

AUDITOR-GENERAL'S REPORT

FINANCIAL AUDITS

Volume Four 2008



The Legislative Assembly
Parliament House
Sydney NSW 2000

The Legislative Council
Parliament House
Sydney NSW 2000

Pursuant to section 52A of the *Public Finance and Audit Act 1983*, I present
Volume Four of my 2008 Report.

A handwritten signature in black ink, reading 'Peter Achterstraat'.

Peter Achterstraat
Auditor-General

November 2008

GUIDE TO USING THIS VOLUME

This volume summarises the results of a number of our financial audits.

We have attempted to adopt a 'plain English' style of writing. This is not always easy when describing technical issues, but we recognise the diversity of our readership and their needs.

This Volume has two sections. Section One provides comments on financial audits of government agencies and Section Two summarises recently published performance audits. Appendix 1 contains the names of agencies not reported elsewhere in this Volume. These agencies received unqualified audit opinions and have no significant issues to report.

Section One is divided into ministerial portfolios, each containing one or more government agencies. Each agency's comment begins with a summary of our **Audit Opinion**. This is a key result of each audit. An 'unqualified Independent Auditor's Report' means we are satisfied that the agency has prepared its financial report in accordance with Australian Accounting Standards (and other mandatory requirements). It also means we believe the report has no material misstatements and the scope of our audit has not been limited. If any of these aspects are not met we issue a 'qualified Independent Auditor's Report' and explain why we did this.

The next section outlines any **Key Issues** we identified during the audit. These are matters such as:

- recommendations to Parliament
- significant findings or outcomes of the audit
- any major developments impacting on the agency's role or activities
- key repeat findings.

The Audit Opinion and the Key Issues sections represent the more important findings. By targeting these sections, readers can quickly understand the major issues facing a particular agency, or glance through a number of reports to assess the financial health of a portfolio.

Performance Information covers key financial and operational statistics we have identified that help understand how well the agency is performing. Wherever possible we include comparisons with similar agencies interstate.

The next two sections contain analysis of issues we identified during our audit. While many of these will include suggestions for improvement, these are not as significant as the issues outlined in the first two sections of the agency comment.

Other Information summarises any other matters noted during the audit of the agency that warrant inclusion in this Report

Financial Information summarises the essential information from each agency's financial report. While this is sufficient for a broad understanding of the agency's financial position, readers can access more detailed financial statements in the agency's annual report or website.

Agency Activities summarises the agency's purpose, services, structure, relevant legislation, and its web address.

While some 'agency comments' in this volume will have all of the headings outlined here, this will vary depending on the size of the organisation and the findings of our audit.

The **Agency Response** appears where the head of an agency does not believe that the commentary in our Report adequately reflects the agency's position or actions taken. As we discuss our proposed comments with agency staff during the drafting process, few agencies ask for a formal response to be included.

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Section One



Commentary on Government Agencies

Minister for Arts

Refer to Appendix 1 for:

Art Gallery of New South Wales Foundation

New South Wales Film and Television Office

The Brett Whiteley Foundation

Minister for Climate Change, Environment and Water

Refer to Appendix 1 for:

Border Rivers-Gwydir Catchment Management Authority
Central West Catchment Management Authority
Chipping Norton Lake Authority
Dams Safety Committee
Dumaresq-Barwon Border Rivers Commission
Hawkesbury-Nepean Catchment Management Authority
Hunter-Central Rivers Catchment Management Authority
Lachlan Catchment Management Authority
Lake Illawarra Authority
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Upper Parramatta River Catchment Trust
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Minister for Commerce

Refer to Appendix 1 for:

NSW Architects Registration Board

Minister for Education and Training

Department of Education and Training

New South Wales Technical and Further Education Commission

Refer to Appendix 1 for:

Arts Education Foundation Trust

Coffs Harbour Technology Park Limited

NSW Board of Vocational Education and Training

NSW Institute of Teachers

NSW Vocational Education and Training Accreditation Board

The Board of Studies

Department of Education and Training

AUDIT OPINION

The audits of the Department and its controlled entities' financial reports for the year ended 30 June 2008 resulted in unqualified Independent Auditor's Reports.

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

PERFORMANCE INFORMATION

The New South Wales State Plan provides the overall direction for further improvement and is a major influence on the Department's priorities for 2008. Priorities include:

- increasing levels of attainment for all students, including increasing the number of students exceeding the national benchmarks in literacy and numeracy
- more students completing Year 12 or recognised vocational training
- closing the performance gap between Aboriginal students and all students, at schools and at the New South Wales Technical and Further Education Commission (TAFE NSW).

Literacy and Numeracy

The State Plan commits the Government to raising students' literacy and numeracy levels and improving the outcomes they achieve at school. Achievements in reading and numeracy underpin the ability of all students to learn effectively in most school subjects. The Department has a continued focus on improving the literacy and numeracy of New South Wales public school students and has developed an extensive range of programs for this purpose.

The Audit Office conducted an examination of the Department's processes to improve literacy and numeracy. We recommended a series of measures to assist the Department:

- sharpen its focus on those individual students at risk,
- more effectively target its limited resources and support the needs of individuals, and
- more rigorously review its programs and the performance of low achieving schools.

For further information regarding the report, refer to www.audit.nsw.gov.au/publications/reports/performance/performance_reports.htm.

Year 12 Retention Rates

In 2007, the Department put in place a range of strategies designed to encourage more students to complete Year 12. The Department advised us that these initiatives will start to impact positively on apparent retention rates in 2012 when the 2007 Year 7 cohort are due to reach Year 12. Over the past five years the apparent retention rates from Years 7 to 12 have remained relatively stable, with only minor fluctuations from year to year. In 2007, the overall retention rate decreased slightly by 0.6 per cent to 64.5 per cent. However, the rates for Aboriginal students, geographically isolated students and students from low socio-economic status backgrounds all improved. The large annual fluctuations in retention rates for students from non-English speaking backgrounds are largely a consequence of the movement of these students in and out of the government school system.

Retention Rates from Years 7 to 12 for Government Schools

Year ended 31 December	2003 %	2004 %	2005 %	2006 %	2007 %
All students	65.0	65.8	65.8	65.1	64.5
Aboriginal students	29.2	29.9	29.4	28.7	30.9
Students from language backgrounds other than English	104.6	108.2	109.5	105.4	101.8
Students from low socio-economic status backgrounds	55.0	56.4	55.5	52.9	53.2
Geographically isolated students	48.8	43.7	45.6	41.3	48.6

Source: DET Statistical Compendium 2007.

Notes:

- Retention rates are 'apparent' as they do not track individual students through their secondary schooling.
- Retention rates for students from low socio-economic status backgrounds and geographically isolated students are based on participating schools in 2007.
- Year 12 retention rates can exceed more than 100 per cent due to a number of factors including migration of students from interstate and overseas.

Retention rates for full-time students by State (2003-2007) for Years 7/8 to 12

Years	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	National
2007	64.5	73.9	71.1	64.0	63.1	63.3	69.4	96.6	68.3
2006	65.1	72.6	71.6	61.9	65.1	63.2	72.3	103.2	68.5
2005	65.8	74.0	73.0	61.7	65.4	65.5	70.5	99.6	69.4
2004	65.8	74.4	75.3	58.0	65.9	70.7	72.0	100.5	69.8
2003	65.0	74.9	76.1	56.8	64.8	74.5	69.0	101.0	69.6

Source: DET Statistical Compendium 2007.

Notes:

- Retention rates are 'apparent' as they do not track individual students through their secondary schooling.
- Care should be exercised in the interpretation of apparent retention rates as the method of calculation does not take into account a range of factors including:
 - Differing enrolment policies across jurisdictions (which contribute to different age-grade structures).
 - Students enrolled in Year 12 on a part-time basis or repeating a year.
 - Movements of students between States and between school sectors.
 - Impact of full-fee paying overseas students.
 - Varying enrolment patterns in which students choose to complete their secondary schooling at TAFE NSW.
- Apparent retention rates can exceed more than 100 per cent due to a number of factors including migration of students from interstate and overseas.

New South Wales retained its ranking of fifth amongst all States and Territories but is still below the national average.

The Achievement Gap for Aboriginal Students

Literacy and numeracy targets set under the New South Wales State Plan for Aboriginal students are to eliminate the gap between Aboriginal students and all students by 2016.

The comparison of Year 3 and Year 5 Aboriginal students' basic skills test (BST) results for numeracy and literacy against all student peers show significant gaps. From 2003 to 2007, BST results for Year 5 Aboriginal students have shown a gradual improvement, reducing the gap from 13.3 per cent to 11.8 per cent for numeracy. However, for literacy, the gap increased from 13.3 per cent to 14.4 per cent. The gap for Year 3 literacy has reduced from 19.3 per cent to 17.8 per cent while the gap for Year 3 numeracy increased slightly from 13.4 per cent to 13.7 per cent.

In 2007, there were 7,115 students (6,663 in 2006) who were recognised on the HSC Distinguished Achievers List, of which 0.4 per cent (0.2 per cent) were Aboriginal students.

The Department has made it a priority to allocate funding of \$65.0 million over four years to improve the academic achievements of Aboriginal students, by designing specialised teaching programs in order to reduce the gap. The Department advised us that of the \$13.0 million allocated in 2007-08, \$9.5 million was spent.

Government Schools

	NSW 2005-06	NSW 2006-07	National 2006-07	NSW Ranking amongst all States and Territories (d)	NSW Ranking Previous Year (d)
Recurrent Expenditure (\$) per student on Government Schools (a)					
Primary	10,195	10,643	10,938	7	7
Secondary	12,823	13,329	13,315	4	5
Overall	11,279	11,756	11,874	7	6
Student to Teaching Staff Ratios - Government Schools (b)					
Primary	16.2	16.2	15.7	1	2
Secondary	12.4	12.5	12.3	4	5
Overall	14.4	14.4	14.2	2	3
Full-Time Student Enrolment - Government Schools as a percentage of all schools (c)					
Primary	70.0	69.8	70.2	5	5
Secondary	62.4	62.4	61.3	4	4
Overall	66.7	66.5	66.4	5	5

(a) Source: Ministerial Council of Education, Employment Training and Youth Affairs - National Report on Schooling in Australia, 2007. Incorporates both salaries and non-salary costs. Includes actual or notional payroll tax and notional eight per cent user cost of capital.

(b) Source: Australian Bureau of Statistics, Schools Australia 2007 (Table 26).

(c) Sources: Australian Bureau of Statistics, Schools Australia 2007 (Table 2-1, 2-2 & 2-2a).

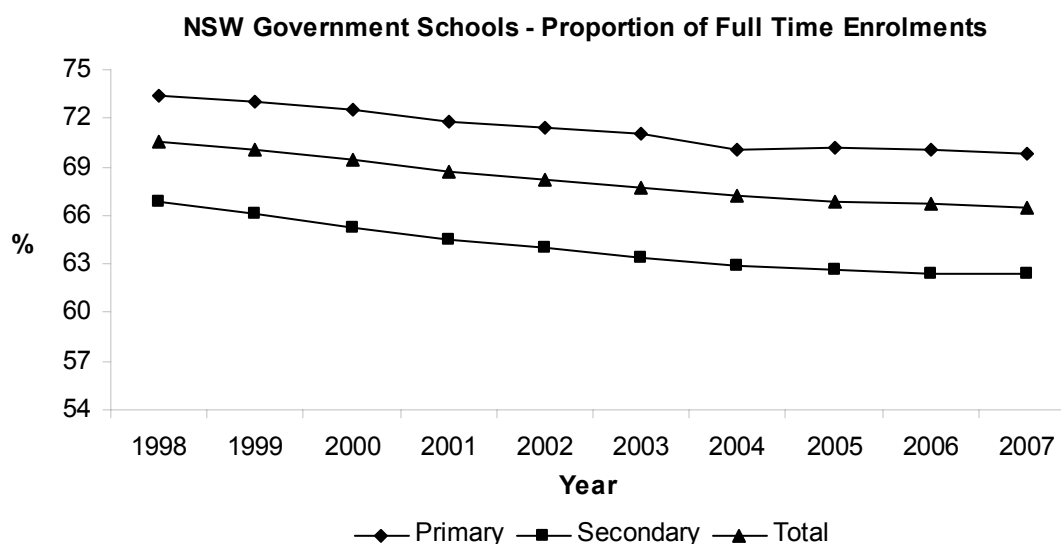
(d) The rankings range from one to eight (highest to lowest).

Note: Care should be taken when comparing different jurisdictions as areas of non-comparability continue to exist e.g. there can be large differences between city and country staff ratios within different jurisdictions.

New South Wales' expenditure per student was higher than the national average for secondary schools in 2006-07. Expenditure per primary student in New South Wales increased from \$10,195 in 2005-06 to \$10,643 in 2006-07. At this level it has fallen below the national average of \$10,938 and has the second lowest expenditure per primary school student. The primary and secondary student to teacher ratios remained higher than the national average. The overall ratio of 14.4 remained higher than the New South Wales private sector ratio of 13.8 students per teacher.

In comparison with other jurisdictions, New South Wales continues to be ranked fifth in attracting student enrolments to government schools.

The proportion of all students enrolling in government schools has been declining for the past ten years. The most significant decline has been in secondary schools, falling from 66.9 per cent in 1998 to 62.4 per cent in 2007. Overall, the reduction has been 4.5 per cent. The movement of students between sectors is now starting to stabilise. The chart below illustrates the decline over the last decade.



Source: Australian Bureau of Statistics, Schools Australia 2007 (Table 7)

Workers' Compensation Claims

	2006*	2007*	2008*
Workers' compensation premium (\$'000)	151,125	126,120	128,679
Total number of claims **	10,762	12,376	13,699
Total number of claims incurring cost	5,782	6,008	6,048
Number of working days lost	36,621	43,721	43,231
Number of stress claims incurring cost	849	949	829
Number of working days lost due to stress claims	14,294	19,816	16,733

Source: DET Statistics.

* Figures represent data in respect of the year in which the incident occurred. Therefore the total days lost are higher for the earlier years due to the passage of more time.

** The data for 2006 and 2007 includes incident notification only claims. This data has not been recorded in previous years and therefore is not comparable to past years.

The workers' compensation insurance premium increased slightly in 2007-08 while the total number of claims incurring costs rose 0.7 per cent. The premiums paid for the financial year 2007-08 exceeded the benchmark set by the Treasury Managed Fund by \$19.4 million. The Department had to fund the excess.

Under the 'Safe Working and Learning Strategy', the Department specified targets to be met by June 2008. These included a 20 per cent reduction in workplace injuries, 15 per cent reduction in the average cost of claims and 20 per cent reduction in the duration of workplace injuries.

A comparison between the 2004-05 figures (base data) and the 2006-07 figures indicate that the Department has achieved reductions, however they did not meet the specified targets. The workplace injuries reported have experienced an eight per cent increase in the frequency of claims incurring a cost. The average cost of claims returns a 14 per cent reduction and the average time lost due to workplace injury has reduced by 15 per cent.

OTHER INFORMATION

Department

We identified some minor opportunities for improvement and reported them to management.

Schools

For the school financial year ended 30 November 2007, we audited financial transactions at 57 primary schools, 11 high schools, two hospital schools, one special purpose school and one central school (K-12).

We identified opportunities for schools to improve their internal controls and general compliance with Departmental guidelines. We have written to the relevant school Principals about these matters. Many of our findings were similar to those of the previous year. The Department has advised us that they communicate common findings to all schools and direct them to take corrective action.

Connected Classrooms Program (CCP)

The CCP consists of three components with a total investment of \$158 million over four years. The Interactive Classroom Project (ICP) at a cost of \$66.0 million, will equip every New South Wales public school with an interactive whiteboard, data projector, control computer, network device and video conferencing components. The Learning Tools Project, costing \$29.0 million, will upgrade student email, individual online working space for all students and teachers and online access to student reports for parents. The Network Bandwidth Enhancement Project, at a cost of \$63.0 million for network upgrades, will increase bandwidth speed and secure browsing and content filtering to better enable interactive learning environments.

At 30 June 2008, the Department had installed 200 Interactive Classrooms and upgraded schools with additional bandwidth. Costs to date are reflected in the table below:

Year ended 30 June	2008 \$'000
Interactive Classrooms Project	6,046
Learning Tools Project	2,224
Network Bandwidth Enhancement Project	8,918
Total	17,188

Public Private Partnership Projects for New Schools

In December 2005, the Department finalised a \$177 million contract to privately finance an additional ten New South Wales government schools. The 30 year contract is to design, finance, construct and provide certain operational services. These schools are located in the western, north-western and south-western sectors of Sydney as well as the Hunter and Central Coast regions.

The schools will be built on Department land and leased to the service provider, who will sublease the site back to the Department.

Seven schools under this project, Ashtonfield Public School, Halinda Special School, Tullimbar Public School, Ropes Crossing Public School, John Palmer Public School, Denison College of Secondary Education (Kelso High Campus) and Warnervale Public School have been completed to date. As at June 2008, the Department has recognised \$68.0 million as assets with a corresponding liability. A further three schools, Rouse Hill High School, Elderslie Public School and Middleton Grange Public School, are to be completed in early 2009. This will result in a further recognition of about \$37.2 million of assets with a corresponding liability.

Under the agreement, the Department will pay the contractor \$10.7 million per annum CPI indexed, which includes the repayment of the finance lease liability, financing costs and regular service costs for all ten schools.

We understand that Kariong Mountains High School was included as a variation to the Public Private Partnership contract in October 2008 and the new school is anticipated to be completed by February 2010.

The Department has advised us that savings in the order of 23 per cent over traditional Department delivery methods of individual tenders and contracts were achieved. We will continue to monitor the progress of the projects.

School Facilities and Building Maintenance

Last year we reported that the Department's maintenance plans for school buildings had been hampered by significant maintenance backlogs. As a result of the additional funding of \$30.0 million in 2007-08, the Department has completed a program of works which reduced the estimated current maintenance backlog to \$50.8 million (\$82.6 million in 2006-07). This maintenance backlog should be considered in the context of the estimated replacement value of school buildings of \$17.9 billion.

Total school maintenance expenditure increased from \$241 million in 2006-07 to \$246 million in 2007-08. The additional maintenance backlog funding (\$30.0 million) for periodic maintenance and urgent repairs to schools has remained constant compared to the prior year.

The Department provides advice to The Treasury, as part of the State Budget process, on its Total Asset Management Plan and funding requirements for the provision of education facilities. The Department uses proceeds from the sale of surplus parts of school sites to improve facilities. In 2007-08 the Department received \$1.0 million from such sales compared to a predicted income of \$6.0 million.

Planned Computer Systems Replacement

In 2006, we reported that the Department's Learning Management and Business Reform (LMBR) program will replace its finance, payroll and human resources systems and the school management system over the next four years. Phase 1 implementation costs are estimated at \$153 million. The project incorporates all state government schools, the Department's regional and state office locations and TAFE NSW institutes.

A contract was signed in March 2008 and work has commenced on Phase 1 of the program. The initial stage, due to be completed in February 2009, involves defining the finance, human resources and payroll business requirements of the Department and preparing the design for an integrated finance and HR/payroll system for the Department.

Once the design of the new system is approved and accepted by the Department, a series of staged development and implementation activities will occur into 2010-11.

A Program Steering Committee has been established and is the peak governance body for the program.

A Risk Management methodology and approach has been developed and implemented. The program reports on major risks to the Department's Executive and to the Audit and Risk Management Committee.

Expenditure in the financial year 2007-08 was \$20.7 million. We will continue to review its implementation and monitor its progress.

Leave Recording

The Department introduced an online leave system called eLAPS (Electronic Leave Application Processing System) in 2004-05 to improve leave recording. In the past, delays in recording leave taken have resulted in salary overpayments that were difficult to recover.

As at 30 June 2008, 33.5 per cent (19.6 per cent in 2007) of all leave applications received from teachers and 29.5 per cent (18.6 per cent) from school administrative and support staff have been submitted electronically through eLAPS. However a large number of leave applications are still recorded on the manual system.

Our testing of teacher leave records found 28 instances (13 instances) of leave not recorded in the Leave Management System.

The Department continues to promote eLAPS in schools by developing programs to educate and train users. A report on eLAPS usage by schools has been developed and provided to Regional Directors to enable them to develop strategies to increase eLAPS usage in their regions. We will continue to monitor usage of the system.

FINANCIAL INFORMATION

Abridged Consolidated Operating Statement

Year ended 30 June	Consolidated		Parent	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Employee related	7,611,466	7,213,992	6,714,706	6,343,274
Operating expenses	1,648,682	1,601,354	1,346,025	1,304,652
Depreciation and amortisation	391,931	344,972	316,231	250,320
Grants and subsidies	209,712	189,587	239,379	218,762
Other expenses	4,741	7,914	4,741	7,914
TOTAL EXPENSES	9,866,532	9,357,819	8,621,082	8,124,922
TOTAL REVENUE	870,508	754,361	849,946	759,820
Other (losses)/gains	(8,977)	19,055	(7,271)	22,695
NET COST OF SERVICES	9,005,001	8,584,403	7,778,407	7,342,407
Less Government contributions	9,123,593	8,753,457	7,879,508	7,514,922
SURPLUS	118,592	169,054	101,101	172,515

Employee related expenses represent 77.9 per cent (78.1 per cent) of total expenditure of the Department. The \$370 million increase is primarily due to a three per cent salary increase to teachers in January 2008 and a four per cent salary increase to administrative staff effective July 2007.

The increase in total revenue of \$90.0 million is primarily due to a \$32.0 million increase in school and community revenue and external receipts, a one-off insurance recovery of \$23.0 million, and a rise in overseas student fees of \$8.0 million.

Abridged Consolidated Balance Sheet

At 30 June	Consolidated		Parent	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Current assets	730,049	701,063	577,133	572,857
Non-current assets	16,751,106	16,579,540	13,772,121	13,616,822
TOTAL ASSETS	17,481,155	17,280,603	14,349,254	14,189,679
Current liabilities	616,847	597,637	472,493	475,403
Non-current liabilities	156,261	107,725	155,575	107,038
TOTAL LIABILITIES	773,108	705,362	628,068	582,441
NET ASSETS	16,708,047	16,575,241	13,721,186	13,607,238

Surplus Properties

At 30 June 2008, the value of surplus properties was \$68.7 million. Under the New South Wales Government's Total Asset Management policy, the Department, as part of its 2008-09 asset strategy, developed a three year site disposal plan for surplus vacant sites.

In addition to disposal of these sites the Asset Management Directorate continues to work with Regions to identify surplus school sites for disposal.

For the financial year 2007-08, 24 school properties, that were surplus to the Department's needs and held for sale, were sold for \$26.6 million (\$109 million).

Abridged Program Information

The table below details the Department's consolidated net cost of services by program.

Program Description	2008			2007
	Revenue	Expenses	Net Cost of Services*	Net Cost of Services*
	\$'000	\$'000	\$'000	\$'000
Pre-school education services in government schools	2,598	27,865	25,267	24,676
Primary education services in government schools	245,394	4,151,137	3,903,678	3,720,581
Secondary education services in government schools	260,396	3,847,279	3,595,875	3,346,313
Non-government schools assistance	--	11,223	11,223	9,276
TAFE education services	310,768	1,610,173	1,301,455	1,332,855
Grants for education and training services	9,642	186,295	176,653	160,336
NSW Adult Migrant English Service (AMES)	41,706	32,560	(9,146)	(8,322)
A.C.N. 093 230 374 Pty Limited (Formerly TAFE Global Pty Ltd)	4	--	(4)	(1,312)
Total all programs	870,508	9,866,532	9,005,001	8,584,403

* Includes gain/(loss) on sale of non-current assets.

Cost of Providing Government School Education

Using departmental statistics of government school enrolments and relevant program costs, some broad trends of cost per student for primary and secondary education over the past four years were:

Year ended 30 June	2005	2006	2007	2008
Actual enrolments(a):				
Primary students	436,551	434,366	431,618	430,885
Secondary students	305,027	306,049	307,018	307,260
Total	741,578	740,415	738,636	738,145
Program costs(b):				
Primary \$m	3,434	3,541	3,721	3,904
Secondary \$m	3,125	3,270	3,346	3,597
Total \$m	6,559	6,811	7,067	7,501

(a) DET Census date. The 2008 figures are estimated figures derived from the NSW Budget papers 2007-08 as actual enrolment figures were not available at the time of the preparation of this Report.

(b) Program costs are net cost of services for government primary and secondary schools excluding transfer payments. Program costs used in the calculation of cost per student included non-cash items, leave and superannuation liabilities assumed by the Crown Entity.

Cost of Funding Non-Government School Education by the Department

In 2007-08, the New South Wales Government provided funding to 936 non-government schools (929 in 2006-07). Funding is mainly in the form of a per capita allowance and an interest subsidy scheme. Under the *Education Act 1990*, schools must register to be eligible for State funding assistance. Using departmental statistics of non-government school enrolments and relevant program costs, some broad trends of funding per student were:

Year ended 30 June	2005	2006	2007	2008
Average enrolments(a):				
Primary Students	184,598	185,642	186,005	186,537
Secondary Students	179,063	181,232	182,676	183,399
Total	363,661	366,874	368,681	369,936
Program costs(b):				
Primary \$m	268.7	286.5	303.0	322.6
Secondary \$m	363.0	372.2	390.4	407.9
Total \$m	631.7	658.7	693.4	730.5
Funding per student:				
Primary \$	1,455	1,543	1,629	1,729
Secondary \$	2,027	2,054	2,137	2,224
Average \$	1,737	1,795	1,881	1,975

(a) Average enrolments represent those non-government enrolments that qualified and received State recurrent funding. This does not include full fee paying overseas students.

(b) Program costs used in calculating cost per student included per capita grants, interest rate subsidies.

Average enrolments increased by 1.7 per cent over the last four years and the costs of funding per student increased by 13.7 per cent during the same period.

DEPARTMENT ACTIVITIES

The Department coordinates the delivery of education and training services in New South Wales from pre-school to tertiary. It is responsible for providing school education, vocational education and training and has certain regulatory and service responsibilities to private schools, private providers of education and training and universities.

For further information regarding the activities of the Department, refer to www.det.nsw.edu.au.

CONTROLLED ENTITIES

New South Wales Technical and Further Education Commission (TAFE NSW)

Separate comments on TAFE NSW and its controlled entities TAFE NSW Commission Division and A.C.N. 093 230 374 Pty Limited (formerly TAFE Global Pty Ltd) are included elsewhere in this Report.

NSW Adult Migrant English Service (AMES)

AMES provides English language learning opportunities for adult migrants and job seekers. The Commonwealth Government primarily funds AMES.

For further information on the Service, refer to www.ames.edu.au.

FINANCIAL INFORMATION

Year ended 30 June	2008 \$'000	2007 \$'000
Revenue	44,600	40,290
Employee related expenses	16,674	14,843
Other expenses	22,328	18,991
Surplus	5,598	6,456
Net assets (at 30 June)	22,475	16,877

Fees for services rendered increased by \$3.6 million as a result of increased demand for AMES services.

New South Wales Technical and Further Education Commission

AUDIT OPINION

The audits of the Commission and its controlled entities' financial reports for the year ended 30 June 2008 resulted in unqualified Independent Auditor's Reports, except for A.C.N. 093 230 374 Pty Limited (formerly TAFE Global Pty Ltd) (refer to controlled entities comments on page 27).

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

PERFORMANCE INFORMATION

Size and Scope of the Commission in New South Wales

The Commission is the largest vocational education and training (VET) provider in Australia.

Year ended 30 June	2005	2006	2007	2005-2007 Change %
Total enrolments	513,070	500,410	497,747	(3.0)
Annual student hours (ASH) ('000)	107,932	108,785	108,509	0.5
Net cost of services * (\$'000)	1,158,463	1,212,107	1,204,231	4.0
ASH per enrolment	210	217	218	3.8
Net cost of services per enrolment (\$)	2,258	2,422	2,419	7.1
Net cost of services per ASH (\$)	10.73	11.14	11.10	3.4

* Net cost of services is for the financial year ended 30 June whereas enrolments and student hours are for the calendar year.

Enrolments for 2007 of 497,747 were at their lowest level for three years while annual student hours of 109 million and net cost of services per enrolment were at similar levels to that of 2006. The Commission has advised us that this trend reflects a change in the student profile, with an increasing number of students undertaking higher level qualifications and full time study.

In 2008, the Commission applied a nine per cent increase in TAFE NSW fees and introduced a \$50 concession fee for some recipients of a Commonwealth benefit or allowance who, in previous years, were exempted from the payment of fees.

