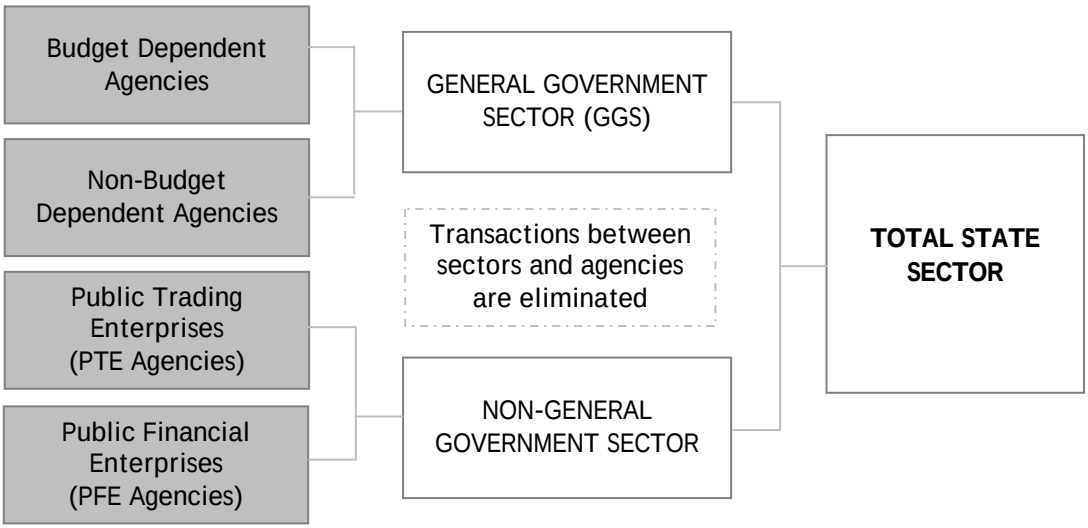
Total State Sector Accounts

Under the *Public Finance and Audit Act 1983* (the Act), the Treasurer must prepare consolidated financial statements for the Total State Sector every year. After the financial statements have been audited, the Treasurer presents them to Parliament and the Auditor-General reports the results of his audit to Parliament.

The Total State Sector is structured as shown below:



The GGS comprises those entities that provide goods and services not directly paid for by consumers (i.e. largely financed from tax revenue and Commonwealth Grants) such as education and health. The Non-GGS comprises Public Enterprises that have a market orientation, and provide goods and services such as transport, water and electricity, or participate in financial markets.

The Total State Sector Accounts do not include entities the State does not control, such as superannuation funds, universities, local government bodies, some hospitals and most professional registration and marketing authorities.

Audit Opinion with Repeat Qualification

The audit of the Total State Sector Accounts for the year ended 30 June 2008 resulted in a qualified Independent Auditor's Report.

The Report was qualified because I was unable to obtain all information required to form an opinion on the value of Crown Reserves that should be recorded as land (the Report has been similarly qualified for the last four years).

As previously reported, there are approximately 33,000 Crown Reserves in New South Wales. The Government is in the process of identifying and valuing Crown Reserves 'controlled' by the New South Wales Government, that should be recognised as assets of the Government in the Total State Sector Accounts.

Based on Treasury's preliminary assessment the total value of reserves controlled by the New South Wales Government, but not currently recognised in the Total State Sector Accounts, is between $1.0 billion and $7.0 billion but may be greater. The New South Wales 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 Treasury has advised that 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 this work should be completed late in the 2009 calendar year. Officers from the Department of Lands Valuation Service have started classifying these parcels into categories to facilitate valuations being undertaken. Valuations will start in the first quarter of the 2008-09 financial year and are expected to be largely completed by June 2010.

FINANCIAL INFORMATION

The following section analyses key financial trends in the Total State Sector Accounts over the last five years so Parliament and the community can assess trends in the State's financial position and its performance. The analysis uses the following financial information disclosed in the Total State Sector Accounts.

