
New South Wales Auditor-General's Report
Financial Audit

Volume Four 2014

Focusing on New South Wales State Finances



The role of the Auditor-General

The roles and responsibilities of the Auditor-General, and hence the Audit Office, are set out in the *Public Finance and Audit Act 1983*.

Our major responsibility is to conduct financial or 'attest' audits of State public sector agencies' financial statements. We also audit the Total State Sector Accounts, a consolidation of all agencies' accounts.

Financial audits are designed to add credibility to financial statements, enhancing their value to end-users. Also, the existence of such audits provides a constant stimulus to agencies to ensure sound financial management.

Following a financial audit the Audit Office issues a variety of reports to agencies and reports periodically to parliament. In combination these reports give opinions on the truth and fairness of financial statements, and comment on agency compliance with certain laws, regulations and government directives. They may comment on financial prudence, probity and waste, and recommend operational improvements.

We also conduct performance audits. These examine whether an agency is carrying out its activities effectively and doing so economically and efficiently and in compliance with relevant laws. Audits may cover all or parts of an agency's operations, or consider particular issues across a number of agencies.

Performance audits are reported separately, with all other audits included in one of the regular volumes of the Auditor-General's Reports to Parliament – Financial Audits.

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Pursuant to the *Public Finance and Audit Act 1983*,
I present Volume Four of my 2014 report.

A handwritten signature in black ink, appearing to read 'G Hehir'.

Grant Hehir
Auditor-General
28 October 2014

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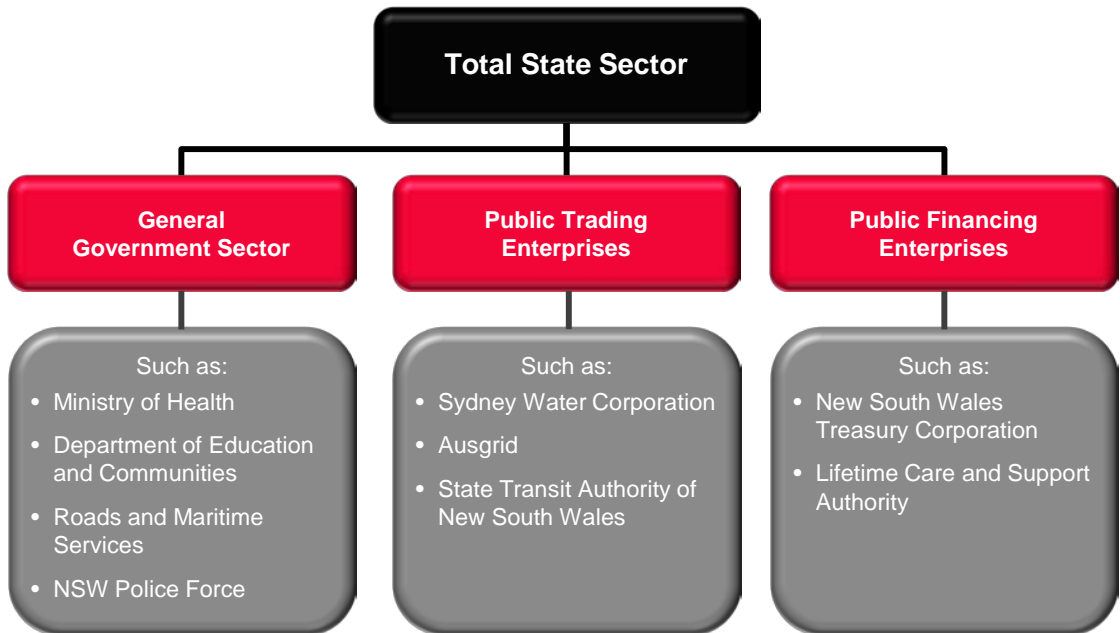
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Introduction

The *Public Finance and Audit Act 1983* requires the Treasurer to prepare and submit consolidated financial statements for the NSW General Government and Total State Sectors to the Auditor-General. After the financial statements have been audited, the Treasurer presents them to Parliament and the Auditor-General reports the results of his audit to Parliament.

Total State Sector

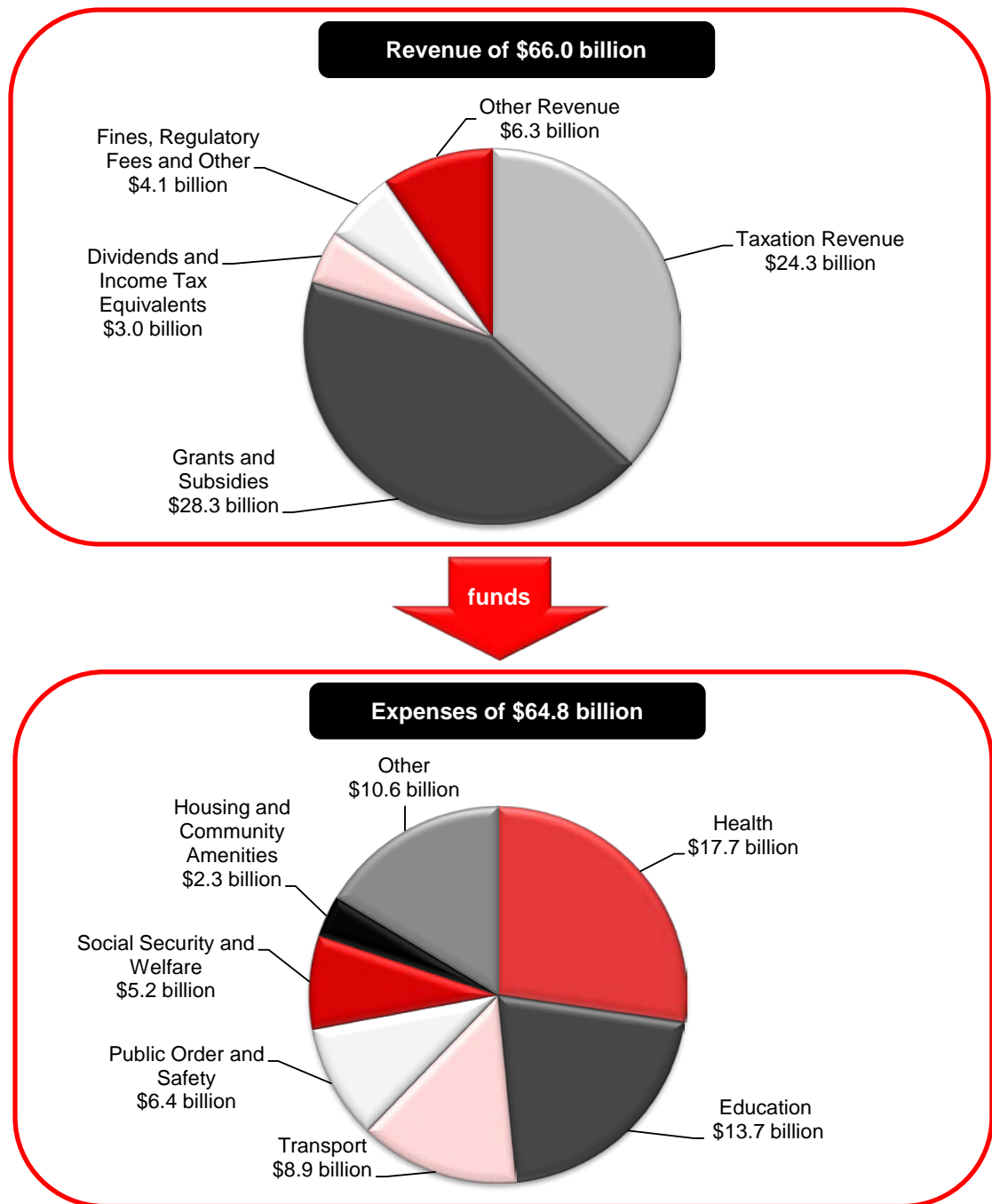
The Total State Sector structure is shown below:



The Total State Sector comprises all entities and activities under the control of the NSW Government. The General Government Sector comprises those entities that provide goods and services not directly paid for by consumers (i.e. largely financed from tax revenues and Commonwealth grants). The Non-General Government Sector comprises Public Enterprises that have a market orientation and provide goods and services such as transport, water and electricity, or participate in financial or other markets.

General Government Sector

The Budget Result reports the difference between the cost of General Government service delivery and the revenues earned to fund those services.



The General Government Sector can be thought of as holding an 'investment' in the other sectors. This investment generates returns in the form of dividends. The General Government Sector also receives income tax equivalent payments and payments for use of the State's credit rating when borrowing money. Over 90 per cent of the distributions made by the other sectors come from the State's electricity and water businesses.

Public Trading Enterprise Sector

The Public Trading Enterprise (PTE) sector supplies public infrastructure services through commercial and non-commercial operations. PTEs hold a significant proportion of State assets and liabilities. Over 90 per cent of PTE assets are property, plant and equipment used in delivery of services.

Electricity PTEs have the highest asset levels, are the most highly geared and make the largest contributions to the General Government Sector through dividends, government guarantee fees and tax equivalent payments.

Executive Summary

Audit Result

An unqualified audit opinion was issued on the Total State Sector Accounts for the year ended 30 June 2014.

Quality and Timeliness of Financial Reporting

The quality and timing of financial reporting has continued to improve across the NSW public sector. Timeframes have reduced and the number of errors has fallen since 2011-12.

Opportunities for improved quality and timeliness of financial reporting still exist. Moving to more regular and frequent preparation of financial reports during the year will improve financial management of the sector.

Financial Analysis - General Government Sector

Budget Result

The Budget Result for the year ended 30 June 2014 was a surplus of \$1,247 million (deficit of \$1,731 million for the year ended 30 June 2013), \$3.1 billion better than originally budgeted in June 2013. Revenues were 5.5 per cent above original budget, while expenses were less than one per cent above original budget.

The Budget Result was \$259 million better than forecast in the 2014-15 Budget Papers, published in June 2014.

Financial Analysis – Total State Sector

Significant Transactions

The State received \$2.8 billion from the lease of port operations in Newcastle, the sale of Eraring Energy and Delta West's Mt Piper and Wallerawang power stations. The State recorded a gain of \$611 million on these transactions. In 2012-13, the State received \$5.0 billion from other asset sale transactions and recorded a gain of \$2.0 billion.

Revenues and Expenses

Total revenues and expenses for the whole-of-government were \$76.1 billion (\$70.0 billion in 2012-13) and \$73.3 billion (\$70.4 billion), respectively. After the results from discontinued operations are included (\$10.0 million), the State's Net Operating Balance was a \$2.8 billion (\$49.0 million) surplus. While the State's total revenues and expenses exceed those reported by other states and territories, revenues and expenses per capita are lower than those in other jurisdictions.

After fair value adjustments to liabilities and other losses, the State recorded an Operating Result of \$1.5 billion (\$4.3 billion) surplus.

Taxation revenues increased by 10.7 per cent overall, as a result of all sources of tax revenue increasing. Stamp duties of \$7.8 billion increased by \$1.6 billion or 25.5 per cent from 2012-13. Treasury advises this was largely from growth in residential property sales, due to low interest rates, and an increase in large commercial transactions.

Commonwealth grants totalled \$27.3 billion, \$2.7 billion more than in 2012-13. This was mainly due to a \$1.3 billion increase in National Partnership Payments relating to transport funding and a \$1.1 billion increase in general purpose payments from the Australian Government, which mainly comprise New South Wales' share of the Goods and Services Tax.

Employee costs of \$35.1 billion were 48 per cent of total expenditure, which is relatively consistent with previous year's \$34.1 billion (49 per cent). Employee costs grew by 2.8 per cent from the 2012-13.

Assets and Liabilities

The value of the State's assets was around \$340 billion at 30 June 2014 (\$323 billion at 30 June 2013). The assets mostly comprise property, plant and equipment to provide or support service delivery. Capital expenditure was \$14.5 billion in 2013-14 (\$14.6 billion in 2012-13). In addition to the infrastructure assets reflected in the Total State Sector Accounts, the State has engaged in over forty public private partnerships to deliver infrastructure and services.

The State's total liabilities increased to around \$172 billion at 30 June 2014 (\$163 billion at 30 June 2013). Borrowings increased by \$5.7 billion or 7.4 per cent to \$82.3 billion.

The State's net liability for the defined benefit superannuation scheme increased by around \$6.9 billion from \$44.2 billion to \$51.0 billion due to a change in accounting standards that remeasured the defined benefit obligation to include superannuation contributions tax on employer contributions.

Fiscal Responsibility

Credit Rating

The State has maintained its AAA credit rating.

In June 2014, Moody's affirmed its Aaa rating and stable outlook, noting New South Wales is well placed compared to most Australian states and territories. Most recently in October 2014, Standard & Poor's affirmed its AAA rating and elevated its outlook to 'stable' (up from 'negative').

Audit Result

Auditor's Opinion

The General Government and Total State Sector Accounts received an unqualified auditor's opinion.

This year's audit outcome evidences the Government's continued commitment to improve the quality of financial reporting across the NSW public sector.

Other Matters

Other matters noted during the course of the audit, but not material enough to impact the Independent Auditor's Report, include:

Lifetime Care and Support Scheme

Significant uncertainty exists in the estimate of the State's liability for scheme participants' care and support services of \$2.4 billion at 30 June 2014 (\$2.1 billion at 30 June 2013) and the related expense of \$205 million (\$176 million). The liability and related expense are included in the Total State Sector Accounts, but are not part of the General Government Sector.

The scheme provides treatment, rehabilitation and attendant care services to people severely injured in motor accidents in New South Wales, regardless of who was at fault in the accident. This scheme is funded by a levy on compulsory third party insurance policies.

The uncertainty arises because of the long term nature of the provision and the limited participants' experience to date. This uncertainty will remain until sufficient participants' experience is available.

Home Warranty Insurance Liabilities

Significant uncertainty exists in the estimates of the State's home warranty insurance liabilities. These liabilities totalled \$259 million at 30 June 2014 (\$257 million). The uncertainty arises mainly due to variability in claim costs.

The State has various liabilities related to home warranty insurance arrangements. Since 1 July 2010, the State has recognised liabilities under home warranty insurance policies issued through the Home Warranty Insurance Fund.

The Fund provides consumer protection for home owners undertaking residential building projects in New South Wales where the contracted builder, due to certain circumstances, defaults under the contract.

HWIF issues certificates of insurance as required under the *Home Building Act 1989* through its appointed insurance agents, QBE Insurance (Australia) Limited (QBE) and Calliden Insurance Limited (Calliden).

The State also recognises provisions arising from its assumption of liabilities for policies issued by the HIH insurance group, which collapsed in March 2001.

Audit Opinions on Agency Financial Statements

Previous Auditor-General's Reports to Parliament have reported on significant financial reporting issues that resulted in qualified audit opinions on agencies' financial statements or an emphasis of matter in independent auditor's reports. In 2014, the following matters were raised:

Agency	Matter	Result
NSW Self Insurance Corporation	The Corporation has not adopted Australian Accounting Standard AASB 1023 'General Insurance Contracts' when recognising the activities of the Treasury Managed Fund This qualification has no impact on the Total State Sector or General Government Sector Accounts as the correct accounting standard has been applied within those financial statements	Qualified audit opinion
State Emergency Service	Ineffective controls over the Service's fundraising activities	Qualified audit opinion
Building Insurers' Guarantee Corporation	Significant uncertainty associated with measurement of the provision for outstanding claims	Emphasis of matter
Home Warranty Insurance Fund	Significant uncertainty associated with measurement of the provision for outstanding claims	Emphasis of matter
Lifetime Care and Support Authority of New South Wales	Significant uncertainty associated with the estimate of participants' care and support scheme liabilities and related expense items	Emphasis of matter
Residual Business Management Corporation	The financial statements have been prepared on a liquidation basis rather than a going concern basis due to an intention to liquidate the company	Emphasis of matter

Removal of Modifications of Audit Opinions on Agency Financial Statements

In 2014, the following matters were resolved resulting in the removal of modifications to the following entities' audit opinions:

Agency	Resolution of matter previously resulting in a modified audit opinion
State Emergency Service	Management has implemented systems to record and measure inventory. The newly implemented systems and processes provide reasonable assurance over the existence and completeness of inventories held.

Financial Analysis – General Government Sector

The government's Budget Papers focus on the financial and service delivery performance of the General Government Sector. A principal measure of a government's financial performance is its Net Operating Balance or Budget Result.

The Net Operating Balance reports the difference between the cost of General Government service delivery and the revenues earned to fund those services.

Net Operating Balance – Variance to Original Budget

The 2013-14 result was a surplus of \$1.2 billion, which was \$3.1 billion better than expected in the 2013-14 Budget.

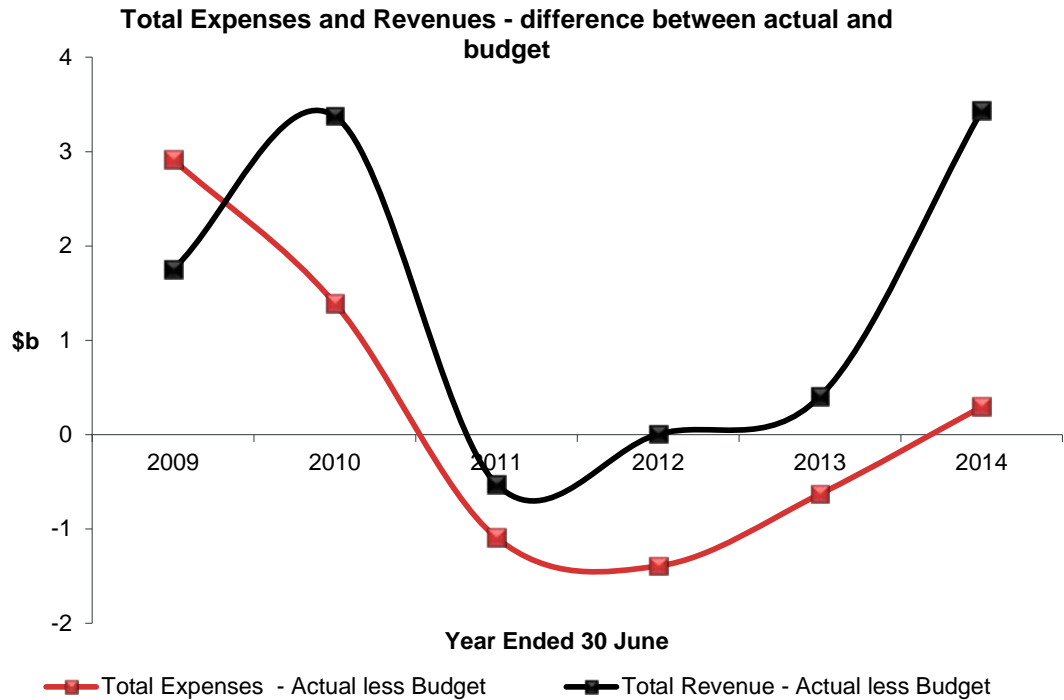
The table below compares actual results for 2013-14 with the amounts budgeted in the 2013-14 Budget Papers published in June 2013.