Although enrolments and student hours for 2008 are not available until mid 2009, year to date statistics provided by the Commission indicate an increase in enrolment numbers, while fee exemptions and concessions in 2008 are at a similar level to fee exemptions in 2007.

The Commission has advised that a major cause of the overall enrolment increase was from a new contract with the Commonwealth Department of Health and Ageing under which funding is received to provide community service courses.

New South Wales VET Cost per Student Hour

Government expenditure per student hour has decreased by 12.1 per cent since 2003.

Year ended 30 June	2003	2004	2005	2006	2007
Government recurrent expenditure* (\$m)	1,413	1,392	1,375	1,370	1,343
Student hours (m)	101.0	97.9	106.7	105.8	109.6
Expenditure per student hour (\$/hour)	14.0	14.2	12.9	12.9	12.3
Change in expenditure per student hour since 2003 (%)	--	1.4	(7.8)	(7.8)	(12.1)

Source: National Centre for Vocational Education Research, 2003-07 Australian vocational education and training statistics - financial information. Unpublished data from NCVER. The costs noted in the table above have been adjusted to 2007 dollars to exclude the effect of inflation.

* Government Recurrent Expenditure is made up of:

- TAFE NSW (approx 83 per cent of total), VET programs within NSW DET, agricultural colleges and
- NSW Adult Migrant English Service.

OTHER INFORMATION

No major control issues were identified. We identified some minor opportunities for the Commission to improve internal controls and we have reported these to management.

Maintenance Backlog

TAFE NSW Institutes are given an overall budget by the Commission. The Institutes determine a maintenance budget based on service priorities. In accordance with the government's policy of total asset management, the Commission is developing a new methodology for future condition assessments. This uses new software to identify and prioritise maintenance works by matching data collected with maintenance work programs. It is anticipated that the new condition assessments will be completed by the end of 2008. At 30 June 2008, maintenance backlog totalled \$27.7 million (\$25.6 million in 2006-07). This backlog should be considered in the context of the estimated replacement value of TAFE NSW buildings of \$4.0 billion.

Workers' Compensation Claims

Year Ended 30 June	2006*	2007*	2008
Number of claims incurring cost	636	639	699
Number of incidents reported - claims and notifications**	824	1,019	1,217
Number of stress claims incurring cost	73	82	101
Estimated cost for all workers compensation claims (\$m)	8.9	8.5	9.1
Estimated cost for stress claims (\$m)	2.9	2.2	3.6
Days lost - all injuries	16,579	14,269	6,993
Days lost - stress claims	6,566	4,263	2,707

* Figures for prior years include data accumulated to date. Therefore the total days lost and costs are higher for the earlier years due to the passage of more time.

** Includes workers compensation claims incurring a cost and incidents reported as a notification only with a nil cost.

In 2007-08, the Commission had 16,231 full time equivalent employees and there were 101 stress claims made, 23.1 per cent more than in 2006-07. The average cost per stress claim in 2007-08 was \$35,947 (\$27,138) compared to \$13,015 (\$13,297) for all types of injuries.

The Commission has advised that, while the number of all compensation claims incurring costs has increased by 9.4 per cent since 2006-07, there has been a seven per cent reduction in the average cost of the claims. This is mainly due to a reduction in the duration of average time lost, from 21 to 19 days. The Commission attributes these reductions to the successful implementation of programs and initiatives under its safe working and learning strategy which targets improvements in return to work and claims management outcomes.

Workers' Compensation Premiums Benchmark

Year ended 30 June	2006	2007	2008	2009
Equivalent full time employees (EFT)***	16,271	16,037	16,231	16,231
Premium cost (\$m)	18.0	18.2	16.8	16.2
Benchmark* (\$m)	14.0	14.8	14.5	15.0
Excess** (\$m)	4.0	3.4	2.3	1.2

* Benchmark paid by The Treasury.

** Excess paid by TAFE NSW.

*** EFT numbers as specified in the Commission's Workers Compensation Declarations.

The insurer sets a benchmark for agencies that determines the level of The Treasury funding. If an agency's premiums exceed the benchmark, the agency needs to fund the excess. This is an encouragement for agencies to actively manage their workers' compensation costs and minimise workplace injuries.

The Commission has completed the final year of implementation of programs and initiatives under its 'Safe Working and Learning' strategy which was aimed at improving systems to provide greater safety, and control the escalating costs of workers' compensation premiums. The Commission has advised that there has been a 70 per cent reduction in the short fall payable by the Commission over the last four premium renewal periods as a result of improved claims management. This has also led to a 3.5 per cent reduction in the deposit premium for the 2008-09 period.

Overtime

Overtime costs increased only marginally (0.3 per cent) in 2007-08.

Year ended 30 June	2005	2006	2007	2008
Overtime (\$m)	25.2	27.3	29.3	29.4
Salaries (\$m)	860.6	951.3	987.1	1,002.1
Overtime as % of salary	2.9	2.9	3.0	3.0

As shown in the table below, 156 (152) non-teaching TAFE NSW employees earn 20 per cent or more of their gross salary in overtime.

Overtime to Base Salary %	Number of Non-Teaching Employees	
	2007	2008
70 - 100	--	1
60 - 70	2	--
50 - 60	5	5
40 - 50	18	18
30 - 40	47	45
20 - 30	80	87
10 - 20	178	169
0 > - 10	1,865	1,854
Nil	3,405	3,461
Total	5,600	5,640

For six employees overtime was more than 50 per cent of their base salary compared to seven in the prior year. Overtime worked by non-teaching staff is paid at penalty rates, which is a relatively expensive way of obtaining more resources.

Employee	Annual Overtime \$	Base Salary \$	Annual Gross \$	Overtime to Base Salary %
Employee 1	28,491	38,143	66,634	74.7
Employee 2	22,426	38,143	60,569	58.8
Employee 3	23,681	40,689	64,370	58.2
Employee 4	21,684	38,143	58,827	56.9
Employee 5	19,834	37,756	57,590	52.5
Employee 6	19,948	38,143	58,091	52.3

The Commission has previously advised that high levels of overtime may be paid because:

- the cost of some overtime has been built into the budget for commercial activities
- of industrial action and other circumstances beyond the control of the Commission
- TAFE NSW operating hours are from 6.00am to 10.00pm, Monday to Saturday, therefore some overtime is unavoidable.

FINANCIAL INFORMATION

Abridged Consolidated Operating Statement

Year ended 30 June	Consolidated		Parent	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Employee related	901,141	872,456	--	--
Personnel services	330,845	314,409	1,188,636	1,142,159
Other operating expenses	303,384	303,327	303,384	301,503
Depreciation and amortisation	75,675	94,626	75,675	94,611
TOTAL EXPENSES	1,611,045	1,584,818	1,567,695	1,538,273
TOTAL REVENUE	380,560	341,304	380,556	337,646
Other losses	1,706	3,642	1,706	3,604
NET COST OF SERVICES	1,232,191	1,247,156	1,188,845	1,204,231
Government contributions	1,244,084	1,238,535	1,200,734	1,195,599
SURPLUS/(DEFICIT) FOR THE YEAR	11,893	(8,621)	11,889	(8,632)

The increase in revenue followed a nine per cent increase in TAFE NSW fees and a new major contract with the Commonwealth referred to previously.

The fall in depreciation expense largely relates to longer lives assigned to the Commission's buildings following the 2007 revaluation.

Abridged Consolidated Balance Sheet

At 30 June	Consolidated		Parent	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Current assets	166,353	151,223	166,111	150,563
Non-current assets	2,978,932	2,962,650	2,978,932	2,962,984
TOTAL ASSETS	3,145,285	3,113,873	3,145,043	3,113,547
Current liabilities	180,210	160,761	180,943	161,336
Non-current liabilities	687	687	--	--
TOTAL LIABILITIES	180,897	161,448	180,943	161,336
NET ASSETS	2,964,388	2,952,425	2,964,100	2,952,211

COMMISSION ACTIVITIES

The Commission, more commonly known as TAFE NSW, was constituted by the *Technical and Further Education Commission Act 1990* as a statutory body corporate.

Its principal objective is to provide relevant technical and further education services to industry, students and other client groups.

The Commission provides vocational and pre-vocational education and training services through its ten Institutes and the Open Training and Education Network (OTEN). While the Institutes and OTEN observe Commission policies and priorities, they develop their own education and training profiles and manage their own operations.

Since December 1997, the Commission has been a controlled entity of the Department of Education and Training.

The Commission is subject to the control and direction of the Minister for Education and Training.

For further information on the Commission, refer to www.tafensw.edu.au.

The four Metropolitan Institutes are Northern Sydney, South Western, Sydney and Western Sydney. The six Country Institutes are Hunter, Illawarra, New England, North Coast, Riverina and Western.

CONTROLLED ENTITIES

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

New South Wales Technical and Further Education Commission Division

The Division provides personnel services to the Commission.

A.C.N. 093 230 374 Pty Limited (formerly TAFE Global Pty Ltd)

The 2007 audit resulted in a modified opinion on the Company's financial report. The Company was unable to supply sufficient and/or appropriate evidence to support material transactions that were selected for verification. The selected transactions related to all areas of the Company's operations, for example, general journal entries, revenue adjustments and expenditure items. Any alternative records that existed were not adequate to permit the application of necessary audit procedures. Consequently, I was unable to obtain all the information and explanations I required in order to form an opinion on the financial report.

The 2008 audit is still in progress. The company has ceased trading and is in the process of being wound up.

Minister for Energy

Electricity Industry Overview

Electricity Generators:

Delta Electricity

Eraring Energy

Macquarie Generation

Electricity Distributors:

Country Energy

EnergyAustralia

Integral Energy Australia

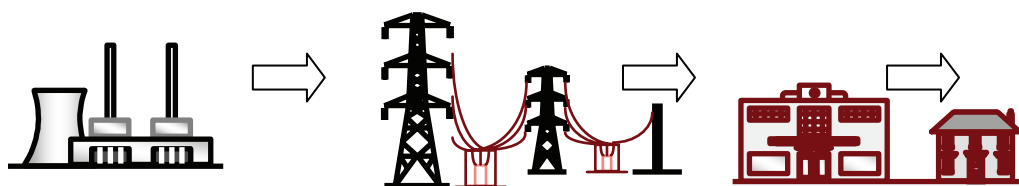
TransGrid

Electricity Industry Overview

GOVERNMENT CORPORATIONS

The Government's corporations in the New South Wales electricity industry are:

Generators	Transmission	Distribution and Retail
Macquarie Generation Delta Electricity Eraring Energy	TransGrid	EnergyAustralia Integral Energy Australia Country Energy



KEY ISSUES

Restructure of Electricity Industry

The Government's package for restructuring the electricity industry was withdrawn in August 2008. The Government is currently working on a revised package of reform based on the following principles:

- withdrawal of the Government from the electricity retail market where three State owned corporations compete against numerous private vendors
- sale of potential power station development sites to private operators, to encourage them to build new power stations to meet New South Wales growth
- retaining Government ownership of distribution and transmission network businesses
- retaining State owned power generation corporations.

The Government believes these changes will help spur private investment in new baseload generation capacity for New South Wales.

In our report 'Oversight of Electricity Industry Restructuring' August 2008, we commented on the Government's intended electricity restructure strategy. Some of the findings in that report are relevant for the Government's revised proposal. They are:

- encouraging new entrants and new investment to promote competition in the electricity generation and retail markets by:
 - using simultaneous rather than sequential sale transactions, and
 - holding separate tender(s) for generation development site(s)
- calculating retention values for each transaction using consistent assumptions prior to commencing each transaction
- documenting contingency plans prior to commencing the first transaction which will include the setting of a reserve price for each transaction, and considerations if the reserve price is not achieved

- requesting The Treasury to continuously evaluate:
 - the restructuring process after its marketing effort and before the first transaction, and
 - the likelihood of the success of subsequent transactions and whether contingency plans are required to be implemented.

A full copy of our report to Parliament can be found at:

www.audit.nsw.gov.au/publications/reports/special_reviews/pdf/oversight_of_electricity_industry_restructuring.pdf

The Government's original restructure strategy proposed the sale/lease of the generators' assets, including development sites. The coal-fired generation assets are now to remain in Government ownership.

Carbon Pollution Reduction Scheme (CPRS)

We recommend that governing boards of electricity corporations implement an appropriate framework to address the governance implications of the CPRS when finalised. Boards should ensure they have the right strategies and processes to monitor their corporation's overall response and performance in addressing climate change risks and opportunities.

All Australian businesses, including all electricity corporations in the New South Wales Public Sector, will be affected directly or indirectly by the Federal Government's proposed CPRS.

The Federal Government's Green Paper on the design of a national emissions trading scheme was released in July 2008. Details of the process and operational procedures are expected in the legislation that is likely to be released in December 2008 for public comment. The CPRS proposed start date is 1 July 2010, but there are transitional arrangements to ease some sectors into the scheme.

Approximately 1,000 businesses with large emissions will face direct obligations under the CPRS. Other businesses will be affected indirectly through costs (increased energy cost), risks (less certainty regarding future energy costs) and opportunities (providing low-carbon services, funding for low emissions technology etc).

The key design features of the CPRS relevant to New South Wales include:

Electricity Sector Adjustment Scheme (ESAS)

The Federal Government's Green Paper proposes to provide limited direct assistance to the coal-fired generation sector through ESAS, including assistance to affected communities and workers. The objectives of ESAS are to underpin investor confidence in the generation sector and ensure energy supply security, including measures that support low-emissions production.

Climate Change Action Fund (CCAF)

The Federal Government's Green Paper proposes the creation of the CCAF to assist businesses transition to a cleaner economy. CCAF will provide partnership funding for a range of activities including; capital investment in innovative new low emissions processes; industrial energy efficiency projects with long pay back periods; and dissemination of best and innovative practice among small to medium sized enterprises.

Other proposed assistance includes compensation for emission-intensive trade-exposed (EITE) businesses in the form of free permits.

Regulation - Compliance and Enforcement

Robust monitoring, reporting and assurance over emissions data will be imperative for a high level of market confidence. The CPRS proposals include maintaining and building on the current emissions reporting requirements under the *National Greenhouse Gas and Energy Reporting Act 2007* (NGER). A single body will be responsible for regulating both NGER and CPRS. The CPRS also proposes that larger emitters, with over 125,000 tonnes of greenhouse gas emissions a year, will be required to seek assurance from an accredited independent third party over the accuracy of their annual emissions prior to submitting the information to the Federal Government. Other smaller emitters may be subject to audit at the discretion of the regulator.

Electricity Prices

Electricity wholesale prices in the National Electricity Market (NEM) decreased during 2007-08 compared to the high prices in 2006-07. The average spot price for 2007-08 in New South Wales was \$41.66 per megawatt hour (MWh), a fall of 29 per cent from the 2006-07 average of \$58.72 per MWh.

Average annual wholesale spot prices of electricity:

Year ended 30 June	NSW \$/MWh	Qld \$/MWh	SA \$/MWh	Snowy \$/MWh	Tas \$/MWh	Vic \$/MWh
2008	41.66	52.34	73.50	45.49	54.68	46.79
2007	58.72	52.14	51.61	55.19	49.56	54.80
2006	37.24	28.12	37.76	31.09	56.76	32.47
2005	39.33	28.96	36.07	34.05	190.38	27.62
2004	32.37	28.18	34.86	30.80	(a)	25.38
2003	32.91	37.79	30.11	29.83	(a)	27.56

Source: NEMMCO price statistics average annual prices per financial year.

(a) Tasmania entered the National Electricity Market on 29 May 2005, and became an active participant on 29 April 2006.

The average price per MWh for June 2008 (\$41.82 per MWh) was significantly lower than June 2007 (\$230.66 per MWh) resulting from reduced constraints (including drought) on generating capacity and decreased demand across the NEM.

The June average price per MWh was:

June	NSW \$/MWh	Qld \$/MWh	SA \$/MWh	Snowy \$/MWh	Tas \$/MWh	Vic \$/MWh
2008	41.82	41.13	40.11	42.27	55.96	42.04
2007	230.66	192.45	102.63	198.23	77.81	143.28
2006	31.47	25.25	39.22	32.35	41.39	34.61

Source: NEMMCO average regional reference price per region for the month.

Other information on electricity prices include:

- the lowest average daily price in New South Wales was \$18.42 per MWh on 25 December 2007 (\$13.87 per MWh on 26 December 2006)
- the highest average daily price in New South Wales was \$336.22 per MWh on 22 October 2007 (\$1,319.58 per MWh on 13 June 2007)
- the highest New South Wales half-hour price was \$7,858.07 per MWh on 22 October 2007 (\$9,936.37 per MWh on 13 June 2007).

Impact of Derivatives on the Balance Sheet

The volatility in electricity prices as shown in the preceding tables has a significant impact on the balance sheets of electricity entities. Australian Accounting Standard AASB 139 'Financial Instruments: Recognition and Measurement' requires electricity hedging contracts to be revalued at the end of the financial year to reflect the prevailing forward prices for electricity. Electricity hedge contracts are entered into by generators and retailers to lock in prices for future transactions to reduce price uncertainty. When prices increase, there is an immediate loss of opportunity for already contracted prices for generators (who have sold forward electricity for a lower price) and opportunity gain for retailers (who have contracted to purchase electricity at a lower price). The reflection of these opportunity costs and gains can fluctuate significantly from day to day as electricity prices move.

For the generator, the opportunity loss is recorded as a liability in the balance sheet. The liability will however not require any cash payment because it will reduce over time as physical delivery of contracted electricity is made. For the retailer, the asset created from the opportunity gain will also reduce as physical delivery of electricity occurs. These accounting adjustments do not affect the entities' cash flows or the economics of their businesses.

Existing Capacity in New South Wales

Generator	Ownership	Year Commissioned	Fuel	Capacity (MW)
Munmorah	Delta Electricity	1968-69	Coal	600
Liddell	Macquarie Generation	1971-73	Coal	2,000
Wallerawang	Delta Electricity	1976-80	Coal	1,000
Vales Point	Delta Electricity	1978-79	Coal	1,320
Eraring	Eraring Energy	1982-84	Coal	2,640
Bayswater	Macquarie Generation	1985-86	Coal	2,640
Mt. Piper	Delta Electricity	1993-94	Coal	1,400
Redbank	Babcock & Brown	1999	Coal	150
Bendeela	Eraring Energy	1977	Hydro	80
Kangaroo Valley	Eraring Energy	1977	Hydro	160
Smithfield	Marubeni	1995	Gas	160

Source: Owen Inquiry into Electricity Supply in New South Wales 2007 and State owned generators.

Supply and Demand Outlook

Projected electricity demand in New South Wales is currently expected to exceed supply in 2013-14.

The supply and demand outlook for each State provides:

- an indication of the capability of existing and committed supply to meet projected demand for the next ten years, and
- Low Reserve Condition (LRC) point, which indicates when reserves will fall below the required level to avoid possible shortage of supply.

Summary Overview of LRC and Reserve Deficit

State	LRC Point	Reserve Deficit (MW)
New South Wales	2013/14	134
Queensland	2007/08	10
Victoria	2010/11	105
South Australia	2010/11	49
Tasmania	Beyond 2016/17	

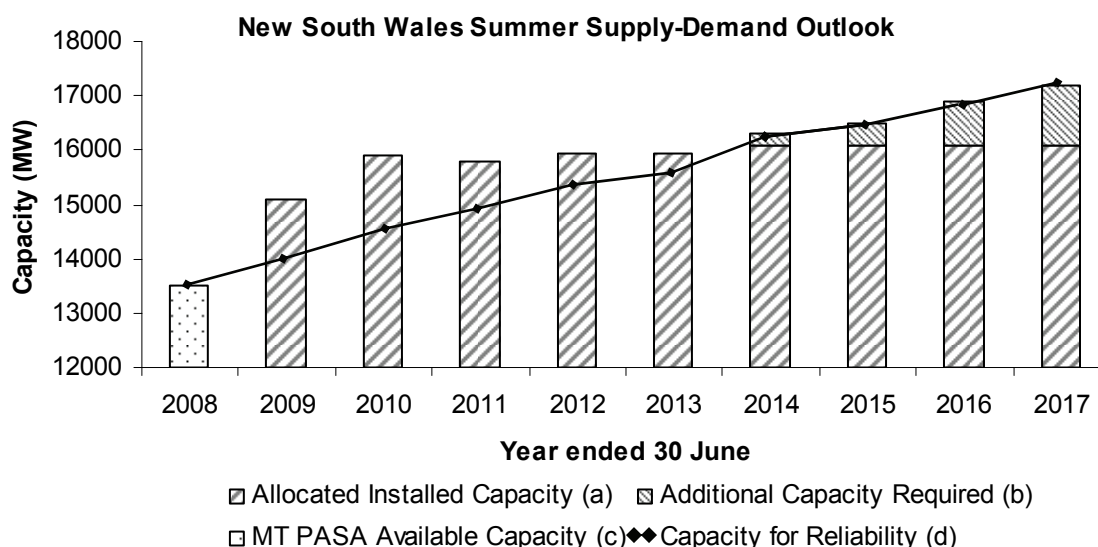
Source: NEMMCO Statement of Opportunities 2007.

The above table shows the LRC points for each State, indicating the first year when projected capacity will fall below the minimum required for reliable electricity supply. It should be noted that NEMMCO is due to release its 2008 Statement of Opportunities on 30 October 2008, at which time figures based on 2007 Statement of Opportunities may need to be updated.

The table also highlights the Reserve Deficit in megawatts (MW). This measure indicates the additional reserves potentially required at the LRC point.

Highest Demand in Summer

For New South Wales, the tightest supply-demand conditions are expected to occur during summer. The summer supply-demand outlook for the New South Wales region for the next ten years is shown in the graph below.



Source: NEMMCO Statement of Opportunities 2007.

- Allocated Installed Capacity: Represents the current projection of installed generation capacity allocated to meet the reliability requirement for the region (Capacity for Reliability). It includes the available capacity within a region plus the allocated net import from neighbouring regions.
- Additional Capacity Required: Represents the difference between the Capacity for Reliability and the Allocated Installed Capacity or the MT PASA Available Capacity. This also represents the reserve deficit.
- MT PASA Available Capacity: Represents the operational projection of installed generation capacity available to meet the scheduled maximum demand. This projection is taken from the preliminary MT PASA calculation performed using available capacity bid into MT PASA as at 24 July 2007.
- Capacity for Reliability: represents the capacity that needs to be allocated to meet the minimum reserve level.

The New South Wales LRC point occurs in 2013-2014. This demonstrates that unless additional capacity is created by this time, supply will fall below minimum reserve levels (as indicated by the solid line).

Peak and Average Demand Growth Rates

NEMMCO project the following peak and average demand growth rates per year for electricity in New South Wales.

Demand growth rate per year	2007	2008
Peak (%)	2.5	2.3
Average (%)	1.6	0.8

Source: NEMMCO Statement of Opportunities 2007, NEMMCO 2007 and 2008 energy and demand projections.

While the New South Wales peak and average growth rates projection for 2008 is below 2007 levels, it does indicate a continuing trend of growth. This in turn, demonstrates a continuing need to effectively manage total and peak demand and highlights the need for sufficient infrastructure to meet future growth.

Committed and Proposed Additional Capacity

The allocated installed capacity increases as significant new committed scheduled generation capacity enters the NEM. For New South Wales, proposed and committed projects to increase supply (excluding wind) include:

Developer	Station Name	Fuel	Capacity in MW	Commissioning
Committed projects				
TRUenergy	Tallawarra	Gas	400	2009
Delta Electricity	Colongra	Gas	667	2009-10
Origin Energy	NewGen Uranquinty	Gas	696	2008-09
Proposed projects (not yet committed)				
State owned generators				
Macquarie Generation	Tomago	Gas	500	--
Macquarie Generation	Bayswater B	Coal	2,000	--
Delta Electricity	Munmorah Rehabilitation	Coal	100	2012-13
Delta Electricity	Bamarang (Nowra)	Gas	400	2011-12
Delta Electricity	Marulan	Gas	450	2013-14
Delta Electricity	Mt Piper extension	Coal	1,500	--*
Eraring Energy**	Eraring Upgrade	Coal	240	2009
Other generators				
Wambo Power Ventures	NewGen Bega	Gas	120	2009-10
Wambo Power Ventures	NewGen Cobar	Gas	114	2008-09

Source: Australian Energy Regulator, State of the Energy Market 2007 updated for NEMMCO's 2007 Statement of Opportunities Update, November (not updated for 2008) and State owned generators.

* Development application for Mt Piper extension has not been lodged.

** Now committed.

Further, a study performed by NEMMCO, as part of the 2007 Annual National Transmission Statement (ANTS) market simulation, developed a number of simulated generation expansions based on price signals.

For New South Wales, a total simulated generation expansion of 2,085 MW eliminates reserve deficits for the next ten years.

The combination of committed and proposed projects, generating capacity in excess of 7,000 MW, should therefore meet New South Wales' projected supply requirements for the next ten years, based on the simulated generation expansion.

PERFORMANCE INFORMATION

Financial Performance

The New South Wales electricity industry's return of equity and assets are below national electricity industry figures. Debt levels are very similar to national figures.

Year ended 30 June	NSW 2006	NSW 2007	National Industry 2007*	NSW 2008
Return on average equity (%) (a)	15.2	15.7	16.1	13.3
Return on average assets (%) (b)	10.2	8.7	11.5	7.6
Interest cover (times) (c)	3.6	3.5	4.3	3.0
Debt to equity ratio (d)	1.2	1.5	0.9	1.2

* Productivity Commission whole of electricity sector performance indicators.

Calculated as:

(a) profit after income tax expense divided by average equity.

(b) profit before tax and interest expense divided by average assets.

(c) operating profit plus interest and tax expense divided by interest expense.

(d) external debt divided by equity (net assets).

Targets for these key ratios are not set for the New South Wales electricity industry. However, targets for individual agencies are agreed with the shareholding ministers and detailed in the comment for each agency (see elsewhere in this report).

The decrease in the return on assets ratio was due to higher asset values following revaluations.

Generators and Distributors

Pre-tax profits of the distributors in 2007-08 were \$531 million (\$844 million in 2006-07). Profits before tax from generators were \$896 million (\$693 million).

Revenue for the New South Wales electricity industry increased by \$949 million to \$10.6 billion. Expenses also increased, resulting in a \$39.1 million decrease in profit after tax.

The following table shows key financial ratios for generators and distributors:

	Generators			Distributors/Retailers		
	2006	2007	2008	2006	2007	2008
Return on average equity (%) (a)	18.0	30.5	27.2	16.3	13.6	9.0
Return on average assets (%) (b)	12.7	9.8	10.4	9.8	8.5	6.4
Interest cover times (c)	6.1	6.5	8.2	3.0	2.8	1.9
Debt to equity ratio (d)	0.6	3.5	0.5	1.8	1.5	2.2
Net assets \$m	2,725	538	4,036	3,399	4,993	3,912
Net profit \$m	485	484	622	535	568	403

Calculated as:

- (a) profit after income tax expense divided by average equity.
- (b) profit before tax and interest expense divided by average assets.
- (c) profit plus interest and tax expense divided by interest expense.
- (d) external debt divided by equity (net assets).

The significant increase in generators' net assets by \$3.5 billion was due to a decrease in liabilities for electricity hedging contracts, compared to the significant increase in 2006-07. To ensure sufficient revenue is received to cover production costs, generators enter into hedge contracts. This strategy protects generators' revenue streams in times of falling spot prices, but also limits opportunities to benefit from rising spot prices.

The hedging liabilities fell as there were better supply and demand conditions in 2007-08 resulting in lower electricity forward price curves. The fair value of electricity derivatives liabilities for generators and the fair value of electricity derivative assets for distributors both decreased.

Return on average equity decreased by 11 per cent from the prior year for generators due to the increase in net assets discussed above. Similarly, return on average equity decreased by 33 per cent from the prior year for distributors.

Transmission

TransGrid made a profit before tax of \$151 million in 2007-08 (\$172 million). The reduction in profit was due to a fluctuation in the actuary-determined defined benefit superannuation reserve position. This resulted in a slightly lower return on average assets of 6.2 per cent (7.1 per cent) and a reduction on its return on average equity to six per cent (seven per cent).

FINANCIAL INFORMATION

Distribution to Government

Electricity entities accrued distributions to the Government were \$1.4 billion (\$1.4 billion), comprising \$448 million (\$541 million) of tax and \$973 million (\$818 million) of dividends.

Budget Estimates

The 2008-09 Budget Papers show the Government is expecting annual revenue of around \$1.1 billion over the next few years from electricity entities.

