NEW SOUTH WALES

REPORT ON STATE FINANCES

2007 - 08

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PREFACE

The 2007-08 New South Wales Report on State Finances includes:

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

The Statement of the Budget Result allows a comparison of the end of year aggregates with those estimated in the 2007-08 Budget.

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

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

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

This is the final year that the Outcomes Report and Statement of Budget Result are prepared on a pure Government Finance Statistics basis. Commencing 2008-09, the Report will be prepared on a harmonised GFS-GAAP basis in accordance with a new Australian Accounting Standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

The Hon Eric Roozendaal MLC
Treasurer

C O N T E N T S

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

HIGHLIGHTS

- A Budget surplus on a Government Finance Statistics (GFS) basis for the year ended 30 June 2008 of $386 million. This is $10 million higher than the original Budget estimate of a surplus of $376 million.[1] See Figure 1.

- Total expenses were $46,424 million, which is $1,806 million higher than the original Budget estimate of $44,618 million in the 2007-08 Budget Papers.

- Expenses for 2007-08 included significant additional expenditure in key priority areas including $611 million in health, $200 million on road maintenance and additional capital grants of $540 million to rail agencies for the repayment of debt and the deferral of new borrowings.

- Total revenue was $46,810 million, which is $1,816 million higher than the original budget estimate of $44,994 million.

- Taxation revenue was $995 million above the Budget. This included higher transfer duty of $243 million, land tax of $233 million and payroll tax of $245 million.

- Commonwealth specific purpose grants were $701 million above budget, comprising additional funding in a range of new and existing programs. These additional revenues are offset by matching higher expenses.

- Investment income was $953 million below budget due to some negative returns from managed fund investments, which were exposed to a downturn in financial markets.

- The State's balance sheet (GFS basis) continues to strengthen. Assets grew by $17,246 million, while liabilities rose by $5,471 million. As a result, the net worth of the Total State Sector rose to $146,780 million at 30 June 2008. See Figure 2.

- General Government Sector net debt is still low at $4,095 million or 1.2 per cent of Gross State Product, although an increase from 0.7 per cent in June 2007.

- Total State Sector net debt rose in dollar terms to $20,686 million, but remained constant at 5.8 per cent of Gross State Product (GSP) compared to June 2007 levels.

- Total State Sector net financial liabilities grew to $57,466 million or 16.2 per cent of GSP compared to 15.5 per cent in June 2007. This was driven by an increase in superannuation liabilities of $3,692 million, affected by negative returns of 7.2 per cent in the State Super Fund schemes. In 1995, net financial liabilities stood at 26.7 per cent of GSP. See Figure 3.

- The cash result for 2007-08 was a deficit of $1,758 million (GFS basis), reflecting the general government sector's record capital expenditure program of $4,670 million. The cash deficit is similar to the original budget time projection of $1,675 million.

- This is the last year in which the Statement of the Budget Result is presented on a GFS basis. The 2008-09 Budget Papers were presented in accordance with the new Australian Accounting Standard AASB1049, *Whole of Government and General Government Sector Financial Reporting.* The 2008-09 Report on State Finances will be prepared on the same basis.

1 *The GFS Budget Result of $386 million reported here differs from estimates published on a AASB 1049 basis.*

HIGHLIGHTS

Figure 1

Budget Surplus (General Government Net Operating Result) 1998-99 to 2007-08

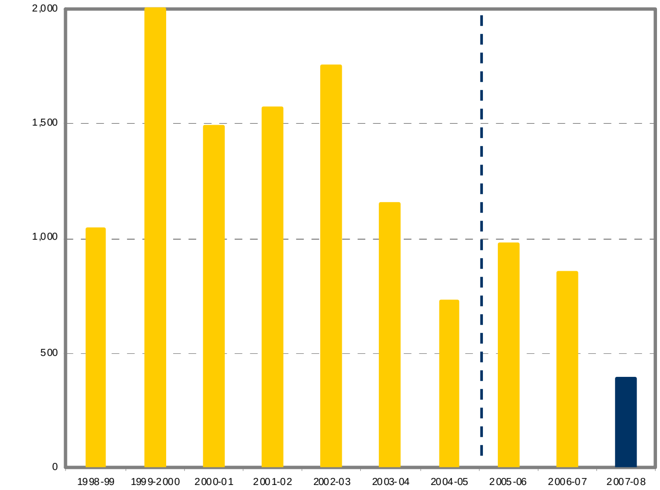


Figure 2

Total State Sector Net Worth at 30 June

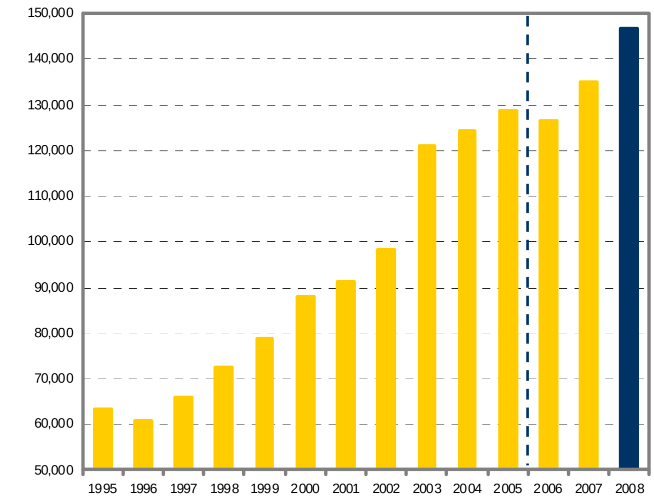


Figure 3

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

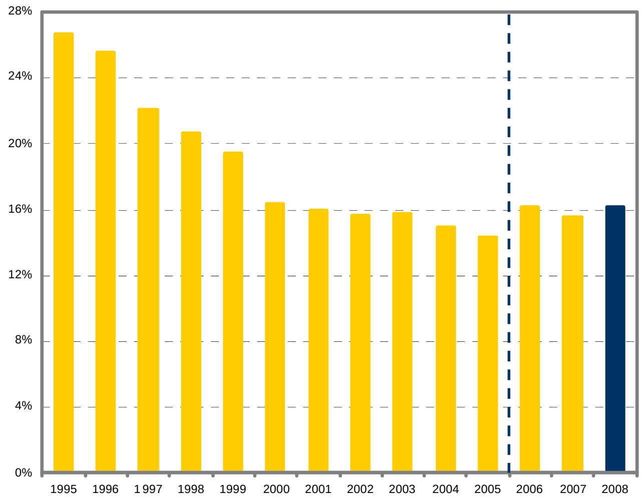
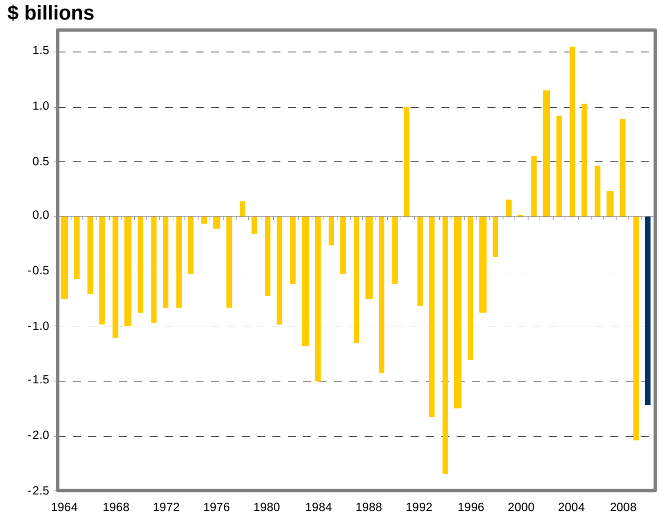


Figure 4

Budget Cash Result (General Government Underlying) 1961-62 to 2007-08 (at constant 2007-08 prices)



- - - *Break in time series from the adoption of Australian Equivalent to International Financial Reporting Standards*

HIGHLIGHTS

KEY FINANCIAL INDICATORS

		2006-07	2007-08
GENERAL GOVERNMENT SECTOR			
Budget Surplus – GFS Net Operating Surplus	$m	849	386
Underlying Cash Surplus/(Deficit)	$m	(2,145)	(1,758)
GFS Net Lending / (Borrowing)	$m	(995)	(1,546)
		June 2007	June 2008
Net Debt	$m	2,495	4,095
Net Debt as a % of Gross State Product	%	*0.7%*	*1.2%*
Net Unfunded Superannuation Liability	$m	14,363	17,626
Net Financial Liabilities (NFL)	$m	26,186	29,836
NFL as a % of Gross State Product	%	*7.8%*	*8.4%*
		2006-07	2007-08
TOTAL STATE SECTOR			
AAS31 Operating Result excluding Significant Items and Other Net Income – Surplus	$m	792	1,302
AAS31 Operating Result including Significant Items - Surplus/(Deficit)	$m	6,076	(1,849)
		June 2007	June 2008
Net Debt	$m	19,302	20,686
Net Debt as a % of Gross State Product	%	*5.8%*	*5.8%*
Net Unfunded Superannuation Liability	$m	14,068	17,760
Net Financial Liabilities (NFL)	$m	51,995	57,466
NFL as a % of Gross State Product	%	*15.5%*	*16.2%*
GFS Total Assets	$m	213,129	231,096
GFS Total Liabilities	$m	78,124	84,316
GFS Net Worth	$m	135,005	146,780

Throughout this Report NSW Treasury has estimated 2007-08 Gross State Product (GSP). The Australian Bureau of Statistics has yet to publish its 2007-08 estimate of GSP.

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

1. ANALYSIS OF THE GFS STATEMENT OF THE BUDGET RESULT

The Budget Operating Statement has been prepared on a GFS basis and relates to the General Government Sector. The commentary on this statement analyses the variances between the Budget for 2007-08 and the actual result. An audited Statement of the Budget Result is disclosed on Page 1-5.

2. ANALYSIS OF THE GFS TOTAL STATE SECTOR BALANCE SHEET

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

3. ANALYSIS OF AAS 31 TOTAL STATE REVENUES AND EXPENDITURE

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

4. FINANCIAL FRAMEWORK AND TARGETS

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

5. SCOPE OF THE REVIEW

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

1. ANALYSIS OF THE GFS STATEMENT OF THE BUDGET RESULT

	Budget $m	Actual $m	Var $m
Total State Revenues	39,631	41,817	2,186
Total Operating Revenues	5,363	4,993	(370)
Total Expenses	(44,618)	(46,424)	(1,806)
Budget Result	376	386	10

The Budget result for the financial year ended 30 June 2008 was a surplus of $386 million. This represented a $10 million increase on the original 2007-08 estimate of a surplus of $376 million (see NSW General Government Sector Statement of the Budget Result page *1-5*). An analysis of the result compared to the Budget (as presented in the 2007-08 Budget Papers) is outlined below.

STATE REVENUES

State revenues increased by $2,186 million against budget as outlined below.

	Budget $m	Actual $m	Var $m
State Revenues			
Taxation	17,562	18,557	995
Commonwealth Grants			
- General Purpose	11,926	11,942	16
- Specific Purpose	7,190	7,891	701
Financial Distributions	1,764	2,062	298
Fines, Regulatory Fees and Other	1,189	1,365	176
Total State Revenues	39,631	41,817	2,186

Taxation

Transfer Duty

Transfer duty on property transfers is the largest single component of stamp duty revenues. It is the most volatile revenue source collected by the State. Revenue was $243 million higher than the Budget. The increase reflects stronger than expected revenue from both the large commercial property transactions (where duty exceeds $1 million) and residential and small commercial property markets.

Land tax was $233 million higher than the Budget time estimate. This was due to higher than expected number of assessments processed for the 2007 land tax year, faster than expected land value growth, particularly for high value properties and additional compliance and administrative activity.

Payroll tax was $245 million higher than the Budget. This was due chiefly to stronger wage and employment growth than expected at Budget time.

The Workers' Compensation (Dust Diseases) Board contributions from Insurers were higher than expected at Budget time ($231 million). This is offset by a corresponding increase in expenses.

The Motor Accidents Authority reported an increase in compulsory third party (CTP) premium revenue, following an increase in the CTP levy ($79 million).

Commonwealth Grants

Commonwealth general purpose payments were $16 million more than the Budget. National Competition Policy Payments were $26 million more than the Budget following the release of water reform payments that were suspended in 2005-06. GST revenue grants were $10 million lower than expected.

Specific purpose payments were $701 million above budget. During the year, there was increased funding for new and existing programs such as the Exceptional Circumstances Scheme, Equine Influenza, Digital Education Revolution, NAPLAN National Testing, Assistance to Disabled program, Achieving Sustainable Groundwater Entitlements program, Health Care Grant, Australian Immunisation Agreement for Cervical Cancer, as well as various other grants paid directly to the Area Health Services. These additional funds are offset by higher expenditures in these areas.

Timing differences in the delivery of various capital works by the Roads and Traffic Authority changed the mix of Commonwealth and State funding. Consequently, revenue was $70 million lower than budget, consisting of $46 million in cash payments and the deferral of recognition of $24 million of accelerated funding received in 2006.

Financial Distributions (Dividends and Income Tax Equivalents)

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

Dividends and taxes increased by $298 million in 2007-08 primarily due to the improved financial performance of the electricity generation sector resulting from higher output and lower operating expenditure, increasing their level of dividends and tax equivalent payments.

Fines, Regulatory Fees and Other

Revenues from fines, regulatory fees and other revenues was $176 million higher than the 2007-08 Budget estimate. Mineral royalties increased because of higher coal prices. In addition, the implementation of the Criminal Infringement Notices Scheme resulted in increased fines collected by the State Debt Recovery Office in lieu of court attendance.

OPERATING REVENUES

Operating revenues decreased by $370 million against budget as outlined below.

	Budget $m	Actual $m	Var $m
Operating Revenues			
Sale of Goods and Services	3,433	3,618	185
Investment Income	781	(172)	(953)
Grants and Contributions	824	812	(12)
Other Revenue	325	735	410
Total Operating Revenues	5,363	4,993	(370)

Sale of Goods and Services

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

In 2007-08, sales of goods and services exceeded the Budget estimate by $185 million.

A number of larger agencies had favourable movements which have corresponding expense offsets. This includes patient, hospital and ambulance charges in the Department of Health, overseas student and course fees in the Department of Education and Training and fees for service in the Roads and Traffic Authority.

Investment Income

Investment income includes returns on advances to public trading enterprises, returns on NSW Treasury Corporation deposits and on deposits with financial institutions.

In 2007-08, investment revenue deteriorated by $953 million over the Budget estimate. This mainly reflected lower than expected returns flowing from the downturn in investment markets across a number of agencies, including the NSW Self Insurance Corporation ($724 million), Workers' Compensation (Dust Diseases) Board ($124 million) and Building & Construction Industry Long Service Leave Payment Corporation ($96 million).

Grants and Contributions

Grants and Contributions revenue were only slightly below the Budget estimate.

Other Operating Revenue

Other operating revenue was above the Budget estimate by $410 million. This includes non-cash capital grants received by the Roads and Traffic Authority ($144 million) and Crown Leaseholds Entity ($74 million) and higher than expected HIH Insurance Recoveries received by the Crown Finance Entity ($59 million).

The remaining increase is made up of minor variations across a range of agencies.

EXPENSES

Health expenses were $611 million higher than the Budget estimate. This mainly reflects additional operating expenditure by the Area Health Services ($349 million), higher long service leave provisions ($78 million), additional acute care bed funding ($29 million). Additional costs were also incurred on the Clinical Services Redesign program ($18 million), National Centre for HIV Epidemiology and Clinical Research ($20 million), Privately Financed Projects ($18 million), superannuation ($18 million) and increased maintenance and other spending ($133 million). This is partly offset by savings from delays in salary negotiations ($40 million) and under expenditure in the Highly Specialised Drugs program ($19 million).

Roads and Traffic Authority expenses were $269 million higher than budget, consisting of an additional $200 million allocated to road maintenance, including works to remediate roads following major flooding in various regions. Depreciation was $26 million higher than budget mainly as a result of the impact of a revaluation of the Traffic Signals Network. The transfer of road and bridges to local councils ($43 million), which was not included in the original budget, affected capital grants.

Crown Finance Entity expenses were $252 million higher than the Budget estimate. This primarily results from additional capital grants paid to rail agencies for debt repayment and restructuring costs ($390 million) offset by lower financing cost ($76 million).

Education expenses were $176 million higher than the Budget estimate. This mainly reflects higher Defined Benefits Superannuation costs, higher depreciation expense due to revaluations at 2006-07 year end, additional Commonwealth funded School Programs and expenditure increases corresponding to an increase in school students and additional TAFE student fee related courses.

Police expenses were $133 million higher than the Budget estimate. This was mainly due to an increase in Death and Disability Scheme expenses ($85 million), increases in employee and operating expenses offset by additional revenues ($19 million), increase in depreciation expense due to additional approved funding for ICT works ($8 million) and other variations, including a one off funding for salary maintenance and redundancy costs ($21 million).

Ministry of Transport expenses were $132 million higher than the Budget estimate primarily due to the bringing forward of a further rail payment of $150 million from 2009-10 offset by reduction in parking space levy payments to councils ($20 million).

Workers' Compensation (Dust Diseases) Board expenses were $109 million higher than the Budget estimate. This is due to the increase in the provision for future claims as well as administration and medical costs.

Department of Primary Industries expenses were $102 million higher than the Budget estimate, mainly due to Equine Influenza costs and extension of drought assistance measures.

Department of Arts, Sports and Recreation expenses were $74 million higher than the Budget estimate. This mainly reflects increased grants provided for the Sydney Cricket Ground, Museum of Contemporary Art, Hunter International Sports Centre and redevelopment of the Brookvale Oval.

Work Cover Authority expenses were $62 million higher than the Budget Estimate due to the transfer of funds to the Workers Compensation Insurance Fund as part of the new Funding model for the agency.

Department of Water and Energy expenses were $56 million higher than the Budget estimate largely due to payment of Groundwater Structural adjustments carried forward from 2006-07 due to irrigation litigations and Commonwealth taxation issues. This is offset by under-expenditure on the Country Towns Program and delays with the Goulburn Pipeline.

Crown Leaseholds Entity expenses were $55 million higher than the Budget estimate mainly due to grants of land to Local Councils and Crown Reserve Trust.

World Youth Day Co-Ordination Authority expenses were $53 million higher than the Budget estimate. This is due to additional expenses associated with the event including accessing Randwick Racecourse.

NSW Business Link expenses were $51 million higher than the Budget estimate. This is mainly due to additional costs associated with increased client project work.

NSW Self Insurance Corporation expenses were $463 million lower than the Budget estimate, mainly due to downward revisions in the outstanding liability and claims paid, a reduction in the number of reported large claims in the Public Liability Portfolio, better injury management and lower weekly benefit payments.

2. ANALYSIS OF THE GFS TOTAL STATE SECTOR BALANCE SHEET

The Total State Sector Balance Sheet

Over the period June 1995 through to June 2008, the Net Worth of the NSW Total State Sector has more than doubled.

The Total State Sector's Net Worth was $146,780 million at 30 June 2008, an increase of $11,775 million or 8.7 per cent on the previous year.

The $11,775 million increase in Net Worth comprises an increase in non-financial assets of $17,246 million and an increase in Net Financial Liabilities of $5,471 million.

Non-Financial Assets

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

The State's non-financial assets were valued at $204,246 million at 30 June 2008, an increase of $17,246 million on the previous year. This included an increase in investments in property and infrastructure of $11,163 million, and asset revaluations of $11,444 million and other movements of $356 million. These were offset by depreciation of $4,718 million and asset disposals with a book value of $999 million.

Capital expenditure on property and infrastructure in 2007-08 included investments in:

- educational facilities $520 million
- hospitals and equipment $545 million
- roads $1,909 million
- public housing $497 million
- public transport $1,288 million
- energy infrastructure $2,615 million
- water infrastructure $1,576 million

Several agencies performed cyclical revaluations of their property, plant and equipment during the financial year. As a result, the value of roads increased by $4,703 million, railways increased by $3,333 million and power stations increased in value by $1,076 million.

Net Financial Liabilities

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

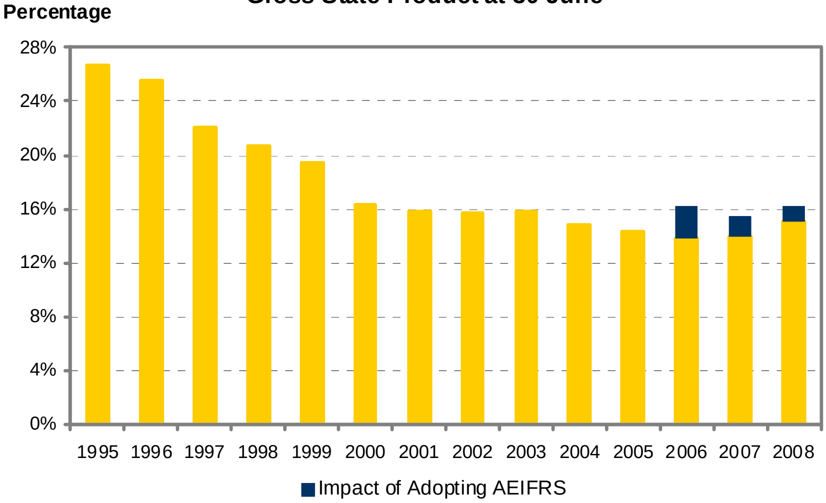
Total State Sector NFL as a per cent of gross state product fell from 26.7 per cent in June 1995 to 16.2 per cent in June 2008. (Refer Figure 5).

This reduction is despite the impact of adopting Australian Equivalents to International Financial Reporting Standards (AEIFRS), which increased NFL by 1.1 per cent in June 2008 (2007 1.5 per cent), driven by changes to the superannuation liability discount rate applied by the actuaries.

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

Figure 5

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



Net Financial Liabilities (NFL) comprise:

	June 2008 $m	June 2007 $m
GFS Net Debt	20,686	19,302
Unfunded Superannuation Liabilities	17,760	14,068
Other Employee Entitlements	11,096	10,639
Insurance Obligations	4,635	4,515
Other Net Liabilities	3,289	3,471
Net Financial Liabilities	57,466	51,995

The $5,471 million net increase in Total State NFL was due to:

- an increase in net debt ($1,384 million);
- an increase in superannuation liabilities ($3,692 million);
- growth in other employee benefit liabilities ($457 million);
- an increase in public liability and other insurance obligations ($120 million); and
- a reduction in other net liabilities ($182 million).
- The increase in superannuation liabilities was principally impacted by the negative 7.2 per cent investment earnings of the State Super Fund schemes.

Net Debt

Total State Sector Net Debt grew by $1,384 million to $20,686 million for the year ended 30 June 2008.

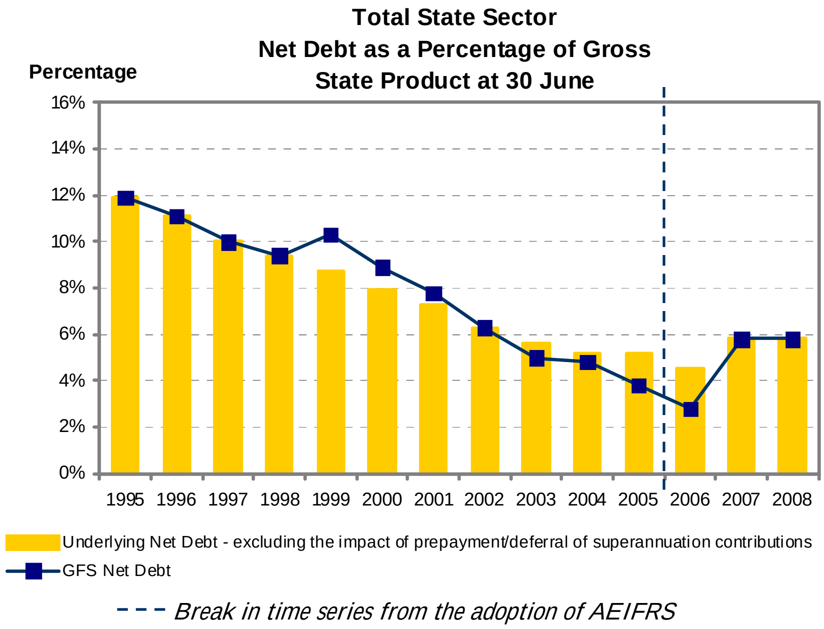
During 2007-08, gross debt increased by $2,363 million and cash and investments increased by $979 million.

Net Debt comprises borrowings less cash, investments and advances receivable. The increase in Net Debt is primarily the result of two items:

- the Total State Sector cash deficit of $3,690 million, which represents the net capital programs less the operating cash flows of the state, and
- a fall in 2007-08 in electricity net derivative liabilities against a hedging reserve (nearly $2 billion) following a spike in electricity prices, which established the liabilities in late June 2007. These liabilities were extinguished against the reserve, in 2007-08 following a return to normal electricity prices.

The Net Debt of the State as a percentage of GSP remained constant at 5.8 per cent in June 2008 and June 2007, as the increase in the dollar value of net debt was matched by a similar growth in economic output of the State. This compares to 11.9 per cent in June 1995. (Refer Figure 6).

Figure 6



Superannuation Liabilities

Superannuation liabilities represent the actuarially assessed obligations for past and present employees less the net market value of scheme assets set aside to meet these obligations. During 2007-08, net unfunded superannuation liabilities increased by $3,692 million. This is a result of:

- lower investment returns than expected. The actual investment performance of the State Super Fund was negative 7.2 per cent in 2007-08, which is lower than the long term actuarially applied rate, which ranges from positive 7.3 to 8.3 per cent per annum;
- an increase in the accrued benefits due to an additional year of service being provided by current State Super Fund scheme contributors;
- one year less discounting for the present value of total future benefit payments; and
- salary increases.

This was partly offset by an increase in the State Super Fund liability discount rate from 6.4 per cent in 2007 to 6.55 per cent in 2008 as required under accounting standards.

Employer and employee assets in the defined benefits schemes were $33,358 million at 30 June 2008.

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

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

The value of defined benefit superannuation liabilities can be inherently volatile from year to year. This is because the underlying investments that support them are subject to price movements in local and international financial markets, and the fact that the actuaries are required to discount the liabilities using a long term government bond rate as at 30 June. Small movements in the government long term bond rate can impact the actuarially estimated liabilities by several billion dollars, both positively and negatively. Despite recent movements in equity markets, the plan to fully fund superannuation liabilities by 2030 remains on track.

Other Employee Benefits Liabilities

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

The liabilities grew by 4.3 per cent to $11,096 million in June 2008. Workers compensation obligations and other employee payables remained constant at 2007 levels, whereas long service leave grew by 4.8 per cent reflecting growth in salary levels and in emerging leave obligations.

Insurance Obligations

These liabilities primarily comprise obligations of the Treasury Managed Fund (excluding worker's compensation), liabilities for dust disease claims, and closed insurance schemes such as the Transport Accident Compensation Fund (old third party scheme).

In 2007-08, insurance obligations increased by $120 million to $4,635 million. The growth was affected by the first full year of operations of the Lifetime Care and Support Scheme, whose liabilities grew by $246 million as assessed by actuaries. However, other insurance liabilities fell, influenced by a reduction in medical indemnity claim liabilities.

Other Net Liabilities

Other net liabilities decreased during 2007-08 by $182 million to $3,289 million. Other net liabilities primarily comprise non-employee provisions, payables, unearned income and other obligations, less receivables and equity assets.

The State has a provision of $1,010 million in June 2008 (2007 $1,009 million) for the liability in respect of claims that have been granted to local Aboriginal Land Councils under the *Aboriginal Land Rights Act 1983*. These liabilities are backed by land assets of an equivalent value, which will be transferred when control and management of the granted lands transfers to the relevant Aboriginal Land Council. This will occur after the parcels of land are surveyed and title is issued.

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

However the Australian Bureau of Statistics has determined, for the purposes of Government Finance Statistics (GFS) reporting, that the roads grant should be accrued to match the timing of the related expenditure by NSW. This accrual treatment is adopted only for the Outcomes Report and in the Statement of the Budget Result, which are both prepared in accordance with GFS principles. The amount recognised at June 2008 in the GFS balance sheet under other net liabilities is $586 million.

Net Worth

The movement in various financial and non-financial assets and liabilities, outlined above, resulted in growth in Net Worth during 2007-08 of $11,775 million to $146,780 million.

The 2007-08 Report on State Finances contains two asset and liability reports.

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

The primary differences between the two reports are:

- Provisions for doubtful debts are excluded from balance sheets presented on a GFS basis.

- The GFS balance sheet includes specific deferred Commonwealth grants revenue liabilities (dedicated for the Australian Road Transport Program) which have been recognised as revenue, and not as liabilities, in the accounting based Total State Sector Accounts.

- The General Government balance sheet in the Outcomes Report shows an equity investment in the Public Financial Corporation and Non-Financial Corporation Sectors (referred to more generally as the PTE Sector and PFE Sector) while the accounting based statement of financial position does not record this item.

- Further, GFS based Balance Sheets are classified into financial and non-financial assets and liabilities, whereas accounting based statements of financial position are grouped by current or non-current assets and liabilities.