Financial Information

Year ended 30 June 2014	Actual \$m	Budget \$m	Difference \$m	Difference % of budget
Revenues				
Taxation	24,295	23,455	840	3.6
Commonwealth grants	27,306	25,830	1,476	5.7
Other grants and subsidies	1,026	949	77	8.1
Sale of goods and services	5,677	5,460	217	4.0
Interest	609	483	126	26.1
Dividend and income tax	2,260	2,155	105	4.9
Other dividends and distributions	700	467	233	49.9
Fines, regulatory fees and other	4,133	3,774	359	9.5
Total revenues	66,005	62,573	3,432	5.5
Expenses				
Employee related	27,056	26,710	346	1.3
Superannuation	4,456	3,904	552	14.1
Depreciation and amortisation	3,954	3,855	99	2.6
Interest	2,249	2,246	3	0.1
Other operating	14,345	15,044	(699)	(4.6)
Current grants and transfers	9,644	9,496	148	1.6
Capital grants and transfers	3,052	3,207	(155)	(4.8)
Total expenses	64,757	64,462	295	0.5
Net operating balance – surplus/(deficit)	1,247	(1,890)	3,137	(166.1)
Net borrowing	(1,236)	(4,527)	3,291	(72.7)

Note: In accordance with normal budget practice, the 2013-14 Budget does not include the impact of prospective business asset transactions. These are excluded on the basis the transactions are not complete at the time of preparing the Budget.

Note: Amounts in table may not add due to rounding.



Source: Actual - Report on State Finances 2008-09 to 2013-14 (audited), Budget – NSW Treasury Budget Papers 2008-09 to 2013-14 (unaudited).

Revenue

Actual taxation revenue was \$840 million more than budgeted, mainly due to an increase in stamp duties from stronger than expected growth in the residential and commercial property sectors, and one-off receipts from the sale of government assets.

Commonwealth grants were \$1.5 billion higher than budgeted mainly due to new funding for WestConnex (\$500 million) and bringing forward grants relating to the Pacific Highway (\$738 million). These funds are received by the NSW Government well in advance of it incurring the related expenditure.

Interest income improved over the budget estimate largely due to higher than expected cash holdings and favourable investment returns.

Dividends and taxes received from public trading enterprises exceeded budget due to higher than forecast profits from Landcom (\$33.0 million) and State Forests (\$31.0 million) reflecting improved operating performance.

Other dividends and distributions increased by 49.9 per cent from \$467 million to \$700 million due to higher than expected investment returns of the Self Insurance Corporation (\$125 million) and the Long Service Corporation (\$88.0 million).

Fines, regulatory fees and other revenue were \$359 million higher than budgeted due to higher:

- transfer of non-cash assets to Roads and Maritime Services (RMS) ownership and acceleration of RMS' interest in private motorway assets, as concessions mature towards expiry (\$70.0 million)
- industry donations associated with external projects (\$54.0 million)
- distributions from the HIH liquidators (\$42.0 million).

These were offset by a \$175 million decrease in receipts from mining royalties, driven by lower than expected coal prices and exchange rates.

Expenses

Employee related expenses were \$346 million higher than expected mainly due to:

- the transfer of employees from the PTE to the General Government Sector arising from the *Transport Administration Act 1988* and the *Government Sector Employment Act 2013* (\$538 million)
- higher long service leave expenses in line with actual costs and changes to salary growth assumptions (\$118 million).

These were offset by lower insurance claims following reforms to the workers' compensation legislation (\$125 million).

Superannuation expenses were \$552 million higher than expected mainly due to the application of the revised *AASB 119 Employee Benefits* standard. The revised standard requires contributions tax to be added to unfunded superannuation liabilities. This increased employee related expenses by \$353 million.

Depreciation and amortisation was higher than budgeted due to increases in road infrastructure and school building asset values used to calculate depreciation expenses.

Other operating expenses were \$699 million lower than budgeted mainly due to:

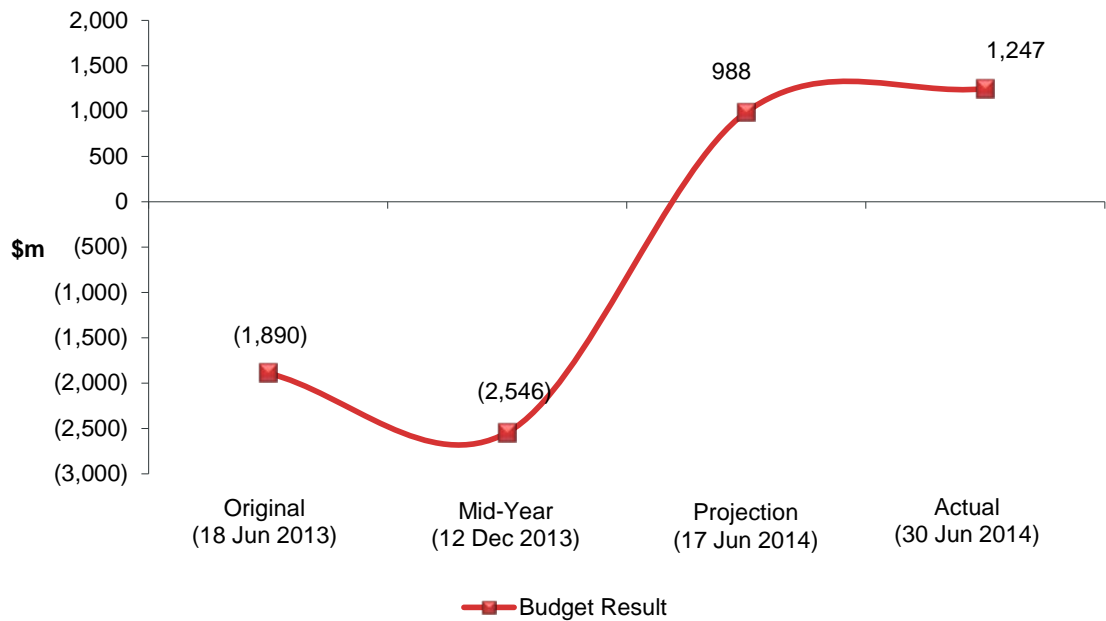
- reduced claims following reforms to the workers' compensation legislation (\$187 million)
- underspend on Commonwealth funded State Priority Projects, Family Energy Rebates and Low Income Household Rebates (\$140 million)
- lower costs of hospital supplies and utility charges (\$95.0 million)
- reduced costs associated with the management of rail projects by Transport for NSW following cessation of the fee for service arrangement with RailCorp (\$77.0 million).

Grants and transfers were less than budgeted due to delays in education expenditure in line with Commonwealth funding received and revised arrangements for the delivery of rail infrastructure projects. This was offset by increased funding for natural disasters and the delivery of new health services.

Budget Result – Variance to Projection (included in 2014-15 Budget Papers)

The Budget Result was \$259 million higher than projected in the 2014-15 Budget Papers.

Changes to Budget Result expectations during 2013-14



Source: The Treasury (unaudited).

The expected Budget Result is formulated using actual year to date information for the first ten months of the financial year and a projection for the final quarter. In any year, a variance between expectations published in June and the final result can be attributed to:

- inaccurate year to date information
- inaccurate projections for the final months of the year
- policy changes after the Budget Papers are completed
- revisions to Australian Government funding
- changes to actuarial assumptions
- legislative changes.

While it is appropriate for future policy changes not to be considered when formulating Budget Result expectations, variances from inaccurate year to date data or projections should be minimised. Variances that occurred during 2013-14 at the financial statement line item level are shown below.

Year ended 30 June 2014	Actual \$m	Projection \$m	Difference \$m	% difference to Projection
Revenues				
Taxation	24,295	24,129	166	0.7
Commonwealth grants	27,306	27,282	24	0.1
Other grants and subsidies	1,026	975	51	5.2
Sale of goods and services	5,677	5,605	72	1.3
Interest	609	593	16	2.7
Dividend and income tax	2,260	2,110	150	7.1
Other dividends and distributions	700	690	10	1.4
Fines, regulatory fees and other	4,133	4,054	79	1.9
Total revenues	66,005	65,437	568	0.9
Expenses				
Employee related	27,056	27,299	(243)	(0.9)
Superannuation	4,456	4,079	377	9.2
Depreciation and amortisation	3,954	3,974	(20)	(0.5)
Interest	2,249	2,256	(7)	(0.3)
Other property	--	--	--	--
Other operating	14,345	14,237	108	0.8
Current grants and transfers	9,644	9,563	81	0.8
Capital grants and transfers	3,052	3,041	11	0.4
Total expenses	64,757	64,449	308	0.5
Discontinued operations	--	--	--	--
Net operating balance – surplus	1,247	988	259	26.2
Net borrowing	(1,236)	(1,477)	241	16.3

Source: Report on State Finances 2013-14 (audited) and 2014-15 NSW Budget Papers (unaudited).

Note: Amounts in table may not add due to rounding.

The Treasury advises the additional taxation revenue is mainly due to:

- workers compensation (dust diseases) levy contributions increasing by \$160 million due to reductions in the assumed average age of future claimants, partly offset by a decrease in the projected number of future claimants
- stamp duties increasing by \$149 million from growth in the residential sector due to low interest rates and an increase in large commercial transactions
- payroll tax decreasing by \$53.3 million due to weaker than expected wage and employment growth compared to budget
- land tax decreasing by \$50.7 million due to fewer land tax assessments.

The Treasury advises the additional dividend and income tax revenue was primarily due to higher than expected current tax income. The higher tax is attributable to increased profitability across the commercial sector.

The Treasury advises employee expenses decreased by \$243 million due to workers compensation reforms and the positive impact on the cost of claims. Superannuation expenses increased by \$377 million, primarily due to the impact of recognising contributions tax on unfunded superannuation obligations for the first time.

Assurance on estimates and forecasts in the 2014-15 Budget Papers

The Auditor-General issued an unqualified conclusion on the estimates and forecasts in the 2014-15 Budget Papers.

The Treasurer requested the Auditor-General to 'undertake a review of the reasonableness of the estimates and forecasts in the 2014-15 Budget'. The Auditor-General performed this review in accordance with applicable assurance standards and issued an unqualified conclusion on the estimates and forecasts.

A copy of the Auditor-General's Independent Assurance Practitioner's Review Report and the engagement subject matter appears within Budget Paper 2 of the 2014-15 Budget Papers published at www.budget.nsw.gov.au.

Engagement Outcome

The engagement resulted in an unqualified conclusion.

Objective of the Engagement

The objective of the Auditor-General's review was to conclude whether anything had come to his attention that caused him to believe the estimated financial statements of the General Government Sector had not been prepared consistently with the basis of preparation and assumptions stated or the methodologies used to determine those assumptions are unreasonable. The conclusion is deliberately expressed in the negative form because it offers a limited level of assurance.

Limited Level of Assurance

Limited assurance is a lower level of assurance than that offered by an audit. The nature of the subject matter, being prospective financial information, has a high inherent risk, for which no amount of procedures can reduce risk to an acceptable level for an audit.

Prospective financial information relates to events and actions that have not yet occurred and may not occur. While evidence may be available to support the assumptions and underlying data upon which prospective financial information is based, such evidence is generally future oriented and therefore less certain in nature than evidence available to support historical financial information. Accordingly, no opinion can be expressed as to whether the forecasts will be achieved.

Professional Standards and Independence

The review was conducted in accordance with Australian Standards on Assurance Engagements, in particular ASAE 3000 'Assurance Engagements other than Audits or Reviews of Historical Financial Information' and ASAE 3450 'Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information', and relevant Australian Auditing Standards. These standards require the Auditor-General to comply with relevant ethical requirements relating to assurance engagements.

Areas for Improvement

The engagement included performing procedures on budget processes at 14 agencies and included reviewing:

- the reasonableness of agencies' processes
- their compliance with a list of controls Treasury expects agencies to have in place
- the reasonableness of assumptions and forecasts prepared by each agency.

Findings and Observations from Procedures Performed at Treasury

The review considered the reasonableness of Treasury's macroeconomic forecasts and key revenue forecasts. This included reviewing the models underpinning these forecasts. The forecasts were not unreasonable and Treasury has begun implementing previous recommendations.

Observations Related to Agency Processes

Recommendation

Agencies could improve the accuracy of their projections by refining their budgetary processes.

A number of smaller agencies continue to have static balances over the forward estimates period. There are circumstances in which a static balance may be appropriate, but anecdotal evidence and actual to budget performance would suggest not all instances are appropriate.

There is still divergent practice across agencies for estimating asset revaluations across the forward estimates, which could lead to depreciation variances.

Some agencies had not engaged sufficiently with each other to agree balances that should eliminate on consolidation. Resolving mismatches in receivables and payables, and revenues and expenses, are part of Treasury's early close procedures, but I identified such mismatches, indicating further work could occur in this area.

Review of Appropriation Payments

The Consolidated Fund is the central account into which the State's revenues are deposited and out of which monies are transferred to agencies. Part 5 of the *Constitution Act 1902* creates the Consolidated Fund.

The Consolidated Fund collects State taxes fees and fines, Commonwealth grants and financial distributions from various government agencies. It makes payments which predominantly comprise recurrent and capital appropriations to agencies in the General Government Sector. Recurrent appropriations are for the delivery of the annual normal services of government, typically continuing from prior years, such as employee related and operating expenses. Capital appropriations are for the acquisition of assets such as infrastructure and other property, plant and equipment.

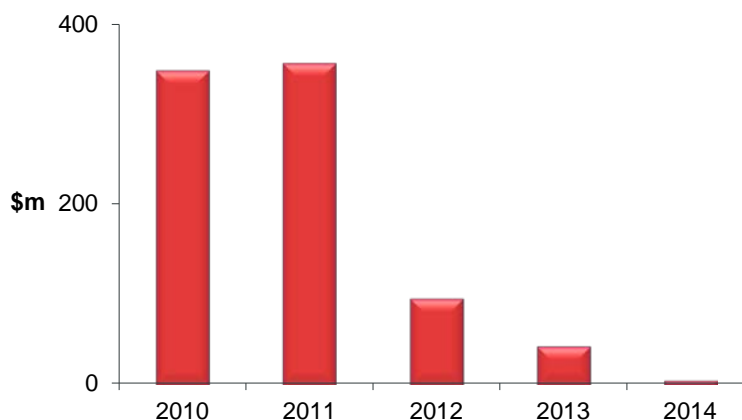
An appropriation is a statutory authorisation by Parliament for the expenditure of public money. The relevant Appropriation Act signifies Parliament has exercised its right of review over the Government's budgetary proposals.

The *Appropriation Act 2013* and *Appropriations (Parliament) Act 2013* approved funding of \$48.8 billion for recurrent and \$4.7 billion for capital purposes in 2013-14.

Additional Appropriations during 2013-14

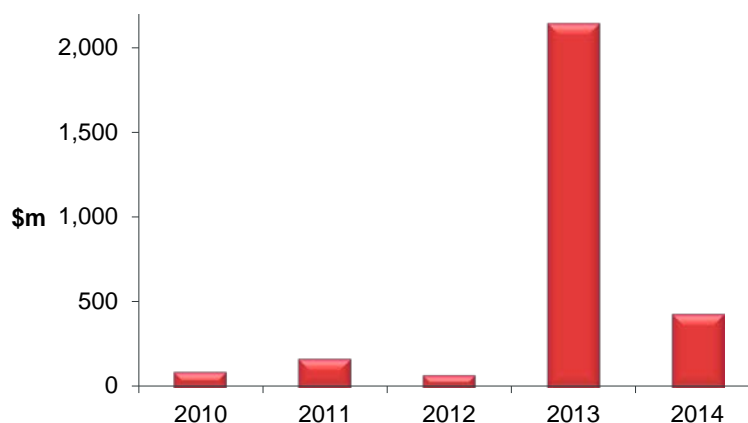
The amount of appropriation revenue received by an agency may differ from the amount set out in the original Appropriation Acts. Additional funds can be authorised in several ways:

Type	Approval Method
Treasurer's Advance	Appropriated to the Treasurer in the annual Appropriation Act or Appropriation (Budget Variations) Act. The amount made available to the Treasurer in 2013-14 was \$180 million (\$285 million in 2012-13)



The total value of advances made during 2013-14 was \$2.2 million (\$40.4 million in 2012-13). The Treasurer's Advance was to provide seed funding for preliminary work in relation to the financial management transformation program for Treasury.

Section 22 of the Public Finance and Audit Act 1983 The Treasurer may, with the approval of the Governor, provide agencies with additional funds that are in the public interest



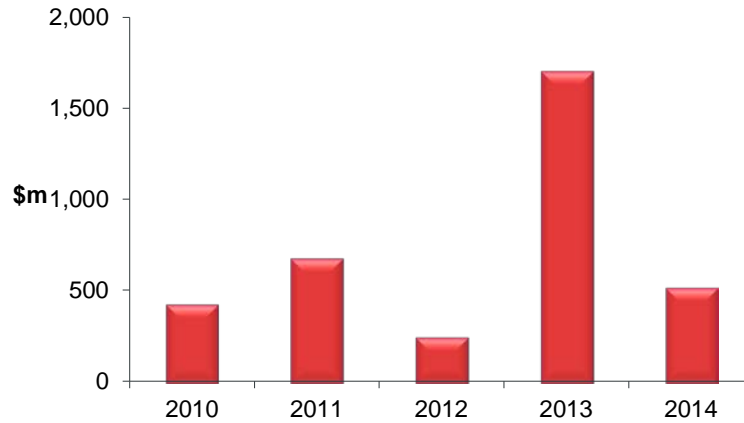
During 2013-14, the Treasurer and Governor approved the following:

- Crown Finance Entity - \$122 million to the Natural Disaster Relief account to meet bushfire and repair of disaster damaged roads
- Crown Finance Entity - \$300 million paid to Origin Energy to cancel the State's obligation to supply coal.

In 2012-13, \$2.0 billion was approved to repay Crown Finance Entity's borrowings.

Type	Approval Method
Section 32 of the Appropriations Act 2013	Section 32 of the <i>Appropriation Act 2013</i> allows the Treasurer, if required, to effectively transfer savings in one agency to another.

Inter-agency transfers



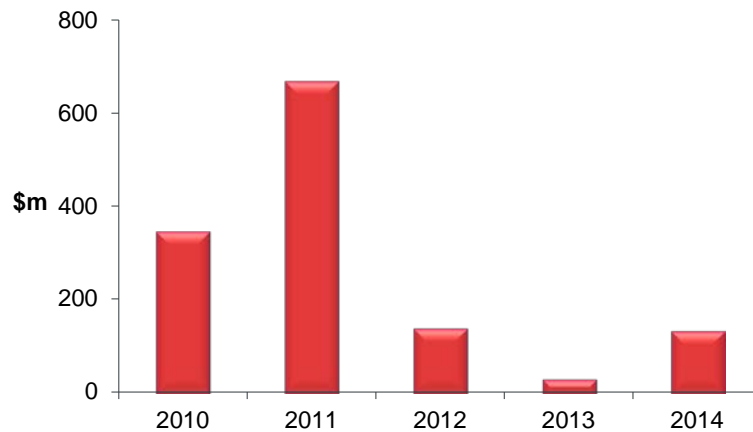
During 2013-14, significant transfers between agencies included:

- \$110 million transferred from Transport for NSW to the Crown Finance Entity to enable grants to be paid to Transport for NSW for rail infrastructure projects. The Treasurer made these changes to align 2013-14 with the approach adopted in the forward estimates from 2014-15
- \$200 million transferred from Department of Education and Communities under expenditure on National Partnerships to the Crown Finance Entity to enable Waratah Bond proceeds to be transferred to the Restart NSW Fund and to fund expenses of the Electricity Assets Ministerial Holding Corporation.

In 2012-13, \$1.6 billion was transferred from Transport NSW to the Crown Finance Entity for the revised delivery arrangements of rail infrastructure projects.