Revenue Source	Actual	Budget	Forward Estimates			
	2008 \$m	2008 \$m	2009 \$m	2010 \$m	2011 \$m	2012 \$m
Dividends	973	741	692	709	720	767
Income tax	448	410	398	418	435	460
TOTAL	1,421	1,151	1,090	1,127	1,155	1,227

Industry Debt

Borrowing costs for the year were \$789 million compared to \$696 million in 2006-07. The industry's debt at 30 June 2008 was \$12.1 billion (\$10.7 billion at 30 June 2007). The table below highlights the trend of debt levels increasing in line with the significant capital works projects being undertaken.

	2006 \$m	2007 \$m	2008 \$m
Generators			
Borrowing costs	134	125	125
External debt	1,699	1,864	1,971
Distributors			
Borrowing costs	406	470	562
External debt	6,247	7,377	8,611
TransGrid			
Borrowing costs	100	101	102
External debt	1,455	1,454	1,532
TOTAL BORROWING COSTS	640	696	789
TOTAL EXTERNAL DEBT	9,402	10,695	12,114

OTHER INFORMATION

Asset Acquisition

In the 2008-09 State Budget the asset acquisition program was \$3.5 billion (\$2.9 billion) which is 21 per cent above the 2007-08 budget. Over 65 per cent of the 2008-09 capital program will be undertaken by the electricity distribution businesses, with a focus on replacement or refurbishment of assets that are reaching the end of their economic life, meeting demand growth and ensuring network reliability and security.

New South Wales Energy Efficiency Target (NEET) Scheme

The New South Wales Government recently announced that a New South Wales Energy Efficiency Target Scheme will replace and extend the current energy efficiency initiatives under the Greenhouse Gas Reduction Scheme (GGAS) demand side abatement rule. The new scheme will commence on 1 January 2009.

GGAS pioneered emissions trading in Australia and it is one of the first emissions trading schemes in the world. NEET will operate until the start of a national emissions trading scheme.

Electricity Tariff Equalisation Fund (the Fund)

The Fund enables retail electricity prices to be regulated without exposing retailers or the Government to unacceptable financial risk.

The Fund manages the retailers' exposure to the variability of wholesale electricity prices only for the load that supplies regulated customers.

At 30 June 2008, the Fund was \$82,000 in surplus, a significant increase from the deficit of \$822,000 at 30 June 2007. This resulted from less reliance on the Fund from retailers/distributors due to the decrease in electricity wholesale prices in June 2008 compared to the prior year. The Fund's transactions were:

Payments	Generators		Distributors/Retailers	
	2007 \$m	2008 \$m	2007 \$m	2008 \$m
Into the Fund	121	92	169	161
From the Fund	--	151	582	102

The New South Wales Government has announced that the Fund will be phased out between March 2009 and June 2010. From March 2009, the percentage of regulated retail load supported by the Fund will decrease from 100 per cent to 60 per cent and in September 2009 will reduce to 40 per cent.

Regulation

The Australian Energy Regulator (AER) is the regulator for electricity distribution under the new national regulatory regime. This role was previously undertaken by the New South Wales Independent Pricing and Regulatory Tribunal (IPART). In June 2004, IPART made a five year determination under the National Electricity Code, which established base revenue for each electricity distributor from 1 July 2004 until 30 June 2009. The determination provided incentives for the distributors to manage demand instead of increasing the capacity of the network. IPART plans for the distribution prices across the State to increase in real terms by an average 14 per cent over the five years of the determination, or 2.7 per cent per annum.

IPART is also responsible for regulating electricity prices for small retail customers in New South Wales. The current determinations on these prices were extended to 30 June 2010. The Minister for Energy has asked the Tribunal to review and determine the regulated retail electricity tariffs and charges that apply from 1 July 2007 to 30 June 2010.

The AER is also responsible for the regulation of transmission network charges. A determination for TransGrid's and EnergyAustralia's transmission services was issued on 27 April 2005, allowing both a nominal return of 8.9 per cent on their weighted average cost of capital. This determination covers a five year period from 1 July 2004 to 30 June 2009.

The Australian Energy Market Commission is responsible for rule making and market development. The Australian Energy Regulator (AER) has responsibility for regulatory compliance.

BACKGROUND

All New South Wales public sector electricity entities are statutory State owned corporations with the exception of the Residual Business Management Corporation (formerly Pacific Power), which is a statutory authority and now responsible for liquidating its assets and exiting the industry in the near future.

The entities have common objectives of:

- operating a successful business
- protecting the environment
- operating efficient, safe and reliable facilities for generating and distributing electricity and other forms of energy
- participating in the wholesale and retail markets for electricity and other forms of energy (except for TransGrid).

The shareholders of the corporations are the Treasurer and the Minister for Finance.

INDUSTRY FINANCIAL TABLES

Following are abridged income statement and balance sheet tables for generators and distributors for 2007-08 and the previous year. Comments on each entity and TransGrid follows this section.

GENERATORS

	Delta Electricity		Macquarie Generation		Eraring Energy		Total
	2008 \$m	2007 \$m	2008 \$m	2007 \$m	2008 \$m	2007 \$m	2007 \$m
Abridged Income Statements (year ended 30 June)							
Revenue	1,016.9	882.0	1,161.7	1,082.0	730.6	816.1	2,780.1
Profit before income tax	132.1	201.0	616.1	283.7	148.0	207.9	692.6
Income tax equivalent	44.4	61.1	184.4	84.8	44.7	62.2	208.1
Dividends paid and provided	124.4	113.6	270.0	180.0	114.6	132.1	425.7
Abridged Balance Sheets (at 30 June)							
Total assets	2,738.9	3,202.4	4,450.1	3,876.3	2,439.5	2,921.6	10,000.3
Total liabilities	1,841.9	2,986.8	2,650.3	3,933.7	1,100.4	2,541.6	9,462.1
Net assets/(net liabilities)	897.0	215.6	1,799.8	(57.4)	1,339.1	380.0	538.2
Retained earnings (at 30 June)	48.5	85.2	253.4	91.7	42.4	53.8	230.7
Financial Performance Indicators* (year ended 30 June)							
Return on average equity (%)	15.7	29.6	49.6	**	12.0	22.6	30.5
Return on average assets (%)	5.9	9.2	16.3	10.2	6.2	9.8	9.8
Debt/equity	0.9	3.1	0.5	**	0.3	0.8	3.5
Interest cover (times)	4.1	5.6	10.8	5.2	8.6	15.1	6.5

* Indicators calculated in accordance with standard formulas used by the Productivity Commission.

** Ratios are not meaningful as a result of negative net assets.

DISTRIBUTORS

	EnergyAustralia		Integral Energy		Country Energy		Total
	2008 \$m	2007 \$m	2008 \$m	2007 \$m	2008 \$m	2007 \$m	2008 \$m 2007 \$m
Abridged Income Statements (year ended 30 June)							
Revenue	3,096.3	2,889.0	1,722.9	1,387.8	2,308.0	2,097.1	7,127.2 6,373.9
Profit before income tax	317.7	374.1	207.9	239.2	5.2	230.8	530.8 844.1
Income tax equivalent	88.6	115.4	57.3	86.0	(18.0)	75.0	127.9 276.4
Dividends paid and provided	183.5	162.3	125.0	107.0	49.1	51.3	357.6 320.6
Abridged Balance Sheets (at 30 June)							
Total assets	7,920.7	8,982.2	3,918.7	4,067.9	4,642.4	4,582.3	16,481.8 17,632.4
Total liabilities	5,986.0	6,524.9	2,891.0	2,743.9	3,692.5	3,370.7	12,569.5 12,639.5
Net assets	1,934.7	2,457.3	1,027.7	1,324.0	949.9	1,211.6	3,912.3 4,992.9
Retained earnings (at 30 June)	467.0	416.5	168.9	141.4	415.9	441.6	1,051.8 999.5
Financial Performance Indicators* (year ended 30 June)							
Return on average equity (%)	10.4	12.4	12.8	13.9	2.1	15.7	9.0 13.6
Return on average assets (%)	6.8	7.6	8.4	9.5	3.9	9.0	6.4 8.5
Debt/equity	2.1	1.5	1.8	1.2	2.8	1.8	2.2 1.5
Interest cover (times)	2.2	2.7	2.6	3.3	1.0	2.6	1.9 2.8

* Indicators calculated in accordance with standard formulas used by the Productivity Commission.

Delta Electricity

AUDIT OPINION

The audits of Delta Electricity and its controlled entity's financial reports for the year ended 30 June 2008 resulted in unqualified Independent Auditor's Reports.

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

KEY ISSUES

The Independent Auditor's Report included commentary drawing attention to significant uncertainty regarding the effect of changes in forecast cash flows.

Delta Electricity calculates the carrying value of its power stations using estimated discounted cash flows. These estimates are subject to volatility, particularly from the potential impacts of the Federal Government's proposed Carbon Pollution Reduction Scheme. The ultimate extent of this impact cannot presently be determined and this creates significant uncertainty as to whether the estimated discounted cash flows will be realised.

PERFORMANCE INFORMATION

Delta Electricity provided the following information regarding its performance:

Year ended 30 June	Actual				Target*
	2005	2006	2007	2008	2008
Generation of electricity					
- gigawatt hours sent out	21,740	21,948	21,952	24,054	23,209
Plant availability					
- total all stations (%)	87.0	86.5	75.5	77.3	84.6
Thermal efficiency					
- total all stations (%)	35.4	35.0	35.2	35.0	35.0
Earnings before interest and tax (\$m)	208.5	282.6	244.9	174.9	201.8
Return on equity (%) (a)	17.7	22.5	64.9	9.8	11.3
Return on assets (%) (b)	11.0	13.2	7.6	6.4	7.2
Interest cover (times)	3.8	5.9	5.6	4.1	4.4
Debt to equity (%)	95.9	79.9	306.2	86.5	92.4
Total distributions to government (\$m)	169.6	201.9	174.7	168.8	155.4
Capital expenditure (\$m)	47.6	97.4	150.4	251.8	317.3

* Target agreed with shareholder Ministers in the Statement of Corporate Intent.

(a) profit after tax divided by equity.

(b) earnings before interest and tax divided by total assets.

Plant availability measures the total time generating units were either in service or able to be placed in service over a given period. Delta Electricity's plant availability for 2007-08 was under target due to a number of factors including planned and forced plant outages. Industrial bans by Delta Electricity staff in June 2008 also increased the time taken to restore out of service units.

The level of forced outages is lowest at Mount Piper, which is the most recent power station constructed. Delta Electricity has established a committee to review generating plant performance. The Committee is expected to make its final report in November 2008.

Thermal efficiency is a measure of the overall fuel conversion efficiency for the electricity generation process. The level achieved by Delta Electricity's power stations is at or near best practice standards for plant type and age.

Return on equity and debt to equity both decreased due to an increase in equity. The increase in equity was largely due to favourable market value movements in electricity hedge contracts. Delta Electricity, like other generators, enters into hedge contracts with retailers for a portion of expected power generation to give certainty to revenue. This strategy protects revenue streams from power generation in times of falling spot prices, but limits revenue opportunities in times of increasing spot prices. The average spot price of electricity decreased from \$58.72 MWh for the year ended 30 June 2007 to \$41.66 MWh for the year ended 30 June 2008. Lower prices for electricity at year end resulted in a decrease in the value of electricity hedge contract liabilities and a corresponding increase in equity.

Distributions to government comprised a dividend of \$124 million (\$114 million in 2006-07) and a taxation equivalent of \$44.4 million (\$61.1 million).

OTHER INFORMATION

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

Independent Valuation of Power Station Assets

Delta Electricity obtained an independent valuation of its power station assets during the year. The valuer assessed the gross replacement cost of the power stations at \$9.9 billion. After deducting accumulated depreciation of \$7.3 billion and accumulated impairment of \$232 million, the actual net carrying amount of Delta Electricity's power stations was \$2.4 billion.

The carrying value represents 24.2 per cent of the power stations' gross replacement cost, which indicates on average the power stations have less than one quarter of their original service potential remaining.

Major Projects

Colongra Gas Turbine Facility

Delta Electricity is constructing a \$500 million 667 megawatt gas turbine power station near its existing Munmorah coal fired power station. The new station will operate as a peaking plant supplying electricity at short notice during times of high demand. The plant is scheduled for completion in November 2009.

Colongra Gas Pipeline - Public Private Partnership

Delta Electricity has entered into a public private partnership for a gas pipeline to supply the Colongra Gas Turbine Facility. The private sector partners will own and operate the gas pipeline, and have responsibility for its financing and construction. Construction of the pipeline commenced in April 2008 and is expected to be completed by March 2009.

Delta Electricity will pay a monthly fee in return for the availability of gas transportation and storage services over a period of 20 years. When the lease commences in 2009, Delta Electricity will record an asset and a liability currently estimated at \$104 million.

Joint Venture Co-generation Plants

In 2002 Delta Electricity, through its controlled entity, entered into a \$200 million joint development to design, construct and operate two 30 megawatt renewable energy electricity co-generation plants at Condong and Broadwater. These plants will burn sugar cane waste to produce electricity. This joint venture is nearing the end of the construction phase and the plants are expected to be in commercial operation by the end of 2008.

Development of Additional Gas Turbine Facilities

Delta Electricity is preparing for the development of gas turbine facilities at Marulan (near Goulburn) and Bamarang (near Nowra). Both facilities will be constructed in two stages.

Stage 1 of the Marulan facility consists of two open cycle gas turbines. Under Stage 2 the open cycle facility will be converted into a combined cycle plant capable of generating electricity for intermediate and base load demand up to 450 megawatts.

Stage 1 of the Bamarang facility involves the construction of a gas turbine peaking plant. Stage 2 will convert the peaking plant into a 400 megawatt base load plant.

Delta Electricity is working to finalise the relevant approvals for these projects.

The Government's revised electricity reform package, introduced to assist in securing the future supply of electricity in New South Wales, may result in Delta Electricity being required to sell its development sites.

Coal Supply

Coal prices have increased significantly in recent years with increased demand for Australian coal exports. This has resulted in increased risks for Delta Electricity in terms of securing adequate supplies of coal in the future and in managing the cost of these supplies. While contracts are in place for a significant proportion of coal requirements for the next few years, which addresses cost control as well as volume, Delta Electricity is examining options to further manage these risks.

FINANCIAL INFORMATION

Abridged Consolidated Income Statement

Year ended 30 June	Consolidated		Parent	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
TOTAL REVENUE	1,016,923	920,867	1,016,896	920,612
PROFIT BEFORE FINANCE COSTS, DEPRECIATION AND TAX	272,765	325,122	274,509	325,160
Finance costs	42,861	43,916	42,861	43,916
Depreciation	97,831	80,218	97,831	80,218
PROFIT BEFORE TAX	132,073	200,988	133,817	201,026
Income tax equivalent expense	44,406	61,095	44,929	61,107
PROFIT AFTER TAX	87,667	139,893	88,888	139,919
Dividend provided	124,422	113,619	124,422	113,619

Total revenue included \$1.0 billion in electricity sales compared to \$874 million in the previous year. The increase was the result of a 9.6 per cent increase in electricity sold. Despite an increase in revenue, profit before tax decreased due to increases in generation costs (\$97.5 million), actuarially assessed superannuation movements (\$62.7 million), and increases in depreciation (\$17.6 million).

Abridged Consolidated Balance Sheet

At 30 June	Consolidated		Parent	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Current assets	208,032	593,052	248,350	610,174
Non-current assets	2,530,834	2,609,397	2,418,680	2,519,994
TOTAL ASSETS	2,738,866	3,202,449	2,667,030	3,130,168
Current liabilities	565,351	1,441,188	561,645	1,437,383
Non-current liabilities	1,276,545	1,545,625	1,207,302	1,475,945
TOTAL LIABILITIES	1,841,896	2,986,813	1,768,947	2,913,328
NET ASSETS	896,970	215,636	898,083	216,840

Current assets decreased mainly due to a \$392 million decrease in receivables. This largely represented a reduction in unsettled electricity sales made to the National Electricity Market Management Company at year end.

Non-current assets decreased, mainly due to a \$282 million decrease in the value of deferred income tax assets, relating largely to changes in the value of derivative instruments. This decrease was partially offset by a \$60.0 million revaluation and additions of \$272 million to property, plant and equipment.

Total liabilities decreased mainly as a result of a \$937 million decrease in the market value of electricity hedge derivatives. This decrease was also the main reason for the increase in net assets.

ENTITY ACTIVITIES

See the 'Electricity Industry Overview' section earlier in this report for general industry comment.

Delta Electricity was constituted in March 1996 as an electricity generator under the *Energy Services Corporations Act 1995* and as a statutory State owned corporation under the *State Owned Corporations Act 1989*. The voting shareholders are the Treasurer and the Minister for Finance.

Delta Electricity operates the Mount Piper, Vales Point, Wallerawang and Munmorah coal-fired power stations, and three mini hydro generators. It provides around 12 per cent of electricity to the National Electricity Market.

For more information on Delta Electricity, refer to www.de.com.au.

CONTROLLED ENTITY

Delta Electricity Australia Pty Ltd

Year ended 30 June	2008 \$'000	2007 \$'000
Revenue	27	255
Expenses	1,994	293
Income tax benefit	590	12
Loss after tax	1,377	26
Total assets	113,797	89,898
Total liabilities	115,066	91,102
Net liabilities (at 30 June)	1,269	1,204

Total assets increased mainly due to additions associated with the construction of the co-generation joint venture plant. Total liabilities increased largely due to \$24.6 million in advances from Delta Electricity and \$1.3 million in bank loans required to fund construction activities.

The company is dependent on the support of Delta Electricity during its establishment and construction phase. It will commence earning revenue from operations on completion of generation plant construction.

Eraring Energy

AUDIT OPINION

The audit of Eraring Energy and its controlled entity's financial report for the year ended 30 June 2008 resulted in an unqualified Independent Auditor's Report.

The auditor's report included an emphasis of matter paragraph drawing attention to Eraring Energy's power station and equipment valuation. The valuation is determined by using estimated discounted cash flows. These cash flows are subject to significant uncertainty arising from the Federal Government's proposed Carbon Pollution Reduction Scheme.

PERFORMANCE INFORMATION

Operational Performance

Eraring Energy operates a diverse portfolio of generating assets comprising thermal coal, hydro and wind. Most of its generation comes from Eraring Power Station, which uses thermal coal. Eraring Power Station produced 17,283 gigawatt hours of electricity in 2008. This is similar to the previous year's record level.

Some of the indicators Eraring Energy uses to assess its electricity generation performance are shown below.

Year ended 30 June	Actual					Target*
	2004	2005	2006	2007	2008	2008
Generation of electricity (gigawatt hours)						
Thermal coal	14,567	12,703	14,216	17,530	17,283	17,500
Hydro	171	202	309	114	92	259
Wind	27	28	26	24	24	28
Total	14,765	12,933	14,551	17,668	17,399	17,787
Plant availability (%)	89.6	85.9	86.9	93.0	92.5	93.2
Thermal efficiency (%)	38.2	37.9	37.9	37.9	37.9	37.9

Source: Eraring Energy.

* Target agreed with shareholder Ministers in the Statement of Corporate Intent.

Renewable energy sources of hydro and wind accounted for 0.67 per cent of total production (0.78 per cent in 2006-07). The trend for lower hydro production is due to the continuing effect of drought.

Plant availability measures the total time Eraring Power Station's generating units were either in service or able to be placed in service over a given period.

Thermal efficiency indicates the percentage of energy contained in the coal used by Eraring Power Station to produce the electricity. The quality of energy fuel used and plant performance determine thermal efficiency.

Consolidated Financial Performance

	Actual					Target*
	2004	2005	2006	2007	2008	2008
Earnings before interest and tax from normal operations (\$m)(a)	157.2	181.4	182.4	272.4	270.2	171.7
Return on equity (%) (b)	6.1	6.9	11.0	34.6	8.3	5.3
Return on assets (%) (c)	7.3	8.0	7.1	6.9	7.3	4.7
Interest cover (times)	8.9	10.0	7.2	13.8	9.1	3.7
Total distributions to government (\$m) (d)	98.1	115.7	97.0	193.8	159.1	76.1
Capital expenditure (\$m)	33.0	43.4	36.3	38.0	55.0	61.3

* Target agreed with shareholder Ministers in the Statement of Corporate Intent and excludes fair value movements in superannuation, financial instruments and insurance provision.

(a) Excludes fair value movements in electricity derivatives, superannuation and insurance provision movements.

(b) Net profit after tax (excluding fair value movements in electricity derivatives, superannuation and provision movements) divided by total equity.

(c) Earnings before interest and tax from normal operations divided by total assets.

(d) Total distribution before adjustment for Community Service Obligation.

Financial ratios achieved during the year generally exceeded agreed targets.

OTHER INFORMATION

Major Project Expenditure

The Black Start Gas Turbine at the Eraring Power Station was commissioned and installed by March 2008. This project provides quick re-start in the event of a system wide black out. Total project expenditure of \$25.3 million compares favourably with budgeted costs.

A capacity upgrade and performance improvements at the Eraring Power Station were approved in June 2008. The nominal capacity of each of the Station's four units will increase from 660 megawatt to 720 megawatt. The works include construction of a cooling water attemperation reservoir used to manage cooling water exit temperatures. The reservoir is due for completion by August 2009.

Coal Supply

Coal prices have increased significantly in recent years. With Eraring Energy's reliance on coal, this presents challenges for the organisation to manage costs. Contracts are in place for a significant proportion of future years' coal requirements. Eraring Energy is exploring strategies to minimise risks associated with increasing coal costs.

Contractor's Claim

Eraring Energy settled a claim for extra costs from a contractor involved in the 2002 upgrade of Burrinjuck Hydro Power Station. Settlement of legal costs is still in dispute, but resolution is expected in 2008-09.

Electricity Reform - development sites

The Government's electricity reform package proposes selling development sites to private operators. Eraring Energy holds no such sites and would not be impacted by these proposals.

FINANCIAL INFORMATION

The following consolidated financial information is for Eraring Energy and its controlled entity, Pacific Western Pty Limited.

Abridged Income Statement

Year ended 30 June	2008 \$'000	2007 \$'000
REVENUE		
Electricity sales and other	726,163	876,847
Electricity Tariff Equalisation Fund	16,111	(32,617)
PROFIT BEFORE BORROWING COSTS, DEPRECIATION AND TAX	260,278	292,514
Borrowing costs	19,528	14,663
Depreciation	92,794	69,979
PROFIT BEFORE TAX	147,956	207,872
Income tax equivalent expense	44,729	62,197
PROFIT AFTER TAX	103,227	145,675
Dividend provided	114,594	132,131

Revenue included \$714 million in electricity sales compared to \$849 million in the previous year. The decrease was due to lower spot prices primarily brought about by the easing of the drought risk in the electricity market. Lower electricity sales revenue was supplemented by receipts from the Electricity Tariff Equalisation Fund (ETEF) of \$16.1 million. High sales figures in 2007 meant Eraring Energy made payments of \$32.6 million to the ETEF.

Abridged Balance Sheet

At 30 June	2008 \$'000	2007 \$'000
Current assets	136,371	552,610
Non-current assets	2,303,157	2,368,997
TOTAL ASSETS	2,439,528	2,921,607
Current liabilities	320,285	1,638,557
Non-current liabilities	780,134	903,046
TOTAL LIABILITIES	1,100,419	2,541,603
NET ASSETS	1,339,109	380,004

Eraring Energy's balance sheet has significantly changed from the prior year. Most of the changes arise from the impact of derivatives. Changes in forward electricity prices and a reduction in derivative activity at year-end resulted in reductions in current and non-current liabilities. Current and non-current asset reductions are also largely attributable to derivative impacts. Further detail on the impact of derivatives on balance sheets appears in the 'Electricity Industry Overview' earlier in this report.

Offsetting the reduction in non-current assets from derivatives is an increase in property, plant and equipment of \$281 million. Electricity generation assets are valued based on estimated discounted cash flows. Most of the \$281 million is attributable to expected increases in future cash flows arising from higher forward electricity prices.

In 2008, Eraring repaid capital of \$73.4 million to The Treasury (\$184 million in 2006-07) funded by increased borrowings with New South Wales Treasury Corporation. The Board provided for a dividend of \$115 million to be paid to The Treasury (\$132 million).

The overall impact of the transactions and events discussed above is a significant increase in net assets.

MINISTERIAL DIRECTIONS

No ministerial directions were issued by the portfolio Minister during 2007-08 under section 20P of the *State Owned Corporations Act 1989* (the 'SOC Act').

On 21 July 2008, Eraring received a direction to form a new subsidiary that was to enter into agreements to acquire Integral Energy's retail business effective 1 August 2008. This occurred as a consequence of the Government's then energy restructure strategy. On 1 September, after the Government had announced it would not proceed with this particular strategy, Eraring received a policy instruction from The Treasury to terminate the acquisition arrangements, such that Eraring would be in the same position had the acquisition not occurred.

CORPORATION ACTIVITIES

See the 'Electricity Industry Overview' section earlier in this report for general industry comment.

Eraring Energy was established as a statutory State owned corporation in July 2000 under the *State Owned Corporations Act 1989*, *Energy Services Corporations Act 1995* and Energy Services Corporation (Eraring Energy) Regulation 2000. It commenced operations in August 2000 to generate electricity for sale in the National Electricity Market.

For further information on Eraring Energy, refer to www.eraring-energy.com.au.

CONTROLLED ENTITY

Pacific Western Pty Limited 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. The entity was de-registered on 28 July 2008 following voluntary liquidation.

Macquarie Generation

AUDIT OPINION

The audit of Macquarie Generation's financial report for the year ended 30 June 2008 resulted in an unqualified Independent Auditor's Report.

The Independent Auditor's Report included a 'significant uncertainty' paragraph regarding the effect of the Carbon Pollution Reduction Scheme.

Impact of the Carbon Pollution Reduction Scheme

The Federal Government has proposed a Carbon Pollution Reduction Scheme (Scheme), but has not settled how it will operate. Until this occurs, the effect of the Scheme on Macquarie Generation's assets cannot be determined and Macquarie Generation has not taken this into account when applying the requirements of Accounting Standard AASB 136 'Impairment of Assets'.

KEY ISSUES

Development Sites

Macquarie Generation may be required to sell its development sites to private operators, as part of the revised Government's electricity reform package, introduced to secure the future supply of electricity in New South Wales.

Macquarie Generation has two development sites, Tomago Gas Fired Power Station and Coal Baseload - 'Bayswater 2 (B2)'.

Tomago Gas-Fired Power Station

Development approval was granted in December 2003 for the construction of a gas-fired power station at Tomago. The project qualifies as a project of State significance for the New South Wales Government, and therefore requires approval by the Budget Committee to commence. To date, no approval has been granted. The development approval expires in November 2008 in the absence of any commencement of works. Macquarie Generation has received advice that the commencement of geo-technical testing and preparation of the site should allow the continuation of the development approval past November 2008.

Coal Baseload - 'Bayswater 2 (B2)'

Macquarie Generation has completed a feasibility study on a new coal-fired generating plant in the Hunter Valley, known as B2.

The B2 project proposes to build up to two 1,000 megawatt coal-fired generators.

B2 will be designed to run at much higher capacity factors than existing facilities producing outputs of around 15,000 gigawatt hours (GWh) or 20 per cent of New South Wales' energy requirements.

Coal Supply

Coal prices have increased significantly in recent years with the continued demand for Australia's coal for export. This has resulted in increased risks for securing adequate supplies of coal and managing the cost of these supplies.

Macquarie Generation has locked in a significant proportion of its coal supply contracts for the next ten years and it is examining options to manage future supply.

Macquarie Generation's new large rail unloading facility at Antiene was commissioned in July 2007 and will progressively take over the increasing rail coal deliveries from the existing smaller Ravensworth facility. Antiene is designed to service both the Wilpinjong and Anvil Hill coal mines and any future mines to the north and west of Macquarie Generation's power stations.

PERFORMANCE INFORMATION

Operational Performance

Year ended 30 June	2005	2006	2007	2008
Generation of electricity (gigawatt hours sent out)				
Bayswater	16,867	16,540	14,310	15,430
Liddell	9,737	10,057	10,825	10,851
Total	26,604	26,597	25,135	26,281
Plant availability				
Bayswater (%)	87.0	90.1	89.8	91.5
Liddell (%)	81.9	76.9	85.5	78.9
Thermal efficiency				
Bayswater (%)	36.0	35.8	34.9	35.4
Liddell (%)	32.5	32.6	33.2	33.2
Equivalent forced outages (%)	2.3	5.1	4.9	5.4

Macquarie Generation has a policy of not disclosing operational performance targets. Accordingly, these have not been included in the above table.

Macquarie Generation's market share of the National Electricity Market was 13 per cent in June 2008 (12.3 per cent in June 2007). Its market share increased slightly due to water resources increasing compared to the previous year, resulting in higher production.

