenues are recognised as follows:

- Fines issued by the Courts are recognised when the fine is issued. When fines become overdue, additional revenue is recognised.

Traffic infringement fines, such as those administered by the Infringement Processing Bureau are recognised when the cash is received. If they become overdue, responsibility for collection is transferred to the State Debt Recovery Office, and additional revenue is accrued.

- Regulatory fees, such as those collected by the Roads and Traffic Authority, are recognised when the cash is received.
- Royalty revenue is recognised in accordance with AASB 118 *Revenue* on an accrual basis.

Sale of Goods and Services

Revenue from the sale of goods is recognised when the State transfers to the buyer the significant risks and rewards of ownership of the assets.

Revenue is recognised from the rendering of services when the service is provided or by reference to the stage of completion.

Rent from the provision of public housing is included in revenue from the rendering of services (and not within investment revenue) as public housing is treated as a government service and not as a commercial investment. Public housing rent is charged at current market rates, subject to individual limitations. Tenants are only required to pay an amount equivalent to a pre-determined per cent of household income.

Investment Revenue

Interest revenue is recognised as it accrues using the effective interest method in accordance with AASB 139 *Financial Instruments: Recognition and Measurement*. Investment revenue includes all earnings in NSW Treasury Corporation Hourglass managed funds, including distributions received.

Rental revenue (including those from investment properties) is recognised in accordance with AASB 117 *Leases* on a straight-line basis over the lease term.

Grants and Contributions

Grants and contributions comprise both cash and property assets including assets provided by developers for infrastructure. They are recognised when the State gains control over the assets.

Gains and Losses (in the Operating Statement)

Gains and losses generally arise from adjustments to the measurement of assets and liabilities. They include gains and losses on asset disposals, actuarially assessed gains and losses to defined benefits superannuation liabilities, and fair value adjustments to physical assets and certain financial instruments such as derivatives.

NOTES TO THE FINANCIAL STATEMENTS

EXPENSES

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

Employee Benefit Expenses

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

Superannuation expenses include the current year service cost and interest on obligations, offset by long-term earnings on fund assets. They exclude actuarial assessed gains and losses, which are disclosed separately under "other gains and losses".

Payroll tax (a State tax) paid by New South Wales government agencies is eliminated on consolidation. Some employee related expenses are capitalised as part of the construction costs of certain non-current physical assets.

The recognition and measurement policy for employee benefits expenses is detailed below in the associated liability policy note.

Other Operating Expenses

These expenses generally represent the day-to-day running costs incurred in the normal operation of agencies, and include asset maintenance costs paid to external parties. They exclude payments such as grants and subsidies to community groups, which are shown separately. The recognition and measurement policy for other provision expenses is detailed below in the associated liability policy note.

Depreciation of Property, Plant and Equipment

Each depreciable property, plant and equipment asset (except certain heritage assets with extremely long useful lives) is depreciated to allocate the cost or revalued amount (net of its residual value) over its useful life. Depreciation is generally allocated on a straight-line basis.

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

Useful lives for assets are as follows:

Buildings

Public housing	10-50 years
Schools and colleges	40-80 years
Hospitals	40 years
Other	various

Plant and Equipment

Rail rolling stock (leased and non leased)	20-35 years
Other	various

Infrastructure

Power stations	50 years
Electricity system assets	4-60 years
Water system assets	10-200 years
Roads (pavements)	15-50 years
Roads (earthworks)	100 years
Other	various

Grants and Subsidies

They generally comprise cash contributions to local government authorities and non-government organisations. They are expensed when the State transfers control of the assets.

Finance Costs

Finance costs comprise interest on borrowings and the unwinding of discounts on non-employee provisions. Finance costs are recognised as expenses in the period in which they are incurred.

Accounting for the Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except:

- where the amount of GST incurred as a purchaser is not recoverable from the Australian Taxation Office, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; and
- receivables and payables are stated with the amount of GST included.

NOTES TO THE FINANCIAL STATEMENTS

Cash flows are included in the cash flow statement on a gross basis and the GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the Australian Taxation Office are classified as operating cash flows.

ASSETS

Cash and Cash Equivalents

Cash and cash equivalent assets in the balance sheet comprise cash at bank and in hand, short term deposits with an original maturity of three months or less, and deposits in Treasury Corporation's HourGlass Managed Fund Cash Facility.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Receivables

Receivables are recognised initially at fair value, usually based on the transaction cost or face value. Subsequent measurement is at amortised cost using the effective interest method, less an allowance for any impairment of receivables.

Short-term receivables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial. Changes are accounted for in the operating statement when impaired, derecognised or through the amortisation process. Receivables include fines owing to the State Debt Recovery Office and restitution orders made by the Victims Compensation Tribunal. These amounts are recognised only when they comply with the asset recognition criteria of Australian Accounting Standard AAS 29 *Financial Reporting by Government Departments*.

Levies receivable under the Workers Compensation (Dust Diseases) Act, 1942 reflect the full funding of total claim liabilities as estimated by actuaries at balance date. This recognises the legislative power given to the State, to impose levies to meet the cost of claim obligations under this Act.

Financial Assets at Fair Value

Financial assets are initially measured at fair value plus, in the case of financial assets through profit or loss, transaction costs. Financial Assets subsequently measured at fair value mainly comprise investments other than cash and receivables. These financial assets are either classified as "held for trading", "available for sale" (the residual category) or are designated at "fair value through profit and loss". Changes in fair value for assets classified or designated at fair value through profit and loss are recognised through the operating statement. In contrast, changes in fair value for available for sale assets are recognised directly in equity, until impaired or disposed of.

Purchases and sales of financial assets under contracts that require delivery of the asset within the timeframe established by convention or regulation are recognised on the trade date i.e. the date that government was committed to purchase or sell the asset.

Derivatives are held for trading financial instruments, except for designated and effective hedging instruments, which are subject to hedge accounting. The accounting policies in relation to derivatives are discussed further under liabilities.

NOTES TO THE FINANCIAL STATEMENTS

Other Financial Assets

Other financial assets are initially measured at fair value plus transaction costs. Other financial assets consist of non-derivative financial assets with fixed or determinable payments which are not subsequently valued at fair value either because they are not quoted in an active market or they are intended to be held to maturity. These financial assets are measured at amortised cost using the effective interest method. Changes are accounted for in the operating statement when impaired, derecognised or through an amortisation process.

Equity investments in joint venture entities and associates, such as Snowy Hydro Limited, are measured based on the State's share of the value of their net assets, in the absence of any available market price. Movements in the State's share of profits are recognised in the operating result, and movements in the State's share of revaluations to a reserve are recognised directly in equity.

Impairment of Financial Assets

All financial assets except for those measured at fair value through profit or loss are subject to annual review for impairment.

An allowance for impairment of receivables is established when there is objective evidence that the State will not be able to collect amounts due. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Bad debts are written off as incurred.

Inventories

Inventories held for distribution are stated at the lower of cost and current replacement cost. Inventories (other than those held for distribution) are valued at the lower of cost or net realisable value. Cost is calculated using the weighted average cost or the "first in first out" method.

The cost of inventories acquired at no cost or for nominal consideration is the current replacement cost as at the date of acquisition. The current replacement cost is the cost the State would incur to acquire the asset on the reporting date. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Property, Plant and Equipment

Property, plant and equipment comprise three asset classes:

- Land and buildings
- Plant and equipment
- Infrastructure systems.

Land and buildings include Crown land, public housing, schools, TAFE colleges and hospitals.

Plant and equipment include computer hardware, rail rolling stock, public buses and ferries, and museum and library collections.

Infrastructure systems comprise the government's power stations, dams, electricity and water system assets, ports, major roads and railway lines.

Property, plant and equipment excludes inventories, investment properties, non-current assets held for sale, intangibles and the emerging interest in private sector financed infrastructure, which are reported separately.

Capitalisation and Initial Recognition

Property, Plant and Equipment is initially recognised at acquisition cost. Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire the asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of Australian Accounting Standards.

NOTES TO THE FINANCIAL STATEMENTS

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

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

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

Valuation of Property, Plant and Equipment

Property, plant and equipment, is valued at fair value in accordance with Australian Accounting Standard AASB 116 *Property, Plant and Equipment* and NSW Treasury Policy Paper 07-1 *Accounting Policy: Valuation of Physical Non-Current Assets at Fair Value*.

Property, plant and equipment is measured on an existing use basis, where there are no feasible alternative uses in the existing natural, legal, financial and socio-political environment. However, in the limited circumstances where there are feasible alternative uses, assets are valued at their highest and best use.

Fair value of property, plant and equipment is determined based on the best available market evidence, including current market selling prices for the same or similar assets. Where there is no available market evidence, the asset's fair value is measured at its market buying price, the best indicator of which is depreciated replacement cost.

Assets belonging to a cash-generating unit are written down where the recoverable amount of the unit is lower than its carrying amount. Refer to 'Impairment' section below.

Non-specialised assets with short useful lives are measured at depreciated historical cost, as a surrogate for fair value.

Valuation of Land

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

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

Land under roads and within road reserves is not recognised in this financial report, as the Total State Sector is utilising the transitional provisions available in AASB 1045 *Land under Roads*. However, this land has been recognised in the financial report of the Roads and Traffic Authority at \$35,192 million (2006 \$33,418 million).

Valuation of Specialised Plant and Infrastructure

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

NOTES TO THE FINANCIAL STATEMENTS

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

Valuation of Buildings

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

Specialised buildings are designed for a specific, limited purpose, and include hospitals, schools, court houses, emergency services buildings and buildings to house specialised plant and infrastructure and some heritage properties.

Where there are no feasible alternative uses for such buildings, they are valued at market buying price, the best indicator of which is replacement cost of the remaining economic benefits.

Heritage and Collection Assets

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

Revaluation of Property, Plant & Equipment

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

Where the State revalues non-current assets by reference to current prices for assets newer than those being revalued (adjusted to reflect the present condition of the assets), the gross amount and accumulated depreciation are separately restated.

Otherwise, for non-specialised assets where market based evidence is available, any accumulated depreciation is generally offset against the gross carrying amount of the assets to which they relate, and the net asset carrying amount is increased or decreased by the revaluation increment or decrement.

Revaluation increments are credited directly to the asset revaluation reserve, except that, to the extent that an increment reverses a revaluation decrement for that class of asset previously recognised as a loss in the operating statement, the increment is recognised as a gain.

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

Where an asset that has previously been revalued is disposed of, any balance remaining in the asset revaluation reserve in respect of that asset is transferred to accumulated funds.

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

NOTES TO THE FINANCIAL STATEMENTS

Impairment

The State assesses at each reporting date whether there is any indication that a cash generating unit or an asset within, may be impaired. If such an indication exists, the State estimates the recoverable amount. An impairment loss is recognised where the carrying amount of the asset or cash-generating unit exceeds the recoverable amount.

The recoverable amount of specialised assets that form part of a cash generating unit, in the absence of a market selling price, is the value in use, based on the expected future cash flows.

Where an asset does not belong to or constitute a cash generating unit, it cannot be impaired under AASB 136 *Impairment of Assets* unless selling costs are material. This is because for not-for-profit entities, AASB 136 modifies the recoverable amount in such circumstances to be the higher of fair value less costs to sell and depreciated replacement cost.

Non-current Assets (or Disposal Groups) Held for Sale

Certain non-current assets (or disposal groups) are classified as held for sale, where their carrying amount will be recovered principally through a sale transaction, not through continuing use.

Non-current assets (or disposal groups) held for sale are recognised at the lower of carrying amount and fair value less costs to sell. These assets are not depreciated while they are classified as held for sale.

Investment Properties

The State owns properties held to earn rentals and/or for capital appreciation. These investment properties are stated at fair value supported by market evidence at the reporting date. Gains or losses arising from changes in fair value are included in the operating statement for the period in which they arise. No depreciation is charged on investment properties.

Management has determined that the following be treated as property, plant and equipment instead of investment properties in interpreting AASB 140 *Investment Properties*.

- public housing is treated as property, plant and equipment and not as investment property because the properties are held to provide a social service rather than for investment purposes; and
- properties sub leased within the NSW public sector by the Crown Property Portfolio are treated as property, plant and equipment because the properties are held to provide a service rather than for investment purposes.

Forestry Stock (Biological Assets)

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

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 as a gain/loss, and as an adjustment to forestry stock assets in the balance sheet. Non-commercial plantations, generally less than fifteen years of age, are valued at the historical cost incurred in their establishment, as market prices cannot readily be determined for these plantations.

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

NOTES TO THE FINANCIAL STATEMENTS

The hardwood plantations estate has been valued on the basis of historical cost of establishment due to their age causing them to be non-commercial (less than fifteen years of age), whereas native forest timber has been valued using a net market value model. The valuation is based on standing volumes adjusted to reflect harvestable volume under current licence conditions and applying current prices less direct costs of disposing of the timber. The net change in market value is recognised in the operating statement as a gain/loss and as an adjustment to forestry stock assets in the balance sheet.

Forests NSW manages the available native forest resource on a sustained yield basis. Sustained yield means the volume harvested will approximate, over time, annual forest growth of the harvestable native forest areas. As a result, costs incurred in managing, maintaining and developing the resource are expensed as incurred.

Intangible Assets

The State recognises intangible assets only if it is probable that future economic benefits will flow to the State and the cost of the asset can be measured reliably. Examples of intangibles include computer software and easements to access privately owned land.

Intangible assets are measured initially at cost. Where an asset is acquired at no or nominal cost, the cost is its fair value as at the date of acquisition.

All research costs are expensed. Development costs are only capitalised when certain criteria are met.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised under the straight line method and expensed in the operating statement for the period. Refer to Note 15 *Intangibles* for categories of the useful lives.

Intangible assets are subsequently measured at fair value only if there is an active market. If there is no active market, the assets are carried at cost less any accumulated amortisation.

Intangible assets are tested for impairment where an indicator of impairment exists and in the case of intangible assets with indefinite lives, annually, either individually or at the cash generating unit level.

Privately Financed Projects

A Privately Financed Project (PFP) or service concession arrangement is a contractual arrangement under which the Government grants a concession to the private sector to supply and operate economic or social infrastructure that would traditionally have been acquired and operated by the public sector.

In the absence of specific Australian accounting requirements, PFPs are accounted for in accordance with Treasury Policy & Guidelines Paper TPP 06-8 *Accounting for Privately Financed Projects*, which adopts the principles set out in Application Note F *Private Finance Initiative and Similar Contracts* in the United Kingdom Accounting Standards Board's Financial Reporting Standard 5 *Reporting the Substance of Transactions*. Those principles guide the determination of whether the public sector concession provider or the private sector concession operator has an asset of the infrastructure that is the subject of the PFP.

Where the infrastructure payments under a PFP are clearly distinguishable, they are accounted for as a lease in accordance with Accounting Standard AASB 117 *Leases*. Where such payments are not clearly distinguishable, the infrastructure asset and the liability to pay for it are only recognised if further analysis of the PFP determines that the public sector concession provider has the majority of the risks and benefits in relation to the infrastructure.

An up-front contribution, that is in substance part of a PFP, made by one party to another, is recognised progressively over the period of the reduced payments (ie the concession period).

NOTES TO THE FINANCIAL STATEMENTS

A right to receive infrastructure for a nominal sum (including zero) at the end of a concession period is recognised progressively during the concession period as revenue and an asset. The value is allocated during the period as if it were the compound value of an annuity discounted at the NSW government bond rate applicable at the commencement of the period. Where, during the concession period, the fair value of the right to receive infrastructure increases or decreases, the movement is recognised as a revaluation in accordance with Accounting Standard AASB 116 *Property, Plant and Equipment*.

A land lease in connection with a PFP is treated as an operating lease.

The following PFPs are currently in operation:

Sydney Harbour Tunnel

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

The cost of constructing the Tunnel was \$683 million. The RTA revalues the tunnel annually using the Road Cost Index. The current written down replacement cost of the Tunnel is \$659 million (2006 \$627 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 \$330 million (2006 \$345 million). In addition, a tax liability exists for \$26 million (2006 \$26 million) following negotiations between interested parties including the Australian Taxation Office, for settlement between the RTA, the NSW Government, the Sydney Harbour Tunnel Company Limited and Tunnel Holdings Pty Ltd.

Other Privately Financed Projects

Other privately financed infrastructure projects include the transport and sporting infrastructure listed below.

The emerging right to receive the infrastructure is being recognised over the concession period (shown below) on a straight line basis:

- M2 Motorway (45 years)
- M4 Motorway (20 years)
- M5 Motorway (c 31 years)
- Eastern Distributor (48 years)
- Lane Cove Tunnel (c 33 years)
- Sydney Cross City Tunnel (c 30 years)
- Westlink M7 Motorway (31 years)
- Airport Line Railway Stations (30 years)
- Sydney Olympic Stadium (c 31 years)
- Sydney Superdome (c 32 years)
- Light Rail System (c 32 years)
- Opera House Car Park (50 years)
- Various Hospital Car Parks (20-25 years).

NOTES TO THE FINANCIAL STATEMENTS

LIABILITIES

Payables

These amounts represent liabilities for goods and services provided to the State prior to the end of the financial year that are unpaid, and arise when the State becomes obliged to make future payments in respect of the purchases of these goods and services. Payables for goods and services include accrued interest, accrued salaries, wages and on-costs and amounts owing for construction or purchase of assets.

Payables are recognised initially at fair value, usually based on the transaction cost or face value. Subsequent measurement is at amortised cost using the effective interest method. Short-term payables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

Borrowings

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

- loans raised by the Commonwealth on behalf of the State under the previous Financial Agreement;
- advances by the Commonwealth for housing and other specific purposes;
- domestic and overseas borrowings raised by the NSW Treasury Corporation; and
- private and public domestic borrowings by public sector agencies (including finance leases).

Borrowings are generally not held for trading. As such they are recognised at amortised cost using the effective interest method.

Amortised cost 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.

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 that 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 fair value of the leased property, or if lower, at the present value of the minimum lease payments. The leased asset is amortised on a straight line basis over the term of the lease or, where it is likely that the entity will obtain ownership of the asset, the useful life of the asset to the entity. The finance lease liability is determined in accordance with AASB 17 *Leases*. Lease payments are allocated between the principal component of the lease liability and the interest expense.