- From 2008-09, the Outcomes Report will be prepared on a harmonised GFS-GAAP basis, consistent with Australian Accounting Standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

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

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

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

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

Excluding other net income (ie valuation gains/losses) and significant items, the accrual operating result for the Total State Sector was a surplus of $1,302 million in 2007-08 compared to a surplus of $792 million in 2006-07. However, a number of significant revenue and expense items (see Note 5) and other net income (mainly superannuation losses) result in an overall accounting deficit of $1,849 million being reported in 2007-08.

These include:

- superannuation actuarial losses of $3,646 million in 2007-08 versus gains of $3,502 million in 2006-07. In 2007-08, these losses resulted primarily from lower than average investment returns. In 2006-07 the gains were mainly the result of increases in the 10 year Commonwealth bond rates, used to discount the defined benefit scheme liabilities, and higher than average superannuation investment returns;

  Accounting standards require the use of a long-term government bond rate as at 30 June, which can be volatile from year to year. Superannuation gains have also been affected by the below (in 2007-08) and above (in 2006-07) average investment returns. The actual investment performance of the State Super Fund was negative 7.2 per cent (2006-07 positive 15.2 per cent), which varies from the long-term actuarially applied rate that ranges from positive 7.3 per cent to 8.3 per cent per annum;

- the 2007-08 workers compensation claims expense was a more normal $268 million, which compares to a negative $36 million claims expense in 2006-07 driven mainly by the outcome of recent tort law reform and better liability management;
- a one-off $424 million stamp duty revenue (including interest) accrued in 2006-07 resulting from an assessment from a single large transaction;
- a special grant of assets in 2006-07 ($190 million) and 2007-08 ($144 million) from the Queensland government towards the Tugun Bypass Tunnel; and
- a significant fall in earnings from interest and managed funds earnings, from $1,492 million in 2006-07 to $480 million in 2007-08 reflecting lower returns from financial markets

By excluding the impact of these one-off large transactions it is possible to perform a more meaningful analysis of the results.

To ensure consistency between periods, expenses associated with the cost of goods sold, and lottery prizes, have been reclassified from a negative revenue to an expense, consistent with Australian Accounting Standards. This correction of a prior period error has resulted in the grossing up of both 'revenues from the sale of goods and services' and 'other operating expenses' by $2,136 million in the 2006-07 comparative operating statement.

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

	2007-08	2006-07
	$m	$m
Total State Revenues	38,686	35,793
Operating Revenues	18,636	17,109
Less Total Expenses	(56,020)	(52,110)
Operating Surplus excluding Net Income and Significant Items	1,302	792

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

Total State Revenues

Total State Revenues, including Commonwealth grants, State taxes, fines and fees, rose $2,893 million or 8.1 per cent between 2006-07 and 2007-08.

Taxation revenue increased in 2007-08 by $947 million.

Stamp duties were static at $5,532 million for 2008-09. The abolition of duties for leases, hiring and loan securities (for owner occupied residencies) resulted in falls of $207 million compared to 2006-07. Share transfer duty was $37 million lower due to fewer high value transactions (transactions on which more than $1 million is payable) than in 2006-07. These were offset by small increases in purchaser transfer duties in the first part of the fiscal year, and higher duties from motor vehicle registrations, the result of growth in vehicle prices and registration volumes.

Payroll tax was up $527 million, mainly driven by growth in employment and wages.

Land tax was $73 million lower in 2007-08, reflecting the cut in the land tax rate from 1.7 per cent to 1.6 per cent, and the unwinding of the boost to revenue in 2006-07 from clearing a backlog of assessments.

Gambling and betting revenues fell by $104 million. Club and hotel gaming revenue fell, affected by the lower patronage following the introduction of smoking laws, and racing revenues fell as a result of the equine influenza outbreak.

Other taxes and levies rose by $587 million. Dust diseases revenues (and related expenses) grew by $288 million, motor vehicle weight tax was up $72 million from increases in the size of the motor vehicle fleet and annual indexation of the tax rate, and there was growth in waste disposal and fire levies.

Commonwealth grants revenue rose by 10.0 per cent compared to 2006-07. GST revenue provided to NSW was up $978 million, due to higher Australia-wide GST collections and an increase in New South Wales's share of these collections. However, this only slightly altered the proportion of GST revenue that New South Wales received.

NSW Treasury estimates that in 2007-08 around $14.1 billion of GST revenue was generated in New South Wales, compared with the GST grants that New South Wales received of $11.9 billion. This resulted in a cross subsidy to other States (excluding Victoria and Western Australia) of $2.2 billion in 2007-08.

Commonwealth specific purpose grants increased $773 million over 2006-07. These included increases in grants dedicated for immunisation and health care programs, rural assistance, and groundwater activities. These were partly offset by reductions in the level of grants towards salinity and the Australian Land Transport Development programs.

Fines, fees and other state revenues increased by $169 million in 2007-08. It includes a growth of $85 million in mining royalties due to higher coal prices.

Operating Revenues

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

Operating revenues grew by $1,527 million or 8.9 per cent to $18,636 million in 2007-08. The growth in operating revenues was driven by a broad increase in revenue from all revenue types, aside from investment income.

The largest component, revenues from sale of goods and services, grew by 9.9 per cent or $1,480 million. The growth includes an additional $535 million from retail electricity sales (which includes growth in new interstate contracts), $168 million additional premium revenue for the Lifetime Care and Support scheme (which had its first full year of operations), and growth in hospital and patient fees of $118 million, as more patients elect to enter public hospitals as private patients, resulting in higher recoveries (and higher associated costs).

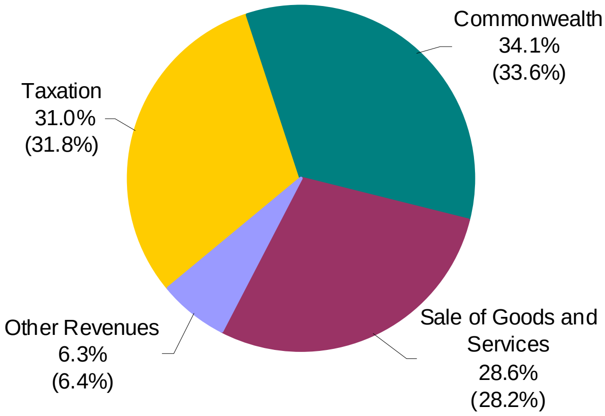
The major component of investment revenues, from 'interest and managed fund earnings' was classified as a significant revenue item and analysed separately, due to its volatile nature between 2006-07 and 2007-08. Excluding the earnings from interest and managed funds, investment revenue still fell back $106 million affected by financial market impacts on other investments. Investment revenue from rental properties remained static between the two years. Note 29 *Financial Instruments* to the Total State Sector Accounts provides a comprehensive analysis of the classifications, valuations and risks of the State's various financial instruments. For the first time it includes a sensitivity analysis of some of the major risks associated with the State's investments and other instruments.

Revenues from grants and contributions rose by $151 million. These include developer contributions towards electricity and water infrastructure, and contributions from community sources.

Other revenues were static at 2006-07 levels.

Figure 7

Total State Sector Revenue 2007-08
(2006-07 in brackets)



Expenses

Total State Sector accrued expenses excluding significant transactions grew by $3,910 million or 7.5 per cent in 2007-08. The growth in expenses has been across various categories explained below.

Employee benefit expenses (excluding superannuation) grew by 8.4 per cent during 2007-08 to $23,888 million. Salaries and wages expenses grew 6.7 per cent reflecting higher pay levels particularly for teachers, health and police employees, as well as the impact of government initiatives. These include nearly 400 additional staff for community services, and staff to support increased demand on the public health system. Actuarially assessed workers compensation expenses for the Treasury Managed Fund grew by $278 million.

Superannuation expenses fell by $141 million from the previous year. The decrease in superannuation costs was the result of lower State Super Fund expenses partly offset by higher contributions for compulsory accumulation schemes. The lower defined benefit State Super Fund expenses resulted from increased expected returns from the growing base of employer superannuation funds. In calculating the components of the accounting superannuation expense, a long term expected return on plan assets is applied. (The impact of the difference between the expected and the actual return is reported separately on the operating statement as an actuarial gain/loss).

During 2007-08, other operating expenses rose by $954 million or 6.4 per cent. Health pressures from higher inpatient and outpatient admissions, and pharmaceutical cost pressures resulted in $305 million of this growth above the 2006-07 levels. Insurance claim expenses for the Lifetime Care and Support Scheme, as assessed by actuaries, grew by $214 million reflecting the first full year of the scheme's operation.

Depreciation expense rose by $254 million or 5.7 per cent during 2007-08.

Grants and subsidies rose overall by $848 million or 14.9 per cent in 2007-08, reflecting the Government's increased allocation of resources towards rural assistance, community, ageing, disability and homecare services, health, education, and public transport.

Accrued finance costs grew $151 million or 6.4 per cent in 2007-08. Total State Sector gross debt levels rose by around 6 per cent in 2007-08 as a result of funding the State's capital program (the bulk of the capital program is funded from surplus cash from operating activities). Finance costs also include the unwinding of discounts on non-employee provision liabilities which reflects the increase in the value of the liabilities as a result of the movement of time (from June 2007 to June 2008).

4. FINANCIAL FRAMEWORK AND TARGETS

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

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

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

1. The Government's medium-term fiscal targets are:

- To reduce the level of General Government sector net financial liabilities as a proportion of gross state product to 7.5 per cent or less by 30 June 2010; and
- To maintain underlying General Government sector net debt as a proportion of gross state product at or below its level as at 30 June 2005.

2. The Government's long-term fiscal targets are:

- To reduce the level of General Government sector net financial liabilities as a proportion of gross state product to 6.0 per cent or less by 30 June 2015;
- To maintain underlying General Government sector net debt as a proportion of gross state product at or below its level as at 30 June 2005; and
- To eliminate Total State sector unfunded superannuation liabilities by 30 June 2030.

General Government net financial liabilities were $29.8 billion as at June 2008, equivalent to 8.4 per cent of GSP. This compares with 7.8 per cent of GSP as at June 2007.

In the year ending 30 June 2008, General Government sector underlying net debt was 1.2 per cent of GSP compared to 0.7 per cent of GSP as at June 2007, and 0.4 per cent of GSP as at June 2006. The increase in net debt partly funded the record general government capital spending in 2007-08.

Total State underlying net unfunded superannuation liabilities were $17.7 billion (5.0 per cent of GSP) at June 2008. As a share of the economy, superannuation liabilities have fallen from 8.5 per cent in 1995, including the impact of accounting standards changes. The target of eliminating unfunded superannuation liabilities by June 2030 is achievable on current projections.

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

The General Government net operating result on a GFS basis remained in surplus at $386 million in 2007-08.

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

Average annual growth of total expenses for the 4-year periods ending June 2008 and June 2012 is 6.2 per cent and 4.1 per cent respectively.

Long-term average revenue growth is 5 per cent per annum. Over the 4-year period ending June 2012, average annual growth in total expenses is projected to be lower than long-term revenue growth.

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

   The Government policy is net wage costs not to exceed 2.5 per cent. Agreements concluded in 2007-08 have incorporated 2.5 per cent increases with further increases offset by employee-related savings..

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

   Analysis of construction projects commenced before and after the introduction of procurement reforms (including Gateway Business Case Reviews and enhanced Treasury monitoring) indicate a reduction in the order of 50 per cent in cost over-runs.

   Recently the emphasis on early stage project planning and consideration of service delivery options was increased with the introduction of mandatory Strategic Gateway reviews for projects over $10 million planned for the upcoming forward estimates period.

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

   An assessment of the fiscal gap was presented in the *NSW Long-Term Fiscal Pressures Report, published in Budget Paper No.6 in the 2006-07 Budget Papers,* and is to be updated every five years. An assessment of the impact of budget measures in respect of expenses and revenue is to be presented in the annual budget papers. *The estimated fiscal gap in 2043-44 is 3.9 per cent of GSP.*

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

   General Government net worth increased by an average of 3.9 per cent annually in real terms from June 1998 to June 2008.

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

   See 2 above.

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

    Treasury receives Total Asset Management (TAM) plans from agencies responsible for 98.5 per cent of General Government asset holdings. TAM strategies are an essential part of the capital budget process. Government uses TAM strategies to prioritise investments and forecast infrastructure requirements.

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

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

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

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

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

    The net effect of all tax policy changes since 1999-2000 is to reduce the NSW tax burden in 2008-09 by around $1.5 billion p.a.

5. SCOPE OF THE REVIEW

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

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

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

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

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

The Statement of the Budget Result

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

The report compares the 2007-08 year-end results with the 2007-08 Budget estimates for key aggregates.

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

'Significant Uncertainty regarding Objection to a Taxation Assessment

Without qualification to the opinion expressed above, I draw attention to the 'Statement Basis' paragraph included in the Notes to the Statement of the Budget Result. In 2006-07, the Chief Commissioner of State Revenue received an objection from a taxpayer to an assessment issued under the Duties Act 1997. The matter is subject to appeal in the Supreme Court and is currently in the discovery phase.

Until such time as this matter is resolved the ultimate outcome and its impact on the Statement of Budget Result cannot be determined. The Statement of Budget Result does not include an impairment loss relating to this assessment.'

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

The Outcomes Report

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

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

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

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

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

The Consolidated Financial Report

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

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

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

The New South Wales Total State Sector includes both the General Government sector and the Non-General Government sector.

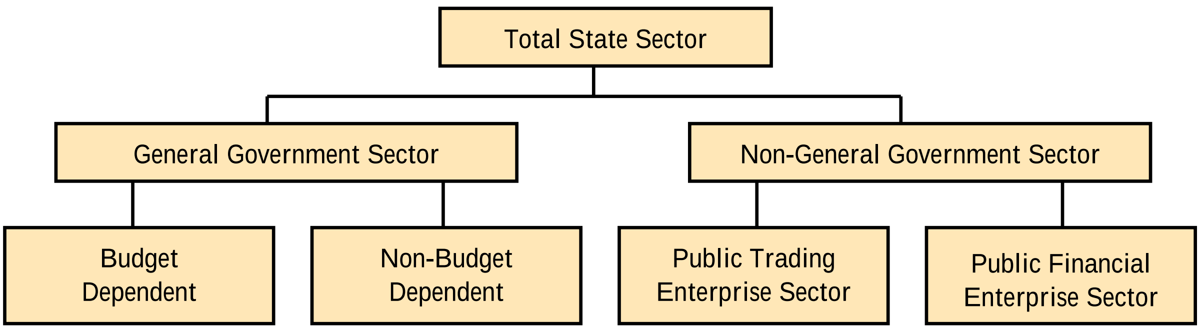
The Non-General Government sector includes the State's Public Trading Enterprises (PTEs) and Public Financial Enterprises (PFEs). PTEs are responsible for supplying public infrastructure services, including electricity, ports, water and public transport. PTEs are largely self-funded from user charges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

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

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

The composition of the Total State Sector is summarised in Figure 8.

Figure 8



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

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

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

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

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

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

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

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

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

My audit report for the year ended 30 June 2007 referred to the same matter.'

AUDITED STATEMENT OF THE BUDGET RESULT

STATEMENT OF COMPLIANCE

In our opinion, the Statement of the Budget Result for the NSW General Government Sector for the year ended 30 June 2008:

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

The Hon Eric Roozendaal MLC	Mark Ronsisvalle	Mark Pellowe
Treasurer	Deputy Secretary	Senior Director
	NSW Treasury	NSW Treasury

22 October 2008

GPO BOX 12
Sydney NSW 2001

INDEPENDENT AUDITOR'S REPORT

NEW SOUTH WALES GENERAL GOVERNMENT SECTOR

STATEMENT OF THE BUDGET RESULT

To Members of the New South Wales Parliament

I have audited the accompanying Budget Result Report, which comprises the Statement of the Budget Result, the Notes to the Statement and the Statement of Compliance of the New South Wales General Government Sector for the year ended 30 June 2008.

The Treasurer's Responsibility for the Budget Result

The Treasurer is responsible for the preparation and presentation of the Budget Result Report in accordance with the basis of accounting described in the Notes to the Statement for the purpose of providing information to members of the New South Wales Parliament as allowed for under Section 6 of the *Public Finance and Audit Act 1983* (PF&A Act).

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

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

Auditor's Responsibility

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

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

The Budget Result Report has been prepared in accordance with the basis of accounting described in the Notes to the Statement for the purpose of providing information to members of the New South Wales Parliament as allowed for under Section 6 of the PF&A Act. The Budget Result Report may not be suitable for any other purpose. My report is intended solely for the Treasurer and the Members of the New South Wales Parliament and should not be used by parties other than the Treasurer or Members of the New South Wales Parliament.

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

Auditor's Opinion

In my opinion, the Budget Result Report for the year ended 30 June 2008, presents fairly the budget result, in all the material respects, in accordance with the basis of accounting described in the Notes to the Statement.

Significant Uncertainty regarding Objection to a Taxation Assessment

Without qualification to the opinion expressed above, I draw attention to the 'Statement Basis' paragraph included in the Notes to the Statement of the Budget Result. In 2006-07, the Chief Commissioner of State Revenue received an objection from a taxpayer to an assessment issued under the *Duties Act 1997*. The matter is subject to appeal in the Supreme Court and is currently in the discovery phase.

Until such time as this matter is resolved the ultimate outcome and its impact on the Statement of Budget Result cannot be determined. The Statement of the Budget Result does not include an impairment loss relating to this assessment.

Audit Independence

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

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

Peter Achterstraat
Auditor-General

22 October 2008
SYDNEY

NSW GENERAL GOVERNMENT SECTOR STATEMENT OF THE BUDGET RESULT

	2007-08 $m Actual	2007-08 $m Budget	2006-07 $m Actual
State Revenues			
Taxation	18,557	17,562	17,705
Commonwealth Grants			
- General Purpose	11,942	11,926	10,938
- Specific Purpose	7,891	7,190	6,868
Financial Distributions	2,062	1,764	1,951
Fines, Regulatory Fees and Other	1,365	1,189	1,196
Total State Revenues	41,817	39,631	38,658
Operating Revenues			
Sale of Goods and Services	3,618	3,433	3,306
Investment Income	(172)	781	1,314
Grants and Contributions	812	824	784
Other Revenue	735	325	696
Total Operating Revenues	4,993	5,363	6,100
Total Revenues	46,810	44,994	44,758
Expenses			
Employee Related - Superannuation	2,410	2,409	2,594
Employee Related - Other	20,379	20,000	18,781
Other Operating	9,607	9,380	8,881
Depreciation and Amortisation	2,466	2,429	2,308
Recurrent Grants & Subsidies	7,990	7,429	7,247
Capital Grants & Subsidies	2,278	1,650	2,847
Finance Other	1,294	1,321	1,251
Total Expenses	46,424	44,618	43,909
BUDGET RESULT - SURPLUS	386	376	849

NOTES TO THE STATEMENT

Statement Basis

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

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

GFS principles allow revisions to historical data. This includes the back casting of new treatments to place significant economic transactions within the relevant fiscal year, and the reclassification of transactions, where further information subsequently becomes available. Accordingly the 2006-07 comparatives have been restated.

Taxation revenue in 2006-07 included an assessment of $424 million ($259 million duty and $165 million interest). This assessment is currently subject to an objection by the taxpayer. The Chief Commissioner of State Revenue does not believe that consideration should be given to impairing the receivable until the outcome of the objection process is known.

Departures from GFS Principles

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

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

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

- GFS operating statements disclose a reconciliation from the Net Operating Result to Net Lending. As the Budget is prepared on a Net Operating Result basis, this additional reconciling information (on the Net Acquisition of Non-Financial Assets) has not been reported in the Statement of the Budget Result. However, the relevant information is available for users in the 2007-08 Outcomes Report; and

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

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

Budget Coverage

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

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

This is the last time that the Statement of the Budget Result will be prepared on this basis. AASB 1049 *Whole of Government and General Government Sector Financial Reporting* will affect the presentation of the 2008-09 Budget Result. In addition to presenting a consolidated total state sector report, it also requires the presentation of a general government sector report including detailed notes. These two reports adopt a harmonised government finance statistics (GFS)-GAAP reporting basis, which encompasses a comprehensive result, that separate 'transactions' from 'other economic flows'. It requires the publishing of reconciliations (ie convergence differences) between key fiscal aggregates prepared under GAAP and those prepared under GFS. A summary of the main convergence differences for New South Wales is published in the 2008-09 Budget Paper No.2 on pages 10-6 through to 10-9. The new report, which will be audited, will also require disclosure of major budget-to-outcome variances for the general government sector.

END OF AUDITED STATEMENT OF THE BUDGET RESULT

OUTCOMES REPORT

NSW 2007-08 FINANCIAL OUTCOMES REPORT

This Financial Outcomes Report compares for 2007-08 the published NSW Budget with the actual outcome on an accruals basis. Only the actual outcome is presented for the NSW Public Financial Corporations Sector as budget data is not available. In addition to the reporting requirements, a consolidated NSW Total State Public Sector balance sheet by sector (Table 1) has been included. This assists in analysis of key State Sector balance sheet indicators.

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

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

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

From 2008-09, the Outcomes Report will be prepared on a harmonised GFS-GAAP basis, consistent with Australian Accounting Standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

LOAN COUNCIL REPORTING REQUIREMENTS

Table 16 compares the NSW Loan Council Allocation (LCA) estimate at the time of the Budget with the actual result for 2007-08.

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

Table 16 shows a LCA outcome for 2007-08 of $9.4 billion compared with the Budget-time estimate of a $6.4 billion. The result exceeds the tolerance limit of $1.2 billion.

During 2007-08 the cash result for the public trading enterprise sector improved by $3 billion. This was primarily due to improved receipts in the electricity sector and cashflows from operations.

This was more than offset by a worse that expected result for the memorandum items. The memorandum items were impacted by negative superannuation earnings of 7.2 per cent return. This is lower than the long term actuarial assumption, which ranges from positive 7.3 to 8.3 percent per annum.

TABLE 1: NSW PUBLIC SECTOR BALANCE SHEETS (ABS BASIS) AT 30 JUNE 2008

	General Government $m	Public Non-financial Corporation $m	Total Non-financial Sector [(a)] $m	Public Financial Corporations $m	Total State Sector $m
Assets					
Financial assets					
Cash and deposits	2,299	2,063	4,362	697	4,913
Advances paid	1,645	18	1,100	…	1,101
Investments, loans and placements	6,074	919	6,895	37,385	13,354
Other non-equity assets	11,663	2,804	6,194	867	6,648
PTE/PFE equity	74,370	...	157	…	...
Other equity	810	25	835	…	834
Total financial assets	96,861	5,829	19,543	38,949	26,850
Non-financial assets					
Land and fixed assets	100,804	101,150	201,953	10	201,963
Other non-financial assets	1,442	874	2,284	…	2,283
Total non-financial assets	102,246	102,024	204,237	10	204,246
Total assets	199,107	107,853	223,780	38,959	231,096
Liabilities					
Deposits held	98	107	204	1,044	1,135
Advances received	864	562	864	…	864
Borrowing	13,151	19,272	32,325	36,689	38,055
Superannuation liability [(b)]	17,626	135	17,760	…	17,760
Other employee entitlements and provisions	13,725	9,744	16,090	327	16,391
Other non-equity liabilities	6,863	3,820	9,757	742	10,111
Total liabilities	52,327	33,640	77,000	38,802	84,316
Shares and other contributed capital	...	74,213	...	157	...
NET WORTH (ABS Basis)	146,780	...	146,780	...	146,780
Net Debt [(c)]	4,095	16,941	21,036	(349)	20,686
Net Financial Worth [(d)]	44,534	(102,024)	(57,457)	(10)	(57,466)
Net Financial Liabilities [(e)]	29,836	102,024	57,614	10	57,466

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

(b) Comprises unfunded obligations.

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

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

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

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

			2007-08 $m (Budget)	2007-08 $m (Actual)
	GFS Revenue			
	Taxation revenue		17,562	18,557
	Current grants and subsidies		20,597	21,438
	Capital grants		1,507	1,448
	Sales of goods and services		3,741	3,967
	Interest income		781	(172)
	Other		3,328	4,142
	Total revenue		47,516	49,380
less	GFS Expenses			
	Employee expenses		21,555	21,928
	Depreciation		2,429	2,466
	Other operating expenses		10,903	11,079
	Nominal superannuation interest expense		501	477
	Other interest expenses		1,321	1,294
	Other property expenses		...	...
	Current transfers		8,682	9,394
	Capital transfers		1,749	2,356
	Total expenses		47,140	48,994
equals	GFS net operating balance		376	386
less	Net acquisition of non-financial assets			
	Purchases of non-financial assets		4,691	4,419
	less	Sales of non-financial assets	(469)	(494)
	less	Depreciation	(2,429)	(2,466)
	plus	Change in inventories	(2)	(7)
	plus	Other movements in non-financial assets		
		- finance leases	245	251
		- other	15	229
	equals	Total net acquisition of non-financial assets	2,051	1,932
equals	GFS Net Lending / (Borrowing) [(a)]		(1,675)	(1,546)

Notes:

(a) Also known as Fiscal Balance.

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

			2007-08 $m (Budget)	2007-08 $m (Actual)
	GFS Revenue			
	Sales of goods and services		11,456	12,891
	Current grants and subsidies		2,131	2,099
	Capital grants		845	1,481
	Interest income		68	135
	Other		720	835
	Total revenue		15,220	17,441
less	GFS Expenses			
	Employee expenses		3,600	3,444
	Depreciation		2,254	2,249
	Other operating expenses		6,341	7,451
	Interest expenses		1,203	941
	Other property expenses		1,716	2,030
	Current transfers		228	198
	Capital transfers		7	17
	Total expenses		15,349	16,330
equals	GFS net operating balance		(129)	1,111
less	Net acquisition of non-financial assets			
	Purchases of non-financial assets		7,604	6,494
	less	Sales of non-financial assets	(350)	(570)
	less	Depreciation	(2,254)	(2,249)
	plus	Change in inventories	83	57
	plus other movements in non-financial assets			
		- finance leases	...	...
		- other	168	234
	equals	Total net acquisition of non-financial assets	5,251	3,966
equals	GFS Net Lending / (Borrowing) [(a)]		(5,380)	(2,855)

Notes:
(a) Also known as Fiscal Balance.

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

		2007-08 $m (Budget)	2007-08 $m (Actual)
	GFS Revenue		
	Taxation revenue	16,796	17,801
	Current grants and subsidies	20,483	21,321
	Sales of goods and services	14,960	16,513
	Capital grants	1,500	1,438
	Interest income	789	(89)
	Other	2,295	2,966
	Total revenue	56,823	59,950
less	GFS Expenses		
	Employee expenses	25,143	25,360
	Depreciation	4,683	4,715
	Other operating expenses	16,217	17,416
	Nominal superannuation interest expense	496	349
	Other interest expenses	2,468	2,310
	Other property expenses	...	...
	Current transfers	6,696	7,378
	Capital transfers	873	925
	Total expenses	56,576	58,453
equals	GFS net operating balance	247	1,497
less	Net acquisition of non-financial assets		
	Purchases of non-financial assets	12,289	10,907
	less Sales of non-financial assets	(819)	(1,065)
	less Depreciation	(4,683)	(4,715)
	plus Change in inventories	81	50
	plus other movements in non-financial assets		
	- finance leases	245	251
	- other	184	463
	equals Total net acquisition of non-financial assets	7,297	5,891
equals	GFS Net Lending / (Borrowing) [(a)]	(7,050)	(4,394)

Notes:
(a) Also known as Fiscal Balance.

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

			2007-08 $m (Actual) [(a)]
	GFS Revenue		
	Sales of goods and services		323
	Current grants and subsidies		6
	Capital grants		...
	Interest income		2,435
	Other		...
	Total revenue		2,764
less	GFS Expenses		
	Employee expenses		13
	Depreciation		3
	Other operating expenses		254
	Interest expenses		2,359
	Other property expenses		32
	Current transfers		...
	Capital transfers		...
	Total expenses		2,661
equals	GFS net operating balance		103
less	Net acquisition of non-financial assets		
	Purchase of non-financial assets		5
	Sales of non-financial assets		...
	less	Depreciation	(3)
	plus	Change in inventories	...
	plus	Other movements in non-financial assets	...
	equals	Total net acquisition of non-financial assets	2
equals	GFS Net Lending / (Borrowing) [(b)]		101

Notes:

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

(b) Also known as Fiscal Balance.

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

	2008 $m (Budget)	2008 $m (Actual)
Assets		
Financial assets		
Cash and deposits	2,933	2,299
Advances paid	926	1,645
Investments, loans and placements	7,043	6,074
Other non-equity assets	10,176	11,663
Equity	69,436	75,180
Total financial assets	90,514	96,861
Non-financial assets		
Land and fixed assets	95,459	100,804
Other non-financial assets	1,214	1,442
Total non-financial assets	96,673	102,246
Total assets	187,187	199,107
Liabilities		
Deposits held	94	98
Advances received	865	864
Borrowing	15,297	13,151
Superannuation liability [(a)]	16,441	17,626
Other employee entitlements and provisions	13,755	13,725
Other non-equity liabilities	4,731	6,863
Total liabilities	51,183	52,327
NET WORTH	136,004	146,780
Net Financial Worth [(b)]	39,331	44,534
Net debt [(c)]	5,354	4,095

Notes:

(a) Comprises unfunded obligations.