Abridged Operating Statement

Year ended 30 June	2004 $m	2005 $m	2006* $m	2007*+ $m	2008*+ $m
REVENUES					
State taxation	14,196	14,746	15,234	17,269	*17,792*
Commonwealth Grants	15,494	16,192	18,040	17,752	*19,529*
Sales of goods and services	11,634	12,111	11,975	14,913	*16,393*
Other	3,902	4,195	4,974	5,074	*4,232*
TOTAL REVENUE	45,226	47,244	50,223	55,008	*57,946*
EXPENSES					
Employee costs	20,132	21,890	24,078	24,772	*26,475*
Operating expenses	15,891	10,655	12,105	14,757	*16,015*
Grants and subsidies	4,878	5,018	4,919	5,707	*6,555*
Depreciation & amortisation	4,092	4,106	4,189	4,464	*4,718*
Other	4,021	4,360	2,217	2,374	*2,525*
TOTAL EXPENSES	49,014	46,029	47,508	52,074	*56,288*
Other net gains/(losses)	5	(488)	4,411	3,142	*(3,507)*
(DEFICIT)/SURPLUS FOR THE YEAR	(3,783)	727	7,126	6,076	*(1,849)*

⋯ Break in time series for the adoption of Australian Equivalent to International Financial Reporting Standards (AEIFRS)

* Other net gains/(losses) include actuarial gains/(losses) relating to defined benefit superannuation under AEIFRS. In 2004 and 2005, they were included in employee costs.

\+ In 2007 and 2008, 'Sales of goods and services' and 'Operating expenses' reflect the grossing up of Cost of Sales and New South Wales Lotteries prizes.

Abridged Balance Sheet

Year ended 30 June	2004 $m	2005 $m	2006 $m	2007 $m	2008 $m
ASSETS					
Land and buildings	80,534	81,467	84,750	86,895	*90,859*
Plant and equipment	10,030	10,765	10,316	10,530	*10,926*
Infrastructure systems	71,645	75,102	76,110	82,289	*94,790*
Financial assets	13,652	17,389	16,413	12,340	*12,646*
Other	12,667	12,773	18,349	20,271	*20,952*
TOTAL ASSETS	188,528	197,496	205,938	212,325	*230,173*
LIABILITIES					
Borrowings and derivatives	28,526	31,474	30,529	36,772	*39,138*
Provision for superannuation	15,940	16,633	23,624	14,183	*17,768*
Other provisions	14,196	15,237	15,617	15,793	*16,391*
Other liabilities	5,877	5,760	7,686	9,897	*9,728*
TOTAL LIABILITIES	64,539	69,104	77,456	76,645	*83,025*
NET ASSETS	123,989	128,392	128,482	135,680	*147,148*

⋯ Break in time series for the adoption of AEIFRS

Changes to prior year's Total State Sector Accounts

The Treasury has adjusted the comparative figures in the Total State Sector Accounts from those reported last year to record:

- adjustments made by small agencies after the audit of the 2006-07 Total State Sector Accounts had been completed
- prior period errors which are recognised retrospectively in the period to which they relate.

The following table details the impact of these adjustments on last year's figures.

Year ended 30 June	2007 Figures after adjustments $m	2007 Figures before adjustments $m	Impact of adjustments $m
Total Revenue	*55,008*	*52,640*	2,368
Total Expenses	*52,074*	*50,004*	(2,070)
Other Net gains/(losses)	*3,142*	*3,293*	(151)
Surplus for the year	*6,076*	*5,929*	147
Total Assets	*212,325*	*212,194*	131
Total Liabilities	*76,645*	*76,748*	103
Net Assets	*135,680*	*135,446*	234

Corrected errors include:

- the grossing up of revenues and expenses to correctly reflect Cost of Sales and New South Wales Lotteries prizes ($2.1 billion). This had no impact on the result
- recognition of $189 million grant revenue relating to the receipt of the Tugun Bypass Tunnel constructed in 2006-07 by the Queensland Government.

New South Wales' Financial Condition

On 28 August 2008, Standard and Poor's revised its outlook on both the State of New South Wales and TCorp from AAA stable to AAA negative, reflecting the likelihood that the planned privatisation of the state-owned energy generator and retailing companies would not proceed. Moody's Investors Service announced on 3 September 2008 that it affirmed the State of New South Wales' Aaa rating with a stable outlook.