Long term leases of land are classified as an operating lease, provided title does not pass to the lessee by the end of the lease term. The leased asset is recognised by the State, as lessor, as investment property at fair value. The fair value of land under a prepaid long term lease is generally negligible during the greater part of the lease term due to its encumbrance. The fair value will increase (re-emerge) towards the end of the lease term as the effect of the encumbrance diminishes.

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

NOTES TO THE FINANCIAL STATEMENTS

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

The leasing arrangements of individual agencies comprise various terms and conditions prevalent in industry practice. These may include the basis on which contingent rental is determined, the terms of renewal or purchase options or escalation clauses or restrictions imposed concerning dividends, additional debt and/or further leasing. Such restrictions are generally enforceable only on the individual agencies concerned and are not normally significant for the Total State Sector Accounts.

Derivatives

The State has derivative assets and liabilities.

Derivatives are considered to be held for trading financial instruments except for designated and effective hedging instruments which are subject to hedge accounting. They are otherwise classified at "fair value through the profit & loss" and are valued on a fair value basis as at balance date, with resultant gains and losses from one valuation date to the next being recognised in the Operating Statement.

Where an active market exists, fair values are determined by reference to the specific market quoted prices / yields at year end. If no active market exists, judgement is used to select the valuation technique which best estimates fair value by discounting the expected future cash flows arising from the financial instruments to their present value using market yields and margins appropriate to the financial instruments. These margins take into account credit quality and liquidity of the financial instruments.

Funding swaps are valued off the appropriate swap curve.

All derivatives are recognised on the balance sheet at trade date (the date the government becomes party to the contractual provisions of the financial instrument concerned).

Employee Benefits and Other Provisions

Wages and Salaries, Annual Leave and Sick Leave

Liabilities for salaries and wages (including non-monetary benefits), annual leave and paid sick leave that fall due wholly within 12 months of the reporting date are recognised and measured in respect of employees' services up to the reporting date at undiscounted amounts based on the amounts expected to be paid when the liabilities are settled.

Long-term annual leave that is not expected to be taken within 12 months is measured at present value in accordance with AASB 119 *Employee Benefits*. Market yields on government bonds are used to discount long-term annual leave.

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

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

Long Service Leave

A liability for long service leave is measured in accordance with AASB 119 *Employee Benefits* at the present value of future payments anticipated for the employee services that the government has taken on at the reporting date, using the projected unit credit method.

An actuary calculates this using:

- expected future wage and salary levels
- experience of employee departures, and
- periods of service.

NOTES TO THE FINANCIAL STATEMENTS

Estimated future cash outflows are discounted using market yields at the reporting date that closely match the term of maturity of government bonds. The liabilities of budget dependent agencies were calculated using this present value method.

Long service liabilities for non-budget dependent agencies and Area Health Services were recognised using the short hand measurement techniques of AASB 119 *Employee Benefits*. It estimates the long service liability for all employees with five and more years service. It is not materially different from the estimated present value confirmed by an actuary.

Although 95 per cent of long service leave liability is classified as current due to its conditional nature, most of the total entitlement is not expected to be paid in the next twelve months for budget and non-budget dependent agencies.

Superannuation

An unfunded superannuation liability is recognised in respect of the defined benefit schemes. It is measured as the difference between the estimated present value of members' accrued benefits at balance date and the estimated net market value of the superannuation schemes' assets at that date. The liability is assessed annually by actuaries based on data maintained by the Superannuation Administration Corporation on behalf of the SAS Trustee Corporation and Future Plus for the Energy Industry Superannuation Scheme. It is calculated based on the latest Triennial Review actuarial economic assumptions, except for the discount rate, which is based on the long term Commonwealth government bond rate which is adjusted annually, if appropriate, to recognise the extra long term nature of superannuation liabilities at the reporting date. AASB 119 *Employee Benefits* requires the discount rate to be revised each year and tied to the actual long term Commonwealth government bond rate at 30 June.

The present value of accrued benefits is based on expected future payments that arise from membership of the fund to balance date in respect of the contributory service of current and past New South Wales state government employees.

The accrued benefits amount is calculated having regard to:

- expected future wage and salary levels;
- the growth rate in the Consumer Price Index; and
- the experience of employee departures and their periods of service.

In measuring the net superannuation liability actuarial gains and losses are recognised in the operating statement immediately.

The pension accounting costs are accrued using the projected unit credit method. The cost of pensions is charged to operations to spread the cost over the service lives of current and past employees. Independent actuaries do a full valuation of the plans every three years. Actuarial gains and losses are immediately recognised in profit and loss in the year when they occur.

Other Provisions

Other provisions exist when:

- the State has a present legal or constructive obligation as a result of a past event;
- it is probable that an outflow of resources will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

Other provisions are recorded at the estimates of obligation to pay. If the effect of the time value of money is material, provisions are discounted at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability.

These include for example, the Government's obligations arising from several insurance schemes:

- administered by the NSW Self Insurance Corporation (SICorp). These comprise liabilities for closed schemes, the previous workers' compensation and third party insurance schemes, and for the Treasury Managed Fund, a self insurance scheme.

NOTES TO THE FINANCIAL STATEMENTS

The Treasury Managed Fund protects the insurable assets and exposures of its members (government agencies).

The liability for outstanding claims is measured as the present value of the expected future payments and is determined by the Manager of SICorp in consultation with independent actuary, PricewaterhouseCoopers Actuarial Pty Ltd. The discount rate used is based on investment opportunities available on the amount of funds sufficient to meet claims as they become payable.

The expected future payments are estimated on the basis of the ultimate cost of settling claims, which is affected by factors arising during the period to settlement such as normal inflation and "superimposed inflation". Superimposed inflation refers to factors such as trends in court awards.

- Workers Compensation (Dust Diseases) Board outstanding claims and WorkCover Authority outstanding claims. The WorkCover Authority liabilities relate to claims assumed by the government from some failed insurance companies. The liabilities cover claims incurred but not yet paid, incurred but not yet reported and the anticipated fund management fees in respect of the management of those claims. These amounts are determined by independent actuarial assessment by PricewaterhouseCoopers Actuarial Pty Ltd.
- Some government agencies hold a group self-insurer's licence with the WorkCover Authority for workers' compensation. This self funded liability is actuarially calculated by McMahon Actuarial Services and Taylor Fry Pty Ltd on a discounted cash flows basis using a "central" estimate and assuming an interest rate of 6.3 per cent-6.8 per cent (2006: 5.4 per cent-5.9 per cent) per annum and a future wage inflation rate of 4.0 per cent-4.5 per cent (2006: 4.0 per cent-4.4 per cent) per annum.
- A provision for loss compensation associated with the former HIH Insurance Limited has been raised by the Government for building warranty insurance and for motor vehicle claims for which the Nominal Defendant is responsible under the Motor Accidents Compensation Act 1999. The liability is measured by the actuaries, Taylor Fry Pty Ltd as the present value of the expected future payments.
- The Building and Construction Industry Long Service Payments Corporation liabilities have been assessed based upon a full actuarial investigation that was undertaken as at 30 June 2007 by Professional Financial Solutions.

The amount and timing of the actual outflows in relation to the above provisions have a degree of uncertainty. Actual results may depend on a number of factors specific to the type of claim, for example, future economic and environmental conditions may be different to those assumed.

Key actuarial assumptions for the main schemes are:

- For schemes administered by SICorp the following average inflation rates and discount rates were used in measuring the liability for outstanding claims for NSW Treasury Managed Fund (TMF), Transport Accident Compensation Fund (TAC) and Governmental Workers Compensation Account (GWC):

	TMF		GWC		TAC	
	2007 %	2006 %	2007 %	2006 %	2007 %	2006 %
Not Later than one year						
Inflation Rate	2.8-4.5	3.0-4.5	4.5	4.5	4.5	4.5
Discount Rate	6.8	6.6	6.8	6.6	6.8	6.6
Superimposed Inflation *	0-10.0	0-10.0	0-3.0	0-3.0	0-2.5	0-2.0
Later than one year						
Inflation Rate	2.5-4.0	2.5-4.5	4.5	4.5	4.5	4.5
Discount Rate	6.8	6.6	6.8	6.6	6.8	6.6
Superimposed Inflation *	0-10.0	0-10.0	0-3.0	0-3.0	0-2.5	0-2.0

* Dependent on payment type

NOTES TO THE FINANCIAL STATEMENTS

For other Schemes details are as follows:

Scheme	Discount Rate %		Inflation Rate %	
	2007	2006	2007	2006
Claims expected to be paid not later than one year				
Workers Compensation (Dust Diseases) Board	4.25	6.0	4.0	4.0
WorkCover Authority	6.5	5.83	4.0	4.0
HIH Loss Compensation	6.3	5.8	4.5(4.0*)	4.5 (3.0*)
Building and Construction Industry Long Service Payment Scheme	4.5	5.1	4.5	4.5
Claims expected to be paid later than one year				
Workers Compensation (Dust Diseases) Board	6.25	6.0	4.25	4.0
WorkCover Authority	6.0-6.6	5.73-5.83	4.0	4.0
HIH Loss Compensation	5.9-6.3	5.9	4.5(4.0*)	4.5 (3.0*)
Building and Construction Industry Long Service Payment Scheme	4.5	5.1	4.5	4.5

* Represents the superimposed inflation rate

Any changes to the liabilities from the unwinding of the discount due to the passage of time is recognised as a finance cost in the Operating Statement.

Other Liabilities

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

Up-front payments received in respect of privately financed projects, are deferred and amortised over the term of the arrangement.

Up-front rental payments received by the State, as lessor, in respect of long-term leases of land (over 50 years duration), are deferred and amortised on a systematic basis over the entire term of the lease.

The value of a liability for Aboriginal land claims granted has been recognised equivalent to the estimated value of the related assets.

CHANGE IN ACCOUNTING POLICIES, THE CORRECTION OF ERRORS, AND REVISIONS TO ESTIMATES

There have been numerous small adjustments to the 2005-06 comparatives, and the 1 July 2005 opening equity as a result of small agency adjustments post audit of the 2005-06 Total State Sector Accounts. In aggregate these small adjustments did not materially impact the 2005-06 prior year operating result, which fell by \$21 million. However the result has been revised to reflect that the transactions related to events that occurred during 2005-06.

In addition the following major adjustments have been made to opening equity in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Assets and Liabilities Recognised for the First Time

- \$1,015 million Liability for Aboriginal Land Claims granted: The liability has been established to recognise claims granted under the Aboriginal Land Rights Act 1983. While the claims have been granted the care, control and management of the granted lands does not transfer to the relevant Aboriginal Land Council until the parcels have been surveyed and the title issued.
- \$110 million of Health employee on-cost liabilities were recognised for the first time following an actuarial review of the associated leave liabilities.
- The State recognised its \$41 million share of assets in the Joint Government Enterprise – Water for Rivers.

Adjustments to the Value of Assets and Liabilities

- The fair value of derivative net liabilities was increased by \$117 million, due to late amendments to 2005-06 agency reports.
- \$83 million of deferred income for previous upfront payments on long term leases was reinstated as a liability in accordance with AASB 117 Leases.

NOTES TO THE FINANCIAL STATEMENTS

Significant reclassifications to the published 2005-06 comparatives

In addition, some revenue and expenses, and assets and liabilities have been reclassified in the 2005-06 comparatives to present on a consistent basis with the 2006-07 report.

- \$157 million of self funded worker's compensation expenses (administered by SICorp) have been reclassified on the Total State Sector operating statement from other operating expense to other employee benefits expense, to better reflect their relationship with the costs of employment.

- \$133 million of property, plant and equipment has been reclassified to investment properties as the main purpose of these properties is to generate rental income.
- \$308 million of financial assets at fair value have been reclassified from non-current to current assets to reflect their maturity.

Changes in Accounting Estimates

Changes are recognised in the period when the estimate is revised. Such changes are not adjusted retrospectively to the financial report.

2. REVENUES

	2006-07 \$m	2005-06 \$m
STATE REVENUES		
Taxation		
Payroll Tax	5,452	5,027
Stamp Duties	5,946	4,823
Gambling and Betting	1,369	1,234
Land Tax	1,955	1,663
Other	2,555	2,471
	17,277	15,218
Commonwealth Grants		
General Purpose - Recurrent	...	292
- GST Revenue	10,938	10,428
Specific Purpose - Recurrent	5,637	5,339
- Capital	1,161	1,021
- Australian Road Transport grant for future year capital expenditure	...	960
	17,736	18,040
Fines, Regulatory Fees and Other State Revenues include:		
Royalties from mining	489	504

NOTES TO THE FINANCIAL STATEMENTS

	2006-07 \$m	2005-06 \$m
OPERATING REVENUES		
Sale of Goods and Services comprise revenue from:		
Sale of goods ^(a)	7,687	7,424
Rentals from public housing and other non-investment properties ^(b)	928	874
Rendering of other services	5,493	4,867
less: Cost of sales	(1,350)	(1,245)
	12,758	11,920
 <i>(a) Includes net revenues from lotteries activities:</i>		
<i>Gross revenue</i>	<i>1,163</i>	<i>1,170</i>
<i>Prizes and other statutory payments</i>	<i>(777)</i>	<i>(782)</i>
<i>Net Revenue</i>	<i>386</i>	<i>388</i>
 <i>(b) Includes revenues from the provision of public housing:</i>		
<i>Market rent and other tenant charges</i>	<i>1,329</i>	<i>1,287</i>
<i>Less: Rental subsidies to tenants</i>	<i>(686)</i>	<i>(676)</i>
<i>Rentals from Public Housing</i>	<i>643</i>	<i>611</i>
 Investment Revenue comprises:		
Interest and managed fund earnings	1,498	1,669
Rentals from investment properties	116	106
Other	80	71
	1,694	1,846

NOTES TO THE FINANCIAL STATEMENTS

3. EXPENSES

	2006-07	2005-06
	\$m	\$m
Superannuation Expense comprises		
Defined benefit plans, excluding actuarial gains/losses ^(a)	1,478	1,785
Defined contribution plans	1,267	1,141
	2,745	2,926

(a) Refer Note 20 for a dissection of defined benefits superannuation expense by component.

Other Employee Benefits Expenses comprise:		
Salaries and wages (including recreation leave)	20,318	19,278
Long service leave	669	767
Other	1,060	1,380
	22,047	21,425

Other Operating Expenses comprise:		
Operating lease rentals - minimum lease payments	653	612
Consultancy fees	69	66
Inventories written back	9	14
Audit fees ^(b)		
- for audit	...	...
- for other services	...	...
Insurance claims	195	250
Supplies and other services	8,948	8,352
External maintenance (excluding employee costs associated with maintenance)	2,813	2,481
	12,687	11,775

(b) Fees of \$24 million for audit, and \$2 million for other services to the Audit Office of NSW (2005-06 \$24 million for audit and \$2 million for other services) have not been recognised as expenses because they have been eliminated in consolidation of the NSW Public Sector.

Depreciation and Amortisation expense comprise:		
Depreciation on		
- Buildings	1,080	1,003
- Plant and equipment	1,044	964
- Infrastructure systems	2,068	1,941
Amortisation	273	297
	4,465	4,205

Grants and Subsidies include contributions by the State for:		
Education and training	957	907
Ageing, disability and home care services	905	740
Health	743	685
Public transport	603	565
Community services	526	497
First Home Owners Scheme	324	286

Finance Costs include:		
Charges relating to finance leases	51	60
Unwinding of the discount on provision liabilities	386	352

NOTES TO THE FINANCIAL STATEMENTS

4. GAINS/(LOSSES)

	2006-07	2005-06
	\$m	\$m
Net Gain/(Loss) from Disposal of:		
Property, plant and equipment	4	(32)
Financial instruments	(9)	6
Intangible assets	(1)	(1)
	(6)	(27)
Other Net Gains/(Losses) - from Fair Value Adjustments through the Operating Statement		
Defined benefits superannuation - actuarial gains and losses ^(a)	3,518	4,748
Consolidation adjustment to RTA land under the roads ^(b)	(101)	(203)
Investment property	68	...
Non-current assets classified as held for sale	(9)	2
Forestry stock write offs and market value adjustments (biological assets)	(80)	(63)
Intangible assets	6	(14)
Financial instruments	(40)	(4)
Impairment of receivables	(147)	(130)
Other	(8)	(41)
	3,207	4,295

(a) Refer Note 20 for a dissection of the defined benefit superannuation gains and losses by component.

(b) No valuation has been included in the Total State Sector Accounts for land under roads and within road reserves. During 2006-07 the Roads and Traffic Authority identified land under roads of \$101 million (2006 \$203 million) which was reported in previous years as part of Land and Buildings. As it is Treasury's policy to apply the transitional provisions in AASB 1045, and to report land under roads in the Total State Sector Accounts at nil value, an adjustment of \$101 million has been made to derecognise the value of these assets which has been included in the accounts of the Roads and Traffic Authority. The \$101 million cost value of these assets has been recorded as a valuation loss.

5. SIGNIFICANT ITEMS

	2006-07	2005-06
	\$m	\$m
The Operating Surplus includes the following Significant Revenue/(Expense) Items:		
Purchaser stamp duty and interest from a one-off assessment relating to a single large transaction	424	...
Self funded worker's compensation claims expense fell due to an improved claims experience, and an increase in the liability discount rate	37	(212)
Grant from the Commonwealth Government for future year capital expenditure on the Australian Road Transport Program	...	960
	461	748

NOTES TO THE FINANCIAL STATEMENTS

6. CASH AND CASH EQUIVALENT ASSETS

	2007	2006
	\$m	\$m
Cash administered by NSW Treasury Corporation		
Hour Glass Cash Facility (managed fund)	2,033	2,577
Special Client Mandate (Short term deposits facility)	403	343
Cash and deposits held at other financial institutions	1,856	1,399
	4,292	4,319

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

7. RECEIVABLES

	2007	2006
	\$m	\$m
Current Receivables		
Debtors and accruals from		
- Sale of goods and services ^(a)	2,423	2,174
- Settlements receivable on new borrowings and other financial instruments	403	445
- Taxation ^(b)	1,001	364
- Prepayments ^(c)	414	182
- Asset sales	38	46
- Interest	2	28
Advances receivable	6	76
Other ^(c)	1,515	1,107
	5,802	4,422
Less Allowance for Impairment ^(d)	(191)	(231)
Total Current Receivables	5,611	4,191
Non-Current Receivables		
Dust Diseases' insurance levies accrued ^(e)	842	956
Advances receivable	138	91
Prepayments	167	171
Other	337	341
	1,484	1,559
Less allowance for impairment ^(d)	(25)	(30)
Total Non-Current Receivables	1,459	1,529

(a) Generally trade receivables from sale of goods and services are non-interest bearing with varying terms based on prevalent industry practice.