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

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

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

	2008 $m (Budget)	2008 $m (Actual)
Assets		
Financial assets		
Cash and deposits	962	2,063
Advances paid	...	18
Investments, loans and placements	531	919
Other non-equity assets	2,774	2,804
Equity	87	25
Total financial assets	4,354	5,829
Non-financial assets		
Land and fixed assets	102,134	101,150
Other non-financial assets	877	874
Total non-financial assets	103,011	102,024
Total assets	107,365	107,853
Liabilities		
Deposits held	203	107
Advances received	567	562
Borrowing	21,508	19,272
Superannuation liability / (Prepaid contribution)[(a)]	(104)	135
Other employee entitlements and provisions	8,392	9,744
Other non-equity liabilities	3,327	3,820
Total liabilities	33,893	33,640
Shares and other contributed capital [(b) (c)]	73,472	74,213
NET WORTH [(b) (c)]	...	...
Net financial worth [(c) (d)]	(103,011)	(102,024)
Net debt [(e)]	20,785	16,941

Notes:

(a) Comprises unfunded obligations or prepaid contributions.

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

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

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

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

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

	2008 $m (Budget)	2008 $m (Actual)
Assets		
Financial assets		
Cash and deposits	3,895	4,362
Advances paid	359	1,100
Investments, loans and placements	7,476	6,895
Other non-equity assets	5,839	6,194
Equity	1,627	992
Total financial assets	19,196	19,543
Non-financial assets		
Land and fixed assets	192,032	201,953
Other non-financial assets	2,058	2,284
Total non-financial assets	194,090	204,237
Total assets	213,286	223,780
Liabilities		
Deposits held	297	204
Advances received	865	864
Borrowing	36,707	32,325
Superannuation liability (a)	16,337	17,760
Other employee entitlements and provisions	15,853	16,090
Other non-equity liabilities	7,223	9,757
Total liabilities	77,282	77,000
Shares and other contributed capital		
NET WORTH	136,004	146,780
Net financial worth (b)	(58,086)	(57,457)
Net debt (c)	26,139	21,036

Notes:

(a) Comprises unfunded obligations.

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

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

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

	2008 $m (Actual) [a]
Assets	
Financial assets	
Cash and deposits	697
Advances paid	...
Investments, loans and placements	37,385
Other non-equity assets	867
Equity	...
Total financial assets	38,949
Non-financial assets	
Land and fixed assets	10
Other non-financial assets	...
Total non-financial assets	10
Total assets	38,959
Liabilities	
Deposits held	1,044
Advances received	...
Borrowing	36,689
Superannuation liability [b]	...
Other employee entitlements and provisions	327
Other non-equity liabilities	742
Total liabilities	38,802
Shares and other contributed capital [c] [d]	157
NET WORTH [c] [d]	...
Net financial worth [d] [e]	(10)
Net debt [f]	(349)

Notes:

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

(b) Comprises unfunded obligations.

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

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

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

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

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

CASH FLOW	2007-08 $m (Budget)	2007-08 $m (Actual)
Cash receipts from operating activities		
Tax received	17,569	18,112
Receipts from sales of goods and services	3,710	3,842
Grants/subsidies received	21,771	22,574
Other receipts	5,750	5,754
Total receipts	48,800	50,282
Cash payments for operating activities		
Payment for goods and services	(32,890)	(33,216)
Grants and subsidies paid	(9,906)	(11,026)
Interest paid	(956)	(927)
Other payments	(2,570)	(2,812)
Total payments	(46,322)	(47,981)
Net cash flows from operating activities	2,478	2,301
Net cash flows from investments in non-financial assets		
Sales of non-financial assets	486	505
Purchases of non-financial assets	(4,695)	(4,313)
Net cash flows from investments in non-financial assets	(4,209)	(3,808)
Net cash flows from investments in financial assets for policy purposes	58	20
Net cash flows from investments in financial assets for liquidity purposes	39	1,156
Net cash flows from financing activities		
Advances received (net)	(51)	(49)
Borrowing (net)	2,408	209
Deposits received (net)	...	5
Other financing (net)	...	...
Net cash flows from financing activities	2,357	165
Net increase (decrease) in cash held	723	(166)
SURPLUS / (DEFICIT)		
Net cash from operating activities and investments in non-financial assets	(1,731)	(1,507)
Finance leases and similar arrangements	(245)	(251)
SURPLUS / (DEFICIT)	(1,976)	(1,758)

Notes:

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

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

CASH FLOW	2007-08 $m (Budget)	2007-08 $m (Actual)
Cash receipts from operating activities		
Receipts from sales of goods and services	11,872	14,093
Grants/subsidies received	2,976	3,579
Other receipts	2,309	2,586
Total receipts	17,157	20,258
Cash payments for operating activities		
Payment for goods and services	(10,397)	(11,662)
Grants and subsidies paid	(228)	(193)
Interest paid	(1,201)	(1,055)
Other payments	(1,841)	(1,873)
Total payments	(13,667)	(14,783)
Net cash flows from operating activities	3,490	5,475
Net cash flows from investments in non-financial assets		
Sales of non-financial assets	353	576
Purchases of non-financial assets	(7,566)	(6,404)
Purchases of second-hand non-financial assets	...	...
Net cash flows from investments in non-financial assets	(7,213)	(5,828)
Net cash flows from investments in financial assets for policy purposes	(33)	(18)
Net cash flows from investments in financial assets for liquidity purposes	74	131
Net cash flows from financing activities		
Advances received (net)	(100)	(122)
Borrowing (net)	4,998	2,701
Deposits received (net)	...	(24)
Distributions Paid	(1,568)	(1,939)
Other financing (net)	(1)	...
Net cash flows from financing activities	3,329	616
Net increase (decrease) in cash held	(353)	376
SURPLUS / (DEFICIT)		
Net cash from operating activities and investments in non-financial assets	(3,723)	(353)
Distribution Paid	(1,568)	(1,939)
Finance leases and similar arrangements		
SURPLUS / (DEFICIT)	(5,291)	(2,292)

Notes:

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

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

CASH FLOW	2007-08 $m (Budget)	2007-08 $m (Actual)
Cash receipts from operating activities		
Taxes received	16,823	17,683
Receipts from sales of goods and services	15,347	17,207
Grants/subsidies received	21,646	22,442
Other receipts	6,518	6,465
Total receipts	60,334	63,797
Cash payments for operating activities		
Payment for goods and services	(42,354)	(43,793)
Grants and subsidies paid	(7,090)	(7,583)
Interest paid	(2,096)	(1,928)
Other payments	(4,336)	(4,657)
Total payments	(55,876)	(57,961)
Net cash flows from operating activities	4,458	5,836
Net cash flows from investments in non-financial assets		
Sales of non-financial assets	840	1,081
Purchases of non-financial assets	(12,255)	(10,711)
Purchases of second-hand non-financial assets	...	...
Net cash flows from investments in non-financial assets	(11,415)	(9,630)
Net cash flows from investments in financial assets for policy purposes	(78)	(100)
Net cash flows from investments in financial assets for liquidity purposes	113	1,287
Net cash flows from financing activities		
Advances received (net)	(51)	(42)
Borrowing (net)	7,409	2,884
Deposits received (net)	(1)	(19)
Distributions Paid	...	...
Other financing (net)	(65)	...
Net cash flows from financing activities	7,292	2,823
Net increase (decrease) in cash held	370	216
SURPLUS / (DEFICIT)		
Net cash from operating activities and investments in non-financial assets	(6,957)	(3,794)
Distributions Paid	...	
Finance leases and similar arrangements	(245)	(251)
SURPLUS / (DEFICIT)	(7,202)	(4,045)

Notes:

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

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

CASH FLOW	2007-08 $m (Actual) [(b)]
Cash receipts from operating activities	
Receipts from sales of goods and services	340
Grants/subsidies received	6
Interest received	2,411
Other receipts	5
Total receipts	2,762
Cash payments for operating activities	
Payment for goods and services	(30)
Grants and subsidies paid	...
Interest paid	(2,326)
Other payments	(12)
Total payments	(2,368)
Net cash flows from operating activities	394
Net cash flows from investments in non-financial assets	
Sales of non-financial assets	...
Purchases of non-financial assets	(5)
Net cash flows from investments in non-financial assets	(5)
Net cash flows from investments in financial assets for policy purposes	...
Net cash flows from investments in financial assets for liquidity purposes	(4,891)
Net cash flows from financing activities	
Advances received (net)	...
Borrowing (net)	4,697
Deposits received (net)	16
Distributions Paid	(34)
Other financing (net)	...
Net cash flows from financing activities	4,679
Net increase (decrease) in cash held	177
SURPLUS / (DEFICIT)	
Net cash from operating activities and investments in in non-financial assets	389
Distribution Paid	(34)
Finance leases and similar arrangements	...
SURPLUS / (DEFICIT)	355

Notes:

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

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

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

	2007-08 $m (Budget)	2007-08 $m (Actual)
General Public Services		
Government superannuation benefits	88	98
Other general public services	1,322	1,716
Total Other General Public Services	1,410	1,814
Public Order and Safety		
Police and fire protection services		
- Police services	2,167	2,175
- Fire protection services	653	651
Law courts and legal services	980	1,018
Prisons and corrective services	967	975
Other public order and safety	67	59
Total Public Order and Safety	4,834	4,878
Education		
Primary and secondary education		
- Primary education	3,707	3,556
- Secondary education	3,840	3,709
- Primary and secondary education n.e.c.	2,039	2,130
Tertiary education		
- University education	10	...
- Technical and further education	1,574	1,505
- Tertiary education n.e.c.	...	...
Pre-school education and education not definable by level		
- Pre-school education	25	24
- Special education	625	750
- Other education not definable by level	29	...
Transportation of students		
- Transportation of non-urban school children	285	405
- Transportation of other students	190	246
- Education n.e.c.	...	...
Total Education	12,324	12,325
Health		
Acute care institutions		
- Admitted patient services in acute care institutions	8,250	8,436
- Non-admitted patient services in acute care institutions	1,607	1,639
Mental health institutions	28	43
Nursing homes for the aged	90	86
Community health services		
- Community health services (excluding community mental health)	765	824
- Community mental health	417	392
- Patient transport	497	601
Public health services	583	565
Pharmaceuticals, medical aids and appliances	188	162
Health research	...	...
Health administration n.e.c.	38	58
Total Health	12,463	12,806

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

	2007-08 $m (Budget)	2007-08 $m (Actual)
Social Security		
Social Security	162	274
Welfare services		
- Family and children services	943	1,032
- Welfare services for the aged	314	315
- Welfare services for people with a disability	1,643	1,608
- Welfare services n.e.c.	310	240
Social security and welfare n.e.c.	156	168
Total Social Security	3,528	3,637
Housing and Community Amenities		
Housing and community development		
- Housing	892	923
- Community Development	115	114
Water supply	190	71
Sanitation and protection of the environment	694	756
Other community amenities	...	...
Total Housing and Community Amenities	1,891	1,864
Recreation and Culture		
Recreation facilities and services		
- National parks and wildlife	323	299
- Recreation facilities and services n.e.c.	329	354
Cultural facilities and services	401	506
Broadcasting and film production	14	9
Recreation and culture n.e.c.	...	...
Total Recreation and Culture	1,067	1,168
Fuel and Energy		
Fuel affairs and services		
- Coal/Petroleum/Nuclear affairs, Fuel affairs and services n.e.c.	6	6
- Gas	...	...
Electricity and other energy		
- Electricity	30	22
- Other energy	3	...
Fuel and Energy n.e.c.	...	...
Total Fuel and Energy	39	28

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

	2007-08 $m (Budget)	2007-08 $m (Actual)
Agriculture, Forestry, Fishing and Hunting		
Agriculture	652	1,036
Forestry, fishing and hunting	73	139
Total Agriculture, Forestry, Fishing and Hunting	725	1,175
Mining and Mineral Resources other than Fossil Fuels; Manufacturing and Construction		
Mining and mineral resources other than fuels	45	53
Manufacturing	...	...
Construction	109	79
Total Mining and Mineral Resources other than Fossil Fuels; Manufacturing and Construction	154	132
Transport and Communications		
Road transport		
- Road rehabilitation, and Aboriginal community road transport servises	...	...
- Road maintenance	989	1,201
- Road transport n.e.c.	1,901	1,745
Water transport		
- Other water transport services	...	...
- Urban water transport services	134	144
Rail transport		
- Urban rail transport services	1,383	1,702
- Non-urban rail transport freight services	256	256
- Non-urban rail transport passenger services	...	...
Air transport	...	...
Pipelines	...	...
Other transport		
- Multi-mode urban transport	163	129
- Other transport n.e.c.	443	583
Communications	20	...
Total Transport and Communications	5,289	5,760
Other Economic Affairs		
Storeage, saleyards and markets	...	...
Tourism and area promotion	3	48
Labour and employment affairs		
- Vocational training	147	181
- Other labour and employment affairs	313	565
Other economic affairs	333	295
Total Other Economic Affairs	796	1,089

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

	2007-08 $m (Budget)	2007-08 $m (Actual)
Other Purposes		
Public debt transactions	1,824	1,776
General purpose inter-government transactions	478	399
Natural disaster relief	59	77
Other purposes n.e.c.[(a)]	259	66
Total Other Purposes	2,620	2,318
Total GFS Expenses	47,140	48,994

Notes: n.e.c. not elsewhere classified

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

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

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

	2007-08 $m (Budget)	2007-08 $m (Actual)
General public services	345	329
Public order and safety	388	386
Education	564	524
Health (c)	586	546
Social security and welfare	90	108
Housing and community amenities	67	178
Recreation and culture	179	208
Fuel and energy	...	...
Agriculture, forestry, fishing and hunting	30	24
Mining, manufacturing and construction	3	12
Transport and communications	2,215	2,002
Other economic affairs	24	25
Other purposes (b)	200	77
Total GFS Purchases of Non Financial Assets	4,691	4,419

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

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

TABLE 16: 2007-08 LOAN COUNCIL ALLOCATION ESTIMATES FOR NSW

	Budget-time Estimate 2007-08 $m	Actual 2007-08 $m
General government sector cash deficit / (surplus)	1,976	1,758
PNFC sector cash deficit / (surplus) (a)	5,291	2,292
Non-financial public sector cash deficit / (surplus) (b)	7,202	4,045
Minus Net cash flows from investments in financial asset for policy purposes (c)	78	100
Plus Memorandum items (d)	(911)	5,261
Loan Council Allocation	6,369	9,406

Notes:

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

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

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

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

The Memorandum items have been significantly influenced by the investment performance of the State Super Fund earning a negative 7.2% return which is lower than the budget-time earnings estimate of positive 7.6%.

PRIVATE SECTOR INFRASTRUCTURE

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

Contracts entered into in 2007-08

None to be reported.

END OF UNAUDITED OUTCOMES REPORT

AUDITED CONSOLIDATED FINANCIAL REPORT OF THE NSW TOTAL STATE SECTOR (TOTAL STATE SECTOR ACCOUNTS) 2007 - 2008

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STATEMENT OF COMPLIANCE

In our opinion the Total State Sector Accounts:

(a) give a true and fair view of the operating result, changes in equity and cash flows of the NSW Total State Sector for the year ended 30 June 2008 and of the financial position of the NSW Total State Sector at that date;

(b) have been prepared on the basis of the financial reporting requirements as prescribed in the Public Finance and Audit Act 1983; and

(c) are in accordance with all applicable Australian Accounting Standards.

The Hon.Eric Roozendaal MLC	Mark Ronsisvalle	Mark Pellowe
Treasurer	Deputy Secretary	Senior Director
	NSW Treasury	NSW Treasury

22 October 2008

GPO BOX 12
Sydney NSW 2001

INDEPENDENT AUDITOR'S REPORT

TOTAL STATE SECTOR ACCOUNTS

To Members of the New South Wales Parliament

I have audited the accompanying financial report of the NSW Total State Sector (Total State Sector Accounts), which comprises the balance sheet as at 30 June 2008, the operating statement, statement of recognised income and expense and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes.

Qualified Auditor's Opinion

In my opinion, except for the effects of such adjustments if any as might have been determined to be necessary had I been able to satisfy myself as to the value of Crown Reserves, the financial report:

- presents fairly, in all material respects, the financial position of the Total State Sector as at 30 June 2008, and its financial performance and cash flows for the year then ended in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations)
- is in accordance with the *Public Finance and Audit Act 1983* (PF&A Act)
- accords with the books and records of the Treasurer.

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

Basis for Qualified Auditor's Opinion

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

My audit report for the year ended 30 June 2007 referred to the same matter.

The Treasurer's Responsibility for the Financial Report

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

Auditor's Responsibility

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

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

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

My opinion does not provide assurance about the future viability of the Total State Sector.

Independence

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

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

Peter Achterstraat
Auditor-General

22 October 2008
SYDNEY

THE NSW TOTAL STATE SECTOR ACCOUNTS OPERATING STATEMENT
FOR THE YEAR ENDED 30 JUNE 2008

	Note	2007-08 $m	2006-07 $m
REVENUES			
State Revenues			
Taxation	2	17,792	17,269
Commonwealth Grants	2	19,529	17,752
Fines, Regulatory Fees and Other	2	1,365	1,196
Total State Revenues		38,686	36,217
Operating Revenues			
Sale of Goods and Services	2	16,393	14,913
Investments	2,5	620	1,738
Grants and Contributions		1,418	1,313
Other		829	827
Total Operating Revenues		19,260	18,791
Total Revenues		57,946	55,008
EXPENSES EXCLUDING LOSSES			
Employee Benefits			
- Superannuation	3	2,587	2,728
- Other	3	23,888	22,044
Other Operating	3	16,015	14,757
Depreciation and Amortisation	3	4,718	4,464
Grants and Subsidies	3	6,555	5,707
Finance Costs	3	2,525	2,374
Total Expenses Excluding Losses		56,288	52,074
SURPLUS BEFORE OTHER NET INCOME		1,658	2,934
OTHER NET INCOME			
Net Gain/(Loss) from Disposals	4	111	...
Other Net Gains/(Losses)	4	(3,667)	3,100
Share of Earnings from Equity Investments		49	42
Total Other Net Income		(3,507)	3,142
SURPLUS/(DEFICIT) FOR THE YEAR		(1,849)	6,076

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

THE NSW TOTAL STATE SECTOR ACCOUNTS
STATEMENT OF RECOGNISED INCOME AND EXPENSE
FOR THE YEAR ENDED 30 JUNE 2008

	Note	2007-08 $m	2006-07 $m
Income and Expenses Recognised Directly in Equity			
Net Revaluation Increment in Property, Plant and Equipment Asset Revaluation Reserve	22	11,416	4,382
Net unrealised gain/(loss) in the Hedging Reserve	22	1,923	(1,972)
Fair Value Adjustments to the Available for Sale Reserve	22	(46)	45
Movements in NSW's share of equity investments taken directly to equity	22	24	25
Total Income and Expenses Recognised Directly in Equity		13,317	2,480
Surplus/(Deficit) for the Year	22	(1,849)	6,076
Total Income, and Expenses for the Year (Recognised in the Operating Statement and in Equity)		11,468	8,556
Adjustments for Changes in Accounting Policy and Correction of Errors			
Adjustments to Accumulated Funds	22	...	(20)
Adjustments to Reserves	22	...	(43)
Total Adjustments for Changes in Accounting Policy and Correction of Errors		...	(63)

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

THE NSW TOTAL STATE SECTOR ACCOUNTS BALANCE SHEET
AS AT 30 JUNE 2008

	Note	2008 $m	2007 $m
Current Assets			
Cash and Cash Equivalent Assets	6	4,913	4,320
Receivables	7	5,064	5,478
Financial Assets at Fair Value	8	5,600	4,534
Investments Accounted for Using the Equity Method	9	...	...
Inventories	10	742	678
Other	16	224	288
Non-current Assets Classified as Held for Sale	11	193	395
Total Current Assets		16,736	15,693
Non-Current Assets			
Receivables	7	1,651	1,527
Financial Assets at Fair Value	8	7,046	7,806
Investments Accounted for Using the Equity Method	9	1,622	1,519
Inventories	10	381	433
Property, Plant and Equipment			
Land and Buildings	12	90,859	86,895
Plant and Equipment	12	10,926	10,530
Infrastructure Systems	12	94,790	82,289
Investment Properties	13	1,546	1,400
Forestry Stock and Other Biological Assets	14	1,519	1,409
Intangibles	15	1,770	1,571
Other	16	1,327	1,253
Total Non-Current Assets		213,437	196,632
TOTAL ASSETS		230,173	212,325
Current Liabilities			
Payables	17	6,153	6,431
Borrowings at Amortised Cost	18	4,214	6,940
Derivatives at Fair Value	19	893	2,811
Provisions	20	10,468	9,908
Other	21	618	555
Liabilities Directly Associated with Assets Held for Sale	11	...	...
Total Current Liabilities		22,346	26,645
Non-Current Liabilities			
Borrowings at Amortised Cost	18	33,600	25,893
Derivatives at Fair Value	19	431	1,128
Provisions	20	23,691	20,068
Other	21	2,957	2,911
Total Non-Current Liabilities		60,679	50,000
TOTAL LIABILITIES		83,025	76,645
NET ASSETS		147,148	135,680
Equity			
Accumulated Funds	22	71,042	71,827
Reserves	22	76,082	63,823
Amounts Recognised Directly in Equity Relating to Assets Held for Sale	11,22	24	30
TOTAL EQUITY		147,148	135,680

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

THE NSW TOTAL STATE SECTOR ACCOUNTS CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2008

	Note	2007-08 $m	2006-07 $m
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts			
Taxation		17,669	16,710
Commonwealth Grants		19,529	17,661
Sale of Goods and Services		16,409	14,164
Interest		357	485
Fines, Fees, Grants and Other		7,248	6,575
Total Receipts		61,212	55,595
Payments			
Employee Related		(26,047)	(23,510)
Special Superannuation Contribution	20	...	(7,175)
Grants and Subsidies		(6,277)	(5,544)
Finance Costs		(114)	(101)
Other		(20,738)	(18,620)
Total Payments		(53,176)	(54,950)
NET CASH FLOWS FROM OPERATING ACTIVITIES	23	8,036	645
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from Sale of Property, Plant and Equipment		1,076	979
Proceeds from Sale of Investments		979	8,518
Advance Repayments Received		35	47
Purchase of Property, Plant and Equipment		(10,228)	(9,117)
Purchase of Investments		(216)	(755)
Advances Made		(63)	(39)
Other		(368)	(229)
NET CASH FLOWS FROM INVESTING ACTIVITIES		(8,785)	(596)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from Borrowings and Advances		27	26
Repayments of Borrowings and Advances		(128)	(298)
NET CASH FLOWS FROM FINANCING ACTIVITIES		(101)	(272)
NET CASH FLOW OF FINANCIAL INSTITUTIONS	23	1,295	186
NET INCREASE/(DECREASE) IN CASH HELD		445	(37)
Opening Cash and Cash Equivalents		4,197	4,180
Reclassification of Cash Equivalents		...	54
CLOSING CASH BALANCE	23	4,642	4,197

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

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

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

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

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

Budget dependent agencies are those that receive an appropriation in the annual Appropriation Act. The majority of these agencies rely predominantly on the State Budget for direct funding. With some exceptions, they are known as departments as defined by section 45A(1) of the *Public Finance and Audit Act 1983* and are listed in Schedule 3 of that Act and in Appendix C of Budget Paper No. 2 of 2008-09.

The Crown Entity's Non-Commercial Activities are part of the General Government Sector and relate to service-wide assets, liabilities, revenues and expenses of a non-commercial nature which are the responsibility of the Government as a whole.

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

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

Public Financial Enterprises (PFEs) are government controlled and perform central bank functions, or accept demand, time or savings deposits, or have the authority to incur liabilities and acquire financial assets in the market on their own account. This sector includes NSW Treasury Corporation. The PFE sector is also referred to by the Australian Bureau of Statistics as the Public Financial Corporation Sector.

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

The New South Wales Total State Sector is a not-for-profit reporting entity for accounting purposes. It has a number of cash generating units, which are effectively represented by the for-profit entities, including the water, electricity and port authorities.

The financial report of the New South Wales State Sector (The Total State Sector Accounts) for the year ended 30 June 2008 was authorised for issue by the Treasurer on 22 October 2008. This report was issued from:

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

BASIS OF PREPARATION

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

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

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

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

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

STATEMENT OF COMPLIANCE

The Total State Sector Accounts, including notes comply with Australian Accounting Standards (which include Australian Accounting Interpretations).

NEW ACCOUNTING STANDARDS ISSUED BUT NOT EFFECTIVE

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

- AASB 3 (March 2008), AASB 127 and AASB 2008-3 regarding business combinations;
- AASB 8 and AASB 2007-3 regarding operating segments;
- AASB 101 (Sept 2007) and AASB 2007-8 regarding presentation of financial statements;
- AASB 123 (June 2007) and AASB 2007-6 regarding borrowing costs;
- AASB 1004 (Dec 2007) regarding contributions;
- AASB 1049 (Oct 2007) regarding the whole of government and general government sector financial reporting;
- AASB 1050 (Dec 2007) regarding administered items;
- AASB 1051 (Dec 2007) regarding land under roads;
- AASB 1052 (Dec 2007) regarding disaggregated disclosures;
- AASB 2007-9 regarding amendments arising from the review of AASs 27, 29 and 31;
- AASB 2008-1 regarding share based payments;
- AASB 2008-2 regarding puttable financial instruments;
- AASB 2008-5 regarding amendments to Australian accounting Standards arising from the Annual Improvements Project;
- AASB 2008-6 regarding further amendments to Australian accounting Standards arising from the Annual Improvements Project;
- AASB 2008-7 regarding costs of an investment in a subsidiary, jointly controlled entity, or an associate;
- Interpretation 4 (Feb 2007) regarding determining whether an arrangement contains a lease;
- Interpretation 12 and AASB 2007-2 regarding service concession arrangements;
- Interpretation 13 on customer loyalty programmes;
- Interpretation 14 regarding the limit on a defined benefit asset;
- Interpretation 129 (Feb 2007) regarding service concession disclosures;
- Interpretation 1038 (Dec 2007) regarding contributions by owners.

AASB 1049 *Whole of Government and General Government Sector Financial Reporting* will significantly affect the presentation of the 2008-09 Total State Sector Accounts. In addition to presenting a consolidated total state sector report, it also requires the presentation of a general government sector report including detailed notes. These two reports adopt a harmonised government finance statistics (GFS)-GAAP reporting basis, which encompasses a comprehensive result, that separate 'transactions' from 'other economic flows'. It requires the publishing of reconciliations (ie convergence differences) between key fiscal aggregates prepared under GAAP and those prepared under GFS. A summary of the main convergence differences for New South Wales is published in the 2008-09 Budget Paper No.2 on pages 10-6 through to 10-9.

AASB 1049 requires that where Australian Accounting Standards allow for optional treatments, only those treatments aligned with the ABS GFS Manual be applied. Marketable borrowings stated at amortised cost will be restated to fair value consistent with GFS. This will result in a $909 million reduction in the carrying amount of June 2008 total state sector borrowings.

AASB 1049 requires that the general government sector record an equity investment in the public trading and financial enterprise sectors. This would result in an increase in the net assets of the general government sector by approximately $75 billion for 30 June 2008 compared to that presented in note 31 'Disaggregated Financial Statements' of this report. However, the equity investment is already recognised in the GFS based Outcomes Report.

In 2008-09, AASB 1051 *Land under Roads* requires that the Total State Sector consider electing either to recognise (subject to satisfaction of the asset recognition criteria), or not to recognise the value of land under roads acquired before 30 June 2008. To the extent that land under roads is to be recognised (decision yet to be made), it may result in a material increase to the state's June 2009 land and buildings assets.

It is considered impracticable to presently determine the impact of adopting the above listed accounting standards issued, but not effective.

PRINCIPLES OF CONSOLIDATION

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

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

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

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

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

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

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

It has been estimated that the project will require the formal identification of more than 90,000 parcels of land. Since the last reporting date, over 27,000 parcels have been formally identified and converted to the State's Integrated Titling System. It is expected that the identification and conversion work should be completed late in the 2009 calendar year. Work has also commenced on classification of these parcels into categories to facilitate future valuations, which should be completed by June 2010.

Evaluation to date has not been conclusive and further investigation is necessary to determine the extent to which Crown reserves should be recognised in the Total State Sector Accounts.

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

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

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

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

INCOME RECOGNITION

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

State Taxation

State taxation is recognised as follows:

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

Commonwealth Grants

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

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

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

Fines, Regulatory Fees and Other State Revenue

These other state revenues are recognised as follows:

- Fines issued by the Courts are recognised when the fine is issued. When fines become overdue, additional revenue is recognised. Traffic infringement fines, such as those administered by the Infringement Processing Bureau are recognised when the cash is received. If they become overdue, responsibility for collection is transferred to the State Debt Recovery Office, and additional revenue is accrued.
- Regulatory fees, such as those collected by the Roads and Traffic Authority, are recognised when the cash is received.
- Royalty revenue is recognised in accordance with AASB 118 *Revenue* on an accrual basis.

