

# AUDITOR-GENERAL'S REPORT FINANCIAL AUDITS

## Volume Five 2010



The Legislative Assembly  
Parliament House  
Sydney NSW 2000

The Legislative Council  
Parliament House  
Sydney NSW 2000

Pursuant to the *Public Finance and Audit Act 1983*, I present Volume Five of my 2010 Report.

Peter Achterstraat  
Auditor-General

Sydney  
November 2010



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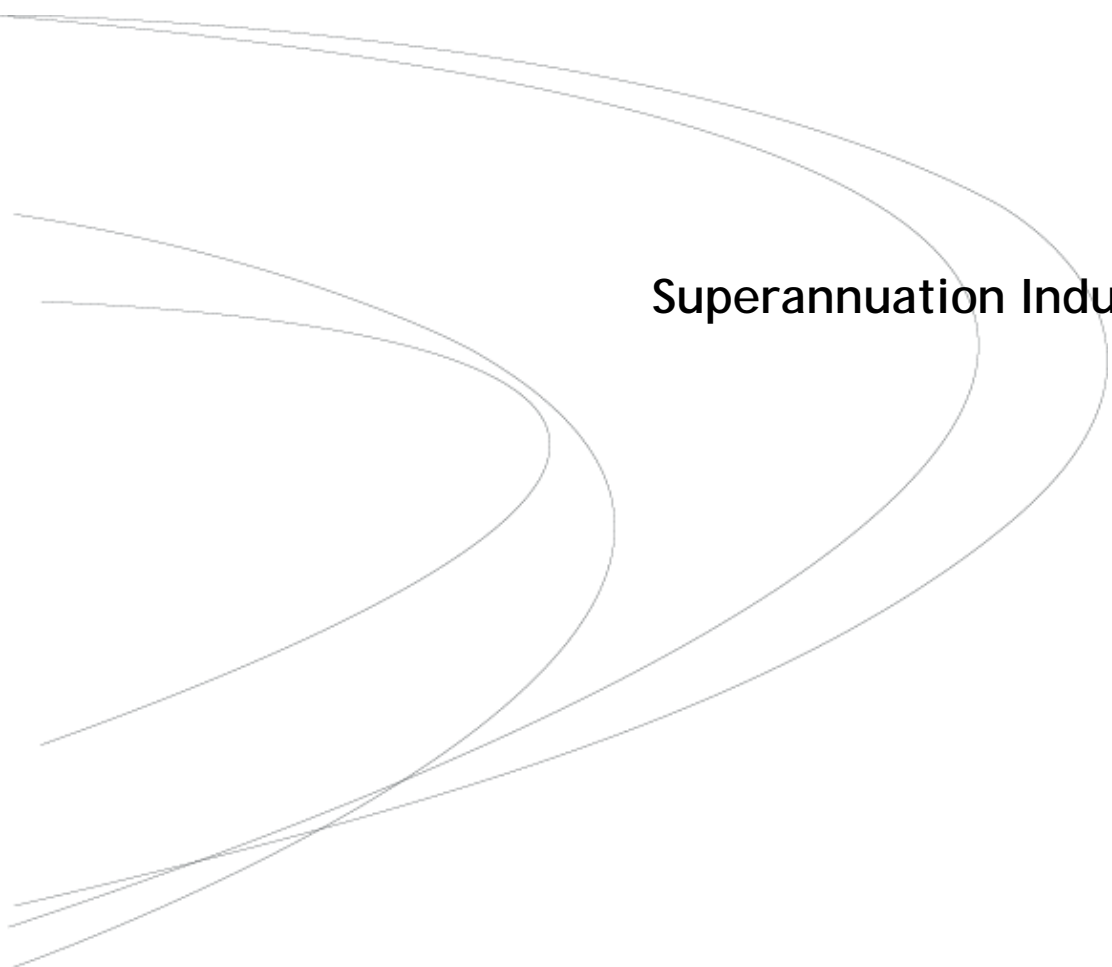
## Significant Items

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New South Wales public sector superannuation funds' investments were \$42.2 billion at 30 June 2010 (\$38.5 billion in 2009).	6
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# Section One



## Superannuation Industry Overview





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# Superannuation Industry Overview

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## AUDIT OPINIONS

The audits of the New South Wales Government controlled superannuation entities financial statements for the year ended 30 June 2010 resulted in unqualified Independent Auditor's Reports.

## SUPERANNUATION ENTITIES

### *Government Controlled Entities*

The New South Wales Government controls the following superannuation related entities. These entities manage, administer and invest superannuation assets for many New South Wales public sector employees.

Superannuation Funds	Death and Disability Superannuation Fund
SAS Trustee Corporation Pooled Fund (STC Pooled Fund)	Crown Employees (NSW Fire Brigades Fire Fighting Staff Death and Disability) Superannuation Fund
Energy Industries Superannuation Scheme (EISS) Parliamentary Contributory Superannuation Fund (PCSF)	
Superannuation Administrative Services	Financial Planning and Fund Management Services
Superannuation Administration Corporation (Pillar Administration) FuturePlus Financial Services Pty Limited	State Super Financial Services Australia Limited (SSFSAL).

### *Non-Government Controlled Superannuation Funds*

Many New South Wales public sector employees are members of the First State Superannuation Scheme and the Local Government Superannuation Scheme. These Schemes have more than 630,000 members and over \$23.0 billion in funds under management.

From May 2006, the First State Superannuation Scheme became a public offer fund under the *Superannuation Industry (Supervision) Act 1993*, which allows it to accept contributions from employees outside the public sector.

Neither scheme is controlled by the New South Wales Government and therefore are not included in this Report.

### *University Superannuation Funds*

The Macquarie University Professorial Superannuation Scheme and University of Sydney Professorial Superannuation System are closed superannuation funds. They manage and invest superannuation assets for those university professors in the respective universities at the time the funds were closed.

These funds are not controlled by the New South Wales Government. I have been requested under the *Public Financial and Audit Act 1983* to be the auditor of these funds.

Other University Professorial Superannuation Schemes, which I do not audit, are:

- The University of New England Professorial Superannuation Fund
- The University of Wollongong Professorial Superannuation Scheme
- The University of New South Wales Professorial Superannuation Fund.

These entities have a combined total of \$50.0 million in investment assets.

The remainder of this Overview refers only to New South Wales Government controlled superannuation related entities. They are referred to as New South Wales superannuation funds or entities.

## KEY ISSUES

### Government Superannuation Reviews

In May 2009, the Australian Government announced the Australian Superannuation System Review (Cooper Review). It focused on better governance, greater efficiency, improved structure and clearer operations of Australia's superannuation system.

The Review Panel delivered its final report to the Australian Government on 30 June 2010, which included 177 recommendations. Whilst the Government has not formally indicated when it will comment on the Cooper Review, it has indicated it welcomes the MySuper and SuperStream initiatives.

The Cooper Review's recommendations were presented in ten packages. Below is high level commentary on the implications for New South Wales' superannuation entities.

Cooper Review Findings	Implications for New South Wales Superannuation Entities
MySuper and Choice architecture	<p>MySuper proposes that only products satisfying certain conditions will qualify as a default fund (MySuper products). This is expected to lead to a significant decrease in the number of funds over the next 20 years.</p> <p>The impact for New South Wales controlled superannuation funds is likely to be minimal given that each is governed by New South Wales legislation. The impact, however, may be significant for New South Wales' superannuation administration service providers as it may impact the volume of business.</p>
Trustee Governance	<p>A number of recommendations are designed to lead to better management of funds and conflicts, and improved outcomes for fund members</p> <p>Some of the recommendations are already well established in most of the New South Wales controlled superannuation funds.</p>

Cooper Review Findings	Implications for New South Wales Superannuation Entities
Investment Governance	<p>Trustees are to take costs, tax and valuation information into account in investment strategies.</p> <p>This may impact investments in higher cost unlisted assets. It is not envisaged that this recommendation will pose any challenges to New South Wales controlled superannuation entities.</p>
Outcomes Transparency	<p>The recommendations should lead to more transparent and consistent reporting of returns, costs, risks and volatility.</p>
Insurance in Superannuation	<p>The recommendations are unlikely to have significant impact for New South Wales superannuation funds as only death, total and permanent disability benefits are provided.</p> <p>The recommendations may have some impact on New South Wales' superannuation administrative services providers in terms of administration they provide for other funds.</p>
Integrity of the System	<p>The Review identified some areas requiring improvement to ensure the integrity, certainty and stability of the industry. These include:</p> <ul style="list-style-type: none"> <li>▪ raising the funding requirements for defined benefit funds</li> <li>▪ including liquidity risk in trustees risk management plans</li> <li>▪ licensing of administrators</li> <li>▪ requiring trustees to maintain some form of fund capital or reserve.</li> </ul>
Retirement	<p>The Review focuses trustees and the superannuation industry on the needs of members in retirement. The Report highlights the importance of managing longevity risk. The ageing of the Australian population and the impending retirement of the 'Baby Boomer' generation is widely acknowledged, which makes this issue topical.</p> <p>This is further reflected in my comments on the SAS Trustee Corporation Pooled Fund later in this Report.</p>
Self-Managed Super Solutions	<p>The Review made a number of recommendations about compliance, audit, adviser competency and similar measures.</p> <p>The recommendations will not be applicable to New South Wales superannuation entities.</p>
SuperStream	<p>The Review proposed changes to improve the quality of administration in superannuation funds and reduce operating costs by moving to electronic data capture and automated transaction processing.</p> <p>The recommendations may have some impact on New South Wales' superannuation administrative services providers in terms of additional infrastructure investment to comply with the recommendations.</p>
Regulatory settings	<p>The Review focused on the efficiencies which could be gained by aligning and coordinating the various regulators (including the ATO, ASIC, APRA, AUSTRAC) and their requirements.</p>

In May 2010, the Federal Treasurer released the Australia's tax system, Australia's future tax system review, and the Government's response to the recommendations. The review was headed by the Treasury Secretary, Dr. Ken Henry and included a number of specific recommendations relating to the taxation of superannuation entities, however the Government has not made any specific announcements regarding these recommendations.

### Superannuation Investments

At 30 June 2010, New South Wales superannuation funds managed \$42.2 billion in investments (\$38.5 billion in 2008-09). Investment returns improved significantly in 2009-10 after the widespread negative investment returns in 2007-08 and 2008-09 resulting from the global financial crisis.

Details of Funds Managed by New South Wales Superannuation Funds	2010 \$b	2009 \$b
State Superannuation Schemes (closed to new members between 1985 and 1992)	31.1	29.1
Energy Industries Superannuation Schemes (closed to new members between 1985 and 1992)	2.8	1.6
Parliamentary Contributory Superannuation Scheme (closed to new members in March 2007)	0.2	0.2
State Super Financial services (Financial Planning and Pension Schemes)	8.1	7.6
<b>Total</b>	<b>42.2</b>	<b>38.5</b>

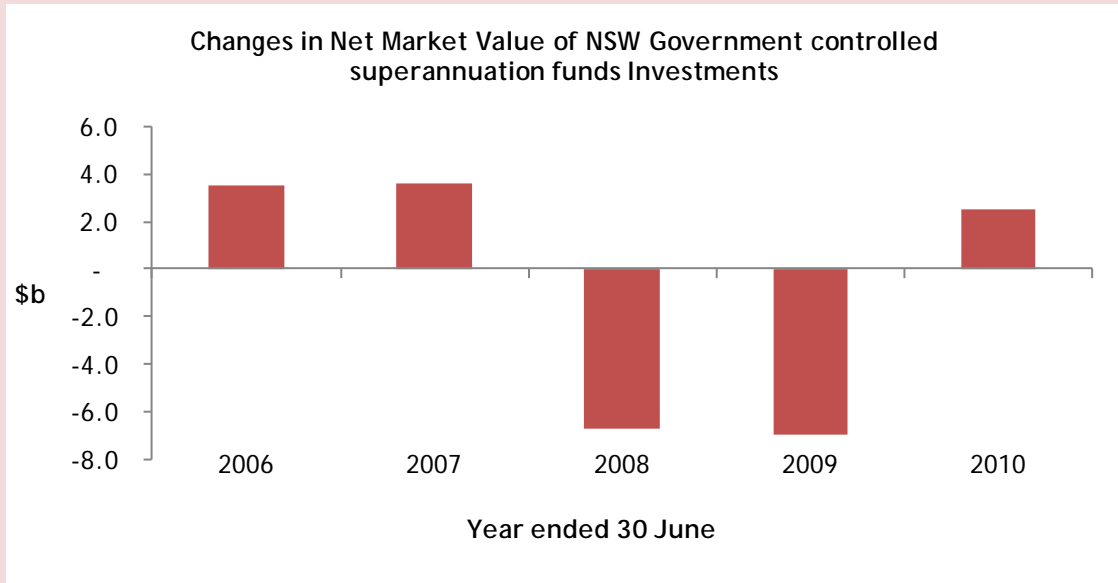
### Global Financial Crisis

Recent issues in Europe, and the United States' increasing budget deficit and continued high unemployment, highlight the fragile nature of the recovery in global markets. Consequently, financial risks remain for superannuation funds, especially for those with overseas investments (including international fixed interest, international equities and international alternative assets). At 30 June 2010, New South Wales Government superannuation funds had in excess of \$11.0 billion in overseas investments.

### Changes in Investments Net Market Value

The volatility and overall decline in all domestic and global markets since October 2007 had a significant impact on New South Wales superannuation funds affecting adversely the reserves position of the funds. Investment values increased in 2009-10 following improvements in domestic and global economic conditions.

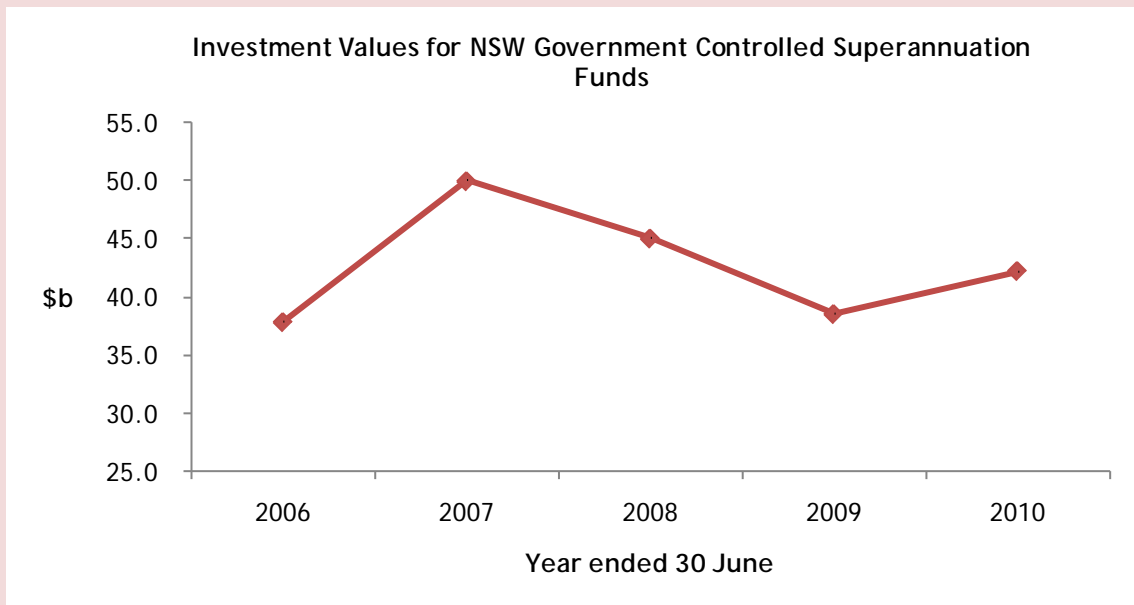
The following graph shows the movement in the market value of all New South Wales superannuation funds' investments over the last five years.



Source: Fund financial statements

**Movements in the value of Funds' Investments**

The following graph shows the movement in value of superannuation investments over the last five years and highlights the impact of the global financial crisis between 2007 and 2009.



Source: Fund financial statements

**Investment Income**

Investment income amounted to \$1.7 billion in 2009-10 (\$1.8 billion). Despite the recent recovery in financial markets, investment earnings are yet to reach levels reported prior to the global financial crisis. Investment income peaked at \$2.9 billion in 2007-08, significantly higher than investment income of \$1.7 billion reported in 2009-10.

## Unlisted Assets - Valuation of Alternative and Private Equity Investments

I recommend New South Wales Government controlled superannuation funds' trustees ensure there are adequate internal resources to monitor due diligence processes around investments in unlisted assets and not just rely on outsourced consultants. Greater attention should be focused on liquidity risk since most of these assets cannot be quickly converted into cash assets.

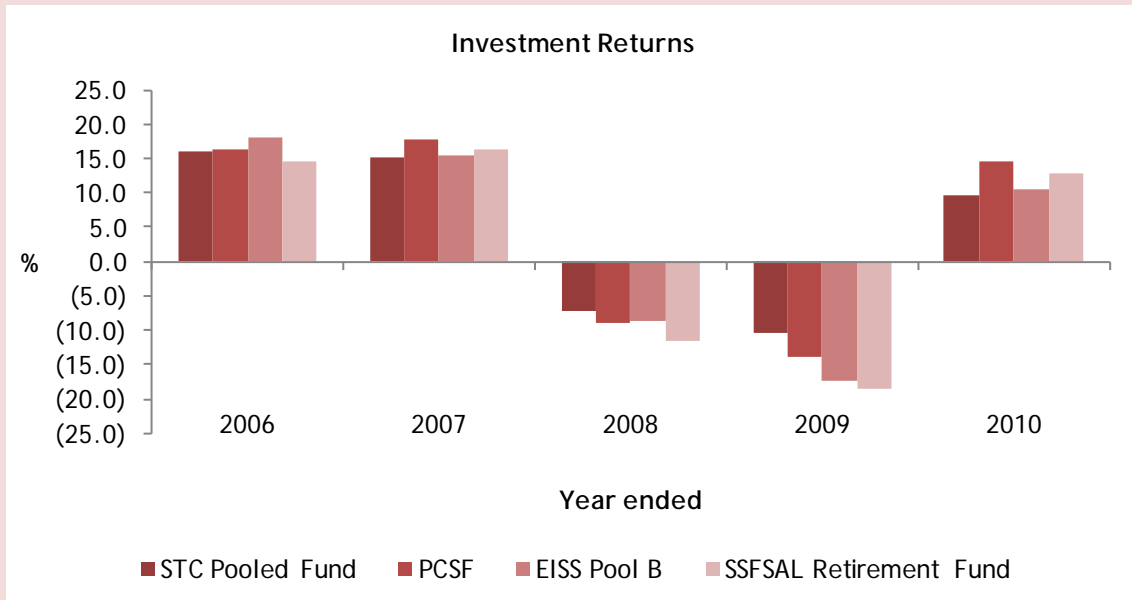
In August 2010, the Australian Prudential Regulation Authority recommended general principles to be used for unlisted asset valuations. There is no formal market for listing, quoting or trading unlisted assets to establish their value. Values are established by adopting various valuation methodologies to estimate the basic worth of the unlisted asset. The integrity of the valuation process has become more important due to the increasing level of superannuation fund investments in unlisted assets.