(b) A major part of the increase in taxation receivables relates to a single large transaction (stamp duty and interest from purchaser transfers) for which an assessment has been issued, but payment was not received as at June 2007. This assessment is the subject of an objection by the taxpayer.

(c) The increase in prepayments was driven by extra contributions to satisfy prudential requirements, and the increase in other current receivables was driven by accruals, both associated with higher electricity spot prices. This arose from increased demand for electricity, a result of very cold weather patterns in June 2007, and increased future expected electricity liabilities.

(d) Allowance for impairment mainly comprises allowance for doubtful debts related to sales of goods and services.

(e) Refer Accounting Policy Note 1 "Receivables" for further details.

NOTES TO THE FINANCIAL STATEMENTS

8. FINANCIAL ASSETS AT FAIR VALUE

	2007	2006
	\$m	\$m
Current	4,509	4,255
Non-current	7,948	12,152
	12,457	16,407

Financial assets at fair value comprise:

Financial assets held for trading

Derivative Assets ^(a)		
Swaps	29	23
Futures	5	2
Electricity contracts	730	157
Other	11	2
Held for trading	775	184

Designated and effective hedging instruments

Derivative Assets ^(a)		
Swaps	25	21
Electricity contracts	119	1
Other	3	2
Hedging instruments	147	24

Financial assets designated at fair value through profit and loss

Fiduciary investments		
administered by NSW Treasury Corporation ^(b)	6,187	12,370
Securities and placements		
held by NSW Treasury Corporation	3,992	2,433
Other	1,356	1,396
Designated at Fair Value through profit and loss	11,535	16,199

Total Financial Assets at Fair Value	12,457	16,407
--------------------------------------	--------	--------

(a) Refer to Note 29 Financial Instruments for a description of the major types of derivatives.

(b) During 2006-07 the State made a \$7, 175 million one-off contribution to its defined benefits superannuation scheme utilising all of the funds of the General Government Liability Management Fund.

NOTES TO THE FINANCIAL STATEMENTS

9. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	2007 \$m	2006 \$m
Current	...	...
Non-current	1,520	1,501
	1,520	1,501

Investments in Associates Accounted for Using the Equity Method comprise

the State's share in:

Snowy Hydro Ltd ^(a)	749	753
Murray Darling Basin Commission ^(b)	615	588
Law Courts Ltd ^(c)	119	110
Other entities	37	50
	1,520	1,501

(a) Snowy Hydro Ltd

New South Wales has a 58 per cent share of Snowy Hydro Ltd, with the Commonwealth and Victorian governments retaining 13 per cent and 29 per cent respectively. Each jurisdiction has appointed 3 directors following an inter-governmental agreement. Thus as New South Wales does not control the entity it has applied the equity method to account for its investment in Snowy Hydro Ltd.

Snowy Hydro Ltd is mainly involved in generating and marketing renewable electricity, as well as the storage and diversion of bulk water to the Murray and Murrumbidgee Rivers. There is no published quotation price for the fair value of this investment. New South Wales recognises its investment based upon 58 per cent of Snowy Hydro Ltd's net assets reported in its financial report.

The reporting date of Snowy Hydro Ltd approximates that of the Total State Sector Accounts. In any case, the difference between the reporting dates is no more than 3 months (in this instance a few days) with the length of the reporting periods and any difference in the reporting dates being approximately the same from period to period.

There were no impairment losses relating to the investment in Snowy Hydro Ltd, however there were capital and other commitments as follows:

Amount of New South Wales' share of Snowy Hydro Limited's:

<i>Capital expenditure commitments</i>	<i>29</i>	<i>53</i>
<i>Operating lease commitments</i>	<i>45</i>	<i>47</i>
	<i>74</i>	<i>100</i>

NOTES TO THE FINANCIAL STATEMENTS

The following table illustrates summarised information of New South Wales' investment in Snowy Hydro Ltd:

	2007	2006
	\$m	\$m
<i>Share of Snowy Hydro Ltd's balance sheet:</i>		
<i>Current assets</i>	153	66
<i>Non-current assets</i>	1,264	1,263
<i>Current liabilities</i>	(231)	(58)
<i>Non-current liabilities</i>	(437)	(518)
<i>Net Assets</i>	749	753
 <i>Share of Snowy Hydro Ltd's profit:</i>		
<i>Revenue</i>	348	296
<i>Profit before income tax</i>	38	111
<i>Income tax expense</i>	(14)	(37)
<i>Profit after income tax</i>	24	74

(b) Murray-Darling Basin Commission

New South Wales has a 26.67 per cent share of the Murray-Darling Basin Commission along with the Victorian and South Australian governments each retaining 26.67 per cent and the Commonwealth retaining the remaining 20 per cent.

The Murray-Darling Basin Commission is the executive arm of the Murray-Darling Basin Ministerial Council and is responsible for managing the River Murray and the Menindee Lakes system of the lower Darling River, as well as advising the Ministerial Council on matters related to the use of the water, land and other environmental resources of the Murray-Darling Basin.

The Ministerial Council comprises the Ministers responsible for land, water and environmental resources within the Contracting Governments (i.e. the Commonwealth, NSW, Victoria, SA, ACT and Qld). Resolutions of the Council require a unanimous vote.

The Commission comprises an independent President, two Commissioners from each Contracting Government and a representative of the ACT Government. Thus as New South Wales does not control the entity it has applied the equity method to account for its investment in the Murray-Darling Basin Commission.

The Commission is an autonomous organisation equally responsible to the governments represented on the Ministerial Council. It is not a government department, nor a statutory body of any individual government. It is not listed on any public exchange. Therefore there is no published quotation price for the fair value of this investment. New South Wales recognises its investment based upon 26.67 per cent of the value of the Commission's net assets reported in its financial report.

The reporting date of the Murray-Darling Basin Commission is the same as the Total State Sector Accounts.

NOTES TO THE FINANCIAL STATEMENTS

The following table illustrates summarised information of New South Wales' investment in the Murray-Darling Basin Commission:

	2007	2006
	\$m	\$m
<i>Share of Murray-Darling Basin Commission's balance sheet:</i>		
Financial assets	145	143
Non-financial assets	476	453
Other liabilities	(6)	(8)
Net Assets	615	588

Share of Murray-Darling Basin Commission's profit and movement in reserves

Revenue	35	158
Profit before income tax	5	132
Income tax expense	...	...
Profit after income tax	5	132
Net credit to asset revaluation reserve	...	91
Total change in equity	5	223

There were no impairment losses relating to the investment in the Murray-Darling Basin Commission, however there were capital and other commitments as follows:

	2007	2006
	\$m	\$m
<i>Amount of New South Wales' share of Murray-Darling Basin Commission:</i>		
Capital expenditure commitments	...	...
Operating lease commitments	5	...
Other expenditure commitments	5	5
	10	5

(c) Law Courts Ltd

New South Wales has a 52.5 per cent share of Law Courts Ltd along with the Commonwealth retaining the remaining 47.5 per cent. Each jurisdiction has appointed 3 directors in accordance with the company's constitution. Thus as New South Wales does not control the entity it has applied the equity method to account for its investment in Law Courts Ltd.

Law Courts Ltd is an unlisted public company, limited by guarantee that was incorporated in Australia, to provide building management services for the Law Courts Building in Queen Square, Sydney. There is no published quotation price for the fair value of this investment. New South Wales recognises its investment based upon 52.5 per cent of Law Courts Ltd's net assets reported in its financial report.

The reporting date of Law Courts Ltd is the same as the Total State Sector Accounts.

There were no impairment losses relating to the investment in the Law Courts Ltd and there were no material capital or other expenditure commitments.

NOTES TO THE FINANCIAL STATEMENTS

The following table illustrates summarised information of New South Wales' investment in Law Courts Ltd:

	2007 \$m	2006 \$m
<i>Share of Law Courts Ltd balance sheet:</i>		
<i>Current assets</i>	18	14
<i>Non-current assets</i>	101	96
<i>Current liabilities</i>	...	...
<i>Non-current liabilities</i>	...	...
<i>Net Assets</i>	119	110
 <i>Share of Law Courts Ltd profit and movement in reserves:</i>		
<i>Revenue</i>	11	15
<i>Profit before income tax</i>	9	8
<i>Income tax expense</i>	...	...
<i>Profit after income tax</i>	9	8
 <i>Net credit to asset revaluation reserve</i>	 ...	 11
<i>Total change in equity</i>	9	19

NOTES TO THE FINANCIAL STATEMENTS

10. INVENTORIES

	2007 \$m	2006 \$m
Current	652	615
Non-current	433	460
	1,085	1,075

Inventories comprise:

Held for Distribution:		
- Consumable Stores		
- At cost	160	136
- At current replacement cost	3	3
Raw Materials:		
- At cost	164	138
Work in Progress:		
- At cost	9	16
- At net realisable value	...	2
Finished Goods:		
- At cost	40	47
- At net realisable value	12	18
Consumable Stores:		
- At cost	164	160
Land Held for Resale ^(a)	533	555
	1,085	1,075

(a) Land held for resale, for government authorities that trade in land, has been recorded at:

<i>Acquisition Cost</i>	<i>309</i>	<i>313</i>
<i>Development Cost</i>	<i>188</i>	<i>212</i>
<i>Other Costs</i>	<i>36</i>	<i>30</i>
	<i>533</i>	<i>555</i>

NOTES TO THE FINANCIAL STATEMENTS

11. NON CURRENT ASSETS (OR DISPOSAL GROUPS) HELD FOR SALE

	2007	2006
	\$m	\$m
Assets Held For Sale		
Land and Buildings	307	325
Plant and Equipment	1	1
	308	326

The following Liabilities and Equity are associated with the above assets held for sale

Liabilities Directly Associated with Assets Held For Sale		
Liabilities	...	5
	...	5
Amounts Recognised Directly in Equity Relating to Assets Held For Sale		
Property, Plant and Equipment asset revaluation increments	44	79
	44	79

Land and Buildings held for sale include residential properties, under-utilised non-infrastructure land and properties that have been classified as surplus to the needs of the State. Residential properties relate to properties held under the Public Equity Partnership Scheme. Under this Scheme, properties are required to be sold when they meet pre-determined criteria. By the expiration of the Schemes in 2011 and 2013, all of the relevant properties will be sold. The Roads and Traffic Authority has an annual sales program for the sale of its surplus properties.

Assets held for sale are expected to be sold in the following financial year using a number of disposal options including auction, tender, direct negotiation and through appropriate property swaps.

NOTES TO THE FINANCIAL STATEMENTS

12. PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings \$m	Plant and Equipment \$m	Infrastructure Systems \$m	Total \$m
At 1 July 2006				
Gross Value	102,566	15,251	128,480	246,297
Accumulated amortisation and impairment	(18,078)	(5,055)	(52,428)	(75,561)
Net carrying amount	84,488	10,196	76,052	170,736

At 30 June 2007				
Gross Value	106,235	16,171	138,245	260,651
Accumulated amortisation and impairment	(19,415)	(5,653)	(56,330)	(81,398)
Net carrying amount	86,820	10,518	81,915	179,253

Reconciliation:

Year ended 30 June 2007

Net carrying amount at start of year	84,488	10,196	76,052	170,736
Additions	2,566	1,447	5,395	9,408
Assets classified to held for sale	(183)	...	(3)	(186)
Disposals	(336)	(271)	(117)	(724)
Net revaluation increments				
recognised in reserves	1,545	201	3,341	5,087
Impairment losses:				
recognised in equity	...	(4)	(1,802)	(1,806)
reversals in equity	3	...	775	778
recognised in the Operating Statement	(6)	...	(3)	(9)
reversals in the Operating Statement	5	...	...	5
Depreciation expense	(1,080)	(1,044)	(2,068)	(4,192)
Other movements	(182)	(7)	345	156
Net carrying amount at end of year	86,820	10,518	81,915	179,253

Revaluations are made with sufficient regularity to ensure that the carrying amount of property, plant and equipment does not materially differ from fair value at the reporting date. The State assesses at each reporting date whether there is any indication that an asset's carrying amount differs materially from fair value. If any indication exists, the asset is revalued. Subject to the above, assets are revalued at least every five years.

During 2006-07, the revaluations included the following:

The Roads and Traffic Authority (RTA) revaluation of property, plant and equipment resulted in a net increment being brought to account. Land and buildings were devalued by \$63 million and infrastructure systems were revalued up by \$990 million during the year, as follows:

- Roads \$678 million (excluding land under the roads)
- Bridges \$298 million
- Traffic Signals Network \$14 million.

NOTES TO THE FINANCIAL STATEMENTS

The valuation policies provide for roads, bridges and the traffic signals network, to be revalued periodically using the modern equivalent replacement cost method. The determination of unit replacement rates is carried out at least every five years by suitably qualified engineering contractors and employees of the RTA. Assets are recorded initially at construction cost and the annual percentage increase in the road cost index is applied each year until the following unit replacement review is undertaken.

An independent review of the written down optimised replacement value of the Eraring power station and hydro and wind assets was conducted by Rodney Hyman Asset Services as at 30 June 2007. The revaluation resulted in an increase to infrastructure assets (the power station building and equipment) of \$584 million, recognised above as \$1,824 million net revaluation increment and \$1,240 million impairment loss recognised in equity.

A revaluation of Delta Electricity power stations resulted in an increment of \$275 million.

	Land and Buildings \$m	Plant and Equipment \$m	Infrastructure Systems \$m	Total \$m
At 1 July 2005				
Gross Value	96,975	14,613	122,066	233,654
Accumulated amortisation and impairment	(15,564)	(4,499)	(49,122)	(69,185)
Net carrying amount	81,411	10,114	72,944	164,469

At 30 June 2006				
Gross Value	102,566	15,251	128,480	246,297
Accumulated amortisation and impairment	(18,078)	(5,055)	(52,428)	(75,561)
Net carrying amount	84,488	10,196	76,052	170,736

Reconciliation:

Year ended 30 June 2006

Net carrying amount at start of year	81,411	10,114	72,944	164,469
Additions	1,900	1,487	4,651	8,038
Assets classified to held for sale	(132)	...	(9)	(141)
Disposals	(249)	(290)	(89)	(628)
Net revaluation increments recognised in reserves	2,793	40	3,227	6,060
Impairment losses: recognised in equity	(11)	(2)	(2,601)	(2,614)
reversals in the Operating Statement	...	...	3	3
Depreciation expense	(1,003)	(964)	(1,941)	(3,908)
Other movements ^(a)	(221)	(189)	(133)	(543)
Net carrying amount at end of year	84,488	10,196	76,052	170,736

(a) Other movements includes amount reclassified at 1 July 2005 in relation to the correction of errors and changes in accounting policies.

NOTES TO THE FINANCIAL STATEMENTS

During 2005-06, the revaluation movements included the following:

- A notional revaluation of land and building within the Department of Education and Training was made based on valuation factors supplied by the Department of Commerce, Property Valuation Services. These factors are based on written down replacement costs on an existing use basis with appropriate allowances for regional considerations. A full revaluation of education land and buildings occurred during 2006-07.
- Independent valuers, in conjunction with senior officers of the Department of Housing undertake an annual revaluation of residential land and buildings. The revaluation is undertaken by selecting a representative sample of properties, taking into account the diversity of the housing stock, property condition and location. The valuation attributable to the representative sample is applied to all residential properties.
- Sydney Opera House building fabric/structure and internal fit out were revalued by independent valuer Rider Hunt Pty Ltd from \$640 million in 2004-05 to \$1,650 million in 2005-06.

13. INVESTMENT PROPERTIES

	2007 \$m	2006 \$m
FAIR VALUE		
Opening balance 1 July	1,513	1,293
Additions (from acquisitions or subsequent expenditure)	13	59
Disposals, and transfers of assets held for sale	(3)	...
Net gain/(loss) from fair value adjustment	68	...
Other changes	(117)	161
Closing Balance 30 June	1,474	1,513

The following amounts from Investment Properties activity have been recognised in the operating statement:

Rental income	116	106
Direct operating expenses;		
- that generated rental income	24	27
- that did not generate rental income	...	1

Property interests held under operating leases, including 99 year leases (where payment has been received upfront), are classified and accounted for as investment property.

The fair value of investment properties comprises valuations carried out by independent, professionally qualified valuer's with recent experience in the location and category of the investment property. These include:

BEM Property Consultants Pty Ltd

Jones Lang Lasalle

Landmark White

M J Davis Valuations Pty Ltd

Messrs Colliers International Consultancy and Valuation Pty Ltd

Preston Rowe Paterson NSW Pty Ltd.

NOTES TO THE FINANCIAL STATEMENTS

14. FORESTRY STOCK AND OTHER BIOLOGICAL ASSETS

	Softwood Plantation Timber \$m	Hardwood Plantation Timber \$m	Native Forest Timber \$m	Total 2007 \$m
Valuation				
Net market value	1,111	...	386	1,497
Carrying amount	...	62	...	62
Total timber at beginning of reporting period	1,111	62	386	1,559
Capital expenditure - plantation establishment & development	20	2	...	22
Capitalisation of borrowing costs	9	...	...	9
Write-off of growing stock &/or establishment costs	(13)	...	...	(13)
Sale of Plantations	...	...	...	...
Carrying amount as at year end (prior to adjusting for changes in net market value)	1,127	64	386	1,577
Net market value	1,092	...	353	1,445
Carrying amount	...	64	...	64
Total forestry stock at reporting period	1,092	64	353	1,509
Other biological assets (livestock and fodder)				6
Total forestry stock and other biological assets at reporting period				1,515
Net increment/(decrement) in the market value of timber ^(a)	(35)	...	(33)	(68)

Forest Area

	Hectares	Hectares	Hectares	Hectares
Total area	196,821	26,815	1,997,376	2,221,012

(a) Refer Note 1 'Forestry Stock and Other Biological Assets' for information on the valuation of hardwood plantations.