Sale of Goods and Services

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

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

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

Investment Revenue

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

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

Grants and Contributions

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

Gains and Losses (in the Operating Statement)

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

EXPENSES

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

Employee Benefit Expenses

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

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

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

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

Other Operating Expenses

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

Depreciation of Property, Plant and Equipment

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

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

Useful lives for assets are as follows:

Buildings	
Public housing	10-50 years
Schools and colleges	65-80 years
Hospitals	40 years
Other	various
Plant and Equipment	
Rail rolling stock (leased and non leased)	20-35 years
Other	various
Infrastructure	
Power stations	50 years
Electricity system assets	4-70 years
Water system assets	10-150 years
Roads (pavements)	15-50 years
Roads (earthworks)	100 years
Other	various

Grants and Subsidies

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

Finance Costs

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

Accounting for the Goods and Services Tax (GST)

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

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

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

ASSETS

Cash and Cash Equivalents

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

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

Receivables

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

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

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

Financial Assets at Fair Value

Financial assets are initially measured at fair value plus, in the case of financial assets not at fair value through profit or loss, transaction costs. Financial Assets subsequently measured at fair value mainly comprise investments other than cash and receivables. These financial assets are either classified as "held for trading", "available for sale" (the residual category) or are designated at "fair value through profit and loss". Changes in fair value for assets classified or designated at fair value through profit and loss are recognised through the operating statement. In contrast, changes in fair value for available for sale assets are recognised directly in equity, until impaired or disposed of.

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

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

Other Financial Assets

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

Investments Accounted for Using the Equity Method

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

Impairment of Financial Assets

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

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

Inventories

Inventories held for distribution are stated at cost, adjusted when applicable for any loss of service potential. A loss of service potential is identified and measured based on the existence of a current replacement cost that is lower than the carrying amount. Inventories (other than those held for distribution) are valued at the lower of cost or net realisable value. Cost is calculated using the weighted average cost or the "first in first out" method.

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

Property, Plant and Equipment

Property, plant and equipment comprise three asset classes:

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

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

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

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

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

Capitalisation and Initial Recognition

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

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

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

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

Valuation of Property, Plant and Equipment

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

Property, plant and equipment is measured on an existing use basis, where there are no feasible alternative uses in the existing natural, legal, financial and socio-political environment.

However, in the limited circumstances where there are feasible alternative uses, assets are valued at their highest and best use.

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

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

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

Valuation of Land

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

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

Land under roads and within road reserves is not recognised in this financial report, as the Total State Sector is utilising the transitional provisions available in AASB 1045 *Land under Roads*. However, this land has been recognised in the financial report of the Roads and Traffic Authority at $37,964 million (2007 $35,192 million).

Valuation of Specialised Plant and Infrastructure

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

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

Valuation of Buildings

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

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

Heritage and Collection Assets

Heritage and cultural assets, including library and museum collections and works of art, are assets held because of their unique cultural, historical, geographical, scientific and/or environmental attributes. Heritage and cultural assets are valued at fair value based on existing use. Specifically, artworks, book collections, philately and coin collections are generally valued at market value. However, many heritage assets, including library and museum collections, are of a specialised nature, therefore valued at market buying price.

Further, heritage and cultural assets are not recognised where they cannot be reliably measured.

Revaluation of Property, Plant & Equipment

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

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

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

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

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

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

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

Impairment

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

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

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

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

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

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

Investment Properties

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

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

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

Forestry Stock (Biological Assets)

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

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

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

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

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

The value of the native forest timber resource, currently available for harvesting, has been assessed utilising an updated net market value model for the 2007-08 financial year. This approach has been recommended, in the short term, by an independent review by Pöyry Forest Industry Limited of Forest NSW's native forest valuation methodology.
The approach is based upon standing volumes and current prices less direct costs of disposing of the timber. Forests NSW manages the available native forest resource on a sustained yield basis. Sustained yield means the volume harvested will approximate, over time, annual forest growth of the harvestable native forest areas. As a result, costs incurred in managing, maintaining and developing the resource are expensed as incurred.

Intangible Assets

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

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

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

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

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

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

Privately Financed Projects

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

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

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

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

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

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

The following PFPs are currently in operation:

Sydney Harbour Tunnel

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

The cost of constructing the Tunnel was $683 million. The RTA revalues the tunnel annually using the Road Cost Index. The current written down replacement cost of the Tunnel is $671 million (2007 $659 million). The construction of the Tunnel was financed by 30 year inflation linked bonds issued by the Sydney Harbour Tunnel Company to the private sector of $487 million, Sydney Harbour Tunnel Company shareholders' loans (repaid in 1992) of $40 million, and an interest free, subordinated loan (the Net Bridge Revenue Loan) provided by the RTA of $223 million, based on the projected net toll revenue from the Sydney Harbour Bridge during the construction period.

Under the Ensured Revenue Stream Agreement (ERS), the Government has agreed to make ERS payments (net of tolls collected from the Tunnel) to enable the Sydney Harbour Tunnel Company to meet financial obligations arising from the operation and maintenance of the Tunnel and the repayment of principal and interest on funds borrowed by it for the design, construction and operation of the Tunnel.

The capital (principal repayment) portion of the obligation arising under the Ensured Revenue Stream Agreement is recognised as a liability. This is measured by reference to the principal outstanding on the bonds issued to private sector bondholders to finance the Harbour Tunnel of $313 million (2007 $330 million). In addition, a tax liability exists for $25 million (2007 $26 million) following negotiations between interested parties including the Australian Taxation Office, for settlement between the RTA, the NSW Government, the Sydney Harbour Tunnel Company Limited and Tunnel Holdings Pty Ltd.

Other Privately Financed Projects

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

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

- M2 Motorway (45 years)
- M4 Motorway (20 years)
- M5 Motorway (c 31 years)
- Westlink M7 Motorway (31 years)
- Eastern Distributor (48 years)
- Lane Cove Tunnel (c 33 years)
- Sydney Cross City Tunnel (c 30 years)
- Airport Line Railway Stations (30 years)
- Sydney Olympic Stadium (c 31 years)
- Sydney Superdome (c 32 years)
- Light Rail System (c 32 years)
- Opera House Car Park (50 years)
- Various Hospital Car Parks (25 years)
- Bowral Private Medical Imaging (15 years).

LIABILITIES

Payables

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

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

Borrowings

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

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

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

Amortised cost is the face value of the debt less unamortised discount or plus unamortised premiums. The discount or premiums are treated as finance charges and amortised over the term of the debt.

Overseas borrowings are translated at exchange rates prevailing at balance date.

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

Leases

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

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

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

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

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

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

Derivatives

The State has derivative assets and liabilities.

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

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

Funding swaps are valued off the appropriate swap curve.

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

Employee Benefits and Other Provisions

Wages and Salaries, Annual Leave and Sick Leave

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

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

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

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

Long Service Leave

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

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

Estimated future cash outflows are discounted using market yields at the reporting date that closely match the term of maturity of government bonds.

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

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

Superannuation

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

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

The accrued benefits amount is calculated having regard to:

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

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

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

Self funded worker's compensation

Some government agencies hold a group self-insurer's licence with the WorkCover Authority for workers' compensation. This self funded liability includes being actuarially calculated by McMahon Actuarial Services and Taylor Fry Pty Ltd on a discounted cash flows basis using a "central" estimate and assuming an interest rate of 6.3 per cent-7.1 per cent (2007: 6.3 per cent-6.8 per cent) per annum and a future wage inflation rate of 4.3 per cent-5.0 per cent (2007: 4.0 per cent-4.5 per cent) per annum.

Information on Treasury Managed Fund (TMF) self funded workers' compensation assumptions is reported below within the heading 'other provisions', as the TMF includes both workers'compensation and other insurance obligations combined.

Other Provisions

Other provisions exist when:

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

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

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

- administered by the NSW Self Insurance Corporation (SICorp). These comprise liabilities for closed schemes, the previous workers' compensation and third party insurance schemes, and for the Treasury Managed Fund, a self insurance scheme. The Treasury Managed Fund protects the insurable assets and exposures of all public sector agencies financially dependent on the Consolidated Fund, all public hospitals and various statutory authorities.

  The liability for outstanding claims is measured as the present value of the expected future payments and is determined by the Manager of SICorp in consultation with independent actuary, PricewaterhouseCoopers Actuarial Pty Ltd. The discount rate used is based on the forecast long term financial asset investment return.

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

- Workers Compensation (Dust Diseases) Board and WorkCover Authority outstanding claims. The WorkCover Authority liabilities includes claims assumed by the government from some failed insurance companies. The liabilities cover claims incurred but not yet paid, incurred but not yet reported and the anticipated fund management fees in respect of the management of those claims. These amounts are determined by independent actuarial consultants.

- Provision for participants care and support services for severally injured persons from motor accidents under the *Motor Accidents (Lifetime Care and Support) Act 2006*. At 30 June 2008, liabilities were valued by the actuaries PricewaterhouseCoopers.

- A provision for loss compensation associated with the former HIH Insurance Limited has been raised by the Government for building warranty insurance and for motor vehicle claims for which the Nominal Defendant is responsible under the Motor Accidents Compensation Act 1999. The liability is measured by the actuaries, Taylor Fry Pty Ltd as the present value of the expected future payments.

- The Building and Construction Industry Long Service Payments Corporation liabilities have been assessed based upon a full actuarial investigation that was undertaken as at 30 June 2007 by Bendzulla Actuarial Pty Ltd. At 30 June 2008, Bendzulla undertook an actuarial update.

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

Key actuarial assumptions for the main schemes are:

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

	TMF		GWC		TAC	
	2008 %	2007 %	2008 %	2007 %	2008 %	2007 %
Not Later than one year						
Inflation Rate	2.8-4.5	2.8-4.5	4.5	4.5	4.5	4.5
Discount Rate	7.0	6.8	7.0	6.8	7.0	6.8
Superimposed Inflation *	0-10.0	0-10.0	0-3.0	0-3.0	0-2.5	0-2.5
Later than one year						
Inflation Rate	2.5-4.0	2.5-4.0	4.5	4.5	4.5	4.5
Discount Rate	7.0	6.8	7.0	6.8	7.0	6.8
Superimposed Inflation *	0-10.0	0-10.0	0-3.0	0-3.0	0-2.5	0-2.5

* Dependent on payment type

For other Schemes details are as follows:

Scheme	Discount Rate %		Inflation Rate %	
	2008	2007	2008	2007
Claims expected to be paid not later than one year				
Workers Compensation (Dust Diseases) Board	6.0	6.25	4.25	4.25
WorkCover Authority	7.1	6.5	4.25	4.0
HIH Loss Compensation	6.3	6.3	5.0(4.0*)	4.5(4.0*)
Building and Construction Industry Long Service Payment Scheme	6.7	6.4	4.5	4.5
Lifetime Care and Support	6.7	6.3	4.5	4.0
Claims expected to be paid later than one year				
Workers Compensation (Dust Diseases) Board	6.0	6.25	4.25	4.25
WorkCover Authority	6.2-7.1	6.0-6.6	4.25	4.0
HIH Loss Compensation	6.4-7.1	5.9-6.3	5.0(4.0*)	4.5(4.0*)
Building and Construction Industry Long Service Payment Scheme	6.7	6.4	4.5	4.5
Lifetime Care and Support	6.2-6.4	6.0-6.4	4.5	4.0

* Represents the superimposed inflation rate

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

Other Liabilities

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

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

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

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

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

The 2006-07 financial statements have been revised to reflect corrections of prior period errors in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

AASB 108 requires the correction of prior period errors retrospectively, subject to certain limitations, to permit comparability with the current year. The retrospective adjustment occurs by restating the comparative amount in the prior period, or, if the event occurred before the earliest prior period presented, by restating the opening balances of assets, liabilities, and equity for the earliest prior period presented.

Note 22 to this report includes the 2006-07 financial statements with the line items affected by corrections of prior period errors, and an explanation of the material differences for the amounts reported in the audited 2006-07 Total State Sector Accounts.

There were no changes to accounting policies from the adoption of new accounting standards in 2007-08, that significantly affect the primary financial statements.

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

2. REVENUES

	2007-08 $m	2006-07 $m
STATE REVENUES		
Taxation		
Payroll Tax	5,976	5,449
Stamp Duties	5,532	5,946
Gambling and Betting	1,265	1,369
Land Tax	1,882	1,955
Other	3,137	2,550
	17,792	17,269
Commonwealth Grants		
General Purpose - Recurrent	26	...
- GST Revenue	11,916	10,938
Specific Purpose - Recurrent	6,547	5,653
- Capital	1,040	1,161
	19,529	17,752
Fines, Regulatory Fees and Other State Revenues include:		
Royalties from mining	574	489

	2007-08 $m	2006-07 $m
OPERATING REVENUES		
Sale of Goods and Services [(a)] comprise revenue from:		
Sale of goods	9,343	8,473
Rentals from public housing and other non-investment properties [(b)]	975	925
Rendering of other services	6,075	5,515
	16,393	14,913

(a) Revenue is reported on a gross basis. Cost of sales and lottery prizes are reported under the respective headings 'inventories used up' and 'lottery prizes' as part of 'other operating expenses'.

(b) Includes revenues from the provision of public housing:

Market rent and other tenant charges	*1,391*	*1,329*
Less: Rental subsidies to tenants	*(726)*	*(686)*
Rentals from Public Housing	*665*	*643*

Investment Revenue comprises:		
Interest and managed fund earnings	480	1,492
Rentals from investment properties	117	116
Other	23	130
	620	1,738

3. EXPENSES

	2007-08	2006-07
	$m	$m
Superannuation Expense comprises		
Defined benefit plans, excluding actuarial gains/losses [(a)]	1,175	1,460
Defined contribution plans	1,412	1,268
	2,587	2,728

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

	2007-08	2006-07
Other Employee Benefits Expenses comprise:		
Salaries and wages (including recreation leave)	21,693	20,330
Long service leave	774	667
Other	1,421	1,047
	23,888	22,044
Other Operating Expenses comprise:		
Operating lease rentals - minimum lease payments	702	668
Consultancy fees	99	68
Inventories used up	1,424	1,359
Audit fees [(b)] - for audit	...	...
- for other services	...	...
Insurance claims	432	193
Lottery prizes and other statutory lottery payments	836	777
Supplies and other services	9,621	8,935
External maintenance (excluding employee costs associated with maintenance)	2,901	2,757
	16,015	14,757

(b) Fees of $24 million for audit, and $5 million for other services to the Audit Office of NSW (2006-07 $23 million for audit and $3 million for other services) have not been recognised as expenses because they have been eliminated in consolidation of the NSW Public Sector.

	2007-08	2006-07
Depreciation and Amortisation expense comprise:		
Depreciation on		
- Buildings	1,140	1,080
- Plant and equipment	1,115	1,047
- Infrastructure systems	2,171	2,065
Amortisation	292	272
	4,718	4,464
Grants and Subsidies include contributions by the State for:		
Education and training	1,012	957
Ageing, disability and home care services	976	905
Health	888	743
Public transport	665	603
Community services	569	526
First Home Owners Scheme	326	324
Finance Costs include:		
Charges relating to finance leases	58	55
Unwinding of the discount on provision liabilities	405	416

4. GAINS/(LOSSES)

	2007-08 $m	2006-07 $m
Net Gain/(Loss) from Disposal of:		
Property, plant and equipment	67	12
Financial instruments	45	(9)
Intangible assets	(1)	(3)
	111	...
Other Net Gains/(Losses) - from Fair Value Adjustments through the Operating Statement		
Defined benefits superannuation - actuarial gains and losses [(a)]	(3,646)	3,502
Consolidation adjustment to RTA land under the roads [(b)]	(71)	(101)
Investment property	88	68
Non-current assets classified as held for sale	...	(11)
Forestry stock write offs and market value adjustments (biological assets)	76	(185)
Intangible assets	(65)	2
Financial instruments	141	(41)
Impairment of receivables	(100)	(125)
Other	(90)	(9)
	(3,667)	3,100

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

(b) No valuation has been included in the Total State Sector Accounts for land under roads and within road reserves. During 2007-08 the Roads and Traffic Authority identified land under roads of $71 million (2007 $101 million) which was reported in previous years as part of Land and Buildings. As it is Treasury's policy to apply the transitional provisions in AASB 1045, and to report land under roads in the Total State Sector Accounts at nil value, an adjustment of $71 million has been made to derecognise the value of these assets which has been included in the accounts of the Roads and Traffic Authority. The $71 million cost value of these assets has been recorded as a valuation loss.

5. SIGNIFICANT ITEMS

	2007-08 $m	2006-07 $m
The Operating Surplus includes the following Significant Revenue/(Expense) Items:		
Purchaser stamp duty and interest from a one-off assessment relating to a single large transaction	...	424
Self funded worker's compensation claims expense was negative in 2006-07 due to an improved claims experience, and an increase in the liability discount rate	(268)	36
Interest and managed fund earnings fell significantly in 2007-08 reflecting lower financial market returns	480	1,492
Capital grant contribution by the Queensland Government for the Tugun Bypass Tunnel[(a)]	144	190
	356	2,142

(a) Refer to Note 1 'Change in accounting policies, the correction of errors, and revisions to estimates', for further details.

6. CASH AND CASH EQUIVALENT ASSETS

	2008 $m	2007 $m
Cash administered by NSW Treasury Corporation		
Hour Glass Cash Facility (managed fund)	2,469	2,275
Special Client Mandate (Short term deposits facility)	160	403
Cash and deposits held at other financial institutions	2,284	1,642
	4,913	4,320

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

7. RECEIVABLES

	2008 $m	2007 $m
Current Receivables		
Debtors and accruals from		
- Sale of goods and services[(a)]	2,197	2,346
- Taxation [(b)]	878	971
- Settlements receivable on new borrowings and other financial instruments	419	403
- Prepayments [(c)]	190	357
- Asset sales	33	36
- Interest	14	5
Advances receivable	18	9
Other [(c)]	1,485	1,523
	5,234	5,650
Less Allowance for Impairment[(d)]	(170)	(172)
Total Current Receivables	5,064	5,478
Non-Current Receivables		
Dust Diseases' insurance levies accrued[(e)]	1,015	844
Advances receivable	236	214
Prepayments	163	167
Other	254	327
	1,668	1,552
Less allowance for impairment[(d)]	(17)	(25)
Total Non-Current Receivables	1,651	1,527

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

(b) Taxation receivables in 2008 includes a $461 million (2007 $424 million) one-off stamp duty assessment, including interest, which is subject to appeal in the Supreme Court. The matter is currently in the legal discovery phase. The Chief Commissioner of State Revenue does not believe that there are grounds for impairing the receivable at this time.

(c) The 2007 prepayments balance included extra contributions to satisfy prudential requirements associated with higher electricity spot prices. The other receivables balance in 2007 included accruals that were also associated with the electricity spot prices. These prices were due to very cold weather patterns in June 2007 increasing the demand, and future expected demand, for electricity.

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

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

8. FINANCIAL ASSETS AT FAIR VALUE

	2008 $m	2007 $m
Current	5,600	4,534
Non-current	7,046	7,806
	12,646	12,340

Financial assets at fair value comprise:

	2008 $m	2007 $m
Financial assets held for trading		
Derivative Assets[(a)]		
Electricity contracts	556	864
Swaps	15	29
Futures	5	5
Other	31	11
Held for trading	607	909
Designated and effective hedging instruments		
Derivative Assets[(a)]		
Swaps	86	25
Other	20	3
Hedging instruments	106	28
Financial assets designated at fair value through profit and loss		
Fiduciary investments adminstered by NSW Treasury Corporation	5,155	6,187
Securities and placements held by NSW Treasury Corporation	5,724	3,943
Other	1,054	1,273
Designated at Fair Value through profit and loss	11,933	11,403
Total Financial Assets at Fair Value	12,646	12,340

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

9. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	2008 $m	2007 $m
Current	...	...
Non-current	1,622	1,519
	1,622	1,519
Investments in Associates Accounted for Using the Equity Method comprise the State's share in:		
Snowy Hydro Ltd [(a)]	806	749
Murray Darling Basin Commission [(b)]	647	615
Law Courts Ltd [(c)]	133	119
Other entities	36	36
	1,622	1,519

(a) Snowy Hydro Ltd

New South Wales has a 58 per cent share of Snowy Hydro Ltd, with the Commonwealth and Victorian governments retaining 13 per cent and 29 per cent respectively. It does not control the entity, with one of up to nine board directors. Thus, as New South Wales does not control the entity it has applied the equity method to account for its investment in Snowy Hydro Ltd.

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

The reporting date of Snowy Hydro Ltd is the same as the Total State Sector Accounts.

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

Amount of New South Wales' share of Snowy Hydro Limited's:		
Capital expenditure commitments	*15*	*29*
Operating lease commitments	*44*	*45*
	59	*74*

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

	2008 $m	2007 $m
Share of Snowy Hydro Ltd's balance sheet:		
Current assets	84	153
Non-current assets	1,270	1,264
Current liabilities	(156)	(231)
Non-current liabilities	(392)	(437)
Net Assets	806	749
Share of Snowy Hydro Ltd's profit:		
Revenue	373	348
Profit before income tax	76	38
Income tax expense	(20)	(14)
Profit after income tax	56	24

(b) Murray-Darling Basin Commission

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

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

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

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

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

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

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

	2008 $m	2007 $m
Share of Murray-Darling Basin Commission's balance sheet:		
Financial assets	140	145
Non-financial assets	517	476
Other liabilities	(10)	(6)
Net Assets	647	615
Share of Murray-Darling Basin Commission's profit and movement in reserves		
Revenue	46	35
Profit before income tax	8	5
Income tax expense	...	...
Profit after income tax	8	5
Net credit to asset revaluation reserve	24	22
Total change in equity	32	27

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

	2008 $m	2007 $m
Amount of New South Wales' share of Murray-Darling Basin Commission:		
Capital expenditure commitments	22	...
Operating lease commitments	4	5
Other expenditure commitments	12	5
	38	10

(c) Law Courts Ltd

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

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

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

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

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

	2008 $m	2007 $m
Share of Law Courts Ltd balance sheet:		
Current assets	23	18
Non-current assets	113	101
Current liabilities	(3)	...
Non-current liabilities	...	...
Net Assets	133	119
Share of Law Courts Ltd profit and movement in reserves:		
Revenue	25	11
Profit before income tax	11	9
Income tax expense	...	...
Profit after income tax	11	9
Net credit to asset revaluation reserve	3	...
Total change in equity	14	9

JOINTLY CONTROLLED ASSETS AND OPERATIONS

The State’s share of these joint controlled operations has been consolidated as follows:

		Output Interest	
		2008	2007
Name of Joint Venture	Principal Activity	%	%
Sunshine Electricity Joint Venture	Electricity Generation	50	50

	2008	2007
Share of Assets	$m	$m
The State's interest in assets employed in the above jointly controlled assets joint venture is detailed below		
Inventories	1	...
Receivables	1	...
Property, Plant and Equipment	105	85
Total Assets	107	85
Share of Capital Commitments	2	16

		Input Interest	
		2008	2007
Name of Joint Venture	Principal Activity	%	%
Joint Government Enterprise Limited - Water for Rivers	Funding of Water Saving Inititiatives for Snowy and Murray River systems	40	40

	2008	2007
Share of Assets	$m	$m
The State's interest in assets employed in the above joint venture is detailed below		
Cash	41	54
Total Assets	41	54
Share of Capital Commitments	41	54

10. INVENTORIES

	2008 $m	2007 $m
Current	742	678
Non-current	381	433
	1,123	1,111
Inventories comprise:		
Held for Distribution:		
- Consumable Stores		
- At cost	7	8
- At current replacement cost	1	3
Raw Materials:		
- At cost	204	162
Work in Progress:		
- At cost	19	9
Finished Goods:		
- At cost	17	16
- At net realisable value	1	1
Consumable Stores:		
- At cost	375	367
- At net realisable value	13	12
Land Held for Resale (a)	486	533
	1,123	1,111

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

Acquisition Cost	*301*	*309*
Development Cost	*145*	*188*
Other Costs	*40*	*36*
	486	*533*

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

	2008 $m	2007 $m
Assets Held For Sale		
Land and Buildings	190	316
Plant and Equipment	3	3
Infrastructure Systems	...	76
	193	395

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

Liabilities Directly Associated with Assets Held For Sale		
Liabilities	...	...
	...	...
Amounts Recognised Directly in Equity Relating to Assets Held For Sale		
Property, Plant and Equipment asset revaluation increments	24	30
	24	30

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

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

12. PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings $m	Plant and Equipment $m	Infrastructure Systems $m	Total $m
At 1 July 2007				
Gross Value	106,285	16,176	139,477	261,938
Accumulated amortisation and impairment	(19,390)	(5,646)	(57,188)	(82,224)
Net carrying amount	86,895	10,530	82,289	179,714
At 30 June 2008				
Gross Value	112,912	17,166	162,921	292,999
Accumulated amortisation and impairment	(22,053)	(6,240)	(68,131)	(96,424)
Net carrying amount	90,859	10,926	94,790	196,575
Reconciliation: Year ended 30 June 2008				
Net carrying amount at start of year	86,895	10,530	82,289	179,714
Additions	2,193	1,406	7,097	10,696
Assets classified to held for sale	(134)	(1)	(2)	(137)
Disposals	(291)	(246)	(105)	(642)
Net revaluation increments recognised in reserves	3,416	264	10,307	13,987
Impairment losses:				
recognised in equity	(21)	(2)	(2,548)	(2,571)
reversals in equity	...	...	...	...
recognised in the Operating Statement	(71)	...	...	(71)
reversals in the Operating Statement	...	...	...	...
Depreciation expense	(1,140)	(1,115)	(2,171)	(4,426)
Other movements (inc.amortisation of leased assets)	12	90	(77)	25
Net carrying amount at end of year	90,859	10,926	94,790	196,575

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

During 2007-08, the revaluations included the following:

- Road infrastructure and properties were revalued upwards by $4,703 million. The Roads and Traffic Authority includes the assets recorded initially at cost, and the annual percentage increase in the Road Cost Index (RCI) is applied each year until the following unit replacement review is undertaken. Subsequent to the review, infrastructure is valued using the unit replacement rates, adjusted by the RCI as applicable.

- Railcorp revalued upwards its trackwork and other infrastructure by $2,088 million and its land and buildings by $1,245 million. Railcorp trackwork and infrastructure was valued as at June 2008 at depreciated replacement cost ie the current replacement cost of each asset less accumulated depreciation (where depreciation is calculated by reference to the remaining life of each asset as determined by Railcorp engineers). Replacement cost is measured by reference to the lowest cost of replacing the economic benefits with a technologically modern equivalent optimised asset, having regard to the differences in the quality and quantity of outputs and operating costs, and adjusting for over design, overcapacity and redundant components.

- Macquarie Generation's power station infrastructure was revalued upwards by $1,076 million as at June 2008 using the discounted cashflow, or value in use method by Australian Property Monitors on behalf of Colliers International Consultancy and Valuation Pty Ltd. Management has determined that the depreciated replacement costs as determined by the independent valuers equates to fair value.

	Land and Buildings $m	Plant and Equipment $m	Infrastructure Systems $m	Total $m
At 1 July 2006				
Gross Value	102,566	15,251	128,480	246,297
Accumulated amortisation and impairment	(18,078)	(5,055)	(52,428)	(75,561)
Net carrying amount	84,488	10,196	76,052	170,736
At 30 June 2007				
Gross Value	106,285	16,176	139,477	261,938
Accumulated amortisation and impairment	(19,390)	(5,646)	(57,188)	(82,224)
Net carrying amount	86,895	10,530	82,289	179,714
Reconciliation:				
Year ended 30 June 2007				
Net carrying amount at start of year	84,488	10,196	76,052	170,736
Additions	2,566	1,447	5,395	9,408
Assets classified to held for sale	(183)	...	(3)	(186)
Disposals	(336)	(271)	(117)	(724)
Net revaluation increments recognised in reserves	1,545	201	3,341	5,087
Impairment losses:				
recognised in equity	...	(4)	(1,802)	(1,806)
reversals in equity	3	...	775	778
recognised in the Operating Statement	(6)	...	(3)	(9)
reversals in the Operating Statement	5	...	...	5
Depreciation expense	(1,080)	(1,047)	(2,065)	(4,192)
Other movements (inc.amortisation of leased assets)[(a)]	(107)	8	716	617
Net carrying amount at end of year	86,895	10,530	82,289	179,714

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

During 2006-07, the revaluation movements included the following:

- The Roads and Traffic Authority (RTA) revaluation of property, plant and equipment resulted in a net increment being brought to account. Land and buildings were devalued by $63 million and infrastructure systems were revalued up by $990 million during the year, as follows:
  - i) Roads $678 million (excluding land under the roads)
  - ii) Bridges $298 million
  - iii) Traffic Signals Network $14 million. The valuation policies provide for roads, bridges and the traffic signals network, to be revalued periodically using the modern equivalent replacement cost method. The determination of unit replacement rates is carried out at least every five years by suitably qualified engineering contractors and employees of the RTA. Assets are recorded initially at construction cost and the annual percentage increase in the road cost index is applied each year until the following unit replacement review is undertaken.