Financial Performance

Year ended 30 June	Actual		Target*
	2007	2008	2008
Earnings before interest and tax (\$m)	342.6	660.1	253.3
Return on equity (%)	--**	34.2	18.9
Return on assets (%)	8.8	14.8	8.5
Interest cover (times)	5.8	15.0	4.2
Debt to equity (%)	--**	45.6	85.4
Total distributions to government (\$m)	264.8	454.4	188.0
Capital expenditure (\$m)	166.4	83.0	130.4

* Targets agreed with shareholder Ministers in the Statement of Corporate Intent.

** Ratios are not meaningful as a result of negative equity.

Financial ratios exceeded targets and prior year actuals due to earnings before interest and tax exceeding target by \$407 million (161 per cent) and previous year actuals by \$317 million (93 per cent). The main contributor was an increase in unrealised income associated with movements in the fair value of electricity derivatives from unrealised losses in 2006-07 of \$95.9 million to unrealised gains of \$249 million in 2007-08.

Capital expenditure decreased by \$83.4 million over the prior year primarily due to the completion of the construction of the Antiene rail coal unloader.

Capital expenditure included \$19.8 million for the ongoing construction of the water treatment plant (Bayswater) and \$19.6 million for the \$50.0 million upgrade of the current Hunter River pumping station.

Distributions to government increased by \$190 million (72 per cent) from the previous year due to dividends increasing by \$90.0 million and income tax expense increasing by \$100 million as a result of the higher earnings before interest and tax.

OTHER INFORMATION

We identified some opportunities for improvement in internal controls and procedures. These have been reported to management.

FINANCIAL INFORMATION

Abridged Income Statement

Year ended 30 June	2008 \$'000	2007 \$'000
TOTAL REVENUE	1,162,402	1,082,037
PROFIT BEFORE BORROWING COSTS, DEPRECIATION AND TAX	790,118	457,561
Finance costs	62,557	66,985
Depreciation	111,663	106,852
PROFIT BEFORE TAX	615,898	283,724
Income tax equivalent expense	184,431	84,808
PROFIT AFTER TAX	431,467	198,916
Dividend provided	270,000	180,000

Profit after tax of \$431 million was up \$233 million on the previous year, including unrealised gains on derivative contracts of \$251 million reflecting the positive effect of the falling forward electricity prices.

Abridged Balance Sheet

At 30 June	2008 \$'000	2007 \$'000
Current assets	750,965	784,910
Non-current assets	3,699,109	3,091,361
TOTAL ASSETS	4,450,074	3,876,271
Current liabilities	856,465	2,051,514
Non-current liabilities	1,793,764	1,882,170
TOTAL LIABILITIES	2,650,299	3,933,684
NET ASSETS/(LIABILITIES)	1,799,845	(57,413)

Non-current assets increased by \$608 million, largely due to a \$1.1 billion revaluation of Property, Plant and Equipment in 2007-08, offset by a reduction in deferred tax assets of \$435 million.

The lower spot prices and a decreasing electricity forward price curve significantly reduced current liabilities compared to the prior year.

CORPORATION ACTIVITIES

See the 'Electricity Industry Overview' section earlier in this report for general industry comment.

Macquarie Generation operates the Bayswater and Liddell coal-fired power stations in the Upper Hunter Valley.

Macquarie Generation was constituted in March 1996 as an electricity generator under the *Energy Services Corporations Act 1995* and as a statutory State owned corporation under the *State Owned Corporations Act 1989*. The voting shareholders are the Treasurer and the Minister for Finance.

For further information on Macquarie Generation, refer to www.macgen.com.au.

Country Energy

AUDIT OPINION

The audits of Country Energy and its controlled entities' financial reports for the year ended 30 June 2008 resulted in unqualified Independent Auditor's Reports.

PERFORMANCE INFORMATION

Operational Performance

Country Energy is committed to delivering a safe and reliable supply of energy to its customers. Some of the indicators Country Energy uses to assess its performance are:

	Actual				Target*
	2005	2006	2007	2008	2008
Customer minutes without supply (unplanned supply interruptions - minutes)	354	301	242	225	340
Customer satisfaction index (%)	85	86	88	92	85
Lost time (injuries per one million hours worked)	11.0	6.7	5.8	2.8	3.5

* Targets provided by Country Energy.

The decrease in customer minutes without supply reflects lower levels of storm activity and supply interruptions in 2007-08, compared to those in the previous year. The target for 2008 was derived from the targets mandated by New South Wales Government licence conditions imposed on distribution network service providers.

Country Energy has reported the lost time injury rate as the best on record.

Financial Performance

	Actual		Target
	2007	2008	2008
Earnings before interest and tax* (\$m)	318.9	256.3	323.6
Return on equity* (%) (a)	11.9	7.0	9.1
Return on assets* (%) (b)	7.7	5.6	7.1
Interest cover** (times)	2.2	1.5	1.8
Debt to equity** (times)	1.8	2.8	2.8
Capital expenditure* (\$m)	517.9	583.5	593.3
Total distributions to government** (\$m)	126.3	31.1	92.9

* Target as agreed with shareholding Ministers in the Statement of Corporate Intent.

** Target calculated from data contained in the Statement of Corporate Intent.

(a) Profit after tax divided by average equity.

(b) Earnings before interest and tax divided by average total assets.

Note: Earnings and ratios exclude the impact of fair value gains and losses on financial instruments and superannuation actuarial gains and losses.

Country Energy's earnings before interest and tax fell short of target. The higher than expected purchase price of retail electricity contributed to Country Energy's earnings before interest and tax being lower than anticipated.

The decline in earnings also impacted Country Energy's return on equity, return on assets and interest cover ratios.

FINANCIAL INFORMATION

The following financial information is for Country Energy and all its controlled entities (see comments on its controlled entities later in this report).

Abridged Income Statement

Year ended 30 June	2008 \$'000	2007 \$'000
OPERATING REVENUE	2,307,967	2,097,058
OPERATING PROFIT BEFORE BORROWING COSTS, DEPRECIATION, OTHER GAINS/(LOSSES) AND TAX	417,315	478,074
Borrowing costs	176,671	142,829
Depreciation	161,029	159,172
Operating Profit before other gains/(losses) and tax	79,615	176,073
Fair value (losses)/gains on financial instruments	(32,117)	48,097
Superannuation actuarial (losses)/gains	(42,261)	6,557
PROFIT BEFORE TAX	5,237	230,727
Income tax equivalent (benefit)/expense	(17,998)	74,971
PROFIT AFTER TAX	23,235	155,756
Dividend provided	49,100	51,302

Revenue includes \$2.2 billion (\$2.0 billion) from the sale and delivery of electricity and gas. Cost of sales was \$2.0 billion (\$1.8 billion).

Country Energy's reported profit of \$23.2 million for the year (\$156 million in 2006-07) was adversely impacted by \$32.1 million of fair value losses on financial instruments (\$48.1 million gain). The losses were primarily due to electricity forward contract market price volatility. Refer to the 'Electricity Industry Overview' earlier in this report for further details on the impact of derivatives.

Country Energy's profit also declined because of the impact of actuarial losses of \$42.3 million on superannuation liabilities (\$6.6 million gain).

Country Energy received a favourable ruling from the Office of State Revenue during the year confirming the tax base of certain water assets. The impact of the ruling was to reduce the income tax expense for the year by \$18.1 million to an income tax benefit of \$18.0 million.

Country Energy's financial report also disclosed that adjustments had been made to information reported in the prior year's financial report. The adjustments resulted in the balance of equity at the beginning of the prior year being reduced by \$25.8 million, and the reported profit for the prior year being reduced by \$3.5 million.

Abridged Balance Sheet

At 30 June	2008 \$'000	2007 \$'000
Current assets	814,618	1,149,429
Non-current assets	3,827,819	3,432,877
TOTAL ASSETS	4,642,437	4,582,306
Current liabilities	1,244,431	1,095,110
Non-current liabilities	2,448,106	2,275,604
TOTAL LIABILITIES	3,692,537	3,370,714
NET ASSETS	949,900	1,211,592

The significant decrease in current assets was mainly due to a decrease of \$388 million in the value of derivative financial instruments.

The increase in non-current assets included \$584 million from the acquisition of property, plant and equipment and intangible assets during the year.

Liabilities rose primarily due to an additional \$412 million of debt, increasing the balance of loans outstanding to \$2.6 billion (\$2.2 billion). The increase was partially offset by a decrease of \$125 million in deferred tax liabilities.

CORPORATION ACTIVITIES

See the 'Electricity Industry Overview' section appearing earlier in this report for general industry comment.

Country Energy is a statutory State owned corporation constituted by the *Energy Services Corporation Act 1995*. Its principal function is to distribute electricity to the national electricity market.

For more information on Country Energy, refer to www.countryenergy.com.au.

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
Country Energy Gas Pty Limited
NorthPower Energy Services Pty Limited

EnergyAustralia

AUDIT OPINION

The audits of EnergyAustralia and its controlled entities' financial reports for the year ended 30 June 2008 resulted in unqualified Independent Auditor's Reports.

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

KEY ISSUES

Development Site

EnergyAustralia may be required to sell its development site to private operators as part of the Government's revised electricity reform package introduced to secure the future supply of electricity of New South Wales.

EnergyAustralia has one development site. It is in the process of obtaining a development application to construct a 350 megawatt open cycle gas turbine power station in Marulan. The plant will provide capacity to meet peak demand.

Critical Information Technology Systems

Over the past year, EnergyAustralia's Critical IT Exposures Remediation Program has reduced the risk of back up failure on a number of business critical systems. In 2006-07, EnergyAustralia first formally identified the risk of being unable to recover business critical systems and implemented a program to reduce that risk.

PERFORMANCE INFORMATION

EnergyAustralia provided the following information regarding its performance.

Operational Performance

A prime objective of EnergyAustralia is to deliver a safe and reliable supply of energy to its customers. The following table shows its performance in relation to customer satisfaction, employee safety and customer gains and losses.

Year ended 30 June	Actual				Target*
	2005	2006	2007	2008	2008
Customer satisfaction index (%) (a)	55	52	51	52	>60
Minutes customers were without supply	90	90	102	100	86-104
Lost time injury frequency - (hours per million hours worked)	3.8	3.8	2.9	3.9	<4.5
Customers at year end (000's)	1,539	1,557	1,568	1,581	na

Source: EnergyAustralia Annual Report 2007-08.

* Target agreed with shareholder Ministers in the Statement of Corporate Intent (SCI).

(a) Satisfied or very satisfied only.

na not applicable.

EnergyAustralia did not achieve its target level of customer satisfaction of 'very' or 'extremely' satisfied. Nevertheless, 97 per cent (94 per cent) of its customers were satisfied with the service.

Environmental Performance

EnergyAustralia met Commonwealth Renewable Energy targets under the *Renewable Energy (Electricity) Act 2000* and achieved its New South Wales Greenhouse Gas abatement target under the *Electricity Supply Amendment (Greenhouse Gas Emission Reduction) Act 2002* for the calendar year ended 31 December 2007.

EnergyAustralia triggers the threshold to report under the National Greenhouse Emissions Reporting Scheme and from 2008-09 will publicly report greenhouse gas emissions for their electricity, fuel, gas, refrigeration and other carbon equivalent emissions. EnergyAustralia has been voluntarily reporting greenhouse emissions under the Commonwealth Government's Greenhouse Challenge since 1997.

During the year, it supplied more than 71,000 customers with Accredited Green power products. This is an increase of approximately 13 per cent since 2006-07.

Financial Performance

Year ended 30 June	Actual				Target*
	2005	2006	2007	2008	2008
Earnings before interest and tax (\$m)	378.9	527.2	594.1	574.4	510.8
Return on average equity (%) (a)	8.6	14.4	12.4	10.4	6.7
Return on average assets (%) (b)	6.5	8.4	7.6	6.8	5.7
Debt to equity (%)	159.6	162.8	144.6	207.1	163.8
Total distributions to government (\$m)	144.2	304.0	277.7	272.1	206.2
Capital expenditure (\$m) (excluding capital contribution)	483.7	603.9	783.5	951.1	892.7

Source: EnergyAustralia.

* Target agreed with shareholder Ministers in the SCI and Business Plan 2007-08.

(a) Profit after income tax expense divided by average equity.

(b) Profit before tax and interest expense divided by average assets.

EnergyAustralia's results for 2007-08 exceeded all financial performance targets outlined in its Statement of Corporate Intent. This is largely due to the actual electricity spot price being lower than the budgeted electricity spot price.

OTHER INFORMATION

Matters raised during our prior year audit were resolved during 2007-08. No significant matters were raised with management during 2007-08.

FINANCIAL INFORMATION

Abridged Consolidated Income Statement

Year ended 30 June	Consolidated		Parent	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
TOTAL REVENUE	3,096,300	2,889,000	3,096,300	2,889,000
PROFIT BEFORE FINANCE COSTS, DEPRECIATION, AND TAX	851,900	861,800	893,500	779,100
Finance costs	256,600	220,000	256,600	220,000
Depreciation and amortisation	277,600	267,700	277,600	267,700
PROFIT BEFORE TAX	317,700	374,100	359,300	291,400
Income tax equivalent expense	88,600	115,400	103,400	102,900
PROFIT AFTER TAX	229,100	258,700	255,900	188,500
Dividend provided	183,500	162,300	183,500	162,300

Total revenue included \$2.9 billion (\$2.6 billion) for the sale and delivery of energy (electricity and gas) to retail customers, public lighting system charges and community service obligation refunds. Costs associated with the distribution of energy totalled \$2.6 billion (\$2.4 billion).

Profit before tax declined due to a one-off gain of \$49.3 million on the sale of EnergyAustralia Pty Limited and the share of partnership profits of \$33.4 million in 2006-07. Additionally the Group incurred higher finance costs in 2007-08.

Abridged Consolidated Balance Sheet

At 30 June	Consolidated		Parent	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Current assets	761,500	2,099,400	761,600	2,099,400
Non-current assets	7,159,200	6,882,800	7,159,200	6,895,400
TOTAL ASSETS	7,920,700	8,982,200	7,920,800	8,994,800
Current liabilities	1,937,400	2,772,900	1,939,700	2,772,900
Non-current liabilities	4,048,600	3,752,000	4,048,600	3,752,000
TOTAL LIABILITIES	5,986,000	6,524,900	5,988,300	6,524,900
NET ASSETS	1,934,700	2,457,300	1,932,500	2,469,900

Current assets decreased mainly due to a significant downward movement in energy spot prices. This resulted in lower debtors and derivative assets of approximately \$1.3 billion. Non-current assets increased because of a net increase in property, plant and equipment of approximately \$742 million and a decline in other financial assets of \$500 million due to the decline in electricity spot prices.

Total Liabilities decreased mainly due a decrease in energy creditors of \$664 million, derivative liabilities of \$175 million and a decrease in deferred taxation liabilities of \$228 million. This was offset by additional borrowings of \$454 million to fund capital expenditure and an increase in employee benefits of \$60.7 million.

ENTITY ACTIVITIES

See the 'Energy Industry Overview' section appearing earlier in this report for general industry comment.

EnergyAustralia, a statutory State owned corporation, was established in March 1996 under the *Energy Services Corporations Act 1995*. Its principal function is to distribute electricity in the national electricity market.

For further information on EnergyAustralia, refer to www.energy.com.au.

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

EnergyAustralia Pty Limited (formerly Energy Management International Pty Ltd)
Downtown Utilities Pty Limited

Integral Energy Australia

AUDIT OPINION

The audit of Integral's financial report for the year ended 30 June 2008 resulted in an unqualified Independent Auditor's Report.

PERFORMANCE INFORMATION

Operational Performance

Statistics provided by Integral show:

Year ended 30 June	Actual				Target*
	2005	2006	2007	2008	2008
Customer satisfaction index (%)	78.0	81.0	83.4	83.0	82.0
Network reliability - average minutes customers were without supply	86.3	95.9	94.1	97.8	100.0
Lost time - accidents per one million hours worked	6.3	5.2	4.8	3.4	--
Reportable environmental incidents	3	2	--	4	--
Total customer connections	822,446	832,538	842,315	853,328	844,863

* Targets agreed with shareholder Ministers in the Statement of Corporate Intent.

The customer satisfaction index of 83 per cent was comparable to 2006-07 but better than the target of 82 per cent. This is the percentage of customers who rated Integral as 'excellent' or 'very good' for certain parameters in customer surveys.

Network reliability measures the number of minutes that customers on average are without electricity each year. Reliability has been steady over the last three years and remains within Integral's target. Integral advised that factors affecting network reliability performance are largely external to the network and beyond mitigation through network management practices. Supply failure can result from adverse environmental conditions such as wind, lightning, rain, bushfires, defective equipment, loss of transmission supply, and vegetation coming into contact with powerlines and other assets. Events that had a significant impact on the overall reliability result included 24 interruptions to zone substations, a fire at Smithfield zone substation and minor storms over the summer season.

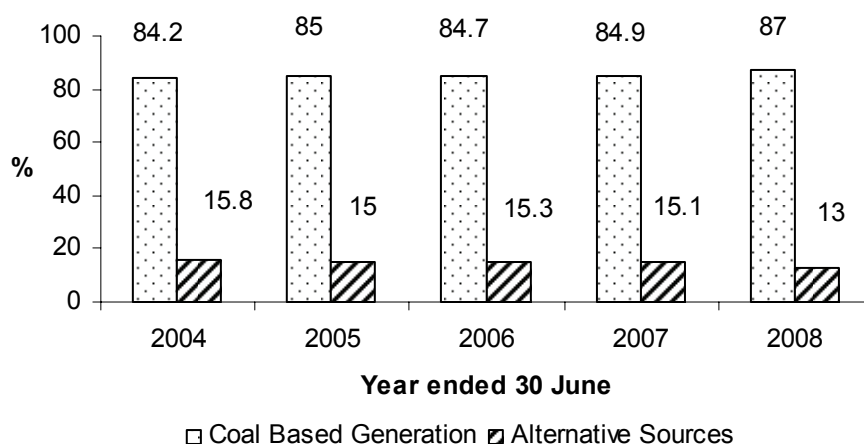
Integral's performance with respect to lost time accidents has continued to improve over the years.

There was an increase in the number of reportable environmental incidents reported in 2007-2008. All four incidents were reported under the *Protection of the Environment Operations Act 1997*, and were mainly due to oil spills flowing into storm water drains, road sides or canals.

Environmental Performance

Integral's purchases of energy from alternative sources have been relatively stable over the last five years, although these have marginally declined in 2007-08 from 15.1 per cent to 13 per cent. Despite this fall, purchases are expected to increase in the future as requirements under carbon credit schemes mature.

Energy Purchased From Coal Vs Alternative Sources



Integral is meeting its target obligations under the Commonwealth's *Renewable Energy Electricity Act 2000*. This has been achieved through wholesale purchases of renewable energy certificates from a variety of eligible sources (i.e. wind, hydro, waves, solar and biomass).

The New South Wales Greenhouse Abatement scheme came into force on 1 January 2003. All electricity retailers are obliged to reduce their greenhouse gas emissions to meet the benchmark targets. Integral meets the obligations under this scheme through existing generation contracts with the Smithfield Energy Facility and the Appin Tower Collieries.

Financial Performance

Year ended 30 June	Actual		Target*
	2007	2008	2008
Earnings before interest and tax (\$m)	346.8	336.1	315.5
Return on equity (%) (a)	13.9	12.8	13.4
Return on assets (%) (b)	9.6	8.4	8.5
Interest cover (times)	3.2	2.6	2.4
Total distributions to Government (\$m)	193.0	182.3	144.9
Capital expenditure (\$m) (c)	381.7	373.5	448.5

* Targets agreed with shareholder Ministers in the Statement of Corporate Intent.

(a) Profit after tax divided by average equity.

(b) Earnings before interest and tax divided by average total assets.

(c) Net of asset sales.

Earnings before interest and tax were \$20.6 million above budget primarily due to a change in the accounting estimate methodology for calculating unbilled revenue and network usage accruals partly offset by a superannuation defined benefits actuarial loss.

Total distributions to Government were better than target due to higher net profit.

The decline in capital expenditure was primarily driven by expenditure on the network being \$66.3 million below target. Contributing factors to this included increased pressure on suppliers to meet demand from the New South Wales electricity industry and time delays resulting from increased community expectations with respect to environmental due diligence and consultation.

OTHER INFORMATION

Entry into Queensland Market

On 14 May 2007, Integral entered the small retail energy market in Queensland. This year was its first full year of Queensland market participation. During 2007-08 Integral derived \$33.2 million in electricity revenue from the Queensland market, increasing its customer base to over 95,000 customers and making Integral the largest second tier retailer in Queensland.

FINANCIAL INFORMATION

Abridged Income Statement

Year ended 30 June	2008 \$'000	2007 \$'000
TOTAL REVENUE	1,843,987	1,538,869
PROFIT BEFORE BORROWING COSTS, DEPRECIATION, AMORTISATION AND TAX	465,562	467,115
Finance costs	128,233	107,558
Depreciation and amortisation	129,456	120,362
PROFIT BEFORE TAX	207,873	239,195
Income tax equivalent	57,335	85,986
PROFIT AFTER TAX	150,538	153,209
Dividend provided	124,992	107,033

Total revenue included \$1.4 billion in electricity sales (\$1.1 billion in 2006-07) and \$342 million in network use of system charges (\$300 million).

Abridged Balance Sheet

At 30 June	2008 \$'000	2007 \$'000
Current assets	472,967	761,955
Non-current assets	3,445,746	3,305,898
TOTAL ASSETS	3,918,713	4,067,853
Current liabilities	937,481	983,483
Non-current liabilities	1,953,519	1,760,410
TOTAL LIABILITIES	2,891,000	2,743,893
NET ASSETS	1,027,713	1,323,960

The decrease in net assets is mainly due to movements in derivative financial assets and liabilities. This was primarily due to derivative contracts maturing during the year.

Integral's 2007-08 capital program was partly funded by a net increase of approximately \$369 million in borrowings. All borrowings are with New South Wales Treasury Corporation.

The Smithfield 30-year energy purchase contract is not included in liabilities. This contract is due to expire in 2027 and expenditure commitments at 30 June 2008 were \$1.8 billion (\$1.8 billion).

MINISTERIAL DIRECTIONS

No ministerial directions were issued by the portfolio Minister during 2007-08 under section 20P of the *State Owned Corporations Act 1989* (the 'SOC Act').

On 21 July 2008, the Board of Integral was directed to transfer the retail business of Integral to a new subsidiary of Eraring Energy (Eraring), effective 1 August 2008. This was in preparation for selling the combined Integral retail and Eraring operations as part of the Government's then energy restructure strategy. On 28 August 2008, the Government announced it would not proceed with this sale strategy. Instead the Government announced its intention to sell only the retail operations of Integral.

CORPORATION ACTIVITIES

See the 'Electricity Industry Overview' section earlier in this report for general industry comment.

Integral is a statutory State owned corporation constituted by the *Energy Services Corporations Act 1995*. Its principal functions are to establish, maintain and operate facilities for the distribution and supply of electricity and other forms of energy. The voting shareholders are the Treasurer and the Minister for Finance.

For more information on Integral, refer to www.integral.com.au.

TransGrid

AUDIT OPINION

The audit of TransGrid's financial report for the year ended 30 June 2008 resulted in an unqualified Independent Auditor's Report.

PERFORMANCE INFORMATION

TransGrid is responsible for providing accessible, efficient, safe and reliable facilities for transmitting electricity. Following are some of the key indicators it uses to assess its performance.

Operational Performance

Energy Maximum Demands

Energy use in New South Wales has increased at about 1,380 gigawatt hours (GWh) per annum over the past ten years. New South Wales has the largest summer peak demand in the National Electricity Market (NEM), with maximum summer demands forecast to increase by some 440 megawatts a year. In January 2008, TransGrid recorded a peak summer demand of 12,954 megawatts (13,458 megawatts in 2006-07).

TransGrid has a \$1.3 billion capital works program over its current five year regulatory period to 30 June 2009, to help it meet increasing demand. TransGrid expects to achieve its program.

Reliability of Transmission Network

The Australian Energy Regulator (AER) monitors the performance of transmission networks against AER targets set for the regulatory period 2004 to 2009. TransGrid's performance has been:

Year ended 31 December	Actual			Target
	2005	2006	2007	2004-2009
Transmission circuit availability (%)	99.57	99.57	99.38	99.50
Transformer availability (%)	98.90	98.84	97.46	99.00
Reactive plant availability (%)	99.64	98.92	99.23	98.60
Frequency of lost supply events greater than 0.05 mins	1	2	4	5
Frequency of lost supply events greater than 0.40 mins	--	--	1	1
Average outage duration (minutes)	717	824	788	1,500

Source: Australian Energy Regulator and TransGrid.

TransGrid has generally performed well against its targets. The decreasing transformer availability is mainly due to TransGrid's augmentation and asset replacement capital works programs, and does not indicate a reduction in network reliability.

Financial Performance

Year ended 30 June	Actual			Target*
	2006	2007	2008	2008
Earnings before interest and tax (\$m)	216.3	231.0	299.7	253.7
Return on equity (%) (a)	5.4	5.4	8.0	6.0
Return on assets (%) (b)	5.8	6.0	7.4	6.2
Dividends to government (\$m)	69.5	71.5	105.9	83.8
Capital expenditure	158.6	218.2	355.0	383.2

* Source: TransGrid 30 June 2008 Statement of Corporate Intent (SCI). To reflect the SCI targets, the actual performance information excludes superannuation gains/(losses).

(a) net profit after tax (excluding superannuation gains/(losses)) divided by average equity.

(b) earnings before interest and tax (excluding superannuation gains/(losses)) divided by average assets.

Contributions to Government for 2007-08 were \$152 million, comprising a dividend of \$106 million (\$71.0 million) and a taxation equivalent expense of \$46.3 million (\$54.5 million).

Capital expenditure increased significantly from 2007 as a number of major capital projects were well advanced including the Western 500kV Development Project, Wollar-Wellington 330kV Transmission Line Project and the transformer replacements at Sydney South and Tuggerah Substations.

FINANCIAL INFORMATION

Abridged Income Statement

Year ended 30 June	2008 \$'000	2007 \$'000
REVENUE (excluding superannuation movement)	572,987	504,838
Superannuation (expense)/income	(48,677)	39,701
TOTAL REVENUE	524,310	544,539
PROFIT BEFORE BORROWING COSTS, DEPRECIATION AND TAX	394,931	407,666
Borrowing costs	101,882	100,726
Depreciation	141,996	135,486
PROFIT BEFORE TAX	151,053	171,454
Income tax equivalent expense	46,315	54,498
PROFIT AFTER TAX	104,738	116,956
Dividend provided	105,910	71,482

Revenue included \$527 million from the transmission of electricity (\$487 million). Increases in revenue are limited to the revenue cap set by the regulator and performance incentive amounts. The revenue cap is adjusted each year by indexing for inflation.

Revenue also included \$29.2 million in 2007-08 from non-cash capital contributions relating to the transfer of transmission assets, forming part of the Uranquinty Power Station project.

Abridged Balance Sheet

At 30 June	2008 \$'000	2007 \$'000
Current assets	127,524	136,057
Non-current assets	4,093,090	3,792,919
TOTAL ASSETS	4,220,614	3,928,976
Current liabilities	559,624	550,437
Non-current liabilities	1,910,772	1,677,020
TOTAL LIABILITIES	2,470,396	2,227,457
NET ASSETS	1,750,218	1,701,519

Current liabilities include \$37.4 million (\$61.5 million) for monies received for electricity transmission services in excess of TransGrid's revenue cap. This amount is to be returned to customers through lower transmission prices.

CORPORATION ACTIVITIES

See the 'Electricity Industry Overview' appearing earlier in this report for general industry comment.

TransGrid principally establishes, maintains and operates facilities to transmit electricity and other forms of energy.

TransGrid is a statutory State owned corporation constituted by the *Energy Services Corporations Act 1995*. It was corporatised under the *State Owned Corporatisation Act 1989* in December 1998.

For more information on TransGrid, refer to www.tg.nsw.gov.au.

Minister for Lands

Refer to Appendix 1 for:

Wentworth Park Sporting Complex Trust

Minister for Planning

Refer to Appendix 1 for:

Building Professionals Board

Growth Centres Commission

Hunter Development Corporation

Minister for Police

Refer to Appendix 1 for:

Ministry for Police
New South Wales Crime Commission

Minister for Sport and Recreation

Sydney Cricket and Sports Ground Trust

Refer to Appendix 1 for:

State Sports Centre Trust

Sydney Cricket and Sports Ground Trust

AUDIT OPINION

The audits of the Trust and its controlled entity's financial reports for the year ended 29 February 2008 resulted in unqualified Independent Auditor's Reports.