The Department of Environment and Conservation has forests, including those within national parks and wilderness areas, which do not form part of this note due to the restrictions on their use by virtue of the *National Parks and Wildlife Act 1974*.

NOTES TO THE FINANCIAL STATEMENTS

	Softwood Plantation Timber \$m	Hardwood Plantation Timber \$m	Native Forest Timber \$m	Total 2006 \$m
Valuation				
Net market value	1,133	...	402	1,535
Carrying amount	...	60	...	60
Total timber at beginning of reporting period	1,133	60	402	1,595
Capital expenditure - plantation establishment	17	2	...	19
Capitalisation of borrowing costs	8	...	...	8
Write-off of growing stock &/or establishment costs	...	...	...	...
Sale of Plantations	...	...	...	...
Carrying amount as at year end (prior to adjusting for changes in net market value)	1,158	62	402	1,622
Net market value	1,111	...	386	1,497
Carrying amount	...	62	...	62
Total forestry stock at reporting period	1,111	62	386	1,559
Net increment/(decrement) in the market value of timber ^(a)	(47)	...	(16)	(63)

Forest Area

	Hectares	Hectares	Hectares	Hectares
Total area	200,556	26,475	2,022,112	2,249,143

(a) Refer Note 1 'Forestry Stock and Other Biological Assets' for information on the valuation of hardwood plantations.

The Department of Environment and Conservation has forests, including those within national parks and wilderness areas, which do not form part of this note due to the restrictions on their use by virtue of the *National Parks and Wildlife Act 1974*.

NOTES TO THE FINANCIAL STATEMENTS

15. INTANGIBLES

2006-07 Carrying Amounts	Computer Software \$m	Easements \$m	Other \$m	Total \$m
At 1 July 2006				
Cost (gross carrying amount)	1,909	607	53	2,569
Accumulated amortisation and impairment	(1,090)	(41)	(18)	(1,149)
Net carrying amount	819	566	35	1,420
At 30 June 2007				
Cost (gross carrying amount)	2,173	646	39	2,858
Accumulated amortisation and impairment	(1,231)	(34)	(20)	(1,285)
Net carrying amount	942	612	19	1,573
Annual Movement for Year ended 30 June 2007				
Net carrying amount at start of year	819	566	35	1,420
Additions	378	56	1	435
Disposal/Classified to assets held for sale	(1)	...	(1)	(2)
Impairment	6	...	...	6
Amortisation	(191)	(20)	(3)	(214)
Other - movements	(69)	10	(13)	(72)
Net carrying amount at end of year	942	612	19	1,573

Estimates

	<u>Computer Software</u>	<u>Easements</u>	<u>Other</u>
Useful lives	Finite	Indefinite	Finite
Amortisation method	4 years straight line	Not amortised	Various
Internally Generated/Acquired	Both	Acquired	Both
Impairment test/ Recoverable amount testing	Where an indicator of impairment exists	Annually and where an indicator of impairment exists	Where an indicator of impairment exists

NOTES TO THE FINANCIAL STATEMENTS

2005-06 Carrying Amounts	Computer Software \$m	Easements \$m	Other \$m	Total \$m
At 1 July 2005				
Cost (gross carrying amount)	1,637	581	62	2,280
Accumulated amortisation and impairment	(911)	(19)	(16)	(946)
Net carrying amount	726	562	46	1,334
At 30 June 2006				
Cost (gross carrying amount)	1,909	607	53	2,569
Accumulated amortisation and impairment	(1,090)	(41)	(18)	(1,149)
Net carrying amount	819	566	35	1,420

Annual Movement for Year ended 30 June 2006

Year ended 30 June 2006

Net carrying amount at start of year	726	562	46	1,334
Additions	195	51	37	283
Disposal/Classified to assets held for sale	(1)	...	...	(1)
Impairment	(2)	(12)	...	(14)
Amortisation	(196)	...	(19)	(215)
Other - movements	97	(35)	(29)	33
Net carrying amount at end of year	819	566	35	1,420

16. OTHER ASSETS

	2007 \$m	2006 \$m
Current	269	140
Non current	1,378	1,096
	1,647	1,236
Other Assets comprise:		
Emerging interest in the Sydney Harbour Tunnel	659	627
Right to receive privately financed transport and sporting infrastructure	653	418
Prepaid superannuation contributions ^(a)	115	45
Other	220	146
	1,647	1,236

(a) Refer Provisions Note 20 Energy Industries Superannuation Scheme.

NOTES TO THE FINANCIAL STATEMENTS

17. PAYABLES

	2007	2006
	\$m	\$m
Payables include:		
Accrued employee benefits ^(a)	508	416
Interest accrued on borrowings and advances	478	411
Settlement payable on borrowings and other financial instruments	531	295

(a) Refer to Note 20 Provisions for information on other employee benefit liabilities

Other residual payables include trade creditors which are generally non-interest bearing with various terms based on prevalent industry practice.

18. BORROWINGS AT AMORTISED COST

	2007	2006
	\$m	\$m
Current	6,914	1,161
Non current	25,845	28,585
	32,759	29,746

Borrowings at amortised cost comprise ^(a)

Liability to Commonwealth Government	882	908
Domestic and foreign borrowings	31,270	28,162
Bank overdraft	123	139
Finance leases ^{(b)(c)}	484	537
	32,759	29,746

(a) A schedule of repayment of borrowings is included in Note 29 Financial Instruments.

(b) The reduction in finance lease liabilities is primarily the result of a change in the financial management of state fleet motor vehicles from finance lease to direct purchases.

(c) Future minimum lease payments under finance leases are payable for each of the following periods:

<i>Not later than one year</i>	<i>107</i>	<i>163</i>
<i>Between one and five years</i>	<i>331</i>	<i>313</i>
<i>Later than five years</i>	<i>739</i>	<i>572</i>
	<i>1,177</i>	<i>1,048</i>
<i>Less: Future finance charges</i>	<i>(693)</i>	<i>(511)</i>
	<i>484</i>	<i>537</i>

The State has signed an agreement for a Rail Rollingstock Public Private Partnership, which constitutes a finance lease. There is no finance lease liability as at 30 June 2007 as neither the rolling stock sets nor the maintenance facility have been completed and capitalised at this date. Delivery is scheduled to occur across the period from 2009 to 2013. The finance lease liability and aggregate minimum lease payments totalling \$9,459 million (nominal dollars) or \$3,650 million (in net present value as at 30 June 2006) have not been reported in the above note. Further, the State has entered into contracts for future finance leases, whose liabilities and commitments have yet to be recognised, as control of the assets will only occur in the future, upon project completion for the Bonnyrigg Public Housing Estate and for ten new schools.

NOTES TO THE FINANCIAL STATEMENTS

19. DERIVATIVES AT FAIR VALUE

	2007 \$m	2006 \$m
Current	2,765	396
Non current	1,160	330
	3,925	726
 Derivative liabilities at fair value comprise:		
Derivatives held for trading		
Swaps	710	316
Futures	14	1
Electricity contracts ^(a)	2,004	75
Other	37	4
 Designated and effective hedging instruments		
Swaps	229	264
Electricity contracts ^(a)	910	57
Other	21	9
	3,925	726

(a) Derivative Electricity Hedging Contracts

It is the policy of state-owned electricity generators to hedge their risk associated with fluctuations in the sale price of electricity into the national electricity market. This is by entering into derivative contracts with wholesale electricity market counterparties.

These derivatives are marked to market and their fair values are measured based on industry accepted valuation methodologies and a market published forward curve, in accordance with AASB 139 Financial Instruments: Recognition and Measurement.

The fair value of electricity derivative contracts as at 30 June 2007 reflected high market prices, in both the spot market and extremely volatile forward pricing of electricity. This was due to a combination of factors, including the prolonged effects of drought conditions, supply interruptions particularly in the last quarter of the financial year and increased demand, a result of very cold weather in June 2007.

These factors improved during July and August 2007, with a corresponding reduction in spot market prices and the electricity forward price curve falling significantly. As a consequence the fair value of electricity derivative liabilities decreased significantly since reporting date. Note the reduction in the net liability position has been primarily offset by re-measurements of the opposite direction in the equity hedging reserve.

NOTES TO THE FINANCIAL STATEMENTS

20. PROVISIONS

	2007	2006
	\$m	\$m
Current	9,526	8,814
Non current	20,479	30,523
	30,005	39,337

These comprise:

Employee Benefits Provisions		
Unfunded superannuation ^(a)	14,237	23,600
Long service leave and other leave entitlements	7,536	7,306
Self funded worker's compensation	2,168	2,331
Other	466	483
Total Provision for Employee Benefits ^(b)	24,407	33,720
Other Provisions		
Outstanding claims:		
- Self Insurance Corporation (excluding self funded worker's compensation)	2,507	2,545
- for dust diseases	1,516	1,551
- WorkCover Authority	173	223
HIH loss compensation	128	177
Building and Construction Industry Long Service Payments Scheme	569	513
Provision for Land Remediation and Other Restoration Costs	287	293
Other	418	315
Total Other Provisions	5,598	5,617
Total Employee Benefits and Other Provisions	30,005	39,337

	2007	2006
	\$m	\$m
Insurance Recoveries Receivable include those accrued by:		
Self Insurance Corporation - for reinsurance and other recoveries receivable	187	173
Workers' Compensation (Dust Diseases) Board - insurance levies accrued	860	956
HIH loss compensation	...	5
Fair Trading Administration Corporation	2	29
	1,049	1,163

(a) Refer to separate table in this note for a dissection of the superannuation liability by scheme.

	2007	2006
	\$m	\$m
<i>(b) Employee Benefit Liabilities comprise:</i>		
<i>Accrued employee benefits reported as payables</i>	<i>508</i>	<i>416</i>
<i>Employee benefit provisions</i>	<i>24,407</i>	<i>33,720</i>
<i>Aggregate Employee Benefit Liabilities</i>	<i>24,915</i>	<i>34,136</i>

NOTES TO THE FINANCIAL STATEMENTS

MOVEMENT IN OTHER PROVISIONS

	Carrying Amount 1 July 2006 \$m	Additional Provision 2006-07 \$m	Amounts Used During 2006-07 \$m	Unused Amounts Reversed 2006-07 \$m	Unwinding/ change in discount rate 2006-07 \$m	Carrying Amount 30 June 2007 \$m
Outstanding claims:						
- Self Insurance Corporation (excluding worker's compensation)	2,545	365	(284)	(274)	155	2,507
- for dust diseases	1,551	(63)	(66)	...	94	1,516
- WorkCover Authority	223	(66)	12	(4)	8	173
HIH loss compensation	177	...	(54)	14	(9)	128
Building and Construction Industry Long Service Payments Scheme	513	76	(50)	30	...	569
Land Remediation and other Restorations	293	28	(23)	(14)	3	287
Other	315	203	(104)	...	4	418
Total Other Provisions	5,617	543	(569)	(248)	255	5,598

UNFUNDED SUPERANNUATION LIABILITY

The following note provides information about the State's defined benefits superannuation schemes. All references are to the December 2004 version of AASB 119 *Employee Benefits*.

It contains information on:

- the various superannuation schemes
- major economic assumptions
- the movement in 2006-07 liabilities and the impact of assumptions
- composition of the unfunded liabilities by scheme, recognised in the balance sheet, and member numbers
- the annual movement by scheme in defined benefit obligations
- the annual movement by scheme in the fair value of fund assets
- annual superannuation expense
- actual return on plan assets
- fund assets (by asset class)
- funding arrangements for employer contributions. This includes the scheme liabilities as reported by the trustees (using different discount rates), recommended contribution rates, funding method, and economic assumptions

- nature of asset/liability
- demographic assumptions.

NSW Public Sector Defined Benefit Superannuation Schemes

State public sector superannuation liability is made up of the assets and liabilities of the following schemes:

- State Authorities Non Contributory Superannuation Scheme (SANCS)
- Police Superannuation Scheme (PSS)
- State Authorities Superannuation Scheme (SASS)
- State Superannuation Scheme (SSS)
- Energy Industries Superannuation Schemes (EISS).
- Judges' Pension Scheme (JPS), and
- Parliamentary Contributory Superannuation Scheme (PCSS).

All of the above schemes (except for the PCSS and JPS) are closed to new entrants. The PCSS was closed to new entrants from March 2007.

NOTES TO THE FINANCIAL STATEMENTS

The SAS Trustee Corporation's (STC) actuary Mercer Human Resource Consulting calculated the unfunded liabilities of the State Public Sector superannuation schemes for the year ended 30 June 2007 and 30 June 2006 under AASB 119 *Employee Benefits* and AAS 25 *Financial Reporting by Superannuation Plans*.

SASS, SSS, PSS and SANCS, the State Super Fund schemes are all defined benefit schemes – at least a component of the final benefit is derived from a multiple of member salary and years of membership. These schemes are closed to new members.

The Projected Unit Credit (PUC) valuation method was used to determine the present value of the defined benefit obligations and related current service costs. This method sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligations.

Actuarial gains and losses are recognised immediately in profit and loss in the year in which they occur.

All Fund assets are invested in STC at arm's length through independent fund managers.

The estimate of accrued benefit liabilities of the Total State Sector is based on calculations carried out by Mercer Human Resource Consulting, the STC's actuary. Actuarial calculations were based on scheme membership data as at 30 April 2007 (EISS 30 June 2006) projected to 30 June 2007. The fair value of pooled fund assets comprises the actual June 2007 balance. Forecast demographic assumptions are consistent with the 2006 Triennial Valuation of the State Super Fund schemes.

The principal economic assumptions at the reporting dates are as per the following tables.

MAJOR ECONOMIC ASSUMPTIONS	30 June 2007	30 June 2006
State Super Fund Schemes		
Discount rate at 30 June	6.4%	5.9%
Expected return on plan assets at 30 June	7.6%	7.6%
Expected salary increases	4.0% pa to 2008 3.5% pa thereafter	4.0% pa to 2008 3.5% pa thereafter
Expected rate of CPI increases	2.5% pa	2.5% pa
EISS		
Discount rate at 30 June (*)	5.9%Pa	5.4%Pa
Expected return on plan assets at 30 June	7.6%	7.6%
Expected salary increases	6.0% pa to 2009 4.0% pa thereafter	4.0%pa
Expected rate of CPI increases	2.5%pa	2.5%pa

* Tax adjusted

The unfunded superannuation liabilities shown are for employers and employees combined and are the difference between the present value of forecast employees' accrued benefits at balance date and the estimated net market value of scheme assets to meet them at that date.

An employer does not have to recognise the Future Service Liability, as this is used to determine if there should be an asset ceiling limit (AASB 119, paragraph 58, December 2004). Under AASB 119, any recognised prepaid superannuation asset cannot be more than the total unrecognised past service cost and the present value of any available economic benefits in plan refunds or future plan contribution reductions. If there is no surplus in excess of recovery, an asset ceiling limit is not imposed.

NOTES TO THE FINANCIAL STATEMENTS

Movement in the 2006-07 Unfunded Liabilities and the Impact of Assumptions

The significant decrease in unfunded liabilities over the twelve months to 30 June 2007 is largely explained by the net effect of several factors:

- the Crown made \$7.175 billion in superannuation contributions utilising all of the funds in the General Government Liability Management Fund (GGLMF);
- an increase in the State Super Fund liability discount rate from 5.9 per cent to 6.4 per cent (EISS 5.4 per cent to 5.9 per cent); and
- higher investment returns than expected. The actual investment performance of the State Super Fund was positive 15.2 per cent (positive 14.55 per cent for EISS) in 2006-07, which is higher than the long term actuarially applied rate of positive 7.6 per cent (positive 7.6 per cent for EISS) per annum.

This was partly offset by:

- an increase in the accrued benefits due to an additional year of service being provided by current State Super Fund scheme contributors;
- one year less discounting for the present value of total future benefit payments; and
- higher salary increases than expected.

The actuaries apply estimating techniques to value the unfunded superannuation liabilities. In estimating these liabilities, there are many assumptions, as well as market forces that can impact the liability value over the next financial year.

The major potential for volatility arises from:

- movements in the market prices of plan assets, and
- the 30 June long-term Commonwealth government bond rate, which will be applied to discount the accrued liabilities.

The future liability value can also be impacted, generally to a lesser degree, by revisions to long-term actuarial assumptions including those listed in the adjacent table, as well as changes to mortality and other actuarially applied rates.

Due to the number of variables it is impracticable to provide a meaningful sensitivity analysis on the volatility of the defined benefit superannuation liabilities for changes in assumptions.