Type	Approval Method
Section 24 of the <i>Public Finance and Audit Act 1983</i>	Section 24 of the <i>Public Finance and Audit Act 1983</i> requires the Treasurer to provide the Legislative Assembly with details of transfers of functions between agencies

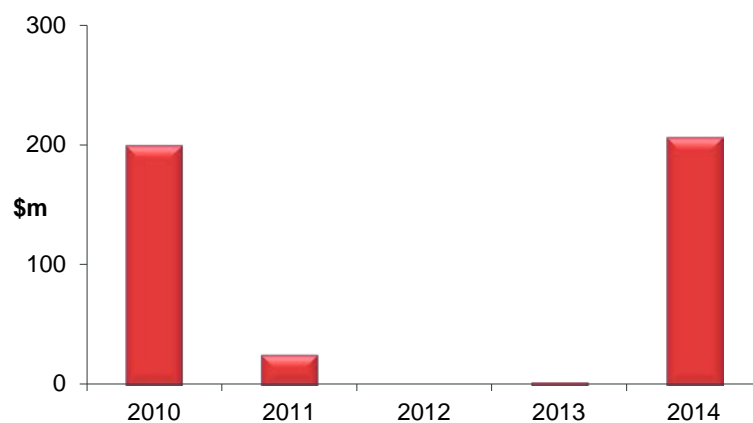
Transfer of functions



In 2013-14, the following significant functions were transferred:

- \$125 million of funding for land and housing-related asset management functions transferred from the Office of Finance and Services to the Department of Family and Community Services
- \$48.2 million of funding for Urban Water Directorate functions transferred from the Office of Finance and Services to the Department of Trade and Investment, Regional Infrastructure and Services.

Section 26 of the <i>Public Finance and Audit Act 1983</i>	Requires the Treasurer to provide the Legislative Assembly with details of variations in Commonwealth Funding
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During 2013-14, the following variations were made to Commonwealth funding:

- Ministry of Health received an additional \$61.5 million in line with changes to Commonwealth grant funding
- Nimmie Caira Trust Funds (a special deposits account) received \$120 million to facilitate the acquisition of land and water entitlements and the subsequent transfer of water licences to the Commonwealth.

Over recent years the Government has moved away from the use of the Treasurer's Advance to fund agency appropriation pressures to the use of Section 22 of the *Public Finance and Audit Act 1983* and Section 32 (or equivalent) of the *Appropriations Act*.

Financial Analysis – Total State Sector

This section analyses key financial data in the Total State Sector Accounts to inform Parliament and the community of trends in the State's financial position and its performance.

Significant Transactions

Restart NSW

The Government has \$6.2 billion in Restart NSW to fund future infrastructure.

In 2011, the Government established Restart NSW as the Government's infrastructure fund through the *Restart NSW Fund Act 2011*. It funds major infrastructure projects to improve:

- public transport
- roads
- infrastructure required for the economic competitiveness of the State (including the freight, inter-modal facilities and access to water)
- local infrastructure in regional areas affected by mining operations
- hospital and other health facilities and services
- workplaces for law and justice officers, teachers, nurses and other staff providing services to the public.

The table below shows the key inflows/outflows to the Fund:

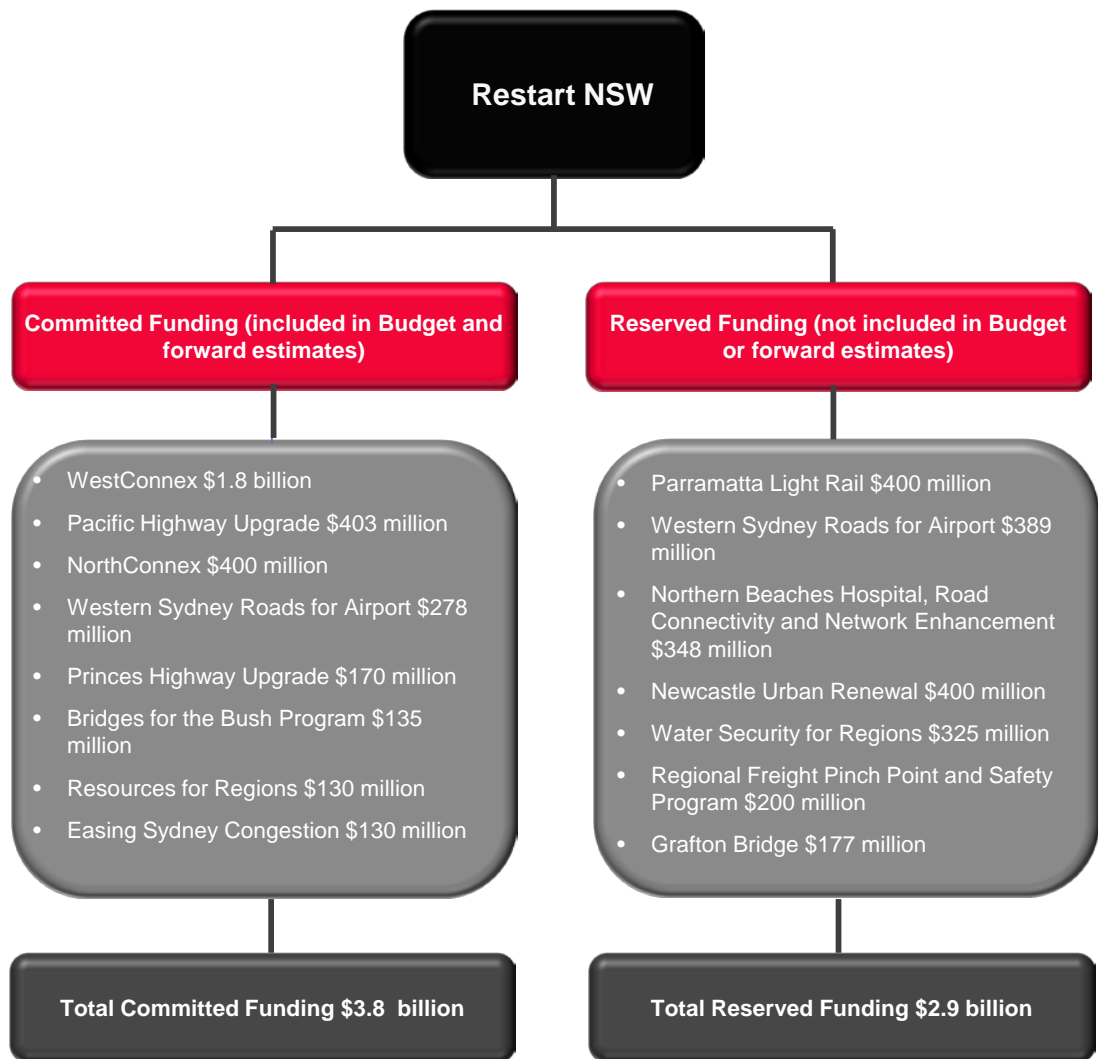
Year ended 30 June	2012 \$m	2013 \$m	2014 \$m	Total \$m
Opening Balance	--	19	4,682	
Receipts				
Proceeds from issue of bonds by the State	19	31	272	322
Lease of NSW Ports	--	5,062	1,519	6,581
Sale of Sydney Desalination Plant	--	312	--	312
Windfall tax revenue (from Crown Entity)	--	96	57	153
Transfer of stamp and mortgage duty (from Crown Entity)	--	224	--	224
Sale of Eraring Energy	--	--	48	48
Deposit received from sale of Green State Power	--	--	7	7
Interest	--	3	71	74
Total Receipts	19	5,728	1,974	7,721
Payments				
Infrastructure projects	--	29	429	458
Repayment of debt NSW Ports	--	767	--	767
Stamp duty for lease of NSW Ports	--	215	--	215
Transaction cost for lease of NSW Ports	--	54	--	54
Total Payments	--	1,065	429	1,494
Restart NSW Fund at 30 June	19	4,682	6,227	

During 2013-14, the fund spent \$429 million on infrastructure projects, with most (\$356 million) going to the Pacific Highway upgrade. In the same period the Fund received \$272 million from the issue of Waratah bonds, \$1.5 billion from the NSW ports' transactions and \$48.0 million from the sale of Eraring Energy.

Expected Future Outflows

The Government has committed \$3.8 billion in the 2014-15 Budget for future infrastructure projects.

The diagram below shows the expected future outflows from the Fund, as detailed in the 2014-15 Budget Papers:



Reserved funding is only included in the Budget estimates following project development and completion of project assurance processes, including final business case approval.

Discontinued Operations

The Government received gross proceeds of \$2.8 billion from the sale of Eraring Energy, the lease of the Port of Newcastle and sale of Delta West assets.

As a result of transactions entered into by the State, five agencies/operations were classified and disclosed as discontinuing operations in 2013-14. These were Eraring Energy, Delta West, Port of Newcastle, Macquarie Generation and Green State Power. The proceeds and related accounting gains from the transactions finalised in 2013-14 were:

Transaction	Proceeds \$m	Gain \$m	Transaction Costs \$m
Eraring Energy	657	7	
Delta West	456	139	43
Port of Newcastle	1,697	465	30

Source: Total State Sector Accounts 2013-14.

Further information on each transaction is included below:

The *Electricity Generator Assets (Authorised Transactions) Act 2012* was enacted to authorise the transfer of all electricity generator assets and associated rights and liabilities to private sector buyers.

Eraring Energy

On 1 August 2013, the NSW Government sold its shares in Eraring Energy to Origin Energy. The State recorded proceeds of \$657 million, but only received \$48.0 million after deducting the Gentrader deposit liability of \$609 million held by the State.

The transaction included the business activities of the whole of Eraring Energy, excluding Hydro and Wind Renewable Operations and the Warragamba power station. These operations were transferred to other agencies.

As part of the sale, the State paid Origin Energy \$300 million to cancel its contractual obligation to supply coal to Origin. This contractual arrangement was expected to result in the State having to supply the coal at a price which was lower than the expected cost of production.

Delta West Assets

On 2 September 2013, the NSW Government sold the Mt Piper and Wallerawang power stations to EnergyAustralia. The State recorded proceeds of \$456 million, but only received \$139 million after deducting the Gentrader deposit liability of \$317 million held by the State.

The transaction included the business activities of Delta West only, with the remaining activities of Delta Electricity continuing.

Green State Power Assets

On 18 July 2014, Green State Power disposed of its renewable energy business activities by selling the assets and liabilities relating to those activities for \$72.0 million. The State will record this transaction in 2014-15.

The assets sold included generators at Hume, Burrinjuck and Keepit Dams, Blayney Wind Farm and the State's share of the Cookwell Wind Farm. Green State Power's remaining assets and liabilities are being transferred to other agencies.

Macquarie Generation

On 2 September 2014, Macquarie Generation disposed of its electricity generation business activities through the sale of assets and liabilities relating to those activities for \$1.5 billion. The State will record this transaction in 2014-15.

The assets sold include the Liddell and Bayswater power stations. Macquarie Generation's remaining assets and liabilities are being transferred to other agencies.

Long-term Lease of the Port of Newcastle

On 30 May 2014, the NSW Government entered into a long-term lease of the Port of Newcastle, which allows a private sector operator to run the port for 98 years. The State remains the legal owner of the port land.

The State received \$1.7 billion from the transaction, of which \$121 million was used to repay borrowings associated with the Port operations, \$56.8 million was paid directly to the Office of State Revenue for stamp duty and \$53.0 million was paid to the Crown Entity (Consolidated Fund) for other transaction costs. The net proceeds of \$1.5 billion and the \$56.8 million stamp duty was paid into the Restart NSW Fund.

The State recorded a gain of \$465 million from the transaction.

Defined Benefit Superannuation Obligations

The State's net liability for the defined benefit scheme increased by around \$6.9 billion due to a change in accounting standards that remeasured the liability to include superannuation contributions tax.

The State complied with the revised AASB 119 'Employee Benefits' (applied retrospectively for the first time during 2013-14), which impacted the financial statements of both sectors by:

- revising the calculation of the net interest expense, which is now based on the government bond rate
- remeasuring the defined benefit obligation to include superannuation contributions tax payable on employer contributions.

The State's net liability for the defined benefit scheme increased and resulted in the following adjustments to its financial statements:

- the net defined benefit liability increased by around \$6.5 billion for the General Government Sector and \$6.9 billion for the Total State Sector
- the associated superannuation service cost and net interest expense increased by around \$350 million for the General Government Sector and \$370 million for the Total State Sector.

The adjustments restated the 2013 comparative figures in the financial statements in accordance with the requirements of AASB 108 'Accounting Policies, Changes in Accounting Estimates and Errors'.

Financial Information

Abridged Statement of Comprehensive Income

Year ended 30 June	Total State Sector		
	2014 \$m	2013* \$m	% Difference
Revenues			
Taxation, fees, fines and other	28,713	26,088	10.1
Grants and subsidies	28,120	25,241	11.4
Sales of goods and services	17,439	17,210	1.3
Interest, dividends, income tax equivalents and other distributions	1,814	1,470	23.3
Total revenues	76,086	70,009	8.7
Expenses			
Employee costs	35,082	34,127	2.8
Depreciation and amortisation	7,210	6,657	8.3
Interest	4,062	3,952	2.8
Grants and subsidies	8,291	7,203	15.1
Other	18,657	18,419	1.3
Total expenses	73,302	70,358	4.2
Discontinued operations	10	397	(97.5)
Net operating balance – surplus	2,794	49	5,382.3
Asset sale gains	--	--	--
Fair value adjustments to financial instruments	(583)	432	(235.0)
Other net gains/(losses)	(764)	3,806	(120.1)
Operating result – surplus	1,449	4,286	(66.2)
Revaluations	6,308	8,317	(24.2)
Actuarial gain/(loss) from superannuation	(50)	9,865	(100.5)
Net gain/(loss) on equity investments	--	--	--
Other net losses	164	(119)	(237.8)
Comprehensive result - total change in net worth before transactions with owners as owners	7,870	22,349	(64.8)

* The 2013 comparatives have been restated for changes made in accordance with Australian Accounting Standards.

Note: Amounts in table may not add due to rounding.

Comparison with other Australian States and Territories

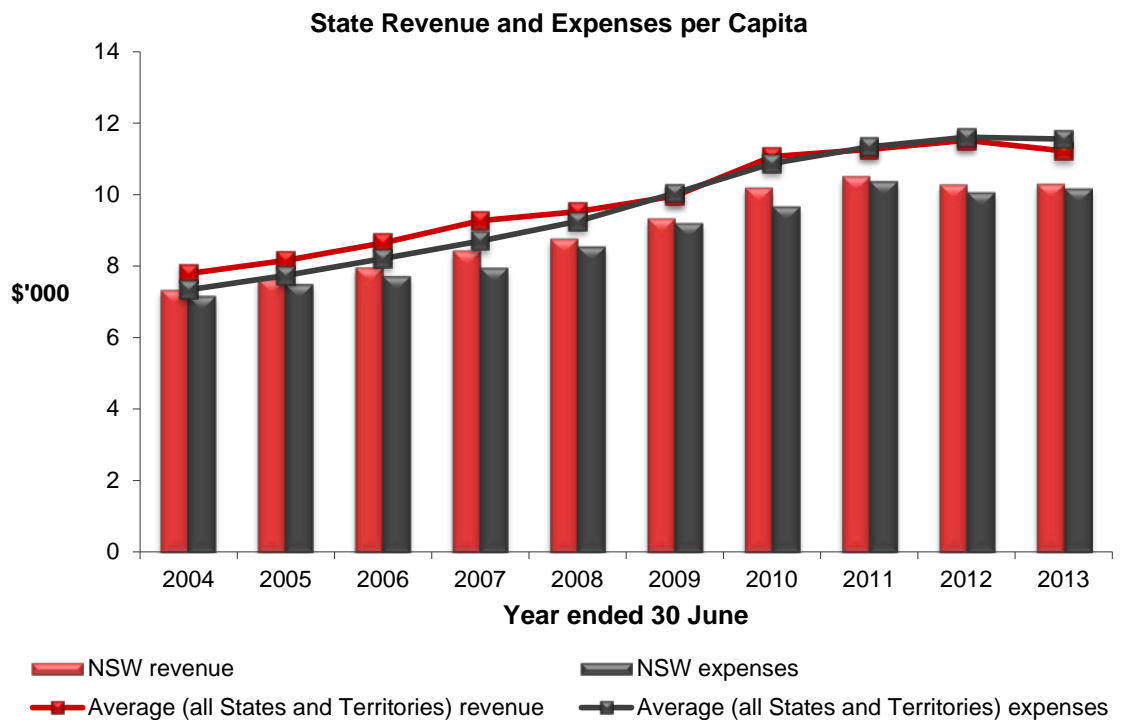
The State does not collect as much revenue per capita as the average of all states and territories. In turn, expenditure per capita is also less than the average. The table below shows information for 2012-13.

	New South Wales	Average (all states and territories)
Total revenue per capita (\$)	10,308	11,222
Total expenses per capita (\$)	10,171	11,554

Source: Australian Bureau of Statistics; amounts based on 2012-13 Total Public Sector Government Finance Statistics data.

Note: This analysis relies on publicly available information for all states and territories. The most current data available is for 2012-13.

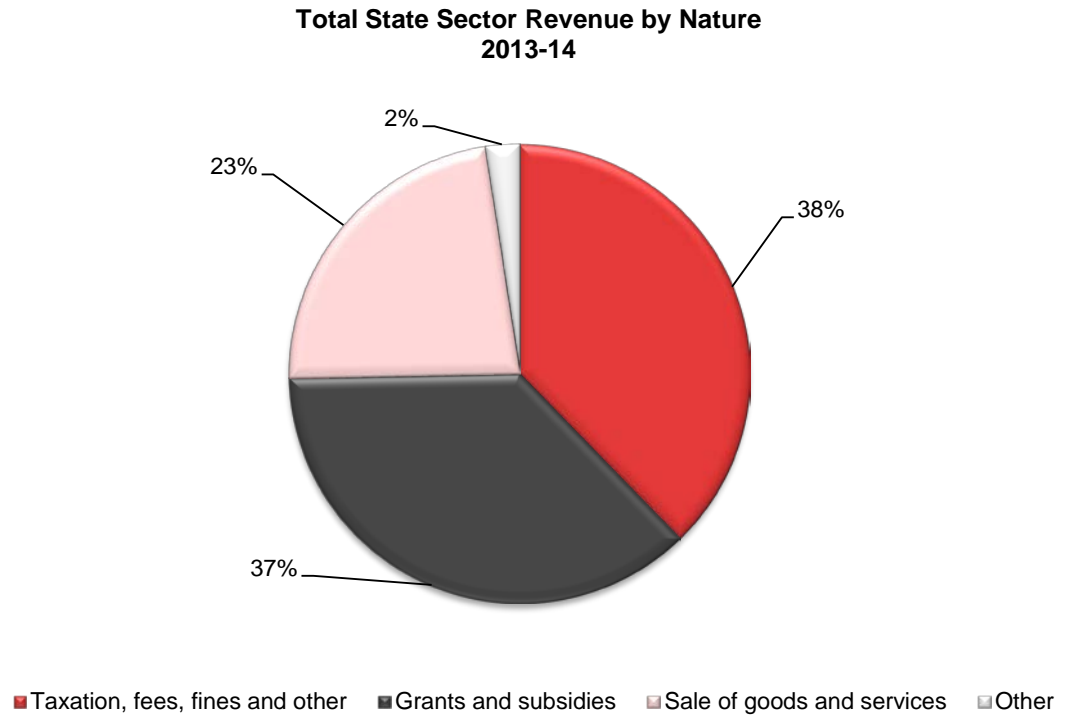
The variation from the average is fairly consistent over time, as the graph below demonstrates.