At 30 June 2010, New South Wales superannuation funds had \$5.0 billion invested in unlisted unit trusts, of which \$3.5 billion was invested in infrastructure and private equity investments. These types of investments included property (e.g. office buildings and shopping centres), infrastructure (e.g. roads, airports and water utilities) and private equity (e.g. investments in start-up or existing companies). Whilst unlisted assets are difficult to value, they offer benefits such as relatively steady income streams, diversification and a spread of risk.

The alternative investment sector is expanding because governments around the world are increasingly selling public assets to private enterprise and inviting the private sector to tender for major community projects, such as toll roads. The trend towards investing in alternative assets is likely to continue into the near future as the recovery from the global financial crisis continues and many governments repair their balance sheets. New South Wales superannuation funds must work closely with their asset consultants to identify domestic or global investment opportunities consistent with their investment strategies and ensure appropriate due diligence processes are in place prior to committing to an investment. Trustees should ensure they have adequate internal resources to monitor this process and not simply rely on outsourced consultants.

## Performance of New South Wales Government Superannuation Entities

The graph below illustrates New South Wales Government superannuation funds investment returns over the past five years. It highlights the impact of the global financial crisis, particularly for funds with higher allocations to growth assets.



Source: Fund Annual Reports and Fund Trustee/Administrators.

The majority of funds are invested in a growth strategy and for comparability purposes, only the investment returns for funds invested in a growth strategy are shown above. Prior to the global financial crisis, New South Wales Government superannuation funds had investment returns of up to 18.2 per cent. This contrasts with negative investment returns of 18.4 per cent at the peak of the global financial crisis in 2008-09. Investment returns for the current year to 30 June 2010 were up to 14.5 per cent.

Despite fluctuations in investment returns, government funds' performance has been consistent with the average industry and corporate superannuation funds. The table below illustrates investment returns for median industry, corporate, government and retail funds:

Fund Sector	Median Manager Return (%)		
	1 Year	3 Years	5 Years
Industry Funds	9.5	(3.0)	3.9
Corporate Funds	10.9	(3.6)	3.5
Government Funds	11.0	(3.1)	3.9
Retail Funds	10.1	(4.7)	2.1

Source: Mercer Employer Super Balanced Growth Survey (survey of 74 Funds).

The STC Pooled Fund and the Parliamentary Contributory Superannuation Fund achieved a five year compound average return of 3.9 and 4.3 per cent respectively. As shown above, these returns are in line with the average investment returns over the five year period for industry, corporate and government funds.

Trustees of superannuation funds monitor their fund's short term performance by comparing their returns to the median manager. The New South Wales Government's three main defined benefit funds recorded gains in 2009-10, which contrasts with the negative returns experienced in 2008-09 where funds recorded double digit negative returns.

The three main defined benefit funds' annual investment returns over the past two years were:

Fund	Fund Annual Return (%)		Median Manager Return (%)		Quartile Ranking	
	2010	2009	2010	2009	2010	2009
STC Pooled Fund <sup>a</sup>	9.5	(10.4)	9.8	(11.9)	3	2
EISS Pool B <sup>b</sup>	10.6	(17.3)	10.5	(14.6)	2	3
PCSF <sup>c</sup>	14.5	(14.0)	11.5	(12.5)	1	3

Note: Losses on investments are shown in brackets (-)

Source: Fund Trustee/Administrator

(a) Median manager in Mercer Employer Superannuation Balanced Growth Survey

(b) Median manager in Super Ratings Pty Ltd

(c) Median manager in Russell Universe of Australian Balanced Portfolios.

The annual investment returns are in line with the median industry, corporate and retail funds. STC Pooled Fund's investment return for 2010 was below its median manager due to its defensive investment strategy. This served it well during the 2008 and 2009 financial years, but caused it to fall slightly behind the median growth manager for the 2010 financial year.

### Triennial Actuarial Valuation

The New South Wales defined benefit funds legislation requires a triennial actuarial review to investigate each fund's financial position. The review makes recommendations to the New South Wales Government regarding the level of contributions employer agencies should make. Due to the complexity and significance of the assumptions used, actuarial expertise is required to calculate members' accrued benefits. Additionally, annual actuarial solvency calculations are undertaken to monitor the fund's financial strength.

Actuarial estimates involve many assumptions and judgements, such as future investment earnings. The following table summarises some of the key economic assumptions from the most recent actuarial review of the New South Wales Government's three main defined benefit funds.

Actuarial assumptions (% per annum)	STC Pooled Funds <sup>a</sup>	Energy Industries <sup>a</sup>	PCSF <sup>b</sup>
Investment rate of return <sup>c</sup>			
▪ asset backing pension liabilities	8.3	7.0	7.5
▪ other	7.3	--	6.6
Salary increase rate	4.0	4.0	4.0
CPI increase rate	2.5	2.5	2.5

Source: Fund's Triennial Actuarial Reviews

(a) Most recent actuarial review completed for the year-ended 30 June 2009

(b) Most recent actuarial review completed for the year-ended 30 June 2008

(c) The actuary takes into account asset allocations which are different from fund to fund.



It is important to recognise that there may be significant differences between an actuarially projected amount and the actual outcome. Actual investment earnings, increases in pensions and members' salaries, and the flow of employer contributions all impact the actual unfunded liability. Any assessment of the accuracy of assumptions used can only be carried out in hindsight.

At 30 June 2010, the New South Wales Government's three main defined benefit funds had an unfunded liability of \$20.3 billion. This means, the accrued benefits to members exceeded the net assets available to pay members by \$20.3 billion. Unfunded liabilities are the difference between fund net assets and members' accrued superannuation benefits. This poses significant challenges for the New South Wales Government, because whilst members' benefits are not impacted by market volatility, the impact on the associated unfunded liabilities is borne by the Government.

A long-term target of the *Fiscal Responsibility Act 2005* is to eliminate Total State Sector unfunded superannuation liabilities by 30 June 2030. The 2009-10 Budget Papers stated that planned employer cash contributions are currently set at a level where general government sector net unfunded liabilities should peak in 2013 and will be fully funded by 2030. According to the budget papers, by 2030 therefore, the assets of the fund plus future expected investment returns, should be expected to ensure that no further Crown employer contributions will be required to fund scheme benefit payments.

#### Valuation of defined benefit liabilities under AASB 119 and AAS 25

Defined benefit liabilities are measured using two different approaches:

- *AAS 25 Financial Reporting by Superannuation Plans* is used by superannuation funds to determine the funds required to discharge the cash payment obligations
- *AASB 119 Employee Benefits* is used by employers to measure the same liabilities for financial statement reporting purposes.

The two approaches can produce significantly different results, which create reporting challenges for the trustees of superannuation funds. Prior to the introduction of International Financial Reporting Standards (IFRS) in 2005, the only measurement approach used for measuring defined benefit liabilities for both funding and accounting purposes was AAS 25.

The table below summaries and illustrates the effect on the unfunded liability of using different discount rates under the two measurement approaches:

Summary	AAS 25 - Superannuation Funds	AASB 119 - Employers
Discount rate	Expected long-term after tax investments earnings rate	Government bond rate
Discount rate used at 30 June 2010	Between 7-8.3%	5.17%
Unfunded liability at 30 June 2010	\$20.3 billion	\$34.5 billion.

Under the current low interest rate environment, the approach under AASB 119 usually yields a higher unfunded liability.

### Net cash flows of New South Wales Government Superannuation Funds

New South Wales Government superannuation funds received \$4.2 billion in contributions and investment revenue in 2009-10 (\$3.7 billion in 2008-09). This included \$2.5 billion (\$1.9 billion) in employer and member contributions and \$1.7 billion (\$1.8 billion) in investment income. In 2009-10, the funds paid \$3.4 billion (\$3.1 billion) in benefit payments to members. The funds had a positive cash inflow of \$867 million in 2009-10 (\$564 million).

New South Wales public sector defined benefit superannuation funds are closed schemes and consequently have a declining membership base. As more members reach retirement age, the above situation where funds have net positive cash inflows will reverse. The New South Wales Government's superannuation funds will be required to liquidate investments to pay for member benefits as they emerge. Liquidating investments and achieving maximum returns create significant challenges for the Trustees.

### Securities Lending

Most New South Wales Government superannuation funds lend securities to third parties for a fee. The securities lending programs are managed by the fund's master custodian. To control risks arising from these programs, the funds:

- set an overall limit on the proportion of the total fund that can be lent
- ensure borrowers are subject to rigorous due diligence by the custodian
- require borrowers to supply collateral with the custodian indemnifying the fund against any collateral shortfall
- invest cash collateral in a cash fund with tight constraints as to credit rating and duration.

### Outsourcing

Superannuation has a high level of outsourcing, particularly in the areas of investments, custody and administration. Trustees appoint an independent organisation as custodian to hold the assets of the fund and perform certain administrative, accounting, monitoring and reporting functions. Investment fund managers are also appointed to invest the assets managed by it in accordance with an investment management agreement.

In 2009-10, the three major government controlled defined benefit superannuation funds paid \$140 million to outsourced service providers which included \$43.0 million in scheme administration expenses and \$97.0 million in investment related expenses.

The services provided were:

Superannuation Fund	Custodian	Administrator	No. of Investment Fund Managers
<b>Defined benefit superannuation funds</b>			
STC Pooled Funds	JP Morgan, Chase	Pillar Administration	40
EISS	JP Morgan, Chase	FuturePlus Financial Services Pty Limited	21
PCSF	NAB	Pillar Administration	9

Superannuation Fund	Custodian	Administrator	No. of Investment Fund Managers
<b>Other superannuation funds</b>			
State Super Financial Services	Not applicable	Not applicable	17 <sup>(1)</sup>
State Super Retirement Fund	JP Morgan, Chase	State Super Financial Services	--
State Super Investment Fund	JP Morgan, Chase	State Super Financial Services	--
State Super Fixed Term Pension Plan	Deutsche Bank AG	State Super Financial Services	--
NSW Fire Brigades Firefighting Staff Death and Disability Superannuation Fund	Not applicable	Equity Investment Management Limited	Not applicable <sup>(2)</sup>

<sup>(1)</sup> State Super Financial Services appoints fund managers which manage the different products offered including State Super Retirement Fund, State Super Investment Fund and State Super Fixed Term Pension Plan.

<sup>(2)</sup> The Fund does not manage investments or appoint fund managers. Contributions received fund operating expenses and insurance cover. Benefits are provided via insurance arrangements.

## OTHER INFORMATION

### Review of AAS 25 financial reporting by superannuation plans

I recommend New South Wales public sector superannuation funds review the proposed standard and ensure:

- financial reporting issues are identified
- a process to report comparative information is available
- controlled entities' financial statements are available in correct form and content
- systems are reconfigured to enable financial information extraction where needed.

The Australian Accounting Standards Board is reviewing the accounting standard for reporting superannuation entities, *AAS 25 Financial Reporting by Superannuation Plans*. It issued Exposure Draft (ED) 179 *Superannuation Plans and Approved Deposit Funds* for industry consultation. The proposed changes to financial reporting are expected to provide greater transparency across the industry. The financial position, performance and risks of superannuation funds are increasingly attracting public interest because of volatility in investment markets, concerns about retirement savings, management of unfunded liabilities, the impact of an ageing population and longevity on funds' abilities to pay pensions at the current retirement age.

Some of the major changes proposed in ED 179 that will impact New South Wales Government superannuation funds include:

Proposal	Impact on New South Wales Superannuation Funds Financial Statements
Measure assets at fair value adjusted for transaction costs	Impact is likely to be minimal given funds' assets are at net market values, which are not significantly different from fair value.
Recognise members accrued benefits as liabilities	Change in classification and presentation to liabilities on the face of the statement of financial position rather than disclosed in the notes. This will make unfunded liabilities more visible in financial reports. NSW's three main defined benefit funds each have a significant deficiency in net assets.
Calculate defined benefit liabilities based on accrued rather than vested benefits, using a risk-free rate under the Projected Unity Credit Method. The ED proposes the benefit payments are discounted for the time value of money using a risk-free discount rate.	<p>The proposed change in discount rate would be likely to increase liabilities. The proposed standard will require the expected future benefit payments to be discounted at risk free discount rates based on current observable, objective rates that relate to the nature, structure and terms of the obligations for such payments.</p> <p>The current standard requires the present value of expected future benefit payments to be discounted at a long term asset earning rate. The change will broadly align the requirements in the fund's financial statements with the approach required under the current AASB 119 <i>Employee Benefits</i>.</p>
A statement of cash flows, statement of changes in member's benefits and (if relevant) a statement of changes in equity would be required.	Change in financial statements presentation.
Prepare consolidated financial statements and consolidate controlled entities.	Consolidated financial statements required including non-controlling interests.

## BACKGROUND

All the New South Wales Government's superannuation funds are statutory bodies. They have common objectives of:

- supporting the future well-being of members by delivering up to date superannuation benefits and high quality service
- helping members make informed decisions by providing relevant and up to date superannuation information
- engaging stakeholders in productive dialogue
- providing optimal investment returns to employers and members.

## SUPERANNUATION FUNDS

### *SAS Trustee Corporation Pooled Fund*

SAS Trustee Corporation Pooled Fund is a reporting entity which consists of the following schemes:

- State Superannuation Scheme (SSS)
- State Authorities Superannuation Scheme (SASS)
- State Authorities Non-contributory Superannuation Scheme (SANCS)
- Police Superannuation Scheme (PSS).

The schemes are closed to new members. All schemes are combined and invest through one fund, the Pooled Fund.

Comment on the SAS Trustee Corporation Pooled Fund is included elsewhere in this Report.

### *Energy Industries Superannuation Scheme*

Energy Industries Superannuation Scheme is a reporting entity which consists of two superannuation plans for which separate financial statements are prepared:

- Energy Industries Superannuation Scheme (EISS) - Pool A (accumulation scheme)
- Energy Industries Superannuation Scheme (EISS) - Pool B (defined benefit scheme).

Pool A is open to new members. Pool B is closed to new members. All schemes are combined and invested through one fund, the Energy Investment Fund.

Comment on the Energy Industries Superannuation Scheme is included elsewhere in this Report.

### *Parliamentary Contributory Superannuation Fund*

Parliamentary Contributory Superannuation Fund is a reporting entity which consists of a superannuation scheme for members of the Legislative Council and the Legislative Assembly.

Comment on the Parliamentary Contributory Superannuation Fund is included elsewhere in this Report.

### *Crown Employees (NSW Fire Brigades Fire Fighting Staff Death & Disability) Superannuation Fund*

The Crown Employees (NSW Fire Brigades Fire Fighting Staff Death & Disability) Superannuation Fund is a fund established to facilitate death and total and permanent incapacity benefits to firefighting employees of the NSW Fire Brigades.

## FINANCIAL PLANNING AND FUND MANAGEMENT SERVICES

### *State Super Financial Services*

State Super Financial Services is a company which provides financial planning and funds management services to past and present New South Wales and Commonwealth public sector employees. At 30 June 2010, it had \$8.1 billion funds under management. It offers a number of products including State Super Retirement Fund, State Super Personal Retirement Plan, State Super Allocated Pension Fund and State Super Term Allocate Pension Fund and State Super Investment Fund.

Comment on State Super Financial Services is included elsewhere in this Report.

## SUPERANNUATION ADMINISTRATION SERVICES

### *Superannuation Administration Corporation (Pillar Administration)*

Pillar Administration is a statutory State owned corporation. It administers both public sector superannuation schemes and private sector schemes.

Comment on Pillar Administration is included elsewhere in this Report.

### *FuturePlus Financial Services Pty Limited (FuturePlus)*

FuturePlus provides superannuation and financial services. It was owned 50 per cent by Energy Industries Superannuation Scheme and 50 per cent by Local Government Super. In 2010-11, the Local Government Super will sell its 50 per cent share in FuturePlus to Energy Industries Superannuation Scheme who will then control the administration service provider.

## SUPERANNUATION FUND FINANCIAL TABLES

Following are abridged financial statements for the three major New South Wales Government controlled defined benefit superannuation funds.

### FUNDS (DEFINED BENEFIT FUNDS)

Fund	STC Pooled Funds		EISS - Pool B		PCSF		Total	
	2010 \$m	2009 \$m	2010 \$m	2009 \$m	2010 \$m	2009 \$m	2010 \$m	2009 \$m

#### Abridged Statement of Changes in Net Assets (year ended 30 June)

Net assets available at beginning of financial year	28,847.7	34,213.8	1,603.6	1,915.3	199.4	255.0	30,650.7	36,384.1
Total revenue	3,514.7	3,358.4	253.1	111.3	12.9	14.9	3,780.7	3,484.6
Total expenses	3,382.0	3,142.0	101.8	105.7	21.2	19.4	3,505.0	3,267.1
Change in net market value of investments	1,936.8	(5,782.3)	76.1	(343.4)	15.9	(52.4)	2,028.8	(6,178.1)
Income tax benefit/(expense)	(174.0)	199.8	(11.9)	26.1	0.6	1.3	(185.3)	227.2
Net assets available at end of financial year	30,743.2	28,847.7	1,819.1	1,603.6	207.6	199.4	32,769.9	30,650.7

#### Abridged Statement of Net Assets (at 30 June)

Total assets	31,098.2	29,108.5	1,825.7	1,606.3	212.0	203.7	33,135.9	30,918.5
Total liabilities	355.0	260.8	6.6	2.7	4.4	4.3	366.0	267.8
Net assets available to pay benefits	30,743.2	28,847.7	1,819.1	1,603.6	207.6	199.4	32,769.9	30,650.7

Following are abridged financial statements for New South Wales Government controlled public sector defined contribution superannuation funds.

#### FUNDS (CONTRIBUTIONS FUNDS)

Fund	EISS - Pool A		State Super Investment Fund		State Super Retirement Fund		Total	
	2010 \$m	2009 \$m	2010 \$m	2009 \$m	2010 \$m	2009 \$m	2010 \$m	2009 \$m
<b>Abridged Statement of Comprehensive Income (year ended 30 June)</b>								
Total revenue	321.0	100.8	36.3	(26.6)	4,562.6	3,229.7	4,919.9	3,303.9
Total expenses	11.6	9.0	4.2	4.1	84.2	71.9	100.0	85.0
Income tax benefit/(expense)	(24.4)	(5.6)	--	--	9.9	0.4	(14.5)	(5.2)
Benefits accrued as a result of operations after income tax	285.0	86.2	32.1	(30.7)	4,488.3	3,158.2	4,805.4	3,213.7
<b>Abridged Statement of Financial Position (at 30 June)</b>								
Total assets	1,083.5	846.4	377.9	364.4	7,727.1	6,570.8	9,188.5	7,781.6
Total liabilities	7.0	5.9	8.8	7.5	34.1	32.9	49.9	46.3
Net assets available to pay benefits	1,076.5	840.5	369.1	356.9	7,693.0	6,537.9	9,138.6	7,735.3





# Section Two



## Commentary on Government Agencies



# Minister for Finance

Lifetime Care and Support Authority of New South Wales

Motor Accidents Authority of New South Wales

Superannuation Administration Corporation  
(trading as Pillar Administration)



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# Lifetime Care and Support Authority of New South Wales

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## AUDIT OPINION

The audit of the Authority's financial statements for the year ended 30 June 2010 resulted in an unqualified Independent Auditor's Report. However, the Report drew attention to significant uncertainty in the valuation of the Authority's provision for participants' care and support services. Uncertainty exists due to the long term nature of the provision and limited participants' experience to date. This uncertainty will remain until sufficient participants' experience is available.

## PERFORMANCE INFORMATION

### Scheme Participants

The Scheme has the following actual and projected participants.