OTHER INFORMATION

We identified some minor opportunities for improvement in internal control and reported them to management.

New Hill Grandstand and Administration Office

At 29 February 2008, costs of \$35.0 million had been incurred on the \$80.0 million Hill Grandstand project. The grandstand will increase seating capacity by 2,300 and occupy the sites previously known as the Doug Walters Stand and the Hill.

At the same date, costs of \$7.4 million had been incurred on a new \$10.0 million administration office complex.

In order to fund these capital projects the Trust has a borrowings 'global' limit with New South Wales Treasury Corporation of \$100 million. Borrowings, comprising New South Wales Treasury Corporation loans, were \$16.0 million at 29 February 2008.

FINANCIAL INFORMATION

Abridged Consolidated Income Statement

Year ended 29 February	2008 \$'000	2007* \$'000
Government grant	25,000	--
Membership fees	17,585	15,337
Event hire fees	7,310	9,247
General	36,388	40,522
TOTAL INCOME	86,283	65,106
Event operating costs	9,206	10,275
Staff related expenses	12,363	12,296
General	33,126	37,036
TOTAL EXPENDITURE	54,695	59,607
SURPLUS	31,588	5,499

* Year ended 28 February 2007.

The Trust received a \$25.0 million grant from the New South Wales Government which matches the Commonwealth Government commitment to the Hill Grandstand project. Event income and expenditure fell during the year primarily due to some very large events that were held in the previous year including the Ashes Cricket Test.

Abridged Consolidated Balance Sheet

At 29 February	2008 \$'000	2007* \$'000
Current assets	9,613	15,733
Non-current assets	510,563	465,823
TOTAL ASSETS	520,176	481,556
Current liabilities	30,257	32,056
Non-current liabilities	19,052	10,221
TOTAL LIABILITIES	49,309	42,277
NET ASSETS	470,867	439,279

* Year ended 28 February 2007.

Current assets were lower due mainly to some large contract renewal fees invoiced at the conclusion of the previous year.

Non-current liabilities increased due to higher borrowings to fund the Hill Grandstand development.

TRUST ACTIVITIES

The Trust is responsible for the care, control and management of the Sydney Cricket Ground and the adjacent Sydney Football Stadium.

The *Sydney Cricket and Sports Ground Act 1978* established the Trust as a Corporation.

The Trust is subject to the control and direction of the Minister for Sport and Recreation.

For further information on the Trust, refer to www.scgt.nsw.gov.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
Sydney Cricket and Sports Ground Trust Division

Minister for Transport

Rail Services Overview

Rail Corporation New South Wales

Rail Infrastructure Corporation

Transport Infrastructure Development Corporation

Follow-up Review of CityRail Passenger Security

Refer to Appendix 1 for:

Chief Investigator of the Office of Transport Safety Investigations

Independent Transport Safety and Reliability Regulator

Rail Services Overview

RAIL SERVICES

The following Government entities provide rail services in New South Wales:

State Owned Corporations

Rail Corporation New South Wales (RailCorp)
Rail Infrastructure Corporation (RIC)
Transport Infrastructure Development Corporation (TIDC)

Separate commentary on the above entities appears later in this Report.

AUDIT OPINIONS

The audits of the above entities' financial reports for the year ended 30 June 2008 resulted in unqualified Independent Auditor's Reports.

KEY ISSUES

Shortage of Signal Engineers for Testing and Commissioning

The rail industry has a shortage of signal engineers who are qualified to test and commission new infrastructure assets such as the Epping Chatswood Rail Line (ECRL) and Rail Clearways Program. This shortage has led to delays in commissioning projects and increased project costs.

At RailCorp, current staff levels of commissioning engineers include three permanent staff and two contractors whereas the required number of commissioning engineers for the projected workload is 16. RailCorp has advised that they have recently advertised a competitive contract package for these positions and based upon applications received are confident of filling all vacant positions.

RailCorp has also developed a number of initiatives including:

- forming an alliance with the private sector to gain access to more specialised skills and increase its signalling and electrical engineering capabilities. This will involve RailCorp staff and private sector staff working together in a long-term arrangement to deliver a defined program of signalling, electrical and related works within the CityRail network, over and above its current workload. This is expected to commence by early 2009
- implementing a range of reforms to train, develop and retain critical electrical and signalling engineers on an ongoing basis
- supporting further study and increasing overseas recruitment
- Graduate Programs to develop a pool of professional engineering staff with high level technical skills and managerial capabilities
- long term workforce plans for critical trades.

The Government is also proposing the provision of financial support for apprentices to study part-time and measures to raise the profile of engineering as a career. This includes further support of RailCorp's apprentice program by planning to accelerate the development of RailCorp's future workforce by offering smooth pathways from high school, TAFE and university.

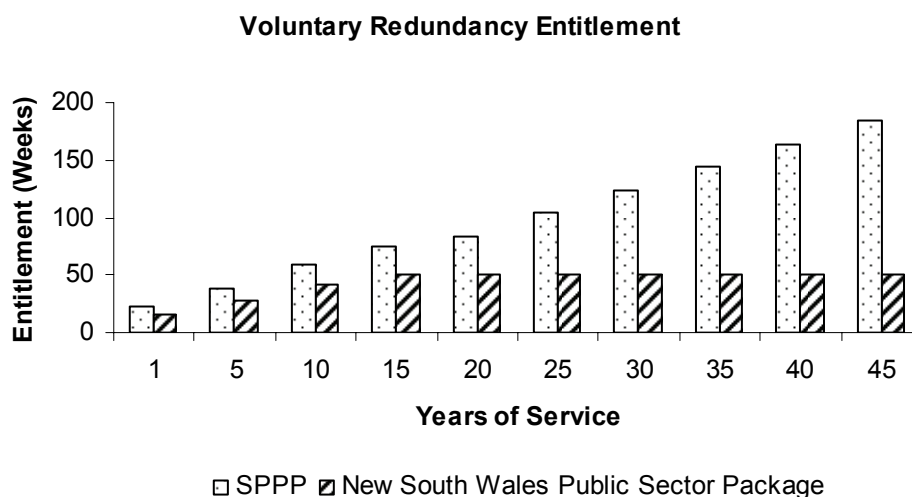
Further commentary on the ECRL and Rail Clearways Program is provided in the RailCorp and TIDC sections later in this Report.

Voluntary Redundancy

Since 1 January 2004, the rail restructure has resulted in a number of displaced RIC and State Rail Authority (SRA) employees. The management of displaced employees includes redeployment/re-training or the offer of voluntary redundancy. Voluntary redundancy is available only where employees are surplus and a formal offer of voluntary redundancy is made.

RIC or SRA employees eligible for voluntary redundancy had a choice between the Special Purpose Payment Package (SPPP) and the applicable RIC or SRA voluntary redundancy package. The SPPP is considerably more generous than the voluntary redundancy package available to standard New South Wales public sector employees. The SPPP was put in place at the time of RailCorp's formation to assist employees to accept voluntary redundancy as part of the industry restructuring.

The following graph illustrates how the SPPP compares to existing public sector voluntary redundancy entitlements:



An employee with 25 years of service will be entitled to double the existing public sector voluntary redundancy entitlement under the SPPP.

As at 30 June 2008, the cost to date of employees of RIC or SRA who have taken voluntary redundancy is \$245 million.

Career Transition Centre

During 2007-08, RIC continued to maintain responsibility for the management of displaced staff resulting from the transition of functions to RailCorp and Australian Rail Track Corporation (ARTC).

As at 30 June 2008, 61 employees were registered with the Career Transition Centre (CTC). The average period in which an employee remains registered in the CTC is 178 days (156 days in 2007). This statistic consists of an average of 140 days to exit by way of taking voluntary redundancy and currently 300 days to exit via redeployment. The increase in average days is primarily due to the difficulty in identifying an acceptable position for redeployment.

As at 30 June 2008, 612 staff members have been permanently redeployed and 2,167 had accepted voluntary redundancy since inception of the CTC in September 2004. This permanent redeployment statistic consists of 261 redeployments to other government agencies and 351 transfers to ARTC.

The most recent CTC intakes occurred in January 2007 for metropolitan employees and June 2008 for country employees. The June 2008 intake was driven by ARTC deciding against renewal of the Labour Services Agreement. As a result, 714 employees seconded to ARTC returned to RIC and of these, 142 accepted full time employment with ARTC, 522 accepted voluntary redundancies, 12 exited for other reasons and 38 remained employed by RIC at 30 June 2008. Full closure of the CTC is expected to occur between December 2008 and June 2009.

OTHER INFORMATION

2008-09 Funding Announcements

The Government is currently planning a 'mini' budget to be released on 11 November 2008. It is not known if the previously announced expansion plans for the rail network, as follows, will be amended.

Rail services continue to depend significantly on government funding to meet both operating expenses and capital investment. The level of cost recovery has remained consistently low, notwithstanding increases in the absolute level of fare income. For more information on the cost recovered from passenger revenue refer to the comments on RailCorp later in this report.

In June 2008, the Government announced the 2008-09 Budget which included \$2.5 billion of government funding for rail services, including the country regional network.

RailCorp's capital expenditure program is \$967 million for 2008-09, which includes \$153 million for rolling stock acquisitions and upgrades, and \$353 million for the Rail Clearways Program. The program will be funded by \$499 million in Government grants and \$468 million from borrowings and internal funds.

In 2008-09, the Government will also provide \$173 million to TIDC for the ECRL and the SydneyLink projects (in addition to the \$30.0 million already provided in June 2008 for a feasibility study into a Western Metro Line); \$210 million to RIC, including \$167 million for the maintenance of the country regional network; and \$22.8 million for the interstate and Hunter Valley rail networks.

Expansion of Rail Network

In 2007-08, the Government revised the Metropolitan Rail Expansion Program. In March 2008, the Government announced SydneyLink, a series of major transport projects to transform Sydney's public transport infrastructure. The first stages of SydneyLink will be:

- a new 13 kilometre South West Rail Link from Glenfield to Leppington via Edmondson Park by 2012 at a cost of \$1.4 billion. TIDC has commenced the next phase of design development and an environmental impact assessment. The Government expects to provide \$64.0 million to fund this project in 2008-09
- a new 38 kilometre North West Metro from the CBD to Rouse Hill via Epping with 17 new stations at a cost of \$12.0 billion. The first section between the Hills Centre and Epping will be open by 2015 and the entire line from Rouse Hill to the CBD will be open by 2017. The project is now in the Project Definition phase and the Government expects to provide \$106 million to fund this project in 2008-09.

In addition, an amount of \$30.0 million was provided in June 2008 by the Commonwealth and the State to undertake a feasibility study into a Western Metro Line, between Parramatta and the CBD. The feasibility study will identify preferred alignments and establish a business case for this project. For more information on these projects, refer to www.tidc.nsw.gov.au.

TIDC has now completed major construction of the new rail line from Epping to Chatswood (ECRL) with three new underground stations at Macquarie Park, Macquarie University and North Ryde. Complex commissioning works are currently underway involving extensive testing of all tunnel systems to ensure the line operates safely and reliably from the first public service expected in the first quarter of 2009. During the year TIDC, on behalf of RailCorp, progressed the Rail Clearways Program, which comprises 15 key projects with a range of expected commissioning dates. For more information on these projects refer to comments on TIDC later in this report.

Office of the Coordinator General (OCG) Rail Capital Review

In April 2008 the OCG, within the Department of Premier and Cabinet, was requested to conduct a comprehensive review of the Rail Capital Program including RailCorp's forward capital works program, rolling stock requirements and all projects currently being managed by TIDC.

The review has been completed and a draft report has now been prepared incorporating recommendations for action by the rail entities.

New Electronic Ticketing System

On 29 August 2008, the Government released an Expression of Interest to select a successful bidder to deliver the new electronic transport ticketing system for the CityRail network, metropolitan and outer-metropolitan public and private bus services, and Sydney ferries. The registration closed on 16 October 2008.

The new electronic ticketing system is going to replace the previously terminated TCard project. It is expected to:

- be a single smartcard ticket that is 'pay as you go'
- work like e-tags used by motorists
- be able to be topped up through the internet, over the phone and from retail outlets
- require IPART to design a new fare structure that is distance-based.

The Public Transport Ticketing Corporation (PTTC) is responsible for establishing and managing the new electronic ticketing system. For more information on the implementation of the new electronic ticketing system, refer to www.pttc.nsw.gov.au and comments on the PTTC in our subsequent Volume Five of the Auditor-General's Report to Parliament.

Rail Corporation New South Wales

AUDIT OPINION

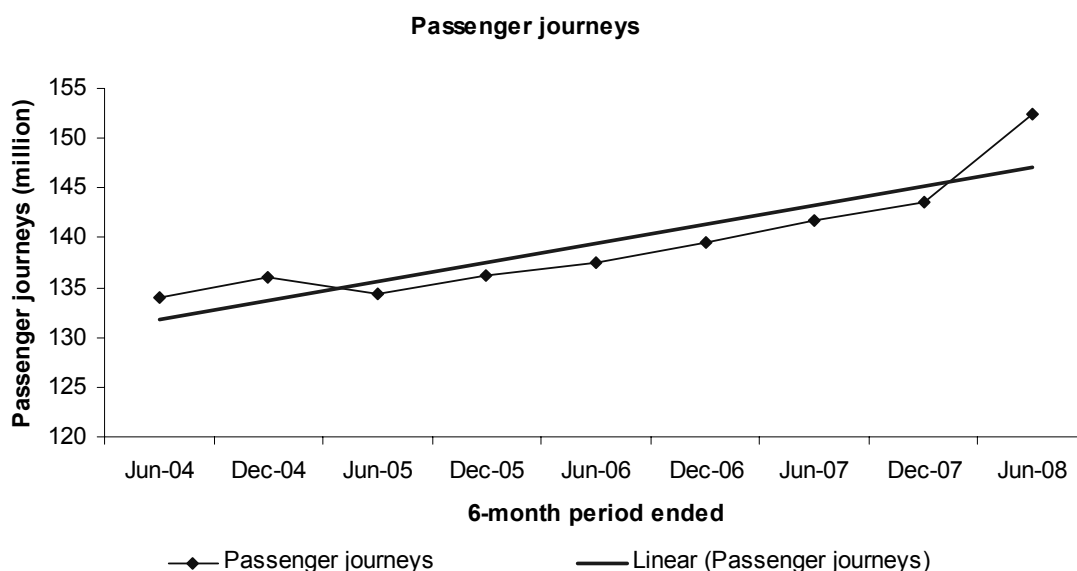
The audit of RailCorp's financial report for the year ended 30 June 2008 resulted in an unqualified Independent Auditor's Report.

KEY ISSUES

For general rail industry information, refer to the 'Rail Services Overview' section earlier in this Report.

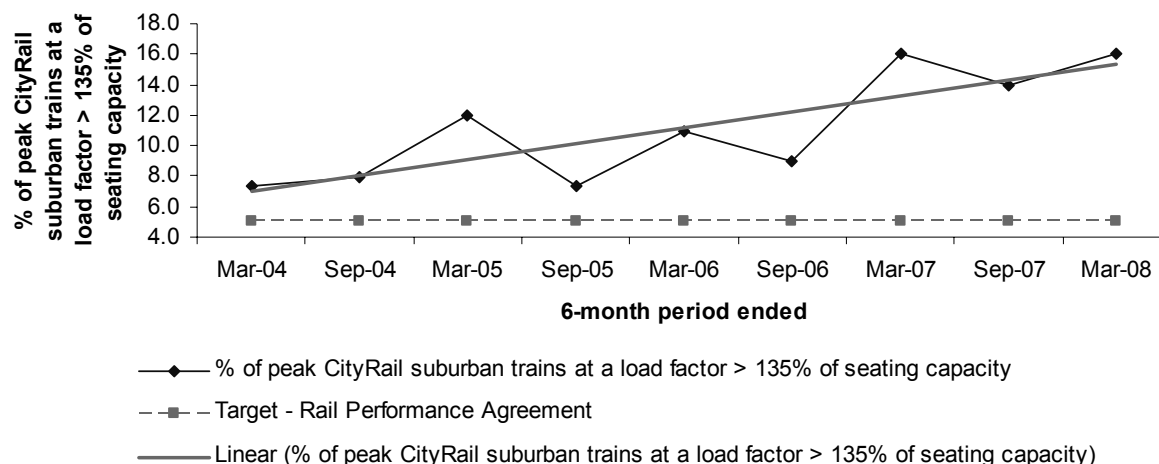
Increased Crowding on Trains

A number of factors, including increasing fuel prices and CBD employment, have resulted in more passengers choosing to travel by CityRail trains. CityRail passenger journeys have increased by approximately 5.2 per cent, from 281 million passenger journeys in 2006-07 to 296 million in 2007-08.



Crowding on trains is increasing and this trend is expected to continue. This is the major cause of passenger dissatisfaction, with over half of passengers dissatisfied with crowding on most lines.

Peak CityRail suburban trains at a load factor > 135% of seat capacity



The percentage of peak hour trains carrying passengers at a level greater than 135 per cent of seat capacity was 16 per cent and this exceeded the target of five per cent set by the Minister in the Rail Performance Agreement. A proposed new target of not more than 17 per cent is targeted by 2010-11.

Passengers travelling on the South and Main North lines experienced more crowding than others, with an average load of 140 per cent. The Boston Consulting Group (BCG) reports (see comments later in this report) that about 30 morning trains and 15 to 20 evening trains have passengers standing for more than 20 minutes.

RailCorp has introduced procedures to improve the management of crowding on major station platforms, such as Town Hall, during peak times as well as short term strategies to address over-crowding which include:

- a new Western line morning peak service from Quakers Hill to Central as well as additional carriages for two peak services since December 2007
- two new afternoon peak services for the North Shore and Western lines as well as the build-up of two trains from six to eight cars since mid August 2008
- some timetable revisions for the North Shore and Western lines since mid August 2008
- the introduction of an off-peak fare trial in mid August 2008.

RailCorp is currently considering other initiatives recommended by the BCG to reduce crowding. These include changing the peak-hour timetable to better match train supply with passenger demand. The report indicates crowding will worsen despite significant current infrastructure improvements under scenarios where patronage growth is greater than five per cent per annum to 2010 and 2.5 per cent thereafter.

Independent Commission Against Corruption (ICAC) Investigations

The ICAC has investigated allegations of serious and systemic corruption at RailCorp. The Commission is in the process of completing Operation Monto, which comprises investigations into allegations that RailCorp employees and contractors acted fraudulently and/or engaged in bribery in relation to the procurement of goods and services for maintenance purposes and track construction. The ICAC reports similar corruption issues arose in several previous ICAC investigations into RailCorp in 2006 and 2007.

The six Operation Monto reports published deal with similar issues although different parties were involved in each of the proceedings. These issues included:

- former RailCorp employees who corruptly arranged for RailCorp work to be given to companies in which they had a private interest
- the submission of false timesheets by employees
- a former RailCorp employee who was responsible for the administration of the plant and equipment procurement processes, who together with others, received benefits through dishonest arrangements
- the receipt of corrupt payments by former RailCorp employees from various RailCorp contractors.

In total, the Operation Monto reports state that contracts with a value of approximately \$19.0 million since 2000 were awarded inappropriately and that RailCorp employees and their associates received direct benefits from these contracts of approximately \$4.0 million.

Since the evidence of corrupt conduct was given to the ICAC, RailCorp states it has not allocated any work to the companies or individuals involved. The ICAC has sought the advice of the New South Wales Director of Public Prosecutions as to whether serious criminal charges might be brought against all the persons who were the subject of findings of corrupt, conduct and conduct resulting in breaches of the ICAC Act.

Later this year, the Commission is expected to publish a final report which should address all corruption prevention issues raised during Operation Monto and make recommendations about changes to RailCorp's structure, practices and procedures to reduce opportunities for similar corrupt conduct in the future.

For more information on the reports, refer to www.icac.nsw.gov.au.

Fleet Failures

Electric fleet failures monitored on a 24 hour basis are significantly worse than the targets for all fleet categories. In 2007-08, 23 per cent of all carriages failed every month on average. In 2007-08, the train sets 'C', 'M', 'T' and 'V' experienced more failures than the previous year.

Electric fleet failures impacting on peak period services decreased from an average of 66.1 incidents per month in 2006-07 to an average of 56.6 incidents per month in 2007-08.

As at 30 June 2008, about 86 per cent of RailCorp's electric fleet is more than ten years old, 59 per cent more than 20 years old, and 31 per cent more than 30 years old. Generally the older the trains, the more failures are experienced. However, this is not the major failure factor for the fleet. Although 'R, S, L' and 'K' trains are older than other trains, they are less prone to failure than newer trains. Millennium trains are relatively new, yet their failure rate is higher than the 'G', 'K' and 'R, S, L' trains and has continued to deteriorate over the past three years.

The table below provides an analysis of fleet failures for each train type.

Train Type*	Average Age (Years)	Average Monthly Carriage Failure					No. of Carriages at 30 June 2008
		rate (%) 2006	rate (%) 2007	rate (%) 2008	(Actual) 2008	(Target) 2008	
'R, S, L' Sets	31.0	19	23	19	95	54	498
'K' Sets	25.0	15	22	16	26	20	160
'V' Sets	23.4	28	29	31	70	22	225
'C' Sets	21.4	32	23	29	16	9	56
Tangara - 'T' Sets	16.6	25	22	25	93	74	368
Tangara - 'G' Sets	13.4	17	20	20	15	7	76
Millennium - 'M' Sets	4.1	7	17	24	34	na	141
OSCAR - 'H' Sets	0.8	na	na	19	15	na	76
Total electric fleet				23	364	186	1,600

* See www.cityrail.info for more information.
na not applicable.

To reduce the fleet failure rate in the shorter term, RailCorp is continuing its fleet reliability program which includes the replacement of door motors and additional initiatives mentioned later in this report. In the longer term, RailCorp is continuing its rolling stock replacement program (see following comments) to improve fleet reliability:

- provide new trains to address current crowding issues
- provide new trains to meet forecast patronage growth
- provide new trains to replace deteriorated and non air-conditioned rolling stock to improve services
- improve fleet availability by increasing the size of existing trains from either four or six cars to eight cars
- open the Epping to Chatswood Rail Line and the realignment of the timetable
- improve compliance with the wheelchair accessibility and visual information requirements of the *Disability Discrimination Act*
- maintenance reform.

Rolling Stock Acquisitions and Replacement

RailCorp has commenced the following projects to improve and expand its rail fleet. All projects are late or running behind schedule.

	Original Target Date	Forecast Completion Date	Months late	Project Approval \$m	Actual Cost at 30 June 2008 \$m	Forecast Final Cost \$m
14 new Hunter Valley rail cars	31/12/2005	29/06/2008*	30	102	98.8	102
41 new Outer Suburban rail cars - Stage 1	31/12/2006	31/12/2008*	24	172	161	172
81 new Outer Suburban rail cars - Stage 2	30/06/2008	31/12/2008*	6	268	239	268
626 new carriages via Public Private Partnership	05/09/2013	17/12/2013	3	--**	142	--**

* Interim Practical Completion.

** See comments below.

In September 2007, the last two new Hunter Valley diesel rail car sets (four cars) achieved interim practical completion and were placed in service. However, the gradual replacement of sidewall panels commenced in October 2007, and was only completed in June 2008. Although in service, practical completion will not be achieved for all 14 cars until certain remaining issues are closed out, possibly by mid-2009.

Twenty Stage 1 Outer Suburban rail cars were delivered in prior years. Sixteen further Outer Suburban rail cars in stage 1 achieved interim practical completion in 2007-08. The remaining five cars are now expected to be delivered by December 2008. The forecast completion date of stage 1 is behind the original schedule by 24 months mainly due to manufacturing and testing delays experienced by the contractor. Practical completion will not be granted for all 41 cars until remaining issues are closed out, possibly by December 2009.

Deliveries of the first new Outer Suburban rail cars in stage 2 commenced in December 2007. During 2007-08, 40 cars achieved interim practical completion and entered into passenger service. The final four-car set is expected to be in service by 31 December 2008, a delay of six months from the original schedule. Practical completion will not be achieved for all 81 cars until December 2009.

With CityRail patronage growth in recent years being above the forecast of 2.5 per cent, the existing rolling stock acquisition replacement program appears insufficient to deliver the required capacity. The Government is currently considering a longer term strategy to address this issue, including exercising the option for stage 3 of the Outer Suburban rail cars, the refurbishment of Tangara trains, and delaying the replacement of the 'R, S, L' train sets until 2013.

Acquisition of 626 new carriages via Public Private Partnership

RailCorp provides bi-annual reports to The Treasury and Cabinet Standing Committee on the progress of this project, including Reliance Rail's deliverables and RailCorp's commitments against the planned program, budget and proposed material variations.

Total payments by RailCorp to Reliance Rail, including finance costs, over the period of the contract are estimated to be \$9.5 billion in nominal dollars. Estimated total cost over the term of the project, including contract costs, risks not transferred to the private sector, and ancillary RailCorp costs are \$3.6 billion in net present value as at 30 June 2006.

RailCorp's ancillary works have commenced and the design of the trains and the maintenance facility are in progress. In 2007-08, ancillary works expenditure for this project was \$46.1 million (\$142 million in total to 30 June 2008). This expenditure included three milestone payments totalling \$18.0 million to Reliance Rail following successful completion of the project plan documentation and mock-ups of the passenger saloon and driver cabs.

On 7 December 2006, RailCorp concluded the Rolling Stock Public Private Partnership contract with Reliance Rail to:

- manufacture 626 new double deck carriages and maintain them for more than 30 years
- build train simulators to train rail staff
- ensure 72 eight-carriage trains are available for service every day over the period defined in the contract
- construct new maintenance facilities at Auburn.

The 626 new carriages will be progressively introduced into service from 2010, with all carriages expected to be in operation by December 2013. RailCorp will operate these new carriages on selected corridors which will firstly require the upgrade of substations and overhead wiring.

Customer Service Improvement Program

In October 2007, the New South Wales Government and RailCorp engaged the BCG to support the design and implementation of a major program to improve CityRail's customer service. This review was completed in August 2008 at a cost of \$9.0 million.

More than 30 initiatives were identified and prioritised for implementation. These initiatives consisted of short to medium-term operational improvements and larger long-term changes to generate more significant improvements to service, including:

- timetable and stopping pattern changes
- changes to the price differential between peak and off-peak
- enhanced service at selected stations
- the introduction of a simplified fare structure
- significant re-organisation of customer service activities in the Service Delivery division
- initiatives to address head office and station inefficiency
- considering the outsourcing of fleet maintenance activities if the Clark recommendations are not implemented fully within 12 months.

RailCorp has already commenced work to implement a range of the key recommendations (see later comments) and achievements to October 2008, including:

- a reduction in ticket queues through the introduction of the new 14 day ticket
- improved train cleaning activities leading to more rubbish being removed
- a seven per cent improvement in the Western line PM (afternoon) peak services primarily due to dwell time management at major CBD stations
- improved station passenger information systems on the Northern and North Shore Lines
- the provision of over 1,500 additional seats for passengers through the introduction of an additional PM peak service on the Western Line and the build up from six to eight carriage trains on a number of other services.

This review resulted in the formation of the 'Everyday Service Essentials Program' which aims to improve the quality and consistency of CityRail's day-to-day service in areas of customers' basic needs, including crowding, reliability, handling of delays and train announcements, evening security, cleanliness, ticketing and complaints handling.

For more information on this program, refer to www.nsw.gov.au.

Fleet Maintenance

In 2007-08, maintenance expenditure for the electric fleet exceeded the budget of \$237 million by \$18.3 million while expenditure for the diesel fleet was \$1.3 million below the budget of \$54.5 million.

The electric fleet maintenance expenditure was over budget mainly due to the completion of 246 component changeouts compared to the budget of 232.

At 30 June 2008, 98 cars were overdue for their scheduled component changeout, 12 more than the previous year (86 cars). The cost of this backlog in passenger rolling stock maintenance was estimated at \$25.0 million (\$22.0 million). RailCorp advises that the backlog of component changeout does not affect the safety and reliability of the fleet.

RailCorp advises that about 30 per cent of incidents causing delays in peak periods are attributable to train failures. RailCorp is continuing to implement the following to address this issue:

- existing rolling stock reliability program such as replacement of door motors
- revision of Technical Maintenance Plans for suburban and intercity electric train sets
- the performance of 'double-check' procedures by qualified trade and non-trade staff rather than temporary quality auditors
- improving the productivity of the Flemington Maintenance Centre Wheel Mill
- working to reduce data logger servicing time.