Revenue and expenses per capita varies between states and territories because different models are used to deliver services.

Revenues

Total State Sector Revenue by Nature



Taxation, fees, fines and other

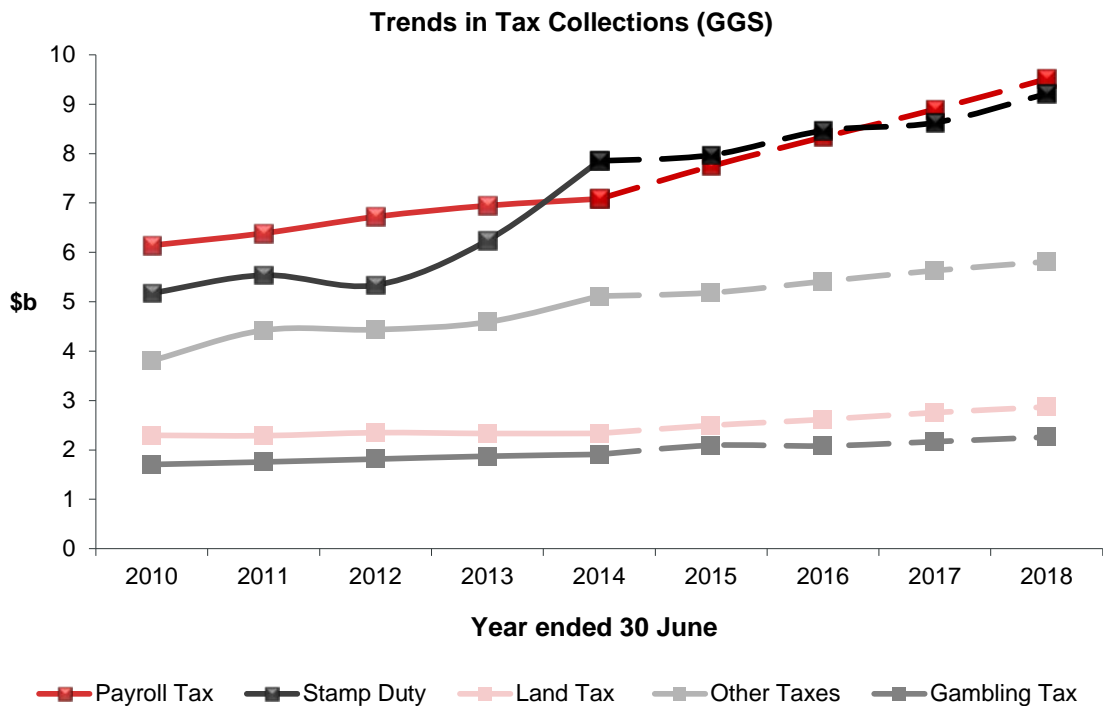
Projections for growth in payroll tax are far greater than historical trends, while those for stamp duty are lower, reflecting strong growth in 2013-14.

Taxation, fees, fines and other revenue comprises \$23.9 billion of taxation (\$21.6 billion in 2012-13) and \$4.8 billion of fees, fines and other (\$4.5 billion).

Tax revenue for the Total State Sector increased by \$2.3 billion (10.7 per cent) compared to 2012-13. All sources of tax revenue increased with stamp duties increasing significantly by \$1.6 billion. Treasury advises this was largely due to growth in residential sales, due to low interest rates, and an increase in large commercial transactions.

In the General Government Sector:

- payroll tax increased from \$6.1 billion in 2009-10 to \$7.1 billion in 2013-14, which represents an annual average growth rate of 3.6 per cent. Payroll tax increased by 2.0 per cent from \$6.9 billion in 2012-13 to \$7.1 billion in 2013-14. Treasury has estimated an annual growth rate of 7.4 per cent between 2013-14 and 2017-18
- stamp duties increased from \$5.2 billion in 2009-10 to \$7.9 billion in 2013-14, which represents an annual average growth rate of 10.9 per cent. Treasury has estimated the annual growth rate of 4.6 per cent between 2013-14 and 2017-18.



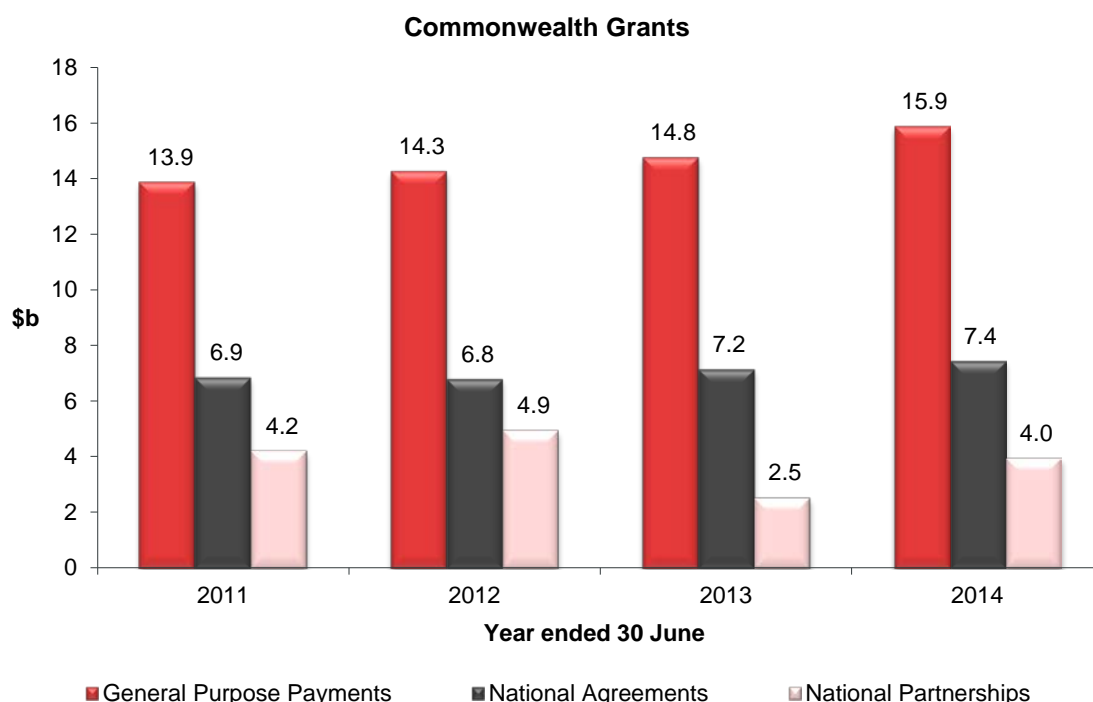
Sources: Reports on State Finances 2009 – 2014, 2014-15 NSW Budget Papers.

Fees, fines and other revenue include mining royalties of \$1.3 billion (\$1.3 billion).

Grants and Subsidies

The State received \$27.3 billion from the Australian Government in 2013–14, \$2.8 billion higher than in 2012-13. The increase was mainly due to higher general purpose payments from the Australian Government, which mainly comprise New South Wales' share of the Goods and Services Tax.

The money is provided to the State under various arrangements, which fall into three broad categories – general purpose payments, national agreements and national partnerships.



General Purpose Payments

Commonwealth General Purpose grants increased by \$1.1 billion from 2012–13. The increase reflects the State’s marginal increase in its share of the total GST pool available for distribution to the states and territories and general economic growth.

All states and territories’ revenue is partly reliant on GST receipts. The State receives less GST per capita than average because the GST distribution model is not solely based on a state’s or territory’s population.

National Agreements

National Agreements set out the policy objectives in six key service delivery areas, covering healthcare, education, skills and workforce development, disabilities, affordable housing and Indigenous reform. Each agreement establishes the roles and responsibilities between levels of government and sets out the high level objectives, outcomes and performance indicators, as agreed by all jurisdictions.

In 2013–14, the State received \$7.5 billion in National Agreement payments (\$7.3 billion), including the following significant funding for:

National Agreements	2013-14 \$m	2012-13 \$m
Healthcare	4,439	4,251
Education	1,408	1,292
Skills and workforce development	454	452
Disability	427	414
Affordable housing	409	403

National Partnerships

National Partnerships are time limited arrangements that focus on delivering specific outputs or projects in areas of nationally significant reform or on achieving service delivery improvements. The Australian Government funds National Partnerships to help progress the reforms and/or reward jurisdictions for achieving agreed performance benchmarks.

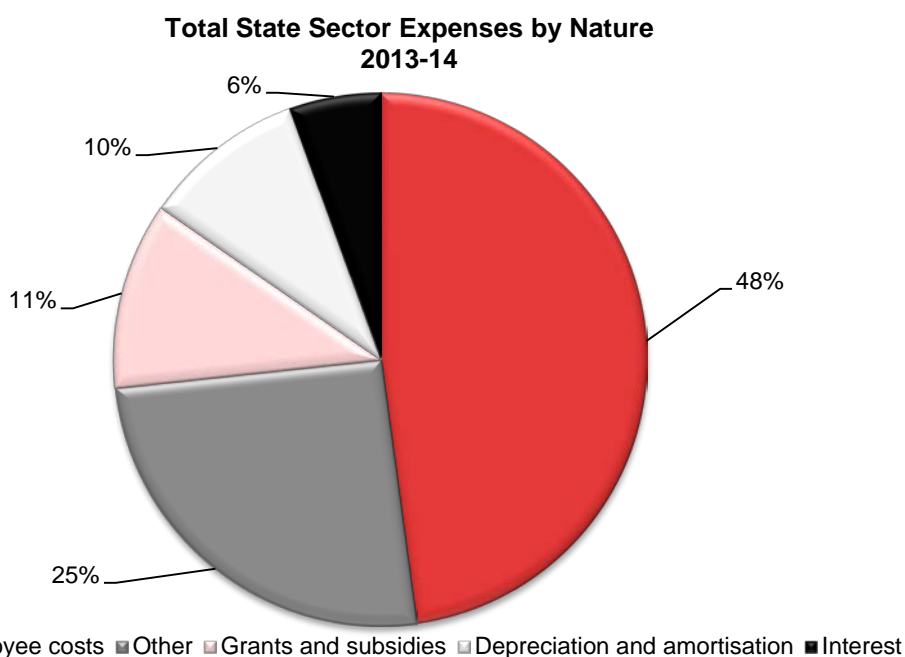
In 2013–14, the State received \$4.0 billion in National Partnership Payments (\$2.5 billion), including the following significant funding for:

National Partnerships	2013-14 \$m	2012-13 \$m
Transport	2,060	730
Education	291	531
Nation building plan for the future	178	421
Health and national health reform	497	434

National Partnership Payments relating to Transport increased by \$1.3 billion mainly due to new funding for WestConnex (\$500 million) and bringing forward grants relating to the Pacific Highway (\$738 million).

Expenses

Total State Sector Expenses by Nature



Total employee costs (less superannuation costs) increased by approximately 2.6 per cent compared to the prior year. They increased in about half of all agencies and decreased in the other half. Employee costs increased in health, education, and police agencies and decreased in transport, correctional, and electricity agencies.

The State spent \$347 million on employee redundancies in 2013-14 (\$327 million in 2012-13). A large portion of redundancies were in rail, health, education and transport:

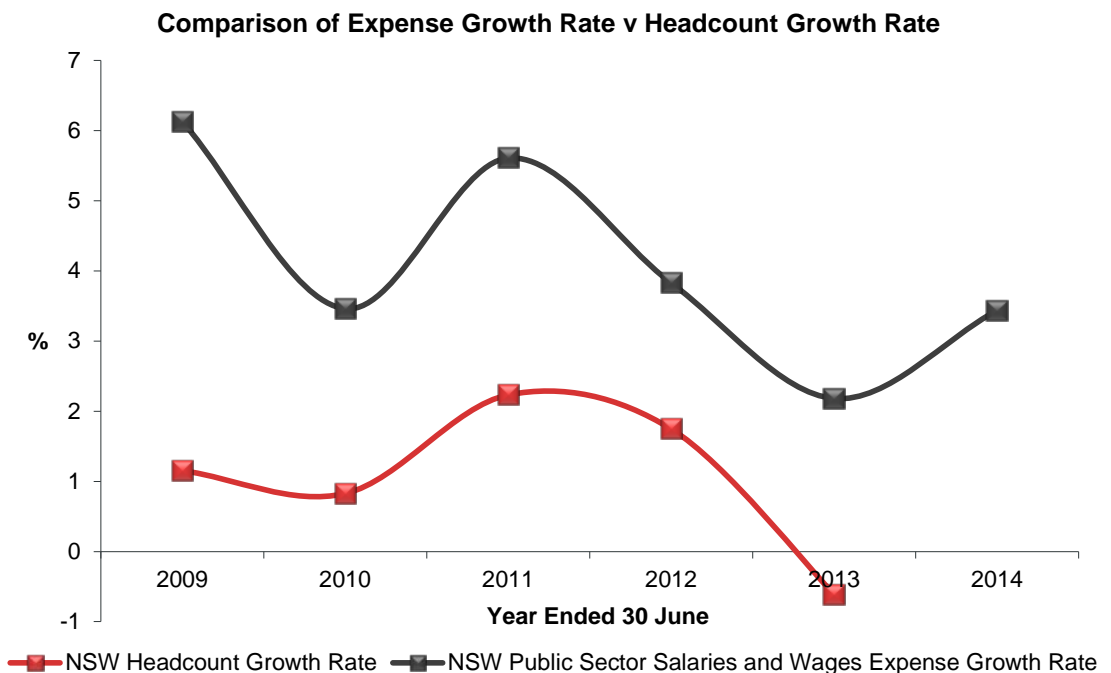
Agency	Amount \$m
Department of Transport	43.7
Department of Education and Communities	44.8
Roads and Maritime Services	31.6
Rail Corporation New South Wales	66.7
Ministry of Health	27.2

Employee costs include salary and wage costs of \$27.6 billion (\$26.7 billion in 2012-13), which exclude long service leave expenses of \$979 million (\$888 million).

Superannuation costs within employee costs comprise \$2.2 billion in defined contribution obligations (\$2.1 billion) and net costs of defined benefit plans of \$2.7 billion (\$2.6 billion). Employee costs do not include increases and decreases in superannuation liabilities resulting from changes to assumptions used to calculate these obligations (e.g. movements in discount rates and other economic variables). These costs are reported in Other Economic Flows – Other Comprehensive Income.

The number of employees in the NSW public sector is decreasing, consistent with trends in employee expense growth.

The number of employees in the NSW public sector in June 2013 was 399,243, a decrease of 2,460 from June 2012. The trend in headcount growth rate is consistent with movements in Total State Sector employee expenses.



Source: NSW Headcount Growth Rate data: Workforce profile Report 2013: Public Service Commission
 NSW Public Sector Salaries and Wages Expense Growth Rate Data: Report on State Finances 2009-2014.

Most employees are within the General Government Sector, with the health and education sectors employing about 65 per cent of all full time equivalents.

Abridged Statement of Financial Position

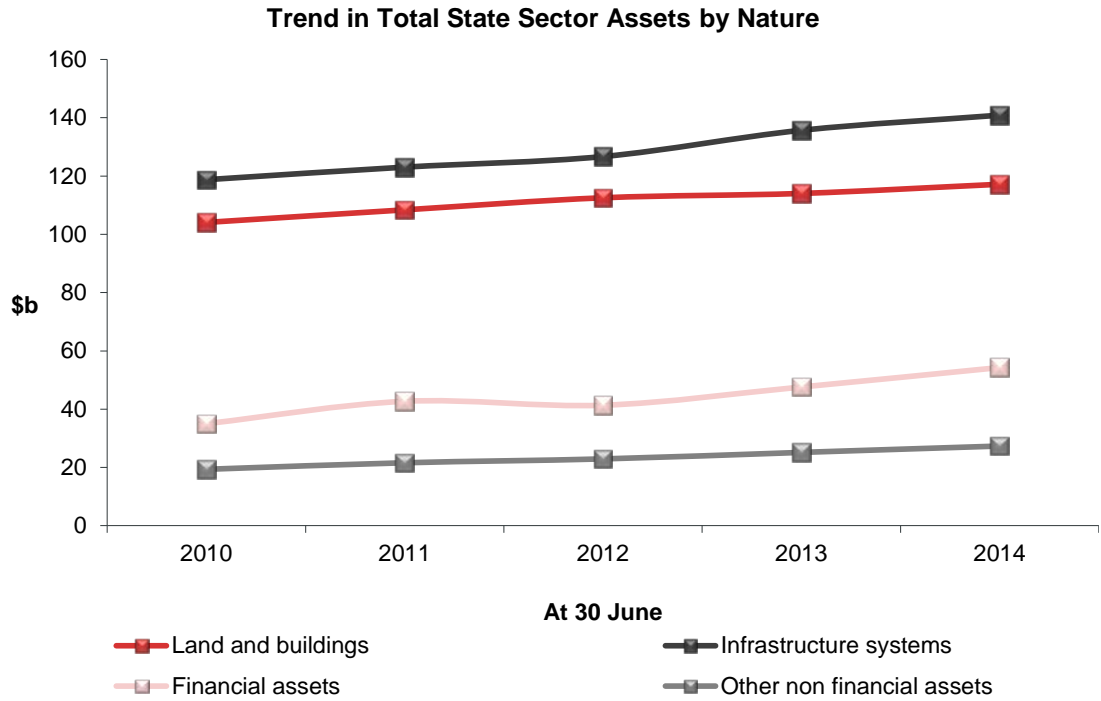
Year ended 30 June	Total State Sector		
	2014 \$m	2013* \$m	% Difference
Assets			
Cash and cash equivalents	13,235	12,086	9.5
Receivables	7,273	6,663	9.2
Financial assets	29,728	24,516	21.3
Other investments	4,053	4,342	(6.7)
Property, plant and equipment	274,399	264,824	3.6
Other	11,013	10,068	9.4
Total Assets	339,700	322,500	5.3
Liabilities			
Payables and deposits held	7,807	7,394	5.6
Borrowings and advances	83,088	77,327	7.4
Employee provisions	16,377	15,491	5.7
Superannuation provision	51,040	49,935	2.2
Other provisions	11,158	9,884	12.9
Other	2,462	2,571	(4.3)
Total Liabilities	171,932	162,602	5.7
Net Assets	167,768	159,898	4.9

* 2013 amounts have been restated for changes made in accordance with Australian Accounting Standards.

Note: Amounts in table may not add due to rounding.

Assets

Total assets increased from \$277 billion in 2010 to \$340 billion in 2014 (22.5 per cent over four years), which equates to an average annual growth rate of 5.2 per cent. Approximately two-thirds of this growth has occurred in property, plant and equipment, and about 56 per cent of this occurred in infrastructure systems.