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

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

13. INVESTMENT PROPERTIES

	2008 $m	2007 $m
FAIR VALUE		
Opening balance 1 July	1,400	1,513
Additions (from acquisitions or subsequent expenditure)	27	13
Disposals, and transfers of assets held for sale	(27)	...
Net gain/(loss) from fair value adjustment	88	68
Other changes	58	(194)
Closing Balance 30 June	1,546	1,400

The following amounts from Investment Properties activity have been recognised in the operating statement:		
Rental income	117	116
Direct operating expenses;		
- that generated rental income	21	24
- that did not generate rental income	...	...

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

The fair value of investment properties comprises valuations carried out by independent, professionally qualified valuer's with recent experience in the location and category of the investment property. These include:
BEM Property Consultants Pty Ltd
Jones Lang Lasalle
Landmark White
M J Davis Valuations Pty Ltd
Messrs Colliers International Consultancy and Valuation Pty Ltd
Preston Rowe Paterson NSW Pty Ltd.

14. FORESTRY STOCK AND OTHER BIOLOGICAL ASSETS

	Softwood Plantation Timber $m	Hardwood Plantation Timber $m	Native Forest Timber $m	Total 2008 $m
Valuation				
Net market value	986	...	353	1,339
Carrying amount	...	64	...	64
Total timber at beginning of reporting period	986	64	353	1,403
Capital expenditure - plantation establishment & development	19	4	...	23
Capitalisation of borrowing costs	10	...	...	10
Write-off of growing stock &/or establishment costs	(1)	...	...	(1)
Carrying amount as at year end (prior to adjusting for changes in net market value)	1,014	68	353	1,435
Net market value	1,111	...	333	1,444
Carrying amount	...	68	...	68
Total forestry stock at reporting period	1,111	68	333	1,512
Other biological assets (livestock and fodder)				7
Total forestry stock and other biological assets at reporting period				1,519
Net increment/(decrement) in the market value of timber[(a)]	97	...	(20)	77

Forest Area

	Hectares	Hectares	Hectares	Hectares
Total area	192,711	27,353	2,021,571	2,241,635

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

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

	Softwood Plantation Timber $m	Hardwood Plantation Timber $m	Native Forest Timber $m	Total 2007 $m
Valuation				
Net market value	1,111	...	386	1,497
Carrying amount	...	62	...	62
Total timber at beginning of reporting period	1,111	62	386	1,559
Capital expenditure - plantation establishment & development	20	2	...	22
Capitalisation of borrowing costs	9	...	...	9
Write-off of growing stock &/or establishment costs	(13)	...	...	(13)
Carrying amount as at year end (prior to adjusting for changes in net market value)	1,127	64	386	1,577
Net market value	987	...	352	1,339
Carrying amount	...	64	...	64
Total forestry stock at reporting period	987	64	352	1,403
Other biological assets (livestock and fodder)				6
Total forestry stock and other biological assets at reporting period				1,409
Net increment/(decrement) in the market value of timber[(a)]	(140)	...	(34)	(174)

Forest Area

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

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

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

15. INTANGIBLES

2007-08 Carrying Amounts	Computer Software $m	Easements[(a)] $m	Other $m	Total $m
At 1 July 2007				
Cost (gross carrying amount)	2,170	646	39	2,855
Accumulated amortisation and impairment	(1,231)	(33)	(20)	(1,284)
Net carrying amount	939	613	19	1,571
At 30 June 2008				
Cost (gross carrying amount)	2,393	760	42	3,195
Accumulated amortisation and impairment	(1,374)	(28)	(23)	(1,425)
Net carrying amount	1,019	732	19	1,770

Annual Movement for Year ended 30 June 2008

Net carrying amount at start of year	939	613	19	1,571
Additions	357	111	38	506
Disposal/Classified to assets held for sale	(1)	...	...	(1)
Impairment	(51)	(2)	(12)	(65)
Amortisation	(213)	...	(26)	(239)
Other - movements	(12)	10	...	(2)
Net carrying amount at end of year	1,019	732	19	1,770

(a) Includes easements over land, and water rights.

Estimates

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

2006-07 Carrying Amounts	Computer Software $m	Easements[(a)] $m	Other $m	Total $m
At 1 July 2006				
Cost (gross carrying amount)	1,909	607	53	2,569
Accumulated amortisation and impairment	(1,090)	(41)	(18)	(1,149)
Net carrying amount	819	566	35	1,420
At 30 June 2007				
Cost (gross carrying amount)	2,170	646	39	2,855
Accumulated amortisation and impairment	(1,231)	(33)	(20)	(1,284)
Net carrying amount	939	613	19	1,571

Annual Movement for Year ended 30 June 2007

Net carrying amount at start of year	819	566	35	1,420
Additions	378	56	1	435
Disposal/Classified to assets held for sale	(1)	...	(1)	(2)
Impairment	2	...	...	2
Amortisation	(191)	(20)	(3)	(214)
Other - movements	(68)	11	(13)	(70)
Net carrying amount at end of year	939	613	19	1,571

(a) Includes easements over land, and water rights.

16. OTHER ASSETS

	2008 $m	2007 $m
Current	224	288
Non current	1,327	1,253
	1,551	1,541
Other Assets comprise:		
Emerging interest in the Sydney Harbour Tunnel	671	659
Right to receive privately financed transport and sporting infrastructure	665	553
Prepaid superannuation contributions [(a)]	7	115
Other	208	214
	1,551	1,541

(a) Refer Provisions Note 20 for further information on the Energy Industries Superannuation Scheme (EISS). In June 2008, the asset balance only represents that component of the EISS that is overfunded. There is a further unfunded component reported in Note 20 as a provision liability.

17. PAYABLES

	2008 $m	2007 $m
Payables include:		
Accrued employee benefits[(a)]	545	475
Interest accrued on borrowings and advances	428	478
Settlement payable on borrowings and other financial instruments	305	531

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

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

18. BORROWINGS AT AMORTISED COST

	2008 $m	2007 $m
Current	4,214	6,940
Non current	33,600	25,893
	37,814	32,833
Borrowings at amortised cost comprise [(a)]		
Liability to Commonwealth Government	855	882
Domestic and foreign borrowings	35,986	31,295
Bank overdraft	271	123
Finance leases[(b)]	702	533
	37,814	32,833

(a) *A schedule of maturity analysis (at face value) including future interest commitments is reported in Note 29 Financial Instruments.*

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

	2008	2007
Not later than one year	*101*	*112*
Between one and five years	*400*	*350*
Later than five years	*913*	*808*
Minimum lease payments	*1,414*	*1,270*
Less: Future finance charges	*(712)*	*(737)*
Present value of minimum lease payments	702	533

The State has signed an agreement for a Rail Rollingstock Public Private Partnership, which constitutes a finance lease. There is no finance lease liability as at 30 June 2008 as neither the rolling stock sets nor the maintenance facility have been completed and capitalised at this date. Delivery is scheduled to occur across the period from 2009 to 2013. The finance lease liability and aggregate minimum lease payments totalling $9,459 million (nominal dollars) or $3,650 million (in net present value as at 30 June 2006) have not been reported in the above note.

In 2006-07 a private sector company was engaged to finance, design, construct and maintain the Long Bay Forensic and Prison Hospitals under a project deed. The project is due for completion at the end of 2008 when control of the assets will pass to the State, and the future finance lease liability will be recognised over the period to July 2034. The estimated value of the liability is unable to be fully determined because of uncertain future events and has not been reported above. Further, the State has entered into contracts for future finance leases, whose liabilities and commitments have yet to be recognised, as control of the assets will only occur in the future, upon project completion for the Bonnyrigg Public Housing Estate.

19. DERIVATIVE LIABILITIES AT FAIR VALUE

	2008 $m	2007 $m
Current	893	2,811
Non current	431	1,128
	1,324	3,939
Derivative liabilities at fair value comprise:		
Derivatives held for trading		
Swaps	552	710
Electricity contracts [(a)]	49	291
Futures	23	14
Other	52	36
Held for trading	676	1,051
Designated and effective hedging instruments		
Swaps	294	229
Electricity contracts [(a)]	336	2,638
Other	18	21
Hedging instruments	648	2,888
Total Derivative Liabilities at Fair Value	1,324	3,939

(a) Derivative Electricity Hedging Contracts

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

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

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

These factors improved during July and August 2007, with a corresponding reduction in spot market prices and the electricity forward price curve falling significantly. As a consequence the fair value of electricity derivative liabilities decreased significantly in the 2007-08 reporting period.

20. PROVISIONS

	2008 $m	2007 $m
Current	10,468	9,908
Non current	23,691	20,068
	34,159	29,976
These comprise:		
Employee Benefits Provisions		
Unfunded superannuation [(a)]	17,768	14,183
Long service leave and other leave entitlements	7,897	7,533
Self funded worker's compensation	2,191	2,168
Other	463	463
Total Provision for Employee Benefits [(b)]	28,319	24,347
Other Provisions		
Outstanding claims:		
- Self Insurance Corporation (excluding self funded worker's compensation)	2,308	2,507
- for dust diseases	1,648	1,516
- WorkCover Authority	102	173
- Lifetime Care and Support Scheme	284	38
HIH loss compensation	124	128
Building and Construction Industry Long Service Payments Scheme	556	529
Provision for Land Remediation and Other Restoration Costs	338	296
Other	480	442
Total Other Provisions	5,840	5,629
Total Employee Benefits and Other Provisions	34,159	29,976

	2008 $m	2007 $m
Insurance Recoveries Receivable include those accrued by:		
Self Insurance Corporation - for reinsurance and other recoveries receivable	181	187
Workers' Compensation (Dust Diseases) Board - insurance levies accrued	1,018	860
Fair Trading Administration Corporation	1	2
	1,200	1,049

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

	2008 $m	2007 $m
(b) Employee Benefit Liabilities comprise:		
Accrued employee benefits reported as payables	*545*	*475*
Employee benefit provisions	*28,319*	*24,347*
Aggregate Employee Benefit Liabilities	*28,864*	*24,822*

2007-08 MOVEMENT IN OTHER PROVISIONS

	Carrying Amount 1 July 2007 $m	Additional Provision 2007-08 $m	Amounts Used During 2007-08 $m	Unused Amounts Reversed 2007-08 $m	Unwinding/ change in discount rate 2007-08 $m	Carrying Amount 30 June 2008 $m
Outstanding claims:						
- Self Insurance Corporation (excluding worker's compensation)	2,507	368	(389)	(335)	157	2,308
- for dust diseases	1,516	116	(77)	...	93	1,648
- WorkCover Authority	173	6	(76)	...	(1)	102
- Lifetime Care and Support Scheme	38	246	...	...	...	284
HIH loss compensation	128	18	(56)	31	3	124
Building and Construction Industry Long Service Payments Scheme	529	40	(47)	...	34	556
Land Remediation and other Restorations	296	119	(59)	(13)	(5)	338
Other	442	266	(197)	(29)	(2)	480
Total Other Provisions	5,629	1,179	(901)	(346)	279	5,840

2006-07 MOVEMENT IN OTHER PROVISIONS

	Carrying Amount 1 July 2006 $m	Additional Provision 2006-07 $m	Amounts Used During 2006-07 $m	Unused Amounts Reversed 2006-07 $m	Unwinding/ change in discount rate 2006-07 $m	Carrying Amount 30 June 2007 $m
Outstanding claims:						
- Self Insurance Corporation (excluding worker's compensation)	2,545	365	(284)	(274)	155	2,507
- for dust diseases	1,551	(63)	(66)	...	94	1,516
- WorkCover Authority	223	(66)	12	(4)	8	173
- Lifetime Care and Support Scheme	...	38	...	...	...	38
HIH loss compensation	177	...	(54)	14	(9)	128
Building and Construction Industry Long Service Payments Scheme	513	36	(50)	30	...	529
Land Remediation and other Restorations	293	37	(23)	(14)	3	296
Other	315	227	(104)	...	4	442
Total Other Provisions	5,617	574	(569)	(248)	255	5,629

UNFUNDED SUPERANNUATION LIABILITY

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

It contains information on:

- the various superannuation schemes
- major economic assumptions
- the movement in 2007-08 liabilities and the impact of assumptions
- composition of the unfunded liabilities by scheme, recognised in the balance sheet, and member numbers
- the annual movement by scheme in defined benefit obligations
- the annual movement by scheme in the fair value of fund assets
- annual superannuation expense
- actual return on plan assets
- fund assets (by asset class)
- funding arrangements for employer contributions. This includes the scheme liabilities as reported by the trustees (using different discount rates), recommended contribution rates, funding method, and economic assumptions
- nature of asset/liability
- demographic assumptions.

NSW Public Sector Defined Benefit Superannuation Schemes

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

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

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

The SAS Trustee Corporation's (STC) actuary Mercer Human Resource Consulting calculated the unfunded liabilities of the State Public Sector superannuation schemes for the year ended 30 June 2008 and 30 June 2007 under AASB 119 *Employee Benefits* and AAS 25 *Financial Reporting by Superannuation Plans.*

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

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

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

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

The estimate of accrued benefit liabilities of the Total State Sector is based on calculations carried out by Mercer Human Resource Consulting, the STC's actuary. Actuarial calculations were based on scheme membership data as at 30 April 2008 (EISS 30 June 2008) projected to 30 June 2008. The fair value of pooled fund assets comprises the actual June 2008 balance. Forecast demographic assumptions are consistent with the 2006 Triennial Valuation of the State Super Fund schemes.

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

MAJOR ECONOMIC ASSUMPTIONS	30 June 2008	30 June 2007
State Super Fund Schemes		
Discount rate at 30 June	6.55% pa	6.4%
Expected return on assets backing current pension liabilities	8.3%	7.6%
Expected return on assets backing other liabilities	7.3%	7.6%
Expected salary increases	3.5% pa	4.0% pa to 2008 3.5% pa thereafter
Expected rate of CPI increases	2.5% pa	2.5% pa
EISS		
Discount rate at 30 June (*)	6.19% pa	5.9%Pa
Expected return on assets backing current pension liabilities	8.3%	7.6%
Expected return on assets backing other liabilities	7.3%	7.6%
Expected salary increases	6.0% pa to 2009 4.0% pa thereafter	6.0% pa to 2009 4.0% pa thereafter
Expected rate of CPI increases	2.5% pa	2.5%pa

* Tax adjusted

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

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

Movement in the 2007-08 Unfunded Liabilities and the Impact of Assumptions

The significant increase in unfunded liabilities over the twelve months to 30 June 2008 is largely explained by the net effect of several factors:

- lower investment returns than expected. The actual investment performance of the State Super Fund was negative 7.2 per cent (negative 8.6 per cent for EISS) in 2007-08, which is lower than the long term actuarially applied rate.
- an increase in the accrued benefits due to an additional year of service being provided by current State Super Fund scheme contributors; and
- one year less discounting for the present value of total future benefit payments.

This was partly offset by:an increase in the State Super Fund liability discount rate from 6.4 per cent to 6.55 per cent (EISS 5.9 per cent to 6.19 per cent).

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

The major potential for volatility arises from:

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

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

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

2008 Member Numbers and Superannuation Position prepared in accordance with AASB 119

Member Numbers	----------- NSW Public Sector Superannuation Scheme ---------							
	SASS	SANCS	SSS	PSS	JPS	PCSS	EISS [(a)]	Total
Contributors	47,191	70,453	20,690	2,572	138	99	4,269	145,412
Deferred benefits	...	...	3,189	139	...	2	31	3,361
Pensioners	4,234	...	37,590	6,043	189	265	313	48,634
Pensions fully commuted	...	...	15,930	...	...	...	12	15,942
Superannuation Position for AASB 119 purposes								
	$m	$m	$m	$m	$m	$m	$m	$m
Accrued Liability [(b)]	11,613	2,373	27,226	6,888	553	374	1,764	50,791
Fair value of plan assets [(b)]	(7,855)	(1,082)	(19,008)	(3,459)	...	(254)	(1,700)	(33,358)
	3,758	1,291	8,218	3,429	553	120	64	17,433
Future Service Liability [(c)]	(1,952)	(834)	(891)	(270)	...	...	(267)	(4,214)
Adjustment for limitation on net asset	29	16	283	...	...	...	...	328
Net (asset)/liability disclosed in balance sheet	3,787	1,307	8,501	3,429	553	120	64	17,761

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

Member Numbers	----------- NSW Public Sector Superannuation Scheme ---------							
	SASS	SANCS	SSS	PSS	JPS	PCSS	EISS [(a)]	Total
Contributors	50,430	76,166	22,806	2,930	138	109	4,395	156,974
Deferred benefits	...	...	3,531	176	...	...	30	3,737
Pensioners	4,413	...	36,164	5,877	189	269	299	47,211
Pensions fully commuted	...	...	15,966	...	...	...	12	15,978
Superannuation Position for AASB 119 purposes								
	$m	$m	$m	$m	$m	$m	$m	$m
Accrued Liability [(b)]	12,069	2,372	26,947	6,788	539	396	1,766	50,877
Fair value of plan assets [(b)]	(8,418)	(1,013)	(21,793)	(4,099)	...	(303)	(1,881)	(37,507)
	3,651	1,359	5,154	2,689	539	93	(115)	13,370
Future Service Liability [(c)]	(2,086)	(867)	(1,031)	(330)	...	...	(331)	(4,645)
Adjustment for limitation on net asset	141	52	505	...	...	...	...	698
Net (asset)/liability disclosed in balance sheet	3,792	1,411	5,659	2,689	539	93	(115)	14,068

(a) For June 2008 the net EISS liability of $64 million comprises $71m of unfunded superannuation provision liabilities less $7 million of prepaid superannuation contribution assets. Prepaid superannuation contributions are reported in Note 16 Other Assets.

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

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

Reconciliation of the present value of the defined benefit obligation for 2007-08

NSW Public Sector Superannuation Scheme	Accrued Benefits 1 July 2007 $m	Current service cost[a] $m	Interest cost [a] $m	Contributions by Fund participants $m	Actuarial (Gains)/ Losses[a] $m	Benefits paid $m	Accrued benefits 30 June 2008[b] $m
State Super Fund							
- State Authorities Superannuation Scheme	12,069	343	747	199	(777)	(968)	11,613
- State Authorities Non-Contributory Superannuation Scheme	2,372	111	146	...	(37)	(219)	2,373
- State Superannuation Scheme	26,947	188	1,667	225	(239)	(1,562)	27,226
- Police Superannuation Scheme	6,788	81	423	14	(27)	(391)	6,888
Parliamentary Contributory Superannuation Scheme	396	9	24	2	(34)	(23)	374
Judges' Pension Scheme	539	19	32	...	(9)	(28)	553
Energy Industries Superannuation Scheme	1,766	86	112	22	(141)	(81)	1,764
TOTAL	50,877	837	3,151	462	(1,264)	(3,272)	50,791

Reconciliation of the fair value of fund assets for 2007-08

NSW Public Sector Superannuation Scheme	Fair Value of Fund Assets at beginning of the year $m	Expected return on fund assets $m	Actuarial gains/ (losses) [a] $m	Employer Contributions $m	Contributions by Fund participants $m	Benefits paid $m	Fair Value of Fund Assets at end of the year [b] $m
State Super Fund							
- State Authorities Superannuation Scheme	8,418	630	(1,209)	785	199	(968)	7,855
- State Authorities Non-Contributory Superannuation Scheme	1,013	85	(165)	368	...	(219)	1,082
- State Superannuation Scheme	21,793	1,579	(2,958)	(69)	225	(1,562)	19,008
- Police Superannuation Scheme	4,099	308	(572)	1	14	(391)	3,459
Parliamentary Contributory Superannuation Scheme	303	23	(51)	...	2	(23)	254
Judges' Pension Scheme	...	...	...	28	...	(28)	...
Energy Industries Superannuation Scheme	1,881	139	(304)	43	22	(81)	1,700
TOTAL	37,507	2,764	(5,259)	1,156	462	(3,272)	33,358

(a) The superannuation expense in the operating statement can differ to the totals in the above reconciliation of movements in the superannuation schemes, due to a component of the movements being capitalised into constructed assets.

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

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

NSW Public Sector Superannuation Scheme	Accrued Benefits 1 July 2006 $m	Current service cost $m	Interest cost $m	Contributions by Fund participants $m	Actuarial (Gains)/Losses $m	Benefits paid $m	Accrued benefits 30 June 2007[(a)] $m
State Super Fund							
- State Authorities Superannuation Scheme	11,371	351	618	194	238	(703)	12,069
- State Authorities Non-Contributory Superannuation Scheme	2,337	112	131	...	(45)	(163)	2,372
- State Superannuation Scheme	27,344	207	1,558	226	(1,470)	(918)	26,947
- Police Superannuation Scheme	7,069	93	405	15	(419)	(375)	6,788
Parliamentary Contributory Superannuation Scheme	390	9	22	2	(11)	(16)	396
Judges' Pension Scheme	581	21	34	...	(74)	(23)	539
Energy Industries Superannuation Scheme	1,608	42	98	22	93	(97)	1,766
TOTAL	50,700	835	2,866	459	(1,688)	(2,295)	50,877

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

NSW Public Sector Superannuation Scheme	Fair Value of Fund Assets at beginning of the year $m	Expected return on fund assets $m	Actuarial gains/ (losses) $m	Employer Contributions $m	Contributions by Fund participants $m	Benefits paid $m	Fair Value of Fund Assets at end of the year [(a)] $m
State Super Fund							
- State Authorities Superannuation Scheme	7,835	806	190	96	194	(703)	8,418
- State Authorities Non-Contributory Superannuation Scheme	1,027	71	65	13	...	(163)	1,013
- State Superannuation Scheme	15,953	1,111	1,248	4,173	226	(918)	21,793
- Police Superannuation Scheme	919	54	410	3,076	15	(375)	4,099
Parliamentary Contributory Superannuation Scheme	276	20	21	...	2	(16)	303
Judges' Pension Scheme	...	...	...	23	...	(23)	...
Energy Industries Superannuation Scheme	1,653	123	131	49	22	(97)	1,881
TOTAL	27,663	2,185	2,065	7,430	459	(2,295)	37,507

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

Defined benefits expense recognised in the operating statement as:	2007-08 $m	2006-07 $m
Employee superannuation expense		
Current service cost	826	820
Interest on obligation	3,113	2,825
Expected return on plan assets	(2,764)	(2,185)
Defined benefits expense	1,175	1,460
(Gains)/Losses		
Net actuarial losses/(gains) recognised in year	3,923	(3,774)
Change in surplus in excess of recovery available from scheme	(277)	272
Defined benefits superannuation gains/losses	3,646	(3,502)
Amount recognised in the operating statement	4,821	(2,042)

Actual return on plan assets	2007-08 $m	2006-07 $m
State Super Fund		
- State Authorities Superannuation Scheme	(548)	1,044
- State Authorities Non Contributory Superannuation Scheme	(72)	138
- State Superannuation Scheme	(1,366)	2,300
- Police Superannuation Scheme	(264)	417
Judges' Pension Scheme	...	...
Parliamentary Contributory Superannuation Scheme	(28)	46
Energy Industries Superannuation Scheme	(175)	239
	(2,453)	4,184

Fund Assets

The percentage invested in each asset class at 30 June:	Pooled Fund 2008	EISS 2008
Australian equities	31.6%	37.6%
Overseas equities	25.4%	34.0%
Australian fixed interest securities	7.4%	10.7%
Overseas fixed interest securities	7.5%	6.3%
Property	11.0%	3.2%
Cash	6.1%	6.0%
Other	11.0%	2.2%

Funding arrangements for employer contributions

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

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

	Accrued Benefits	Net Market Value of Fund Assets	Net (surplus)/deficit
	2008	2008	2008
NSW Public Sector Superannuation Scheme	$m	$m	$m
State Super Fund			
- State Authorities Superannuation Scheme	11,567	7,855	3,712
- State Authorities Non Contributory Superannuation Scheme	2,383	1,082	1,301
- State Superannuation Scheme	24,942	19,008	5,934
- Police Superannuation Scheme	6,038	3,459	2,579
Judges' Pension Scheme	448	...	448
Parliamentary Contributory Superannuation Scheme	356	254	102
Energy Industries Superannuation Scheme	1,659	1,700	(41)
	47,393	33,358	14,035

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

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

Recommended contribution rates for the State

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

Funding Method

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

Economic Assumptions

The economic assumptions adopted for the last actuarial review were:

	2008	2007
State Super Fund		
Weighted-Average Assumption		
Expected rate of return on assets backing current pension liabilities	7.7% pa	7.7% pa
Expected rate of return on assets backing other liabilities	7.0% pa	7.0% pa
Expected salary increase rate	4.0% pa	4.0% pa
Expected rate of CPI increase	2.5% pa	2.5% pa
Energy Industries Superannuation Scheme		
Weighted-Average Assumption		
Expected rate of return on Fund Assets	7.0% pa	7.0% pa
Expected salary increase rate	6.0% pa until June 2009, 4.0% pa thereafter	6.0% pa until June 2009, 4.0% pa thereafter
Expected rate of CPI increase	2.5% pa	2.5% pa

Nature of asset/liability

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

Demographic Assumptions - June 2008

The demographic assumptions at 30 June 2008 are those used in the 2006 triennial actuarial valuation. A selection of the most financial significant assumptions is shown below.

SASS Contributors

	Number of members expected in any one year, out of 10,000 members at the age shown, to leave the fund as a result of:								
			Retirement		Resignation		Redundancy		Additional promotional salary increase rate %
Age nearest Birthday	Death	Total & Permanent Disability	Part 1	Part 3	Part 1	Part 3	Part 1	Part 3	
Males									
30	4	8	...	...	280	395	150	...	2.90
40	6	10	...	...	150	285	150	...	1.80
50	11	30	...	...	112	172	150	...	0.00
60	30	...	1,400	950	...	...	150	...	0.00
Females									
30	2	2	...	...	372	700	150	...	2.90
40	3	6	...	...	175	320	150	...	1.80
50	7	28	...	...	144	270	150	...	0.00
60	18	...	1,500	1,500	...	...	150	...	0.00

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

SSS Contributors

	Number of members expected in any one year, out of 10,000 members at the age shown, to leave the fund as a result of:					
Age nearest Birthday	Death	Ill-Health Retirement	Retirement (R60 for females)	Cash Resignation (R60 for females)	Preservation (R60 for females)	Additional promotional salary increase rate %
Males						
30	4	42	...	178	95	2.90
40	6	54	...	80	140	1.80
50	11	144	...	20	50	0.00
60	30	...	6,500	...	...	0.00
Females						
30	2	6	...	204	124	2.90
40	3	21	...	72	105	1.80
50	7	103	...	30	90	0.00
60	18	...	6,300	...	...	0.00

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

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

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

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

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

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

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

Demographic Assumptions - June 2007

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

SASS Contributors

			Number of members expected in any one year, out of 10,000 members at the age shown, to leave the fund as a result of:						
			Retirement		Resignation		Redundancy		
Age nearest Birthday	Death	Total & Permanent Disability	Part 1	Part 3	Part 1	Part 3	Part 1	Part 3	Additional promotional salary increase rate %
Males									
30	4	8	...	...	280	395	150	...	2.90
40	6	10	...	...	150	285	150	...	1.80
50	11	30	...	...	112	172	150	...	0.00
60	30	...	1,400	950	...	...	150	...	0.00
Females									
30	2	2	...	...	372	700	150	...	2.90
40	3	6	...	...	175	320	150	...	1.80
50	7	28	...	...	144	270	150	...	0.00
60	18	...	1,500	1,500	...	...	150	...	0.00

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

SSS Contributors

	Number of members expected in any one year, out of 10,000 members at the age shown, to leave the fund as a result of:					
Age nearest Birthday	Death	Ill-Health Retirement	Retirement (R60 for females)	Cash Resignation (R60 for females)	Preservation (R60 for females)	Additional promotional salary increase rate %
Males						
30	4	42	...	178	95	2.90
40	6	54	...	80	140	1.80
50	11	144	...	20	50	0.00
60	30	...	6,500	...	...	0.00
Females						
30	2	6	...	204	124	2.90
40	3	21	...	72	105	1.80
50	7	103	...	30	90	0.00
60	18	...	6,300	...	...	0.00

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

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

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

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

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

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

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

21. OTHER LIABILITIES

	2008 $m	2007 $m
Current	618	555
Non-current	2,957	2,911
	3,575	3,466
Other Liabilities comprise:		
Aboriginal Land Council claims granted [(a)]	1,010	1,009
Deferred rental revenue on long term leases of property	792	759
Deferred revenue on the private provision of infrastructure [(b)]	343	355
Other deferred revenue	611	510
The Sydney Harbour Tunnel Agreement obligations[(c)]	337	354
Other	482	479
	3,575	3,466

(a) *The State has provided for the liability of claims that have been granted to local Aboriginal Land Councils under the Aboriginal Land Rights Act 1983.*

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

(c) *The liability in respect of the Sydney Harbour Tunnel (SHT) has been recognised at the Net Present Value (NPV) of the Ensured Revenue Stream (ERS) Agreement. This has been calculated at $313 million (2007 $329 million) being the principal outstanding as at 30 year inflation linked bonds issued by the Sydney Harbour Tunnel Company (SHTC) to the private sector, and a tunnel related tax liability $25 million (2007 $26 million). Under the ERS agreement the NSW Government has agreed to make payments net of tolls collected from the SHT, to enable the SHTC to meet financial obligations arising from repayment of principal and interest on funds borrowed for the design, construction and the operation and maintenance of the SHT.*

22. CHANGES IN EQUITY

	Accumulated Funds		Reserves [a]		Amounts Recognised in Equity Relating to Assets Held For Sale		Total Equity	
	2008	2007	2008	2007	2008	2007	2008	2007
	$m	$m	$m	$m	$m	$m	$m	$m
Opening Balance	71,827	65,184	63,823	61,924	30	79	135,680	127,187
Adjustments for Changes in Accounting Policy and Correction of Errors [b]	...	(20)	...	(43)	...	...	...	(63)
Restated Opening Balance	71,827	65,164	63,823	61,881	30	79	135,680	127,124
Surplus/(deficit) for the year	(1,849)	6,076	...	...	...	...	(1,849)	6,076
Income and Expenses Recognised Directly in Equity								
Property, plant and equipment								
- Net increment/(decrement) on revaluation [c]	...	...	11,416	4,382	...	...	11,416	4,382
Hedging Contracts								
- Net unrealised gains/(losses) [d]	...	...	1,923	(1,972)	...	...	1,923	(1,972)
Fair value adjustments to the available for sale reserve	...	...	(46)	45	...	...	(46)	45
Movements in NSW's share of equity investments taken directly to equity	...	...	24	25	...	...	24	25
Transfers within Equity								
Revaluation reserves transferred to accumulated funds on disposal	1,064	587	(1,044)	(527)	(20)	(60)	...	...
For assets reclassified as held for sale	...	...	(14)	(11)	14	11	...	...
Closing Balance	71,042	71,827	76,082	63,823	24	30	147,148	135,680

(a) *Reserves comprise an asset revaluation reserve $75,904 million (2007 $65,546 million), equity investment revaluation reserve $304 million (2007 $280 million) available for sale reserve $2 million (2007 $45 million), and a hedging reserve negative $128 million (2007 negative $2,048 million).*

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

(c) *Revaluation increments relate to both property, plant and equipment, and to other assets. The 2007-08 net increments include $4,703 million for roads infrastructure and properties, $3,333 million for rail infrastructure and trains, and $1,076 million for power station assets.*
In 2006-07 the net increments on revaluation are across numerous areas of the public sector. Some major revaluation increments include RTA roads and infrastructure ($1,090 million), Crown lands ($519 million), forestry land ($314 million), electricity infrastructure ($971 million), water infrastructure ($430 million) and public housing ($271 million), which have been partly offset by decrements in the value of schools and colleges ($554 million).