A negative outlook implies a roughly one-in-three chance of a ratings downgrade. A downgrade would have a significant impact on the State's cost of borrowing, which would in turn increase the cost of borrowings for agencies and flow through to the cost of providing essential infrastructure and services.

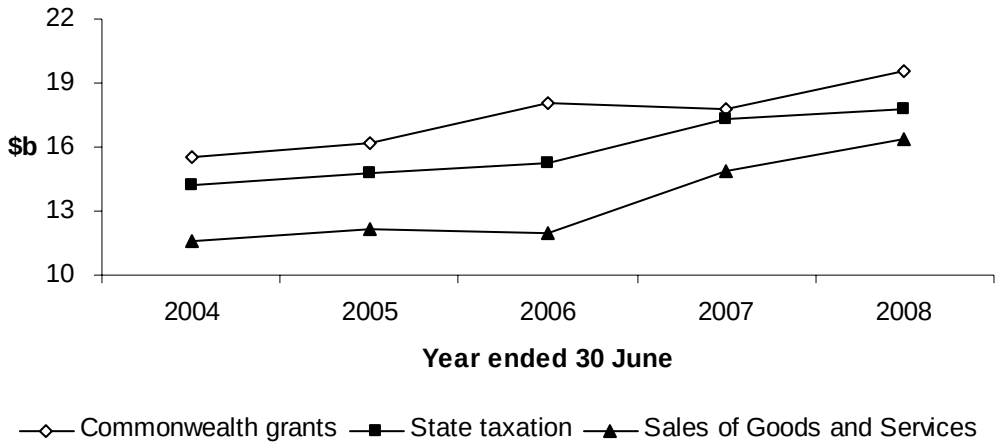
In a recent Parliamentary Standing Committee regarding the need for a mini-budget, the Secretary of The Treasury indicated that by the end of the forward estimate period based on the existing debt portfolio a 25 basis point increase in interest rates would add approximately $110 million to $125 million per annum to the cost of borrowing. The Committee also heard that the accumulation of additional interest expense over the entire maturity profile of the debt would be about $500 million.

For the outlook to return to AAA stable, Standard and Poor's advised that they would need to see some re-prioritisation of the Government's capital-spending and/or strengthening of the operating position to provide a more gradual increase in net financial liabilities as a proportion of revenue. The Government is expected to communicate a plan to address these issues in the proposed November State mini-budget.

REVENUE

Total revenue (after inter-agency transactions have been eliminated) rose from $45.2 billion in 2003-04 to $58.0 billion in 2007-08, an increase of 28.1 per cent in nominal terms.

Revenue by type



Commonwealth Grants

Commonwealth Grants increased in 2007-08 by $1.8 billion primarily due to increases in General Purpose GST grants of $1.0 billion and Specific Purpose grants of $773 million.

General Purpose Commonwealth Grants (predominantly GST)

The Commonwealth Government collects GST and distributes it to the States using an agreed method. The Commonwealth Government Budget Paper No. 3 for 2007-08 states:

> 'As agreed by all States in the Intergovernmental Agreement, GST revenue is distributed among the States in accordance with the long-standing principle of horizontal fiscal equalisation and having regard to the recommendations of the Commonwealth Grants Commission.
>
> The Commission recommends relativities to be used in calculating each State's share of GST revenue such that, if each State made the same effort to raise revenue from its own sources and operated at the same level of efficiency, each State would have the capacity to provide services at the same standard.
>
> In calculating the GST relativities, the Commission takes into account differences in the States' capacities to raise revenues and differences in the costs the States would incur in providing the same standard of government services'.

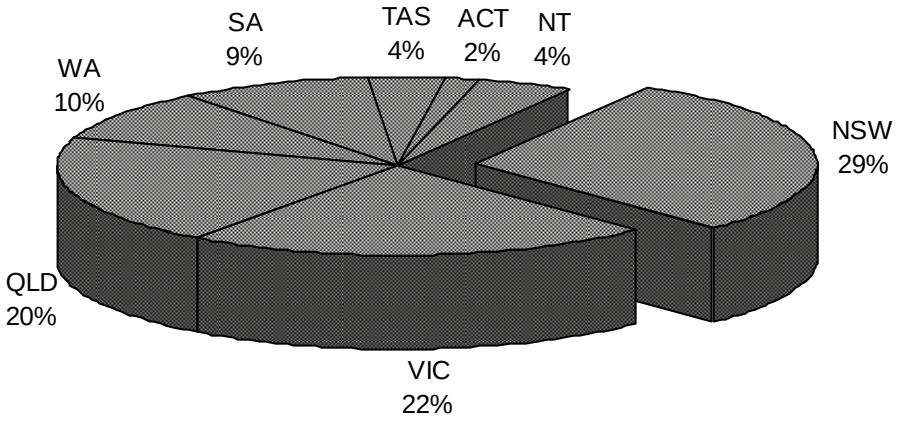
The relativities and the impact on Grants for each State are:

	Projected Population 31 Dec 2007+	Share of Population	GST Relativity+	Share of Weighted Population
NSW	6,928,601	33.0	0.89079	29.4
Victoria	5,198,499	24.7	0.90096	22.3
Queensland	4,165,916	19.8	1.00607	19.9
WA	2,114,454	10.0	0.94747	9.5
SA	1,574,204	7.5	1.20791	9.0
Tasmania	493,242	2.4	1.54465	3.6
ACT	333,585	1.6	1.16293	1.8
NT	211,303	1.0	4.36824	4.4

+ Source: 2007-08 Commonwealth Government Budget Paper No 3.

In the case of New South Wales, the effect of applying the above relativity results in allocating only 29.4 per cent of the GST collected to 33 per cent of the population.

State Share of GST Revenue 2007-08



GST grants from the Commonwealth are General Purpose Grants, meaning they can be spent at the discretion of the New South Wales Government.

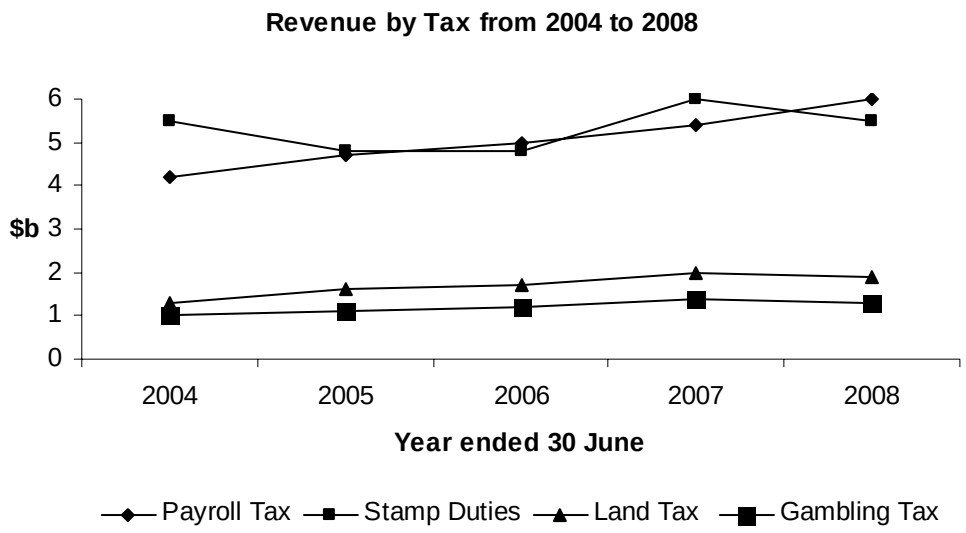
Specific Purpose Commonwealth Grants

We have identified the following significant movements in Specific Purpose Commonwealth Funding:

Nature of Funding	2007 $m	2008 $m	Increase/ (Decrease) $m
Recurrent			
Health Care Grants	2,909	3,229	320
Rural Assistance Grants	222	395	173
Australian Immunisation Grants	88	183	95
National Action Plan on Salinity	92	17	(75)
Groundwater Structural Adjustments	--	57	57
Schools Grants	371	424	53
Assistance to disabled Grants	211	253	42
National Heritage Grants	--	42	42
Capital			
Australian Land Transport Development Grants	582	447	(135)
Schools Capital Programs	--	56	56
Investing in our Schools Program	70	36	(34)
Technical College Building Grants	89	59	(30)
Western Metro Feasibility Grants	--	20	20

State Taxation

Total taxation revenue increased from $14.2 billion to $17.8 billion (25.3 per cent) over the last five years. Tax revenue increased by $523 million when compared to 2006-07.