At 30 June	Actual		Projected		
	2009	2010	2011	2012	2013
Traumatic brain injury	180	306	387	467	547
Spinal cord injury*	51	79	115	152	189
Other injuries	2	5	8	11	14
	233	390	510	630	750
Represented by:					
- Children	30	46	61	74	88
- Adults	203	344	449	556	662
- Male	162	269	na	na	na
- Female	71	121	na	na	na

Source: Lifetime Care and Support Authority of New South Wales (unaudited).

\* Includes participants with combined traumatic brain injury and spinal cord injury.

na The Authority does not project participants based on gender.

Scheme participants are people who have received a spinal cord injury, moderate to severe brain injury, multiple amputations, severe burns, or are blind as a result of a motor vehicle accident in New South Wales.

After an application process that includes making sure injuries meet specific criteria, injured people are accepted as interim participants. The possibility of recovery and ongoing improvement in the participant's condition mean that they may not meet the eligibility criteria after the two year interim period.

Before the end of the interim period, the Authority determines whether interim participants become lifetime participants. Children are subject to alternate interim participant periods so lifetime participation is not assessed before the age of five years.

The Authority advises that the overall number of participants is at the expected level. Total participants are expected to grow consistently over time as the Scheme matures.

**OTHER INFORMATION****Medical Care and Injury Service Levy**

The Authority, along with the Motor Accidents Authority, is funded by a levy on Compulsory Third Party (CTP) insurance policies. This levy is called the Medical Care and Injury Services (MCIS) Levy and is calculated as a percentage of the insurance premium.

Insurance premiums are set by licensed CTP insurers. The Authority sets the percentage to be applied to premiums for the MCIS levy to ensure it will have sufficient assets to fund the Scheme's obligations and its administration costs.

In 2009, an increase in CTP premiums led to an increase in levies received by the Authority. The Authority reduced the levy by 2.8 per cent from 1 February 2009 to offset the impact of higher premiums. The Authority reduced the levy by a further 3.5 per cent from 15 August 2009. The Authority aims to ensure levy increases do not exceed increases in average weekly earnings.

**FINANCIAL INFORMATION****Abridged Statement of Comprehensive Income**

Year ended 30 June	2010 \$'000	2009 \$'000
MCIS levy	361,683	327,562
Investment income	50,768	9,131
Grants	--	17,000
<b>TOTAL REVENUE</b>	<b>412,451</b>	<b>353,693</b>
Participants' care and support - expenses paid	38,367	25,033
Participants' care and support - increase in liability	427,026	325,380
Personnel services	4,383	3,255
Other expenses	7,808	4,047
<b>TOTAL EXPENSES</b>	<b>477,584</b>	<b>357,715</b>
<b>DEFICIT</b>	<b>65,133</b>	<b>4,022</b>
<b>COMPREHENSIVE EXPENSE</b>	<b>65,133</b>	<b>4,022</b>

## Abridged Statement of Financial Position

At 30 June	2010 \$'000	2009 \$'000
Cash and cash equivalents	601,662	451,010
Investments - bond and share portfolios	481,807	280,743
Receivables	43,879	35,633
Other	8,039	5,436
<b>TOTAL ASSETS</b>	<b>1,135,387</b>	<b>772,822</b>
Provision for participants' care and support	1,036,852	609,826
Other	7,668	6,996
<b>TOTAL LIABILITIES</b>	<b>1,044,520</b>	<b>616,822</b>
<b>NET ASSETS</b>	<b>90,867</b>	<b>156,000</b>

Cash and cash equivalents include \$596 million (\$447 million in 2009) invested with New South Wales Treasury Corporation (TCorp), which is not used for day to day operations of the Authority.

Bond portfolio investments managed by TCorp include \$389 million (\$281 million) of bonds with maturity dates ranging from 2010 to 2048. The bond issuers have credit ratings between A and AAA. Share portfolio investments are TCorp Hour Glass facilities investing in Australian and international shares.

The Authority has investment powers that allow it to invest in certain financial products to match the long term nature of its liabilities. However, the Authority must invest only in products managed by TCorp.

The provision for participants' care and support expenses represents an estimate of the cost of providing ongoing treatment, rehabilitation and attendant care to Scheme participants. The Authority is working on a major project to develop a Life Costing Model. The Model will allow the Authority to estimate the lifetime cost of individual participants, the cost of all participants as well as calculate the Authority's cash flow requirements. The Model is expected to provide greater certainty around the estimation of the outstanding claims liability.

## Future Scheme Position

The Authority's net asset position provides a buffer in the event that actual claims expenses exceed estimates. The Authority has estimated the following funding surpluses, which reflect expected net asset levels. The funding surplus level as a percentage of the outstanding claims level has reduced significantly and further reductions are expected.

At 30 June	Actual				Projected		
	2009 \$m	2010 \$m	2011 \$m	2012 \$m	2013 \$m	2014 \$m	2015 \$m
Total Scheme assets	772.8	1,135.4	1,545.1	1,978.7	2,446.5	2,949.6	3,490.0
Scheme provision	609.8	1,036.9	1,451.8	1,886.8	2,347.7	2,834.2	3,347.0
Funding surplus	163.0	98.5	93.3	91.9	98.8	115.4	143.0
Funding surplus (% of provision)	26.7	9.5	6.4	4.9	4.2	4.1	4.3

Source: Lifetime Care and Support Authority of New South Wales (unaudited).

## **AUTHORITY ACTIVITIES**

The Authority is a statutory body constituted under the *Motor Accidents (Lifetime Care and Support) Act 2006*.

The Authority is responsible for the administration of the Lifetime Care and Support Scheme. The Scheme provides treatment, rehabilitation and attendant care services to people severely injured in motor accidents in New South Wales, regardless of who was at fault in the accident. People who are eligible for the Scheme will have a spinal cord injury, moderate to severe brain injury, multiple amputations, severe burns or will be blind as a result of the accident.

The Lifetime Care and Support Scheme was introduced in two stages. From 1 October 2006, the Scheme applied to all children under 16 years severely injured in motor accidents. From 1 October 2007, the Scheme also applied to adults.

For further information on the Authority refer to [www.lifetimecare.nsw.gov.au](http://www.lifetimecare.nsw.gov.au).



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# Motor Accidents Authority of New South Wales

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## AUDIT OPINION

The audit of the Authority's financial statements for the year ended 30 June 2010 resulted in an unqualified Independent Auditor's Report.

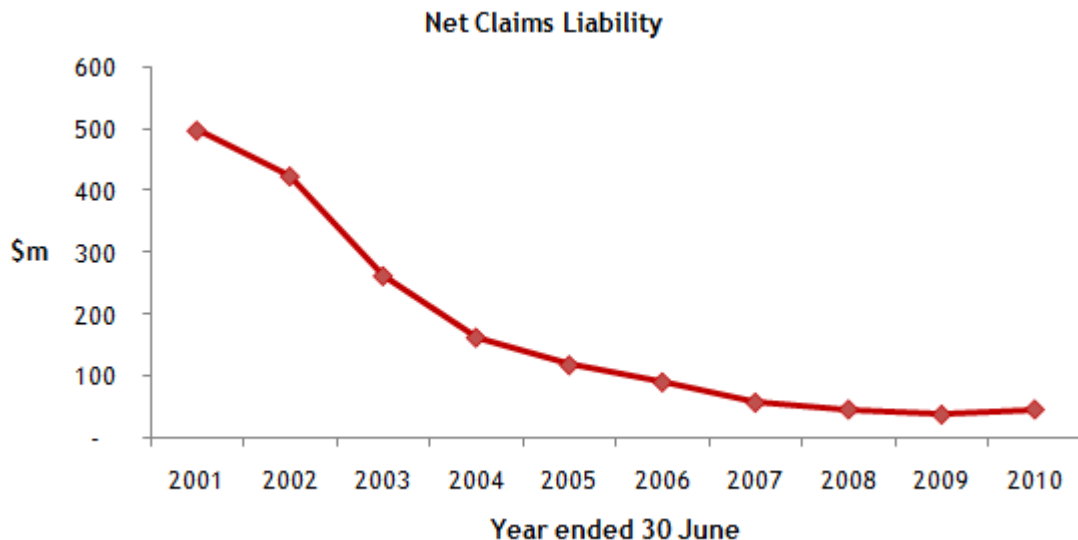
## PERFORMANCE INFORMATION

### Nominal Defendant

The New South Wales compulsory third party motor vehicle insurance scheme (CTP Scheme) provides compensation for people injured in motor vehicle accidents. When the at-fault owner or driver is uninsured or unidentified, the Authority stands in as the Nominal Defendant, giving the injured person a 'defendant' to seek compensation from.

The Nominal Defendant is responsible for claims made against CTP insurance policies issued by the collapsed HIH Insurance Group (HIH). When HIH went into liquidation in 2001, more than 6,000 CTP claims worth an estimated \$600 million were outstanding. This liability was assumed by the Nominal Defendant. The Authority receives funding from the Crown Entity to meet payments for outstanding HIH claims.

The outstanding liability for HIH Nominal Defendant claims has reduced over time.



At 30 June 2010, there were 22 outstanding managed claims (25 at 30 June 2009). The New South Wales Government has paid a total of \$481 million for claims made against HIH-issued CTP insurance policies up to 30 June 2010. Offsetting this, the Government has received a total of \$221 million in recoveries from the HIH liquidators and HIH's reinsurers.

The main reason for the slight growth in the 2010 claims liability is that a number of reinsurance contracts were commuted during the year. By commuting these contracts, the Government received one off cash payments in lieu of receiving recoveries in future years. Because the outstanding claims liability is offset by expected future recoveries, commutations result in an increase in the net liability. Commutation payments received by the Authority are returned to the Crown.

## OTHER INFORMATION

### Changes to the CTP Scheme

There were changes to the coverage provided by the CTP Scheme during 2009-10.

From 1 July 2009, the cost of treating at fault drivers in the public hospital system is funded by the CTP Scheme. Funding provided by the Authority to the Department of Health increased to \$76.0 million for 2009-10, from \$46.4 million in 2008-09. This change to funding the costs of treating at fault drivers has effectively saved the Government \$29.6 million in 2009-10 as costs have been passed on to motorists through Medical Care and Injury Services (MCIS) levies on CTP insurance policies.

Another expansion of the CTP Scheme in respect of at fault drivers is that from 1 April 2010, they may claim up to \$5,000 for medical treatment expenses and lost earnings.

Changes have also occurred in respect of MCIS levy refunds. Before 1 October 2009, there were no refunds of MCIS levies. From that date, pro-rata refunds can be obtained from insurers when vehicle registration is cancelled.

### Medical Care and Injury Services Levy

The Authority, along with the Lifetime Care and Support Authority, is funded by a levy on CTP insurance policies. This levy is called the Medical Care and Injury Services (MCIS) Levy and is calculated as a percentage of the insurance premium.

Insurance premiums are set by licensed CTP insurers. The Authority sets the percentage to be applied to premiums for its portion of the MCIS levy. The Authority's levy rates during 2009-10 were:

- 1 July 2009 - 14 August 2009: 10 per cent
- 15 August 2009 - 30 June 2010: Nine per cent.

The levy rate further reduced to eight per cent from 1 July 2010.

## FINANCIAL INFORMATION

## Abridged Statement of Comprehensive Income

Year ended 30 June	2010 \$'000	2009 \$'000
MCIS levy	135,208	128,203
Other	4,960	3,721
<b>TOTAL REVENUE</b>	<b>140,168</b>	<b>131,924</b>
Personnel services	13,321	14,117
Roads and Traffic Authority, Health and Ambulance Service fees	91,470	60,988
Medical and Claims assessor fees	8,918	8,721
Rehabilitation, road safety grants and sponsorships	6,655	25,787
Other expenses	10,328	8,371
<b>TOTAL EXPENSES</b>	<b>130,692</b>	<b>117,984</b>
<b>SURPLUS</b>	<b>9,476</b>	<b>13,940</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>9,476</b>	<b>13,940</b>

Road safety grants and sponsorships expenses are less in 2010 because the Authority transferred \$17.0 million to the Lifetime Care and Support Authority in 2009 for projects administered by that Authority.

## Abridged Statement of Financial Position

At 30 June	2010 \$'000	2009 \$'000
Cash and cash equivalents	64,937	61,154
Receivable from Crown Entity - outstanding nominal defendant claims	46,653	23,221
Other assets	25,235	27,464
<b>TOTAL ASSETS</b>	<b>136,825</b>	<b>111,839</b>
Provision for outstanding Nominal Defendant claims	47,164	38,799
Payables and other provisions	31,220	24,075
<b>TOTAL LIABILITIES</b>	<b>78,384</b>	<b>62,874</b>
<b>NET ASSETS</b>	<b>58,441</b>	<b>48,965</b>

The Authority had committed \$12.1 million at 30 June 2010 (\$16.6 million at 30 June 2009) for grants on injury management and rehabilitation programs. Cash held at 30 June 2010 will be used to fund these expenditures.

## AUTHORITY ACTIVITIES

The Authority is constituted under the *Motor Accidents Compensation Act 1999*. This Act established the CTP insurance scheme and payment of compensation relating to the death or injury to persons resulting from a motor accident. Its functions include:

- regulating the CTP insurance scheme
- acting as the nominal defendant for the purposes of the Act
- providing funding for measures to prevent or minimise injuries and for safety education
- performing specific functions to support the provision of acute care treatment, rehabilitation, long-term support and other services for persons injured.

For further information on the Authority refer to [www.maa.nsw.gov.au](http://www.maa.nsw.gov.au).

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# Superannuation Administration Corporation (trading as Pillar Administration)

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## AUDIT OPINION

The audit of the Corporation's financial statements for the year ended 30 June 2010 resulted in an unqualified Independent Auditor's Report.

## OTHER INFORMATION

### Proposed Sale

In April 2009, the New South Wales Government deferred its proposed sale of the business of the Corporation to give the Corporation's management time to implement key strategic initiatives, such as efficiency improvements and growth opportunities, to ensure an optimal sale outcome.

The Government's 2010-11 Budget Estimates include funding for the various advisory costs associated with the proposed sale of the Corporation.

## FINANCIAL INFORMATION

### Abridged Statement of Comprehensive Income

Year ended 30 June	2010 \$'000	2009 \$'000
<b>TOTAL REVENUE</b>	<b>75,225</b>	<b>73,004</b>
Employee related expenses	49,652	48,434
Other expenses	21,068	23,026
<b>TOTAL EXPENSES</b>	<b>70,720</b>	<b>71,460</b>
<b>PROFIT BEFORE TAX</b>	<b>4,505</b>	<b>1,544</b>
Income tax equivalent expense	1,390	446
<b>PROFIT</b>	<b>3,115</b>	<b>1,098</b>
<b>OTHER COMPREHENSIVE INCOME</b>	<b>--</b>	<b>--</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>3,115</b>	<b>1,098</b>
Dividend provided	1,869	659

Profit before tax increased by \$3.0 million due to gains resulting from the Corporation's implementation of various efficiency improvement programs.

**Abridged Statement of Financial Position**

At 30 June	2010 \$'000	2009 \$'000
Current assets	21,027	14,463
Non-current assets	19,025	19,547
<b>TOTAL ASSETS</b>	<b>40,052</b>	34,010
Current liabilities	14,588	10,079
Non-current liabilities	3,501	3,214
<b>TOTAL LIABILITIES</b>	<b>18,089</b>	13,293
<b>NET ASSETS</b>	<b>21,963</b>	20,717

Current assets increased by 45.4 per cent due to an improved cash position as at 30 June 2010. Current liabilities increased by 44.7 per cent due to new provisions of \$1.4 million for an employee incentive program, \$1.8 million for income tax payable and \$1.9 million for dividends payable.

**CORPORATION'S ACTIVITIES**

The Corporation's principal functions are the development, promotion and conduct of its business of providing superannuation scheme administration services and related services, in both the public and private sectors. It administers public sector superannuation schemes and private sector schemes.

The Corporation was established as a statutory State owned corporation under the *Superannuation Administration Authority Corporatisation Act 1999* and came into existence in July 1999.

For further information on the Corporation, refer to [www.pillar.com.au](http://www.pillar.com.au).

# Minister for Gaming and Racing

Greyhound and Harness Racing Regulatory Authority





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# Greyhound and Harness Racing Regulatory Authority

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## AUDIT OPINION

The audits of the Authority and its controlled entity's financial statements for the year ended 30 June 2009 resulted in qualified Independent Auditor's Reports.

Unless otherwise stated, the following commentary relates to the consolidated entity.

## KEY ISSUES

### Dissolution of the Greyhound and Harness Racing Regulatory Authority

The Greyhound and Harness Racing Regulatory Authority was abolished at midnight on 30 June 2009 with the repeal of the *Greyhound and Harness Racing Administration Act 2004*. The regulatory functions and responsibilities of the Greyhound and Harness Racing Authority were transferred to Greyhound Racing NSW and Harness Racing NSW. This comment will be the final report to Parliament.

The principle of the restructure was based on recommendations made in Malcolm Scott's 'Independent Review of the Regulatory Oversight of the NSW Racing Industry' and the statutory 'Five year review of the *Greyhound Racing Act 2002* and *Harness Racing Act 2002*'.

Greyhound Racing NSW and Harness Racing NSW now have responsibility for the control and regulation of Greyhound and Harness Racing through:

- making rules to control, supervise and regulate Greyhound and Harness Racing
- reviewing policies in relation to breeding and grading greyhounds and the breeding and handicapping of harness horses
- implementation of policies conducive to the promotion, strategic development and welfare of the greyhound and harness racing code
- registering racing animals and industry participants (e.g. bookmakers, trainers and drivers).
- licensing and registration functions in relation to racing clubs and trial tracks
- distributing money received as a result of the commercial arrangements required by the *Totalizator Act 1997*.

For further information on Harness Racing NSW, refer to [www.hrnsw.com.au](http://www.hrnsw.com.au).

For further information on Greyhound Racing NSW, refer to [www.thedogs.com.au](http://www.thedogs.com.au).

## FINANCIAL INFORMATION

Year ended 30 June	Consolidated		Authority	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Revenue	8,177	7,986	8,177	7,985
Expenses	8,829	8,285	9,345	8,477
Net deficit for discontinued operations	652	300	1,168	491
Transfer of net assets on restructure	2,244	--	2,244	--
Deficit for the year	2,896	300	3,412	491
Superannuation Actuarial Losses	516	--	--	--
Net assets (at 30 June)	--	3,412	--	3,412

Revenue increased by \$191,000 in 2008-09 due to the increase in race meetings as a result of the recovery from the Equine Influenza outbreak in August 2007. A rise in expenditure in 2008-09 is consistent with increased revenue producing activities.

The rights and obligations of the Authority including the net asset balance of \$2.2 million were transferred by legislation to the Greyhound Racing NSW and Harness Racing NSW to continue the activities of the abolished entity. The New South Wales Government did not receive any consideration for the net assets transferred because the Authority's activities were funded by the respective Industry bodies to which the responsibilities now return.

## AUTHORITY ACTIVITIES

The *Greyhound and Harness Racing Administration Act 2004* commenced on 1 October 2004 and was abolished on 30 June 2009.

The Authority had responsibility for the control and regulation of Greyhound and Harness Racing through:

- making rules to control and regulate Greyhound and Harness Racing
- enforcing those rules by way of supervision of race meetings by stewards
- implementing appropriate drug testing and detection measures
- grading greyhounds and handicapping harness horses
- registering greyhounds, horses and industry participants (e.g. bookmakers, trainers, drivers).