(d) *The state manages exposures to fluctuations in electricity market prices through the use of various types of electricity derivative contracts in accordance with approved policies. Overall the hedge objective is to reduce variability in cash flows caused by electricity wholesale prices and volume risks. The gain or loss from remeasuring the hedge instruments is deferred in equity in the hedge accounting reserve, to the extent that the hedge is effective, and reclassified into profit and loss when the hedge electricity revenue is recognised. The ineffective portion is recognised in profit and loss immediately. During June 2007, very cold weather and high demand resulted in price spikes to the spot price for electricity. This led to significant remeasurements for electricity derivative asset/liabilities and the hedging reserve during 2006-07, which reversed during 2007-08 as the spot prices returned to more normal levels.*

CORRECTIONS OF PRIOR PERIOD ERRORS

The following tables report the 2006-07 financial statements restated on a line item basis in this report, comparing them from those published in the audited 2006-07 Total State Sector Accounts. The 'difference' column relates to corrections of errors that have been adjusted to the 2006-07 comparatives.

The 2006-07 operating surplus has increased by $147 million to $6,076 million, from the $5,929 million surplus published in the 2006-07 Total State Sector Accounts.

Information on the significant corrections is footnoted below.

In addition, there were numerous small adjustments to the 2006-07 comparatives, and the 1 July 2006 opening equity as a result of small agency adjustments post audit of the 2006-07 Total State Sector Accounts. In aggregate these small adjustments did not materially impact the 2006-07 prior year operating result. However, the 2006-07 result has been revised to reflect that the transactions or events occurred in the prior year.

OPERATING STATEMENT	Previously reported figure for 2006-07	Difference $m	2006-07 Comparative Figure Reported in 2007-08 $m
REVENUES			
State Revenues			
Taxation	17,277	(8)	17,269
Commonwealth Grants	17,736	16	17,752
Fines, Regulatory Fees and Other	1,192	4	1,196
Total State Revenues	36,205	12	36,217
Operating Revenues			
Sale of Goods and Services [(a)]	12,758	2,155	14,913
Investments	1,694	44	1,738
Grants and Contributions [(b)]	1,132	181	1,313
Other	851	(24)	827
Total Operating Revenues	16,435	2,356	18,791
Total Revenues	52,640	2,368	55,008
EXPENSES EXCLUDING LOSSES			
Employee Benefits			
- Superannuation	2,745	(17)	2,728
- Other	22,047	(3)	22,044
Other Operating [(a)(c)]	12,687	2,070	14,757
Depreciation and Amortisation	4,465	(1)	4,464
Grants and Subsidies	5,716	(9)	5,707
Finance Costs [(c)]	2,344	30	2,374
Total Expenses Excluding Losses	50,004	2,070	52,074
SURPLUS BEFORE OTHER NET INCOME	2,636	298	2,934
OTHER NET INCOME			
Net Gain/(Loss) from Disposals	(6)	6	...
Other Net Gains/(Losses) [(d)]	3,207	(107)	3,100
Share of Earnings from Equity Investments	92	(50)	42
Total Other Net Income	3,293	(151)	3,142
SURPLUS/(DEFICIT) FOR THE YEAR	5,929	147	6,076

(a) Expenses associated with the cost of goods sold, and lottery prizes have been reclassified from a negative revenue to an expense, consistent with the Accounting Standards. This has resulted in the grossing up of both 'revenues from sale of goods and service', and 'other operating expenses' by $2,136 million in the 2006-07 comparative operating statement.

(b) Includes a $189 million grant revenue for the value of that portion of the Tugun Bypass Tunnel constructed in 2006-07 by the Queensland Government and transferred as work-in-progress to New South Wales. The work-in-progress asset was omitted from the 2006-07 Total State Sector Accounts.

(c) Includes a $69 million write back in actuarially assessed claims expenses to other operating expenses for the Building and Construction Industry Long Service Leave liabilities, and recognition of related finance costs of $30 million.

(d) Includes a$106 million increase in the value of forestry stock losses.

BALANCE SHEET

	Previously reported figure for June 2007	Difference	June 2007 Comparative Figure Reported in 2007-08
		$m	$m
Current Assets			
Cash and Cash Equivalent Assets	4,292	28	4,320
Receivables	5,611	(133)	5,478
Financial Assets at Fair Value	4,509	25	4,534
Inventories	652	26	678
Other	269	19	288
Non-current Assets Classified as Held for Sale	308	87	395
Total Current Assets	15,641	52	15,693
Non-Current Assets			
Receivables	1,459	68	1,527
Financial Assets at Fair Value	7,948	(142)	7,806
Investments Accounted for Using the Equity Method	1,520	(1)	1,519
Inventories	433	...	433
Property, Plant and Equipment			
Land and Buildings	86,820	75	86,895
Plant and Equipment	10,518	12	10,530
Infrastructure Systems (a)	81,915	374	82,289
Investment Properties	1,474	(74)	1,400
Forestry Stock and Other Biological Assets	1,515	(106)	1,409
Intangibles	1,573	(2)	1,571
Other	1,378	(125)	1,253
Total Non-Current Assets	196,553	79	196,632
TOTAL ASSETS	212,194	131	212,325
Current Liabilities			
Payables (b)	6,148	283	6,431
Borrowings at Amortised Cost	6,914	26	6,940
Derivatives at Fair Value	2,765	46	2,811
Provisions (c)	9,526	382	9,908
Other (b)	967	(412)	555
Total Current Liabilities	26,320	325	26,645
Non-Current Liabilities			
Borrowings at Amortised Cost	25,845	48	25,893
Derivatives at Fair Value	1,160	(32)	1,128
Provisions (c)	20,479	(411)	20,068
Other	2,944	(33)	2,911
Total Non-Current Liabilities	50,428	(428)	50,000
TOTAL LIABILITIES	76,748	(103)	76,645
NET ASSETS	135,446	234	135,680
Equity			
Accumulated Funds	71,862	(35)	71,827
Reserves (a)	63,540	283	63,823
Amounts Recognised Directly in Equity Relating to Assets Held for Sale	44	(14)	30
TOTAL EQUITY	135,446	234	135,680

(a) The balance sheet's June 2007 reserves have increased by $283 million. This includes corrections to 2006-07 property plant and equipment, primarily for further water asset valuation increments.

(b) $334 million of electricity liabilities at 30 June 2007 have been reclassified from 'other liabilities' to 'payables' to reflect the nature of contractual obligation as a payable.

(c) $282 million of provisions for Building and Construction Industry Long Service Leave claims have been reclassified from non-current to current provisions.

Within the notes to the balance sheet for 'other financial assets at fair value' and 'derivative liabilities', the June 2007 dissections into amounts 'held for trading' and amounts 'effectively hedged' have been reclassified to reflect that the majority of the electricity derivatives were effectively hedged at June 2007.

STATEMENT OF RECOGNISED INCOME AND EXPENSE

	Previously reported figure for 2006-07	Difference $m	2006-07 Comparative Figure Reported in 2007-08 $m
Income and Expenses Recognised Directly in Equity			
Net Revaluation Increment in Property, Plant and Equipment Asset Revaluation Reserve [(a)]	4,233	149	4,382
Net unrealised gain/(loss) in the Hedging Reserve	(1,971)	(1)	(1,972)
Fair Value Adjustments to the Available for Sale Reserve	45	...	45
Movements in NSW's share of equity investments taken directly to equity	25	...	25
	(2)	2	...
Total Income and Expenses Recognised Directly in Equity	2,330	150	2,480
Surplus/(Deficit) for the Year	5,929	147	6,076
Total Income, and Expenses for the Year (Recognised in the Operating Statement and in Equity)	8,259	297	8,556

(a) The net revaluations increments include corrections to 2006-07 for further water asset valuation increments.

CASH FLOW STATEMENT

	Previously reported figure for 2006-07	Difference $m	2006-07 Comparative Figure Reported in 2007-08 $m
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts			
Taxation	16,710	...	16,710
Commonwealth Grants	17,661	...	17,661
Sale of Goods and Services [(a)]	13,387	777	14,164
Interest	485	...	485
Fines, Fees, Grants and Other	6,575	...	6,575
Total Receipts	54,818	777	55,595
Payments			
Employee Related	(23,510)	...	(23,510)
Special Superannuation Contribution	(7,175)	...	(7,175)
Grants and Subsidies	(5,544)	...	(5,544)
Finance Costs	(101)	...	(101)
Other [(a)]	(17,843)	(777)	(18,620)
Total Payments	(54,173)	(777)	(54,950)
NET CASH FLOWS FROM OPERATING ACTIVITIES	645	...	645
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from Sale of Property, Plant and Equipment	979	...	979
Proceeds from Sale of Investments	8,518	...	8,518
Advance Repayments Received	47	...	47
Purchase of Property, Plant and Equipment	(9,117)	...	(9,117)
Purchase of Investments	(755)	...	(755)
Advances Made	(39)	...	(39)
Other	(257)	28	(229)
NET CASH FLOWS FROM INVESTING ACTIVITIES	(624)	28	(596)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from Borrowings and Advances	26	...	26
Repayments of Borrowings and Advances	(298)	...	(298)
NET CASH FLOWS FROM FINANCING ACTIVITIES	(272)	...	(272)
NET CASH FLOW OF FINANCIAL INSTITUTIONS	186	...	186
NET INCREASE/(DECREASE) IN CASH HELD	(65)	28	(37)
Opening Cash and Cash Equivalents	4,180	...	4,180
Reclassification of Cash Equivalents	54	...	54
CLOSING CASH BALANCE	4,169	28	4,197

(a) $777 million of 2006-07 lottery prize related payments have been grossed up in the cash flow statement against the lines 'sale of goods and services' and 'other operating payments' to reflect that the payment should not be netted off the gross lottery receipts.

23. CASH FLOW INFORMATION

	2007-08 $m	2006-07 $m
RECONCILIATION OF OPERATING RESULT TO NET CASH FLOWS FROM OPERATING ACTIVITIES EXCLUDING FINANCIAL INSTITUTIONS		
Surplus/(Deficit) for the year	(1,849)	6,076
Adjust for:		
- Surplus of financial institutions	(407)	(75)
- Operating cash flow of financial institutions eliminated on consolidation	1,782	1,669
Non-cash items added back:		
- Depreciation and amortisation	4,718	4,465
- Other	(130)	(1,329)
Change in operating assets and liabilities		
- Defined Benefits superannuation schemes	4,359	(2,042)
- Special superannuation contribution	...	(7,175)
- Other	(437)	(944)
Net cash flows from operating activities	8,036	645

RECONCILIATION OF CLOSING CASH AND CASH EQUIVALENT BALANCES:	June 2008 $m	June 2007 $m

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

	June 2008 $m	June 2007 $m
Cash and deposits at call	4,913	4,320
Bank overdraft	(271)	(123)
	4,642	4,197

RESTRICTED CASH ASSETS

Public sector agency cash balances at 30 June 2008 include $1,454 million of cash (2007 $1,180 million), which is dedicated for a specific purpose. It includes restricted cash of $650 million (2007 $591 million) under the control of the public health system, $37 million of education program contributions (2007 $40 million), $125 million for water and savings funds (2007 $148 million), and $132 million (2007 $148 million) for land remediation works related to contaminations associated with a former steel works site in Newcastle and the former Snowy Hydro site.

In respect to the Crown, $187 million (2007 $175 million) of cash held in Special Deposit Accounts can only be used in accordance with the legislation that established the Account.

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

DISPOSAL OF ENTITIES

During 2007-08 there were no material entity disposals to report.

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

ACQUISITION OF ENTITIES

During 2007-08 and 2006-07 there were no major acquisitions of entities.

NON-CASH FINANCING AND INVESTING ACTIVITIES

During 2007-08:

- A total of $124 million (2007 $122 million) was recognised for an emerging interest in private sector provided infrastructure. This included $85 million recognised for roads (2007 $88 million) and $22 million for Olympic Park infrastructure (2007 $22 million).
- The Roads and Traffic Authority received assets contributed by the Queensland Government for the Tugun Bypass Tunnel to the value of $144 million (2007 $190 million).
- Other assets acquired free of cost amounted to $319 million (2007 $309 million). They include subdivider/developer contributions of water assets of $91 million (2007 $123 million) and electricity assets of $139 million (2007 $109 million).

  It is impracticable to report on the numerous other assets donated to NSW public sector agencies particularly dedicated for health, education and cultural purposes. They are generally reported in individual agency financial statements.
- The cash flow statement also excludes assets acquired under finance leases with a value of $251 million (2007 $151 million). These include leases for new buses and the Mater Hospital at Newcastle.

NET CASH FLOWS OF FINANCIAL INSTITUTIONS

	2007-08 $m Gross	2007-08 $m (a) Net of Elimination	2006-07 $m Gross	2006-07 $m (a) Net of Elimination
CASH INFLOWS (OUTFLOWS) FROM OPERATING ACTIVITIES				
Receipts				
Finance	2,411	593	1,948	231
Other	351	345	116	105
Total Receipts	2,762	938	2,064	336
Payments				
Employee Related	(13)	(12)	(13)	(12)
Finance	(2,328)	(2,295)	(1,561)	(1,519)
Other	(27)	(19)	(30)	(14)
Total Payments	(2,368)	(2,326)	(1,604)	(1,545)
NET CASH FLOW FROM OPERATING ACTIVITIES	394	(1,388)	460	(1,209)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of Property, Plant & Equipment	(2)	(2)	(5)	(5)
Purchase of Investments & Loans Made to Authorities	(9,145)	(2,024)	(7,193)	(1,613)
Proceeds from Sale of Investments	7	7	7	7
Loans to Authorities Repaid & Other Investing	4,260	(3)	3,955	(3)
Net Cash Flows From Investing Activities	(4,880)	(2,022)	(3,236)	(1,614)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from Borrowings	35,171	35,171	20,128	20,128
Repayments of Borrowings	(30,474)	(30,466)	(17,125)	(17,118)
Other	(34)	...	(12)	(1)
NET CASH FROM FINANCING ACTIVITIES	4,663	4,705	2,991	3,009
NET CASH FLOWS FROM FINANCIAL INSTITUTIONS	177	1,295	215	186

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

24. TRUSTS UNDER MANAGEMENT

Trusts under management are held on behalf of beneficiaries and are not controlled by the State. Therefore, these trusts are not included in the Total State Sector assets.

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

	2008 $m	2007 $m
WorkCover Authority	1,587	1,413
Office of the Public Trustee (a)	1,289	1,279
Protective Commissioner (a)	1,254	1,439
NSW Treasury Corporation (fiduciary investments)	767	899
Rental Bond Board	744	693
Department of Commerce	105	75
Department of State and Regional Development	104	86
Attorney General's Department	93	39
Workers' Compensation (Dust Diseases) Board	77	77
Department of Health	56	37
Others	80	107
	6,156	6,144

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

25. EXPENDITURE COMMITMENTS

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

	2008	2007
	$m	$m
Capital Expenditure		
Sydney Water Corporation	2,505	2,098
Roads and Traffic Authority	1,818	923
Department of Health	1,406	1,191
Sydney Ports Corporation	539	20
TransGrid	531	291
WSN Environmental Solutions	382	310
NSW Police	316	181
Delta Electricity	295	482
State Transit Authority	265	288
Energy Australia	226	154
Integral Energy	224	150
Department of Education and Training	216	100
Transport Infrastructure Development Corporation	198	381
Rail Corporation New South Wales	157	235
Eraring Energy	136	12
Rail Infrastructure Corporation	127	63
Macquarie Generation	66	78
Sydney Catchment Authority	56	35
Sydney Cricket and Sports Ground Trust	56	97
Country Energy	37	44
Hunter Water Corporation	35	35
NSW Land and Housing Corporation	25	26
Crown Finance Entity	15	29
Public Transport Ticketing Corporation	...	92
Other agencies	125	162
	9,756	7,477

	2008	2007
	$m	$m
Capital Expenditure Commitments: [(a)]		
not later than one year	4,816	3,836
later than one year and not later than five years	3,850	2,683
later than five years	1,090	958
	9,756	7,477
Future minimum lease payments under non-cancellable operating leases:[(b)]		
not later than one year	673	670
later than one year and not later than five years	1,225	1,370
later than five years	452	634
	2,350	2,674

	2008	2007
Other Expenditure Commitments:[c]	$m	$m
not later than one year	4,132	3,654
later than one year and not later than five years	4,115	4,845
later than five years	4,772	3,392
	13,019	11,891

(a) Capital commitments exclude $368 million estimated for a Public Private Partnership for the redevelopment of Bonnyrigg Housing Estate and the provision of tenancy, management and maintenance services, as redevelopment is only expected to be completed in stages, commencing in 2009. Capital commitments also exclude other finance leases and purchase agreements entered into, but for which control of the assets will only transfer in future years upon project completion such as for rail rollingstock, the Newcastle Mater (Mental) Hospital, and the Long Bay Forensic and Prison Hospitals.

(b) Total future minimum sub-lease payments expected to be received under non-cancellable sub-leases is approximately $20 million (2007 $62 million).

(c) Includes $42 million (2007 $20 million) for school maintenance contracted by the Department of Education and Training. Other expenditure commitments exclude contracts entered into, but which have not commenced operations such as grants associated with the Newcastle Mater (General) Hospital.

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

GST input tax credits included in the above commitments:		
Capital Expenditure	882	647
Future minimum lease payments under non-cancellable operating leases	198	234
Other Expenditure	876	1,074
Major Service Agreements for Filtered Water by Sydney Water Corporation		
not later than one year	121	114
later than one year and not later than five years	490	474
later than five years - Net Present Value[d]	410	423

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

Operating Lease Commitments - Receivables		
Future operating lease rentals not provided for in the financial statements and receivable:		
not later than one year	205	167
later than one year and not later than five years	633	538
later than five years	2,452	1,991
	3,290	2,696

The above expenditure commitments recceivable are inclusive of Goods and Services Tax of $273 million (2007 $216 million) expected to be payable to the Australian Taxation Office.

26. CONTINGENCIES

CONTINGENT LIABILITIES

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

(A) QUANTIFIABLE CONTINGENT LIABILITIES comprise:

	2008 $m	2007 $m
NSW Treasury Corporation		
(stock lending facility - bonds on loan)	592	1,456
(less securities held)	...	(360)
Attorney General's Department		
(Victims Compensation and other claims)	136	96
Sydney Water Corporation		
(claims in respect of compensation and litigation)	96	98
Roads and Traffic Authority		
(contractual claims and litigation)	100	56
Eraring Energy		
(contractual claims)	...	11
Other agencies	41	27
TOTAL	965	1,384

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

The major guarantees are:

- State guarantees given to various organisations under statute. They mainly relate to certain co-operative housing societies $59 million (2007 $69 million).
- Issued securities, borrowings and derivative liabilities of the NSW Treasury Corporation with a market value of $37 billion (2007 $32 billion) have been guaranteed by the NSW Government under the Public Authorities (Financial Arrangements) Act 1987.
- Under the *Government Insurance Office (Privatisation) Act 1991*, the State guarantees GIO liabilities for general, life and reinsurance policies that it issued until 15 July 1992.

  Actuarial assessment of the GIO liabilities is:

	31 December 2007 $m	31 December 2006 $m
General insurance	153	204
Life insurance	69	72
Inward reinsurance	33	38
	255	314

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

  The guarantees have been valued by Ernst & Young at $12 million. This amount is immaterial to the Crown Entity and has not been included on the balance sheet.

- On 28 June 2002 the Commonwealth's Snowy Mountain Hydro–electric Authority and the electricity trading company, Snowy Hydro Trading Proprietary Limited were formed into a new public company, Snowy Hydro Limited (SHL). This is owned by NSW, Victoria, and the Commonwealth.

  NSW owns 58 per cent share in the company and it has entered into guarantees, indemnities and deeds as part of the agreements leading to the corporatisation of the Snowy Scheme.

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

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

  If any change to the Snowy Water licence has an adverse financial impact for SHL, the company will receive that corresponding amount in compensation. NSW may recover 42 per cent of this compensation if Victoria and the Commonwealth agree to water licence changes. No major amendments to the Snowy Licence are currently proposed. The licence expires in 2077 or when ended.

If an instruction from the Water Ministerial Corporation to SHL causes spills or a Jindabyne Dam release causes downstream damage, the State will compensate SHL for the proportion of claims it incurs. NSW will pay 58 per cent of the cost if the Commonwealth and Victoria also agreed with the instruction. No claims currently exist. The risk of exposure should be very low for several years after corporatisation while sufficient water savings are found and allocated to the Snowy River. This indemnity lasts while the licence is in place.

If legislation requires SHL to modify its structures or lower dam levels to reduce the impact of cold-water releases, NSW will provide 58 per cent of the amount necessary to maintain financial covenants and credit rating for up to 2009. Applicable legislation is the Water Management Act 2000. The Environmental Protection Authority has never asked for a dam structure to be modified for this reason in NSW. Any likelihood of this is further lessened by NSW's cold-water strategy where SHL does not have to modify dams or dam levels to reduce cold-water pollution until 2009.

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

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

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

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

  At year-end the agreed aggregate amounts totalled $1,327 million (2007 $1,587 million).

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

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

  Both power stations have been completed.

A Final Certificate for Pacific Power (Subsidiary No. 1) Pty Ltd has been issued for the Tarong North power station. An Interim Final Certificate for Callide C has been in place since 2006 and some outstanding matters have now been settled.

A Final Certificate is anticipated during 2008-09. In respect of possible liabilities arising from the default of another consortium member, the other parties in the consortium are very large well established businesses, and the chance of them being unable to pay for their own possible liabilities are considered to be remote.

- To enable major projects to be undertaken the State has guaranteed the performance of the obligations of various statutory authorities under contracts with private sector parties. The current guarantees outstanding are for the following projects:
  - Macarthur Water Filtration Plant
  - Illawarra and Woronora Water Treatment Plants
  - Prospect Water Filtration Plant and Treatment Works
  - Eastern Creek Alternative Waste Treatment Plant
  - Visy Mill: Tumut Timber Supply Agreement
  - Olympic Stadium
  - Olympic Multi-Use Arena
  - Mater Hospital
  - Long Bay Prison and Forensic Hospital
  - Suburban Rolling Stock
  - Bonnyrigg Communities Public Housing

  These guarantees are considered unlikely to ever be exercised.

  The Roads and Traffic Authority (RTA) has certain obligations under contracts with private sector parties with the performance of these obligations guaranteed by the State. The current guarantees outstanding are for the:
  - Sydney Harbour Tunnel
  - M2 Motorway
  - Eastern Distributor
  - Cross City Tunnel
  - Western Sydney Orbital, and
  - Lane Cove Tunnel.

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

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

  The State has guaranteed that five agencies involved in public private partnerships will meet their obligations to pay for finance leases and services provided. These are long term agreements involving significant sums. It is very unlikely that the agencies would cease to pay the finance lease contracts on assets or meet payments for services they require for their operations. The credit risk for these activities is $4.3 billion (2007: $4.3 billion).

- The State's motor vehicles are financed under an external funded leasing arrangement (Tranche 3); and another leasing arrangement (Tranche 4) managed by StateFleet and funded by NSW Treasury Corporation.

- The leasing arrangements are funded on a floating rate basis with users paying a fixed rate. The liability for the exposure between the fixed and floating rates is borne by the Crown Entity. The Crown Entity has an effective floating rate principal exposure of $557 million as at 30 June 2008 (2007 $574 million).
- In July 2004, in a matter involving the Sydney Harbour Foreshore Authority (SHFA), the Land and Environment Court handed down a preliminary judgement awarding Walker Corporation Pty Ltd $60m for its compensation claim in relation to Ballast Point.

  Since December 2004, the SHFA and Walker Corporation have jointly held a security investment of $41 million with the Commonwealth Bank. In May 2005, the SHFA appealed the Land and Environment Court's decision.

  Since then the case has appeared before the Court of Appeal and Land and Environment Court on several occasions.

  In May 2007, the High Court granted Walker Corporation special leave to appeal two Court of Appeal decisions. The matter was heard in the High Court on 6 November 2007. On 27 February 2008, the High Court ruled in favour of the SHFA and awarded costs.

  The matter has now been remitted to the Land and Environment Court with land valuation to be redetermined. In the event the Walker Corporation wins its appeal, the deposit will be lost by the SHFA.
- Landcom has given bank guarantees to various councils/government agencies that certain infrastructure works will be carried out including electrical infrastructure works and construction of a community centre. To date there are seven bank guarantees outstanding totalling $7 million.
- Through the New South Wales Structured Finance Activities, the State entered into several cross border leases in respect of electricity and rolling stock assets. There are two categories of contingent liabilities with respect to these transactions:

  (i) The first type of contingency arises by virtue of the NSW Government indemnity provided for each transaction. The exposure relates to the change of law risk and administration risk in relation to the covenants given under the lease transactions; and

  (ii) The second type of contingency is where the Crown Entity has a third party risk in terms of monies being placed on deposit with a counter-party. The counterparty contingent liability is estimated to be $283 million (2007 $443 million). The amount of the counter-party contingent liability reflects the term nature of the deposits and the valuation of the Australian dollar against the US dollar, Canadian dollar and Japanese yen. NSW Treasury Corporation regularly monitors this risk.

  During the 2007-08 financial year there have been no significant changes in the credit standing of the deposit counterparties which range from BBB+ to AAA.

  One of the leases over rail stock involves certain swap transactions for which the Crown Entity has provided an indemnity. An additional potential exposure arises under the swaps. However the overall lease transactions are structured such that there is a zero net position under the swaps.

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

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

  The liability arises as follows:

  (i) Liability of the State to pay compensation to native title holders in respect to past acts and intermediate period acts (i.e. acts undertaken between October 1975 and December 1996 which were invalid because of native title) which were validated by operation of the Native Title Act 1993 and the Native Title (New South Wales) Act 1994.

  (ii) Liability of the State to pay compensation to native title holders arising from the undertaking of future acts (i.e. acts which affect native title undertaken after 1 January 1994 and for which the Native Title Act 1993 provides that compensation is payable) by the State and its instrumentalities.

  [The State has an indemnity under Section 104 of the Native Title (New South Wales) Act in respect to compensation arising from a compulsory acquisition of native title by an authority which is not the Crown in the right of the State.]

- The assets of the State in the form of Crown land and water may be reduced in value in the event that native title is determined to exist in all or any of these assets. The extent of the reduction in value cannot be quantified.