NOTES TO THE FINANCIAL STATEMENTS

2007 Member Numbers and Superannuation Position prepared in accordance with AASB 119

Member Numbers	----- NSW Public Sector Superannuation Scheme -----							Total
	SASS	SANCS	SSS	PSS	JPS	PCSS	EISS (a)	
Contributors	50,430	76,166	22,806	2,930	138	109	4,395	156,974
Deferred benefits	...	...	3,531	176	...	...	30	3,737
Pensioners	4,413	...	36,164	5,877	189	269	299	47,211
Pensions fully commuted	...	...	15,966	...	...	...	12	15,978
Superannuation Position for AASB 119 purposes								
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Accrued Liability (b)	12,069	2,372	27,027	6,788	513	396	1,766	50,931
Fair value of plan assets (b)	(8,418)	(1,013)	(21,793)	(4,099)	...	(303)	(1,881)	(37,507)
	3,651	1,359	5,234	2,689	513	93	(115)	13,424
Future Service Liability (c)	(2,086)	(867)	(1,031)	(330)	...	...	(331)	(4,645)
Adjustment for limitation on net asset	141	52	505	...	...	...	...	698
Net (asset)/liability disclosed in balance sheet	3,792	1,411	5,739	2,689	513	93	(115)	14,122

2006 Member Numbers and Superannuation Position prepared in accordance with AASB 119

Member Numbers	----- NSW Public Sector Superannuation Scheme -----							Total
	SASS	SANCS	SSS	PSS	JPS	PCSS	EISS (a)	
Contributors	53,539	81,465	24,721	3,268	149	128	4,533	167,803
Deferred benefits	...	...	3,606	181	...	...	30	3,817
Pensioners	4,691	...	34,868	5,715	145	234	278	45,931
Pensions fully commuted	...	...	15,905	...	...	...	12	15,917
Superannuation Position for AASB 119 purposes								
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Accrued Liability (b)	11,371	2,337	27,578	7,069	581	390	1,608	50,934
Fair value of plan assets (b)	(7,835)	(1,027)	(15,953)	(919)	...	(276)	(1,653)	(27,663)
	3,536	1,310	11,625	6,150	581	114	(45)	23,271
Future Service Liability (c)	(2,307)	(980)	(1,379)	(461)	...	...	(318)	(5,445)
Adjustment for limitation on net asset	30	15	239	...	...	...	...	284
Net (asset)/liability disclosed in balance sheet	3,566	1,325	11,864	6,150	581	114	(45)	23,555

(a) Prepaid superannuation contributions are reported in Note 16 Other Assets

(b) The accrued benefits liability less the net market value of scheme assets represents the defined benefits obligation of the government. For SASS, it includes the accumulation component (i.e. employee accrued benefit liabilities and equivalent employee scheme assets).

(c) The Future Service Liability (FSL) does not have to be recognised by an employer. It is only used to determine if an asset ceiling limit should be imposed (AASB 119, para 58). Under AASB 119, any prepaid superannuation asset recognised cannot exceed the total of any unrecognised past service cost and the present value of any economic benefits that may be available in the form of refunds from the plan or reductions in future contributions to the plan. Where the "surplus in excess of recovery" is zero, no asset ceiling limit is imposed.

NOTES TO THE FINANCIAL STATEMENTS

Reconciliation of the present value of the defined benefit obligation for 2006-07

NSW Public Sector Superannuation Scheme	Accrued Benefits 1 July 2006 \$m	Current service cost \$m	Interest cost \$m	Contributions by Fund participants \$m	Actuarial (Gains)/Losses \$m	Benefits paid \$m	Accrued benefits 30 June 2007 ^(a) \$m
State Super Fund							
- State Authorities Superannuation Scheme	11,371	351	618	194	238	(703)	12,069
- State Authorities Non-Contributory Superannuation Scheme	2,337	112	131	...	(45)	(163)	2,372
- State Superannuation Scheme	27,578	207	1,557	226	(1,623)	(918)	27,027
- Police Superannuation Scheme	7,069	93	405	15	(419)	(375)	6,788
Parliamentary Contributory							
Superannuation Scheme	390	9	22	2	(11)	(16)	396
Judges' Pension Scheme	581	21	34	...	(100)	(23)	513
Energy Industries Superannuation Scheme							
Scheme	1,608	42	98	22	93	(97)	1,766
TOTAL	50,934	835	2,865	459	(1,867)	(2,295)	50,931

Reconciliation of the fair value of fund assets for 2006-07

NSW Public Sector Superannuation Scheme	Fair Value of Fund Assets at beginning of the year \$m	Expected return on fund assets \$m	Actuarial gains/(losses) \$m	Employer Contributions \$m	Contributions by Fund participants \$m	Benefits paid \$m	Fair Value of Fund Assets at end of the year ^(a) \$m
State Super Fund							
- State Authorities Superannuation Scheme	7,835	806	190	96	194	(703)	8,418
- State Authorities Non-Contributory Superannuation Scheme	1,027	71	65	13	...	(163)	1,013
- State Superannuation Scheme	15,953	1,140	1,219	4,173	226	(918)	21,793
- Police Superannuation Scheme	919	54	410	3,076	15	(375)	4,099
Parliamentary Contributory							
Superannuation Scheme	276	20	21	...	2	(16)	303
Judges' Pension Scheme	...	...	...	23	...	(23)	...
Energy Industries Superannuation Scheme							
Scheme	1,653	123	131	49	22	(97)	1,881
TOTAL	27,663	2,214	2,036	7,430	459	(2,295)	37,507

(a) The accrued benefits liability and the net market value of scheme assets include the accumulation component (i.e. employee accrued benefit liabilities and equivalent employee scheme assets).

NOTES TO THE FINANCIAL STATEMENTS

2005-06 Movement in net liability/asset recognised in balance sheet ^(a)

	Net (Asset) Liability at the start of the year 2006 \$m	Net Expense recognised in the Operating Statement 2005-06 ^(b) \$m	Contributions 2005-06 \$m	Net (asset)/liability disclosed in the Balance Sheet 2006 \$m
NSW Public Sector Superannuation Scheme				
State Super Fund				
- State Authorities Superannuation Scheme	3,756	(18)	(172)	3,566
- State Authorities Non Contributory Superannuation Scheme	1,360	(8)	(27)	1,325
- State Superannuation Scheme	15,531	(3,629)	(38)	11,864
- Police Superannuation Scheme	5,343	808	(1)	6,150
Judges' Pension Scheme	431	150	...	581
Parliamentary Contributory Superannuation Scheme	158	(28)	(16)	114
Energy Industries Superannuation Scheme	143	(175)	(13)	(45)
	26,722	(2,900)	(267)	23,555

(a) For 2005-06 detailed information is provided on the movements in net liability and not on the movements in gross assets and gross liabilities.

(b) Includes amounts expensed to the operating statement, and a small component capitalised into constructed assets.

NOTES TO THE FINANCIAL STATEMENTS

Defined benefits expense recognised in the operating statement as:	2007 \$m	2006 \$m
Employee superannuation expense		
Current service cost	828	892
Interest on obligation	2,866	2,586
Expected return on plan assets	(2,216)	(1,693)
Defined benefits expense	1,478	1,785
(Gains)/Losses		
Net actuarial losses/(gains) recognised in year	(3,931)	(4,967)
Change in surplus in excess of recovery available from scheme	413	219
Defined benefits superannuation gains/losses	(3,518)	(4,748)
Amount recognised in the operating statement	(2,040)	(2,963)
Actual return on plan assets	2007 \$m	2006 \$m
State Super Fund		
- State Authorities Superannuation Scheme	1,044	1,003
- State Authorities Non Contributory Superannuation Scheme	138	111
- State Superannuation Scheme	2,300	2,454
- Police Superannuation Scheme	417	169
Judges' Pension Scheme	...	...
Parliamentary Contributory Superannuation Scheme	46	37
Energy Industries Superannuation Scheme	239	249
	4,184	4,023

Fund Assets

The percentage invested in each asset class at 30 June:	Pooled Fund 2007	EISS 2007
Australian equities	33.6%	39.0%
Overseas equities	26.5%	37.0%
Australian fixed interest securities	6.8%	7.0%
Overseas fixed interest securities	6.4%	3.0%
Property	10.1%	9.0%
Cash	9.8%	4.0%
Other	6.8%	1.0%

All fund assets are invested by the trustees at arm's length through independent fund managers.

NOTES TO THE FINANCIAL STATEMENTS

Funding arrangements for employer contributions

Arrangements for employer contributions for Funding – calculated in accordance with AAS 25

The following is a summary of the 30 June financial position of the fund calculated in accordance with AAS 25 Financial Reporting by Superannuation Plans.

	Accrued Benefits	Net Market Value of Fund Assets	Net (surplus)/deficit
	2007	2007	2007
	\$m	\$m	\$m
NSW Public Sector Superannuation Scheme			
State Super Fund			
- State Authorities Superannuation Scheme	11,928	8,418	3,510
- State Authorities Non Contributory Superannuation Scheme	2,350	1,013	1,337
- State Superannuation Scheme	24,207	21,793	2,414
- Police Superannuation Scheme	5,807	4,099	1,708
Judges' Pension Scheme	425	...	425
Parliamentary Contributory Superannuation Scheme	344	303	41
Energy Industries Superannuation Scheme	1,651	1,881	(230)
	46,712	37,507	9,205

	Accrued Benefits	Net Market Value of Fund Assets	Net (surplus)/deficit
	2006	2006	2006
	\$m	\$m	\$m
NSW Public Sector Superannuation Scheme			
State Super Fund			
- State Authorities Superannuation Scheme	10,959	7,835	3,124
- State Authorities Non Contributory Superannuation Scheme	2,220	1,027	1,193
- State Superannuation Scheme	23,050	15,953	7,097
- Police Superannuation Scheme	5,673	919	4,754
Judges' Pension Scheme	343	...	343
Parliamentary Contributory Superannuation Scheme	307	276	31
Energy Industries Superannuation Scheme	1,426	1,653	(227)
	43,978	27,663	16,315

The primary difference between the net deficit above (per AAS 25) and the net deficit calculated in accordance with AASB 119 (and brought to account in the Total State Sector Accounts balance sheet) is that the accrued benefits discount rate is based on the more volatile 30 June long term Commonwealth government bond rate for the AASB 119 calculation, whereas the AAS 25 calculation uses a less volatile long term earnings rate.

NOTES TO THE FINANCIAL STATEMENTS

Recommended contribution rates for the State

State Super Fund	
- State Authorities Superannuation Scheme	Multiple of member contributions
- State Authorities Non Contributory Superannuation Scheme	% of member salary
- State Superannuation Scheme	Multiple of member contributions
- Police Superannuation Scheme	Multiple of member contributions
Judges' Pension Scheme	Multiple of member contributions
Parliamentary Contributory Superannuation Scheme	Multiple of member contributions
Energy Industries Superannuation Scheme	
- Division B	Multiple of member contributions
- Division C	% of member salary
- Division D	Multiple of member contributions

Funding Method

The method used to determine the employer contribution recommendations at last actuarial review was the Aggregate Funding method. The method adopted affects the timing of the costs to the employer. Under the Aggregate Funding method, the employer contributions rate is determined so that sufficient assets will be available to meet benefit payments to existing members, taking into account the current value of assets and future contributions.

Economic Assumptions

The economic assumptions adopted for the last actuarial review were:

	2007	2006
State Super Fund		
<i>Weighted-Average Assumption</i>		
Expected rate of return on assets backing current pension liabilities	7.7% pa	(a)
Expected rate of return on assets backing other liabilities	7.0% pa	(a)
Expected salary increase rate	4.0% pa	4.0% pa
Expected rate of CPI increase	2.5% pa	2.5% pa

(a) In 2006 the dissection by liability type was not available. The expected rate of return on assets backing all 2006 liabilities was 7.3%.

Energy Industries Superannuation Scheme

<i>Weighted-Average Assumption</i>		
Expected rate of return on Fund Assets	7.0% pa	7.5% pa
Expected salary increase rate	6.0% pa until June 2009, 4.0% pa thereafter	4.0% pa
Expected rate of CPI increase	2.5% pa	2.5% pa

Nature of asset/liability

If a surplus exists in the employer's interest in the Fund, the employer may be able to take advantage of it in the form of a reduction in the required contribution rate, depending on the approval of the Fund's trustee, based on advice of the Fund's actuary. Where a deficiency exists, the employer is responsible for any differences between the employer's share of fund assets and the defined benefit obligation.

NOTES TO THE FINANCIAL STATEMENTS

Demographic Assumptions - June 2007

The demographic assumptions at 30 June 2007 are those used for the (current) 2006 triennial actuarial valuation. A selection of the most financial significant assumptions is shown below.

SASS Contributors

Number of members expected in any one year, out of 10,000 members at the age shown, to leave the fund as a result of:

Age nearest Birthday	Death	Total & Permanent Disability	Retirement		Resignation		Redundancy		Additional promotional salary increase rate %
			Part 1	Part 3	Part 1	Part 3	Part 1	Part 3	
Males									
30	4	8	...	...	280	395	150	...	2.90
40	6	10	...	...	150	285	150	...	1.80
50	11	30	1,400	950	112	172	150	...	0.00
60	30	...	...	...	...	...	150	...	0.00
Females									
30	2	2	...	...	372	700	150	...	2.90
40	3	6	...	...	175	320	150	...	1.80
50	7	28	...	...	144	270	150	...	0.00
60	18	...	1,500	1,500	...	...	150	...	0.00

Note: The SASS Act 1987 divides employers into Part 1 (Crown and other employers), Part 2 (Local Government) and Part 3 (Hospitals and other health related bodies).

SSS Contributors

Number of members expected in any one year, out of 10,000 members at the age shown, to leave the fund as a result of:

Age nearest Birthday	Death	Ill-Health Retirement	Retirement (R60 for females)	Cash Resignation (R60 for females)	Preservation (R60 for females)	Additional promotional salary increase rate %
Males						
30	4	42	...	178	95	2.90
40	6	54	...	80	140	1.80
50	11	144	...	20	50	0.00
60	30	...	6,500	...	...	0.00
Females						
30	2	6	...	204	124	2.90
40	3	21	...	72	105	1.80
50	7	103	...	30	90	0.00
60	18	...	6,300	...	...	0.00

Note: R60 refers to females who elected to retire at age 60 rather than 55

NOTES TO THE FINANCIAL STATEMENTS

SSS Commutation - the proportion of SSS members assumed to commute their pension to a lump sum in one year

Age	Proportion of pension commuted	
	Retirement	Breakdown
Later of commencement or age 55	0.15	0.20
	Widow	Widower
55	0.2500	0.2500
65	0.5380	0.5800
75	0.4825	0.5160
85	0.3928	0.3728

SSS Pensioner Mortality- assumed mortality rates (in 2007-08) for SSS pensioners

Age	Retirement Pensioners and Spouses and Widows		Invalidity Pensioners	
	Males	Females	Males	Females
55	0.0025	0.0014	0.0081	0.0066
65	0.0070	0.0055	0.0112	0.0125
75	0.0194	0.0157	0.0505	0.0314
85	0.0945	0.0634	0.0113	0.1268

SSS Pensioner Mortality Improvements - per annum assumed rates of mortality improvement for SSS pensioners

Age	Improvement Rates (for years post 2006)	
	Males	Females
55	0.0152	0.0113
65	0.0101	0.0065
75	0.0087	0.0068
85	0.0052	0.0080

NOTES TO THE FINANCIAL STATEMENTS

Demographic Assumptions - June 2006

The demographic assumptions at 30 June 2006 are those used for the (current) 2006 triennial actuarial valuation. A selection of the most financial significant assumptions is shown below.

SASS Contributors

Number of members expected in any one year, out of 10,000 members at the age shown, to leave the fund as a result of:

Age nearest Birthday	Death	Total & Permanent Disability	Retirement		Resignation		Redundancy		Additional promotional salary increase rate %
			Part 1	Part 3	Part 1	Part 3	Part 1	Part 3	
Males									
30	4	8	...	...	280	395	150	...	2.90
40	6	10	...	...	150	285	150	...	1.80
50	11	30	...	...	112	172	150	...	0.00
60	30	...	1,400	950	...	...	150	...	0.00
Females									
30	2	2	...	...	372	700	150	...	2.90
40	3	6	...	...	175	320	150	...	1.80
50	7	28	...	...	144	270	150	...	0.00
60	18	...	1,500	1,500	...	...	150	...	0.00

Note: The SASS Act 1987 divides employers into Part 1 (Crown and other employers), Part 2 (Local Government) and Part 3 (Hospitals and other health related bodies).

SSS Contributors

Number of members expected in any one year, out of 10,000 members at the age shown, to leave the fund as a result of:

Age nearest Birthday	Death	Ill-Health Retirement	Retirement (R60 for females)	Cash Resignation (R60 for females)	Preservation (R60 for females)	Additional promotional salary increase rate %
Males						
30	4	42	...	178	95	2.90
40	6	54	...	80	140	1.80
50	11	144	...	20	50	0.00
60	30	...	6,500	...	...	0.00
Females						
30	2	6	...	204	124	2.90
40	3	21	...	72	105	1.80
50	7	103	...	30	90	0.00
60	18	...	6,300	...	...	0.00

Note: R60 refers to females who elected to retire at age 60 rather than 55

NOTES TO THE FINANCIAL STATEMENTS

SSS Commutation - the proportion of SSS members assumed to commute their pension to a lump sum in one year

Age	Proportion of pension commuted	
	Retirement	Breakdown
Later of commencement or age 55	0.15	0.20
	Widow	Widower
55	0.2500	0.2500
65	0.5380	0.5800
75	0.4825	0.5160
85	0.3928	0.3728

SSS Pensioner Mortality- assumed mortality rates (in 2006-07) for SSS pensioners

Age	Retirement Pensioners and Spouses and Widows		Invalidity Pensioners	
	Males	Females	Males	Females
55	0.0025	0.0014	0.0081	0.0066
65	0.0070	0.0055	0.0112	0.0125
75	0.0194	0.0157	0.0505	0.0314
85	0.0945	0.0634	0.1134	0.1268

SSS Pensioner Mortality Improvements - per annum assumed rates of mortality improvement for SSS pensioners

Age	Improvement rates (for years post 2006)	
	Males	Females
55	0.0152	0.0113
65	0.0101	0.0065
75	0.0087	0.0068
85	0.0052	0.0080

NOTES TO THE FINANCIAL STATEMENTS

21. OTHER LIABILITIES

	2007	2006
	\$m	\$m
Current	967	762
Non-current	2,944	2,837
	3,911	3,599
Other Liabilities comprise:		
Deferred rental revenue on long term leases of property	779	791
Deferred revenue on the private provision of infrastructure ^(a)	355	365
Other deferred revenue	549	647
The Sydney Harbour Tunnel Agreement obligations ^(b)	354	369
Aboriginal Land Council claims granted ^(c)	1,009	1,025
Other	865	402
	3,911	3,599

(a) The RTA under various Private Sector Provided Infrastructure transactions received payments following the letting of the Lane Cove Tunnel, Cross City Tunnel and Westlink M7 Motorway contracts, as reimbursement of development costs. These up-front payments are amortised over the term of the arrangement rather than recognised as revenue up-front.