**CONTROLLED ENTITY**

The following controlled entity has not been reported separately as it is not considered material by its size or the nature of its operations to the consolidated entity.

Entity Name	Website
Greyhound and Harness Racing Regulatory Authority Division	*

\* This entity does not have a website.



# Minister for Industrial Relations

Building and Construction Industry Long Service Payments Corporation

Refer to Appendix 1 for:  
Sporting Industries Committee



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# Building and Construction Industry Long Service Payments Corporation

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## AUDIT OPINION

The audit of the Corporation's financial statements for the year ended 30 June 2010 resulted in an unqualified Independent Auditor's Report.

## KEY ISSUE

### Deficit in the Building and Construction Industry Long Service Payments Scheme

The Scheme has a net liability position of \$86.1 million at 30 June 2010 (\$121 million at 30 June 2009), principally as a result of negative investment returns in 2008 and 2009. The Corporation currently has sufficient funds to continue operations in the medium term. If a net liability position continues to exist the Corporation will need to examine options to return the Scheme to a net asset position.

## FINANCIAL INFORMATION

### Abridged Statement of Comprehensive Income

Year ended 30 June	2010 \$'000	2009 \$'000
Investment gains/(loss)	53,197	(54,033)
Long service levy	81,237	63,090
Other	301	1,535
<b>TOTAL REVENUE</b>	<b>134,735</b>	<b>10,592</b>
Long service claims expense	89,420	100,843
Operating expenses	10,241	12,520
<b>TOTAL EXPENSES</b>	<b>99,661</b>	<b>113,363</b>
<b>SURPLUS/(DEFICIT)</b>	<b>35,074</b>	<b>(102,771)</b>

The investment gain in 2009-10 resulted from the recovery of most financial markets after the previous downturn in global financial markets.

The Corporation's investments are held in New South Wales Treasury Corporation's Long Term Growth Hour-Glass Facility. This facility primarily invests in Australian and International shares and bonds, and aims to maximise returns over a five year time horizon. The facility has the potential to earn higher returns over the longer term than cash based facilities, but can experience greater volatility in the short to medium term.

The increase in long service levy income of \$18.1 million is due to the increase in construction activity during the year, reflecting recovery from the global financial crisis, and government spending to stimulate construction activity.

The decrease in long service claims expense is mainly due to actuarial adjustments to the long service claim provision calculation.

**Abridged Statement of Financial Position**

At 30 June	2010 \$'000	2009 \$'000
Investments	535,766	472,773
Other	17,629	13,048
<b>TOTAL ASSETS</b>	<b>553,395</b>	<b>485,821</b>
Provision for long service payments liabilities	633,710	602,137
Other	5,815	4,888
<b>TOTAL LIABILITIES</b>	<b>639,525</b>	<b>607,025</b>
<b>NET LIABILITIES</b>	<b>86,130</b>	<b>121,204</b>

The financial markets downturn adversely affected the Corporation's investments in 2008 and 2009 and this is the main reason for the Corporation's net liability position. The recovery in financial markets in 2009-10 has resulted in the increase in the value of investments of \$63.0 million and the decrease in net liabilities.

**CORPORATION ACTIVITIES**

The Corporation's principal objective is to operate a portable long service payments scheme for building and construction workers and secure its funding.

The Corporation is constituted under the *Building and Construction Industry Long Service Payments Act 1986*. It is subject to the control and direction of the Minister for Industrial Relations.

For further information on the Corporation, refer to [www.lspc.nsw.gov.au](http://www.lspc.nsw.gov.au).



# Treasurer

Crown Entity

Electricity Tariff Equalisation Ministerial Corporation

Energy Industries Superannuation Scheme

New South Wales Treasury Corporation

NSW Self Insurance Corporation

Parliamentary Contributory Superannuation Fund

SAS Trustee Corporation - Pooled Fund

State Super Financial Services Australia Limited

The Treasury

**Refer to Appendix 1 for:**

Crown Employees (NSW Fire Brigades Firefighting Staff Death & Disability)  
Superannuation Fund

Liability Management Ministerial Corporation

NSW Fire Brigades Superannuation Pty Limited

State Rail Authority Residual Holding Corporation



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# Crown Entity

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## AUDIT OPINION

The audit of the Crown Entity's financial statements for the year ended 30 June 2010 resulted in a qualified Independent Auditor's Report because I was unable to obtain all the information I required to form an opinion on the value of certain Crown reserves that were not recognised in the comparative Statement of Financial Position at 30 June 2009.

The qualification applies to the 2009 comparative information, but does not apply to the Crown Entity's financial position as at 30 June 2010 because the Crown reserve assets were transferred to the Land and Property Management Authority (LPMA) from 1 July 2009. The Crown Entity's project to identify and value these assets is now LPMA's responsibility.

## KEY ISSUE

### Lack of Internal Audit Activity - Follow up in Current Year

Last year, I raised concerns over the lack of an effective internal audit function and related activity for the Crown Entity. In response, management has taken steps to address this issue, including developing and implementing an internal audit plan of activities.

## NSW Lotteries

The State granted a 40 year lotteries operating licence and sold the shares in the NSW Lotteries Corporation to Tattersall's Holding Pty Ltd on 31 March 2010. Details of the transaction are as follows:

- Tattersall's Holding Pty Ltd paid the State Government \$850 million for the rights to the lotteries licence, the shares in the Corporation, an offset against incremental GST changes, losses if the State fails to enforce the exclusivity of the licence and the right to issue new products without a licence fee and to allow the retention of unclaimed prizes over the 40 year licence period.

The Treasury has accounted for the transaction as:

- \$250 million was received for the 40 year licence
- \$600 million was received for the shares in the Corporation,

In my opinion, the Government should not have recognised the entire \$600 million as other gains in the current year. Instead, it should have amortised the proceeds attributable to the components, other than the shares in the Corporation, over the 40 year licence period.

- \$123 million cash, \$31.0 million investments, \$10.0 million property and liabilities of \$6.0 million for unclaimed prizes were transferred to the Crown Entity from the former Corporation prior to the transaction.

## PERFORMANCE INFORMATION

For key performance indicators on taxation, refer to The Treasury comment elsewhere in this Volume.

## FINANCIAL INFORMATION

## Abridged Statements of Comprehensive Income

Year ended 30 June	2010 \$'000	2009 \$'000
Long service leave	583,391	660,731
Superannuation expenses	1,629,428	1,336,845
Other expenses	4,245,137	4,227,817
Recurrent appropriations	41,271,453	38,341,767
Capital appropriations	5,826,041	3,854,111
<b>OPERATING EXPENSES</b>	<b>53,555,450</b>	<b>48,421,271</b>
Taxation, fines and regulatory Fees	19,673,694	18,293,255
Commonwealth contributions	26,072,257	21,435,753
Other revenues	5,633,293	5,071,700
<b>OPERATING REVENUE</b>	<b>51,379,244</b>	<b>44,800,708</b>
Gain/(loss) on disposal of non-current assets	638,720	(31,964)
Gain from financial instruments	3,169	187,162
<b>DEFICIT</b>	<b>1,534,317</b>	<b>3,465,365</b>
<b>OTHER COMPREHENSIVE INCOME</b>		
Superannuation actuarial losses	2,908,004	10,593,763
Other net increase in equity	--	(2,533)
<b>TOTAL COMPREHENSIVE EXPENSE</b>	<b>4,442,321</b>	<b>14,056,595</b>

Superannuation expenses increased by \$293 million mainly due to lower investment returns on plan assets of \$191 million and a higher current service cost caused by a fall in the discount rate.

The \$2.9 billion increase in recurrent appropriation expenses was mainly to fund increases in expenditure of \$1.1 billion on housing (including the Nation Building and Jobs plan), \$709 million on education, \$506 million on health and \$615 million on transport and infrastructure.

Capital appropriations increased by \$2.0 billion, primarily to fund increased capital expenditure of \$1.9 billion on education (including Building the Education Revolution) and \$71.0 million on transport.

Revenue from taxation, fines and regulatory fees increased by \$1.4 billion, primarily due to an increase in stamp duties of \$1.1 billion as the result of a cyclical recovery in the property market. The Government debt guarantee fee also increased by \$286 million due to higher funding costs and increased debt levels of agencies.

The increase in Commonwealth contributions of \$4.6 billion mainly comprised a \$3.5 billion increase in National Partnership payments for recurrent and capital spending, part of the Australian Government's stimulus package, and a \$1.6 billion increase in GST revenue. At 30 June 2010, \$1.6 billion was yet to be allocated to agencies and has offset the Crown Entity's overdraft.

Other revenues increased by \$562 million, primarily due to improved investment returns of \$728 million as a result of the recovery from the global financial crisis. Dividend and income tax equivalent revenues increased by \$132 million due to better results from public trading enterprises and public financial enterprises in the current year. These were partially offset by a decrease in reinsurance and other recoveries of \$272 million.

The gain/(loss) on disposal of non-current assets increased by \$671 million, mainly due to the net gain from the NSW Lotteries transaction referred to above.

The gain from financial instruments decreased by \$184 million, primarily due to selling the bond portfolio.

The reduction in superannuation actuarial losses of \$7.7 billion reflected the recovery from the global financial crisis.

#### Abridged Statement of Financial Position

At 30 June	2010 \$'000	2009 \$'000
Current assets	4,367,704	3,742,724
Non-current assets	7,305,845	12,313,543
<b>TOTAL ASSETS</b>	<b>11,673,549</b>	<b>16,056,267</b>
Current liabilities	8,754,766	9,426,084
Non-current liabilities	51,275,865	45,155,973
<b>TOTAL LIABILITIES</b>	<b>60,030,631</b>	<b>54,582,057</b>
<b>NET LIABILITIES</b>	<b>48,357,082</b>	<b>38,525,790</b>

The decrease in total assets was primarily due to a reduction in property, plant and equipment of \$6.2 billion. This was mainly due to the transfer of the Crown Leasehold Entity to LPMA on 1 July 2009. This was partially offset by a \$1.0 billion increase in the fair value of financial assets due to improved market conditions, and a \$573 million increase in receivables.

The increase in total liabilities was mainly due to new borrowings of \$2.7 billion to fund capital expenditure and a \$3.0 billion increase in the unfunded superannuation liability.

#### EVENTS SINCE 30 JUNE 2010

On 1 July 2010, the New South Wales Government began the due diligence process on the sale of the Government's retail electricity business and Gentrader contracts. Volume Four of my 2010 Report to Parliament has further information on this sale.

From 1 July 2010, NSW Self Insurance Corporation will take over the management and underwriting of the Home Warranty Insurance Fund (HWIF) following the withdrawal of the commercial insurers in New South Wales.

## CROWN ENTITY ACTIVITIES

The Crown Entity conducts both core government and commercial activities. It reports on those service-wide assets and liabilities that are the overall responsibility of government, rather than individual government departments or statutory authorities.

Core government activities include:

- Consolidated Fund - activities include collecting State taxes, Commonwealth grants, financial distributions from non-budget dependent agencies, and paying recurrent and capital appropriations to budget dependent agencies
- Crown Finance Entity - administers the Service-wide programs funded from the Consolidated Fund. The main activities are:
  - servicing the Crown Entity's debt portfolio
  - providing asset/liability management
  - providing structured finance activities
  - administering superannuation and long service leave liabilities for budget dependent agencies
  - providing loans, grants and subsidies to public sector bodies.

Commercial activities comprise:

- State Rail Authority Residual Holding Corporation - holds all the cross border rolling stock leases from the former State Rail Authority of New South Wales
- NSW Self Insurance Corporation - administers the assets and outstanding claims liabilities of the treasury Managed Fund, Governmental Workers' Compensation Account, Transport Accidents Compensation Fund, Pre-managed Fund and other residual workers compensation liabilities of the Crown
- Electricity Tariff Equalisation Ministerial Corporation - administers the Electricity Tariff Equalisation Fund. The Corporation's purpose is to maintain the ability of retail electricity suppliers to supply electricity at regulated retail tariffs
- Liability Management Ministerial Corporation - administers the General Government Liability Management Fund. The Corporation's purpose is to hold contributions from the Crown Entity invest this money and pay employer contributions into the State's defined superannuation funds. The Corporation has not been active for several years and was again dormant at 30 June 2010.

Since 1 July 2009, Crown Leaseholds Entity, Crown Land Homesites Program and the Land Development Working Account ceased to be part of the Crown Entity as they were transferred to and are now reported within LPMA. As reported above, the Crown reserves have been transferred to LPMA and the project to identify and value these reserves is now the responsibility of LPMA.

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# Electricity Tariff Equalisation Ministerial Corporation

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## AUDIT OPINION

The audit of the Corporation's financial statements for the year ended 30 June 2010 resulted in an unqualified Independent Auditor's Report.

## KEY ISSUES

### Termination of the Fund - Follow up in Current Year

In prior years, I have noted there is no provision in the *Electricity Supply Act 1995* or the 'payment rules' for the disbursement of surplus funds (if any) upon the Fund's termination.

I understand The Treasury is updating the payment rules to specify how the surplus funds will be disbursed when the Fund is terminated after 30 June 2011. I understand the intention is to place the surplus funds into the Consolidated Fund.

## FINANCIAL INFORMATION

### Abridged Statement of Comprehensive Income

Year ended 30 June	2010 \$'000	2009 \$'000
Tariffs from retailers/generators	491,432	398,045
Other	2,788	43
<b>TOTAL REVENUES</b>	<b>494,220</b>	<b>398,088</b>
Tariffs payments to retailers/generators	438,090	349,249
Other	125	51
<b>TOTAL EXPENSES</b>	<b>438,215</b>	<b>349,300</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>56,005</b>	<b>48,788</b>

### Abridged Statement of Financial Position

At 30 June	2010 \$'000	2009 \$'000
Total assets	107,788	59,473
Total liabilities	2,913	10,603
<b>NET ASSETS</b>	<b>104,875</b>	<b>48,870</b>

Total assets comprise cash of \$66.6 million and receivables from retailers/generators of \$41.2 million. Total liabilities mainly represent the amounts payable to retailers/generators. The increase in net assets is the result of higher peak regulated energy costs. These regulated costs increased (by 28.1 per cent) in the current year.

## CORPORATION ACTIVITIES

The Corporation's purpose is to maintain the ability of standard retail electricity suppliers to supply electricity at regulated retail tariffs. The Independent Pricing and Regulatory Tribunal regulate the tariffs that retailers charge standard customers.

New South Wales Government-owned retailers of electricity pay into the Fund when electricity pool prices are lower than the energy cost component of the regulated price paid by customers. When pool prices are higher than the energy cost component, the Fund pays retailers so they can purchase wholesale electricity and still earn a regulated margin. New South Wales Government-owned generators cover any shortfall in the Fund.

The Corporation is a statutory body representing the Crown. It is managed by the Treasurer and was created to administer the Electricity Tariff Equalisation Fund. The *Electricity Supply Act 1995* constituted the Corporation and the Fund in January 2001. The Fund will cease operation on 30 June 2011. Any surplus funds are expected to be transferred to consolidated Fund.



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# Energy Industries Superannuation Scheme

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## AUDIT OPINION

The audit of the Scheme and its controlled entity's financial statements for the year ended 30 June 2010 resulted in an unqualified Independent Auditor's Report.

The following commentary relates to the consolidated entity Energy Industries Superannuation Scheme Pool A and Energy Industries Superannuation Scheme Pool B (the Schemes).

## PERFORMANCE INFORMATION

The Schemes' investment strategies are designed to achieve competitive investment returns over timeframes appropriate for superannuation investments.

Member benefits in Pool A, the accumulation scheme, are affected directly by investment returns. The member benefits in Pool B, the defined benefits scheme, are not affected significantly by scheme performance because benefits are mainly determined by the member's length of service and final salary.

Pool A's annual returns for the superannuation product over the last four years were:

### Pool A - Accumulation Scheme

Year ended 30 June	2010 Median Manager % <sup>b</sup>	2010 % <sup>a</sup>	2009 % <sup>a</sup>	2008 % <sup>a</sup>	2007 % <sup>a</sup>
High growth	10.46	11.07	(19.46)	(12.16)	14.5
Diversified	9.69	10.52	(14.55)	(8.74)	12.6
Balanced	9.76	11.65	(10.43)	(5.21)	10.0
Capital Guarded	8.56	10.19	(5.94)	(1.37)	7.3
Cash	3.41	4.49	4.73	5.34	6.3

(a) Source: Trustee.

(b) Source: Super Ratings Pty Ltd.

Pool A achieved better investment returns than the median manager for 2010 with double digit returns in all its asset classes except cash.

Pool B's annual returns over the last four years were:

**Pool B - Defined Benefits Scheme**

Year ended 30 June	2010	2009	2008	2007
Return % <sup>a</sup>	10.57	(17.27)	(8.61)	15.4
Median manager % <sup>b</sup>	10.46	(14.61)	(9.45)	15.6
Fund quartile rank	2	3	2	3

(a) Source: Trustee.

(b) Source: 2010, 2009, 2008 and 2007 - Super Ratings Pty Ltd for Diversified Funds.

The vested benefits of Pool B were \$1.5 billion at 30 June 2010 (\$2.2 billion). Net assets available to pay benefits were \$1.8 billion (\$2.5 billion) resulting in a vested benefit index ratio of 123 per cent (114 per cent). The Trustee continues to monitor the financial positions of the schemes for solvency.

**OTHER INFORMATION**

**Restructure of Schemes' Administration Provider**

The Local Government Superannuation Scheme and the Energy Industries Superannuation Scheme Pool B were equal shareholders in FuturePlus Financial Services Pty Limited. FuturePlus provides administration services to both schemes. The Local Government Superannuation Scheme has agreed to sell its half share of FuturePlus to Energy Industries Superannuation Scheme Pool B. An agreement outlining the terms of the transaction has been signed and the transaction is expected to be settled by 31 December, 2010.

In the last quarter of the 2009-10 financial year, the Schemes transferred operating responsibility for the calculation of retail unit pricing function from FuturePlus to JP Morgan, the custody provider.

**Actuarial Review**

Mercer, the Schemes' actuary, carried out the triennial actuarial review for Energy Industries Superannuation Scheme Pool B as at 30 June 2009. The report shows an unfunded superannuation liability in accrued benefits of \$261 million. In 2010, additional employer contributions and positive investment earnings boosted Energy Industries Superannuation Scheme Pool B's net asset value to \$1.8 billion. This is an increase of \$186 million compared to the previous year.