A report into fleet maintenance from Keith Clark was completed in October 2007. The report makes a number of recommendations for the reorganisation and improvement of in-house maintenance and makes it clear that unless all recommendations are implemented in full the necessary improvement will not be achieved.

The BCG report also recommends that it is necessary to change the way daily maintenance requirements are specified and delivered. This involves redesigning the approach to engineering and maintenance to match requirements by fleet type and age, establishing detailed performance targets, better contract management for both internal and outsourced providers in order to lift work quality, and improved component management. The BCG report notes that fleet performance was three times worse than the Nova/CoMET (an international benchmark) average.

The BCG report recommends that outsourcing should be considered if full implementation of the Clark recommendations cannot be agreed within three months and implemented within 12 months, and/or the market performance target cannot be reached with 12 months.

Infrastructure Assets Maintenance

The BCG report found that about 20 per cent of incidents causing delays in peak periods were attributable to infrastructure failures, of which 60 per cent were signalling failures. 70 per cent of signalling delays occurred in three areas: Cabramatta to Campbelltown, Clyde to Ashfield, and the CBD.

RailCorp advises that the safety and reliability performance of infrastructure has significantly improved over recent years. This is reflected by a downward trend in the average number of monthly peak incidents attributable to infrastructure from 42.6 in 2004-05 to 26.3 in 2005-06, and from 24.7 in 2006-07 to 22.8 in 2007-08.

The 'steady state' level for routine and major periodic maintenance on infrastructure assets will be maintained in 2008-09 by funding of \$482 million. The total asset condition is in a 'steady state' if the assets are replaced when they reach the end of their economic life cycle.

The 'Financial Gap' indicator is the difference between the actual funding level on the assets and the 'steady state' funding level. This replaces the previous term 'maintenance backlog'. RailCorp advises that the financial gap for infrastructure assets at 30 June 2008 was \$28.6 million (\$32.0 million as at 30 June 2007). The financial gap is expected to be rectified by 2011-12, provided that the planned funding eventuates.

Independent Pricing and Regulatory Tribunal (IPART) Review of CityRail's Fares and Economic Regulatory Framework

On 3 October 2008, IPART released its draft reports on CityRail's fares for 2009-2012 and on improving CityRail's accountabilities and incentives.

IPART has revised its approach to CityRail's fare setting by introducing a multi-year determination period, using the building block approach to determine CityRail's annual revenue requirement, establishing the shares of the revenue requirement to be recovered from CityRail passengers and from taxpayers, and converting the portion of CityRail's revenue requirement to be recovered from passengers into fares.

IPART recommends an average fare increase of 7.9 per cent (including the effects of inflation) on 1 January 2009, and an average fare increase of 12 per cent (plus inflation) over the four years to 2012.

IPART also recommends a restructuring of fares based on consistent distance considerations, transition of weekly fares to a 20 per cent discount, and an increase in the off-peak discount.

The table below provides a summary of the corresponding real percentage increases over the regulatory period compared to present fares.

Distance	Average real cumulative percentage change in fares from 2008 to 2012		
	Single (%)	Weekly (%)	Off peak return (%)
Up to 15 km	13	10	(18)
From 15 km up to 35 km	18	18	(15)
From 35 km up to 175 km	14	25	(17)
175 km and above	(16)	5	(39)
TravelPass	--	20	--

In making its draft determination, IPART took account of a wide range of matters including (but not limited to):

- the impact on the affordability of fares and the patronage of CityRail services
- the urgent need to create effective incentives for CityRail to reduce its costs by increasing its economic efficiency
- the need for passengers and taxpayers to each fund an appropriate proportion of the costs of providing CityRail services that reflects the level of benefits (including reduced road congestion, traffic accidents and greenhouse gas emissions) individual users and the wider community derive from these services.

IPART is seeking stakeholder comments on the draft report and determination by 5 November 2008, which it will consider before making its final determination in December 2008.

In conjunction with the fare review, IPART is reviewing CityRail's economic regulatory framework to recommend a framework that enables the New South Wales Government and IPART to create effective incentives for CityRail to reduce its total costs by improving its efficiency, while maintaining its service levels. IPART has made 30 recommendations, including:

- the adoption of a 'purchaser provider' model for passenger rail services in the greater Sydney area
- making CityRail's funding agreement a multi-year document that aligns with the period of IPART's fare determination and clearly sets out how much funding the Government will provide towards the cost of providing the quantity and quality of services specified in the service contract
- changes to the institutional and governance arrangements for CityRail
- that RailCorp publish on its website CityRail's performance against all targets in the Rail Performance Agreement.

For further information on this Review, refer to www.ipart.nsw.gov.au.

PERFORMANCE INFORMATION

Performance Reporting

RailCorp is required to report its performance to its two voting shareholders under its annual Statement of Corporate Intent and to the Minister for Transport under the five-year Rail Performance Agreement.

RailCorp also publicly reports certain performance indicators. It recently reviewed the content and presentation of reporting of key performance indicators (KPIs) on its CityRail website to develop an improved governance model and a more user-friendly presentation of the data. KPIs include peak on-time running, skipped stops, New South Wales Bureau of Crime Statistics and Research (BOCSAR) reported offences against the person, customer complaints per million passenger journeys and the percentage of air-conditioned trains.

We recommend that RailCorp identify external national and international benchmark measures against which it can publicly report its performance.

RailCorp's performance reporting is primarily against internal benchmarks. We have previously recommended that RailCorp develop a practice of comparing and reporting its performance against external national and international benchmarks to help drive efficiency and performance improvements. In 2007-08, RailCorp continued to compare its performance with other domestic and overseas organisations. Under the conditions of the confidentiality agreement signed with the Nova/CoMET benchmarking community, RailCorp advises that it will not be able to report against the international benchmarks publicly.

As mentioned earlier in this report, IPART reviewed CityRail's Form of Regulation and found that RailCorp's current institutional and governance arrangements were not sufficiently specific, detailed or transparent to enable the Government to set strategic direction and required performance standards, evaluate CityRail's performance, hold it accountable for this performance, or create effective incentives for it to improve its performance. IPART set out recommendations to improve this lack of transparency and accountability. These include:

- the Statement of Corporate Intent (SCI), Rail Performance Agreement (RPA) and the funding agreement are made publicly available at the time these instruments are executed and whenever they are updated
- that RailCorp publish on its website CityRail's performance against all targets in the RPA, and produce a quarterly overview report for the public with commentary on where and why this performance has not met the targets
- that CityRail's performance against these targets be publicly reported on and used in the development of future SCIs.

For further information of this Review, refer to www.ipart.nsw.gov.au.

Reliability Indicators

CityRail's on-time running performance compared favourably with targets in 2008 and continued to improve from 2006 and 2007 following the introduction of the September 2005 and May 2006 timetables.

CountryLink on-time running performance continued to decline and remains below target performance.

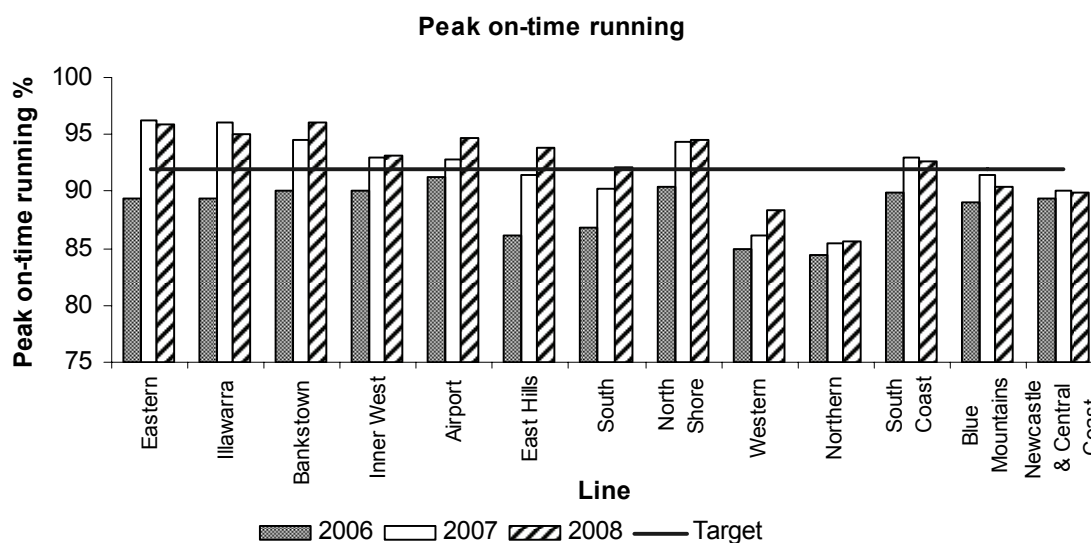
Year Ended 30 June	Actual*			Target
	2006	2007	2008	2008
Percentage On-time Running				
CityRail - suburban	88.5	92.3	93.0	92.0
CityRail - intercity	89.4	91.2	90.8	92.0
CityRail - total	88.6	92.2	92.7	92.0
CountryLink	75.9	73.7	70.5	78.0

* Before adjustment for force majeure.

Peak on-time running for CityRail services is measured as a percentage of timetabled peak train services reaching their destinations within five minutes of scheduled arrival time for suburban services, and six minutes for intercity services.

For CountryLink services, the measure for on-time running is within ten minutes of scheduled arrival time.

Passengers travelling on Northern, Western, Blue Mountains, and Newcastle and Central Coast lines experienced more delays than others, with peak on-time running performance measures of 85.7 per cent, 88.4 per cent, 90.4 per cent and 89.9 per cent in 2007-08 respectively.



Factors affecting on-time running performance include bad weather, mechanical and electrical failures (such as door, signal, track, overhead wiring and points, and power failures), vandalism and anti-social behaviour, staff failures, passenger and freight incidents, crowding in the centre carriages, and station dwell times.

CountryLink's performance was affected by external factors beyond its control such as track possessions by the Australian Rail Track Corporation, infrastructure failures, sleeper replacement programmes and third party service failures. RailCorp expects that CountryLink's performance will be significantly improved once the sleeper replacement programmes are completed and the Train Control technology is improved in 2008-09.

Causes for cancellations of peak services are similar to those for on-time running above. Trains may skip stops at scheduled stations to support on-time running. Performance indicators in 2007-08 for both cancellation of peak services and skipped stops were 0.5 per cent, which compared favourably to the target of one per cent.

Safety Indicator

Year ended 30 June	Actual		Target*
	2007	2008	
Safety Incident Index (total number of defined safety incidents per million passenger journeys) based on 12 month rolling average	0.188	0.159	0.175

* This is the target set for 2010-11.

Based on a 12 month rolling average the Safety Incident Index has improved from last year. For the 18 months, January 2007 to June 2008, the Safety Incident Index indicates a favourable downward trend.



RailCorp advises that the Safety Incident Index provides a measure of its safety performance and reflects a selection of both direct and indirect safety risks it manages on its network. They include:

- category A and B signals passed at danger (SPADs) for all trains on the RailCorp network (A SPAD occurs when a train passes a red signal or stop-board without authority. Category A and B SPADs represent the highest risk for this incident type, being potential causes of collisions or derailments)
- incidents of a train exceeding the posted speed limit by 20 kilometres per hour or more
- rail problems (including misalignments, broken rails, track geometry)
- collision with a road motor vehicle at level crossing
- explosions
- accidental passenger fatalities (i.e. those occurring in circumstances over which RailCorp has direct safety risk control. This excludes incidents associated with trespass, suicide, or passenger health).

Capital Expenditure Program

Asset replacement through its capital expenditure program is a key focus for RailCorp in improving its safety and reliability performance. Capital expenditure was 21 per cent below the fourth quarter revised budget largely due to delays in a number of key projects and the timing of required expenditure:

Year ended 30 June	2008		
	Actual \$m	Budget \$m	Below/(Over) \$m
PPP Rolling Stock replacement	46.1	132.8	86.7
Station upgrades	13.1	20.9	7.8
Network Management Systems	6.1	13.8	7.7
Digital Train Radio	2.0	9.3	7.3
Major plant	6.8	13.5	6.7
Traction supply upgrade	42.7	48.4	5.7
ARTC South Sydney Freight Line	1.1	5.0	3.9
North Sydney Station upgrade	34.2	26.1	(8.1)
Clearways project	287.2	284.4	(2.8)
122 new Outer Suburban cars - Stages 1 & 2	46.9	45.5	(1.4)
Easy access	40.8	39.6	(1.2)
All other capital projects	220.9	309.0	88.1
Total Capital Expenditure	747.9	948.3	200.4

The PPP Rolling Stock replacement program was \$86.7 million below budget primarily due to the 2007-08 budget being prepared in late 2006 which was preliminary in nature. Once the contracts were signed in December 2006, the budget and program were further clarified following a detailed analysis of cash flow requirements. This resulted in the difference between budget and actual expenditure in 2007-08. A significant proportion of the underspend is attributable to the budgeted provisions not required in 2007-08, and a slower ramp up in project management costs, ICT costs and enabling works expenditure to align with the requirements of the contracted program. RailCorp advises that aside from a change in the timing of cash flows to later in the project, there is no net change to estimated total project expenditure. The unspent portion from 2007-08 will be carried forward into future years to meet necessary expenditure required to meet contract commitments.

The \$88.1 million underspend on 'All other capital projects' relates to a large range of projects. Major underspends include \$11.6 million on the Rail Heritage program due to delays in planning activity; \$9.2 million on Business Communication and Technology Upgrades; \$7.3 million on Fixed Infrastructure Improvement; \$7.0 million on Human Resources programs; \$6.1 million on Accommodation and \$5.3 million on Business Finance Improvements.

Customer Feedback

The total number of complaints has decreased by 1,630, representing a 6.2 per cent improvement on 2006-07. Nine out of 13 KPIs are more favourable than last year. Compliments received improved slightly by 2.5 per cent to 2,042.

Complaints by KPI	2007	2008	Favourable/ (Unfavourable)	Favourable/ (Unfavourable) (%)
On-time running (OTR)	4,131	3,795	336	8.1
Service	4,110	3,648	462	11.2
Staff	3,299	3,197	102	3.1
Ticketing	2,956	2,824	132	4.5
Information	2,377	2,181	196	8.2
Safety	1,971	2,004	(33)	(1.7)
Cleanliness	1,839	1,656	183	10.0
Security	1,514	1,520	(6)	(0.4)
Environment	1,423	1,472	(49)	(3.4)
Facilities	1,510	1,340	170	11.3
Timetable	643	533	110	17.1
Claim	365	327	38	10.4
Internal matters	309	320	(11)	(3.6)
Total Complaints	26,447	24,817	1,630	6.2
Total Compliments	1,992	2,042	50	2.5

Although OTR is the major area of complaint in both years, as a percentage of total complaints, the number has decreased to 15.3 per cent of total complaints in 2007-08 from 15.6 per cent in 2006-07. The second most significant complaint (14.7 per cent) related to service aspects, including crowding and lack of air-conditioning.

The BCG report noted that one in three customers were dissatisfied with the complaints handling process. The report also indicates that front line staff are highly dissatisfied with the internal complaints process. The report recommends RailCorp improves the customer complaints service and redesigns internal processes.

Follow-up Review of CityRail Passenger Security

Commentary on a follow-up review of our 2003 CityRail Passenger Security review appears separately in this report.

OTHER INFORMATION

Independent Survey of CityRail Customers

On 24 September 2008, the Independent Transport Safety and Reliability Regulator (ITSRR) released its fifth annual survey of CityRail customers conducted between 27 May 2008 and 7 July 2008. The survey found CityRail customers gave positive marks in a number of areas including CityRail's website information service, signage to help navigate around the rail network, the 131 500 transport information phone line, and the knowledge, helpfulness, politeness and friendliness of CityRail staff.

Compared with the 2007 survey, improvements in meeting customer expectations were recorded for the following:

- punctuality up from 68 per cent in 2007 to 73 per cent in 2008
- staff visibility on platforms in the evenings up from 51 per cent to 56 per cent
- station information on arrival and departure times up from 79 per cent to 84 per cent
- quality of information about delays and cancellations up from 68 per cent to 74 per cent
- clarity of announcements on the platform up from 64 per cent to 69 per cent.

Crowding is the area of greatest concern for CityRail customers. Firstly, the level of crowding in peak hours only met expectations for 35 per cent of CityRail customers, fewer than in any previous annual survey. Secondly, the frequency of CityRail customers' experiencing crowding has been increasing each year since 2005. Thirdly, more CityRail customers nominated crowding as a reason for difficulty in getting onto or off platforms or trains, than in any previous survey.

The survey also found the availability of secure car parking, clarity of announcements on the train, staff visibility on platforms in the evenings, and personal safety in train carriages in the evenings were passengers' greatest concerns.

For more information on the reports, refer to www.transportregulator.nsw.gov.au.

Rail Clearways Program

The Rail Clearways Program will separate the existing 14 metropolitan rail routes into five mainly independent clearways to reduce the sharing of critical infrastructure and train paths. It involves 15 key projects to build additional track, platforms, turnbacks and train crossing loops. Taking into account passenger demand projections and recently announced plans for major network expansion, the Government is currently considering deferring lower priority projects.

For further information on the Rail Clearways Program, refer to the comments on the Transport Infrastructure Development Corporation (TIDC) in this volume of the Auditor-General's Report to Parliament.

Epping to Chatswood Rail Line (ECRL)

Total project costs of the ECRL are estimated at \$2.3 billion. In 2007-08, TIDC completed and transferred to RailCorp a further part of the Chatswood Transport Interchange, costing \$9.4 million. RailCorp will acquire the balance of the ECRL from TIDC on its completion, which is expected in December 2008. The remaining associated assets and borrowings to be transferred to RailCorp are estimated at \$2.1 billion and \$200 million respectively. Projected borrowings are substantially lower as at 30 June 2008 due to the Government's repayment of \$390 million of TIDC borrowings in 2007-08.

In September 2007, the ECRL Division at RailCorp was established to integrate the ECRL into the existing rail network as part of the proposed 2009 timetable. Major construction of the ECRL is now complete. Complex commissioning works are currently underway involving extensive testing of all tunnel systems to ensure the line operates safely and reliably before the first public service is expected in the first quarter of 2009. It is planned to initially operate a shuttle service between Epping and Chatswood before full integration into the timetable.

For further information on the Epping to Chatswood Rail Line, refer to the comments on TIDC in this volume of the Auditor-General's Report to Parliament.

Commuter Charter

As mentioned earlier in this report, BCG was engaged to develop a major program to improve CityRail's customer service. As part of this exercise, a customer service charter was prepared. As at 24 October 2008, the Government's draft Commuter Charter had not yet been released for public consultation.

On 26 March 2007, the then New South Wales Premier announced a proposal to establish a Commuter Charter to drive improvement in public transport services and set a three month timetable with RailCorp for the development of the Commuter Charter.

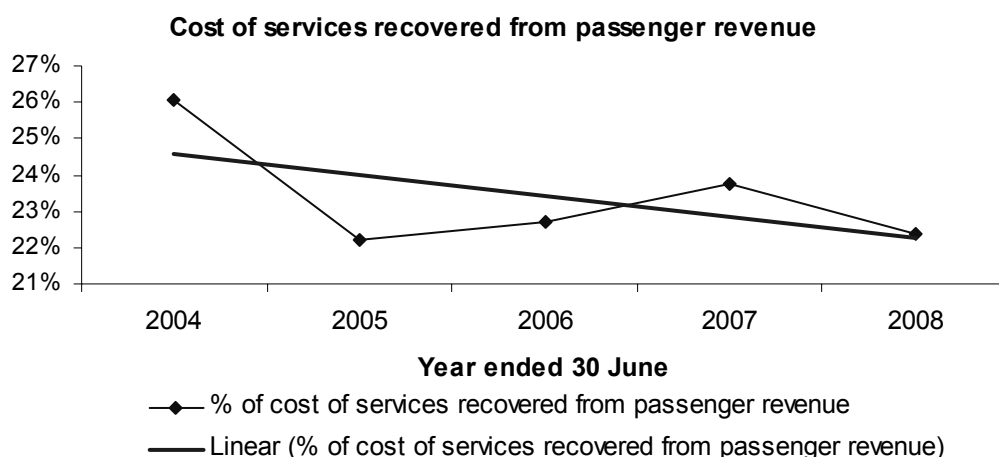
FINANCIAL INFORMATION

Abridged Income Statement

Year ended 30 June	2008 \$'000	2007 \$'000
Passenger revenue	622,979	568,257
Government reimbursement for services and concessions	1,495,901	1,481,269
Capital and other Government contributions	573,481	555,584
Other revenue	286,007	257,149
TOTAL REVENUE	2,978,368	2,862,259
Employee related	1,263,326	1,015,783
Depreciation	465,484	445,606
Other expenses	1,055,288	929,522
TOTAL EXPENSES	2,784,098	2,390,911
SURPLUS	194,270	471,348

The results for 2007-08 reflect higher passenger revenue due to increases in fares and patronage.

In 2007-08, RailCorp's passenger revenue covers approximately 22 per cent of the cost of services provided. The cost of services recovered from passenger revenue continued to decline.



Payroll costs increased mainly due to large actuarial losses on defined benefit superannuation plans, increases in rates of pay and the employment of additional staff.

Abridged Balance Sheet

At 30 June	2008 \$'000	2007 \$'000
Current assets	484,058	541,911
Non-current assets	16,634,258	12,771,268
TOTAL ASSETS	17,118,316	13,313,179
Current liabilities	896,265	816,489
Non-current liabilities	170,641	135,431
TOTAL LIABILITIES	1,066,906	951,920
NET ASSETS	16,051,410	12,361,259

In 2007-08, RailCorp revalued its land, buildings, trackwork and infrastructure assets, giving rise to a revaluation increment of \$3.5 billion. This amount comprised \$634 million for land, \$610 million for buildings, and \$2.2 billion for trackwork and infrastructure assets. The large rise is due to a number of factors. In relation to trackwork and infrastructure assets which had the largest increment, the rise largely reflects the impact of higher input prices (since assets were vested to RailCorp) and on subsequent additions; improvement in asset condition; inclusion of higher design and indirect cost assumptions; as well as assumptions regarding the higher cost of construction due to restricted hours of operation.

Additions to RailCorp property, plant and equipment asset categories, including capitalised maintenance, amounted to \$849 million in 2007-08 (\$916 million).

CORPORATION ACTIVITIES

RailCorp was established as a statutory State owned corporation on 1 January 2004 under the *Transport Administration Amendment (Rail Agencies) Act 2003*. RailCorp provides passenger rail transport in New South Wales and is responsible for the safe operation, crewing and maintenance of passenger trains and stations. It owns and maintains the metropolitan rail network and provides access to freight and passenger operators.

On 8 October 2008, the New South Wales Premier announced that RailCorp is to be restructured as a statutory authority.

For further information on RailCorp, refer to www.railcorp.info.

Rail Infrastructure Corporation

AUDIT OPINION

The audit of the Corporation's financial report for the year ended 30 June 2008 resulted in an unqualified Independent Auditor's Report.

KEY ISSUES

For general rail industry information, refer to the 'Rail Services Overview' section earlier in this report.

Labour Services Agreement

As at 1 July 2007, 714 of the Corporation's employees were seconded under the Labour Services Agreement (LSA) to the Australian Rail Track Corporation (ARTC). Under this agreement, these seconded employees remained employees of the Corporation but were subject to the direction and control of ARTC on a day-to-day basis including management and performance.

The LSA effectively expired on 30 June 2008 and this agreement was not renewed. Of the 714 employees, 142 accepted full time employment with ARTC, 522 accepted voluntary redundancies, 12 exited for other reasons and 38 remain employed by the Corporation.

Redundancy payments during 2007-08 were \$20.3 million. Most of the above redundancy payments and transfer payments to ARTC for the employees who accepted employment with ARTC were made after year end. These totalled \$81.7 million.

OTHER INFORMATION

Australian Rail Track Corporation Lease

The ARTC lease agreement has now been in effect for over four years. Responsibility for the Hunter Valley and Interstate network continues to reside with the Commonwealth under this lease agreement.

In accordance with the terms of the Lease, ARTC has provided the Corporation with an Annual Asset Condition Report for 2006-07 for the Leased Network outlining their performance against the pre-defined key performance indicators. KPI targets for this financial year have been achieved.

Maintenance and management of the residual Country Regional Network (CRN) continues to be performed by ARTC under a CRN Management Agreement. During 2007-08, the Corporation paid \$165 million to ARTC for this service as a Community Service Obligation.

Vestings

As part of the continued restructure of the New South Wales Rail industry, net assets totalling \$18.3 million were vested to Port Kembla Port Corporation from the Corporation.

FINANCIAL INFORMATION

Abridged Income Statement

Year ended 30 June	2008 \$'000	2007 \$'000
TOTAL REVENUE	234,068	236,423
Employee benefits	16,808	110,677
Superannuation	(26,138)	49,136
Depreciation	131,844	130,783
Maintenance and materials	98,471	98,761
Tripartite agreement payment	50,000	--
Finance costs	447	--
Other expenses	9,797	(2,750)
TOTAL EXPENSES	281,229	386,607
DEFICIT	47,161	150,184

Revenue primarily includes redundancy and transition funding from the Ministry of Transport \$21.0 million (\$59.5 million in 2006-07), Community Service Obligations revenue \$132 million (\$130 million), Government contribution for Tripartite Agreement payment of \$50.0 million (nil), Access Fees \$17.0 million (\$13.5 million) and recoveries from RailCorp \$3.9 million (\$14.1 million).

Abridged Balance Sheet

At 30 June	2008 \$'000	2007 \$'000
Current assets	67,496	88,756
Non-current assets	2,144,851	2,214,571
TOTAL ASSETS	2,212,347	2,303,327
Current liabilities	146,928	153,466
Non-current liabilities	111,605	137,726
TOTAL LIABILITIES	258,533	291,192
NET ASSETS	1,953,814	2,012,135

Non-current assets include \$2.0 billion of trackwork and infrastructure (mainly the residual CRN). The decrease in non-current assets is primarily due to the annual depreciation charge for the financial year and the vesting of trackwork and infrastructure assets to Port Kembla Port Corporation.

CORPORATION ACTIVITIES

The Corporation was incorporated as a statutory state owned corporation on 1 January 2001 under the *State Owned Corporations Act 1989* and the *Transport Administration Amendment (Rail Management) Act 2000*. Until 1 January 2004, it owned and maintained much of the New South Wales rail network and provided access to passenger and freight operators. As a result of a restructure, the Corporation's main role is now owner of the New South Wales country regional network, manager of the ARTC lease agreements, manager of non-core remaining assets and administrator of career transition services.

The two shareholders of the Corporation as at 30 June 2008 were the Treasurer and the Minister for Finance.

For further information on the Corporation, refer to www.ric.nsw.gov.au.

Transport Infrastructure Development Corporation

AUDIT OPINION

The audit of the Corporation's financial report for the year ended 30 June 2008 resulted in an unqualified Independent Auditor's Report.

KEY ISSUES

For general rail industry information, refer to the 'Rail Services Overview' section earlier in this Report.

The Government is currently planning a 'mini' budget to be released on 11 November 2008. It is not known if the current plans for the rail network, as follows, will be amended as part of that budget.

Delayed Commissioning of Constructed Assets

Construction of the Lidcombe and Homebush Turnbacks were completed in April 2008 as originally planned. The estimated final construction cost of this clearways project is \$90.0 million. The original planned commissioning dates of June 2008 have now been deferred to 2010 pending signal commissioning resources being available from RailCorp.

The rail industry has a shortage of signal engineers who are qualified to test and commission new infrastructure assets such as the Epping to Chatswood Rail Line and Clearways projects. This shortage has led to delays in commissioning projects and increased project costs. Refer to the 'Rail Services Overview' for more information.

Epping to Chatswood Rail Line (ECRL) Project

Major construction of the ECRL is now complete. Commissioning works are currently underway involving testing of all tunnel systems to ensure the line operates safely and reliably. The first public service is expected in the first quarter of 2009. It is planned to initially operate a shuttle service between Epping and Chatswood before full integration into the timetable.

The planned completion date of ECRL was originally scheduled for mid 2008. The delay has mainly arisen from scheduling difficulties with certain works needing to be done in a particular order.

As reported in prior years, the estimated project cost of \$1.6 billion (in 2000 prices) per 2003-04 budget papers did not include post 2000 escalation costs for the project of \$447 million or the interest costs on borrowings. The total forecast final cost of the project was revised by the Corporation's Board in August 2008 to \$2.35 billion (excluding interest costs on borrowings), an increase of \$18.6 million from the previous year, funded by an increased valuation of surplus properties. This latest revision is due to additional direct and indirect contract costs.