(b) The liability in respect of the Sydney Harbour Tunnel (SHT) has been recognised at the Net Present Value (NPV) of the Ensured Revenue Stream (ERS) Agreement. This has been calculated at \$329 million (2006 \$344 million) being the principal outstanding on the 30 year inflation linked bonds issued by the Sydney Harbour Tunnel Company (SHTC) to the private sector, and a tunnel related tax liability \$26 million (2006 \$26m). Under the ERS agreement the NSW Government has agreed to make payments net of tolls collected from the SHT, to enable the SHTC to meet financial obligations arising from repayment of principal and interest on funds borrowed for the design, construction and the operation and maintenance of the SHT.

(c) The State has provided for the liability of claims that have been granted to local Aboriginal Land Councils under the Aboriginal Land Rights Act 1983. This amount was also retrospectively recognised in the 2005-06 financial year as a correction to opening accumulated funds.

NOTES TO THE FINANCIAL STATEMENTS

22. CHANGES IN EQUITY

	Accumulated Funds		Reserves ^(a)		Amounts Recognised in Equity Relating to Assets Held For Sale		Total Equity	
	2007	2006	2007	2006	2007	2006	2007	2006
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Opening Balance	65,184	58,260	61,924	59,031	79	46	127,187	117,337
Adjustments for Changes in Accounting Policy and Correction of Errors ^(b)								
AASB 139 first-time adoption								
- Hedging reserves recognised	...	...	...	40	...	...	...	40
- Other adjustments adopting AASB 139	...	596	...	...	...	...	...	596
Recognise liability for aboriginal land claims granted	...	(1,015)	...	...	...	...	...	(1,015)
Recognise share of equity investments for the first time	...	(29)	...	...	...	...	...	(29)
Other	...	(124)	...	(106)	...	...	...	(230)
Adjustments for Changes in Accounting Policy and Correction of Errors	...	(572)	...	(66)	...	...	...	(638)
Restated Opening Balance	65,184	57,688	61,924	58,965	79	46	127,187	116,699
Surplus/(deficit) for the year	5,929	7,105	...	...	...	...	5,929	7,105
Income and Expenses Recognised Directly in Equity								
Property, plant and equipment								
- Net increment/(decrement) on revaluation ^(c)	...	...	4,233	3,408	...	...	4,233	3,408
Hedging Contracts								
- Net unrealised gains/(losses) ^(d)	...	...	(1,971)	(119)	...	...	(1,971)	(119)
Fair value adjustments to the available for sale reserve	...	...	45	...	...	...	45	...
Movements in NSW's share of equity investments taken directly to equity	...	...	25	102	...	...	25	102
Other net increases/(decreases) in equity	(2)	(8)	...	...	...	...	(2)	(8)
Transfers within Equity								
Revaluation reserves transferred to accumulated funds on disposal	751	399	(705)	(394)	(46)	(5)	...	...
For assets reclassified as held for sale	...	...	(11)	(38)	11	38	...	...
Closing Balance	71,862	65,184	63,540	61,924	44	79	135,446	127,187

(a) Reserves comprise asset revaluation reserve, equity investment revaluation reserve, and a hedging reserve.

(b) Refer to Note 1 'Changes in Accounting Policies, the Correction of Errors and the Revision to Estimates' for further details.

(c) Revaluation increments relate to both property, plant and equipment, and to other assets. In 2007 the net increments on revaluation are across numerous areas of the public sector. Some major revaluation increments include RTA roads and infrastructure (\$1,090 million), Crown lands (\$519 million), forestry land (\$314 million), electricity infrastructure (\$971 million), water infrastructure (\$430 million) and public housing (\$271 million), which have been partly offset by decrements in the value of schools and colleges (\$554 million). The 2005-06 net increments included RTA roads (\$1,470 million), schools and TAFE colleges (\$1,581 million) and the Sydney Opera House (\$1,017 million). These were partly offset by impairment decrements on water infrastructure of \$1,299 million.

(d) The state manages exposures to fluctuations in electricity market prices through the use of various types of electricity derivative contracts in accordance with approved policies. Overall the hedge objective is to reduce variability in cash flows caused by electricity wholesale prices and volume risks. The gain or loss from remeasuring the hedge instruments is deferred in equity in the hedge accounting reserve, to the extent that the hedge is effective, and reclassified into profit and loss when the hedge electricity revenue is recognised. The ineffective portion is recognised in profit and loss immediately. During June 2007, very cold weather and high demand resulted in price spikes to the spot price for electricity. This led to significant remeasurements for electricity derivative asset/liabilities and the hedging reserve.

NOTES TO THE FINANCIAL STATEMENTS

23. CASH FLOW INFORMATION

	2006-07 \$m	2005-06 \$m
RECONCILIATION OF OPERATING RESULT TO NET CASH FLOWS FROM OPERATING ACTIVITIES EXCLUDING FINANCIAL INSTITUTIONS		
Surplus/(Deficit) for the year	5,929	7,105
Adjust for:		
- Surplus of financial institutions	(63)	(44)
- Operating cash flow of financial institutions eliminated on consolidation	1,669	1,512
Non-cash items added back:		
- Depreciation and amortisation	4,465	4,205
- Loss/(Gain) on disposals	6	27
- Other	(1,145)	(1,119)
Change in operating assets and liabilities		
- Defined Benefits superannuation schemes	(2,040)	(2,963)
- Special superannuation contribution	(7,175)	...
- Other	(1,001)	703
Net cash flows from operating activities	645	9,426

RECONCILIATION OF CLOSING CASH AND CASH EQUIVALENT BALANCES:

Cash and cash equivalent assets recognised in the Balance Sheet are reconciled at the end of the financial year to the Cash Flow Statement as follows:

Cash and deposits at call	4,292	4,319
Bank overdraft	(123)	(139)
	4,169	4,180

RESTRICTED CASH ASSETS

Public sector agency cash balances at 30 June 2007 include \$1,146 million of cash (2006 \$946 million), which is dedicated for a specific purpose. It includes restricted cash of \$591 million (2006 \$429 million) under the control of the public health system, \$6 million of education program contributions (2006 \$4 million) and \$113 million (2006 \$127 million) for land remediation works to remove various contaminations associated with a former steel works site in Newcastle.

In respect to the Crown, \$175 million (2006 \$151 million) of cash held in Special Deposit Accounts can only be used in accordance with the legislation that established the Account.

In the Total State Sector Accounts, agency restricted cash balances within the Treasury Banking System are offset against the Crown's cash overdraft for cash management purposes.

NOTES TO THE FINANCIAL STATEMENTS

DISPOSAL OF ENTITIES

During 2006-07 the Government received \$85 million in cash for the disposal of a business unit controlled by Country Energy. This subsidiary Emmlink, held a joint venture interest in the operation of a transmission interconnection system between NSW and QLD.

During 2005-06 the Government received \$65 million in cash for the partial disposal of the South Australian and Victorian business operations of Energy Australia.

ACQUISITION OF ENTITIES

During 2006-07 and 2005-06 there were no major acquisitions of entities.

NON-CASH FINANCING AND INVESTING ACTIVITIES

During 2006-07:

- A total of \$148 million (2006 \$87 million) was recognised for an emerging interest in private sector provided infrastructure. This included \$116 million recognised for roads (2006 \$54 million) and \$22 million for Olympic Park infrastructure (2006 \$21 million).

- In respect of Sydney Water Corporation and its entities, assets which are acquired under finance leases, other financing arrangements or assets handed over at no cost by developers are not included in the Cash Flow Statement as these are regarded as non-cash.
- The amount capitalised during the financial year in respect of Sydney Water assets handed over at no cost by developers to Sydney Water Corporation was \$108 million (2006 \$56 million);
- During 2007, the Ministry of Transport acquired new buses under the Metropolitan Bus System contracts to the value of \$115 million under finance lease arrangements (2006 \$33 million).

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

NOTES TO THE FINANCIAL STATEMENTS

NET CASH FLOWS OF FINANCIAL INSTITUTIONS

	2006-07 \$m	2006-07 \$m (a) Net of Elimination	2005-06 \$m	2005-06 \$m (a) Net of Elimination
	Gross	Elimination	Gross	Elimination
CASH INFLOWS (OUTFLOWS) FROM OPERATING ACTIVITIES				
Receipts				
Finance	1,948	231	1,931	364
Other	116	105	41	32
Total Receipts	2,064	336	1,972	396
Payments				
Employee Related	(13)	(12)	(11)	(10)
Finance	(1,561)	(1,519)	(1,904)	(1,848)
Other	(30)	(14)	(40)	(33)
Total Payments	(1,604)	(1,545)	(1,955)	(1,891)
NET CASH FLOW FROM OPERATING ACTIVITIES	460	(1,209)	17	(1,495)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of Property, Plant & Equipment	(5)	(5)	(1)	(1)
Purchase of Investments & Loans Made to Authorities	(7,193)	(1,613)	(6,311)	...
Proceeds from Sale of Investments	7	7	2,479	2,479
Loans to Authorities Repaid & Other Investing	3,955	(3)	4,396	...
Net Cash Flows From Investing Activities	(3,236)	(1,614)	563	2,478
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from Borrowings	20,128	20,128	23,867	23,867
Repayments of Borrowings	(17,125)	(17,118)	(25,123)	(25,115)
Other	(12)	(1)	(24)	...
NET CASH FROM FINANCING ACTIVITIES	2,991	3,009	(1,280)	(1,248)
NET CASH FLOWS FROM FINANCIAL INSTITUTIONS	215	186	(700)	(265)

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

NOTES TO THE FINANCIAL STATEMENTS

24. TRUSTS UNDER MANAGEMENT

	2007	2006
	\$m	\$m
Trusts under management are held on behalf of beneficiaries and are not controlled by the State. Therefore, these trusts are not included in the Total State Sector assets.		
Trusts under management mainly comprise various forms of estates under management, unclaimed monies and Supreme Court trust funds held in statutory accounts by the:		
Protective Commissioner ^(a)	1,439	1,382
WorkCover Authority	1,413	1,321
Office of the Public Trustee ^(a)	1,279	1,153
NSW Treasury Corporation (fiduciary investments)	899	348
Rental Bond Board	693	648
Department of State and Regional Development	86	62
Workers' Compensation (Dust Diseases) Board	77	77
Attorney General's Department	39	30
Department of Health	37	42
Others	107	69
	6,069	5,132

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

NOTES TO THE FINANCIAL STATEMENTS

25. EXPENDITURE COMMITMENTS

The following represents expenditure contracted for at balance date, but not recognised in the financial statements.

	2007	2006
	\$m	\$m
Capital Expenditure (including expenditure for private sector financed infrastructure assets)		
Sydney Water Corporation	2,098	1,176
Department of Health	1,191	733
Roads and Traffic Authority	923	1,171
Delta Electricity	482	105
Transport Infrastructure Development Corporation	381	571
TransGrid	291	68
State Transit Authority	288	321
Rail Corporation New South Wales	235	309
NSW Police	181	142
Energy Australia	154	55
Integral Energy	150	122
Department of Education and Training	100	134
Sydney Cricket and Sports Ground Trust	97	8
Public Transport Ticketing Corporation	92	...
Macquarie Generation	78	164
Rail Infrastructure Corporation	63	...
Country Energy	44	53
Hunter Water Corporation	35	32
Sydney Catchment Authority	35	57
Crown Finance Entity	29	53
NSW Land and Housing Corporation	26	27
Eraring Energy	17	23
Redfern-Waterloo Authority	10	41
Ministry of Transport	3	93
Zoological Parks Board NSW	3	30
Other agencies	160	128
	7,166	5,616
	2007	2006
	\$m	\$m
Capital Expenditure Commitments: ^(a)		
not later than one year	3,745	3,575
later than one year and not later than five years	2,590	1,754
later than five years	831	287
	7,166	5,616
Future minimum lease payments under non-cancellable operating leases: ^(b)		
not later than one year	670	601
later than one year and not later than five years	1,370	1,117
later than five years	634	295
	2,674	2,013

NOTES TO THE FINANCIAL STATEMENTS

	2007	2006
Other Expenditure Commitments: ^(c)	\$m	\$m
not later than one year	3,654	2,827
later than one year and not later than five years	4,845	4,682
later than five years	3,392	3,090
	11,891	10,599

(a) Capital commitments exclude \$216 million estimated for a Public Private Partnership for the redevelopment of Bonnyrigg Housing Estate and the provision of tenancy, management and maintenance services, as redevelopment is only expected to be completed in stages, commencing in 2009. Capital commitments also exclude other finance leases and purchase agreements entered into, but for which control of the assets will only transfer in future years upon project completion such as for rail rollingstock, the Newcastle Mater (Mental) Hospital, the Long Bay Forensic and Prison Hospitals and ten new schools.

(b) Total future minimum sub-lease payments expected to be received under non-cancellable sub-leases is approximately \$62 million (2006 \$29 million).

(c) Includes \$20 million (2006 \$34 million) for school maintenance contracted by the Department of Education and Training. Other expenditure commitments exclude contracts entered into, but which have not commenced operations such as grants associated with the Newcastle Mater (General) Hospital.

The above expenditure commitments are inclusive of Goods and Services Tax (GST). GST Input Tax Credits are expected to be recoverable from the Australian Taxation Office.

GST input tax credits included in the above commitments:

Capital Expenditure	647	494
Future minimum lease payments under non-cancellable operating leases	234	204
Other Expenditure	1,074	955

Major Service Agreements for Filtered Water by Sydney Water Corporation

not later than one year	114	109
later than one year and not later than five years	474	463
later than five years - Net Present Value ^(d)	423	445

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

Operating Lease Commitments - Receivables

Future operating lease rentals not provided for in the financial statements and receivable:

not later than one year	167	129
later than one year and not later than five years	538	412
later than five years	1,991	1,442
	2,696	1,983

The above expenditure commitments receivable are inclusive of Goods and Services Tax of \$216 million (2006 \$180 million) expected to be payable to the Australian Taxation Office.

NOTES TO THE FINANCIAL STATEMENTS

26. CONTINGENCIES

CONTINGENT LIABILITIES	2007 \$m	2006 \$m
------------------------	-------------	-------------

Contingent Liabilities have been disclosed according to type. Note 26(A) reports quantifiable contingent liabilities, Note 26(B) guarantees, and Note 26(C) other contingent liabilities that cannot be quantified.

(A) QUANTIFIABLE CONTINGENT LIABILITIES comprise:

NSW Treasury Corporation (stock lending facility - bonds on loan) (less securities held)	1,456 (360)	487 (28)
Attorney General's Department (Victims Compensation and other claims)	96	69
Sydney Water Corporation (claims in respect of compensation and litigation)	98	55
Roads and Traffic Authority (contractual claims)	56	43
NSW Coal Compensation Board (claims involving litigation)	8	25
Eraring Energy (contractual claims)	11	13
Other agencies	27	15
TOTAL	1,392	679

NOTES TO THE FINANCIAL STATEMENTS

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

The major guarantees are:

- State guarantees given to various organisations under statute. They mainly relate to certain co-operative housing societies \$69 million (2006 \$81 million).
- The NSW Government indemnified TAB Ltd against decreases in revenue resulting from reductions in the monitoring fee determined by the Minister for Gaming and Racing. This fee is payable to TAB Ltd by hoteliers and registered clubs for gaming devices connected to the Centralised Monitoring System (CMS).

The NSW Government also indemnified TAB Ltd against losses during the term of the CMS licence resulting from a redetermination of the monitoring fee. However this excludes redeterminations made in accordance with the method that the Independent Pricing and Regulatory Tribunal used to set a rate of return in the original 1998 fee determination.

TAB claimed for up to \$1.5 million a month for May to December 2004 after the Minister redetermined the monitoring fee in April 2004. The government disputed the claim and the matter was decided by an independent expert as designated in the Deed of Understanding and Indemnity. The expert found in favour of the government and claim has been withdrawn.

- Issued securities, borrowings and derivative liabilities of the NSW Treasury Corporation with a market value of \$32 billion (2006 \$30 billion) have been guaranteed by the NSW Government under the Public Authorities (Financial Arrangements) Act 1987.
- Pursuant to the State Bank (Privatisation) Act 1994, the State guaranteed all existing and future liabilities of the Bank until 31 December 1997. Thereafter while existing liabilities continue to be guaranteed until maturity, any new liabilities incurred after that date will not be guaranteed by the State. As at 30 June 2007 the total guaranteed liabilities of the Bank amounted to \$10 million (2006 \$10 million).

Additionally, the State provided indemnities 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. These are estimated at \$2 million (2006 \$4 million).

- Under the Government Insurance Act 1927 the State guarantees the liabilities of the GIO in respect of general, life and reinsurance policies issued by it up until 15 July 1992.

Actuarial assessment of these liabilities:

	31 December 2006	31 December 2005
	\$m	\$m
General insurance	204	215
Life insurance	72	75
Inward reinsurance	38	68
	314	358

The guarantee on these policies continues under the terms of the State Government Deed issued for the privatisation of the GIO and its subsequent purchase by AMP Limited.

NOTES TO THE FINANCIAL STATEMENTS

- On 28 June 2002 the Commonwealth's Snowy Mountain Hydro-electric Authority and the electricity trading company, Snowy Hydro Trading Propriety Limited were formed into a new public company, Snowy Hydro Limited (SHL). This is owned by NSW, Victoria, and the Commonwealth. NSW owns 58 per cent share in the company and it has entered into guarantees, indemnities and deeds as part of the agreements leading to the corporatisation of the Snowy Scheme.

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

Each of the initial five SHL directors have a Deed of Indemnity against claim costs from liabilities transferred from the former Authority and for putting corporatisation agreements in place. The duration of the risk is for any claim lodged before June 2007, which has now passed. There are currently no known claims. Directors must maintain risk insurance cover and SHL has a back to back indemnity indemnifying the governments for any legally allowable claim costs incurred. These directors are no longer on the board.

If any change to the Snowy Water licence has an adverse financial impact for SHL, the company will receive that corresponding amount in compensation. NSW may recover 42 per cent of this compensation if Victoria and the Commonwealth agree to water licence changes. No major amendments to the Snowy Licence are currently proposed. The licence expires in 2079 or when ended.