## FINANCIAL INFORMATION

## Abridged Operating Statement - Pool A

Year ended 30 June	2010 \$'000	2009 \$'000
Contribution revenue:		
Employers	128,175	111,772
Members	92,226	96,739
	220,401	208,511
Investment gain/(loss)	100,551	(107,666)
Investment expenses	(2,075)	(2,678)
	98,476	(110,344)
<b>TOTAL REVENUE</b>	<b>318,877</b>	<b>98,167</b>
Scheme administration expenses	9,534	6,315
Surcharge expense	0	1
Income tax expense	24,465	5,642
<b>TOTAL EXPENSES</b>	<b>33,999</b>	<b>11,958</b>
<b>INCREASE IN NET ASSETS</b>	<b>284,878</b>	<b>86,209</b>
Benefits paid and payable	58,471	67,464

## Abridged Balance Sheet - Pool A

At 30 June	2010 \$'000	2009 \$'000
Investments:		
Short-term securities	419	396
Trusts	1,046,634	813,095
	1,047,053	813,491
Other assets	34,948	32,918
<b>TOTAL ASSETS</b>	<b>1,082,001</b>	<b>846,409</b>
Liabilities	(14,022)	(5,944)
<b>NET ASSETS AVAILABLE TO PAY BENEFITS</b>	<b>1,067,979</b>	<b>840,465</b>

## Statement of Changes in Net Assets - Pool B

Year ended 30 June	Consolidated		Pool B	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Contribution revenue:				
Employers	141,684	101,664	141,684	101,664
Members	3,959	6,382	3,959	6,382
	145,643	108,046	145,643	108,046
Investment gain/(loss)	285,510	(438,345)	183,512	(340,131)
Investment expenses	(6,062)	(7,773)	(3,905)	(6,427)
Net investment gain/(loss)	279,448	(446,118)	179,607	(346,558)
<b>NET GAIN/(LOSS)</b>	<b>425,091</b>	<b>(338,072)</b>	<b>325,250</b>	<b>(238,512)</b>
Benefits paid	90,305	93,022	90,305	93,022
Scheme administration expenses	7,549	6,264	7,549	6,264
Surcharge expense	--	(10)	--	(10)
Income tax expense/(benefit)	40,954	(26,203)	40,954	(26,203)
<b>TOTAL EXPENSES</b>	<b>138,808</b>	<b>73,073</b>	<b>138,808</b>	<b>73,073</b>
Minority interest	99,841	99,560	--	--
<b>INCREASE/(DECREASE) IN NET ASSETS</b>	<b>186,442</b>	<b>(311,585)</b>	<b>186,442</b>	<b>(311,585)</b>

## Statement of Net Assets - Pool B

Year ended 30 June	Consolidated		Pool B	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Investments:				
Unit trusts	1,890,508	1,995,737	1,761,152	1,550,037
Securities	872,113	265,962	--	--
	2,762,621	2,261,699	1,761,152	1,550,037
Other assets	193,638	165,763	56,560	56,258
<b>TOTAL ASSETS</b>	<b>2,956,259</b>	<b>2,427,462</b>	<b>1,817,712</b>	<b>1,606,295</b>
Liabilities	119,630	10,813	27,717	2,742
Minority interest	1,046,634	813,096	--	--
<b>NET ASSETS AVAILABLE TO PAY BENEFITS</b>	<b>1,789,995</b>	<b>1,603,553</b>	<b>1,789,995</b>	<b>1,603,553</b>

The consolidated entity comprises Pool B and its subsidiary, the Energy Investment Fund.

## SCHEME ACTIVITIES

The *Superannuation Administration Act 1996* provided for the establishment of two entities to administer New South Wales Energy Industries employees' superannuation:

- Energy Industries Superannuation Scheme (EISS) - Pool A and Pool B
- Energy Industries Superannuation Scheme Pty Limited - the Trustee of the Energy Industries Superannuation Schemes.

There are two distinct superannuation plans - EISS Pool A and EISS Pool B. Separate financial reports are prepared for each pool.

EISS Pool A is an accumulation plan comprising:

- Division A (accumulation scheme) - employees of certain New South Wales State owned corporations operating in the electricity industry
- Division E (executive scheme) - former members of the Public Sector Executives Superannuation Scheme
- Division F - Account Based Pension and Rollover Plan
- Division N (Electrical Contractors Division) - established for employers in the electrical contracting industry.

EISS Pool B is a defined benefit scheme and comprises:

- Division B (retirement scheme) - former members of the State Authorities Superannuation Scheme
- Division C (basic benefit scheme) - former members of the State Authorities Non-contributory Superannuation Scheme
- Division D (defined benefit scheme) - former members of the State Superannuation Scheme.

Futureplus Financial Services Pty Limited (Futureplus) provides executive, managerial and administrative service to EISS and its Trustee. The custodial service for the Energy Investment Fund and EISS is provided by JP Morgan Chase Bank. Funds management is provided by a number of investment managers.

For further information, refer to [www.eisuper.com.au](http://www.eisuper.com.au).

## CONTROLLED ENTITY

The following controlled entity has not been reported on separately as it is not considered material by its size or the nature of its operations to the consolidated entity.

Entity Name	Website
Energy Investment Fund	<a href="http://www.eisuper.com.au">www.eisuper.com.au</a>

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# New South Wales Treasury Corporation

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## AUDIT OPINION

The audits of New South Wales Treasury Corporation (TCorp) and its controlled entities' financial statements for the year ended 30 June 2010 resulted in unqualified Independent Auditor's Reports.

Unless otherwise stated, the following commentary relates to the consolidated entity.

## KEY ISSUES

### AAA Credit Rating

The State of New South Wales and TCorp have both maintained credit ratings of AAA from Standard and Poor's and Aaa/Stable from Moody's Investors Service.

Following the release of New South Wales 2010-11 budget, Moody's Investors Service noted that the State's financial performance appears to have improved compared to last year's budget projections. Stronger than anticipated economic growth in Australia and in New South Wales has spurred revenues beyond what was projected last year and is the primary factor driving improved financial projections. Increases in Goods and Services-backed Commonwealth grants and the State's own-source revenues, and rising property transfer duties, are bolstering the State's financial performance, as are the slightly slower pace in capital expenditures. However, the state's level of current spending is also slated to increase.

Moody's Investors Service stated that the State's efforts to bring the pace of expenditure growth below revenues through rationalising expenditures and maintaining a wage policy of 2.5 per cent will be of key importance to the State's fiscal outlook.

## PERFORMANCE INFORMATION

### Funding the New South Wales Public Sector

TCorp provides loans to New South Wales public sector agencies to fund infrastructure investment programs. Strong demand for financing continues from agencies undertaking projects to improve the delivery and supply of electricity and water.

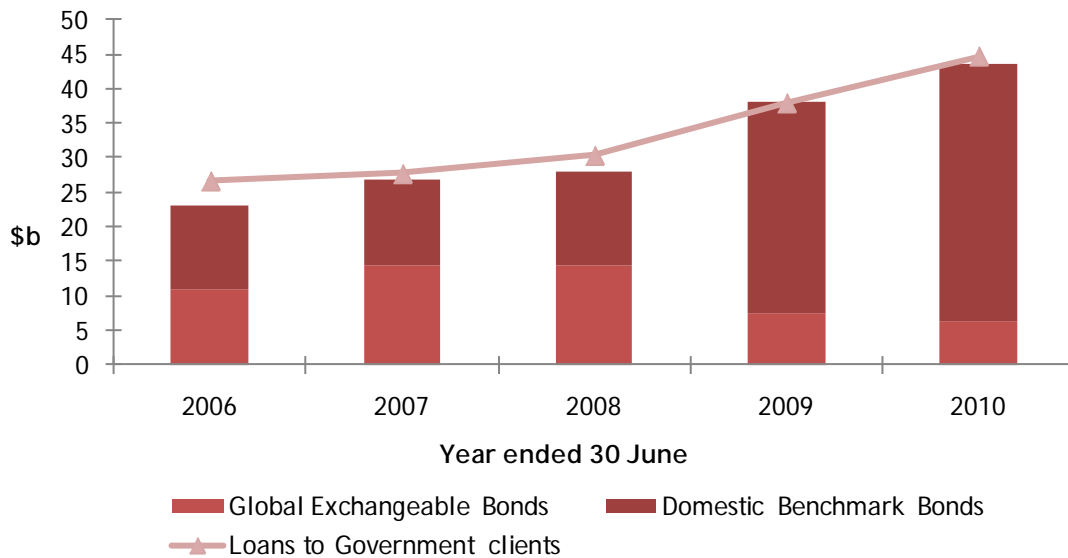
Despite limited opportunities in non-Australian-dollar markets, TCorp raised \$12.0 billion (\$10.9 billion in 2008-09) during the year from debt capital markets. TCorp used these funds to finance the \$5.6 billion (\$6.4 billion) net increase in client loans and to refinance existing liabilities of \$5.5 billion (\$1.6 billion). The balance was invested in short-term liquid investments to meet liquidity and 2010-11 client funding requirements.

In June 2009, New South Wales took advantage of the Commonwealth Government Guarantee Scheme of State and Territory Borrowings for TCorp's Benchmark Bonds with maturities from May 2013 to May 2023. The Guarantee Scheme ensured TCorp's Benchmark Bonds remained attractive to investors, which enabled them to meet client's funding needs at a lower cost compared with market alternatives. Total guarantee fees paid by the State for 2009-10 were \$27.5 million.

In February 2010, the Commonwealth Government announced that the Guarantee Scheme will be closed to new issuances from 31 December 2010. TCorp has and will continue to offer new State guaranteed bonds and will, where cost effective, encourage investors to switch from their current Commonwealth guaranteed bonds. Total Benchmark Bonds on issue were \$43.6 billion (\$38.2 billion) by year-end, which includes \$22.7 billion of Commonwealth guaranteed borrowings.

TCorp continued its commitment to capital indexed bonds (CIB) with \$3.8 billion (\$1.5 billion) on issue at year-end. This is a favoured source of funds for entities whose revenues are subject to movements in CPI, for example regulated utilities.

Loans to Clients, Domestic and Global Bonds



Loans to Government Clients

Year ended 30 June	2010 \$'000	2009 \$'000
<b>New South Wales public sector clients</b>		
- Crown Entity	15,795,552	13,055,292
- Electricity Sector	17,135,231	14,929,359
- Transport Sector	1,165,053	1,155,895
- Water Sector	8,022,047	6,728,825
- Other Sector	2,467,208	1,978,570
- Universities	42,376	40,744
<b>Total Loans to Government Clients</b>	<b>44,627,907</b>	<b>37,888,685</b>

The 2010-11 Budget Papers project \$62.2 billion of capital spending over the four years to June 2014. The remainder of the Commonwealth Government's economic stimulus and nation building grants is included in the projected \$16.6 billion investment in infrastructure for 2010-11. TCorp expects its loans to clients to increase by \$18.0 billion over the next four years.

### **Management of Client Debt**

TCorp managed 20 client debt portfolios with a total portfolio volume at year-end of \$31.0 billion (\$25.4 billion). The largest portfolio was Treasury's \$15.7 billion (\$12.4 billion) Crown debt portfolio. During the year, TCorp refinanced client debt portfolios using new nominal maturities and CPI Linked Bonds for regulated utility clients. This strategy allowed TCorp to lengthen debt maturity profiles of client debt portfolios to provide better long-term funding certainty.

### **Management of Client Investments**

TCorp's asset management services comprise Hour-Glass investment facilities, which are mainly outsourced to external fund managers, and internally managed cash and bond portfolios.

#### ***Hour-Glass Investment Facilities***

Hour-Glass investment facilities are managed funds established to meet the investment needs of public sector agencies. During the global financial crisis, these products outperformed respective benchmarks and the clients' investments remained liquid. The market recovery along with increased investment by the NSW Self Insurance Corporation's Treasury Managed Fund, led to managed funds for Hour-Glass investment facilities increasing to \$10.1 billion (\$7.5 billion) at year-end.

The strategies adopted for cash facilities continued to be successful throughout the year and exceeded benchmark returns. The renewed market confidence saw a return to risk assets, which benefited the Hour-Glass Australian Shares Sector. Internationally, market volatility and dispersion of stock returns created opportunities that the Hour-Glass managers took advantage of to outperform the benchmark and, with respect to the Long-Term Growth Facility, earn positive returns for the first time since 2007.



TCorp provided the following information regarding its performance for Hour-Glass Investment Facilities:

Year ended 30 June	2010	2009	2008	2007	2006
Hour-Glass cash facility return %pa	4.46	5.35	6.82	6.41	5.69
Benchmark index return %pa	3.89	5.48	7.34	6.42	5.76
<b>Total market value \$m 30 June</b>	<b>3,465</b>	<b>3,053</b>	<b>3,270</b>	<b>3,157</b>	<b>2,809</b>
Hour-Glass strategic cash facility return %pa <sup>1</sup>	4.62	5.80			
Benchmark index return %pa	3.89	5.48			
<b>Total market value \$m 30 June</b>	<b>1,632</b>	<b>990</b>			
Hour-Glass medium term growth facility return %pa	8.69	0.73	(0.57)	8.48	8.76
Benchmark return %pa	8.39	0.15	(0.79)	8.80	8.44
<b>Total market value \$m 30 June</b>	<b>372</b>	<b>337</b>	<b>288</b>	<b>417</b>	<b>288</b>
Hour-Glass long term growth facility return %pa	11.28	(10.33)	(10.27)	13.80	16.88
Benchmark return %pa	10.86	(10.88)	(10.51)	14.67	15.88
<b>Total market value \$m 30 June</b>	<b>938</b>	<b>843</b>	<b>905</b>	<b>1,081</b>	<b>826</b>

Source: New South Wales Treasury Corporation.

1 Facility commenced on 17 June 2008 so no previous data.

Notes:

- (i) Benchmarks are either market index returns or peer groups for investment facilities with similar investment profiles to the relevant Hour-Glass facility.
- (ii) Hour-Glass returns are reported net of fees.

### *Discrete Client Funds*

TCorp internally manages the specific cash and bond portfolios for a number of public sector agencies. Funds invested increased to \$8.2 billion at year-end (\$6.7 billion). This increase was mainly due to WorkCover Nominal Insurer and State Super entering mandate agreements with TCorp.

TCorp takes a conservative approach to credit risk, consistent with the risk profile of client mandates. Its decisions around portfolio construction, timing of investments and security selection significantly influence investment returns. During 2009-10, investment returns on discrete client funds exceeded the benchmarks for 82 per cent of the portfolios.

Where significant, investment performance is reported in separate comments for each agency included in this and other Volumes of the Auditor-General's Reports.

## OTHER INFORMATION

We identified opportunities for improvement to accounting and internal control procedures and have reported them to management.

### Information Technology Replacement Project

Information technology is critical to TCorp's day-to-day operations and management decision making. TCorp is in the process of replacing its existing financial management software and hardware to support the new Kondor system. Almost all capital expenditure occurred in previous financial years.

The deal capturing module of the Kondor financial management software was implemented in October 2009, approximately three months behind the original plan. The delay did not have a detrimental impact on the budget or operations as existing systems were in place. The next phase of the project covering valuation, limits and some reporting capabilities was implemented in July 2010, in line with the revised project plan.

This new software is expected to deliver some enhancements to TCorp's operations, including straight through processing, intra-day position keeping and real time compliance.

## FINANCIAL INFORMATION

### Abridged Consolidated Statement of Comprehensive Income

Year ended 30 June	2010 \$'000	2009 \$'000
Income from changes in fair value	4,150,538	4,191,300
Expenses from changes in fair value	4,064,989	4,011,789
<b>Net income from changes in fair value</b>	<b>85,549</b>	<b>179,511</b>
Fees and commissions	22,651	25,757
<b>TOTAL NET INCOME</b>	<b>108,200</b>	<b>205,268</b>
Staff costs	18,469	16,026
Other costs	23,787	21,631
<b>TOTAL GENERAL ADMINISTRATIVE COSTS</b>	<b>42,256</b>	<b>37,657</b>
Profit before income tax equivalent expense	65,944	167,611
Income tax equivalent expense	17,130	43,520
<b>PROFIT AFTER TAX</b>	<b>48,814</b>	<b>124,091</b>
Other comprehensive losses	61	226
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>48,753</b>	<b>123,865</b>

TCorp considers the profit before tax of \$65.9 million as a positive outcome primarily reflecting its performance in managing the funding program and residual market risks in a volatile environment. The result in 2008-09 was seen as extraordinary.

#### Abridged Consolidated Statement of Financial Position

At 30 June	2010 \$'000	2009 \$'000
Cash and liquid assets	484,568	233,128
Outstanding settlements receivable	155,227	1,054,096
Due from financial institutions	4,837,483	1,481,762
Securities held	6,907,417	7,753,148
Derivative financial instruments receivable	347,273	572,192
Loans to clients	44,627,907	37,888,685
Other assets	36,534	36,756
<b>TOTAL ASSETS</b>	<b>57,396,409</b>	<b>49,019,767</b>
Due to financial institutions	4,740,957	3,776,459
Outstanding settlements payable	52,112	290,142
Due to clients	1,004,965	888,936
Borrowings	51,110,297	43,455,468
Derivative financial instruments payable	344,630	425,543
Other liabilities and provisions	58,180	108,204
<b>TOTAL LIABILITIES</b>	<b>57,311,141</b>	<b>48,944,752</b>
<b>NET ASSETS</b>	<b>85,268</b>	<b>75,015</b>

The movements in the statement of financial position primarily reflect the decisions made to meet and manage the funding requirements of the New South Wales Public Sector.

TCorp operates under self-imposed capital requirements based on prudential statements published by the Australian Prudential Regulation Authority (APRA). To meet these requirements, TCorp's Board approved an increase in the capital base from \$75.0 million to \$85.0 million. The excess in net assets, after allowing for tax equivalent payments and the increase in the capital base, was returned to the Crown as dividends totalling \$38.5 million (\$92.0 million).

#### Derivative Financial Instruments

TCorp does not use derivative financial instruments for speculative purposes. Derivatives are used to manage risks from its borrowing and investing activities. These transactions comply with established Board policies, which stipulate instrument risk limits.

## CORPORATION ACTIVITIES

TCorp provides specialised financial services to the New South Wales public sector. These services include acting as a central borrowing authority and providing corporate treasury, corporate finance, and debt and asset management services.

TCorp raises funds in the financial markets and lends the funds to agencies. TCorp borrows funds more cost effectively than private sector organisations because the Government guarantees repayment. Public sector agencies are required to borrow funds through TCorp unless specific approval is obtained from the Treasurer.

While TCorp is able to raise funds using the high credit rating of the State, borrowing costs for individual agencies are based on their individual credit ratings. If an agency has a lower credit rating than the State, The Treasury levies a guarantee fee relative to that credit rating. This ensures that while the State benefits from cost effective funding, agencies' borrowing costs are based on their individual financial positions.

TCorp is constituted under the *Treasury Corporation Act 1983* and is subject to the control and direction of the Treasurer. Its Chief Executive manages the affairs of TCorp in accordance with its Board's policies and directions. TCorp may borrow, invest and undertake financial management transactions under the *Public Authorities (Financial Arrangements) Act 1987*.

For further information on TCorp, refer to [www.tcorp.nsw.gov.au](http://www.tcorp.nsw.gov.au).

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## CONTROLLED ENTITIES

The following controlled entities have not been reported on separately as they are not considered material by their size or the nature of their operations to the consolidated entity.

Entity Name	Website
TCorp Nominees Pty Limited	*
Treasury Corporation Division of the Government Service	*

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\* This entity does not have a website.

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# NSW Self Insurance Corporation

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## AUDIT OPINION

The audit of the Corporation's financial statements for the year ended 30 June 2010 resulted in a qualified Independent Auditor's Report. A similarly qualified Independent Auditor's Report was also issued for the Treasury Managed Fund (the Fund), the Corporation's largest insurance fund.

Qualified opinions were issued because the Corporation (including the Fund) applied Australian Accounting Standard AASB 137 'Provisions, Contingent Liabilities and Contingent Assets' to its general insurance contracts instead of Australian Accounting Standard AASB 1023 'General Insurance Contracts'. AASB 1023 is applicable to the Corporation's insurance operations because it meets the definition of a general insurer. The Corporation chose to apply the same accounting policies as those used for the Total State Sector Accounts to avoid confusion for users of the Corporation's financial statements and the Total State Sector Accounts that may occur if different accounting policies were applied. Had the Corporation applied AASB 1023, its liabilities would have increased by a material amount and net assets decreased by the same amount. The Corporation would also have had to make additional disclosures about its general insurance contracts.