Payroll tax increased by approximately $527 million or ten per cent as a result of wages and employment growth in 2007-08. The Government recently announced its intention to decrease the payroll tax rate from six per cent to 5.75 per cent from 1 January 2009 and increase the threshold from $600,000 to $623,000.

Stamp duty decreased by $414 million or seven per cent in 2007-08 primarily due to:

- transfer duty decreasing by $226 million predominantly due to a one-off transfer duty assessment of $424 million recognised in 2006-07
- loan securities duty decreasing by $83.0 million following the abolition of duty on owner occupied residences from 1 September 2007
- hiring duty decreasing by $70.0 million following its abolition from 1 July 2007
- lease duty decreasing by $54.0 million following its abolition from 1 January 2008.

Monthly Stamp Duty	2007 $m	2008 $m	Increase/ (Decrease) $m
July	464.6	586.1	121.5
August	477.1	521.1	44.0
September	462.5	477.6	15.1
October	409.5	481.5	72.0
November	444.0	504.4	60.4
December	515.7	572.1	56.4
January	385.7	452.4	66.7
February	780.3	391.2	(389.1)
March	464.7	395.3	(69.4)
April	406.7	371.9	(34.8)
May	529.8	402.3	(127.5)
June	609.7	379.7	(230.0)
TOTAL	**5,950.3**	**5,535.6**	**(414.7)**

Land Tax decreased by $73.0 million primarily due to a cut in the Land Tax rate from 1.7 per cent in 2006-07 to 1.6 per cent in 2007-08 and as a result of the Office of State Revenue clearing a backlog of assessments in 2006-07.

Gambling and Betting taxes decreased by approximately $104 million during 2007-08. The Treasury has advised the reduction is largely attributable to the introduction of smoking bans in clubs and hotels and the impact of the equine influenza outbreak.

Sales of Goods and Services

Sales of Goods and Services increased by $1.5 billion from 2006-07. Significant increases include:

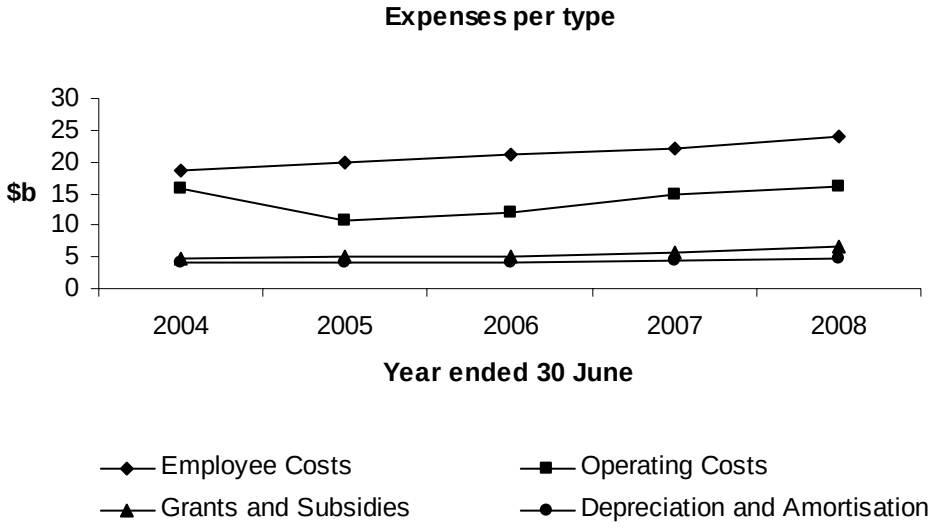
- Country Energy, $194 million
- Integral Energy, $178 million
- Lifetime Care and Support, $168 million
- EnergyAustralia, $163 million
- Department of Health, $118 million
- Macquarie Generation, $106 million
- Delta Electricity, $96 million
- Rail Corporation of New South Wales, $81 million.

Other Revenue

Other revenue decreased by $842 million primarily due to a decrease in investment revenue of $1.1 billion. This was partially offset by increases in grants and contributions $105 million, Mining Royalties $85.0 million and Infringement Processing Bureau Fines $33.0 million.