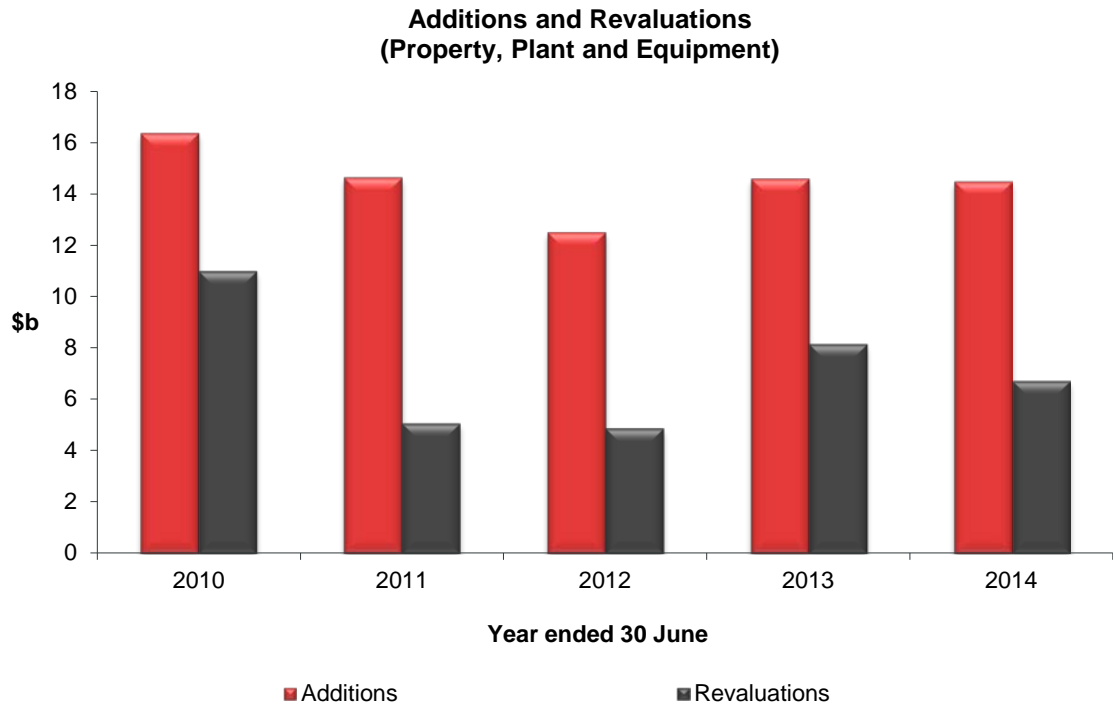


Property, Plant and Equipment

Property, plant and equipment assets (primarily land and buildings and infrastructure systems) represent 81 per cent of the State's total assets (82 per cent at 30 June 2013). The slight fall reflects the lease of some port operations, which have conversely increased cash and cash equivalents held by the State as a proportion of total assets.

Physical assets of land and buildings, infrastructure systems and plant and equipment are used to provide or support service delivery. The State measures these assets at fair value, usually represented by the cost to replace the remaining service potential of the asset. This is considered more useful information for government decision-making and is allowable under Australian Accounting Standards. Measuring at fair value means movements in carrying values year on year may be caused by revaluations of existing assets as well as the purchase or disposal of assets.

The impact of additions and revaluations on the fair value of property, plant and equipment over the last five years is shown in the graph below.



Over the last five years, the State has spent \$72.6 billion on capital works, an average of \$14.5 billion per year. In 2013–14, additions to property, plant and equipment totalled \$14.5 billion, partly funded by capital grants of \$1.9 billion from the Australian Government. The largest single area of capital expenditure was in transport, representing over 42.3 per cent of total capital expenditure in 2013–14.

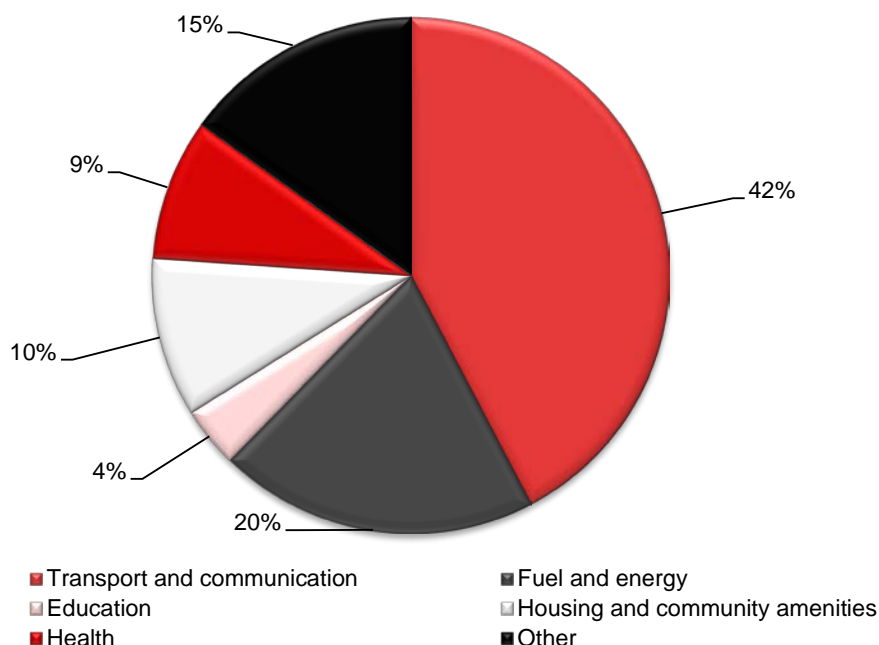
Major asset revaluations in 2013–14 included:

- roads infrastructure, which increased by \$2.1 billion
- residential property portfolio, which increased by \$1.9 billion
- port infrastructure including breakwaters and dredged assets, which increased by \$786 million
- electricity network assets held for sale by Macquarie Generation, which decreased by \$552 million.

Major Capital Projects

The Government publishes its capital infrastructure plans for current and forward estimates periods in Budget Paper 4: Infrastructure Statement.

Total State Sector Infrastructure Investment by Policy Area 2013-14



Public Private Partnerships

The State controlled \$274 billion of property, plant and equipment assets at 30 June 2014 (\$265 billion). Of this, \$141 billion (\$136 billion) relates to infrastructure systems. Infrastructure can also be provided via mechanisms other than State owned, financed and operated arrangements.

Public Private Partnerships (PPPs) are long-term contracts between the public and private sectors where government generally pays the private sector to deliver infrastructure and related services to meet its service responsibilities. PPPs rely on borrowing or equity funding from private sources.

The State currently has over 40 active PPPs covering a wide range of government services. A summary of active PPPs appears in Appendix C.

The Treasury advises the following PPPs are proposed:

Proposed PPP	Nature of proposed PPP
Sydney CBD and South East Light Rail	A new 12 km light rail system from Circular Quay along George Street to Central Station, then to Kingsford via Anzac Parade and Randwick via Alison Road. The system will be fully integrated with Sydney's existing Light Rail network and Inner West Extension.
Northern Beaches Hospital	New 432-bed hospital in the Northern Beaches will provide acute services and replace the Manly and Mona Vale Hospitals. Services at the Manly Hospital will cease.
NorthConnex	NorthConnex is the design, construction, maintenance, financing and operation of twin 9km tolled tunnels under Pennant Hills Road.

Other Assets

Cash and Cash Equivalents

The State had around \$13.2 billion cash and cash equivalents at 30 June 2014 (\$12.1 billion at 30 June 2013). The increase was mainly due to proceeds from the long-term lease of the Port of Newcastle.

The table below shows details of major cash balances held by the agencies.

Year ended 30 June	Total State Sector		
	2014 \$m	2013 \$m	% Difference
Crown Entity	1,786	1,695	5.4
Ministry of Health	1,668	1,483	12.5
New South Wales Treasury Corporation	1,532	953	60.8
Department of Education and Communities	1,126	1,157	(2.7)
Transport for NSW	763	342	123.1
Department of Family and Community Services	445	291	52.9
Office of Finance and Services	412	409	0.7
Macquarie Generation	370	324	14.2
Department of Trade and Investment, Regional Infrastructure and Services	336	538	(37.5)
Roads and Maritime Services	334	245	36.3
NSW Self Insurance Corporation	323	587	(45.0)
Office of Environment and Heritage	208	--	--
Lifetime Care and Support Authority	206	297	(30.6)
Rail Corporation NSW	179	157	14.0
Fire and Rescue NSW	168	152	10.5

Source: Agency Financial Statements 2013-14 (audited).

Financial Assets

Financial assets increased by \$5.2 billion to \$29.7 billion during 2013-14, due to stronger investment returns and new investments made.

This asset category mainly comprises financial investments held by the State, such as listed equities and bonds. These investments are made by New South Wales Treasury Corporation (TCorp) on behalf of agencies.

On 11 March 2014, The Treasurer and Minister for Finance and Services announced the Government would amalgamate the funds management activities of State financial assets worth \$65.0 billion within NSW Treasury Corporation (TCorp), creating a top 10 Australian investment manager, based on funds under management.

The 2014-15 Budget papers describe the purpose of the amalgamation is to drive harmonisation in the State's funds management arrangements by leveraging the substantial capabilities that exist across agencies. It is expected to deliver long-term financial and non-financial benefits to stakeholders via increased scale and a common administration platform, while delivering a 'whole of portfolio' view of the financial assets for the State. The amalgamation should see reductions in the costs associated with the administration of the funds under management and, beyond this, the potential for a sustained increase in overall investment returns in the centralised portfolio, over time.

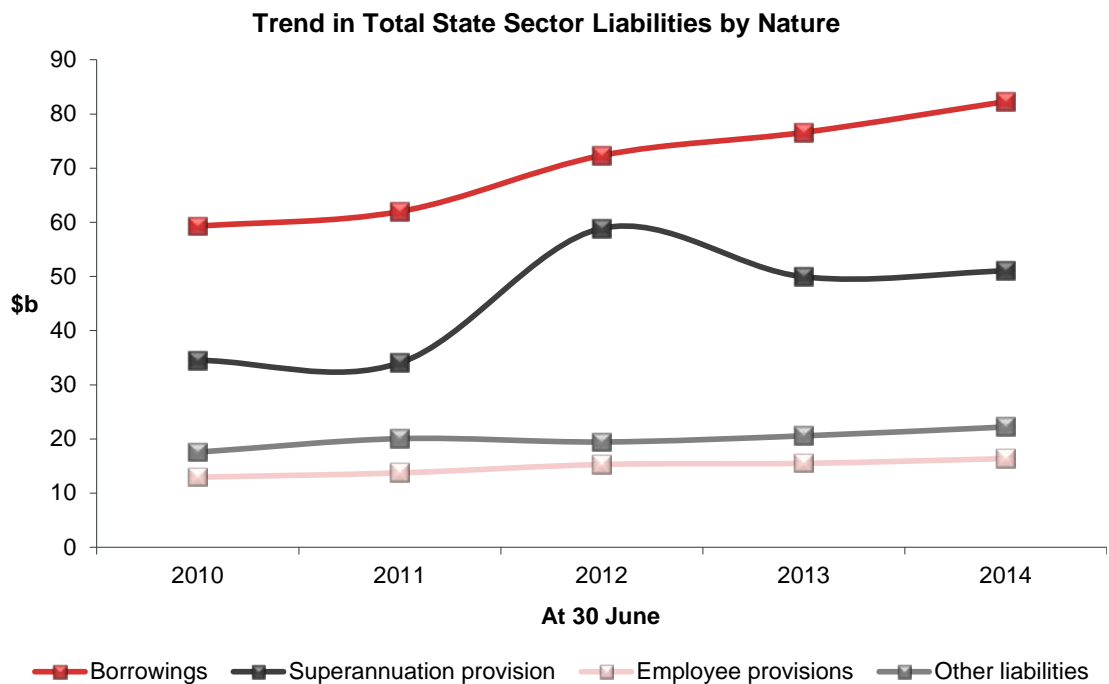
Other Investments

The State has around \$4.0 billion invested directly in entities outside the NSW public sector. Ownership of these entities is generally shared with other Australian jurisdictions, such as Snowy Hydro Limited (\$3.0 billion) and joint ventures operated through the Murray-Darling Basin Authority (\$804 million).

Receivables

The State had receivables of around \$7.3 billion at 30 June 2014 (\$6.7 billion). The State generally collects most of what it is owed because the statutory nature of charges generally results in high recoverability.

Liabilities



Borrowings

Borrowings have increased 38.8 per cent from \$59.3 billion in 2009-10 to \$82.3 billion in 2013-14.

The State had borrowings of \$82.3 billion at 30 June 2014, an increase of \$5.7 billion (7.4 per cent) during 2013-14.

Borrowings are not held for trading and represent funds raised from the following sources:

- domestic and overseas borrowings raised by the New South Wales Treasury Corporation
- borrowings by public sector agencies (including finance leases).

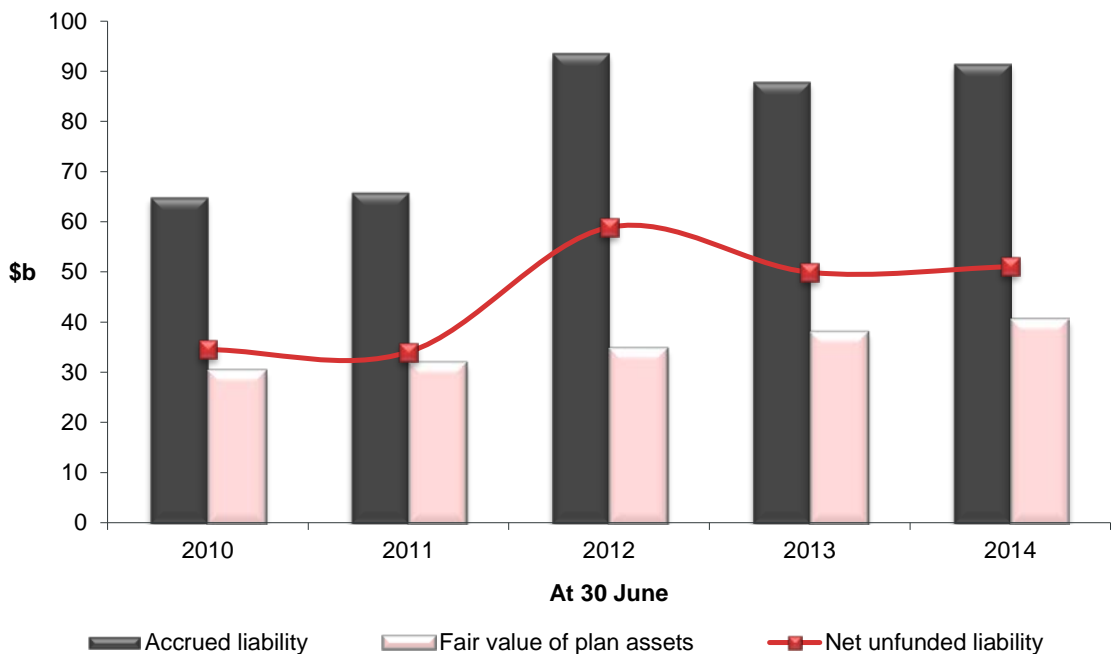
Interest on borrowings for the 2013-14 year was \$3.4 billion (\$3.5 billion), which represents 4.1 per cent (4.6 per cent) of the year end borrowings balance and 4.5 per cent of total annual revenue (5.0 per cent).

Borrowings also include liabilities under finance leases of \$4.9 billion (\$4.2 billion). The increase in finance lease liabilities includes new hospital and rail rolling stock finance leases.

Superannuation Provisions

The State's superannuation liability of \$51.0 billion represents obligations for past and present employees, less the value of assets set aside to meet those obligations. Superannuation liabilities increased \$1.1 billion (2.2 per cent) from \$49.9 billion at 30 June 2013 to \$51.0 billion at 30 June 2014.

Trend in Unfunded Superannuation Liability



Note: From 30 June 2012, superannuation provision balances were restated to include contributions tax on net unfunded liabilities.

Higher than Expected Investment Returns

Superannuation investments that offset related liabilities performed better than expected during 2013-14. The investments earned 12.3 per cent in 2013-14 compared to the return expected by the Government of between 8.1 – 8.6 per cent.

Lower Bond Rates

Superannuation liabilities are discounted using government bond rates. These bond rates decreased during 2013-14 from 3.8 per cent to 3.6 per cent.

Superannuation liabilities are very sensitive to changes in the government bond rate. A one per cent increase in the bond rate would decrease accrued liabilities by an estimated \$10.6 billion. A one per cent decrease in the bond rate would increase accrued liabilities by an estimated \$13.2 billion.

Contributions

The State makes annual contributions to plan assets with a view to eliminating unfunded liabilities by 2030. Annual contributions in 2013-14 were \$1.5 billion (\$1.5 billion).

Further information on superannuation obligations will appear in Volume Ten of the Auditor-General's 2014 Report to Parliament.

Employee Provisions

The State's employee-related liabilities of \$16.4 billion include annual leave and long service leave owed to public sector employees. It also includes \$3.7 billion (\$3.6 billion) outstanding workers' compensation claims from public sector employees.

Employee provisions increased \$886 million during 2013-14 mainly due to increases in outstanding workers' compensation liabilities and decreases to the bond rate.

Other Liabilities

The State had other liabilities and provisions of \$22.2 billion at 30 June 2014. These liabilities increased \$1.6 billion during 2013-14. The increase includes recognition of the State's obligations to fund a portion of superannuation liabilities related to NSW universities and an increase of land remediation, restorations and other claims. These were offset by the decrease of deposits held extinguished due to sale of Eraring and Delta West and payment of compensation payment to Origin Energy for terminating the coal supply agreement.

Financial Management

Governments across Australia have legislation to promote sound financial management, or fiscal responsibility in budgeting.

It is generally accepted that balancing immediate community needs with longer term needs is necessary for intergenerational equity. However, each government will set different criteria as to how this balance will be achieved and therefore what is meant by the term fiscal responsibility. The NSW government has set out its criteria in the *Fiscal Responsibility Act 2012*.

Fiscal Responsibility Legislation

The *Fiscal Responsibility Act 2012* sets the overall goal for the management of government finances, being maintenance of the State's AAA credit rating. The purpose of holding onto the AAA credit rating is to limit the cost of and ensure the broadest access to borrowing, and to maintain confidence so economic activity and employment is sustained. The legislation also sets out targets and principles for financial management.

Key aspects of the legislation are summarised below.

Object	Maintain the AAA credit rating.
Purpose	<ul style="list-style-type: none">• Limit borrowing costs.• Access to a broad source of borrowings.• Maintain business and consumer confidence, to sustain economic activity and employment.
Fiscal Targets	<ul style="list-style-type: none">• Annual growth in General Government expenses is less than long-term average General Government revenue growth.• Eliminate unfunded superannuation liability by 2030.
Principles of Sound Financial Management	<p>Responsible and sustainable spending, taxation and infrastructure investment, including:</p> <ul style="list-style-type: none">• align growth in expenses and revenue• stable and predictable taxation policies• infrastructure investment that provides highest community benefit. <p>Effective financial and asset management, including sound policies and processes for:</p> <ul style="list-style-type: none">• performance management and reporting• asset maintenance and enhancement• funding decisions• risk management practices. <p>Achieving intergenerational equity, including ensuring that:</p> <ul style="list-style-type: none">• policy decisions consider the effects on future generations• the current generation funds the cost of its services.

AAA Credit Rating

New South Wales has credit ratings of AAA/stable from Standard & Poor's and Aaa/Stable from Moody's Investors Service. In June 2014, Moody's affirmed its Aaa rating and stable outlook, noting New South Wales is well placed compared to most Australian states and territories. Most recently in October 2014, Standard & Poor's affirmed its AAA rating and elevated its outlook to 'stable' (up from 'negative').

The State's credit rating improved during 2014.

Ratings agencies consider a variety of factors and apply judgment when determining the State's rating. These factors include such items as:

- prevailing economic conditions
- budgetary performance and flexibility
- the ability to service borrowings
- liquidity of the balance sheet.