As at 30 June 2008, 91 per cent of the projected cost has been expended totalling \$2.1 billion.

Rail Clearways Program

In August 2008, the Corporation's Board revised (subject to Government approval) the total forecast final cost of the Rail Clearways Program to \$2.2 billion (exclusive of borrowing and RailCorp costs), an increase of \$650 million from the previous year. This significant increase is primarily due to changes in project scopes, the non availability of possessions and the deferral of commissioning dates on some Rail Clearways Program projects by up to two to four years. The need to defer commissioning dates has arisen due to the lack of rail industry resource shortages, particularly signalling resources.

The objective of the Rail Clearways Program is to improve capacity and reliability on CityRail's Sydney suburban network. It comprises 15 key projects being delivered by the Corporation on behalf of RailCorp. The program involves separating the network's 14 metropolitan rail routes into five independent rail clearways.

Expenditure by the Corporation on the program to 30 June 2008 totalled \$561 million.

The key projects of the Rail Clearways Program and their planned construction completion dates are as follows:

Key Projects	Original Completion Date	Revised Completion Date
1 Eastern Suburbs & Illawarra		
Bondi Junction Turnback	Completed April 2006	Complete
Cronulla branch line duplication	2008	2009 ¹
2 Bankstown		
Lidcombe turnback and platform	2008	Completed in April 2008 ²
Liverpool turnback and platform	2010	TBA ³
Sydenham to Erskineville extra tracks	TBA	TBA ⁴
3 Campbelltown express		
Kingsgrove to Revesby quadruplication	2010	TBA ³
Macarthur fourth platform	2010	TBA ³
4 Airport & South		
Macdonaldtown turnback	Completed August 2005	Complete
Homebush turnback	2008	Completed in April 2008 ²
Revesby turnback	2008	Completed in August 2008 ⁵
Macdonaldtown stabling	2007	Complete
5 North West		
Berowra Platform	Completed August 2006	Complete
Hornsby Platform	2008	2008
Quakers Hill to Vineyard Duplication	2012 (was 2010) ⁶	TBA ³
Carlingford line passing loop	2010	TBA ³

1 Excluding Cronulla Yard and Sutherland tie in.

2 Project yet to be commissioned due to outstanding signalling works.

3 To be confirmed after re-prioritisation and scope review.

4 A feasibility study of the Sydenham to Erskineville project was completed in July 2007. Scheduled completion date has not been determined and funding is yet to be allocated to the construction phase of this project.

5 Project yet to be commissioned due to outstanding defect works.

6 Date changed following the extension of the Quakers Hill to Schofields project to Vineyards.

OTHER INFORMATION

Chatswood Transport Interchange

A statement from CRI Chatswood Pty Limited on 16 October 2008 advises that due to the present global financial situation, coupled with certain commercial aspects of the retail and residential elements of the project, receivers have been appointed. In the Company's opinion, taxpayers and the general public will not be affected by these developments as the transport elements supporting the start of services on the new ECRL are complete.

The Interchange is being delivered as a Public Private Partnership (PPP) between the Corporation and CRI Chatswood Australia Pty Limited. The new Chatswood Transport Interchange will feature upgraded transport facilities as well as retail space and three residential towers.

North Sydney Station Project

The estimated cost of the North Sydney Station Project was increased from \$69.9 million to \$79.6 million at 30 June 2007 and again in March 2008 by \$8.1 million to \$87.7 million, this being due to increased scope of construction and remediation works.

As at 30 June 2008, the project has incurred costs of \$62.5 million. The project is expected to be completed in the first quarter of 2009.

North West Metro

In May 2008, the Corporation received a Direction from the Minister for Transport pursuant to section 18E of the *Transport Administration Act 1988* to undertake such work as may be directed from time to time by the Co-ordinator General to ensure construction of the North West Metro Project is commenced by 31 December 2010. The North West Metro will run from Rouse Hill via Epping to the CBD. This will be funded by the New South Wales Government. The target completion date for the first stage from Epping to the Hills Centre is 2015. The entire line from Rouse Hill to the CBD is planned to be completed by 2017.

As well as providing a transit link for residents in Sydney's North West, the North West Metro will also bring rail to inner Sydney suburbs along the Victoria Road Corridor. The metro will operate as a stand alone system. Easy access stations and interchanges with Sydney's existing transport services will be constructed along the route.

Prior to the investigations into a metro system for Sydney, planning had already begun on the North West Rail link (announced on 9 June 2005 as part of the Metropolitan Rail Expansion Program). The New South Wales Government announced in March 2008 that this rail connection would be built as a metro line. The Corporation advises that the planning work has been used for the development of the North West Metro.

South West Rail Link (SWRL)

In August 2008, the Corporation received a Direction from the Minister for Transport pursuant to section 18E of the *Transport Administration Act 1988* to undertake the development of the SWRL. SWRL has an initial estimated cost of \$1.4 billion and a target completion date of late 2012.

The SWRL connects Glenfield Station to Leppington with two new stations at Edmondson Park and Leppington as well as a stabling facility at Rossmore. It will extend rail access in the south west, supporting the sustained growth of this area.

The SWRL is part of Sydney Link, a series of major transport projects aimed at providing modern, integrated and efficient transport to cater for Sydney's growth as a major global city.

FINANCIAL INFORMATION

Abridged Income Statement

Year ended 30 June	2008 \$'000	2007 \$'000
Government grants	408,894	1,107,419
Other	393,534	229,609
REVENUE	802,428	1,337,028
EXPENSES *	332,533	222,657
SURPLUS	469,895	1,114,371

* Both direct and indirect costs are capitalised as construction work in progress for the ECRL project. Expenditure on the Rail Clearways Program and non-ECRL projects is recouped from RailCorp, Ministry of Transport and the Roads and Traffic Authority.

Abridged Balance Sheet

At 30 June	2008 \$'000	2007 \$'000
Current assets	406,792	83,819
Non-current assets	2,100,244	1,889,059
TOTAL ASSETS	2,507,036	1,972,878
Current liabilities	174,106	178,861
Non-current liabilities	243,760	162,157
TOTAL LIABILITIES	417,866	341,018
NET ASSETS	2,089,170	1,631,860

Non-current assets mostly comprise construction work-in-progress (project expenditure and capitalised interest) relating to the ECRL Project.

The increase in current assets is primarily due to the Corporation receiving \$250 million in government grants on 30 June 2008 for the repayment of ECRL borrowings. The repayment was made on 4 July 2008.

CORPORATION ACTIVITIES

The Corporation was incorporated as a statutory State owned corporation on 1 January 2004 under the *State Owned Corporations Act 1989* and the *Transport Administration Act 1988*. The Corporation was established to deliver major transport infrastructure projects for the Government as directed by the portfolio Minister.

The two shareholders of the Corporation as at 30 June 2008 were the Treasurer and the Minister for Finance.

For further information on the Corporation, refer to www.tidc.nsw.gov.au.

Follow-up Review of CityRail Passenger Security

AUDIT OF 2003

In 2003 we reported on the results of passenger security initiatives introduced by RailCorp (formerly the State Rail Authority) on its CityRail network. We found that substantial steps had been undertaken to reduce crime and improve passenger security. However the results were mixed, with crime falling for some offences but increasing in others. Overall the risk of becoming a victim of crime had increased.

FOLLOW-UP REVIEW OF 2008

The objective of this review was to assess whether passenger security has improved since our 2003 audit. We found that RailCorp has introduced a number of initiatives to address the issues raised in our report. These include:

- a passenger security plan outlining key strategies and performance measures
- better public reporting of crime data
- improved recruitment and training of transit officers
- more formal arrangements for working with NSW Police Force.

RailCorp reports that improvements in CCTV have lead to better monitoring and investigation of incidents. It has also developed better systems for recording and analysing incidents, which allows better targeting of resources to problem areas.

Overall we found that passenger security has improved on the CityRail network since 2002-03. During the last six years:

- the number of offences against the person has decreased by more than 30 per cent
- the risk of becoming a victim of crime has decreased from 14.76 to 9.08 incidents per million passenger journeys (mpj).

Further analysis of offence types shows more varied results. Since 2002-03, there have been significant decreases in robberies and steal from person offences, and a slight decrease in assaults. The number of sexual offences has increased slightly since 2002-03.

Incidents	Change since 2002-03	Change %
Offence categories		
- Assault	Decrease	(3.4)
- Robbery	Decrease	(48.7)
- Sexual offences	Increase	10.3
- Steal from person	Decrease	(56.6)
- Malicious damage	Increase	14.9
Offences against the person*		
- Total	Decrease	(33.3)
- On trains	Decrease	(42.3)
- On stations	Decrease	(28.5)

Source: RailCorp based on NSW Bureau of Crime Statistics and Research (BOCSAR) data.

Note: Data for this review includes incidents on other rail networks in NSW, however over 97 per cent of incidents occurred on the CityRail network.

* 'Offences against the person' includes assault, robbery, sexual offences and steal from person.

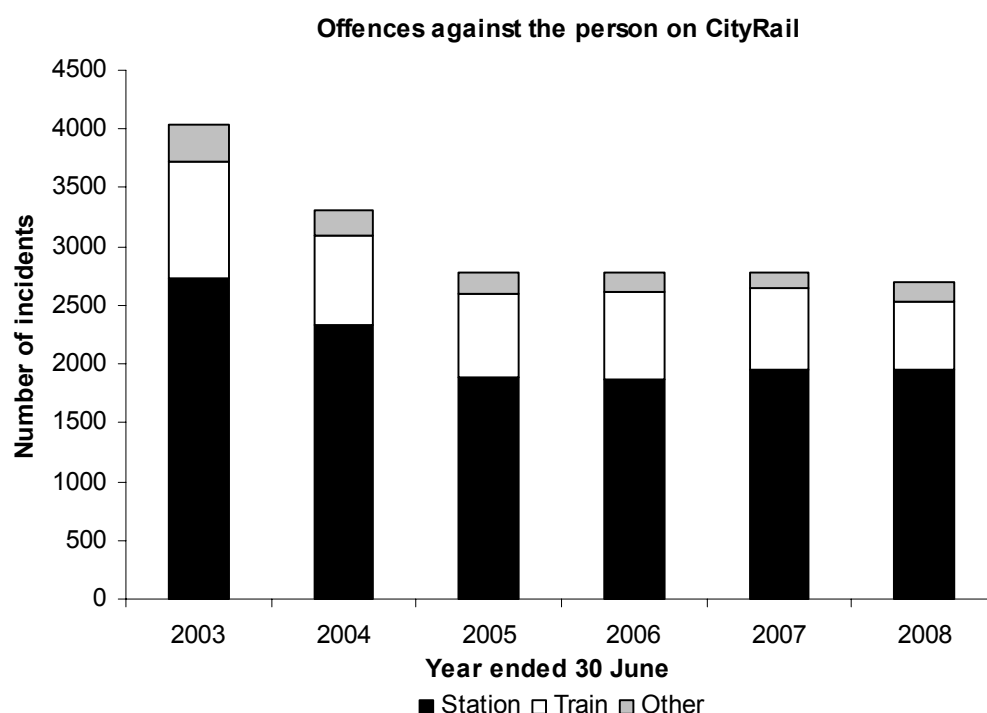
RailCorp report that the results for assault, malicious damage and sexual offences reflect statistically significant statewide trends, while robbery and steal from person offences have fallen at a greater rate than statewide trends. RailCorp has advised that increased enforcement activity by transits officers and better use of security systems such as CCTV contributed to these improvements.

The Independent Transport Safety and Reliability Regulator (ITSRR) monitors customer views on CityRail services, including safety and security. It publicly reports the results annually in its 'Survey of CityRail Customers'. Following its 2008 survey, ITSRR reports no significant change in the proportion of passengers feeling threatened or being witnesses to or victims of crime and abuse.

DETAILED FINDINGS

Offences against the person

Overall, the number of offences against the person (i.e. assaults, robberies, sexual offences and steal from person) has declined since 2002-03. Similarly, the number of offences has declined on both trains and stations.



Source: RailCorp based on BOCSAR data.

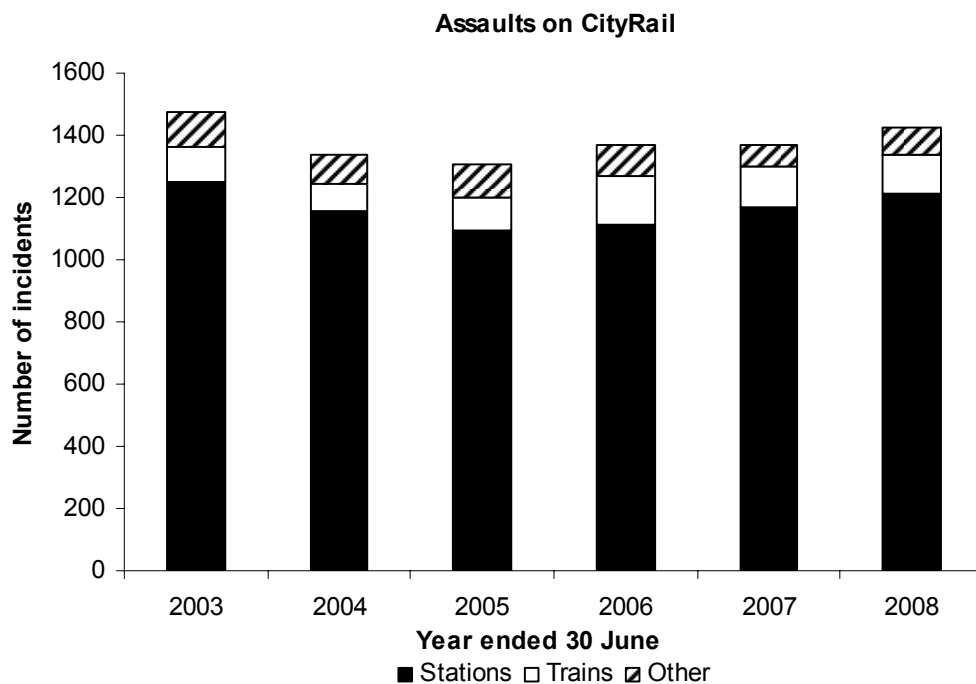
Note: 'Other' includes railway siding, terminal, building and car parks.

The risk of becoming a victim of crime on the CityRail network has also declined. In 2007-08, the risk of crime was:

- 9.08 incidents per mpj, down from 14.76 in 2002-03 (total risk)
- 6.59 incidents per mpj, down from 9.99 in 2002-03 (stations)
- 1.95 incidents per mpj, down from 3.65 in 2002-03 (trains).

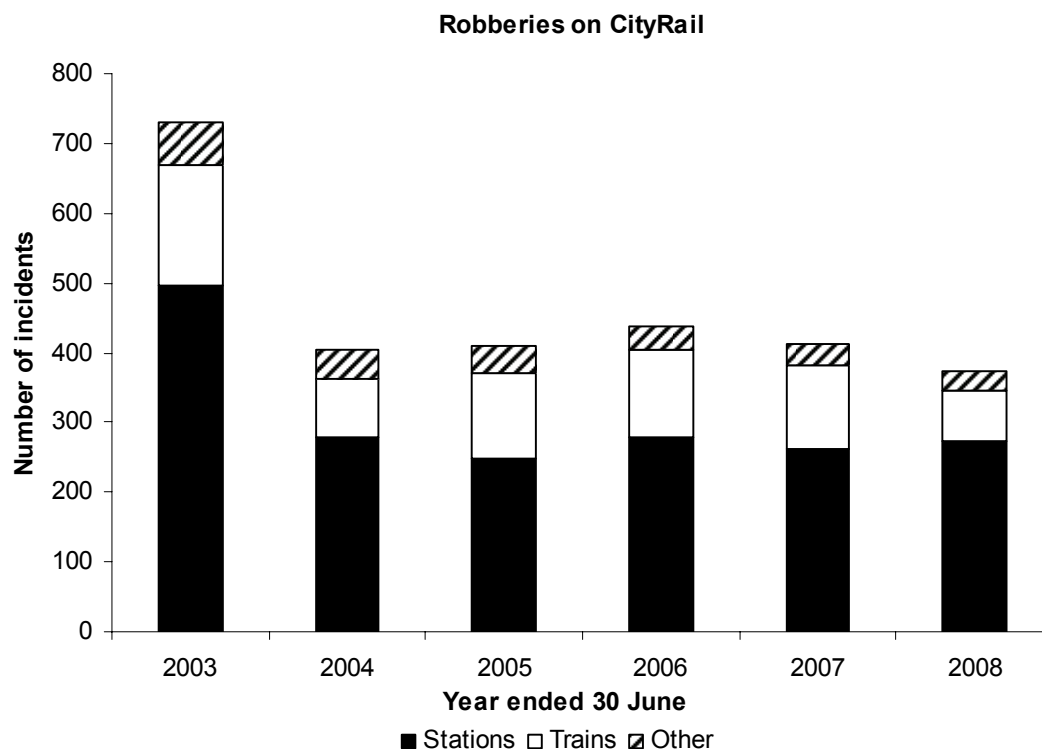
Offence Type

The following graphs show the trends over time for each offence type.



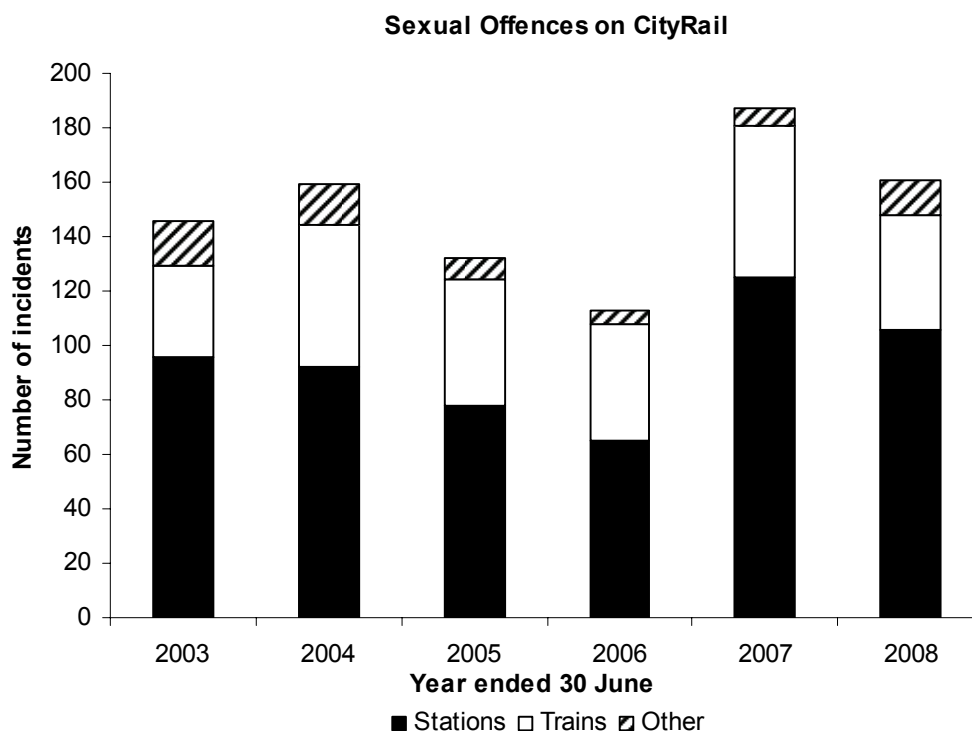
Source: RailCorp based on BOCSAR data.

The risk of becoming a victim of assault on the CityRail network was 4.82 incidents per mpj in 2007-08, down from 5.41 per mpj in 2002-03.



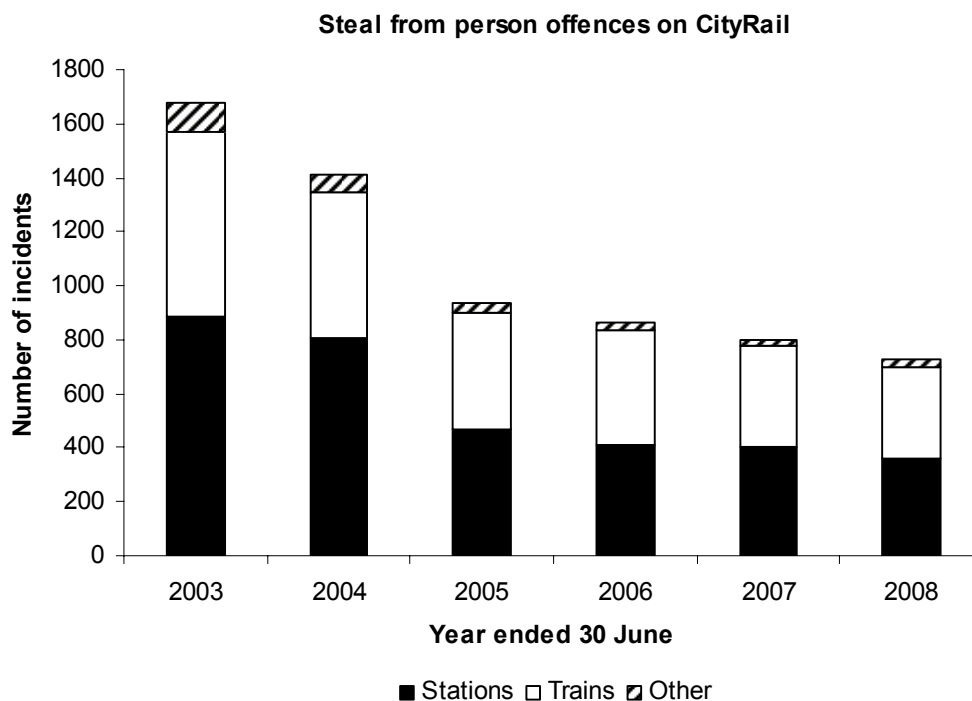
Source: RailCorp based on BOCSAR data.

The risk of becoming a victim of robbery on the CityRail network was 1.26 incidents per mpj in 2007-08, down from 2.67 per mpj in 2002-03.



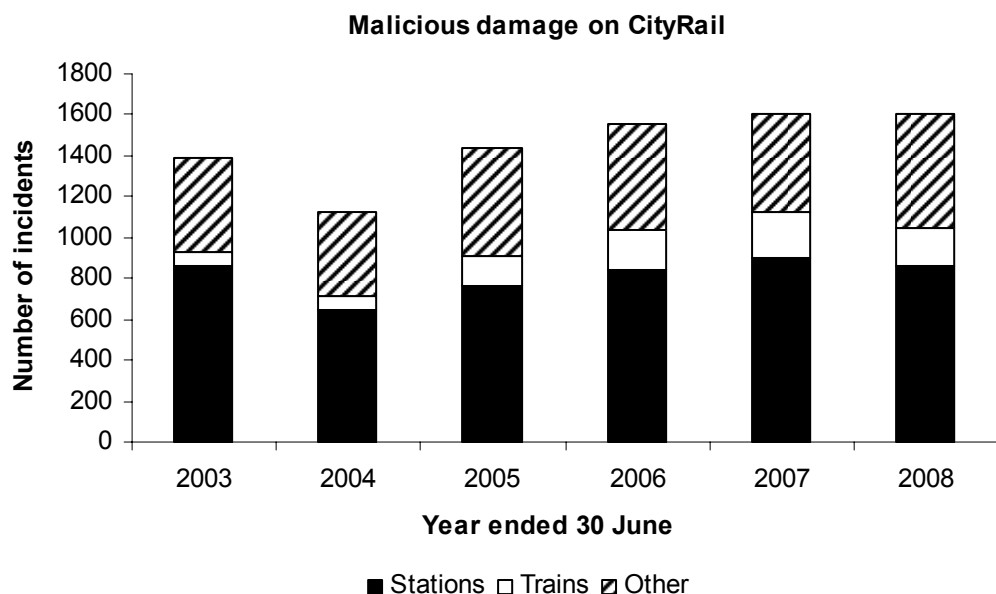
Source: RailCorp based on BOCSAR data.

The risk of becoming a victim of a sexual offence on the CityRail network was 0.54 incidents per mpj in 2007-08, slightly up from 0.53 per mpj in 2002-03.



Source: RailCorp based on BOCSAR data.

The risk of becoming a victim of steal from person offences (i.e. theft) on the CityRail network was 2.46 incidents per mpj in 2007-08, down from 6.15 per mpj in 2002-03.



Source: RailCorp based on BOCSAR data.

Malicious damage, which can affect passengers' fear of crime, has also been increasing.

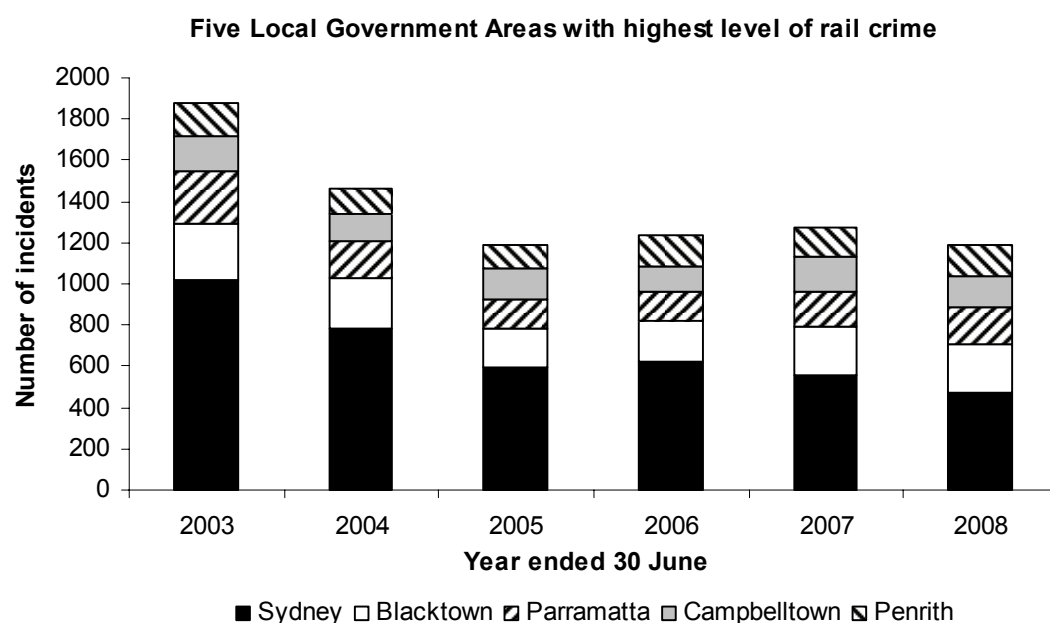
Crime by Local Government Area

The ten Local Government Areas (LGAs) with the highest level of crime on or around the CityRail network in 2002-03 were Sydney, Blacktown, Parramatta, Campbelltown, Penrith, Bankstown, Fairfield, Wollongong, Auburn, Holroyd.

Crime patterns for these areas reflect network-wide trends with a reduction in three offences (assaults, robbery and steal from person) and an increase in sexual offences since 2002-03.

In 2007-08, eight of the above ten LGAs still have the highest level of crimes against the person on or around the CityRail network. Hornsby and Sutherland have now replaced Fairfield and Holroyd.

The following graph shows the trends over time for the five LGAs with the highest level of rail crime.



Source: RailCorp based on BOCSAR data.

Premier

Refer to Appendix 1 for:
Natural Resources Commission

Treasurer

New South Wales Treasury Corporation

New South Wales Treasury Corporation

AUDIT OPINION

The audits of TCorp and its controlled entities' financial reports for the year ended 30 June 2008 resulted in unqualified Independent Auditor's Reports.

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

KEY ISSUES

The following key issues arose after the finalisation of TCorp's audit.

AAA Credit Rating

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

A negative outlook implies a roughly one-in-three chance of a ratings downgrade. A downgrade would have a negative impact on TCorp's cost of borrowing, which would increase the cost of borrowings for the State and therefore the cost of providing infrastructure and services.

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

Credit Risk Management

TCorp adopts a conservative approach to credit risk for its balance sheet and managed portfolios and has not invested in highly structured instruments like Collateralised Debt Obligations (CDO's). TCorp's Balance Sheet does not have any direct exposure to financial institutions in default, such as Lehman Brothers. Furthermore, the cash and fixed interest funds managed by TCorp have no exposures to Lehman Brothers.

On 1 April 2008, TCorp was appointed by the New South Wales Lotteries Corporation to advise on an orderly realisation of investments in the New South Wales Lotteries Transition Fund that were purchased by a former manager from the private sector. This fund holds \$1.0 million of the August 2011 Floating Rate Notes guaranteed by Lehman Brothers (holding company), which are currently valued at 30 cents in the dollar.