EXPENSES

Total expenses increased from $49.0 billion in 2003-04 to $56.3 billion in 2007-08, an increase of 14.9 per cent in nominal terms.



Employee Costs

Employee costs (less superannuation) increased by approximately 8.4 per cent compared to the prior year due to:

- Department of Education and Training employee expenses increasing by $277 million primarily due to a three per cent award increase to teachers in January 2008 and a four per cent award increase to administrative staff effective July 2007
- Department of Health employee expenses increasing by $513 million driven by increases in staff numbers, nurse agency and medical locum costs (primarily in Northern Sydney Central Coast Area Health Service and Greater Western Area Health Service) and a four per cent award increase for nurses
- NSW Police Force employee expenses increasing by $98.0 million due to a four per cent award increase, one-off Asia-Pacific Economic Cooperation (APEC) costs and increased police numbers. The Commonwealth Government provided $25.2 million during 2006-07 for the APEC meeting.

Employee related expenses do not include costs associated with changes in superannuation obligations resulting from changes in the assumptions used to calculate these obligations (e.g. movements in discount rates and other economic assumptions). These costs are recorded in Other Gains/(Losses).

Grants and Subsidies Expense

The increase in Grants and Subsidies expense of $848 million in 2007-08 includes increases in:

- Ageing, Disability and Home Care, $71.0 million
- Health, $145 million
- Public Transport, $62.0 million
- Community Services, $43.0 million
- Department of Education and Training, $55.0 million.

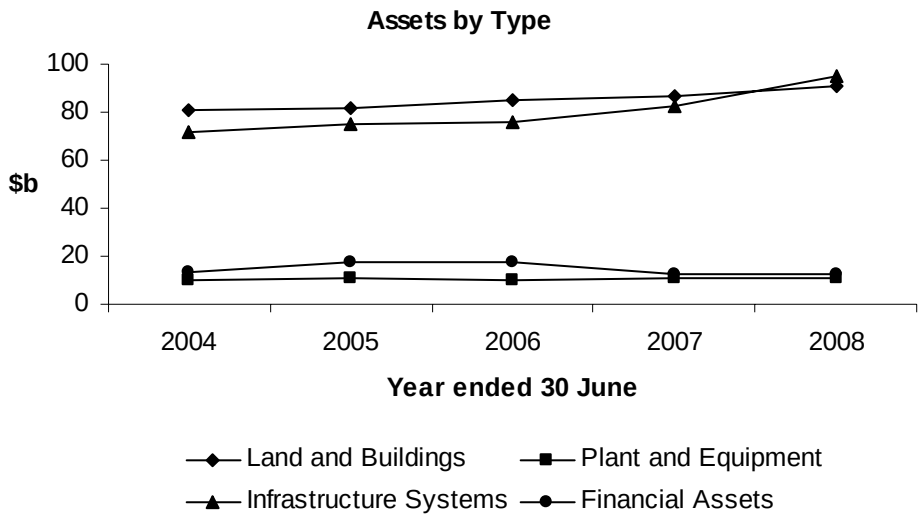
OTHER GAINS/(LOSSES)

Other Gains/(Losses), realised and unrealised, have moved from a gain of $3.1 billion in 2006-07 to a loss of $3.5 billion in 2007-08. This is almost entirely related to actuarial losses on the defined benefit superannuation funds following lower than expected investment earnings and changes to other economic assumptions and discount rates.

Additional information regarding the unfunded superannuation liability of the Total State Sector can be found in the section titled 'Fiscal Responsibility Act'.

ASSETS

Total Assets have increased from $189 billion in 2003-04 to $230 billion in 2007-08, an increase of 22.1 per cent.