When reporting ratings, rating agencies cite some of the State's current attributes they consider relevant to a decision to maintain a AAA rating. These include, in no particular order:

- a diversified economy
- moderate budgetary flexibility and performance
- a commitment to reduce expenditure growth
- escalating but manageable debt burden, including large unfunded superannuation liabilities
- a large infrastructure program
- strong liquidity and access to capital markets
- large grant payments from the Australian Government and likelihood of support from that Government, should acute liquidity stress occur.

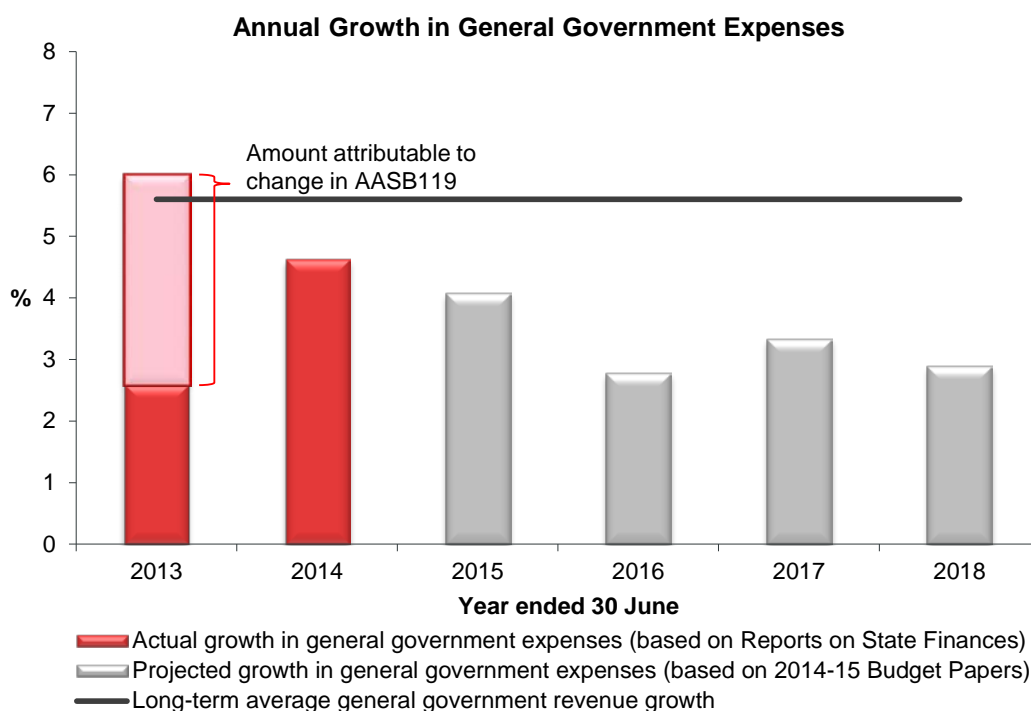
Ratings agencies may update their formal opinions at any time, if they perceive material changes in credit-worthiness have occurred. A risk to the AAA rating, as reported by Moody's and Standard & Poor's, is any weakening resolve to implement budgetary measures that will reduce the size of recurring deficits and the pace of growth in debt.

General Government Expenditure Growth

The *Fiscal Responsibility Act 2012* sets a target for General Government expenditure growth. This growth cannot exceed the State's long term average General Government revenue growth. The regulation to the legislation prescribes the long term revenue growth rate as 5.6 per cent. This rate equals an estimate of growth over the past fourteen years published in the 2011-12 Long Term Fiscal Pressures Report. This report is released every five years and examines the impact on the State's finances of the ageing of the population and long-term cost pressures available on Treasury's website.

The graph below illustrates this target was achieved in 2013-14. In the 2014-15 Budget Papers, the Government predicts it will achieve this target in coming years.

The 2012-13 expenditure growth is impacted by a change in the classification of certain superannuation expenditures arising from new requirements within Australian Accounting Standards (changes to AASB 119 'Employee Benefits'). These changes add \$1.9 billion to the expenses reported in 2012-13. This increased the 2012-13 annual growth in government expense from 2.6 per cent to 6.0 per cent.



Eliminating Unfunded Superannuation Liabilities

The *Fiscal Responsibility Act 2012* sets a target of eliminating total net employer liabilities of the State under defined benefit superannuation schemes by 2030. The State's net superannuation liability was \$51.0 billion at 30 June 2014 (\$49.9 billion at 30 June 2013), the majority of which is in the General Government Sector.

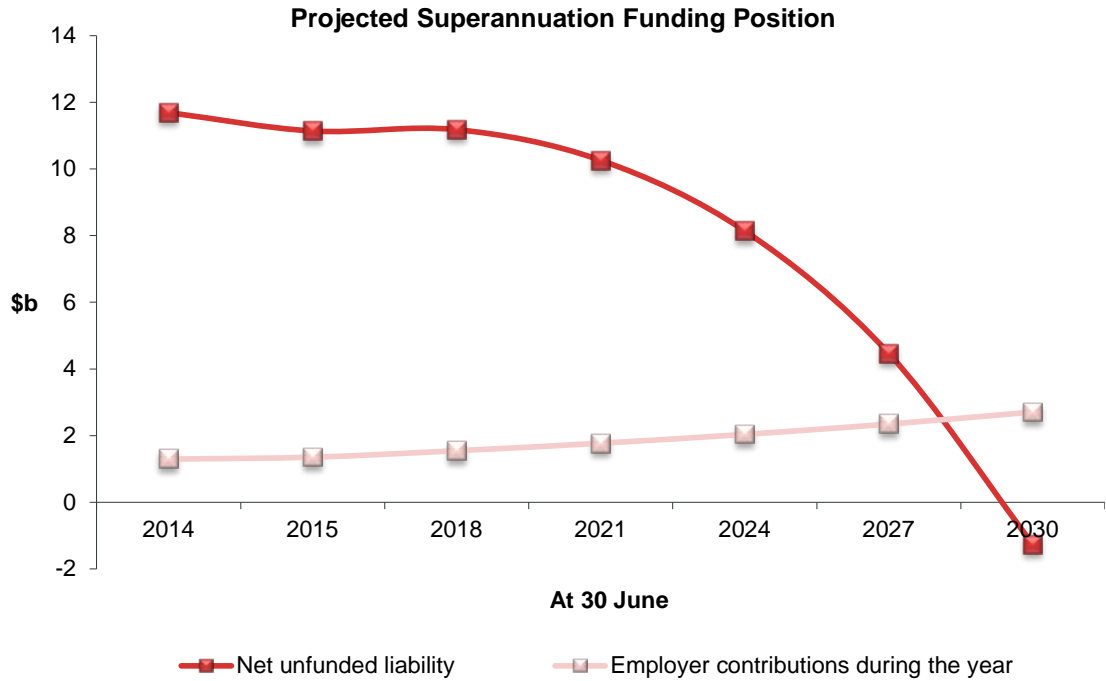
With the exception of the Judges' Pension Scheme, the State's defined benefit superannuation schemes are closed to new members. At 30 June 2014, less than 50,000 NSW public sector employees are members of defined benefit superannuation schemes. However, the schemes have over 130,000 members including past employees.

The government predicts the 2030 target will be achieved. The State's funding plan is to contribute amounts that escalate by five per cent per annum such that the schemes will be fully funded by 2030.

In accordance with this plan, the State contributed \$1.5 billion towards plan assets, which offset gross liabilities, in 2013-14. This amount is largely consistent with average usual contributions over the past five years. In 2011-12, in addition to its usual contribution, the State put in an extra \$4.6 billion, bringing total contributions for that year to \$6.0 billion. This one-off contribution will reduce future necessary contributions.

The graph below reflects the State's current funding plan for the State Sector Schemes, as advised by Treasury. This funding plan is broadly consistent with the latest (2012) actuarial review of the schemes comprising the bulk of the State's superannuation liability.

The graph below demonstrates expectations about the General Government Sector funding position over time.



Source: The Treasury, unaudited.

The liability values in the graph do not reflect the values recorded in the Total State Sector Accounts. For financial reporting purposes the liability is calculated in accordance with the requirements of AASB 119 Employee Benefits, which differ from the requirements used by superannuation schemes. They calculate the liability in accordance with AAS 25 Financial Reporting by Superannuation Plans.

The analysis above assumes employer contributions will increase by five per cent per annum up to 2030, consistent with long term revenue growth.

Treasury advised the funding plan will be reviewed following the next Triennial Review in 2015.

Compliance

Budget Papers

Recommendation

The Treasury should determine performance indicators and report against these for each principle in the *Fiscal Responsibility Act 2012*.

The *Fiscal Responsibility Act 2012* required the 2014-15 Budget Papers to include:

- a statement of the Government's fiscal strategy to maintain the AAA credit rating of the State of New South Wales
- a report on the Government's performance on maintaining the credit rating and against the targets and principles in the Act
- the reasons for any departure from that object and those targets and principles, together with the action planned to achieve that object and those targets and principles within the forward years of the budget
- an assessment of the impact of the measures in the budget on the State's long-term fiscal gap.

Budget Paper 2 of the 2014-15 Budget Papers addressed these requirements. The Government's fiscal strategy statement affirmed its commitment to maintain the AAA credit rating and noted this had been achieved.

As noted in last year's Report to Parliament, expenditure growth is readily assessable and the Budget Papers report this target has been achieved. They also report the current plan to fund superannuation liabilities will achieve the 2030 target.

The Government states it has adhered to the principles within the legislation, but as reported last year, the principles are high level and the *Fiscal Responsibility Act 2012* does not include standards of performance in all instances. Accordingly, an assessment of 'adherence' may be subjective. Finally, the Budget Papers state measures within the 2014-15 Budget reduce the long term fiscal gap, and articulate further detail within Budget Paper 2.

Comparison of Financial Position with other Australian States and Territories

As noted earlier in this Volume, the State's finances can be compared to other Australian states and territories using a variety of financial indicators. The following table shows how New South Wales compares on key financial management measures for 2012-13.

Measure	New South Wales	Average (all states and territories)
Net borrowing as a percentage of GSP (%)	0.2	1.9
Net financial liabilities as a percentage of GSP (%)	23.0	21.5
Net debt as a percentage of GSP (%)	8.6	7.5

Note: This analysis relies on publicly available information for all states and territories. The most current data available is from 2012-13.

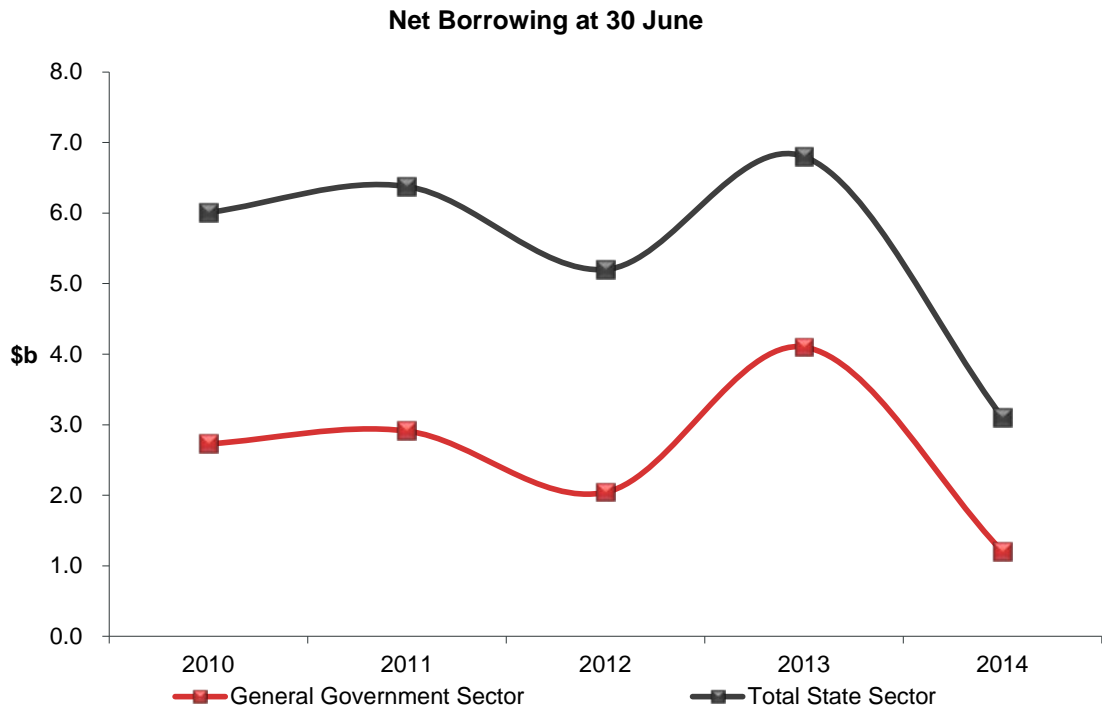
GSP: Gross State Product.

Source: Australian Bureau of Statistics; amounts based on 2012-13 Total Public Sector Government Finance Statistics data.

The following graph show trends in net borrowing over time. Subsequent graphs show trends in the financial management measures listed above for New South Wales compared with the average of all jurisdictions. As above, analysis relies on publicly available information for all states and territories and the most current data available is from 2012-13.

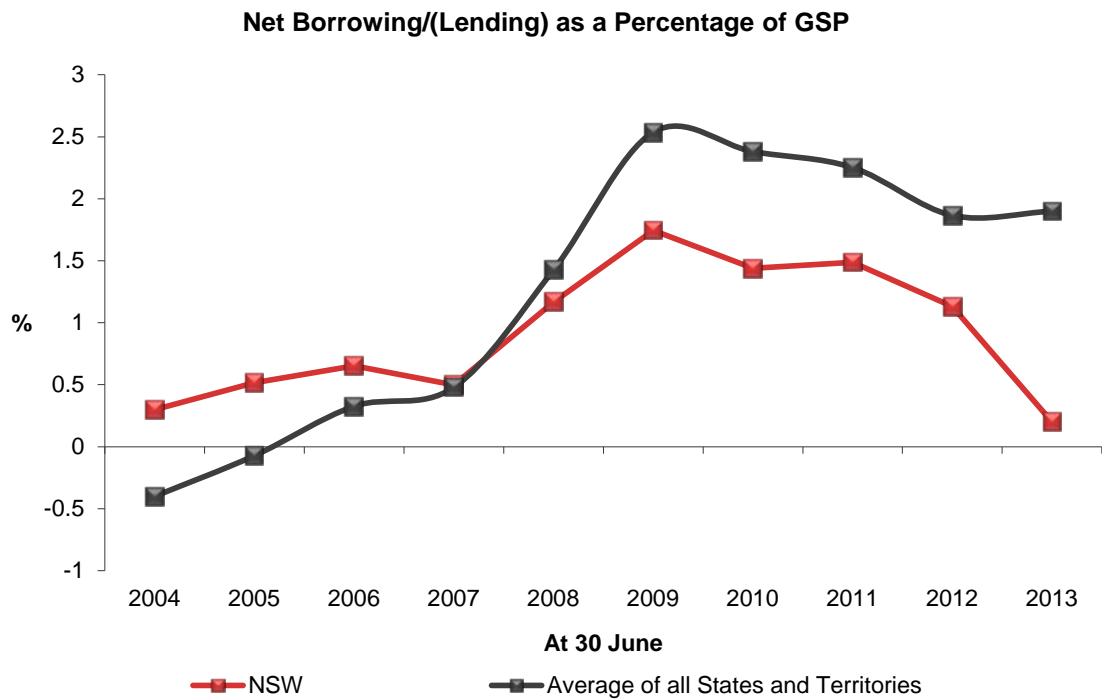
Net Borrowing

The net borrowing/lending result for a financial year reflects the extent to which capital spending was financed from operating surplus or from borrowings. The State has recorded net borrowings in recent years at both the General Government Sector and Total State Sector levels. This indicates capital spending has been sourced from borrowings as well as surpluses. The 2013 result has been restated to include expenses associated with recognising contribution tax on net defined benefit superannuation obligations for the first time. This increased net borrowing from \$2.2 billion to \$4.1 billion in the General Government Sector, and from \$4.7 billion to \$6.8 billion in the Total State Sector.



Source: Report on State Finances 2014 (audited).

Most jurisdictions have recorded net borrowings in recent years and the State's net borrowing as a percentage of Gross State Product (GSP) has been lower than the average of all states and territories since 2007.



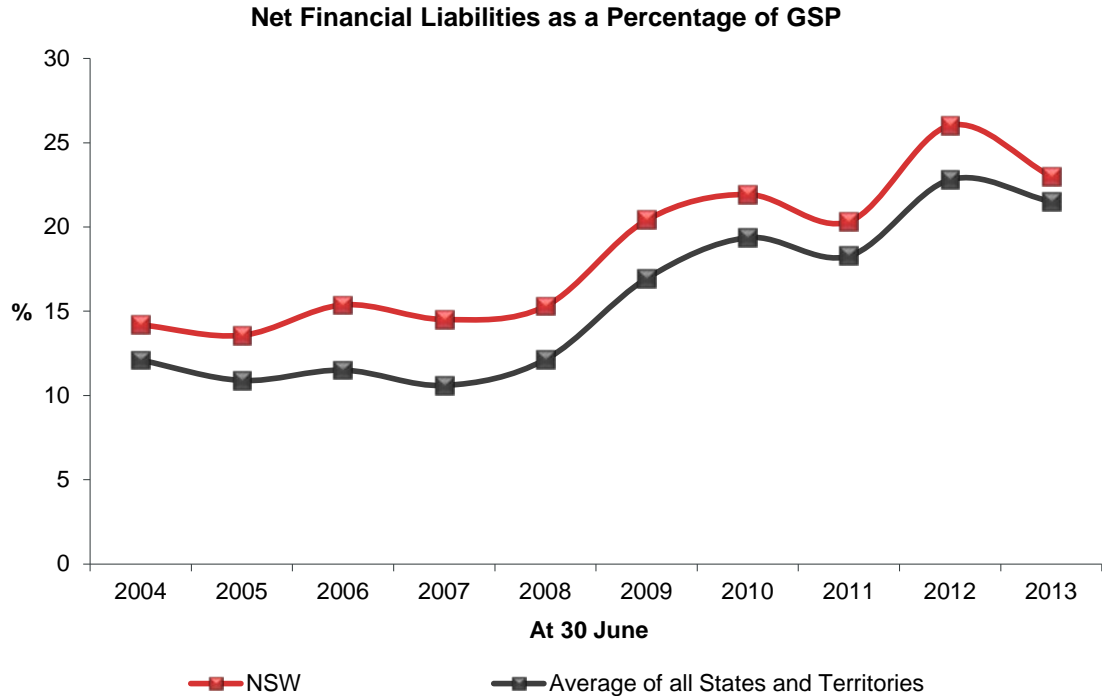
Source: Australian Bureau of Statistics; amounts based on 2012-13 Total Public Sector Government Finance Statistics data.

Based on data to 30 June 2013, the State had not borrowed as much money as a proportion of GSP to fund its spending as other states and territories.

Net borrowing is calculated as the net operating balance (revenue from transactions minus expenses from transactions) less the net acquisition of non-financial assets. The State's net borrowing for 2013-14 was \$3.1 billion (\$6.8 billion for 2012-13).

Net Financial Liabilities

Despite comparatively low net borrowing as a percentage of GSP, the State's net financial liabilities as a percentage of GSP is slightly higher compared to the average of all states and territories. Net financial liabilities are total liabilities less total financial assets.



Source: Australian Bureau of Statistics; amounts based on 2012-13 Total Public Sector Government Finance Statistics data.