If the Corporation had adopted AASB 1023 there would have been no impact on the Total State Sector Accounts as the differences in accounting standards would have been eliminated on consolidation.

## KEY ISSUES

### Discount Rate for Claim Liabilities

In prior years, I reported that the Corporation had used an investment rate of return to discount claim liabilities, which did not meet the requirements of Australian Accounting Standard AASB 137 'Provisions, Contingent Liabilities and Contingent Assets'.

However, since 2009, the Corporation has used a discount rate which reflects the risks specific to the liabilities of the insurance portfolio. We are satisfied that this discount rate meets the requirements of AASB 137. The discount rate used of six per cent is consistent with the discount rate used last year.

## OTHER INFORMATION

### Tender for Claims Management

The Corporation entered into four six-year contracts for claims management services from 1 July 2010 to 30 June 2016 following a competitive tendering process. The four new claims managers were approved by the Treasurer to manage the Corporation's Workers' Compensation, Health Liability and General insurance portfolios.

The Corporation has advised that a Steering Committee, reporting to the Treasurer, was charged with overseeing the tender. Other agencies were involved in this process, including the Department of Services, Technology and Administration to help ensure compliance with government procurement guidelines; a consultant to review the Treasury Managed Fund and fee structures for the tender; and a probity reviewer.

It is intended the new claim managers will commence service for new claims from 1 January 2011 onwards. Existing claims will be transitioned from the outgoing claim managers to the new claim managers by 30 March 2011.

## Home Warranty Insurance Arrangements

The Corporation has taken over the management and underwriting of the Home Warranty Insurance Fund from 1 July 2010 following the withdrawal of commercial insurers in New South Wales. The *NSW Self Insurance Corporation Act 2004* has been amended to enable the Corporation to operate the Home Warranty Insurance Scheme.

## Tender for Actuarial and Reinsurance Services

The Corporation has appointed two actuaries for a five-year period from 1 October 2009 to 30 September 2014 to provide various actuarial services, such as determining insurance premiums and forecasting future claim payments.

One large reinsurance broker has been awarded the contract for reinsurance services for a four-year period from 1 October 2009 to 30 September 2013.

## FINANCIAL INFORMATION

The financial results of the insurance funds that comprise the Corporation - the Treasury Managed Fund, the Transport Accidents Compensation Fund, the Governmental Workers' Compensation Account and the residual workers' compensation liabilities of the Crown - are aggregated for reporting.

### Abridged Statement of Comprehensive Income

Year ended 30 June	2010 \$'000	2009 \$'000
Premium revenue	839,277	807,014
Payment from the Crown Entity	45,000	430,000
Investment income	482,549	--
Other	(89,006)	183,082
<b>TOTAL REVENUE</b>	<b>1,277,820</b>	<b>1,420,096</b>
Claims expense	1,242,284	1,408,313
Outwards reinsurance	34,647	33,773
Investment loss	--	122,628
Other	43,039	42,457
<b>TOTAL EXPENSES</b>	<b>1,319,970</b>	<b>1,607,171</b>
<b>TOTAL COMPREHENSIVE EXPENSE</b>	<b>42,150</b>	<b>187,075</b>

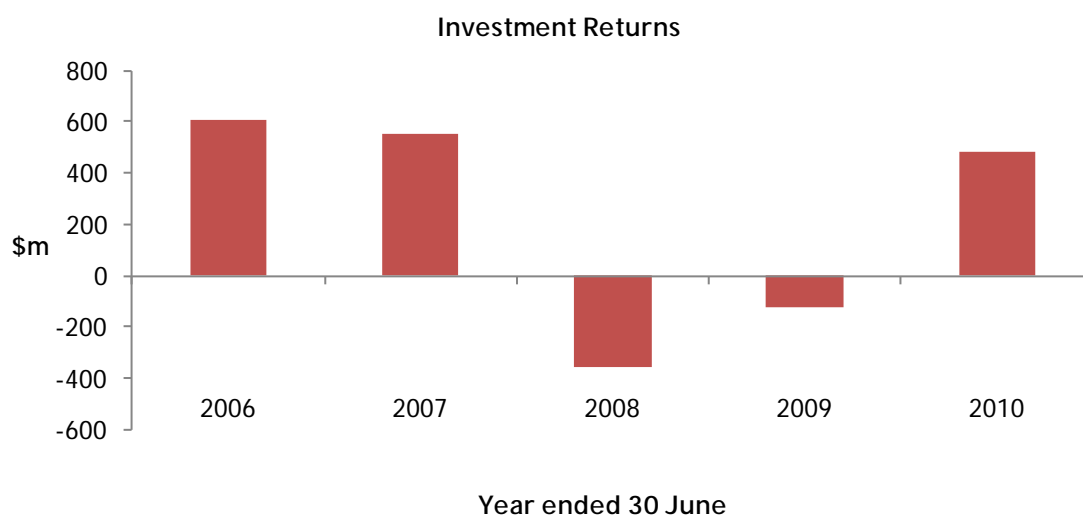
Other revenue decreased significantly from \$183 million to an expense of \$89.0 million in 2009-10 mainly due to a decrease in reinsurance and other recoveries revenue following the reduction in an estimate of a major claim.

To meet the requirements of the Corporation's Net Asset Holding policy, the Crown Entity paid a net amount of \$45.0 million (\$430 million) to the Corporation.

The claims expense has decreased by \$166 million compared to 2008-09. Prior year's expense included the impact of the change in the discount rate from 2007-08. There was no change to the discount rate this year.

Investment performance has improved in 2009-10 resulting in investment income of \$483 million compared to the \$123 million loss in 2008-09.

The table below shows investment returns from 2005 to 2010:



Investment returns increased primarily due to an increase in the value of the Corporation's Hour-Glass investments by \$286 million (2008-09: \$490 million decrease).

#### Abridged Statement of Financial Position

At 30 June	2010 \$'000	2009 \$'000
Cash and investments	5,144,826	4,333,212
Other	390,642	866,154
<b>TOTAL ASSETS</b>	<b>5,535,468</b>	<b>5,199,366</b>
Claims liabilities	5,323,102	4,972,672
Other	146,574	118,752
<b>TOTAL LIABILITIES</b>	<b>5,469,676</b>	<b>5,091,424</b>
<b>NET ASSETS</b>	<b>65,792</b>	<b>107,942</b>

The Corporation's financial assets are managed by the New South Wales Treasury Corporation under a Memorandum of Understanding.

Other Assets decreased by \$476 million largely attributable to a \$390 million receivable in 2008-09 from the Crown to cover a shortfall in the Corporation's net asset position.

Claims liabilities increased by \$350 million in 2009-10 primarily due to revised actuarial assumptions.

## CORPORATION ACTIVITIES

The NSW Self Insurance Corporation is managed by The Treasury. The Corporation largely provides self-insurance coverage for general government budget-dependent agencies.

The Corporation's insurance funds include the Treasury Managed Fund, Governmental Workers' Compensation Account, Transport Accidents Compensation Fund, Pre-Managed Fund and other residual workers' compensation liabilities of the Crown.

### Treasury Managed Fund

The Treasury Managed Fund at the whole-of-government level is a self-insurance scheme, comprising all General Government Sector budget dependent agencies, public hospitals and some General Government Sector non-budget dependent agencies. The Treasury Managed Fund provides unlimited cover in respect of the following classes of insurable risks:

- Workers' Compensation as per New South Wales statute
- liability (including but not limited to public liability, products liability, professional indemnity, directors/officers liability and medical malpractice)
- property, comprehensive motor vehicle and miscellaneous.

The Treasury Managed Fund applies a premium-based structure which incorporates hindsight adjustments to workers compensation and motor vehicle premiums. Hindsight adjustments result in a payment to or from agencies depending on their performance against certain benchmarks. The Corporation has made hindsight payments of \$40.0 million in 2009-10 (\$41.1 million)

Budget dependent agencies are mandated to utilise the Treasury Managed Fund for their insurance needs. Insurance is also available for non-budget dependent agencies at the Treasurer's discretion.

For further information, refer to [www.sicorp.nsw.gov.au](http://www.sicorp.nsw.gov.au).



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# Parliamentary Contributory Superannuation Fund

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## AUDIT OPINION

The audit of the Fund's financial statements for the year ended 30 June 2010 resulted in an unqualified Independent Auditor's Report.

## KEY ISSUES

### Unfunded Superannuation Liabilities

As shown in the table below, over the last five years, unfunded superannuation liabilities increased from \$32.2 million at 30 June 2006 to \$165.7 million at 30 June 2010. Unfunded liabilities are the difference between net assets held by the Fund and accrued superannuation benefits of the members.

The Treasurer established a funding level target to maintain net assets available to pay benefits to a level of 80 per cent of its long term funding needs. As the previous funding level exceeded the target, the Treasurer suspended Crown contributions for the period 1 July 2006 to 30 June 2008. In April 2008, the Treasurer approved the continuation of the suspension of Crown contributions for the period 1 July 2008 to 30 June 2011. At 30 June 2010, the funding level was 55.6 per cent compared to 56.4 per cent at 30 June 2009.

The Fund's members are protected by appropriations from the Consolidated Fund made in accordance with section 11(3) of the *Parliamentary Contributory Superannuation Act 1971*. Contributions by fund members are fixed at 12.5 per cent of salary as a Member of Parliament, Minister or office holder. The Crown is responsible for meeting the unfunded liability.

Year ended 30 June	2010	2009	2008	2007	2006
Net accrued members' benefits (\$'000)	373,333	353,690	343,581	339,700	303,513
Net assets available to pay benefits (\$'000)	207,593	199,356	254,982	299,353	271,315
Unfunded liabilities (\$'000)	165,740	154,334	88,599	40,347	32,198
Percentage unfunded (%)	44.4	43.6	25.8	11.9	10.6

## PERFORMANCE INFORMATION

### Investment Returns

The Fund's investment strategy is to minimise the long term cost of the Fund to the taxpayer. The Fund's investment return for 2010 was 14.5 per cent (negative 14.0 per cent in 2009), which was 3.0 per cent above the 'Average Managers' performance.

The annualised return over the last 5 years to 30 June 2010 was 4.3 per cent and over the last 10 years to 30 June 2010 was 3.9 per cent.

The Fund's annual returns over the last five years were:

Year ended 30 June	2010	2009	2008	2007	2006
Fund % pa	14.5	(14.0)	(8.9)	17.9	16.4
Average manager % pa	11.5	(12.5)	(9.3)	16.2	17.4
Quartile rank %	1.0	3.0	2.0	1.0	3.0

Source: Fund Administrator.

Most member benefits are calculated using the member's salary and years of membership, with a small number of benefits affected by Fund performance.

## OTHER INFORMATION

### Fund Membership

The Fund was closed to new members in 2007 and has a declining membership base. The table below summarises the Fund's membership at year-end.

Year ended 30 June	2010	2009	2008
Active members	94	97	102
Non-contributory members	1	-	-
Deferred members	4	3	4
Suspended pensioners	6	6	5
Pensioners	257	258	260
<b>Total</b>	<b>362</b>	<b>364</b>	<b>371</b>

Source: Fund Administrator.

Notes:

- There are five former members who have entitlements suspended under the provisions of section 25(2) of the *Parliamentary Contributory Superannuation Act 1971*, because they were a member of another Australian Parliament at 30 June 2010.
- There is one former member who has an entitlement suspended under the provisions of section 19AA(2) of the *Parliamentary Contributory Superannuation Act 1971*, because proceedings relating to a serious offence are pending.
- There are two former Members who have pensions deferred under section 19B of the Act, as they cannot receive pension payments from the Fund until they attain the age of 55.
- There are two former Members with deferred lump sum benefits. These benefits are payable because both Members left Parliament with less than 7 years of service.
- There is one non-contributing Member who elected to cease salary deductions for contributions to the Fund under section 18B of the Act.

## FINANCIAL INFORMATION

## Abridged Statement of Changes in Net Assets

Year ended 30 June	2010 \$'000	2009 \$'000
<b>NET ASSETS AVAILABLE TO PAY BENEFITS AT BEGINNING OF FINANCIAL YEAR</b>	<b>199,356</b>	<b>254,982</b>
Member contributions	1,911	1,826
Net investment revenue	26,774	(39,611)
<b>TOTAL REVENUE</b>	<b>28,685</b>	<b>(37,785)</b>
Benefits paid	20,441	18,476
Scheme administration expenses	490	487
Surcharge expense	138	158
Income tax (benefit)	(621)	(1,280)
<b>TOTAL EXPENSES</b>	<b>20,448</b>	<b>17,841</b>
<b>INCREASE/(DECREASE) IN NET ASSETS</b>	<b>8,237</b>	<b>(55,626)</b>
<b>NET ASSETS AVAILABLE TO PAY BENEFITS AT END OF FINANCIAL YEAR</b>	<b>207,593</b>	<b>199,356</b>

## Abridged Statement of Net Assets

At 30 June	2010 \$'000	2009 \$'000
Short term securities	1,706	2,251
Fixed interest	55,243	56,373
Equities	121,016	107,747
Property Trusts	29,302	26,664
<b>TOTAL INVESTMENTS</b>	<b>207,267</b>	<b>193,035</b>
Other assets	4,744	10,650
<b>TOTAL ASSETS</b>	<b>212,011</b>	<b>203,685</b>
Liabilities	4,418	4,329
<b>NET ASSETS AVAILABLE TO PAY BENEFITS</b>	<b>207,593</b>	<b>199,356</b>

## FUND ACTIVITIES

The Fund is a superannuation scheme for members of the Legislative Council and the Legislative Assembly. It has eight trustees: two from the Legislative Council; five from the Legislative Assembly; and the Secretary of the Treasury. The Trustees are responsible for managing the Fund.

The Fund was closed to new members following the 2007 New South Wales general election. The Fund however continues to provide the superannuation arrangements for those sitting members who remained in Parliament after that election.

### Governing Act

The Fund operates under the *Parliamentary Contributory Superannuation Act 1971*. Key scheme features are:

- members contribute at the rate of 12.5 per cent of gross salary
- a pension is payable after seven years service at a rate of 48.8 per cent of the current basic Parliamentary salary for a private member. The rate increases by 0.2 per cent of salary for each extra month of service until, at 20 years of service, it reaches the maximum, (i.e. 80 per cent of the current basic salary rate). The rate is then also increased by the ratio of total salaries received (including payment for serving as a Minister) to total basic salary received. Members joining the scheme after 6 December 1999 must attain a minimum age of 55 years before a retirement pension can be paid
- a spouse's pension at 75 per cent of a deceased member's entitlement with a minimum of 45 per cent of current basic Parliamentary salary, if the deceased member left Parliament after 12 November 1979. Otherwise, a spouse's pension is the greater of 62.5 per cent of a deceased member's full pension entitlement and 40 per cent of the current basic Parliamentary salary
- a pension entitlement for children less than 18 years of age or full-time students less than 25 years of age at the rate of ten per cent of the current basic Parliamentary salary where there is no surviving spouse or five per cent where there is a surviving spouse
- pensions are adjusted in line with movements in members' basic salaries
- pensions continue to be payable to former members who accept office or hold a place of profit under the Crown but payment of pension is suspended if a former member again becomes a member of the New South Wales Parliament or becomes a member of another State Parliament or the Commonwealth Parliament
- members who leave Parliament after less than seven years of service receive a refund of contributions plus a supplementary benefit. The supplementary benefit is two and one-third times the contributions paid by a member whose service is involuntarily terminated and one and one-sixth times for voluntary termination
- part or all of a member's or spouse's pension may be commuted to a lump sum payment at the rate of ten times the amount of annual pension entitlement so commuted. The spouse pension may only be commuted where the former member dies in service
- new members of New South Wales Parliament from March 2007 are not eligible to join the Fund. They may have contributions paid to a fund of their choice.

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# SAS Trustee Corporation - Pooled Fund

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## AUDIT OPINION

The audits of the Fund, its controlled entities and its trustee's financial statements for the year ended 30 June 2010 resulted in unqualified Independent Auditor's Reports.

## KEY ISSUES

### Unfunded Superannuation Liabilities

As shown in the table below, over the last five years, unfunded superannuation liabilities increased from \$10.9 billion at 30 June 2006 to \$19.8 billion at 30 June 2010. Unfunded liabilities are the difference between net assets held by the Fund and accrued superannuation benefits of the members. Unfunded liabilities as a percentage of the total accrued benefits decreased in the 2010 financial year due to better investment market performances following improvements in domestic and global economic conditions.

The Crown Entity and other contributing employers are responsible for meeting the unfunded liability.

Year ended 30 June	2010	2009	2008	2007	2006 <sup>1</sup>
Accrued member benefits (\$m)	50,585	48,235	49,093	48,426	45,770
Net assets available to pay benefits (\$m)	30,743	28,848	34,214	38,587	34,849
Unfunded liabilities (\$m)	19,842	19,387	14,879	9,839	10,921
Percentage unfunded (%)	39.2	40.2	30.3	20.3	23.9

1 - Includes funds held in the Liability Management Ministerial Corporation which were transferred to the Fund in 2007.

## Actuarial Review

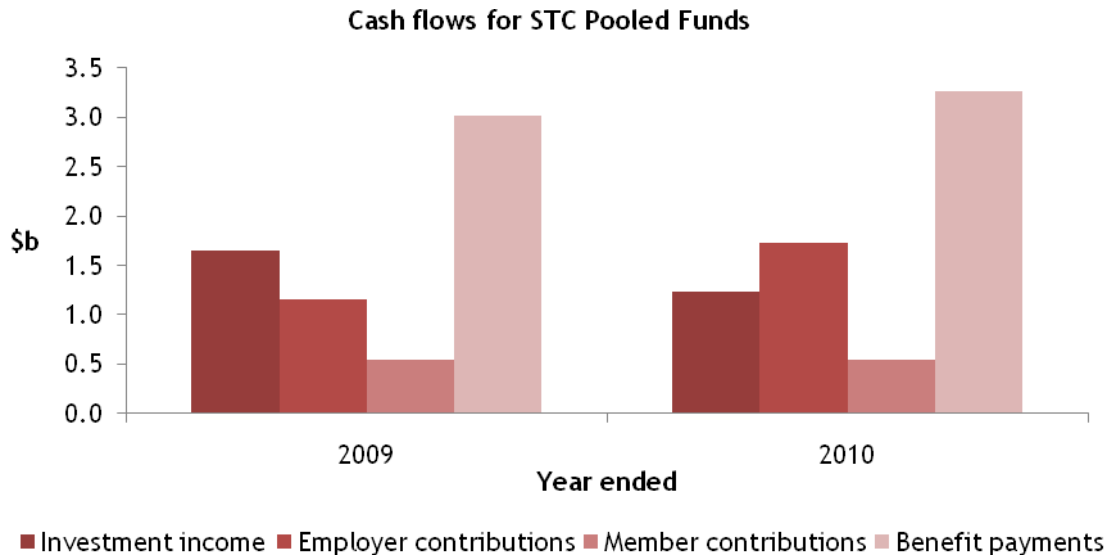
The Fund's legislation requires an actuarial review of the Fund every three years. The last review was completed during 2009-10 in respect of 30 June 2009.