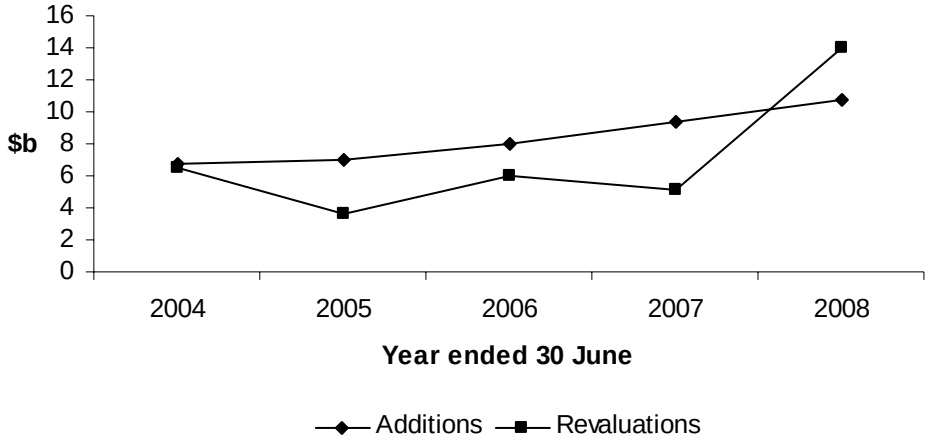


Property, Plant and Equipment

Property, Plant and Equipment includes the State's land and buildings, plant and equipment and Infrastructure systems.

Physical assets are held to provide or support service delivery. Over the last five years the State has invested $41.9 billion in physical assets (land and buildings, plant and equipment and infrastructure assets). On average this represents an investment of $8.4 billion per annum.

Physical Asset Additions and Revaluations



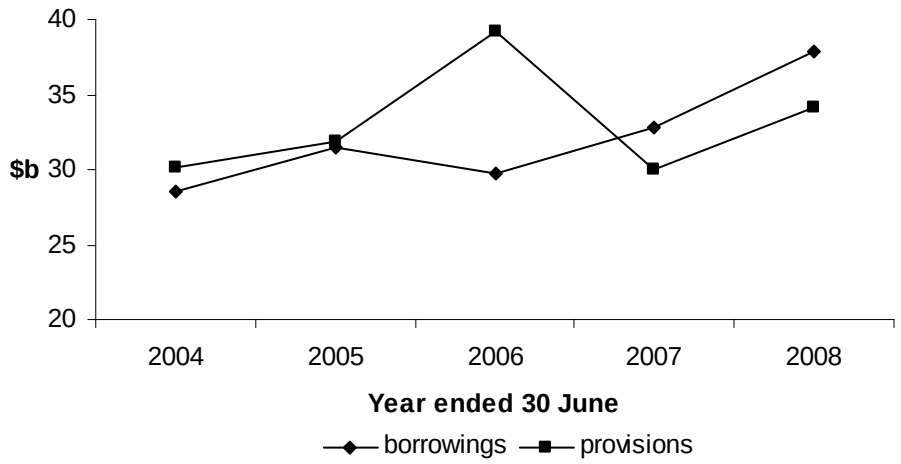
Total property plant and equipment increased by $12.5 billion during 2007-08, predominantly due to major asset revaluations and additions including:

- road infrastructure being revalued upwards by $4.7 billion
- RailCorp revaluing its track work and other infrastructure upwards by $2.1 billion and its land and buildings by $1.2 billion
- Macquarie Generation revaluing its power stations upward by $1.1 billion.

LIABILITIES

Total liabilities (after eliminating inter-agency balances) have increased 28.6 per cent over the five years from $64.5 billion to $83.0 billion.

Liabilities by Type



Borrowings

Domestic and foreign borrowings increased by $5.0 billion during 2007-08. This was primarily driven by an increase in the borrowings of New South Wales Government agencies, managed by Treasury Corporation (TCorp), to fund the infrastructure programs of those agencies. The larger programs were involved with electricity supply, water catchment and supply, and development of the rail network. The Sydney Desalination Plant was the largest new project financed during the year, with financing for the Epping to Chatswood rail Line project almost completed.

Provisions

Included in the movement in provisions, is an increase of $3.6 billion in the unfunded superannuation liability of the Total State Sector. This was due to a negative return of 7.2 per cent on STC Pooled Fund assets and changes in actuarial assumptions.

Provisions have also increased by $247 million due to the inclusion of an actuarial assessment of claims relating to the Lifetime Care and Support Authority of New South Wales. The Authority provides treatment, rehabilitation and care services to people severely injured in motor accidents in New South Wales. This was the first full year of operation.