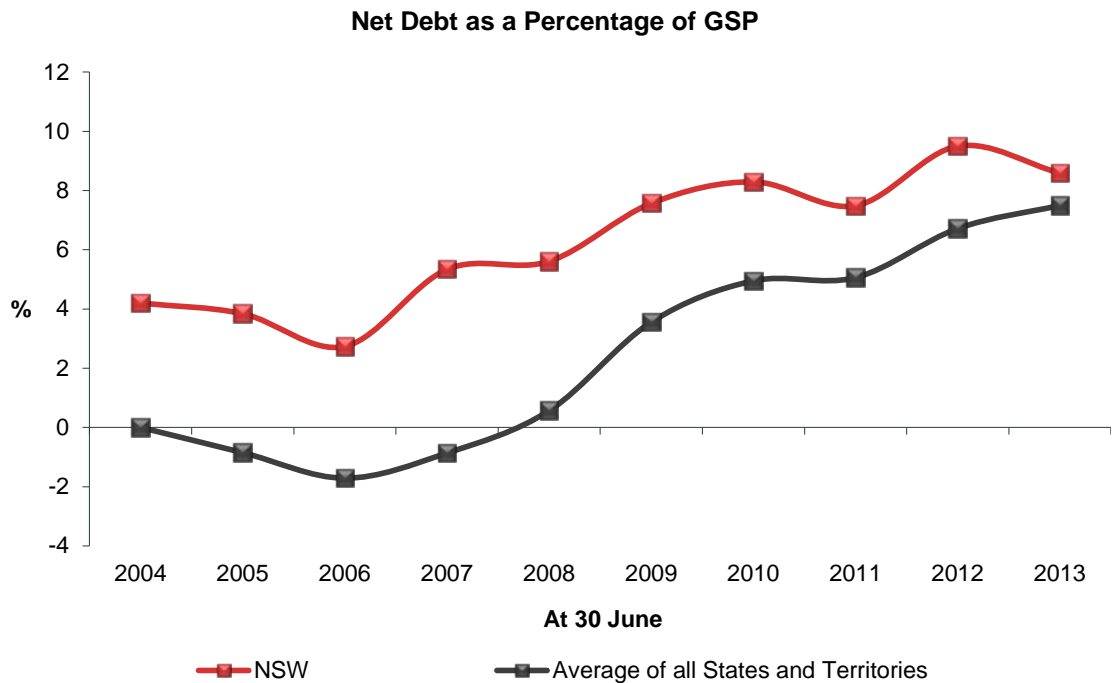
In 2013-14, the State's net financial liabilities increased from \$115 billion to \$118 billion. This reflects a \$5.0 billion increase in borrowings, which was partially offset by increases in cash and financial assets held at fair value.

Net financial liabilities include additional contributions tax payable on unfunded superannuation liabilities. This increased 2013-14 Net Financial Liabilities by \$6.9 billion (\$6.8 billion in 2012-13).

Net Debt

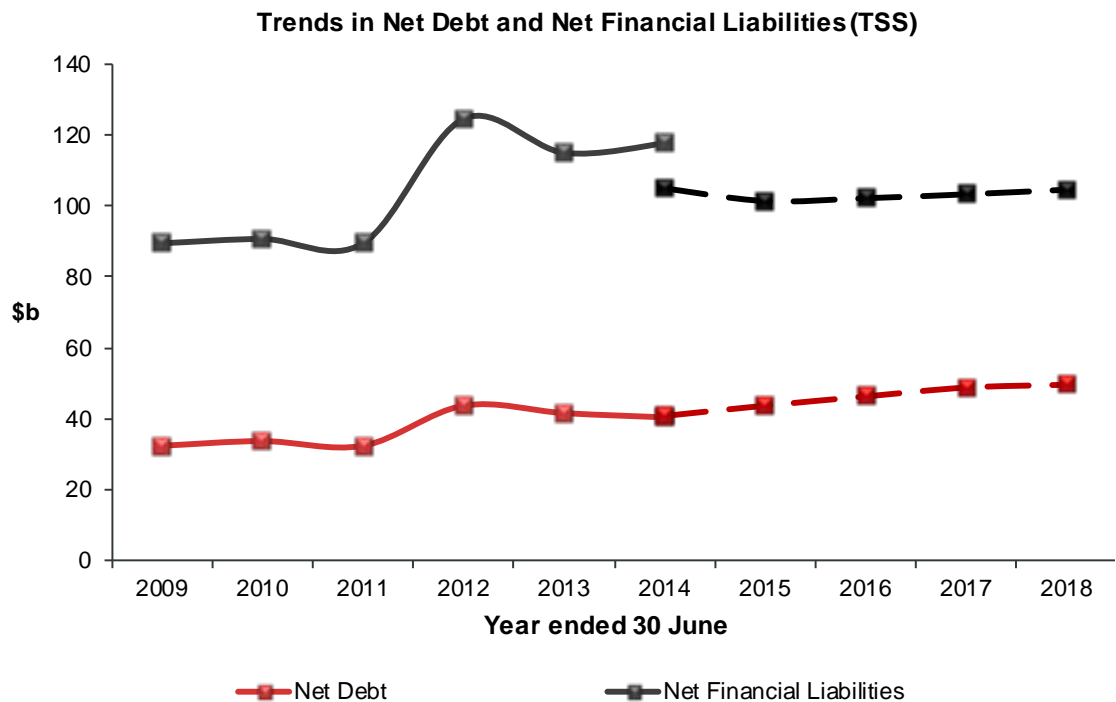
The financial assets held in Restart NSW reduce net debt, this impact will be reversed as they are used to meet infrastructure commitments.

Net debt, essentially borrowings less cash and liquid financial assets, was \$40.4 billion at 30 June 2014 (\$41.6 billion). The decrease is attributed to proceeds from asset sales, higher investment returns and a significant net operating balance, which improve the net debt position, offset by an increase in borrowings.



Source: Australian Bureau of Statistics; amounts based on 2012-13 Total Public Sector Government Finance Statistics data.

Net debt is the sum of deposits held, borrowings and derivatives and advances received less cash and deposits, advances paid and investments, loans and placements. Net debt is narrower than net financial liabilities as it excludes liabilities such as superannuation and employee provisions, and insurance claim obligations.



Source: Report on State Finances 2009-2014 (audited), 2014-15 Budget Papers (unaudited).

The Treasury expects Net Financial Liabilities to remain stable over the forward estimates period while Net debt is expected to increase.

The fluctuations in net financial liabilities above are generally due to movements in the value of unfunded superannuation liabilities. In 2012, returns on the assets offsetting liabilities (plan assets) were lower than expected and liabilities increased as a result of lower bond rates. The 2012-2014 net financial liabilities have been restated to include contributions tax payable on unfunded superannuation liabilities. This change in accounting policy occurred after the Budget was presented to Parliament and is the reason there is a reduction in the forward estimates from the actual 2014 result.

Governance Matters

Quality and Timeliness of Financial Reporting

Timely and accurate financial reporting is essential for decision making, management of public funds and public accountability. Financial reporting occurs within hundreds of NSW government agencies annually and is used to prepare the General Government and Total State Sector Accounts (Total State Sector Accounts). Significant effort and resources are expended by agencies in discharging their reporting obligations.

Accurate and timely financial reporting is one aspect of sound financial management. In 2012, the NSW Commission of Audit, in its Interim Report on Public Sector Management, expressed surprise at the low importance attached to financial management across the NSW public sector. The Commission pointed to systemic weaknesses in financial management including poor reporting due to poor systems and a lack of capability. The Public Accounts Committee has also highlighted the need for improved financial management across the NSW public sector.

Progress in improving the quality and timeliness of financial reporting is discussed below.

Action Taken to Improve Accuracy and Timeliness of Financial Reporting

Treasury has continued to successfully implement measures to improve the accuracy and timeliness of the financial information it publishes.

The measures it implemented in 2013-14 were aimed at improving forecasting accuracy, and included monthly forums with cluster Chief Financial Officers, presentations by Treasury staff at various finance and accountancy professional forums, and greater emphasis on training agency and Treasury staff on ensuring quality of projections.

The Treasurer has also actively engaged with agency Chief Financial Officers and communicated the importance of accurate financial information at various forums. The Treasurer's request for the Auditor-General to review the estimates and forecasts in the 2013-14 Half Yearly Budget Review and 2014-15 Budget Papers was also aimed at improving overall quality.

The measures have contributed to significant improvements to the accuracy and timeliness of financial reporting and audit processes over the last three years.

Treasury's timetable for 2014 allowed less time for financial reporting and audit than in previous years. Agency timeframes to prepare the financial statements were reduced by one day compared to 2013 and the Audit Office was asked to complete the audit process within eight weeks of receiving the financial statements, compared to nine weeks in 2012 and ten weeks in 2011.

Since the introduction of early close procedures, the Audit Office has been able to issue significantly more audit opinions within a shorter period of time. In 2014, it issued 179 opinions by 23 September, compared to 175 by 23 September 2013, 165 by 2 October 2012 and 67 by 2 October 2011.

This represents a 169 per cent improvement over the last 3 years. Observations on agencies' early close procedures are discussed later in this section.

It is important agencies are well prepared for future changes and refinements to early close procedures, and can plan for 2014-15. Treasury advises it plans to issue a Treasury Circular relating to early close procedures and related requirements before the end of the 2014 calendar year.

Early Close Procedures

Early close procedures are designed to bring forward traditional year-end activities, such as valuations of assets and resolution of financial reporting issues, to reduce reporting timeframes and improve quality.

This is the fourth year Treasury has required agencies perform 'early close procedures'. Treasury Circular 14/02 'Mandatory early close procedures for 2014' set out procedures agencies had to perform before year end unless they received an exemption from the Treasurer.

Key Findings and Observations

Recommendation

Agencies should perform quarterly early close procedures, with a view to moving to monthly procedures to improve financial management across the sector.

Agencies have been broadly successful in performing early close procedures for year-end reporting purposes. In my view, further improvements are desirable. Moving to more regular and frequent preparation of financial reports during the year will improve financial management of the sector, particularly if similar rigour is applied to the process.

Most agencies reconciled key account balances, performed monthly accruals and prepared pro-forma financial statements. Most performed management reviews of monthly reconciliations and reports and included meaningful variance analysis and explanations in their monthly reports.

Like last year, some opportunities for improvements in some agencies include:

- compiling adequate working papers to support early revaluations of property, plant and equipment in time for audit review before year-end
- ensuring sufficient documentation supports management's proposed accounting treatments, and its judgements and assumptions
- resolving all significant accounting issues as part of the early close process, or documenting a clear path towards their timely resolution
- preparing a documented action plan to facilitate resolution of issues.

Agencies will not always be in a position to fully resolve significant and complex accounting issues as part of early close procedures. Where this is not achievable, it is important for agencies to document a clear path towards timely resolution and ensure appropriate stakeholders, including Treasury, are kept informed. The documentation should set out the issue, current status, key aspects needing resolution, and who is responsible for the expected deliverables.

Quality of Agencies' Financial Statements

The nature and extent of errors in agencies' financial statements provides an insight into the quality of the financial reports used to prepare the Total State Sector Accounts. Agencies' 2013-14 financial statements submitted for audit and used for whole-of-government financial reporting contained 10 errors each exceeding \$20.0 million, compared to 15 such errors in 2012-13 and 30 in 2011-12.

	Number of Errors		
	2013-14	2012-13	2011-12
\$20 - \$50 million	2	7	15
\$50 - \$100 million	5	3	6
\$100 million - \$1 billion	3	5	7
Greater than \$1 billion	--	--	2
Total errors greater than \$20 million	10	15	30

Agencies' financial statements and the Total State Sector Accounts were corrected as necessary to ensure compliance with Australian Accounting Standards and the requirements of the *Public Finance and Audit Act 1983*.

In addition to the errors reported above, agencies reported financial information that required reclassification. For example, assets and liabilities reported as non-current instead of current or other disclosures that is not consistent with the relevant accounting framework.

While reclassifications have no net impact on agency assets, liabilities or results, they can have other consequences and may result in errors in the Total State Sector Accounts consolidation process. Reclassifications suggest improved quality control review processes and/or better knowledge of the relevant accounting framework maybe needed in some agencies.

Errors and reclassifications are identified in two ways. Some are identified by agency staff after submitting the financial statements for audit and others are identified through the audit process. Regardless, agency processes need to aim to minimise errors and reclassifications.

Public Accounts Committee Recommendations

In October 2010, the Public Accounts Committee released a report on the Quality and Timeliness of Financial Reporting. The Committee reported that a high standard of financial reporting was needed to better inform budget decisions, enable more effective and timely management of public funds by government agencies, and to improve accountability for public expenditure.

The Committee made recommendations to improve financial reporting, including:

- implementing hard closes within agencies
- certification of financial systems by chief financial officers (CFOs)
- chief executive officer (CEO) accountability
- earlier dates for tabling agency Annual Reports
- minimum qualifications for CFOs.

The Government formally responded to these recommendations in April 2011. Overall, the government supported the recommendations. More detail on the government's initial response and the current status of implementation appears in the following table.

No.	Public Accounts Committee's recommendations made in October 2010	Summary of government response at April 2011	Current status of progress towards implementing responses October 2014
1	The Treasurer require all agencies to conduct a hard close of their accounts at 31 March from 2011	After relevant consultation, Treasury concluded a full hard close was impracticable, and instead started implementing a series of 'early close procedures' for larger agencies. This involved conducting some aspects of year-end financial reporting processes before year-end	<p>The Treasurer requires all agencies to perform certain early close procedures at 31 March or 30 April. Refer to Treasury Circular TC 14/02 Mandatory early close procedures for 2014 ('TC 14/02').</p> <p>Additional requirements for 2013-14, included:</p> <ul style="list-style-type: none"> • requiring agencies to complete and submit an Early Close Procedures Checklist (Appendix C) to Treasury so it could track compliance • additional procedures and focus areas based on 2013 experiences and developments • additional guidance on changes to accounting standards in TC 14/02.
2	The Treasurer propose amendments to the <i>Public Finance and Audit Act 1983</i> requiring chief financial officers to certify their financial reporting systems	Treasury requested all chief financial officers to express an opinion as to the effectiveness of internal controls over financial information prepared by their agencies by 15 April 2011	A draft Treasury Policy Paper 'Certifying the Effectiveness of Internal Controls over Financial Statements' has been prepared in consultation with the Audit Office and Cluster CFOs. It is to be issued in October 2014 as a Treasury Policy Paper requiring agency compliance for 2014-15.
3	The Premier ensures that accountability for accurate and timely financial reporting is included in all chief executive officers' performance agreements.	Recommendation to be incorporated as part of a broader reform of accountability of chief executive officers	The performance development framework published by the Public Service Commission (PSC) on 1 July 2013 includes mandatory financial management performance objectives for executives.

No.	Public Accounts Committee's recommendations made in October 2010	Summary of government response at April 2011	Current status of progress towards implementing responses October 2014
4	The Treasurer develop and implement a program to bring forward the deadline for the tabling of annual reports in Parliament to three months after the end of the financial year by 2013 at the latest	'Early close procedures' will facilitate earlier tabling of annual reports	The program to bring forward the deadline for tabling annual reports in Parliament to three months after the end of financial year is included in the Financial Management Transformation (FMT) program.
5	The Treasurer consider proposing amendments to prescribe minimum qualifications of chief financial officers in the <i>Public Finance and Audit Act 1983</i>	Premier's Circular 99-69 'Qualifications for Senior Financial Management and Accounting Positions' is still current and the government believed this issue could be managed more flexibly through current arrangements rather than legislative amendment	This matter is part of a joint review by the PSC and FMT program. Minimum qualifications for CFOs in the <i>Public Finance and Audit Act 1983</i> are in the program for FMT to review as part of the review of all current and related policies. The actual administrative requirement is being transferred from the Department of Premier and Cabinet to the PSC.

The Public Accounts Committee set a three year timeframe for the Government to implement its recommendations. The table above shows there has been progress in implementing the recommendations over the three years, partly due to developments across the sector, such as Treasury's financial management reforms and development of the Public Service Commission's capability framework.

Recommendation

It is appropriate for the Public Accounts Committee's recommendations to be reassessed in light of these reforms and residual actions confirmed.

Financial Management Transformation

Treasury is implementing a Program of Financial Management Transformation (FMT), to reform financial management in New South Wales.

Over the coming years FMT will reform the legislative framework by re-writing the *Public Finance and Audit Act 1983* and other relevant legislation. The Program will revise financial governance arrangements and the budgeting performance framework and will provide Government with greater transparency and understanding of agency expenditure.

FMT is developing a new financial and performance management system which will replace the Financial Information System (FIS) and the Treasury Online Entry System (TOES). This will support Treasury in providing trusted, relevant, and timely advice to Government and effectively deliver whole-of-government budgeting and financial reporting.

Additionally, FMT has launched a new website promoting openness, transparency and collaboration, which will contain all relevant information about the Program, including its progress. To find out more visit www.treasury.nsw.gov.au/fmt.

Appendix A: Financial Information

Statement of Comprehensive Income

Year ended 30 June	General Government		Total State Sector	
	2014 \$m	2013* \$m	2014 \$m	2013* \$m
Revenues				
Taxation	24,295	21,980	23,881	21,568
Grants and subsidies	28,331	25,407	28,120	25,241
Sales of goods and services	5,677	5,430	17,439	17,210
Interest	609	406	961	806
Dividends and income tax equivalents	2,260	2,650	--	--
Other dividends and distributions	700	595	854	666
Fines, regulatory fees and other	4,133	3,662	4,832	4,520
Total Revenues	66,005	60,130	76,086	70,009
Expenses				
Employee costs	31,512	30,356	35,082	34,127
Depreciation and amortisation	3,954	3,667	7,210	6,657
Interest	2,249	2,220	4,062	3,952
Grants and subsidies	12,696	11,407	8,291	7,203
Other	14,345	14,242	18,656	18,418
Total Expenses	64,757	61,891	73,302	70,358
Transactions From Discontinuing Operations	--	30	10	397
Net Operating Balance – Surplus/(Deficit)	1,247	(1,731)	2,794	49
Other Economic Flows – Included in the Operating Result				
Gain/(loss) from liabilities	(689)	445	(689)	494
Other net gains/(losses)	285	330	(764)	3,806
Share of earnings from associates (excluding dividends)	118	(137)	117	(137)
Dividends from asset sale proceeds	--	151	--	--
Deferred income tax expense/(benefit) from other sectors	(458)	603	--	--
Other gains/(losses)	(42)	44	(69)	38
Discontinuing operations	--	--	58	37
Operating Result – Surplus/(Deficit)	462	(296)	1,449	4,286

Year ended 30 June	General Government		Total State Sector	
	2014 \$m	2013* \$m	2014 \$m	2013* \$m
Other Economic Flows – Other Comprehensive Income				
Revaluations	3,790	3,020	6,709	8,176
Share of earnings from associates from revaluations	(401)	141	(401)	141
Actuarial gain/(loss) from superannuation	(83)	8,645	(50)	9,865
Net gain on equity investments	3,978	11,709	--	--
Net gain on discontinued equity investments	148	92	--	--
Net gain/(loss) on financial instruments	(3)	(3)	(21)	91
Other	(21)	(959)	185	(210)
Comprehensive Result - Total Change in Net Worth Before Transactions With Owners as Owners	7,870	22,349	7,870	22,349
Key Fiscal Aggregates				
Comprehensive Result - Total Change in Net Worth Before Transactions With Owners as Owners	7,870	22,349	7,870	22,349
Less: Net other economic flows	(6,623)	(24,081)	(5,076)	(22,300)
Net Operating Balance – Surplus/(Deficit)	1,247	(1,731)	2,794	49
Less: Net Acquisition of Non-Financial Assets				
Purchases of non-financial assets	8,432	7,163	12,970	12,586
Sales of non-financial assets	(517)	(1,023)	(907)	(1,300)
Less: Depreciation and amortisation	(3,954)	(3,667)	(7,210)	(6,657)
Plus: Changes in inventories	(25)	(17)	(56)	50
Plus: Other movements in non-financial assets	(1,453)	(50)	1,097	2,206
Equals Total Net Acquisitions of Non-Financial Assets	2,484	2,407	5,894	6,885
Net Lending/(Borrowing)	(1,236)	(4,138)	(3,099)	(6,837)

* 2013 amounts have been restated for changes made in accordance with Australian Accounting Standards.