We engaged the Australian Government Actuary to independently assess the triennial review carried out by the Fund's actuary. The Actuary concluded the assumptions used in the triennial review were reasonable.

## Fund's Net Cash Flows

The Fund had a positive cash inflow of \$247 million in 2009-10 (\$330 million in 2008-09). It received \$3.5 billion in contribution and investment revenue in 2009-10 (\$3.4 billion). This included \$2.3 billion (\$1.7 billion) in employer and member contributions and \$1.2 billion (\$1.7 billion) in investment revenue. In 2009-10, the Fund paid \$3.3 billion (\$3.0 billion) in benefits to members.

The following graph demonstrates the increasing level of benefit payments to members as more members retire.



Source: Fund financial statements

### Fund Membership

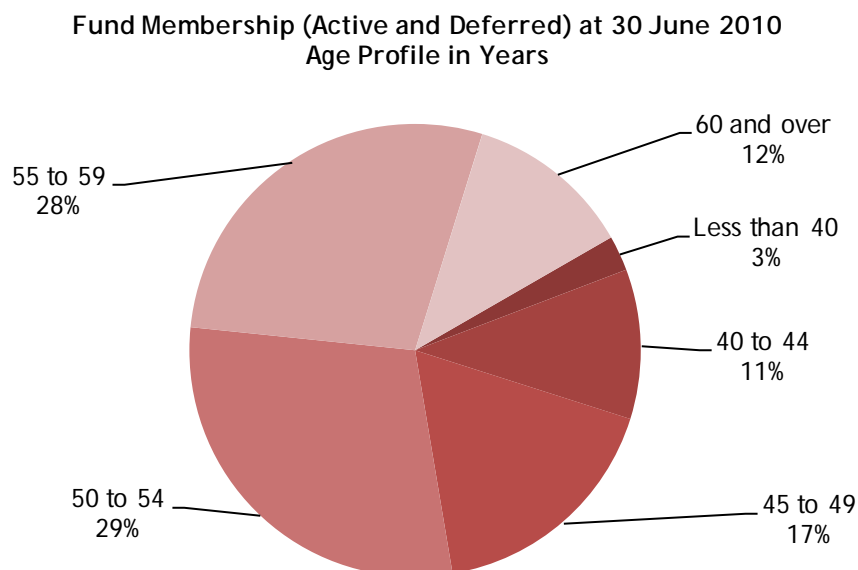
The Fund’s schemes are closed to new members and have a declining membership base. The table below summarises the Fund’s membership at year-end.

Year ended 30 June	2010	2009	2008	2007
Active members	64,015	69,209	74,824	81,118
Deferred members <sup>1</sup>	14,217	14,916	15,312	15,884
Pensioners	57,790	54,910	52,823	51,412
<b>Total</b>	<b>136,022</b>	<b>139,035</b>	<b>142,959</b>	<b>148,414</b>

1 - Deferred members are those who are not actively contributing to their superannuation accounts and have not started their pensions or withdrawn their benefit from the schemes.

### Ageing Demographics - Active and Deferred Members

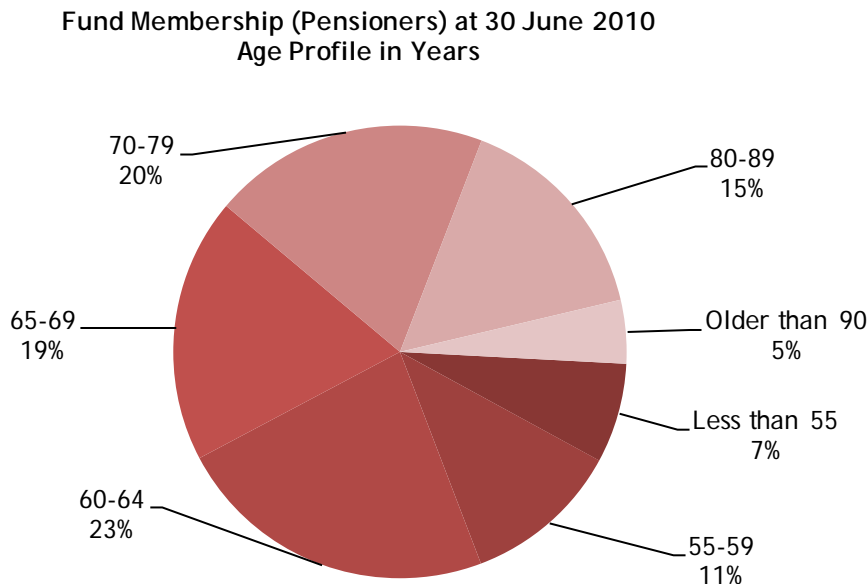
The age profile of the Fund’s active and deferred members at year-end was:



The age profile of the Fund's membership poses workforce, succession planning and other human resource challenges for State Government agencies as 57 per cent of members are approaching retirement age and a further 12 per cent have already reached retirement age.

### Ageing Demographics - Pensioners

The age profile of the Fund's pensioners at year-end was:



In 2010, pension payments were \$1.9 billion (\$1.8 billion). Of the pensioners at 30 June 2010, only 45 per cent exited the workforce under normal retirement conditions. Of the remaining retirees:

- 14.0 per cent exited through early voluntary retirement
- 22.1 per cent exited through invalidity retirement (including 'hurt on duty' - refer below)
- 16.8 per cent spouse and child pensions
- 1.7 per cent exited with retrenchment pensions.

Australian life expectancy rates have increased by approximately 20 years since the schemes commenced. When the schemes commenced in the early 1900s, average life expectancy according to the Australian Bureau of Statistics, was approximately 55-60 years of age. People now live longer as illustrated by the Fund's pensioner age profile where 20 per cent of the Fund's pensioners are older than 80 years of age. The Fund also has 80 pensioners older than 100 years of age at year-end. This poses fiscal challenges to the Government.

### Hurt on Duty Benefit Payments

The majority of members who retire from the Police Superannuation Scheme (PSS), which is a scheme in the Fund, do so under hurt on duty provisions in the legislation. A member who retires hurt on duty can receive the full entitlement they would receive if they retired at normal retirement age.

For the year ended 30 June 2010, 176 (186) members retired hurt on duty. There were fewer hurt on duty retirements in 2010 because of the declining membership base, but this remains the most common way PSS members retire.

At 30 June 2010, 65 per cent of the PSS pensioners were receiving a hurt on duty pension. The average age for these members on retirement is 45 years of age.

## PERFORMANCE INFORMATION

### Investment Returns

Most benefits are a function of the member's salary and years of membership, not the Fund's performance. The Crown Entity and other contributing employers carry most of the risks and benefits of the Fund's performance. The State Authorities Superannuation Scheme (SASS), however, also has a member-funded accumulation component.

The majority of the Fund's investments are held in the growth strategy. The Fund's investment objective for its growth strategy is to achieve investment returns over ten year rolling periods that exceed the consumer price index by an average margin of 4.5 per cent per annum. The Fund's growth strategy achieved 3.9 per cent return per annum in the ten years to 30 June 2010 (4.6 per cent for the 10 years to 30 June 2009), compared to the long-term target of 7.7 per cent. The global financial crisis negatively impacted the Fund's ability to achieve its long-term target in recent years. However, prior to the market downturn, the Fund achieved 8.5 per cent return per annum for the ten years to 30 June 2007.

The Fund's short term performance is monitored by comparing its returns to the median growth manager. In 2010, the return was 9.5 per cent compared with the 9.8 per cent return generated by the median growth manager.

The Fund's annual investment returns over each of the last five years were:

Year ended 30 June	2010	2009	2008	2007	2006
Pooled Fund (%)	9.5	(10.4)	(7.3)	15.1	16.1
Median manager (%) <sup>a</sup>	9.8	(11.9)	(7.6)	14.9	14.4
Pooled fund quartile rank (one is top quartile)	3	2	2	2	1

Source: SAS Trustee Corporation (STC).

(a) Median manager in the Mercer Employer Superannuation Balanced Growth Survey.

The Trustee's defensive investment policy, which served it well during the 2008 and 2009 financial years, caused it to fall slightly behind the median growth manager for the 2010 financial year. Returns from direct property, bonds and cash lagged those of other asset classes.

### Administration and Investment Costs

Year ended 30 June	2010	2009	2008	2007	2006
Investment fees (\$'000)	90,400	85,400	109,100	81,000	60,100
Administration costs (\$'000) <sup>a</sup>	32,900	34,100	32,700	32,600	33,700
Administration cost as a % of FUM <sup>b</sup>	0.11	0.11	0.09	0.10	0.12
Direct investment fees as a % of FUM <sup>b</sup>	0.30	0.27	0.30	0.24	0.22

(a) Includes Trustee and administration costs.

(b) FUM is average Funds Under Management during the year.

Administration costs were lower in 2010 largely because of major expenses incurred in prior years for administration projects, which absorbed significant time and resources within both the Trustee and the Administrator. These included the implementation of family law regulations and SASS Member Investment Choice, which allows members to choose their investment strategy. It is a challenge for the Trustee to maintain or reduce administration costs on a per member basis because the schemes are closed and membership numbers are declining.



Employers meet the majority of the administration costs of the various schemes. A significant number of members in the various schemes making up the Fund do not pay administration fees, as this is not required by the relevant scheme acts.

## FINANCIAL INFORMATION

### Abridged Statement of Changes in Net Assets

Year ended 30 June	2010 \$m	2009 \$m
<b>NET ASSETS AVAILABLE TO PAY BENEFITS AT BEGINNING OF FINANCIAL YEAR</b>	<b>28,847.7</b>	<b>34,213.8</b>
Investment revenue	1,231.2	1,653.4
Changes in net market values	1,936.8	(5,782.3)
Total investment revenue	3,168.0	(4,128.9)
Investment expenses	(90.4)	(85.4)
<b>NET INVESTMENT REVENUE</b>	<b>3,077.6</b>	<b>(4,214.3)</b>
Employer contributions	1,733.6	1,152.2
Member contributions	540.1	545.6
<b>TOTAL CONTRIBUTION REVENUE</b>	<b>2,273.7</b>	<b>1,697.8</b>
Other revenue	2.8	2.3
Transfers	(0.3)	(1.4)
<b>TOTAL REVENUE</b>	<b>5,353.8</b>	<b>(2,515.6)</b>
Benefits paid	(3,258.2)	(3,020.8)
Scheme administration and other expenses	(33.1)	(34.4)
Superannuation contributions surcharge	7.0	4.9
<b>TOTAL SCHEME EXPENDITURE</b>	<b>(3,284.3)</b>	<b>(3,050.3)</b>
Increase/(decrease) in net assets before income tax	2,069.5	(5,565.9)
Income tax benefit/(expense)	(174.0)	199.8
<b>INCREASE/(DECREASE) IN NET ASSETS AFTER INCOME TAX</b>	<b>1,895.5</b>	<b>(5,366.1)</b>
<b>NET ASSETS AVAILABLE TO PAY BENEFITS AT END OF FINANCIAL YEAR</b>	<b>30,743.2</b>	<b>28,847.7</b>

The net assets available to pay benefits increased in 2010 due to better investment market performances following improvements in domestic and global economic conditions.

Employer contributions increased in 2010 due to an additional \$510 million contribution from The Treasury.

Benefits paid increased in 2010 as the schemes are closed to new members and more members are approaching retirement age. Pension benefits are also adjusted each October for increases in the Consumer Price Index.

## Abridged Statement of Net Assets

At 30 June	2010 \$m	2009 \$m
Short term securities	2,945.2	2,693.0
Australian fixed interest	2,772.2	2,762.7
International fixed interest	2,588.5	2,071.0
Australian equities	9,329.8	8,433.2
International equities	6,905.9	6,419.0
Property	2,717.3	2,545.9
Alternatives	3,421.1	3,584.6
<b>TOTAL INVESTMENTS</b>	<b>30,680.0</b>	<b>28,509.4</b>
Receivables and cash	358.0	449.0
Plant and equipment	0.3	0.2
Current tax asset	--	39.6
Deferred tax asset	59.9	110.3
<b>TOTAL OTHER ASSETS</b>	<b>418.2</b>	<b>599.1</b>
<b>TOTAL ASSETS</b>	<b>31,098.2</b>	<b>29,108.5</b>
Reserve units	2.3	3.2
Payables	279.0	257.6
Current tax liability	73.7	--
<b>TOTAL LIABILITIES</b>	<b>355.0</b>	<b>260.8</b>
<b>NET ASSETS AVAILABLE TO PAY BENEFITS</b>	<b>30,743.2</b>	<b>28,847.7</b>

## FUND ACTIVITIES

The Fund reporting entity consists of the following schemes:

- State Superannuation Scheme (SSS)
- State Authorities Superannuation Scheme (SASS)
- State Authorities Non-contributory Superannuation Scheme (SANCS)
- Police Superannuation Scheme (PSS).

The schemes are closed to new members. All schemes are combined and invested through one fund, the Pooled Fund. This Fund is the entity for financial reporting and taxation purposes of the four schemes. All schemes are defined benefit plans, although SASS also has a member funded accumulation component. The Australian Prudential Regulation Authority does not regulate the Fund because it is an exempt public sector superannuation scheme.

The number of members in the various schemes is falling because:

- the schemes are closed to new members
- a greater number of members are reaching scheme retirement age.

The SAS Trustee Corporation (STC) is the trustee of the Fund, under the *Superannuation Administration Act 1996*. STC holds in trust all assets of the Fund.

The Superannuation Administration Corporation (SAC), trading as Pillar Administration, provides scheme administration services to the Fund. JP Morgan Investor Services performs custodial activities. A number of investment fund managers provide funds management services for the Fund. The Trustee's executive monitors each manager to ensure compliance with investment mandates and satisfactory investment performance.

Comment on STC financial operations is included below. Comments on SAC are included elsewhere in this report.

For further information on the Fund, refer to [www.statesuper.nsw.gov.au](http://www.statesuper.nsw.gov.au).

## CONTROLLED ENTITIES

Comment on State Super Financial Services Australia Limited is included elsewhere in this Report.

The following controlled entities have not been reported on separately as they are not considered material by their size or the nature of their operations to the consolidated entity.

Entity Name	Status	Website
Buroba Pty Ltd	Company is dormant	*
Valley Commerce Pty Limited	Company is dormant	*

\* This entity does not have a website.

On 23 August 2010, SAS Trustee Corporation created the State Infrastructure Trust to hold infrastructure assets managed under an investment mandate between the Trustee and Deutsche Asset Management (Australia) Limited.

## TRUSTEE

### SAS Trustee Corporation (the Corporation)

The Corporation acts as trustee and holds in trust all assets of the Fund.

The Corporation was established as a statutory body on 1 July 1996 under the *Superannuation Administration Act 1996*. It is subject to the direction of the Treasurer.

The consolidated group comprises the Corporation and the controlled entity SAS Trustee Corporation Division of the Government Service of NSW.

Year ended 30 June	Consolidated		Corporation	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Revenue	33,959	35,091	33,089	34,340
Trustee expenses	636	712	636	712
Executive expenses	4,288	3,639	3,709	3,907
Fees for services	1,928	2,285	1,928	2,285
Other expenses	536	462	536	462
Scheme administration expenses	26,280	26,974	26,280	26,974
Net assets (at 30 June)	--	--	--	--

The Corporation recovers all of its expenses from the Fund, in accordance with the *Superannuation Administration Act 1996*.

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# State Super Financial Services Australia Limited

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## AUDIT OPINION

The audits of the Company, its two retail investment products and State Super Fixed Term Pension Plan's financial statements for the year ended 30 June 2010 resulted in unqualified Independent Auditor's Reports. The two retail investment products are:

- State Super Retirement Fund (SSRF) - including State Super Personal Retirement Plan (SSPRP), State Super Allocated Pension Fund (SSAPF) and State Super Term Allocated Pension Fund (SSTAPF)
- State Super Investment Fund (SSIF).

## PERFORMANCE INFORMATION

### Investment Performance of the Retail Investment Products

Four investment choices are available to address different risk profiles. These are:

- growth fund
- balanced fund
- capital stable fund
- cash fund.

The product performance tables below show the returns to investors for each of the Company's retail investment products. All funds performed positively in the current year following the recovery in the equity markets. The growth fund and balanced fund achieved negative returns in the three year average measure due to the impact of the global financial crisis.

State Super Personal Retirement Plan Investment Choice	Product Performance % per annum		
	1 Year	3 Year	5 Year
Growth fund	12.8	(6.6)	1.6
Balanced fund	12.3	(2.9)	2.9
Capital stable fund	6.6	2.6	4.1
Cash fund	2.6	4.0	4.1

Source: State Super Financial Services Australia Limited.  
Note: losses on investments are shown in brackets (-).

State Super Allocated Pension Fund Investment Choice	Product Performance % per annum		
	1 Year	3 Year	5 Year
Growth fund	13.0	(6.6)	2.2
Balanced fund	12.4	(2.9)	3.4
Capital stable fund	7.7	3.1	4.7
Cash fund	3.0	4.6	4.8

Source: State Super Financial Services Australia Limited.  
Note: losses on investments are shown in brackets (-).

State Super Investment Fund Investment Choice	Product Performance % per annum		
	1 Year	3 Year	5 Year
Growth fund	12.6	(6.2)	1.8
Balanced fund	12.0	(2.7)	3.0
Capital stable fund	7.4	2.9	4.5
Cash fund	2.9	4.6	4.8

Source: State Super Financial Services Australia Limited.  
Note: losses on investments are shown in brackets (-).

State Super Fixed Term Pension Plan is a defined benefit plan which closed for applications on 19 September 2004. The Plan invests in a product developed by Deutsche Bank AG (DBAG) to fund the defined benefits obligation. No performance information is therefore provided.

## FINANCIAL INFORMATION

### Abridged Statement of Comprehensive Income

Year ended 30 June	2010 \$'000	2009 \$'000
Income	87,668	76,312
Expenses	48,316	40,259
Profit before income tax	39,352	36,053
Income tax expense	11,785	9,618
Profit	27,567	26,435

Income comprises interest and fees from management of the retail investment products, including trustee fees of \$82.0 million (\$70.3 million in 2008-09). Income increased due to increased funds under management. Expenses include staff expenses of \$32.7 million (\$25.1 million), administration expenses of \$13.8 million (\$13.3 million), depreciation and amortisation of \$1.8 million (\$1.9 million).

## Abridged Statement of Financial Position

At 30 June	2010 \$'000	2009 \$'000
Current assets	46,566	43,474
Non-current assets	8,722	8,554
<b>TOTAL ASSETS</b>	<b>55,288</b>	<b>52,028</b>
Current liabilities	14,812	13,273
Non-current liabilities	893	294
<b>TOTAL LIABILITIES</b>	<b>15,705</b>	<b>13,567</b>
<b>NET ASSETS</b>	<b>39,583</b>	<b>38,461</b>

Funds under management are not included in the statement of financial position. Funds under management increased by 16.9 per cent to \$8.1 billion at 30 June 2010. The Company contracts the investment management of these funds to external investment managers.

## COMPANY ACTIVITIES

The Company was established by the SAS Trustee Corporation and is 100 per cent owned (at 30 June 2010) by the Pooled Fund of which SAS Trustee Corporation is the Trustee. It provides past and present New South Wales and Commonwealth public sector employees and their family members with financial planning and funds management services. We comment on the Pooled Fund and the SAS Trustee Corporation elsewhere in this report.