- The assets of the State in the form of unallocated and reserved Crown land may be reduced in value by operation of the Aboriginal Land Rights Act 1983 (NSW). Under that legislation a land council can apply for the grant of the freehold of claimable Crown land (as defined in Section 36 (1) of the Act) and the claim must be granted. Applications have been made over various areas of land and water in New South Wales, which might ultimately result in land being transferred for no consideration.

  These applications have not been finalised and it is therefore not possible to estimate the financial impact or result of the claims.

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

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

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

- Some government authorities have claims for compensation for land acquired under the Land Acquisition (Just Terms Compensation) Act 1991. The estimated cost will be determined by the Land and Environment Court in due course.
- Landcom has entered into several development projects that include possible contingent liabilities. In the event of realisation, Landcom would be entitled to receive property to the estimated value of the liability.
- Road repairs on Landcom constructed roads are guaranteed in the Narellan release area for a twenty year period commencing October 1988. The cost is currently estimated as $4 million subject to final negotiations.
- Macquarie International Health Clinic Pty Ltd, lessee of certain property controlled by Sydney South West Area Health Service (SSWAHS) has made a claim against SSWAHS. The claim is in relation to Supreme Court proceedings in respect of recision of an agreement and lease regarding a proposed private hospital on the Royal Prince Alfred Hospital Campus which was constructed and operated by the lessee. Litigation is ensuing with a claim by the lessee for compensation in respect to rentals unpaid to date together with damages which have not been quantified.
- As a condition of the sale of Pacific Power International Pty Ltd the State has an obligation to compensate the trustee of the electricity industry superannuation fund if certain conditions exist at a certain time. The time will be the earlier of:
  - Connell Wagner (the purchaser) ceasing to be an employer in the fund; or
  - the last benefit is paid; or
  - the relevant assets are exhausted.

  If the liability arises there would only be one payment. The payment would be the lower of:
  - the actual shortfall between fund assets and fund liabilities; and
  - the potential shortfall, if anticipated investment returns of 4.5 per cent a year (excluding CPI) had not been realised.

  Based on currently forecast investment returns, the expected liability is nil (2007: nil).
- A claim for compensation is being pursued via arbitration against TransGrid, for alleged reduction in the value of a coal mine due to the construction of a transmission tower. At this stage, it is not possible for management to form an opinion about the likely outcome of the matter.
- In 2003, the Public Transport Ticketing Corporation (PTTC) entered into a Project Agreement with Integrated Transit Solutions Limited (ITSL) for ITSL to design, build and install an integrated ticketing smart-card based system (the Project Agreement). On 23 January 2008, the Public Transport and Ticketing Corporation terminated the Project Agreement with Integrated Transport Solutions Limited on the basis of an alleged failure to meet the requirements of the Project Agreement. Consequently PTTC lodged a claim against ITSL and ITSL has responded by lodging a counter claim against PTTC for breach of contract. PTTC has disclaimed responsibility of the claim and is defending the action. It is not practical to estimate the potential effect of the counter claim as the legal case is still in preliminary stages.

CONTINGENT ASSETS

Contingent assets exist in respect of guarantees received and from pending litigation. These include:

- As a result of the collapse of HIH Insurance Limited the State took over liabilities of approximately $650 million. This was in respect of building warranty and third party motor insurance. An actuary estimated the discounted present value of the outstanding liability to be $125 million as at 30 June 2008 (2007 $130 million).

  The liquidators of HIH Insurance Limited have recently stated that they intend to distribute "more than 50 per cent" depending upon the scheme company. In 2007-08, the State received payments totalling $79 million (2006-07 $95 million).

- The Ministry of Transport holds guarantees of $70 million from Pacific National as security for contractual performance in its grain business for completion of mandatory works specified in the Works Deed (Grain).

- The State holds various performance bonds totalling $24 million relating to the provision of bus services under the Metropolitan and Outer Metropolitan Bus Service Contracts.

- The State holds a guarantee of $25 million to ensure supply of the Attorney-General Department's Justicelink contract.

- The State has initiated legal proceedings to recover damages of $16 million associated with an electricity contractor. At this stage it is not possible to form an opinion on the likely outcome of the proceedings.

- On 23 January 2008, the Public Transport and Ticketing Corporation (PTTC) terminated the Project Agreement with Integrated Ticketing Solution Limited (ITSL) on the basis of non performance of the contract. Consequently PTTC lodged a claim against ITSL. If this claim is successful PTTC may be rewarded damages as well as reimbursement of legal costs relating to the dispute. It is not practical to estimate the potential effect of this claim as the legal case is still in its preliminary stages.

27. EVENTS AFTER THE BALANCE SHEET DATE

The disclosures below relate to events that are indicative of conditions that arose after the reporting date:

- Since 30 June 2008 the value of domestic and international share markets has deteriorated, interest rates have fallen, and the value of the Australian Dollar has fallen significantly compared to the United States Dollar. Since late September 2008 there has been significant daily volatility in financial markets. The mark to market losses of defined benefit superannuation fund assets, if sustained, will materially increase the amount of superannuation liabilities. At 21 October 2008, these losses are estimated to be around $2.4 billion. However, with current levels of volatility, estimates of such losses are potentially misleading and could be reversed during the remainder of the financial year.

  Falls in the long term Commonwealth bond rates since June 2008, which are used to discount superannuation liabilities, will, if sustained also increase the amount of defined benefit superannuation liabilities, as calculated for reporting in the Total State Sector Accounts in accordance with AASB 119. It is not possible to readily estimate the impact post balance date, as bond rates are changing daily by significant amounts, and the estimated impact on superannuation liabilities requires a further actuarial estimation.

  Further, whereas, the liabilities reported under AASB 119 might increase, they would not have changed significantly since balance date, if calculated in accordance with AAS 25 (The Standard by which Superannuation Funds report). AAS 25 adopts a funding model to discount the liabilities. The discount rate applied under AAS 25 uses long term earnings rates, and is not volatile compared to the volatile government bond rates that are applied under AASB 119 for the Total State Sector Accounts. Treasury believes that AAS 25 remains an appropriate basis for funding as it provides a better indication of the unfunded liabilities and therefore the amount of employer funding required over the long-term to meet future member benefit obligations.

- On 28 July 2008, Sydney Water Corporation's subsidiary company Sydney Desalination Plant Pty Limited entered into an Electricity Supply Agreement with BBP Energy Markets Pty Limited, a subsidiary of Babcock & Brown Power Limited and a Renewable Energy Certificate Supply Agreement and Project Deed with Renewable Power Ventures, a subsidiary of Babcock & Brown Wind Partners. The Agreements are for the supply of renewable energy to the desalination plant at Kurnell over a period of 20 years.

  Under the new Agreements, the Capital Wind Farm at Bungendore near Queanbeyan, which is already under construction, will supply enough renewable energy into the electricity supply system to meet all of the Kurnell plant's needs. The desalination plant will then draw its energy from the existing electricity supply system.

  The Sydney Water Corporation's subsidiary will buy renewable energy at firm prices adjusted annually by CPI, and will buy a minimum of 180,000 Renewable Energy Certificates (RECs) per year to facilitate the construction of the Wind Farm. Additional RECs will be purchased whenever the plant is operating in order to match the plant's total energy use.

  The RECs demonstrate that the desalination plant is powered by an accredited, renewable energy source and they will be surrendered to the Renewable Energy Regulator as unequivocal evidence that the desalination plant is 100 per cent powered by renewable energy. When the desalination plant is in standby mode, the Wind Farm will continue to operate and the power will be sold to other customers.

- The Prime Minister released a Green Paper on the Carbon Pollution Reduction Scheme in July 2008. It canvasses options and preferred approaches on issues, such as which industry sectors will be covered and how emission caps will be set. It also includes ways to address the impacts on Australian households, emissions-intensive trade-exposed industries and other strongly affected sectors.

  The final form of an emissions trading scheme is yet to be announced but may have an impact on electricity generators and suppliers.

  As the design of the Carbon Pollution Reduction Scheme has not been finalised, and in particular, the transitional measures that may accompany the Scheme, there is uncertainty about the potential impact on the operations of electricity generators and suppliers and their cost of compliance.

- The Commonwealth Government announced during the 2007-08 financial year a new water management plan, known as "Water for the Future" (previously "National Plan for Water"). Whilst legislation has not yet passed in relation to this plan and the details are not yet determined, there is a clear undertaking that the plan will involve a significant buy-back of water licences to increase river flows for environmental and sustainability purposes.

  When this occurs the State Water Corporation's customer base will alter significantly. At this stage, the extent of the impact on revenue is not considered significant as State and Federal agencies have committed to paying delivery costs of regulated water supply.

- In July 2008, as part of the current national water reforms the Commonwealth and relevant Murray Darling Basin State Governments agreed to abolish the Murray Darling Basin Commission (MDBC) and establish the Murray Darling Basin Authority to commence operations in 2008-09. As a result of the changing arrangements the State is likely to amend its accounting treatment and replace its equity investment in the Murray Darling Basin Commission with a share in jointly controlled assets. Pending confirmation of the MDBC's accounts at the date of transfer it is not possible to accurately estimate the financial impact of this changing treatment on the net assets and operating result of the Total State Sector Accounts.

- In December 2007, the New South Wales Government announced that it would accept the key recommendations of the Owen Inquiry into Electricity Supply in New South Wales.

On 29 August 2008, the Government announced its revised electricity strategy, which removes the need for the public sector to fund the cost of maintaining the competitiveness of the retail businesses.

NSW Treasury and the project advisors are currently preparing the details of the revised electricity strategy for the Government's consideration.

28. COMPLIANCE WITH APPROPRIATIONS

Details of compliance with parliamentary appropriations are contained in the annual financial reports of Budget dependent agencies. The "Summary of Compliance with Financial Directives" in each agency's annual financial report includes a summary of recurrent and capital appropriations disclosing separately the original and revised amounts appropriated, and relevant expenditure for the reporting period.

29. FINANCIAL INSTRUMENTS

The principal financial instruments of the New South Wales Public Sector (hereafter referred to as the 'State') are outlined below. These financial instruments arise directly from the State's operations or are required to finance the State's operations. The State does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The State's main risks arising from financial instruments are outlined below, together with the State's objectives, policies and processes for measuring and managing risk. Further quantitative and qualitative disclosures are included throughout this financial report.

The NSW Treasury, acting for the Treasurer, has overall responsibility for the establishment and oversight of risk management guidelines for the New South Wales public sector. This includes establishing Treasury Management policy to strengthen the framework for managing risks associated with public sector agencies' treasury functions, including borrowings, investments, derivatives, debt and investment management.

As part of this framework, NSW Treasury administers the *Public Authorities (Financial Arrangements) Act 1987* which is the sole source of legal power for government authorities to enter into financial arrangements. Under this Act, the Treasurer is given responsibility of exercising a central supervisory role in respect of the investment and liability management activities of authorities to ensure that the NSW Public Sector's financial risks and exposures are properly and prudently managed.

This role is affected through the requirement to have the borrowing, investment and joint venture / joint private- public sector financing activities of each authority approved by the Treasurer or Governor.

NSW Treasury Corporation (TCorp) is the State's central borrowing and investing authority. TCorp holds a level of investments for liquidity management purposes, and, as the State's central investing authority it administers the management of the majority of the State's investments. TCorp, acting as the State's central borrowing authority, issues bonds to the public. Bondholders include local and overseas individuals and financial institutions.

The State also holds a small component of investments and borrowings which have not been made through TCorp, but were made directly by individual State agencies, under the authority of the *Public Authorities (Financial Arrangements) Act 1987.*

Management of individual public sector agencies review and agree policies for managing their organisation's risks. Risk management policies are established to identify and analyse the risks faced by the State, to set risk limits and controls and to monitor risks. Compliance with policies is reviewed by public sector agency audit committees, and or internal auditors on a continuous basis. NSW Treasury monitors agency risks from a financial perspective.

This note commences with a summary of the major financial instruments, their classification and carrying amounts.

It is followed by information on the valuation of financial instruments

The note then reports on the main risks as they affect the State's financial instruments classified into

- Credit Risk, which affects financial assets
- Liquidity Risk, which affects financial liabilities, and
- Market Risk, which affects financial assets and liabilities because of changes in market prices.

A reference to 'financial instruments' in this note excludes prepayments and statutory receivables/payables as accounting standard AASB 7 excludes them from the definition of financial instruments.

The State's financial instruments are classified as follows:

FINANCIAL INSTRUMENT CATEGORIES

	Category	Note	Total carrying amount 2008 $m	Total carrying amount 2007 $m
Financial Assets				
Cash and cash equivalents		6	4,913	4,320
Receivables [(a)]	Loans and receivables (at amortised cost)	7	4,217	4,428
Financial assets at fair value				
	At fair value through profit and loss - classified at held for trading	8	607	909
	Designated and effective hedging instruments	8	106	28
	Designated at fair value through profit and loss	8	11,933	11,403
Financial Liabilities				
Payables [(b)]	Financial liabilities measured at amortised cost		5,963	6,291
Borrowings [(c)]	Financial liabilities measured at amortised cost	18	37,814	32,833
Derivatives	At fair value through profit and loss - classified at held for trading	19	676	1,051
	Designated and effective hedging instruments	19	648	2,888

(a) Excludes statutory receivables and prepayments (i.e. not within the scope of AASB 7)
(b) Excludes statutory payables and deferred revenue (i.e. not within the scope of AASB 7)
(c) Borrowings comprise bank overdraft, loans from the Commonwealth, other domestic and foreign borrowings and finance leases

VALUATION OF FINANCIAL INSTRUMENTS

Financial assets are generally recognised at fair value, with the exception of receivables, which are measured at cost. The value of the Hour-Glass Investments is based on the State's share of the value of the underlying assets of the facility, based on the market value. All of the Hour-Glass facilities are valued using 'redemption' pricing. Financial liabilities are generally recognised at amortised cost with the exception of derivatives, which are reported at fair value.

Except where specified below, the amortised cost of financial instruments recognised in the balance sheet approximates the fair value, because of the short-term nature of many of the financial instruments.

Further information on the recognition and measurement of financial instruments by category is reported in Note 1 'Statement of Significant Accounting Policies'.

The following table details the financial instruments where the fair value differs from the carrying amount.

FINANCIAL INSTRUMENTS WITH DIFFERENT CARRYING AMOUNTS AND FAIR VALUES.

	Total carrying amount 2008 $m	Aggregate fair value(a) 2008 $m	Total carrying amount 2007 $m	Aggregate fair value(a) 2007 $m
Financial Liabilities				
Domestic and foreign borrowings	35,986	34,753	31,295	30,328

(a) The net fair value of financial assets and liabilities, with the exception of borrowings, is reflected by their carrying amounts in the Balance Sheet. The net fair value of borrowings is based on market value derived by NSW Treasury Corporation using market interest rates current at reporting date.

In 2008-09 the State will prepare its financial report in accordance with accounting standard AASB 1049 and the carrying amount of marketable borrowings will be restated to fair value, consistent with Government Finance Statistics principles. This may lead to greater volatility in future results, due to the recognition of market value increments on borrowings through profit or loss.

CREDIT RISK OF FINANCIAL ASSETS

Credit risk arises when there is the possibility of the State's debtors defaulting on their contractual obligations, resulting in a financial loss to the State. The maximum exposure to credit risk is generally represented by the carrying amount of the financial assets (net of any allowance for impairment).

Credit risk arises from the financial assets of the State, including cash, receivables, and deposits.

The State controls the borrowing and investing powers of its authorities through the *Public Authorities (Financial) Arrangement Act*. The provision for the Treasurer to schedule authorities under this Act restricts the ability and amount that public authorities can borrow and invest, and directs most authorities to finance only through NSW Treasury Corporation (TCorp). TCorp manages credit risk associated with its financial assets through the selection of counterparties, establishment of minimum credit rating standards, and monitoring of credit utilisation against limits. Agencies with approved investing powers outside of TCorp are restricted to invest in classes of instruments (with varied credit ratings) as scheduled under the *Public Authorities (Financial) Arrangement Act*.

The State holds various security deposits to the value of $422 million (2007 $483 million). The deposits are generally non interest bearing and are held as security against current or future receivables for the provision of electricity, water and other services.

The State obtains other collateral in relation to securities sold under repurchase agreements and may obtain collateral in relation to securities loaned under its stock lending facility if required by TCorp Board policy. The terms and conditions of the repurchase agreements are governed by standard industry agreements, reflecting current Australian market practice. In the event of default, the State is immediately entitled to offset the cash collateral against the amounts owed by the defaulting counterparty. Cash collateral received for repurchase agreements outstanding at the balance date totalled $186 million (2007 nil).

Credit risk exists for the various classes of financial assets. These comprise financial assets at fair value, cash, and receivables.

Financial Assets at Fair Value

Financial Assets at fair value include fiduciary investments administered by NSW Treasury Corporation (TCorp's Hour-Glass facilities and managed assets portfolio), securities and placements held by NSW Treasury Corporation, and a small component are other investments held directly by public sector agencies.

The investments within the Hour-Glass facilities are unit holdings in a managed investment pool, and as such, do not give rise to direct credit risk. While their carrying amount is reported within the financial assets at fair value in the table of Credit risk, they generate nil (direct) sensitivity to interest rate credit risk. As the Hour-Glass facilities unit price is sensitive to market price risk, they have been included in the sensitivity analysis under the separate section headed 'Market Risk'. [Credit risk within the Hour-Glass facilities is managed through TCorp, as trustee contracting with a spread of managers and requiring in their mandates a series of controls over the concentration and credit quality of assets.]

Managed asset portfolios

NSW Treasury Corporation (TCorp) manages credit risk and interest rate risk exposures applicable to specific fixed-interest investments of the State in accordance with an asset portfolio mandate agreed between the two parties. For this service TCorp receives a fee based on the dollar value of the portfolio, and in some cases a fixed component. The various risks are managed by TCorp within limits stipulated in the portfolio mandate.

Securities and Placements

These comprise bank bills and certificates of deposit, commercial paper, and government and semi-government bonds held by TCorp, mainly to cover the liquidity requirements of the State's borrowings.

Categorisation of Credit Risk

Fixed-interest holdings are categorised for credit risk by the Standard & Poors (S&P) or Moody's credit rating applicable to the underlying securities. The amount of securities held must not exceed the limit for the relevant S&P or Moody's equivalent category. Limits also apply to the amounts that may be held with individual counterparties. To be eligible for investment, counterparties must satisfy minimum credit rating criteria. Monitoring processes ensure that credit rating information is up-to-date and portfolio holdings are maintained within the approved credit limits.

Credit risk applicable to investments is detailed in the tables below.

CONCENTRATION OF CREDIT RISK

2008

Credit Rating [a]	AAA	AA+	AA	AA-	A+	A	Other Ratings[b]	Total
Financial Assets at Carrying Amount								
Managed Asset Portfolio	2,059	151	177	37	39	19	44	2,526
Securities and Placements	1,446	299	2,679	347	815	...	138	5,724
Derivative Financial Instruments	37	...	80	9	7	...	580	713
Other Financial Assets at Fair Value	...	...	224	...	308	...	522	1,054
	3,542	450	3,160	393	1,169	19	1,284	10,017
Other Off Balance Sheet Adjustments [c]								
Stock Lending	...	...	349	243	...	...	...	592
Additional Potential Exposure to Derivatives	28	6	61	42	...	...	...	137
Additional Potential Exposure to Financial Instruments	42	3	34	5	11	...	2	97
	3,612	459	3,604	683	1,180	19	1,286	10,843

2007

Credit Rating [a]	AAA	AA+	AA	AA-	A+	A	Other Ratings[b]	Total
Financial Assets at Carrying Amount								
Managed Asset Portfolio	2,229	132	946	155	39	8	...	3,509
Securities and Placements	1,287	...	1,473	46	1,032	10	95	3,943
Derivative Financial Instruments	24	3	23	13	...	...	874	937
Other Financial Assets at Fair Value	...	...	334	...	296	...	643	1,273
	3,540	135	2,776	214	1,367	18	1,612	9,662
Other Off Balance Sheet Adjustments [c]								
Stock Lending	...	186	860	409	...	...	...	1,455
Additional Potential Exposure to Derivatives	14	15	38	8	...	...	3	78
Additional Potential Exposure to Financial Instruments	44	...	17	0	11	...	1	73
	3,598	336	3,691	631	1,378	18	1,616	11,268

(a) *Amounts are assigned to the credit ratings categories based on information provided by individual agencies who use rankings assigned by Standard and Poors (S & P) or Moody's Investor Services. "AAA", "AA+", "AA", "AA-", "A+", "A" displayed in the column headings are ratings categories by S & P that are comparable with "Aaa", "Aa1","Aa2", "Aa3", "A1","A2" ratings given by Moody's.*

(b) *Short term ratings of A-2 or better, when the counterparty has no long term rating or the long term rating is A or lower. In addition, it includes an amount of $1.1 billion (2007 $1.5 billion) comprising various investments that have no specific rating.*

(c) *These items are off balance sheet additional credit exposures.*
The State has on loan to the fixed interest market, under T Corp's stock lending facility, Corporation bonds with a total market value of $592 million (2007: $1,455 million). In the unlikely event of default by the borrower of bonds, the State would obtain ownership of any security pledges held as collateral against stock it has lent. There were no security pledges required to be held as collateral at 30 June 2008 (2007: $360 million).
The other off balance sheet disclosures represent the market value convention for the calculation of credit exposure for derivative financial instruments. This convention is to add to the market value an amount of potential exposure as determined by reference to the length of time to maturity and face value.

Cash

Cash comprises cash on hand, cash invested in the TCorp Hour-Glass Facility, and cash and deposits held at financial institutions. Interest is earned on daily bank balances at published rates. The TCorp Hour-Glass cash facility is discussed in the section headed 'Market Risk' as it is affected by market price risk. The credit ratings of the 'other financial institutions' holding the non Hour-Glass cash is mainly graded A+ short term and AA long term.

Receivables

Debtors exist for the settlement of services that the State provides across the broad spectrum of its public services. In addition, the State has issued low interest or interest free loans for policy purposes, which are known as advances. Advances receivable include amounts provided for assistance to farmers and for certain transport infrastructure.

Each State agency is responsible for the management and collection of its debtors.

All trade debtors are recognised as amounts receivable at balance date. Sales are made on terms appropriate to the sector providing the public service. Collectability of trade debtors is reviewed on an ongoing basis. Established procedures are followed to recover outstanding amounts, including letters of demand. Debts which are known to be uncollectible are written off. An allowance for impairment is raised when there is objective evidence that the State will not be able to collect all amounts due. This evidence includes past experience, and current and expected changes in economic conditions and debtor credit ratings.

The annual movement in the allowance for impairment is summarised below.

MOVEMENT IN ALLOWANCE FOR IMPAIRMENT

	2007-08 $m	2006-07 $m
Opening balance at 1 July	170	168
Amounts written off during the year	(59)	(59)
Amounts recovered during the year	(3)	(2)
Increase/(decrease) in allowance recognised in profit or loss	53	63
Closing balance at 30 June	161	170

The analysis excludes statutory receivables. Therefore, the total will not reconcile to the receivables total in the balance sheet.

The State provides services to a broad spectrum of the New South Wales economy, for example for water, electricity and public housing. Debtors include individual households and commercial business with various credit ratings.

The State is not materially exposed to concentrations of credit risk to a single trade debtor or group of debtors in respect of financial instruments. However, footnote (b) of Note 7 to this financial report discloses information on exposure to a single debtor in respect of statutory receivables, which are not reported within this financial instruments note as AASB 7 excludes them from its definition of financial instruments.

Based on past experience, debtors that are not past due (2008: $3.8 billion; 2007: $3.9 billion) represent 86.8% of the total trade debtors. Information has not been collated for the State on the quantum of debtors which are currently not past due or impaired whose terms have been renegotiated.

The overwhelming majority of amounts past due or impaired relate to the sale of goods and services. Therefore, the following analysis has been prepared for all receivables past due or impaired, and has not been dissected by component receivable.

FINANCIAL INSTRUMENTS PAST DUE OR IMPAIRED

	Past due but not impaired $m	Considered impaired $m
June 2008		
Less than three months overdue	267	32
Between three months and six months overdue	83	20
Greater than six months overdue	105	74
June 2007		
Less than three months overdue	385	33
Between three months and six months overdue	166	12
Greater than six months overdue	42	100

Each column in the table reports 'gross receivables'. The receivables considered impaired can comprise of amounts that are fully or partially impaired.
The ageing analysis excludes statutory receivables, as these are not within the scope of AASB 7 and excludes receivables that are not past due and not impaired. Therefore, the total will not reconcile to the receivables total in the balance sheet.

LIQUIDITY RISK OF LIABILITIES

Liquidity risk is the risk that the State will be unable to meet its payment obligations when they fall due. The State, through its agencies, continuously manages risk through monitoring future cash flows and maturities planning to ensure adequate holding of high quality liquid assets. The objective is to maintain a balance between continuity of funding and flexibility through the use of overdrafts, borrowings and other advances.

During the current and prior years, there were no defaults or breaches on borrowings payable. Footnote (c) in the following table lists the State's major financial guarantees. In addition, note 26 to this report outlines contingent liabilities in respect of guarantees made to facilitate the provision of certain services, the construction of several infrastructure assets, and guarantees associated with the previous disposal of certain assets. The State's exposure to liquidity risk is deemed insignificant based on prior periods' data and current assessment of risk.

Liabilities are recognised for amounts due to be paid in the future for goods or services received, whether or not invoiced. If trade terms are not specified, payment is generally made no later than the end of the month following the month in which an invoice or a statement is received.

In the 2006-07 Total State Sector Accounts, the interest rate risk exposures table presented financial assets and liabilities that agreed to the balance sheet carrying amounts. The 2007-08 Total State Sectors Accounts are prepared in accordance with the new standard *AASB 7 Financial Instrument: Disclosures*. The Standard requires presentation of exposures prepared using contractual undiscounted cash flows. This comprises loan commitments which include both borrowings at face value and future interest commitments. Therefore, the following table should not be compared with the information published in previous years' reports. The table below summarises the maturity profile of the State's financial liabilities, together with the interest rate exposure.

MATURITY ANALYSIS AND INTEREST RATE EXPOSURE OF FINANCIAL LIABILITIES [a]

	Notes	Floating interest rate 2008 $m	Fixed interest / Contract maturity: 1 year or less 2008 $m	1 to 5 years 2008 $m	Over 5 years 2008 $m	Non-interest bearing 2008 $m	Nominal Amount 2008 $m
Financial Liabilities							
Payables		...	...	...	...	5,963	5,963
Bank overdraft	18	271	...	...	...	...	271
Domestic and foreign borrowings	18	...	7,096	22,419	18,917	...	48,432
Liability to the Commonwealth Government	18	...	8	2	1,392	...	1,402
Finance leases	18	...	101	400	913	...	1,414
Derivative Liabilities [b]	19	...	2,732	802	286	89	3,909
Financial Guarantees [c]		...	...	...	...	...	26
Total Financial Liabilities		271	9,937	23,623	21,508	6,052	61,417

(a) The amounts disclosed are the contractual undiscounted cash flows of each class of financial liabilities and therefore, will not reconcile to the balance sheet which is based on fair value or amortised cost. The balances presented here include gross finance lease obligations, contractual amounts to be exchanged in a derivative financial instrument for which gross cash flows are exchanged, and gross loan commitments, i.e. borrowings at face value plus future interest commitments. For information on financial guarantees refer to the above narrative on liquidity risk and Note 26 Contingent Liabilities.

(b) The contract maturity analysis and liquidity risk of derivative liabilities is the best approximation derived from reasonable estimates that were calculated from information sourced from major NSW entities. These balances include estimated interest payments and exclude the impact of offsetting arrangements. These derivative financial instruments are not held for speculative or trading purposes, they are used to hedge exposure to changes in interest rates, foreign exchange rates and commodity prices.

(c) The State has a number of financial guarantees outstanding at 30 June 2008 with an estimated total value of $26 million. The estimated value was calculated by Ernst & Young based on the remote possibility of any of these guarantees ever being exercised. These guarantees are as follows:

Structured Finance Activities: The State has guaranteed certain payment and performance obligations under cross border leases. The State has a third-party risk for money on deposit with a counterparty. TCorp regularly monitors the risk on behalf of the State. The counterparties have credit standings of from BBB+ to AAA. The credit risk for these activities is $0.3 billion (2007: $0.4 billion).

NEMMCO Guarantees: The State provides a guarantee over electricity related settlement payments made by electricity agencies to the National Electricity Marketing Management Company (NEMMCO) and power generators. Settlement payments are normally four weeks in arrears. The stability and financial integrity of the NEM is underpinned by the by the regulatory framework set out in the National Electricity Code and supported by established risk management procedures administered by NEMMCO including strategies for the management of credit risk. The credit risk for these activities is $1.3 billion (2007: $1.6 billion).

GIO Guarantees: The State provided a guarantee over GIO obligations for insurance policies entered into before its sale in 1992. The State's guarantee can only be called upon if the existing owners are unable to make payment. This is regarded as extremely unlikely. The credit risk for these guarantees is $0.3 billion (2007: $0.3 billion).