Note: Amounts in table may not add due to rounding.

Statement of Financial Position

Year ended 30 June	General Government		Total State Sector	
	2014 \$m	2013* \$m	2014 \$m	2013* \$m
Assets				
Financial Assets				
Cash and cash equivalents	9,966	8,943	13,235	12,086
Receivables	6,833	6,492	6,788	6,223
Tax equivalents receivable	206	472	--	--
Financial assets	14,169	9,095	29,728	24,516
Advances paid	944	913	485	440
Deferred tax equivalents asset	4,695	5,288	--	--
Equity investments	88,744	87,552	4,053	4,342
Total Financial Assets	125,557	118,754	54,288	47,608
Non-Financial Assets				
Inventories	248	271	1,202	1,468
Forestry stock and other biological assets	7	7	790	715
Assets classified as held for sale	106	235	2,215	1,499
Investment properties	137	125	631	562
Property, plant and equipment	147,872	141,486	274,399	264,824
Intangibles	2,356	2,062	3,905	3,688
Other	2,061	1,948	2,270	2,136
Total Non-Financial Assets	152,790	146,135	285,412	274,893
Total Assets	278,346	264,889	339,700	322,500
Liabilities				
Deposits held	117	1,072	723	1,289
Payables	5,553	4,689	7,084	6,105
Tax equivalents payable	40	21	--	--
Liabilities directly associated with assets held for sale	--	--	348	188
Borrowing and derivatives at fair value	13	12	77,320	72,314
Borrowings at amortised cost	31,028	29,048	4,977	4,287
Advances received	791	725	791	726
Employee provisions	14,435	13,130	16,377	15,491
Superannuation provision	48,262	46,770	51,040	49,935
Deferred tax equivalent provision	488	635	--	--
Other provisions	7,934	6,900	11,158	9,884
Other	1,918	1,989	2,113	2,383
Total Liabilities	110,578	104,991	171,932	162,602
Net Assets	167,768	159,898	167,768	159,898

Year ended 30 June	General Government		Total State Sector	
	2014 \$m	2013* \$m	2014 \$m	2013* \$m
Net Worth				
Accumulated funds	20,085	16,535	55,521	52,446
Reserves	147,683	143,363	112,247	107,452
Total Net Worth	167,768	159,898	167,768	159,898
Other Fiscal Aggregates				
Net Debt	6,869	11,907	40,363	41,574
Net Financial Liabilities	69,716	69,451	117,644	114,995

* 2013 amounts have been restated for changes made in accordance with Australian Accounting Standards.

Note: Amounts in table may not add due to rounding.

Applicable Accounting Framework

The General Government and Total State Sector financial statements are prepared in accordance with Australian Accounting Standards. This includes compliance with AASB 1049 Whole of Government and General Government Sector Financial Reporting.

AASB 1049 is designed to provide users with information:

- about the government's stewardship and accountability for the resources entrusted to it
- about the financial position, performance and cash flows of the government and its sectors
- that facilitates assessments of the macro-economic impact of the government and its sectors.

AASB 1049 generally requires compliance with Australian Accounting Standards, but limits the selection of certain accounting policy options within those standards. It also requires presentation of key fiscal aggregates and disclosures about sectors of government as defined by the Australian Bureau of Statistics publication Government Finance Statistics: Concepts, Sources and Methods.

The presentation of the General Government and Total State Sector Accounts prepared in accordance with AASB 1049 is not generally comparable with that of individual government agencies.

Appendix B: Analysis of the PTE Sector

The Public Trading Enterprise (PTE) sector supplies public infrastructure services through commercial and non-commercial operations. Commercial operations include:

- Electricity
- Water
- Sport and Recreation
- Ports
- Other (including land development and management, forestry operations, mining, and waste management).

Commercial operations are generally self-funding. They receive most of their revenue from customers and fund capital expenditure from those revenues and borrowings. The Government expects a commercial rate of return from the resources employed and receives dividends from commercial PTEs.

Non-commercial operations rely on funding from the General Government Sector to meet operational and capital expenditure. These PTEs often provide services to meet social policy objectives and revenue from customers is generally limited. Non-commercial operations include:

- social housing (including the provision of public and social housing)
- transport.

Both commercial and non-commercial PTEs make payments to the General Government Sector to put them on equal footing with private sector operations. Because PTEs can access borrowings, leveraging off the State's credit rating, they pay government guarantee fees so their cost of debt reflects their standalone credit rating. PTEs are exempt from Commonwealth income tax, but make tax equivalent payments to the State.

The PTE sector is also referred to as the Public Non-Financial Corporations Sector.

Highlights

The following page gives a snapshot of financial information for the PTE sector and highlights that:

- PTEs hold a significant proportion of State assets and liabilities. Over 90 per cent of PTE assets are property, plant and equipment used in delivery of services
- electricity PTEs have the highest asset levels, are the most highly geared and make the largest contributions to the General Government Sector through dividends, government guarantee fees and tax equivalent payments
- port PTE assets and liabilities fell in 2013-14 after the long term lease of the Port of Newcastle to the private sector and repayment of associated debt. Current year port PTE returns reflect one-off gains on the sale of operations
- transport PTEs need significant contributions from the General Government Sector to meet their costs despite generating revenues from customers.

	Commercial Operations								Non-Commercial Operations					
	Electricity		Water		Ports		Sporting and Recreation		Other		Social Housing		Transport	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Total assets (\$m)	40,209	41,589	20,234	19,422	549	1,043	3,653	3,532	5,042	4,819	36,215	34,955	31,972	29,318
Total liabilities (\$m)	29,682	30,239	11,275	10,874	156	361	149	145	1,455	1,462	927	981	5,480	4,401
Net assets (\$m)	10,527	11,350	8,958	8,548	393	682	3,504	3,387	3,587	3,358	35,288	33,974	26,492	24,917
Total property, plant and equipment (\$m)	34,794	35,516	19,544	18,695	394	820	3,493	3,341	2,503	2,322	35,701	34,512	30,501	27,954
Total capital expenditure (\$m)	2,566	3,101	763	817	47	182	184	127	126	126	328	267	902	1,659
Total borrowings (\$m)	21,467	20,339	7,874	7,640	--	67	57	45	220	262	223	227	3,233	2,166
Ratio of borrowings to net assets	2.0	1.8	0.9	0.9	--	0.1	--	--	0.1	0.1	--	--	0.1	0.1
Total revenue (\$m) ^(a)	7,337	8,792	3,102	3,010	179	216	333	407	996	936	1,128	1,035	6,093	5,388
Total expenses (\$m) ^(a)	6,407	7,209	2,425	2,388	192	191	251	232	1,015	1,141	1,542	1,075	5,191	4,493
Total net gains/(losses) (\$m) ^{(a)(b)}	(487)	(44)	103	(137)	(488)	2,127	--	(36)	(212)	298	66	(42)	58	(221)
Total surplus/(deficit) after tax (\$m) ^{(a)(b)}	1,417	1,539	575	485	475	2,152	82	139	193	94	(480)	(81)	843	674
Return on average equity (%)	13.0	15.2	6.6	5.7	88.4	174.8	2.4	4.0	5.6	3.1	(1.4)	(0.2)	3.3	2.7
Contributions from the general government sector (\$m)	212	199	63	53	44	--	160	238	99	42	173	132	2,583	3,588
Distributions to the general government sector (\$m) ^(c)	2,677	2,209	926	783	15	104	--	1	253	148	--	--	--	--
Net return on investment (%)	22.5	19.9	9.9	8.5	(5.3)	8.5	(4.6)	(6.9)	4.4	3.6	(0.5)	(0.4)	(10.0)	(14.1)

a From continuing operations.

b Includes net proceeds from major asset sale/lease transactions

c Includes dividends/distributions, income tax, and government guarantee fees.

Note – transactions between the PTE sector categories have been eliminated.

Appendix C: Public Private Partnerships

The State currently uses four broad Public Private Partnership (PPP) arrangements:

- purchase arrangements with deferred payments, which include infrastructure that is State owned and controlled, but financed by the private sector
- finance lease arrangements, which include infrastructure owned and financed by the private sector, but controlled by the State
- Build (Own) Operate Transfer arrangements, which include infrastructure that is financed, built, and operated for a certain period of time by the private sector, after which ownership and control is transferred to the State. The private sector recovers its investment through charges paid by the infrastructure users
- Build Own Operate arrangements, which include infrastructure that is financed, built, and operated by the private sector, generally for the whole of its useful life. The private sector recovers its investment through charges paid by the State.

PPP	PPP commencement ^(a)	PPP term (years)
Purchase arrangements with deferred payments		
North West Rail Link – Operations, Trains and Systems	^(b)	20
The Sydney International Convention, Exhibition and Entertainment Centre Precinct	^(c)	25
Royal North Shore Hospital (RNSH) Redevelopment – Stage 2	2011	26
Bathurst, Orange and Associated Health Services	2011	24
Bonnyrigg Living Communities Project	2010	25
Newcastle Mater Hospital Redevelopment	2009	25
Long Bay Prison and Forensic Hospitals	2008	26
Eleven new schools (New Schools Project 2)	2007–2010	29
Nine new schools (New Schools Project 1)	2004–2005	29
Finance lease arrangements		
Rollingstock Maintenance Facility	2012	32
Electric Passenger Rollingstock Replacement	2011	33
Colongra Gas Pipeline and Storage Facility	2009	18
Parramatta Police Headquarters	2004	20
Hawkesbury Hospital	1996	18
Blue Mountains Sewage Transfer Tunnel	1996	32
Macarthur Water Treatment Plant	1995	35
Sydney Harbour Tunnel	1992	30

PPP	PPP commencement ^(a)	PPP term (years)
Build (Own) Operate Transfer (BOT or BOOT) arrangements		
M5 Motorway Widening	(d)	(d)
M2 Motorway Widening	2013	(e)
Lane Cove Tunnel	2007	30
Westlink M7 (Western Sydney Orbital) Motorway	2005	31
Cross City Tunnel	2005	30
Airport Line Stations	2000	30
St George Hospital Car Park	1999	25
Eastern Distributor Motorway	1999	49
Stadium Australia	1999	32
Sydney SuperDome	1999	31
Randwick Hospital Car Park	1998	25
M2 Motorway	1997	49
Sydney Hospital Car Park	1995	25
Opera House Car Park	1993	50
M4 Motorway Service Centres	1993	25
M5 Motorway	1992	31
Build Own Operate (BOO) arrangements		
Rosehill Camellia Recycled Water Project	2011	20
Pindari Mini Hydro Power Station	2001	^(f) 30
Woronora Water Treatment Plant	1997	23
Prospect Water Treatment Plant	1996	31
Illawarra Water Treatment Plant	1996	23
Burrendong Mini Hydro Power Station	1996	^(f) 30
Copeton Mini Hydro Power Station	1995	^(f) 30
Glenbawn Mini Hydro Power Station	1994	^(f) 30
Wyangala Mini Hydro Power Station	1991	^(f) 30
Other		
Chatswood Transport Interchange	2008	^(f) 47
Parramatta Transport Interchange	2006	23

Source: The Treasury (unaudited).

- a PPP commencement is the year the project was ready for operation.
- b North West Rail Link construction began on September 2014 and is due to open in the first half of 2019.
- c The Sydney International Convention, Exhibition and Entertainment Centre Precinct project is currently in its construction phase. Construction is expected to take three years (estimated completion in 2016).
- d The original M5 project commenced in 1992. The M5 Motorway widening project is currently in its construction phase. Construction extends the previous M5 Motor term by around three years (ending in 2026).
- e The M2 Motorway widening project extends the original M2 Motorway term by four years (ending in 2046).
- f Excludes options to extend PPP term.

Appendix D: Legal Opinions

I am required by section 52(2) of the *Public Finance and Audit Act 1983* (PF&A Act) to publish any requests for a legal opinion submitted to the Attorney General or the Crown Solicitor under section 33 of the PF&A Act. I am also required to publish their responses.

There were no such legal opinions since my last report contained in Volume Three 2013, released on 31 October 2013.

Appendix E: Prescribed Audits

Section 45 of the *Public Finance and Audit Act 1983* requires me to perform audits of the financial statements of entities prescribed for the purposes of that section. I am required by section 45(2A) of the *Public Finance and Audit Act 1983* to publish a list of any such audits.

The following were prescribed entities as at 30 June 2014:

Entity	Latest financial statements audited	Type of audit opinion issued
Agricultural Scientific Collections Trust	30 June 2012 ^(a)	Unmodified
Ambulance Service of NSW	30 June 2006 ^(c)	Unmodified
AustLII Foundation Limited	31 December 2013	Unmodified
The Australian Institute of Asian Culture and Visual Arts Limited	30 June 2014	Unmodified
Belgenny Farm Agricultural Heritage Centre Trust	30 June 2014	Unmodified
The Brett Whiteley Foundation	30 June 2014	Unmodified
Buroba Pty Ltd	30 June 2014	Unmodified
C. B. Alexander Foundation	30 June 2014	Unmodified
Cowra Japanese Garden Maintenance Foundation Limited	31 March 2014	Unmodified
Cowra Japanese Garden Trust	31 March 2014	Unmodified
Dumaresq-Barwon Border Rivers Commission	30 June 2011 ^(d)	Unmodified
Eif Pty Limited	30 June 2014	Unmodified
Gosford City Council, being a water supply authority listed in Schedule 3 to the <i>Water Management Act 2000</i>	30 June 2013 ^(b)	Unmodified
Illawarra Health and Medical Research Institute Limited	30 June 2013 ^(b)	Unmodified
Local health districts within the meaning of the <i>Health Services Act 1997</i>:		
Sydney Local Health District	30 June 2014	Unmodified
South Western Sydney Local Health District	30 June 2014	Unmodified
South Eastern Sydney Local Health District	30 June 2014	Unmodified
Illawarra Shoalhaven Local Health District	30 June 2014	Unmodified
Western Sydney Local Health District	30 June 2014	Unmodified
Nepean Blue Mountains Local Health District	30 June 2014	Unmodified
Northern Sydney Local Health District	30 June 2014	Unmodified
Central Coast Local Health District	30 June 2014	Unmodified

Entity	Latest financial statements audited	Type of audit opinion issued
Hunter New England Local Health District	30 June 2014	Unmodified
Murrumbidgee Local Health District	30 June 2014	Unmodified
Southern NSW Local Health District	30 June 2014	Unmodified
Western NSW Local Health District	30 June 2014	Unmodified
Far West Local Health District	30 June 2014	Unmodified
Mid North Coast Local Health District	30 June 2014	Unmodified
Northern NSW Local Health District	30 June 2014	Unmodified
Marine Parks Authority	30 June 2012 ^(f)	Unmodified
Minister administering the <i>Environmental Planning and Assessment Act 1979</i> (a corporation)	30 June 2014	Unmodified
Minister administering the <i>Heritage Act 1977</i> (a corporation)	30 June 2014	Unmodified
National Art School	31 December 2013	Unmodified
Networks NSW Pty Limited	30 June 2014	Unmodified
NSW Businesslink Pty Limited	30 June 2014	Unmodified
NSW Fire Brigades Superannuation Pty Limited	30 June 2014	Unmodified
State Super Financial Services Australia Limited	30 June 2014	Unmodified
Trustees of the Farrer Memorial Research Scholarship Fund	31 December 2013	Unmodified
The trustees for the time being of The Art Gallery of New South Wales Foundation	30 June 2014	Unmodified
Trustee of the Home Purchase Assistance Fund	30 June 2014	Unmodified
Each board of management, state conservation area trust and trust board established for a state conservation area within the meaning of the <i>National Parks and Wildlife Act 1974</i>	-- ^(e)	--
The trustees for the time being of each superannuation scheme established by a trust deed as referred to in section 127 of the <i>Superannuation Administration Act 1996</i>:		
Energy Industries Superannuation Scheme Pool A	30 June 2014	Unmodified
Energy Industries Superannuation Scheme Pool B	30 June 2014	Unmodified
United States Studies Centre Limited	31 December 2013	Unmodified
Universities Admissions Centre (NSW and ACT) Pty Limited	30 June 2014	Unmodified
Valley Commerce Pty Ltd	30 June 2014	Unmodified

Entity	Latest financial statements audited	Type of audit opinion issued
Wyong Council, being a water supply authority listed in Schedule 3 to the <i>Water Management Act 2000</i>	30 June 2014	Unmodified
Crown Employees (NSW Fire Brigades Fire Fighting Staff Death and Disability) Superannuation Fund	30 June 2014	Unmodified
Energy Investment Fund	30 June 2014	Unmodified
Home Warranty Insurance Fund	30 June 2013 ^(b)	Unmodified with Emphasis of Matter
Macquarie University Professorial Superannuation Scheme	30 June 2014	Unmodified
Parliamentary Contributory Superannuation Fund	30 June 2014	Unmodified
State Super Allocated Pension Fund established by State Super Allocated Pension Fund Trust Deed dated 23 November 1993	30 June 2014	Unmodified
State Super Fixed Term Pension Plan established by State Super Fixed Term Pension Plan Trust Deed dated 14 July 1999	30 June 2014	Unmodified
State Super Personal Retirement Plan established by State Super Personal Retirement Plan Trust Deed dated 3 April 1990	30 June 2014	Unmodified
State Super Investment Fund comprising the State Super Investment Fund – Cash Fund Constitution dated 22 November 1991, State Super Investment Fund – Capital Stable Fund Constitution dated 22 November 1991, State Super Investment Fund – Balanced Fund Constitution dated 22 November 1991, State Super Investment Fund – Growth Fund Constitution dated 24 April 1997, State Super Investment Fund – Australian Equities Fund Constitution dated 18 July 2011, State Super Investment Fund – International Equities Fund Constitution dated 18 July 2011, State Super Investment Fund – Fixed Interest Fund Constitution dated 18 July 2011, State Super Investment Fund – Moderate Fund Constitution dated 18 July 2011 and State Super Investment Fund – Growth Plus Fund Constitution dated 18 July 2011	30 June 2014	Unmodified
The superannuation fund amalgamated under the <i>Superannuation Administration Act 1991</i> and continued to be amalgamated under the <i>Superannuation Administration Act 1996</i> (known as the <i>SAS Trustee Corporation Pooled Fund</i>)	30 June 2014	Unmodified
University of Sydney Professorial Superannuation System	31 December 2013	Unmodified

- a 30 June 2013 financial statements have been submitted for audit. My audit is still in progress as at 17 October 2014.
- b 30 June 2014 financial statements have been submitted for audit. My audit is still in progress as at 17 October 2014.
- c No financial statements submitted for individual audit since 2006. The NSW Ministry of Health advises they are seeking to remove the Ambulance Service of NSW from the list of prescribed entities.
- d The Commission's financial statements are now audited by the Auditor-General for Queensland.
- e No financial statements have been submitted for audit since this group of entities was prescribed.
- f Financial statements submitted for 2013 and 2014.

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