The Company acts as the Responsible Entity for the SSIF, and as 'Registrable Superannuation Entities' Licensee for the SSRF.

For further information on the Company, refer to [www.ssfs.com.au](http://www.ssfs.com.au).

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# The Treasury

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## AUDIT OPINION

The audit of The Treasury's financial statements for the year ended 30 June 2010 resulted in an unqualified Independent Auditor's Report.

## PERFORMANCE INFORMATION

### Key Performance Indicators for the Office of State Revenue (OSR)

OSR uses a number of Key Performance Indicators to measure its effectiveness and efficiency at collecting taxes, fees and fines for the Government, including:

Key Performance Indicators	Target		Actual		
	2010	2010	2009	2008	2007
Revenue collected as a percentage of budget (%)	>98	106.0	95.0	107.0	107.0
Cost to collect \$100 of tax revenue (\$)	0.61	0.55	0.60	0.59	0.63
Cost to collect \$100 of fine revenue (\$)	≤11.21	11.70	11.02	10.80	11.29
Total overdue tax debt as a percentage of total revenue (%)	<1.5	1.4	1.54	0.97	1.05

Source: The Treasury (unaudited).

Revenue collected as a percentage of budget shows OSR's performance in collecting all revenue due to the Government. The improvement in 2010 was primarily due to an increase in duties revenue resulting from increased activity in the property market and greater demand for new motor vehicles.

The Treasury has advised that the 6.2 per cent increase in the cost to collect \$100 of fine revenue was due to the State Debt Recovery Office (SDRO) engaging in a number of costly initiatives, such as:

- accepting part payments and waiving debts under the Department of Justice and Attorney-General's guidelines
- increased focus on compliance with legislation to reduce the level of false nominations and failure to nominate by companies
- participating in joint agency projects to cut red tape and improve services to clients.

The increase in the target of total overdue tax debt as a percentage of total revenue, from <1 in 2008 to <1.5 in 2010, reflects the difficulties some businesses and individuals have been experiencing in meeting their obligations as a result of the economic downturn.



## ADMINISTERED ACTIVITIES

The Treasury recognised taxes, fees and fines from the following sources:

Year ended 30 June	2010 \$m	2009 \$m	2008 \$m	2007 \$m	2006 \$m
Payroll tax	7,049	7,212	7,044	6,440	5,912
Duties	5,183	4,108	5,540	5,952	4,830
Land tax	2,335	2,289	1,968	2,066	1,748
Gaming and racing	1,347	1,217	1,172	1,270	1,144
Fines	331	296	275	244	256
Other	1,054	964	998	857	675
<b>Total</b>	<b>17,299</b>	<b>16,086</b>	<b>16,997</b>	<b>16,829</b>	<b>14,565</b>

Variations in payroll tax revenue reflect employment growth, wages growth and policy changes such as the current program of cuts in the payroll tax rate. For 2009-10, the threshold was increased from \$623 000 to \$638 000 and from 1 January 2010, the rate of payroll tax was reduced from 5.75 per cent to 5.65 per cent.

Duties increased by 26.2 per cent in 2009-10. A cyclical recovery in the property market emerged in 2009-10, earlier than was expected while sales of new motor vehicles were boosted in the first half of the financial year by investment incentives provided by the Australian Government. These collectively contributed \$1.1 billion (\$1.0 billion conveyance duty and \$49.5 million motor vehicle duty) to the increase.

The increase in gaming and racing revenue was primarily due to OSR becoming responsible for the collection of lotteries duty from March 2010. Lotteries duty recognised by OSR in 2010 totalled \$104 million.

### Large Duties Transaction

Previously, we reported a one-off assessment in 2006-07 was subject to appeal and is before the Supreme Court of New South Wales in the legal discovery phase. This duties transaction and related accrued interest, totalling \$532 million as at 30 June 2010, has been recognised in Administered Revenue and Assets (as a receivable) in accordance with the *Taxation Administration Act 1996* and accounting standards. The matter has been set down for hearing in the Supreme Court in October 2010.

Until this matter is resolved, the ultimate outcome and its impact on the State's Net Operating Balance (budget result) cannot be determined. We will continue to monitor the appeal process.

### Fine Write-offs

In Volume Five of my 2008 Report to Parliament, I recommended the SDRO implement strategies to ensure relevant legislation and individual agencies are more effective in recovering fines by continuously improving the quality of information and access to information.

The SDRO has successfully implemented strategies to reduce the level of aged debt. These include:

- an increased focus on regular fine-write offs for deregistered companies and deceased clients
- the introduction of part payments, early enforcement and work development orders to improve debt collection recovery
- a jointly sponsored change of address project with the Department of Services, Technology and Administration, which includes the use of an external data matching service, to improve the quality of access to information.

The table below shows the aged debt figures for 2008 and prior years have reduced by \$140 million over the past two years.

	Total debt \$m	2010 \$m	2009 \$m	2008 & prior \$m
30 June 2010	1,001	160	111	730
30 June 2009	964	--	157	807
30 June 2008	870	--	--	870

Source: The Treasury (unaudited).

While total debt has increased since 2008 despite improved debt collection methods, the rate of debt growth has slowed considerably. The Treasury advised that continuing improvement in debt collection methods has slowed the debt growth and will reduce the debt outstanding over time. The overall increase in total debt is a result of ongoing road safety initiatives and associated fines being implemented.

## OTHER INFORMATION

### Human Resources

This year we reviewed the following areas relating to human resources:

- extent of contract staff
- management of excessive flex leave balances
- management of annual leave balances in excess of threshold policies
- extent of overtime.

Issues identified from our review will be reported in a management letter to The Treasury. A summary of the results of our review follows.

### *Employment of Contractors*

The Treasury has employed a number of contractors for longer than one year.

The number of contract employees and the duration since their start date is shown below:

Year end 30 June 2010	Number of contract employees
<b>Duration since contract start date</b>	
3-4 years	1
2-3 years	13
1-2 years	14
Less than 1 year	20
<b>Total</b>	<b>48</b>

Source: The Treasury (unaudited).

The list below provides a breakdown of the 10 highest paid contractors during 2009-10.

Ranking	Position	\$ Paid 2009-10
1	Technical Advisor	371,660
2	Project Director	352,300
3	Solution Architect	338,078
4	Solution Architect	314,019
5	Lead Analyst Programmer	313,930
6	Project Manager	287,738
7	Lead Business Analyst	225,157
8	Solution Architect	224,954
9	Applications Developer	215,919
10	Analyst Programmer	207,724

Source: The Treasury (unaudited).

The retention of contract employees for extended periods may result in additional costs to The Treasury. This practice may also give rise to industrial relation issues. The Treasury has advised it uses contractors where it is appropriate and cost effective to do so. It maintains and monitors a contract register and ensures contractors are paid at appropriate rates.

#### *Flex-time*

During 2009-10 two staff members (three in 2008-09) forfeited in excess of 40 days flex time.

The number of flex days forfeited is trending downwards from the prior year. Measures such as action plans to further reduce flex days forfeited should be implemented. The Treasury has advised it recognises that excess additional hours need to be worked from time to time, but manages these cases closely.

#### *Annual Leave Balances*

The Treasury has actively managed employees with excessive annual leave balances in recent years. The number of employees with annual leave balances in excess of 40 days has declined from 35 employees as 30 June 2009 to 20 employees at 30 June 2010. Employees in this category represent 1.3 per cent (2.4 percent) of total employees at 30 June 2010.

#### *Overtime*

Overtime payments in 2009-10 amounted to \$1.6 million (\$900,000) or 1.7 per cent (1.0 per cent) of base salary expense for the year. The highest amount paid to a single employee in 2009-10 was \$15,300 (\$15,800). These levels of overtime indicate that overtime is being effectively managed by The Treasury.

#### *Major Projects*

OSR is enhancing its systems and processes through projects such as the Fines Enforcement System (FES) and RECOUPS, the core business tax system. Delays have been experienced on both projects and as a result target delivery dates have not been met and cost overruns have been incurred.

The FES project had an initial implementation date of June 2006. The target completion date has been revised numerous times and is now expected to be December 2010, with data being progressively migrated through to February 2011 as a risk reduction strategy. The original approved budget of \$2.4 million had increased to \$8.1million at 30 June 2010.

The RECOUPS Modernisation Program (MARS) had an original delivery date of 30 September 2011 and an original budget of \$10.2 million. The revised delivery date is now 30 June 2013 with a staged implementation over the life of the project. The revised budget is estimated to be \$19.5 million plus contingency. Expenditure to 30 June 2010 was \$6.6 million and a revised business case is being prepared for additional funding.

The Treasury has recognised the need to improve its project management and has implemented the following initiatives:

- a new project management methodology
- an Enterprise Project Management Office to improve project governance, organisational project capability and the project competence of individuals.

## FINANCIAL INFORMATION

### Abridged Statement of Comprehensive Income

Year ended 30 June	2010 \$'000	2009 \$'000
Employee related	139,544	132,852
Grants and subsidies	23,956	22,908
Other expenses	70,590	56,308
<b>TOTAL EXPENSES</b>	<b>234,090</b>	212,068
<b>TOTAL REVENUES</b>	<b>42,533</b>	42,088
<b>NET COST OF SERVICES</b>	<b>191,557</b>	169,980
Government contributions	185,952	169,123
<b>DEFICIT</b>	<b>5,605</b>	857
<b>OTHER COMPREHENSIVE INCOME</b>	<b>--</b>	<b>--</b>
<b>TOTAL COMPREHENSIVE EXPENSE</b>	<b>5,605</b>	857

Employee related expenses increased primarily due to a four per cent award increase during the year.

Other expenses rose predominately due to an increase in contractor and consultancy fees of \$11.1 million at the Office of Financial Management (OFM) as a result of the Whole of Government Expenditure Review Project.

Government contributions increased \$16.8 million mainly due to an increase in recurrent appropriation of \$15.4 million and capital appropriation of \$1.1 million. The increase in recurrent appropriation was provided to:

- promote State resource management to achieve a stronger New South Wales economy and better public services
- ensure effective and equitable collection of revenue from taxes, duties and other sources ensure the timely processing of infringements and fine enforcement activities
- ensure eligible applicants receive payments due under State Government and joint State/Australian Government schemes.

#### Abridged Statement of Financial Position

At 30 June	2010 \$'000	2009 \$'000
Current assets	40,380	42,588
Non-current assets	37,451	35,229
<b>TOTAL ASSETS</b>	<b>77,831</b>	<b>77,817</b>
Current liabilities	24,948	19,344
Non-current liabilities	296	281
<b>TOTAL LIABILITIES</b>	<b>25,244</b>	<b>19,625</b>
<b>NET ASSETS</b>	<b>52,587</b>	<b>58,192</b>

The rise in current liabilities includes an increase in payables of \$3.3 million and provisions of \$1.6 million.

#### THE TREASURY ACTIVITIES

The Treasury has two operating arms: OFM and OSR. OFM serves the Treasurer and the Government by providing economic, budgetary and financial advice on the effective management of and accounting for the State's finances.

OSR's major functions are:

- administration and collection of State taxes including duties, payroll tax, land tax and tax equivalents from State Government businesses
- administration and payment of grants under the First Home Owner Grant Scheme and unclaimed money
- processing and enforcement of fines.

For further information on OFM, refer to [www.treasury.nsw.gov.au](http://www.treasury.nsw.gov.au).

For further information on OSR, refer to [www.osr.nsw.gov.au](http://www.osr.nsw.gov.au).



# Minister for Education and Training

Refer to Appendix 1 for:

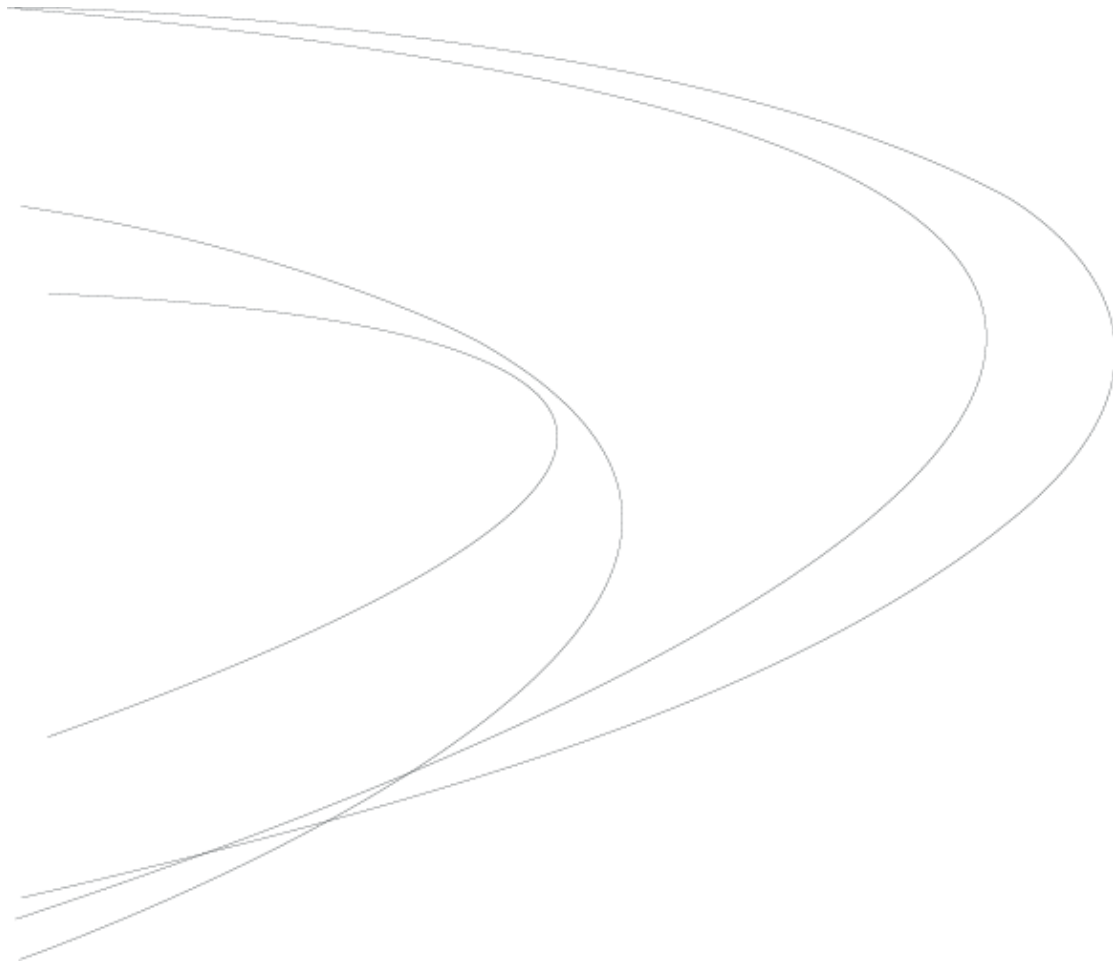
Macquarie University Professorial Superannuation Scheme





# Appendix

## Appendix 1 Agencies not reported elsewhere in this Volume





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## Appendix 1 - Agencies not reported elsewhere in this Volume

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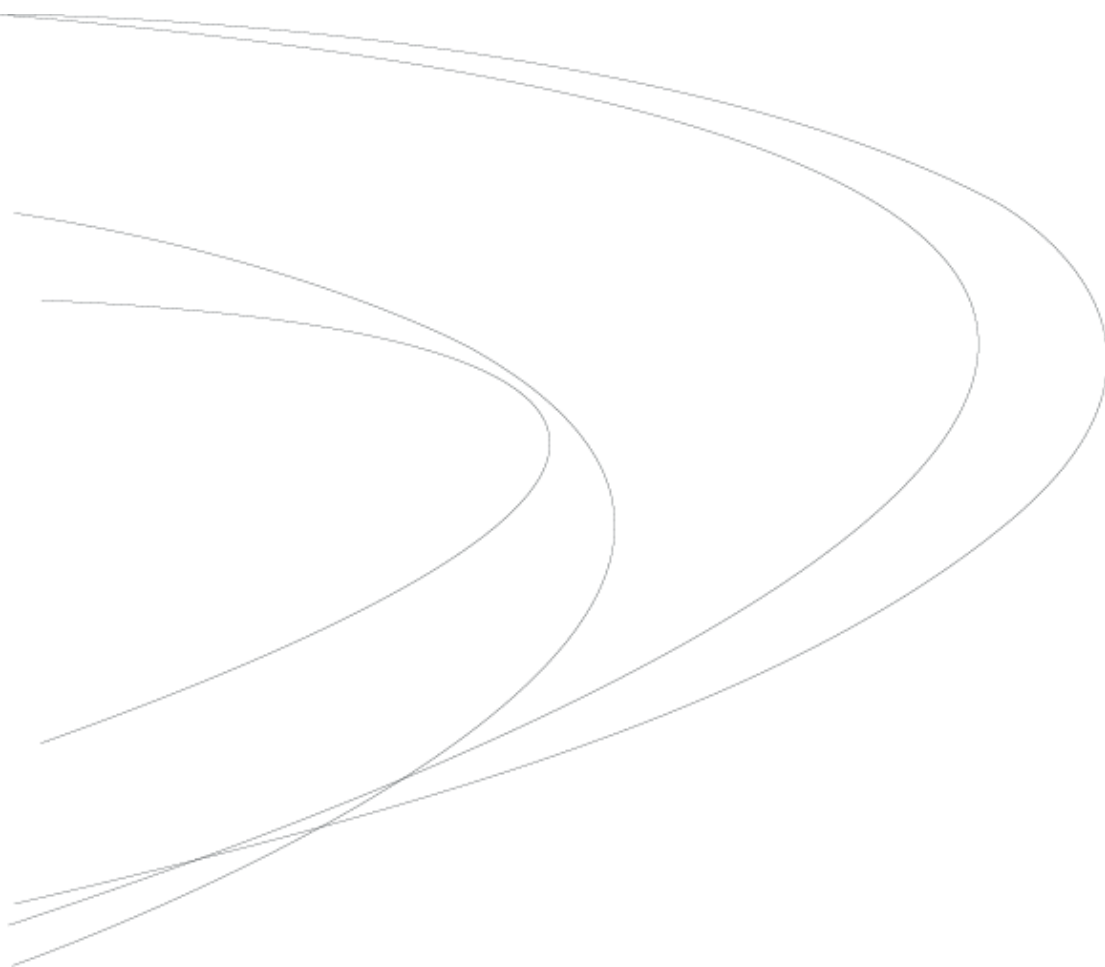
The following audits resulted in unqualified independent auditor's reports and did not identify any significant issues or risks.

Entity Name	Website	Period/Year Ended
Crown Employees (NSW Fire Brigades Firefighting Staff Death & Disability) Superannuation Fund	*	30 June 2010
Liability Management Ministerial Corporation	<a href="http://www.treasury.nsw.gov.au">www.treasury.nsw.gov.au</a>	30 June 2010
Macquarie University Professorial Superannuation Scheme	*	30 June 2010
NSW Fire Brigades Superannuation Pty Limited	*	30 June 2010
Sporting Injuries Committee	<a href="http://www.sportinginjuries.nsw.gov.au">www.sportinginjuries.nsw.gov.au</a>	30 June 2010
State Rail Authority Residual Holding Corporation	<a href="http://www.treasury.nsw.gov.au">www.treasury.nsw.gov.au</a>	30 June 2010

\* This entity does not have a website.



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