Public Private Partnership Guarantees: The State has guaranteed that five agencies involved in public private partnerships will meet their obligations to pay for finance leases and services provided. These are long term agreements involving significant sums. It is very unlikely that the agencies would cease to pay the finance lease contracts on assets or meet payments for services they require for their operations. The credit risk for these activities is $4.3 billion (2007: $4.3 billion).

	Notes	Floating interest rate 2007 $m	Fixed interest rate maturing in: 1 year or less 2007 $m	1 to 5 years 2007 $m	Over 5 years 2007 $m	Non-interest bearing 2007 $m	Nominal Amount 2007 $m
Financial Liabilities							
Payables		...	...	...	...	6,291	6,291
Bank overdraft	18	123	...	...	...	...	123
Domestic and foreign borrowings	18	...	10,232	18,124	12,079	...	40,435
Liability to the Commonwealth Government	18	...	8	...	1,441	...	1,449
Finance leases	18	...	112	350	808	...	1,270
Derivative liabilities [(b)]	19	...	3,973	1,029	49	754	5,805
Financial Guarantees [(c)]		...	...	...	...	...	(c)
Total Financial Liabilities		123	14,325	19,503	14,377	7,045	55,373

(a) The amounts disclosed are the contractual undiscounted cash flows of each class of financial liabilities and therefore, will not reconcile to the balance sheet which is based on fair value or amortised cost. The balances presented here include gross finance lease obligations, contractual amounts to be exchanged in a derivative financial instrument for which gross cash flows are exchanged, and gross loan commitments, i.e. borrowings at face value plus future interest commitments. For information on financial guarantees refer to the above narrative on liquidity risk and Note 26 Contingent Liabilities.

(b) The contract maturity analysis and liquidity risk of derivative liabilities is the best approximation derived from reasonable estimates that were calculated from information sourced from major NSW entities. These balances include estimated interest payments and exclude the impact of offsetting arrangements.

(c) Refer to Note (c) in the 2008 table on the previous page for information on financial guarantees.

MARKET RISK

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The State's exposures to market risk are primarily through

- interest rate risk on the State's borrowings and investments,
- price risks associated with the movement in the unit price of the Hour-Glass Investment Facilities,
- electricity and other price risks that affect specific revenue and expenses, and
- foreign exchange risk that could affect borrowings and the value of overseas purchases.

For interest rate risk and Hour-Glass price risk the effect on profit and equity due to a reasonably possible change in risk variable is outlined in the information below. A reasonably possible change in risk variable has been determined after taking into account the economic environment in which the State operates and the time frame for the assessment (i.e. until the end of the next annual reporting period). The sensitivity analysis is based on risk exposures in existence at the balance sheet date. The analysis is performed on the same basis for 2007. The analysis assumes that all other variables remain constant.

Interest Rate Risk

Exposure to interest rate risk arises primarily through the State's interest bearing assets and liabilities. This risk is minimised by undertaking mainly fixed rate borrowings and entering fixed interest deposits, primarily through NSW Treasury Corporation (TCorp).

TCorp manages the debt portfolio of the Crown, the Roads and Traffic Authority and a majority of the State's commercial entities. A small number of other commercial entities engage private sector financial institutions to manage, or advise on the management of their debt portfolios, or manage their own portfolios.

The Treasury's Debt Management Policy requires that entities with significant debt portfolios manage the portfolio against a benchmark portfolio. This benchmark portfolio reflects the risk and return preferences of the individual entities. The debt manager must ensure that the average maturity of the actual debt portfolio is within an agreed range of the benchmark portfolio. In order to achieve this, TCorp uses derivatives, primarily interest rate futures, to manage the duration and maturity profile of the managed asset portfolio within specified tolerance limits.

The State's exposure to interest rate risk is set out in the table below. The Interest Rate Risk Table reports the estimated sensitivity of a one per cent movement in interest rates to the operating result of the State. The value of the State's 'available-for-sale' investments that are directly adjusted to equity is negligible.

Therefore, for the financial instruments in the table, a change in interest rates would affect the operating result, and not be adjusted directly to equity.

A reasonably possible change of +/- 1% is used, consistent with current trends in interest rates. The basis will be reviewed annually and amended where there is a structural change in the level of interest rate volatility.

[The Hour-Glass Cash and Investment facilities are managed funds, and are affected by market price risk and not by interest risk. A separate sensitivity analysis is provided in the 'Market Risk' disclosures of this note.]

INTEREST RATE RISK – SENSITIVITY ANALYSIS

		-1%		1%	
	Carrying Amount	Surplus/ (Deficit)[a]	Equity[b]	Surplus/ (Deficit)[a]	Equity[b]
	$m	$m	$m	$m	$m
2008					
Financial Assets					
Cash and cash equivalents[c]	4,913	(24)	...	24	...
Receivables	4,217	...	...	...	...
Financial assets at fair value					
Held or administered by T Corp[d]	10,879	114	...	(114)	...
Other Financial Assets[e]	1,054	(5)	...	5	...
Derivative assets	713	(7)	...	7	...
Financial Liabilities					
Bank overdraft	271	3	...	(3)	...
Payables	5,963	...	...	...	...
Borrowings - issued by T Corp[f]	35,780	14	...	(14)	...
Borrowings - other[e]	1,763	2	...	(2)	...
Derivative Liabilities[g]	1,324	...	...	...	...
2007					
Financial Assets					
Cash and cash equivalents[c]	4,320	(20)	...	20	...
Receivables	4,428	...	...	...	...
Financial assets at fair value					
Held or administered by T Corp[d]	10,130	84	...	(84)	...
Other Financial Assets[e]	1,273	(7)	...	7	...
Derivative assets	937	(9)	...	9	...
Financial Liabilities					
Bank overdraft	123	1	...	(1)	...
Payables	6,291	...	...	...	...
Borrowings - issued by T Corp[f]	30,915	15	...	(15)	...
Borrowings - other[e]	1,793	4	...	(4)	...
Derivative Liabilities[g]	3,939	...	...	...	...

(a) A decrease (increase) of one percentage point in interest rates on variable financial instruments at reporting date would have increased (decreased) the surplus or deficit by the amounts shown. This analysis assumes that fixed rate instruments held at 30 June will be reinvested upon maturity in fixed (and not floating) rate instruments, and all other variables remain constant. Where the carrying amount is impacted, this amount is multiplied by +/- 1%.

(b) Financial instruments are not considered available for sale or held for sale items as they are not held for speculative purposes. Financial assets at fair value are classified as held for trading, or, designated and effective hedging instruments. Financial liabilities measured at amortised cost are classified as held for trading, or, designated and effective hedging instruments. Therefore, the potential impact of interest rate fluctuations for these financial instruments will be taken directly to the profit or loss and not directly to equity.

(c) Excludes interest rate sensitivity of the cash and cash equivalents that are held in the T Corp Hour-Glass portfolio. The cash and cash equivalents of the Hour-Glass portfolio are subject to the overall risks of that facility and are reported in a separate table.

(d) These balances comprise short term securities and placements held with T Corp at fixed interest rates and Hour-Glass investments managed by T Corp. The risks associated with the Hour-Glass are reported separately under the 'Market Risk' section of this note.

(e) This balance represents items that are subject to floating or fixed interest rates that are not held with T Corp. Where the underlying financial instrument has a fixed interest rate, it is considered that there will be no impact from interest rate changes until such time as the instrument matures and the terms and conditions of its lodgement are renegotiated. Therefore, for these financial instruments, a change in interest rate would not affect profit or loss, or equity reported at 30 June.

(f) Borrowings issued by T Corp include variable and fixed rate instruments. The overall risks associated with these T Corp administered holdings of financial liabilities are disclosed in the narrative on 'Market Risk'.

(g) Derivative liabilities are considered non-interest bearing due to their nature. Therefore, changes in interest rates at reporting date would not affect profit or loss.

The above table has been prepared using the assumption that only floating rate instruments directly affect the operating result, due to a change in interest rate.

The table shows that interest rate risk at 30 June 2008 would not significantly and directly affect the operating result in an immediate sense, as the majority of financial instruments were at a fixed interest rate. However, interest rate changes could affect operating results to a greater extent as time progresses, and existing fixed rate instruments also mature or are rolled over into replacement instruments (fixed or floating rate), which can be affected by future changes to interest rates.

PRICE RISK

The State's main exposures to price risk result from changes in market prices of its Hour-Glass managed fund facilities, and through changes in the spot price for electricity purchases and sales, within the National Electricity Market

The State has no significant direct equity marketable investments. So, aside from Hour-Glass managed funds, there are no other significant financial instruments that are affected by changes in share prices. However, refer to note 20 *Provisions* for information on superannuation liabilities which can be affected by changes in share and other prices, but do not meet the definition of 'financial instruments' for the purposes of this Note, and so are excluded from the following analysis.

NSW Treasury Corporation (TCorp) Hour-Glass Facilities

The State holds units in the following Hour-Glass investment trusts, which are held for strategic rather than trading purposes. The facilities comprise a series of managed funds which are subject to volatility in their unit prices.

Each facility comprises a different underlying type of investment, with associated risks and investment horizons.

HOUR-GLASS FACILITIES

Facility	Investment Sectors	Investment Horizon	2008 $m	2007 $m
Cash	Cash, money market instruments	Up to 1.5 years (pre-June 2008 – Up to 2 years)	2,469	2,275
Strategic cash	Cash, money market and other interest rate instruments	1.5 years to 3 years	49	...
Bond Market (closed June 2008)	Cash, money market instruments, Australian bonds	2 years to 4 years	...	66
Medium Term growth	Cash, money market instruments, Australian and International bonds, listed property, Australian and international shares	3 years to 7 years (pre-June 2008 – 4 years to 7 years)	201	383
Long Term growth	Cash, money market instruments, Australian and international bonds, listed property, Australian and international shares	7 years and over	859	1,048
Treasury Managed Fund (Hour Glass facility)	Cash, money market instruments, International bonds, listed property, Australian and international shares	Long Term	2,473	2,563
The State's Hour Glass Facilties			6,051	6,335

The unit price of each facility is equal to the total fair value of the net assets held by the facility divided by the number of units on issue for that facility. Unit prices are calculated and published daily.

TCorp is trustee for each of the above facilities and is required to act in the best interest of the unitholders and to administer the trusts in accordance with the trust deeds. As trustee, TCorp has appointed external managers to manage the performance and risks of each facility in accordance with a mandate agreed by the parties. However, TCorp acts as manager for part of the Cash Facility and for the Strategic Cash Facility. A significant portion of the administration of the facilities is outsourced to an external custodian.

Investment in the Hour-Glass facilities limits the State's exposure to risk, as it allows diversification across a pool of funds with different investment horizons and a mix of investments.

The following table provides sensitivity analysis information for each of the Hour-Glass facilities, using historically based volatility information collected over a ten year period, quoted at two standard deviations (i.e. 95% probability).
The TCorp Hour-Glass Investment facilities are designated at fair value through profit or loss and therefore any change in unit price impacts directly on profit (rather than equity). A reasonably possible change is based on the percentage change in unit price (as advised by TCorp) multiplied by the redemption value as at 30 June each year for each facility.

PRICE RISK SENSITIVITY ANALYSIS OF THE HOUR-GLASS INVESTMENT FACILITIES

Facility	Change in Unit Price	2008 $m	2007 $ m
Cash	+/ -1.0%	25	23
Strategic Cash [(a)]	+/ -2.0%	1	...
Bond Market [(a)]	+/ -5.0%	...	3
Medium Term Growth	+/ - 7.5%	15	29
Long Term Growth	+/ -15.0%	129	157
Treasury Managed Fund Facility	+/ -17.5%	433	449

(a) The Bond Market Facility was replaced by the Strategic Cash Facility in June 2008.

The table above shows that the State's dollar exposure to Hour-Glass unit price risk can be significant, particularly for its holdings in the Long-Term and Treasury Managed Fund Facilities. Both of these facilities are underpinned by heavier weightings in share and property growth assets. It should be expected that while there can short term volatility in annual returns, they will return higher long term returns than the Cash or Strategic Cash facilities. In particular, the Treasury Managed Fund investments are held beyond the short term to reflect the payment horizon for insurance claims, which can extend beyond a few years.

Electricity Price Risk

The State is exposed to electricity price and revenue risk through purchases and sales within the National Electricity Market (NEM). State owned generators and retail suppliers sell and purchase electricity through the NEM to meet customer load requirements. Price risk arises from the sale and purchase of electricity at variable pool prices through the NEM. It is the responsibility of the boards of the state owned generators and retail suppliers to use a combination of risk management tools such as swaps, options and futures contracts transacted with market participants and energy trading operators to hedge the customer load and control exposure to NEM pool prices.

Trading is performed under board approved mandates which permit active portfolio management within regularly monitored risk limits. The limits consider measurements of 'cashflow at risk' and 'earnings at risk', accompanied by volumetrics position analysis. As the energy purchases and sales are managed on a daily basis by the six individual boards that represent these State owned participants, and each participant operates on its own forward price curve estimate, information has not been collated, which enables an estimate of the overall impact of price volatility on the net position of the State. However, information will be published on the impact of price volatility as it affects each of the State's retail generators and retail suppliers in notes to their individual financial reports.

FOREIGN EXCHANGE RISK

The State, through its consolidated entities has policies and procedures in place, and utilises foreign exchange derivatives to ensure that it has no material exposure to changes in foreign exchange rates.

Borrowings

In order to achieve the most cost effective funding of the State's debt, NSW Treasury Corporation conducts a number of debt issues in foreign currencies in foreign capital markets.

Foreign exchange risk, arising from offshore borrowings undertaken in foreign currencies to fund Australian dollar assets, is covered by entering into Australian cross-currency swaps.

Managed asset portfolios

During the year some investments in the managed fixed asset facility may be denominated in currencies other than Australian Dollars. TCorp is required to effectively hedge that currency exposure as and when it arises. It fully hedges all foreign currency exposure for international fixed interest and listed property unit trust investments and foreign currency denominated bond investments. As at 30 June 2008, the State had no transactional or structural currency exposures associated with these portfolios. (2007 $nil)

Other Purchase and Sale Commitments

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

These contracts cover the purchase of capital equipment and supplies for state electricity. water, transport and waste authorities.

The following table list the value of these forward foreign exchange contracts as denominated in their foreign currency.

PURCHASE AND SALE COMMITMENT CONTRACTS DENOMINATED IN THEIR FOREIGN CURRENCY

Buy Currency	2008 In Foreign Currency Millions	2007 In Foreign Currency Millions
Swiss Franc	121	124
Euro	59	151
Korean Won	57,245	...
United States Dollar	39	70
Singapore Dollars	19	...
Japanese Yen	861	383
United Kingdom Pounds	1	...

The foreign currency risk is not considered material in terms of a possible impact on profit or loss and total equity and, as such, a sensitivity analysis has not been completed. The total exposure in Australian dollars is estimated at $343 million (2007 $444 million).

30. DISCONTINUING OPERATIONS

There were no material discontinuing operations to report for 2007-08 and 2006-07.

31. DISAGGREGATED FINANCIAL STATEMENTS

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

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

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

Tax effect accounting principles have therefore been adopted by all agencies, which are part of the National Tax Equivalents Regime. On consolidation, all NTER related income tax entries are eliminated for the Total State Sector Accounts.

The 2006-07 comparative year columns in the following tables have been restated for any corrections of errors and changes in accounting policies, for consistency with the 2007-08 presentation.

THE NSW TOTAL STATE SECTOR ACCOUNTS DISAGGREGATED STATEMENT OF REVENUE AND EXPENSES FOR THE YEAR ENDED 30 JUNE 2008

	General Government		Public Trading Enterprises	
	2007-08	2006-07	2007-08	2006-07
	$m	$m	$m	$m
REVENUES				
State Revenues				
Taxation	18,548	17,697	...	...
Commonwealth Grants	19,520	17,752	9	...
Financial Distribution	2,020	1,953	...	...
Fines, Regulatory Fees and Other	1,365	1,195	...	...
Total State Revenues	41,453	38,597	9	...
Operating Revenues				
Sale of Goods and Services	3,614	3,307	13,208	11,996
Investments	(151)	1,335	246	285
Grants and Contributions	1,114	1,021	3,962	4,647
Other	442	463	408	383
Total Operating Revenues	5,019	6,126	17,824	17,311
EXPENSES EXCLUDING LOSSES				
Employee Benefits				
- Superannuation	2,374	2,573	212	154
- Other	20,365	18,773	3,750	3,476
Other Operating	9,508	8,795	7,046	6,203
Depreciation and Amortisation	2,466	2,308	2,249	2,155
Grants and Subsidies	10,415	10,268	196	195
Finance Costs	1,319	1,289	1,203	1,082
Total Expenses	46,447	44,006	14,656	13,265
OTHER NET INCOME				
Net Gain/(Loss) on Disposals	52	22	68	(22)
Other Net Gains/(Losses)	(3,266)	3,179	(343)	(31)
Share of Earnings from Equity Investments	48	9	1	33
SURPLUS/(DEFICIT) FOR THE YEAR	(3,141)	3,927	2,903	4,026

THE NSW TOTAL STATE SECTOR ACCOUNTS DISAGGREGATED STATEMENT OF REVENUE AND EXPENSES FOR THE YEAR ENDED 30 JUNE 2008

Public Financial Enterprises		Eliminations		Total State Sector	
2007-08	2006-07	2007-08	2006-07	2007-08	2006-07
$m	$m	$m	$m	$m	$m
...	...	(756)	(428)	17,792	17,269
...	...	...	...	19,529	17,752
...	...	(2,020)	(1,953)	...	...
...	...	...	1	1,365	1,196
...	...	(2,776)	(2,380)	38,686	36,217
323	156	(752)	(546)	16,393	14,913
2,415	1,878	(1,890)	(1,760)	620	1,738
6	9	(3,664)	(4,364)	1,418	1,313
...	...	(21)	(19)	829	827
2,744	2,043	(6,327)	(6,689)	19,260	18,791
1	1	...	...	2,587	2,728
13	12	(240)	(217)	23,888	22,044
253	46	(792)	(287)	16,015	14,757
3	1	...	...	4,718	4,464
...	...	(4,056)	(4,756)	6,555	5,707
2,000	1,837	(1,997)	(1,834)	2,525	2,374
2,270	1,897	(7,085)	(7,094)	56,288	52,074
...	...	(9)	...	111	...
(67)	(71)	9	23	(3,667)	3,100
...	...	...	...	49	42
407	75	(2,018)	(1,952)	(1,849)	6,076

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

	General Government		Public Trading Enterprises	
	2008	2007	2008	2007
	$m	$m	$m	$m
Current Assets				
Cash and Cash Equivalent Assets	2,299	2,438	2,063	1,675
Receivables	4,488	4,294	2,053	2,976
Financial Assets at Fair Value	741	910	588	965
Investments Accounted for Using the Equity Method	...	...	...	...
Inventories	145	152	597	526
Other	10	...	214	288
Non-Current Assets Held for Sale	144	208	49	187
Total Current Assets	7,827	8,002	5,564	6,617
Non-Current Assets				
Receivables	7,869	7,962	797	1,881
Financial Assets at Fair Value	5,336	6,258	233	276
Investments Accounted for Using the Equity Method	1,622	1,519	...	...
Inventories	21	22	360	411
Property, Plant and Equipment				
Land and Buildings	48,249	46,422	42,606	40,468
Plant and Equipment	6,910	6,701	4,013	3,827
Infrastructure Systems	44,445	38,476	50,345	43,813
Investment Properties	298	312	1,248	1,088
Forestry Stock and Other Biological Assets	7	6	1,512	1,403
Intangibles	696	545	1,071	1,024
Other	1,319	1,194	45	67
Total Non-Current Assets	116,772	109,417	102,230	94,258
TOTAL ASSETS	124,599	117,419	107,794	100,875
Current Liabilities				
Payables	3,222	3,103	2,835	3,373
Borrowings at Amortised Cost	2,270	3,826	2,539	2,464
Derivatives at Fair Value	...	...	332	2,073
Provisions	8,519	8,116	3,525	3,247
Other	380	328	284	258
Liabilities Directly Associated with Assets Held for Sale	...	...	...	...
Total Current Liabilities	14,391	15,373	9,515	11,415
Non-Current Liabilities				
Borrowings at Amortised Cost	11,746	9,772	16,818	14,267
Derivatives at Fair Value	...	...	146	910
Provisions	22,797	19,720	6,361	6,251
Other	2,807	3,930	808	745
Total Non-Current Liabilities	37,350	33,422	24,133	22,173
TOTAL LIABILITIES	51,741	48,795	33,648	33,588
NET ASSETS	72,858	68,624	74,146	67,287
Equity				
Reserves	42,360	35,797	33,722	28,026
Accumulated Funds	30,489	32,813	40,409	39,245
Amounts Recognised Directly in Equity Relating to Assets Held for Sale	9	14	15	16
TOTAL EQUITY	72,858	68,624	74,146	67,287

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

Public Financial Enterprises		Eliminations		Total State Sector	
2008	2007	2008	2007	2008	2007
$m	$m	$m	$m	$m	$m
697	387	(146)	(180)	4,913	4,320
853	830	(2,330)	(2,622)	5,064	5,478
10,084	11,024	(5,813)	(8,365)	5,600	4,534
...	...	...	...	...	...
...	...	...	...	742	678
...	...	...	...	224	288
...	...	...	...	193	395
11,634	12,241	(8,289)	(11,167)	16,736	15,693
...	20	(7,015)	(8,336)	1,651	1,527
26,590	20,883	(25,113)	(19,611)	7,046	7,806
...	...	...	...	1,622	1,519
...	...	...	...	381	433
4	5	...	...	90,859	86,895
3	2	...	...	10,926	10,530
...	...	...	...	94,790	82,289
...	...	...	...	1,546	1,400
...	...	...	...	1,519	1,409
3	2	...	...	1,770	1,571
...	...	(37)	(8)	1,327	1,253
26,600	20,912	(32,165)	(27,955)	213,437	196,632
38,234	33,153	(40,454)	(39,122)	230,173	212,325
741	1,015	(645)	(1,060)	6,153	6,431
4,316	7,050	(4,911)	(6,400)	4,214	6,940
607	738	(46)	...	893	2,811
53	53	(1,629)	(1,508)	10,468	9,908
1	1	(47)	(32)	618	555
...	...	...	...	...	...
5,718	8,857	(7,278)	(9,000)	22,346	26,645
31,804	24,248	(26,768)	(22,394)	33,600	25,893
294	229	(9)	(11)	431	1,128
274	50	(5,741)	(5,953)	23,691	20,068
...	...	(658)	(1,764)	2,957	2,911
32,372	24,527	(33,176)	(30,122)	60,679	50,000
38,090	33,384	(40,454)	(39,122)	83,025	76,645
144	(231)	...	...	147,148	135,680
...	...	...	...	76,082	63,823
144	(231)	...	...	71,042	71,827
...	...	...	...	24	30
144	(231)	...	...	147,148	135,680

32. DETAILS OF CONSOLIDATED ENTITIES

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

Only two controlled entities have reporting dates dissimilar to the 30 June Total State Sector Accounts reporting date. The reporting dates for the Sydney Cricket and Sports Ground Trust (28 February) and the Parramatta Stadium Trust (31 December) are different as they are aligned to the sporting year associated with their primary activities. It is considered impracticable and not material to the results and financial position of the Total State Sector Accounts to attempt to align the two Trusts' reporting periods to 30 June. Accordingly the annual financial results of these two trusts for their previous year (ending February and December respectively) have been consolidated into the 30 June based Total State Sector Accounts.

General Government Sector Agencies

Aboriginal Housing Office
ANZAC Memorial Building Trustees (*)
Art Gallery of NSW Foundation (*)
Art Gallery of New South Wales
Attorney General's Department
Audit Office of New South Wales
Australian Museum

Board of Vocational Education and Training (*)
Building and Construction Industry Long Service Leave Payments Corporation
Building Insurers Guarantee Corporation (*)

Cancer Institute NSW
Casino Control Authority
Catchment Management Authorities (all CMAs)
CB Alexander Foundation (*)
Centennial Park and Moore Park Trust
Chipping Norton Lakes Authority (*)
Community Relations Commission
Consolidated Fund
Crown Entity
Crown Leaseholds Entity
Crown Property Portfolio

Dams Safety Committee (*)
Department of Aboriginal Affairs
Department of Ageing, Disability and Home Care
Department of the Arts, Sport and Recreation
Department of Commerce
Department of Community Services
Department of Corrective Services

General Government Sector Agencies (continued)	Department of Education and Training Department of Environment and Climate Change Department of Health Department of Juvenile Justice Department of Lands Department of Local Government Department of Planning Department of Premier and Cabinet Department of Primary Industries Department of Rural Fire Service Department of State and Regional Development Department of Water and Energy
	Election Funding Authority of New South Wales (*) Electricity Tariff Equalisation Ministerial Corporation Environmental Protection Authority (*) Environmental Trust
	Farrer Memorial Research Scholarship Fund (*) Festival Development Corporation (*)
	Game Council of New South Wales (*) Greyhound and Harness Racing Regulatory Authority (*) Growth Centres Commission
	Health Care Complaints Commission Health Foundation of NSW (*) Historic Houses Trust of New South Wales Home Care Service of New South Wales Home Purchase Assistance Fund Hunter Development Corporation
	Independent Commission Against Corruption Independent Pricing and Regulatory Tribunal Independent Transport Safety and Reliability Regulator Institute of Sport (NSW) (*) Institute of Teachers (*) Internal Audit Bureau (*)
	Judicial Commission of New South Wales
	Lake Illawarra Authority (*) Land and Property Information New South Wales Legal Aid Commission of New South Wales Lord Howe Island Board (*) Liability Management Ministerial Corporation Luna Park Reserve Trust

General Government Sector Agencies (continued)

Marine Parks Authority (*)
Mines Subsidence Board (*)
Minister Administering Environmental Planning and Assessment Act (incorporating Sydney Region Development Fund and Land Development Contribution Fund)
Ministry for Police
Ministry of Transport
Motor Accidents Authority
Museum of Applied Arts and Sciences
Natural Resources Commission
New South Wales Adult Migrant Education Service (*)
New South Wales Businesslink
New South Wales Crime Commission
New South Wales Electoral Commission
New South Wales Film and Television Office
New South Wales Fire Brigades
New South Wales Food Authority
New South Wales Self Insurance Corporation
New South Wales Maritime Authority
New South Wales Medical Board (*)
New South Wales Police

Office for Children
Office of Protective Commissioner and Public Guardian (*)
Office of the Board of Studies
Office of the Director of Public Prosecutions
Office of the Motor Accidents Authority
Office of the WorkCover Authority
Office of Transport Safety Investigations
Ombudsman's Office

Parramatta Park Trust (*)
Police Integrity Commission
Psychiatry Institute of NSW (*)
Public Trust Office – Administration

Redfern-Waterloo Authority
Rental Bond Board
Roads and Traffic Authority
Royal Botanic Gardens and Domain Trust
Rural Assistance Authority

Sporting Injuries Committee (*)
State Council of Rural Lands Protection Boards (*)
State Emergency Service
State Library of New South Wales
State Property Authority
State Records Authority
State Sports Centre Trust
Superannuation Administration Corporation
Sydney Olympic Park Authority

General Government Sector Agencies (continued)	Technical Education Trust Fund (*) The Legislature The Sequicentenary of Responsible Government Trust (*) Treasury Upper Parramatta River Catchment Trust (*) Vocational Education and Training Accreditation Board (*) Western Sydney Parklands Trust Wild Dog Destruction Board (*) WorkCover Authority Workers Compensation (Dust Diseases) Board World Youth Day Co-ordination Authority
Public Trading Enterprises	City West Housing Pty Ltd Cobar Water Board (*) Country Energy Crown Entity - Trading Activities Delta Electricity Department of Housing – Land and Housing Corporation EnergyAustralia Eraring Energy Events New South Wales Pty Ltd Forests New South Wales Hunter Water Corporation Integral Energy Jenolan Caves Reserves Trust (*) Landcom Macquarie Generation Newcastle International Sports Centre Trust (*) Newcastle Port Corporation Newcastle Showground and Exhibition Trust (*) New South Wales Lotteries Corporation Parramatta Stadium Trust Port Kembla Port Corporation Public Transport Ticketing Corporation

Public Trading Enterprises (continued)	Rail Corporation New South Wales Rail Infrastructure Corporation Residual Business Management Corporation State Rail Residual Holding Authority State Transit Authority State Water Sydney Catchment Authority Sydney Cricket Ground and Sports Ground Trust Sydney Ferries Sydney Harbour Foreshore Authority Sydney Opera House Sydney Ports Corporation Sydney Water Corporation Sydney 2009 World Masters Games Organising Committee Teacher Housing Authority Transport Infrastructure Development Corporation TransGrid Waste Recycling and Processing Corporation (WSN Environmental Solutions) Wentworth Park Sporting Complex Trust [*] Wollongong Sports Ground Trust Zoological Parks Board
Public Financial Enterprises	Fair Trading Administration Corporation FANMAC Trusts [a] Lifetime Care and Support Authority New South Wales Treasury Corporation

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

(a) The bonds issued by FANMAC Trusts are 100% held by Home Purchase Assistance Fund.

END OF AUDITED FINANCIAL REPORT