If an instruction from the Water Ministerial Corporation to SHL causes spills or a Jindabyne Dam release causes downstream damage, the State will compensate SHL for the proportion of claims it incurs. NSW will pay 58 per cent of the cost if the

Commonwealth and Victoria also agreed with the instruction. No claims currently exist. The risk of exposure should be very low for several years after corporatisation while sufficient water savings are found and allocated to the Snowy River. This indemnity lasts while the licence is in place.

If legislation requires SHL to modify its structures or lower dam levels to reduce the impact of cold-water releases, NSW will provide 58 per cent of the amount necessary to maintain financial covenants and credit rating for up to 2009. Applicable legislation is the Water Management Act 2000.

The Environmental Protection Authority has never asked for a dam structure to be modified for this reason in NSW. Any likelihood of this is further lessened by NSW's cold-water strategy where SHL does not have to modify dams or dam levels to reduce cold-water pollution until 2009.

Under a Tax Compensation Deed, NSW can receive 58 per cent of the income tax SHL pays under a tax sharing agreement with the Commonwealth. If accumulated dividend imputation credits within the company have not been fully distributed to a shareholder government before the sale of more than 5 per cent of its shares, the government selling its shares must repay the Commonwealth the value of the undistributed dividend imputation credits it was entitled to receive. The deed expires either with the end of the licence in 2077 or when government shareholders sell their shares.

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

NOTES TO THE FINANCIAL STATEMENTS

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

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

At year-end the agreed aggregate amounts totalled \$1,587 million (2006 \$571 million).

- Pacific Power, through its subsidiary Pacific Power (Subsidiary No.1) Pty Ltd was part of a consortium to construct the Tarong North and Callide C power stations. The engineering procurement and construction contracts required the parent company of each consortium member to provide a guarantee. When Pacific Power was dissolved, the Treasurer issued a guarantee to replace the previous guarantee issued by Pacific Power and some other Pacific Power guarantees were transferred to the Treasurer. Although these guarantees are enforceable under a range of conditions, they mainly cover the failure of the consortium to meet its obligations under the engineering procurement and construction contracts.

The parties to the consortium are liable for their particular commitments under the contracts. The other parties are also liable if one party is unable to pay.

Both power stations are all but complete. An Interim Final Certificate has been issued for the Callide Power Station. Some defect matters are outstanding for the consortium, including Pacific Power (Subsidiary No.1). All prerequisites for an Interim Final Certificate for Pacific Power (Subsidiary No.1) have been achieved for the Tarong North power station.

- To enable major projects to be undertaken the State has guaranteed the performance of the obligations of various statutory authorities under contracts with private sector parties. The current guarantees outstanding are for the following projects:

- Macarthur Water Filtration Plant
- Illawarra and Woronora Water Treatment Plants
- Prospect Water Filtration Plant and Treatment Works
- Eastern Creek Waste Treatment Plant
- Visy Mill: Tumut Timber Supply Agreement
- Olympic Stadium, and
- Olympic Multi-Use Arena.
- Mater Hospital
- Long Bay Prison and Forensic Hospital
- Suburban Rolling Stock
- Bonnyrigg Communities Public Housing

These guarantees are considered unlikely to ever be exercised.

The Roads and Traffic Authority (RTA) has certain obligations under contracts with private sector parties with the performance of these obligations guaranteed by the State. The current guarantees outstanding are for the:

- Sydney Harbour Tunnel
- M2 Motorway
- Eastern Distributor
- Cross City Tunnel
- Western Sydney Orbital, and
- Lane Cove Tunnel.

NOTES TO THE FINANCIAL STATEMENTS

There is no reason to believe that these guarantees are ever to be exercised.

Following a Modification Approval from the Minister for Planning, the RTA made changes to certain traffic arrangements in the Sydney CBD that had been implemented for the Cross City Tunnel project. Some of the changes may entitle Cross City Motorway Pty Ltd to claim compensation from the RTA. No claim has yet been made and the potential quantum is not known.

- The State's motor vehicles are financed under three external leasing arrangements (Tranche 3) and one internal leasing arrangement (Tranche 4) managed by StateFleet and funded by NSW Treasury Corporation. Two of the external leasing arrangements, Tranches 1 and 2, terminated in June 2006.

The two tranches are funded on a floating rate basis with the liability for the exposure borne by the Crown Entity. The Crown Entity has an effective floating rate principal exposure of \$574 million as at 30 June 2007 (2006 \$578 million).

- Landcom has given bank guarantees to various councils/government agencies that certain infrastructure works will be carried out including electrical infrastructure works and construction of a community centre. To date there are six bank guarantees outstanding totalling \$7 million.

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

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

The liability arises as follows:

- (i) Liability of the State to pay compensation to native title holders in respect to past acts and intermediate period acts (i.e. acts undertaken between October 1975 and December 1996 which were invalid because of native title) which were validated by operation of the Native Title Act 1993 and the Native Title (New South Wales) Act 1994.
 - (ii) Liability of the State to pay compensation to native title holders arising from the undertaking of future acts (i.e. acts which affect native title undertaken after 1 January 1994 and for which the Native Title Act 1993 provides that compensation is payable) by the State and its instrumentalities. [The State has an indemnity under Section 104 of the Native Title (New South Wales) Act in respect to compensation arising from a compulsory acquisition of native title by an authority which is not the Crown in the right of the State.]
- The assets of the State in the form of Crown land and water may be reduced in value in the event that native title is determined to exist in all or any of these assets. The extent of the reduction in value cannot be quantified.
 - The assets of the State in the form of unallocated and reserved Crown land may be reduced in value by operation of the Aboriginal Land Rights Act 1983 (NSW). Under that legislation a land council can apply for the grant of the freehold of claimable Crown land (as defined in Section 36 (1) of the Act) and the claim must be granted. Applications have been made over various areas of land and water in

NOTES TO THE FINANCIAL STATEMENTS

New South Wales, which might ultimately result in land being transferred for no consideration. These applications have not been finalised and it is therefore not possible to estimate the financial impact or result of the claims.

- Based on the definition of control in Australian Accounting Standard AASB 127, Affiliated Health Organisations listed in the Third Schedule of the Health Services Act 1997 are only recognised in the Department's Consolidated Financial Statements to the extent of cash payments made.

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

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

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

- (i) The first type of contingency arises by virtue of the NSW Government indemnity provided for each transaction. The exposure relates to the change of law risk and administration risk in relation to the covenants given under the lease transactions; and

- (ii) The second type of contingency is where the Crown Entity has a third party risk in terms of monies being placed on deposit with a counter-party. The counterparty contingent liability is estimated to be \$443 million (2006 \$543 million). The amount of the counter-party contingent liability reflects the term nature of the deposits and the valuation of the Australian dollar against the US dollar, Canadian dollar and Japanese yen. NSW Treasury Corporation regularly monitors this risk.

During the 2006-07 financial year there have been no changes in the credit standing of the deposit counterparties which range from BBB+ to AAA.

Two leases over rail stock involve certain swap transactions for which the Crown Entity has provided indemnity. An additional potential exposure arises under the swaps. However the overall lease transactions are structured such that there is a zero net position under the swaps.

- Some government authorities have claims for compensation for land acquired under the Land Acquisition (Just Terms Compensation) Act 1991. The estimated cost will be determined by the Land and Environment Court in due course.
- Landcom has entered into several development projects that include possible contingent liabilities. In the event of realisation, Landcom would be entitled to receive property to the estimated value of the liability.

NOTES TO THE FINANCIAL STATEMENTS

Road repairs of structural failures on Landcom constructed roads are guaranteed in the Narellan release area for a twenty year period commencing October 1988. The cost is not quantifiable at this stage.

- Macquarie International Health Clinic Pty Ltd, lessee of certain property controlled by Sydney South West Area Health Service (SSWAHS) has made a claim against SSWAHS. The claim is in relation to Supreme Court proceedings in respect of rescission of an agreement and lease regarding a proposed private hospital on the Royal Prince Alfred Hospital Campus which was constructed and operated by the lessee. Litigation is ensuing with a claim by the lessee for compensation in respect to rentals unpaid to date together with damages which have not been quantified.
- As a condition of the sale of Pacific Power International Pty Ltd the State has an obligation to compensate the trustee of the electricity industry superannuation fund if certain conditions exist at a certain time. The time will be the earlier of:
 - *Connell Wagner (the purchaser) ceasing to be an employer in the fund; or*
 - *the last benefit is paid; or*

CONTINGENT ASSETS

- Contingent assets exist in respect of guarantees received and from pending litigation. These include:
- As a result of the collapse of HIH Insurance Limited the State took over liabilities of approximately \$650 million. This was in respect of building warranty and third party motor insurance. An actuary estimated the discounted present value of the outstanding liability to be \$130 million as at 30 June 2007 (2006 \$177 million).

- *the relevant assets are exhausted.*

The conditions that must exist are that:

- *there is actually a shortfall of assets; and*
- *the investment return has been less than assumed (4.5 per cent pa excluding CPI).*

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

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

Based on currently forecast investment returns, the expected liability is nil (2006: nil).

- TransGrid is disputing claims lodged by its contractor on a construction work-related contract.

A claim for compensation is also being pursued via arbitration against TransGrid, for alleged reduction in the value of a coal mine due to the construction of a transmission tower.

At this stage, it is not possible for management to form an opinion about the likely outcome of the above two matters.

The liquidators of HIH Insurance Limited have recently stated that they intend to distribute "more than 50 per cent" depending upon the scheme company. In 2006-07, the State received payments totalling \$95 million (2005-06 \$28 million).

- The Ministry of Transport holds guarantees of \$100 million from Pacific National as security for contractual performance in its grain business. These guarantees comprise \$90 million held for completion of mandatory works specified in the Works Deed (Grain) and \$10 million relating to obligations under the Grain Haulage Service Deed.

NOTES TO THE FINANCIAL STATEMENTS

- The State holds various performance bonds totalling \$24 million relating to the provision of bus services under the Metropolitan and Outer Metropolitan Bus Service Contracts.
- The State holds a guarantee of \$25 million to ensure supply of the Attorney-General Department's Justicelink contract.
- The State has initiated legal proceedings to recover damages of \$16 million associated with an electricity contractor. At this stage it is not possible to form an opinion on the likely outcome of the proceedings.

27. EVENTS AFTER THE BALANCE SHEET DATE

The disclosures below relate to events that are indicative of conditions that arose after the reporting date:

- In February 2007, the NSW Government requested that the Sydney Water Corporation proceed with the construction of a desalination plant at Kurnell. Construction of a desalination plant is one of the NSW Government's initiatives under its Metropolitan Water Plan 2006.

In order to facilitate the construction of the desalination plant and to enable the costs of construction and ongoing operation and maintenance of the plant to be separately ring fenced for pricing and other purposes, the Corporation established a new wholly owned subsidiary company, Sydney Desalination Plant Pty Limited, on 13 June 2007 following voting shareholder approval.

In July 2007, the new subsidiary will enter into design and construct, and operate and maintain contracts for the desalination plant, ocean intake and outlet tunnels, and power supply connections. The plant will have a capacity of producing 250 megalitres of desalinated water per day, which is approximately 15 per cent of Sydney's current water supply needs. Construction of the desalination plant will be completed in two modules, each of 125 megalitre per day capacity. The first module is expected to be completed by November 2009, and operational from December 2009. Construction of the second 125 megalitre per day module is expected to be completed by May 2010, and operational from June 2010.

Construction of the desalination plant and associated infrastructure is expected to cost the new subsidiary company approximately \$1.3 billion (including borrowing costs).

The new subsidiary will obtain funding for the plant's construction through a debt facility with the NSW Treasury Corporation. The new subsidiary will also be responsible for the cost of operation and maintenance of the desalination plant (and associated infrastructure) once it becomes operational.

The Corporation will enter into two contractual arrangements with Sydney Desalination Plant Pty Limited. A Project Development Agreement will cover the services and resources to be provided by the Corporation on behalf of the new subsidiary company (eg employees). A separate Revenue Collection agreement will provide the mechanism by which Sydney Desalination Plant Pty Limited will recover income, collected on its behalf from customers by the Corporation. The new subsidiary company's equity structure will be established in the next reporting period in order to position it to operate independently under the proposed contractual arrangements.

The Corporation has separately entered into an Alliance contract (in June 2007) for the design and construction of a drinking water pumping station at the Kurnell desalination plant, and pipelines from the pumping station and across Botany Bay, to enable the output of the desalination plant to be delivered into the Corporation's existing water delivery system at Erskineville.

NOTES TO THE FINANCIAL STATEMENTS

- Settlement on the sale of Energy Australia's partnership with IPower Pty Ltd was achieved on 16 August 2007. \$142 million proceeds from the sale were received on the same date. On completion of the sale in 2007-08, a further \$46 million gain on disposal will be reflected in the 2007-08 Total State Sector Accounts operating result.
- It is the policy of state-owned electricity generators and distributors to hedge their risk associated with fluctuations in the sale/purchase price of electricity into the national electricity market. This is by entering into derivative contracts with wholesale electricity market counterparties.

These derivatives are marked to market and their fair values are measured based on industry accepted valuation methodologies and a market published forward curve, in accordance with AASB 139 *Financial Instruments: Recognition and Measurement*.

The fair value of electricity derivative contracts (\$2,914 million of liabilities and \$849 million of assets) as at 30 June 2007 reflected high market prices, in both the spot market and extremely volatile forward pricing of electricity. This was due to a combination of factors, including the prolonged effects of drought conditions, supply interruptions particularly in the last quarter of the financial year and increased demand, a result of very cold weather in June 2007.

These factors improved during July and August 2007, with a corresponding reduction in spot market prices and the electricity forward price curve falling significantly. As a consequence the fair value of electricity derivative net liabilities decreased significantly since reporting date. The reduction in the net liability position has been primarily offset by re-measurements of the opposite direction in the equity hedging reserve.

28. COMPLIANCE WITH APPROPRIATIONS

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

report includes a summary of recurrent and capital appropriations disclosing separately the original and revised amounts appropriated, and relevant expenditure for the reporting period.

29. FINANCIAL INSTRUMENTS

INTEREST RATE RISK EXPOSURES

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. These are average market yields of the financial assets and liabilities with a range of maturities that extend from overnight to beyond five years. As such they are not directly comparable to current prevailing interest rates. The State's exposure to interest rate risks and the effective weighted average interest rate for each major class of financial assets and financial liabilities are set out in the following tables:

NOTES TO THE FINANCIAL STATEMENTS

	Notes	Floating interest rate 2007 \$m	Fixed interest / Contract maturity:			Non- interest bearing 2007 \$m	TOTAL 2007 \$m	Weighted average effective interest rate 2007 %
			1 year or less 2007 \$m	1 to 5 years 2007 \$m	Over 5 years 2007 \$m			
Financial Assets								
Cash and cash equivalents	6	4,292	...	...	...	...	4,292	
Receivables	7	...	...	...	...	7,070	7,070	
Financial assets at fair value:								
- Administered by TCorp ^(b)	8	4,707	311	1,155	14	...	6,187	12.2
- TCorp placements	8	...	2,767	1	1,224	...	3,992	6.1
- Other	8	52	435	386	473	10	1,356	9.8
Derivative Assets ^(a)	8							
- Swaps	8	8	27	15	4	...	54	
- Futures	8	...	5	...	...	...	5	
- Electricity contracts	8	...	160	409	280	...	849	
- Other	8	...	4	10	...	...	14	
Total Financial Assets		9,059	3,709	1,976	1,995	7,080	23,819	
Financial Liabilities								
Bank overdraft	18	123	...	...	...	...	123	
Payables	17	...	...	...	...	6,148	6,148	
Domestic and foreign borrowings	18	...	6,755	13,378	11,137	...	31,270	6.0
Liability to the Commonwealth Government	18	...	35	115	732	...	882	4.6
Finance leases	18	...	44	136	304	...	484	
Derivative Liabilities ^(a)	19							
- Swaps	19	801	14	121	3	...	939	
- Futures	19	...	...	6	8	...	14	
- Electricity contracts	19	...	1,117	1,310	487	...	2,914	
- Other	19	...	10	27	21	...	58	
Total Financial Liabilities		924	7,975	15,093	12,692	6,148	42,832	

(a) The contract maturity analysis of derivatives are at best approximations and are derived from reasonable estimates being calculated from information sourced from major NSW government entities. These entities carried comparatively larger derivative positions for the type of derivative contract, open as at year end. Note that notional principal amounts and face values were applied to estimate contract maturity schedules for swaps and electricity derivatives respectively. Fair Value is generally on a Mark-to-Market basis, rather than net of buys and sells. Thus fair value generally equals the unrealised gain or loss.

NOTES TO THE FINANCIAL STATEMENTS

	Floating interest rate 2006 \$m	Fixed interest rate maturing in:			Non- interest bearing 2006 \$m	TOTAL 2006 \$m	Weighted average effective interest rate 2006 %
		1 year or less 2006 \$m	1 to 5 years 2006 \$m	Over 5 years 2006 \$m			
Financial Assets							
Cash and cash equivalents	4,319	...	...	...	...	4,319	
Receivables	...	...	...	...	5,720	5,720	
Financial assets at fair value							
- Administered by							
TCorp ^(b)	3,965	801	6,646	958	...	12,370	10.3
- TCorp placements	...	2,099	1	333	...	2,433	5.6
- Other	74	492	292	533	5	1,396	9.0
Derivative Assets ^(a)							
- Swaps	5	18	15	6	...	44	
- Futures	...	2	...	...	...	2	
- Electricity contracts	...	62	96	...	...	158	
- Other	...	1	...	3	...	4	
Total Financial Assets	8,363	3,475	7,050	1,833	5,725	26,446	
Financial Liabilities							
Bank overdraft	139	...	...	...	...	139	
Payables	...	...	...	...	5,212	5,212	
Domestic and foreign borrowings							
Liability to the Commonwealth							
Government	...	34	112	762	...	908	4.6
Finance leases	...	84	160	293	...	537	
Derivative liabilities ^(a)							
- Swaps	525	10	39	6	...	580	
- Futures	...	1	...	...	...	1	
- Electricity contracts	...	52	80	...	...	132	
- Other	...	1	3	...	9	13	
Total Financial Liabilities	664	1,015	14,302	14,482	5,221	35,684	

NOTES TO THE FINANCIAL STATEMENTS

ASSETS ADMINISTERED BY NEW SOUTH WALES TREASURY CORPORATION (TCORP)

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

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

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

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

Refer to Note 6 for a dissection of cash assets.