TCorp's Hour-Glass Investment Facilities Trusts (Hour-Glass), which are largely outsourced to external fund managers, have no bond exposures to Lehman Brothers. The Hour-Glass Index International Shares Trust held a benchmark 0.01 per cent index weighting in Lehman's shares.

It should be noted however that there are other agencies which undertake investment management activities on a direct basis and therefore the exposures reported above do not necessarily represent all exposures to Lehmans across the New South Wales government sector.

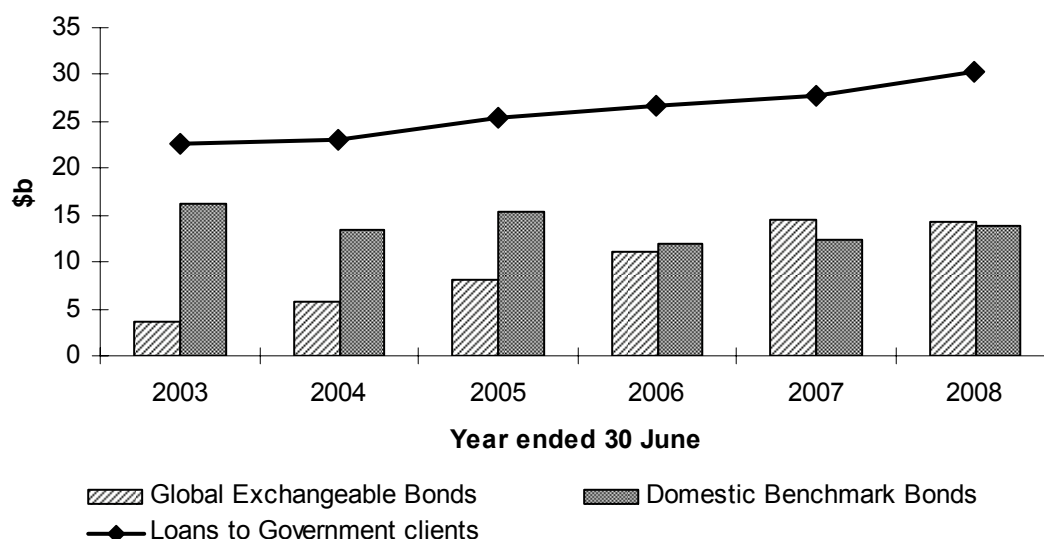
PERFORMANCE INFORMATION

Funding the New South Wales Public Sector

Despite credit markets experiencing a severe loss of liquidity during the year, TCorp raised \$10.4 billion (\$2.9 billion in 2006-07) from the domestic and international debt markets. Of this amount, \$2.9 billion was needed to finance the net increase in client loans and \$6.5 billion was used to refinance existing liabilities, including the March 2008 Benchmark Bonds.

There continues to be strong demand from both domestic and international investors for TCorp's Benchmark Bonds with the launch of a new April 2019 Benchmark Bond series in May 2008 and an April 2019 Global Exchangeable Bond in June 2008, increasing total Benchmark outstandings to \$28.0 billion by year-end. Demand for Global Exchangeable Bonds has stabilised in the current year while demand has increased for Domestic Benchmark Bonds. In November 2007, TCorp also launched new CPI indexed Bonds with nearly \$1.0 billion on issue at year end.

Loans to Clients, Domestic and Global Bonds



Loans from TCorp fund the infrastructure programs of New South Wales public sector agencies. New funding in 2007-08 was largely provided to agencies involved with electricity supply, water catchment and supply, and development of the rail network. The Sydney Desalination Plant was the largest new project financed during the year, with financing for the Epping to Chatswood Rail Line project almost completed.

Loans to Government Clients

Year ended 30 June	2008 \$'000	2007 \$'000
New South Wales public sector clients		
- Crown Entity	10,641,565	10,484,606
- Electricity Sector	11,747,617	10,429,103
- Transport Sector	1,266,227	1,241,365
- Water Sector	4,943,869	3,931,444
- Other Sector	1,695,847	1,572,223
- Universities	38,268	39,088
- Local government and county councils	--	5,975
Total Loans to Government Clients	30,333,393	27,703,804

Subject to the outcome of the proposed November State mini-budget, capital spending over the next four years, as outlined in the New South Wales Government's State Infrastructure Strategy, is projected at \$56.0 billion. Over this same period, TCorp expects its loans to clients to increase by \$23.0 billion.

Management of Client Debt

As at 30 June 2008, TCorp managed 20 client debt portfolios with a total portfolio volume of \$19.0 billion. The largest portfolio was The Treasury's \$9.1 billion Crown debt portfolio. TCorp performed ahead of benchmark for its managed clients.

TCorp actively manages client agency debt portfolios by using derivatives to adjust actual portfolios to take advantage of fluctuations in shorter term interest rates. This activity is conducted within a prudent framework and in accordance with risk constraints prescribed by each agency. The benchmarks are not standard and vary from agency to agency as each benchmark is based on the specific business requirements of each agency.

Management of Client Investments

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

Hour-Glass Investment Facilities

TCorp is trustee for a number of investment facilities used by public sector agencies. During the year, negative returns were delivered in the medium and long-term facilities, although the results were still above benchmark. The cash facility underperformed against benchmark, due to a widening in credit spreads reflecting the yields on non-government securities increasing relative to government securities. This was due to the financial markets factoring in an increased default risk premium on non-government securities.

There was an overall reduction in funds under management from \$11.6 billion to \$10.4 billion at year-end, primarily due to the valuation impacts of large falls in the equity markets, despite an increase in the number of clients using these facilities.

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

Year ended 30 June	2004	2005	2006	2007	2008
Hour-Glass cash facility return %pa	5.25	5.59	5.69	6.41	6.82
Benchmark index return %pa	5.30	5.64	5.76	6.42	7.34
Total market value \$m 30 June	1,571	1,901	2,809	3,157	3,270
Hour-Glass bond market facility return %pa	3.31	6.95	3.86	4.68	5.02¹
Benchmark index return %pa	3.45	7.09	4.04	4.75	5.44
Total market value \$m 30 June	128	137	134	68	--²
Hour-Glass medium term growth facility return %pa	8.59	9.24	8.76	8.48	(0.57)
Benchmark return %pa	7.33	8.61	8.44	8.80	(0.79)
Total market value \$m 30 June	106	111	288	417	288
Hour-Glass long term growth facility return %pa	15.42	12.06	16.88	13.80	(10.27)
Benchmark return %pa	13.94	13.08	15.88	14.67	(10.51)
Total market value \$m 30 June	518	594	826	1,081	905

Source: New South Wales Treasury Corporation.

1 Return for year until facility closed on 17 June 2008.

2 The Bond Market facility was closed and replaced with the Strategic Cash Facility Trust which had net assets of \$601 million as at 30 June 2008. Its return from 17 June 2008 to 30 June 2008 was 0.27 per cent against a benchmark of 0.28 per cent.

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.

Tailored Investment Portfolios

During 2007-08, investment returns on managed portfolios were slightly below targeted benchmarks but consistent with other cash and fixed income fund managers.

TCorp internally manages the specific cash and bond portfolios for a number of public sector agencies. Funds invested increased slightly to \$5.2 billion at 30 June 2008 (\$4.9 billion at 30 June 2007). NSW Self Insurance Corporation's Treasury Managed Fund, which is the New South Wales Government's self-insurance pool, was the largest managed bond client with \$1.5 billion invested at year-end. In June 2008, TCorp commenced management of the cash and long-term bond investments for the Lifetime Care and Support Authority which are expected to grow substantially in future years.

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

FINANCIAL INFORMATION

Abridged Consolidated Income Statement

Year ended 30 June	2008 \$'000	2007 \$'000
Income from changes in fair value	2,755,645	2,558,782
Expenses from changes in fair value	2,718,654	2,512,576
Net income from changes in fair value	36,991	46,206
Fees and commissions	21,253	23,235
TOTAL NET INCOME	58,244	69,441
Staff costs	13,860	12,875
Other costs	12,626	10,893
TOTAL GENERAL ADMINISTRATIVE COSTS	26,486	23,768
Profit before income tax equivalent expense	31,758	45,673
Income tax equivalent expense	8,257	11,875
PROFIT AFTER TAX	23,501	33,798

Management considers the profit before tax of \$31.8 million to be sound, given the volatility in the global and domestic fixed interest markets.

Net income from changes in fair value was adversely impacted primarily by:

- timing differences relating to unrealised accounting valuations on certain funding transactions which have been entered into to provide certainty around funding margins on some of TCorp's loan assets. These revaluation impacts will reverse in future periods and will net to zero over the life of the transactions if held to maturity as intended
- an increase in the buy/sell spreads arising from the reduction in market liquidity adversely impacted the valuation of TCorp's liquidity portfolio. Where TCorp holds these assets to maturity, this is also a timing difference.

Abridged Consolidated Balance Sheet

At 30 June	2008 \$'000	2007 \$'000
Cash and liquid assets	447,610	286,580
Outstanding settlements receivable	418,540	402,582
Due from financial institutions	21,288	20,996
Securities held	5,674,466	3,847,188
Derivative financial instruments receivable	134,517	90,956
Loans to clients	30,333,393	27,703,804
Other assets	23,077	17,992
TOTAL ASSETS	37,052,891	32,370,098
Due to financial institutions	3,415,769	100,058
Outstanding settlements payable	305,112	531,471
Due to clients	538,512	409,375
Borrowings	31,809,246	30,275,054
Derivative financial instruments payable	900,409	967,033
Other liabilities and provisions	40,693	43,958
TOTAL LIABILITIES	37,009,741	32,326,949
NET ASSETS	43,150	43,149

TCorp maintains a relatively small capital base as reflected in its net assets position due to its Government guarantee. Excess amounts after tax equivalent payments are normally returned to the Crown as dividends. During the year, TCorp's Board approved an increase in TCorp's capital base from \$43.0 million to \$50.0 million to take effect in 2008-09. This increase was considered necessary due to the increase in the size of the balance sheet and the market volatility.

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 due to its Government guarantees. 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.

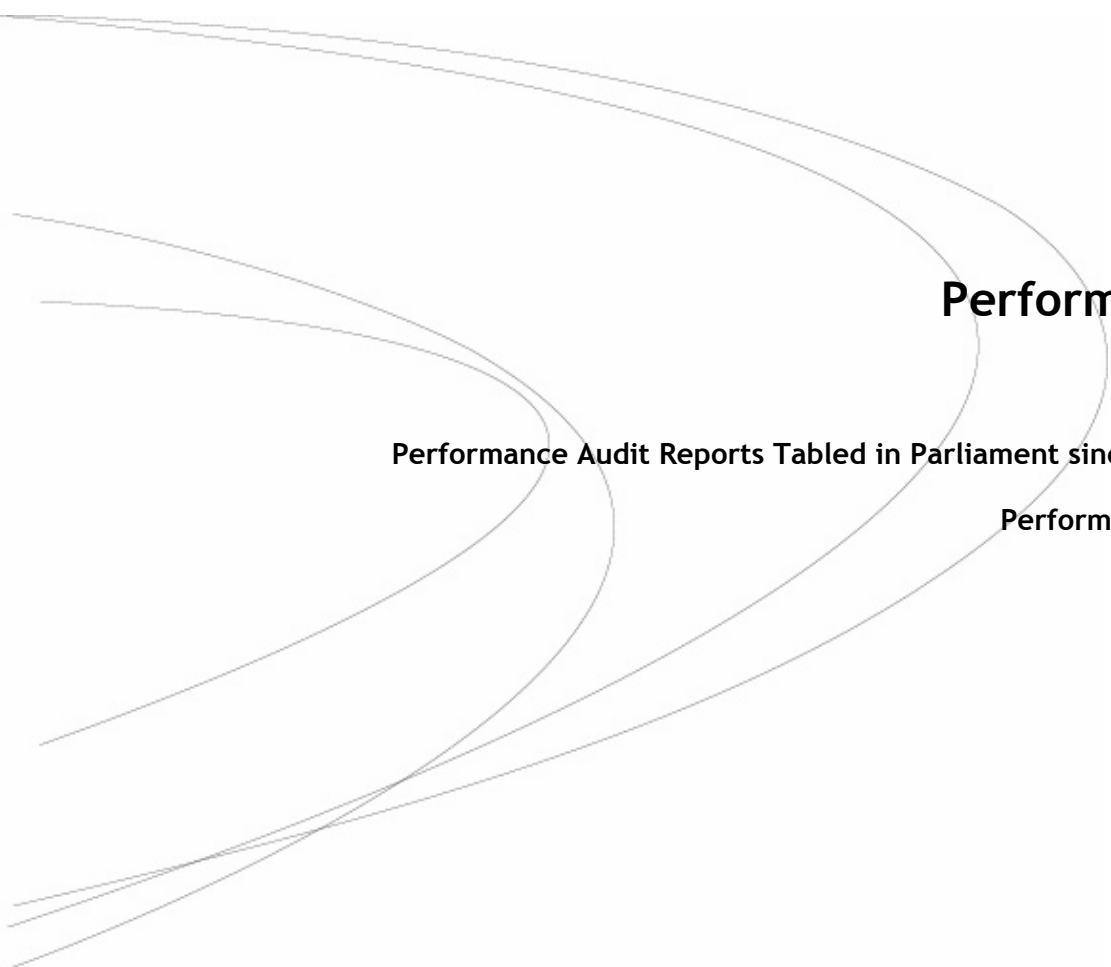
CONTROLLED ENTITIES

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

TCorp Nominees Pty Limited
Treasury Corporation Division

Section Two



Performance Auditing

Performance Audit Reports Tabled in Parliament since Volume Two of 2008

Performance Audits in Progress

This Section provides a summary of Performance Audit Reports presented to Parliament. The full Reports are available on the Audit Office website at <http://www.audit.nsw.gov.au/reports.htm>

Performance Audit Reports Tabled in Parliament since Volume Two of 2008

We have tabled four performance audit reports in Parliament since Volume Two 2008 of our New South Wales Auditor-General's Report on financial audits.

Our findings and recommendations for any performance audit reports can be found on our website www.audit.nsw.gov.au/publications/reports/performance/performance_reports.htm.

PROTECTING OUR RIVERS: FOLLOW-UP OF 2003 PERFORMANCE AUDIT

The report examines the progress that has been made since a 2003 audit on protecting our rivers.

The 2003 audit examined how well the Government was protecting the quality of New South Wales river water and found significant gaps in how river water quality is monitored and evaluated. Also, arrangements for managing river water quality lacked structure and direction as there was no lead entity to coordinate the efforts of the many agencies involved.

The Natural Resources and Environment CEOs Cluster Group now coordinates Government agency efforts to protect river health.

A target for river health has also been set - by 2015 there is an improvement in the condition of riverine ecosystems. In 2004, measuring riverine ecosystems replaced water quality and river flow measures as a better indicator of river health.

A set of indicators to measure riverine ecosystems has been agreed and a snapshot of river health for each New South Wales catchment is expected to be available by the end of 2008. Meaningful baseline measures of river health will not be available until 2012, and then further time will be needed to establish trends.

The report was tabled in Parliament on 21 May 2008.

RECYCLING AND REUSE OF WASTE IN THE NSW PUBLIC SECTOR

The report examines on how well the New South Wales public sector is reducing waste and improving recycling and reuse.

Government agencies have increased recycling and reuse, reduced the amounts of waste going to landfill and also purchased more material with recycled content.

The Department of Environment and Climate Change has provided clear guidance and support to government agencies.

In the 2007 period 5.4 million tonnes of waste was reused or recycled by the New South Wales public sector. Around half a million tonnes of waste was disposed of to landfill. Over 90 per cent of waste is generated by construction activities.

The purchase of recycled content construction materials (such as concrete, asphalt, aggregates and timber) had increased from six per cent in 2001 to 45 per cent in 2007. The use of recycled content copy paper had increased from 19 per cent in 2001 to 45 per cent in 2007 and there has been a large increase in the purchase of recycled content stationary.

The Audit Office of New South Wales looked more closely at its own printing and found the quality and cost of recycled content paper is now very close to virgin paper and has decided to print future reports on paper with recycled content.

The report was tabled in Parliament on 11 June 2008.

DELIVERING HEALTH CARE OUT OF HOSPITALS

The report examines whether support for Out of Hospital health care needs to be increased across New South Wales, and whether there is a need to provide a broader range of health services for patients and the community.

The Out of Hospital programs we audited provide care to 45,000 patients in New South Wales each year and free up about 500 hospital beds for more urgent cases. Presently, they provide Out of Hospital care to around three per cent of patients - there is potential for this to be increased.

NSW Health needs to play a stronger role. They need to establish how many patients can be treated out of hospital, which programs work best, where to locate them, and provide the support and qualified staff needed to ensure the right care is provided.

Out of Hospital programs are voluntary, must meet the needs of individual patients and will not be appropriate for all.

The report was tabled in Parliament on 24 September 2008.

IMPROVING LITERACY AND NUMERACY IN NSW PUBLIC SCHOOLS

This report examines how successful the New South Wales Department of Education and Training (DET) has been in improving the literacy and numeracy of New South Wales school children.

New South Wales students perform well overall, when compared to the rest of Australia. In some areas, however, one in five students are at or below the minimum level needed. Students in regional and rural areas achieve lower test results than students in metropolitan areas, and the gap is increasing.

The challenge is to ensure that these children are identified and helped. This group particularly includes children from indigenous, rural and lower socio-economic backgrounds.

For many years, and particularly over the last decade, the DET has focused on building the capacity of teachers and schools to improve the levels of literacy and numeracy in New South Wales public schools.

During the course of the audit we were impressed by the dedication and efforts of teachers in New South Wales public schools, particularly when dealing with the needs of students with learning difficulties.

The Department now needs a greater focus on the child at risk, not the school they are enrolled in; better training for the teachers of those children most in need; partnerships with preschools and with parents to have children ready for school.

The report was tabled in Parliament on 22 October 2008.

Performance Audits in Progress

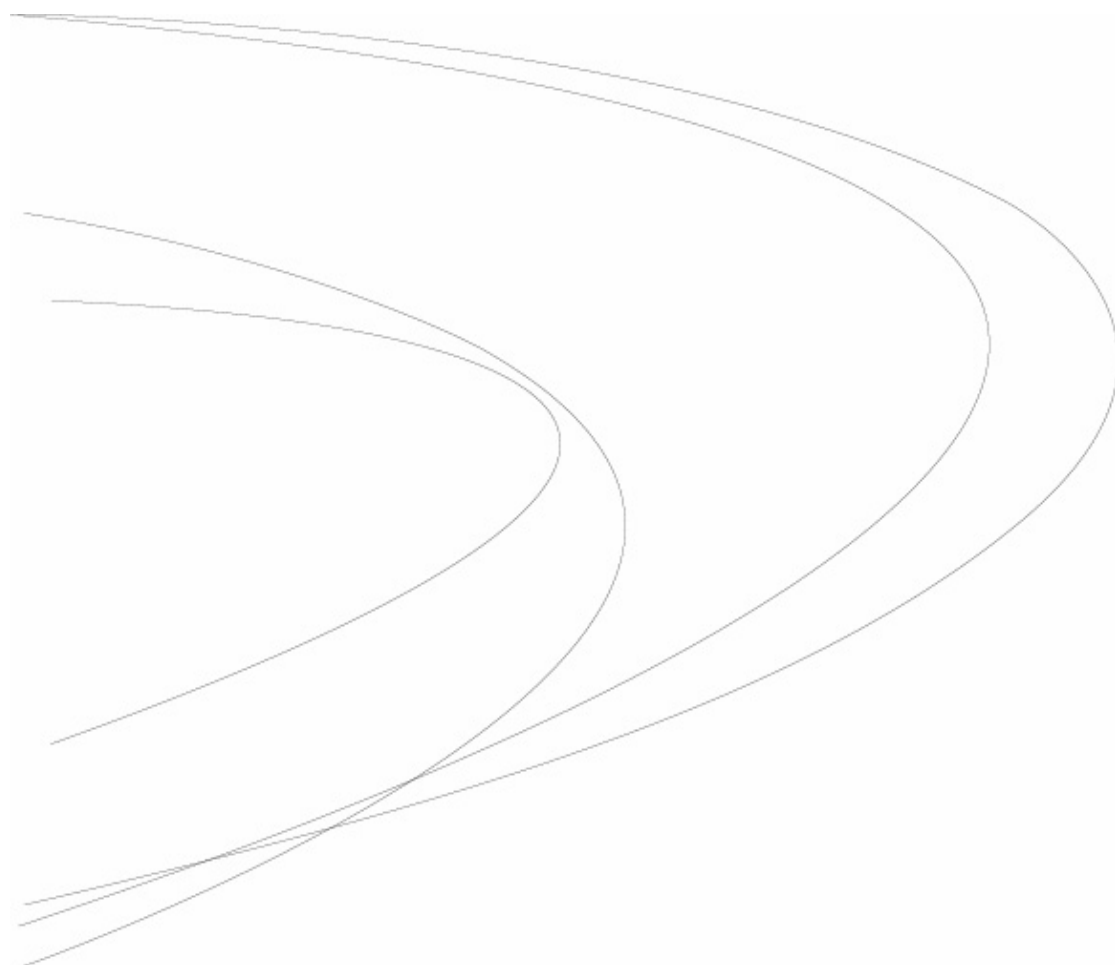
The planned tabling dates for audits in progress are:

Title	Planned Tabling Date
Managing Injured Officers: NSW Police Force	4 th quarter of 2008
Heavy Vehicle Safety	1 st quarter of 2009
Administration of Grants	1 st quarter of 2009
Diverting Adult Aboriginal Defendants into Treatment	2 nd quarter of 2009
Sustaining Native Forest Operations	2 nd quarter of 2009
Tackling Cancer with Radiotherapy	3 rd quarter of 2009
Registration of Health Professionals	3 rd quarter of 2009

For up-to-date information on audits in progress, refer to www.audit.nsw.gov.au.

Appendix

Appendix 1 Agencies not reported elsewhere in this Volume



Appendix 1 - Agencies not reported elsewhere in this Volume

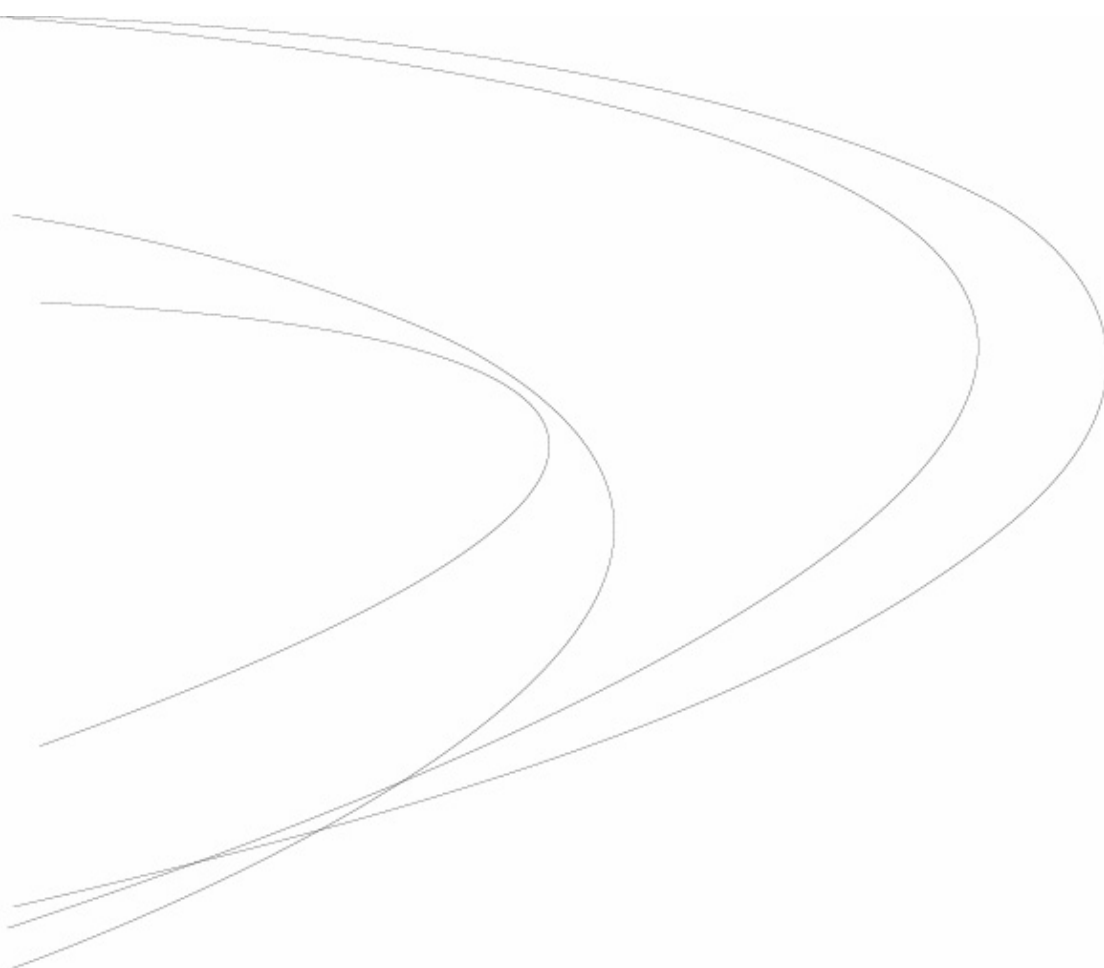
The following audits resulted in unqualified independent auditor's reports and did not identify any significant issues or risks.

Entity Name	Website	Year Ended
Art Gallery of New South Wales Foundation	www.artgallery.nsw.gov.au	30 June 2008
Arts Education Foundation Trust	www.schools.nsw.edu.au	30 June 2008
Border Rivers-Gwydir Catchment Management Authority	www.brg.cma.nsw.gov.au	30 June 2008
Building Professionals Board	www.bpb.nsw.gov.au	30 June 2008
Central West Catchment Management Authority	www.cw.cma.nsw.gov.au	30 June 2008
Chief Investigator of the Office of Transport Safety Investigations	www.otsi.nsw.gov.au	30 June 2008
Chipping Norton Lake Authority	*	30 June 2008
Coffs Harbour Technology Park Limited	*	30 June 2008
Dams Safety Committee	www.damsafety.nsw.gov.au	30 June 2008
Dumaresq-Barwon Border Rivers Commission	www.brc.gov.au	30 June 2008
Growth Centres Commission	www.gcc.nsw.gov.au	30 June 2008
Hawkesbury-Nepean Catchment Management Authority	www.hn.cma.nsw.gov.au	30 June 2008
Hunter-Central Rivers Catchment Management Authority	www.hcr.cma.nsw.gov.au	30 June 2008
Hunter Development Corporation	www.hunterdevelopmentcorporation.com.au	30 June 2008
Independent Transport Safety and Reliability Regulator	www.transportregulator.nsw.gov.au	30 June 2008
- Independent Transport Safety and Reliability Regulator Division	*	30 June 2008
Lachlan Catchment Management Authority	www.lachlan.cma.nsw.gov.au	30 June 2008
Lake Illawarra Authority	www.lia.nsw.gov.au	31 March 2008
Lower Murray-Darling Catchment Management Authority	www.lmd.cma.nsw.gov.au	30 June 2008
Ministry for Police	*	30 June 2008
Murray Catchment Management Authority	www.murray.cma.nsw.gov.au	30 June 2008
Murrumbidgee Catchment Management Authority	www.murrumbidgee.cma.nsw.gov.au	30 June 2008

Entity Name	Website	Year Ended
Namoi Catchment Management Authority	www.namoi.cma.nsw.gov.au	30 June 2008
Natural Resources Commission	www.nrc.nsw.gov.au	30 June 2008
- Natural Resources Commission Division	www.nrc.nsw.gov.au	30 June 2008
New South Wales Crime Commission	www.crimecommission.nsw.gov.au	30 June 2008
- Office of the New South Wales Crime Commission	*	30 June 2008
- New South Wales Crime Commission Division	*	30 June 2008
New South Wales Film and Television Office	www.fto.nsw.gov.au	30 June 2008
Northern Rivers Catchment Management Authority	www.northern.cma.nsw.gov.au	30 June 2008
NSW Architects Registration Board	www.boarch.nsw.gov.au	30 June 2008
NSW Board of Vocational Education and Training	*	30 June 2008
NSW Institute of Teachers	www.nswteachers.nsw.edu.au	30 June 2008
- Office of the Institute of Teachers	*	30 June 2008
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Wentworth Park Sporting Complex Trust	www.wentworthparksport.com.au	30 June 2008
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* These entities do not have websites.

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