	2007	2006
	\$m	\$m
<i>(b) Investments - Hour Glass Facilities and Special Client Mandates</i>		
<i>TCorp manages investment portfolios on behalf of state entities through Hour Glass facilities which are reported at market value. TCorp also manages the Special Client Mandate investment portfolio of the New South Wales Self Insurance Corporation's Treasury Managed Fund, General Government Liability Management Ministerial Corporation, the Crown Entity's liquidity fund and the Electricity Tariff Equalisation Ministerial Corporation.</i>		
<i>Fixed Interest</i>	<i>66</i>	<i>131</i>
<i>Medium to Long Term</i>	<i>1,432</i>	<i>1,036</i>
<i>Treasury Managed Fund (Hour Glass facility)</i>	<i>2,560</i>	<i>2,798</i>
<i>Special Client Mandate</i>	<i>2,129</i>	<i>8,405</i>
<i>Total Investments Administered by TCorp</i>	<i>6,187</i>	<i>12,370</i>

Fair Values of Financial Assets and Liabilities

Financial instruments are carried at cost or market value.

The 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.

NOTES TO THE FINANCIAL STATEMENTS

	Total carrying amount 2007 \$m	Aggregate fair value 2007 \$m	Total carrying amount 2006 \$m	Aggregate fair value 2006 \$m
Financial Assets				
Cash and cash equivalents	4,292	4,292	4,319	4,319
Receivables	7,070	7,070	5,720	5,720
Financial assets at fair value				
- Administered by TCorp	6,187	6,187	12,370	12,370
- TCorp placements	3,992	3,992	2,433	2,433
- Other	1,356	1,356	1,396	1,396
Derivative assets	922	922	208	208
Total Financial Assets	23,819	23,819	26,446	26,446
Financial Liabilities				
Bank overdraft	123	123	139	139
Payables	6,148	6,148	5,212	5,212
Domestic and foreign borrowings	31,270	31,225	28,162	28,220
Liability to the Commonwealth Government	882	882	908	908
Finance leases	484	484	537	537
Derivative liabilities	3,925	3,925	726	726
Total Financial Liabilities	42,832	42,787	35,684	35,742

Credit Risk

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

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

DERIVATIVE FINANCIAL INSTRUMENTS

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

Interest Rate Derivatives

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

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.

Electricity Hedging Contracts

The State-owned electricity generation and retail businesses enter into various types of hedging contracts with electricity market counterparties to manage the risks associated with fluctuations in wholesale electricity market prices in accordance with Board approved policy.

30. DISCONTINUING OPERATIONS

On 18 April 2005 Energy Australia announced its intention to sell its Victorian and South Australian businesses. These operations were sold on 7 July 2005 (effective 1 July 2005).

The discontinued operation generated no revenues or expenses during 2005-06, as it was disposed of at the start of the year. There were no material discontinuing operations to report for 2006-07.

	2006-07 \$m	2005-06 \$m
Revenue
Expenses
Result of discontinuing operation
Gain on sale	...	37
Profit from discontinuing operation	...	37

31. DISAGGREGATED FINANCIAL STATEMENTS

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

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

Pursuant to National Competition Policy, the Government has implemented a National Tax Equivalents Regime (NTER) for Public Trading

Enterprises and some General Government agencies.

Tax effect accounting principles have therefore been adopted by all agencies, which are part of the National Tax Equivalents Regime. On consolidation, all NTER related income tax entries are eliminated for the Total State Sector Accounts.

The 2005-06 comparative year columns in the following tables have been restated for any corrections of errors and changes in accounting policies, for consistency with the 2006-07 presentation.

NOTES TO THE FINANCIAL STATEMENTS

THE NSW TOTAL STATE SECTOR ACCOUNTS DISAGGREGATED STATEMENT OF REVENUE AND EXPENSES FOR THE YEAR ENDED 30 JUNE 2007

	General Government		Public Trading Enterprises	
	2006-07 \$m	2005-06 \$m	2006-07 \$m	2005-06 \$m
REVENUES				
State Revenues				
Taxation	17,705	15,902	...	...
Commonwealth Grants	17,736	18,040	...	...
Financial Distribution	1,984	2,020	...	...
Fines, Regulatory Fees and Other	1,192	1,283	...	...
Total State Revenues	38,617	37,245	...	...
Operating Revenues				
Sale of Goods and Services	3,257	2,995	9,601	9,235
Investments	1,343	1,365	230	207
Grants and Contributions	827	811	4,654	3,485
Other	489	420	381	372
Total Operating Revenues	5,916	5,591	14,866	13,299
EXPENSES EXCLUDING LOSSES				
Employee Benefits				
- Superannuation	2,589	2,704	155	221
- Other	18,775	18,033	3,477	3,541
Other Operating	8,837	8,242	3,801	3,890
Depreciation and Amortisation	2,307	2,127	2,157	2,076
Grants and Subsidies	10,272	8,420	195	187
Finance Costs	1,256	1,210	1,082	998
Total Expenses	44,036	40,736	10,867	10,913
OTHER NET INCOME				
Net Gain/(Loss) on Disposals	22	(22)	(29)	2
Other Net Gains/(Losses)	3,174	3,815	81	594
Share of Earnings from Equity Investments	10	173	83	6
SURPLUS/(DEFICIT) FOR THE YEAR	3,703	6,066	4,134	2,988

NOTES TO THE FINANCIAL STATEMENTS

THE NSW TOTAL STATE SECTOR ACCOUNTS
DISAGGREGATED STATEMENT OF REVENUE AND
EXPENSES FOR THE YEAR ENDED 30 JUNE 2007

Public Financial Enterprises		Eliminations		Total State Sector	
2006-07	2005-06	2006-07	2005-06	2006-07	2005-06
\$m	\$m	\$m	\$m	\$m	\$m
...	...	(428)	(684)	17,277	15,218
...	...	...	...	17,736	18,040
...	...	(1,984)	(2,020)	...	...
...	...	...	4	1,192	1,287
...	...	(2,412)	(2,700)	36,205	34,545
156	24	(256)	(334)	12,758	11,920
1,878	1,922	(1,757)	(1,648)	1,694	1,846
9	11	(4,358)	(3,210)	1,132	1,097
1	1	(20)	(3)	851	790
2,044	1,958	(6,391)	(5,195)	16,435	15,653
1	1	...	...	2,745	2,926
12	10	(217)	(159)	22,047	21,425
46	5	3	(362)	12,687	11,775
1	1	...	1	4,465	4,205
...	...	(4,751)	(3,612)	5,716	4,995
1,838	1,785	(1,832)	(1,778)	2,344	2,215
1,898	1,802	(6,797)	(5,910)	50,004	47,541
...	...	1	(7)	(6)	(27)
(71)	(96)	23	(18)	3,207	4,295
...	...	(1)	1	92	180
75	60	(1,983)	(2,009)	5,929	7,105

NOTES TO THE FINANCIAL STATEMENTS

THE NSW TOTAL STATE SECTOR ACCOUNTS DISAGGREGATED BALANCE SHEET AS AT 30 JUNE

	General Government		Public Trading Enterprises	
	2007	2006	2007	2006
	\$m	\$m	\$m	\$m
Current Assets				
Cash and Cash Equivalent Assets	2,486	2,458	1,673	1,806
Receivables	4,335	3,440	3,023	1,952
Financial Assets at Fair Value	919	2,474	933	304
Investments Accounted for Using the Equity Method	...	...	...	...
Inventories	126	119	526	496
Other	...	4	269	137
Non-Current Assets Held for Sale	208	231	99	95
Total Current Assets	8,074	8,726	6,523	4,790
Non-Current Assets				
Receivables	7,886	6,732	1,886	839
Financial Assets at Fair Value	6,333	11,532	294	200
Investments Accounted for Using the Equity Method	1,520	1,486	...	16
Inventories	22	37	411	423
Property, Plant and Equipment				
Land and Buildings	46,295	45,284	40,520	39,204
Plant and Equipment	6,699	6,357	3,818	3,838
Infrastructure Systems	38,299	36,617	43,616	39,435
Investment Properties	312	351	1,162	1,162
Forestry Stock and Other Biological Assets	6	...	1,509	1,559
Intangibles	543	533	1,028	886
Other	1,308	1,040	77	71
Total Non-Current Assets	109,223	109,969	94,321	87,633
TOTAL ASSETS	117,297	118,695	100,844	92,423
Current Liabilities				
Payables	3,087	2,582	3,057	2,468
Borrowings at Amortised Cost	3,825	2,630	2,561	2,513
Derivatives at Fair Value	...	41	2,027	84
Provisions	7,818	6,734	3,176	3,495
Other	372	525	625	274
Liabilities Directly Associated with Assets Held for Sale	...	...	...	5
Total Current Liabilities	15,102	12,512	11,446	8,839
Non-Current Liabilities				
Borrowings at Amortised Cost	9,724	10,284	14,169	13,204
Derivatives at Fair Value	...	...	942	68
Provisions	20,107	29,721	6,258	5,448
Other	3,948	2,875	768	720
Total Non-Current Liabilities	33,779	42,880	22,137	19,440
TOTAL LIABILITIES	48,881	55,392	33,583	28,279
NET ASSETS	68,416	63,303	67,261	64,144
Equity				
Reserves	35,639	34,186	27,901	27,738
Accumulated Funds	32,748	29,046	39,345	36,398
Amounts Recognised Directly in Equity Relating to Assets Held for Sale	29	71	15	8
TOTAL EQUITY	68,416	63,303	67,261	64,144

NOTES TO THE FINANCIAL STATEMENTS

THE NSW TOTAL STATE SECTOR ACCOUNTS DISAGGREGATED BALANCE SHEET AS AT 30 JUNE

Public Financial Enterprises		Eliminations		Total State Sector	
2007	2006	2007	2006	2007	2006
\$m	\$m	\$m	\$m	\$m	\$m
387	196	(254)	(141)	4,292	4,319
830	827	(2,577)	(2,028)	5,611	4,191
11,024	8,129	(8,367)	(6,652)	4,509	4,255
...
...	...	...	...	652	615
...	...	...	(1)	269	140
...	...	1	...	308	326
12,241	9,152	(11,197)	(8,822)	15,641	13,846
20	2	(8,333)	(6,044)	1,459	1,529
20,883	20,654	(19,562)	(20,234)	7,948	12,152
...	...	...	(1)	1,520	1,501
...	...	...	...	433	460
5	1	...	(1)	86,820	84,488
2	1	(1)	...	10,518	10,196
...	...	...	...	81,915	76,052
...	...	...	...	1,474	1,513
...	...	...	...	1,515	1,559
2	1	...	...	1,573	1,420
...	...	(7)	(15)	1,378	1,096
20,912	20,659	(27,903)	(26,295)	196,553	191,966
33,153	29,811	(39,100)	(35,117)	212,194	205,812
1,014	719	(1,010)	(557)	6,148	5,212
7,050	1,723	(6,522)	(5,705)	6,914	1,161
738	309	...	(38)	2,765	396
53	26	(1,521)	(1,441)	9,526	8,814
1	...	(31)	(37)	967	762
...	...	...	...	...	5
8,856	2,777	(9,084)	(7,778)	26,320	16,350
24,249	27,007	(22,297)	(21,910)	25,845	28,585
229	264	(11)	(2)	1,160	330
50	23	(5,936)	(4,669)	20,479	30,523
...	...	(1,772)	(758)	2,944	2,837
24,528	27,294	(30,016)	(27,339)	50,428	62,275
33,384	30,071	(39,100)	(35,117)	76,748	78,625
(231)	(260)	...	...	135,446	127,187
...	...	...	...	63,540	61,924
(231)	(260)	...	...	71,862	65,184
...	...	...	...	44	79
(231)	(260)	...	...	135,446	127,187

NOTES TO THE FINANCIAL STATEMENTS

32. DETAILS OF CONSOLIDATED ENTITIES

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

Only two controlled entities have reporting dates dissimilar to the 30 June Total State Sector Accounts reporting date. The reporting dates for the Sydney Cricket and Sports Ground Trust (28 February) and the Parramatta Stadium Trust (31 December) are different as they are aligned to the sporting year associated with their primary activities. It is considered impracticable and not material to the results and financial position of the Total State Sector Accounts to attempt to align the two Trusts' reporting periods to 30 June. Accordingly the annual financial results of these two trusts for their previous year (ending February and December respectively) have been consolidated into the 30 June based Total State Sector Accounts.

General Government Sector Agencies

Aboriginal Housing Office
Adult Multicultural Education Service (*)
ANZAC Memorial Building Trustees (*)
Art Gallery of NSW Foundation (*)
Art Gallery of New South Wales
Attorney General's Department
Audit Office of New South Wales
Australian Museum

Board of Vocational Education and Training (*)
Building and Construction Industry Long Service Leave Payments Corporation
Building Insurers Guarantee Corporation (*)

Cancer Institute NSW
Casino Control Authority
Catchment Management Authorities (all CMAs)
CB Alexander Foundation (*)
Centennial Park and Moore Park Trust
Chipping Norton Lakes Authority (*)
Coal Compensation Board
Community Relations Commission
Consolidated Fund
Crown Entity
Crown Leaseholds Entity
Crown Property Portfolio

Dams Safety Committee (*)
Department of Aboriginal Affairs
Department of Ageing, Disability and Home Care
Department of Arts, Sport and Recreation
Department of Commerce
Department of Community Services
Department of Corrective Services

NOTES TO THE FINANCIAL STATEMENTS

General Government Sector Agencies (continued)

Department of Education and Training
Department of Environment and Climate Change
Department of Health
Department of Juvenile Justice
Department of Lands
Department of Local Government
Department of Planning
Department of Premier and Cabinet
Department of Primary Industries
Department of Rural Fire Service
Department of State and Regional Development
Department of Water and Energy

Electricity Tariff Equalisation Ministerial Corporation
Environmental Protection Authority (*)
Environmental Trust

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

Game Council of New South Wales (*)
Greyhound and Harness Racing Regulatory Authority (*)
Growth Centres Commission

Health Care Complaints Commission
Health Foundation of NSW (*)
Historic Houses Trust of New South Wales
Home Care Service of New South Wales
Home Purchase Assistance Fund
Honeysuckle Development Corporation

Independent Commission Against Corruption
Independent Pricing and Regulatory Tribunal
Independent Transport Safety and Reliability Regulator
Institute of Sport (NSW) (*)
Institute of Teachers (*)
Internal Audit Bureau (*)

Judicial Commission of New South Wales

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

NOTES TO THE FINANCIAL STATEMENTS

General Government
Sector Agencies
(continued)

Marine Parks Authority (*)
Mines Subsidence Board (*)
Minister Administering Environmental Planning and Assessment Act
(incorporating Sydney Region Development Fund and Land Development
Contribution Fund)
Ministry for Police
Ministry of Transport
Motor Accidents Authority
Museum of Applied Arts and Sciences
Natural Resources Commission
New South Wales Businesslink
New South Wales Crime Commission
New South Wales Electoral Commission
New South Wales Film and Television Office
New South Wales Fire Brigades
New South Wales Food Authority
New South Wales Self Insurance Corporation
New South Wales Maritime Authority
New South Wales Medical Board (*)
New South Wales Police

Office for Children
Office of Protective Commissioner and Public Guardian (*)
Office of the Board of Studies
Office of the Director of Public Prosecutions
Office of the Motor Accidents Authority
Office of the WorkCover Authority
Office of Transport Safety Investigations
Ombudsman's Office

Parramatta Park Trust (*)
Police Integrity Commission
Psychiatry Institute of NSW (*)
Public Trust Office - Administration

Redfern-Waterloo Authority
Rental Bond Board
Roads and Traffic Authority
Royal Botanic Gardens and Domain Trust
Rural Assistance Authority
Rural Land Protection Boards (*)

Sporting Injuries Committee (*)
State Council of Rural Lands Protection Boards (*)
State Emergency Service
State Library of New South Wales
State Property Authority
State Records Authority
State Sports Centre Trust
Superannuation Administration Corporation
Sydney Olympic Park Authority

NOTES TO THE FINANCIAL STATEMENTS

General Government Sector Agencies (continued)

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

Upper Parramatta River Catchment Trust ^(*)

Vocational Education and Training Accreditation Board ^(*)

Wild Dog Destruction Board ^(*)
WorkCover Authority
Workers Compensation (Dust Diseases) Board
World Youth Day Co-ordination Authority

Public Trading Enterprises

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

Delta Electricity
Department of Housing – Land and Housing Corporation

EnergyAustralia
Eraring Energy

Forests New South Wales

Hunter Water Corporation

Integral Energy

Jenolan Caves Reserves Trust ^(*)

Landcom

Macquarie Generation

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

Parramatta Stadium Trust
Port Kembla Port Corporation
Public Transport Ticketing Corporation ^(a)

NOTES TO THE FINANCIAL STATEMENTS

Public Trading Enterprises (continued)

Rail Corporation New South Wales
Rail Infrastructure Corporation
Residual Business Management Corporation

State Rail Authority
State Transit Authority
State Water
Sydney Catchment Authority
Sydney Cricket Ground and Sports Ground Trust
Sydney Ferries
Sydney Harbour Foreshore Authority
Sydney Opera House
Sydney Ports Corporation
Sydney Water Corporation
Sydney 2009 World Masters Games Organising Committee

Teacher Housing Authority
Transport Infrastructure Development Corporation
TransGrid

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

Zoological Parks Board

Public Financial Enterprises

Fair Trading Administration Corporation
FANMAC Trusts

Lifetime Care and Support Authority ^(b)

New South Wales Treasury Corporation

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

(a) the Public Transport Ticketing Corporation commenced operations on 1 July 2006.

(b) The Lifetime Care and Support Authority was established on 1 October 2006.

END OF AUDITED FINANCIAL REPORT